

Isle of Man Post Office

Report and financial statements

For the period ended 28 March 2021

Isle of Man Post Office

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Isle of Man Post Office

Officers and Professional Advisers

Headquarters

Spring Valley Industrial Estate
Douglas
Isle of Man
IM2 1AA

Board Members

Mrs J Edge MHK - Chairman
Mr C Thomas MHK – Vice Chairman (appointed 21 July 2020)
Mr J D Hollis
Mr C Mitchell
Mrs J O'Rourke

Chief Executive Officer

Mr S Kneen

Principal Bankers

Isle of Man Bank
East Region
2 Athol Street
Douglas
Isle of Man
IM1 1JA

Principal Advocates

HM Attorney General
Attorney General's Chambers
Ground Floor, Belgravia House
Circular Road
Douglas
IM1 1AE

Auditor

Grant Thornton Limited
3rd Floor
Exchange House
54-62 Athol Street
Douglas
Isle of Man
IM1 1JD

Isle of Man Post Office

Chairman's Statement

As Chairman of Isle of Man Post Office (IOMPO), I present the Report and Financial Statements for the period ended 28 March 2021.

While this year has been very challenging in light of the coronavirus pandemic, it has also reaped many positive aspects for IOMPO, with significant progress made on our five-year strategy. We have continued to deliver on the business' mission, vision and key objectives, with the overriding aim of providing services that meet the changing needs of postal customers in the long term, as a modern self-funded Post Office.

Notable progress with our financial objective of returning the business to a sustainable profit has seen IOMPO ahead of its original strategic financial forecast and, I am therefore delighted to report that the business has returned to profit this year, the first time since 2017. This success is testament to the whole team which makes up IOMPO, and I am proud to be Chairman of this well-run and forward-looking establishment.

The industry within which we operate continues to face challenges with letter volumes in irreversible decline, and between 2019/20 and 2020/21 we have seen a decline in letter traffic of 16.5%. Meanwhile in recent years we have seen a steady increase in parcel growth and this year has been no exception. That said however, parcels remain an area of our business which is not part of our monopoly, and which has fierce competition for last mile delivery on-Island. The unfettered 'gig economy' continues to have a detrimental effect on our business which significantly lowers the cost of entry in this market, making it difficult for IOMPO to compete on a level footing. The Department of Enterprise, IOMPO's sponsoring department, is required to act on the Chief Minister's action to review the increasing threat of the gig economy to the Island's overall economy (with these business profits remaining off-Island).

That aside, during the Covid19 pandemic, IOMPO has seen a significant increase in the number of parcels it has handled, an uplift of 19.3% from 2019/20 to 2020/21. This has largely been a result of consumers shopping online during the three periods of lockdown on the Island, bringing to the fore the valuable role of the postal service in providing a lifeline to Island residents and businesses to ensure our community stayed connected, while staying at home.

IOMPO operates not only as a complex logistics business, but also delivers a suite of services within the community on behalf of others, such as Government Departments. In doing so, we have developed and implemented a clear vision and strategy working with our customers to improve cost effectiveness and maximise profitable growth opportunities whilst protecting core postal services.

Unsurprisingly throughout the pandemic, Government's Covid-19 response focused on minimising face-to-face interactions which has accelerated the transition to digital, with less reliance on cash and a surge in e-commerce. Our retail modernisation strategy continues to be the right path for our business, being able to reflect the changing demands of end users as well as commercial customer requirements provided through the retail network. Since the beginning of the strategy, approved by Tynwald in October 2019, five sub postmasters have chosen to terminate their contract, in each case the principles of the Tynwald approved strategy have been upheld with alternate service provision provided where appropriate and viable. Consolidation has resulted in customers using alternative offices, to the benefit of the remaining network.

In terms of agency services provided through independent sub post offices, the Board looks forward to any opportunities to complement the outcomes of the recommendations from the Chief Minister's Community and Public Engagement Committee, Cabinet Office's 'New Public Service' strategy, Treasury's review of welfare cash payment, the Department of Infrastructure's driving and vehicle license digitisation plans and the Government's digital inclusion strategy, to inform the future demand for agency counter services on a commercial footing.

In light of changes in the Island's banking industry during the course of the last 12 months, there has been some political feeling that IOMPO should provide banking services. The Board welcomes the opportunity to feed into the independent report into 'Access to cash' that will be undertaken by the Department for Enterprise, to fully explore community needs, service options available as well as potential future service alternatives and the associated costs.

Subject to the outcome of these government led activities, as envisaged by the Retail Network Modernisation Strategy, IOMPO believes that demand for counter-based agency services provided through the network of

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Chairman's Statement (continued)

independent providers of postal services is likely to continue to decline or be withdrawn by agency partners, as it becomes less viable for independent retailers acting as independent Sub Postmasters and IOMPO to continue to operate services in the current format. Despite these trends, the Board is committed to continuing to provide postal services within the community, with a focus on more convenient, accessible and cost-effective services in the community for residents and businesses to complete their postal business, with local pick-up and drop off locations to post and collect postal items, augmented by a 24/7 online service to allow residential customers to self-administer their own postage and on behalf of others, leaving items at one of the drop off sites or arranging a collection from their home.

I would like to express our gratitude to Treasury for their decision to continue with no levy for the financial year. This key decision illustrates their support for our strategy, notwithstanding our results for the period, the need for IOMPO to retain its capital to fund our loss-making network of independent providers of postal services (the retail network), and the exceptional restructuring costs necessarily incurred as we continue to deliver on our five year transformation strategy.

The last 12 months have been unprecedented and challenging for us all in so many ways, but as a business IOMPO has continued to provide a normal aspect of day-to-day life during a time when the world has never looked or felt so different. Sustaining services while ensuring the highest safeguards to protect employees and customers has only been possible because of the entire team that makes up IOMPO. Each and every employee has played a part in this achievement, all of whom have had to flex and adapt their ways of working to reflect the demands presented by the pandemic, while also achieving significant progress on our strategy. I thank each and every one of them in supporting the business to return to profit. I also thank the Board and Executive for navigating the path to modernisation thus far, and to the respective unions for their cooperation to make the business fit for purpose as we seek sustainability both now and in the future, while ensuring the trusted and respected brand of IOMPO is never compromised.

Julie Edge MHK
Chairman
29 July 2021

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Chief Executive Officer's Report

As our Chairman observes, this has been a busy year for the Isle of Man Post Office (IOMPO). Our financial results are a notable achievement as is the progress we have made regarding our five-year strategy, as our business adapts to become a modern postal business, fit for purpose and reflective of customer demand. I believe the business' success over the last 12 months is especially commendable during such an unprecedented year with the challenges presented by Covid19.

This year we report a profit of £1.61m compared to a loss of £504k the previous year. Due to the substantial absence of foreign exchange sales, turnover has decreased from £27.9m to £23.4m and our net asset value was £20m (2020: £14.6m) at the period end. The circa £2.1m positive variance in profitability is due substantially to three elements; a 19% increase in parcel volumes; continued cost mitigation resulting from our five year strategy; and a £500k reduction in the actuarially determined pension charge. It is also worth noting that a number of non-recurring exceptional expenses items are included in the headline result for the year. The increased parcel volumes drove a net increase in Mails divisional turnover of almost £2m, however the reduction in headline turnover noted above is due almost entirely to the absence of foreign exchange sales due to the pandemic, which fell from £6.5m to £0.25m.

The triennial actuarial valuation of our defined benefit pension scheme was undertaken as at 31 March 2020, which in light of Covid's impact at that date, creating volatile investment markets, a £10m deficit was reported. However, favourable market movements over the year, together with an additional £1.1m cash contribution from IOMPO saw the position largely recover by the period end. Whilst the accounting basis for the pension is different to the actuarial basis, it is for largely the same reasons that the scheme's accounting position improved from a deficit of £5m last year to a deficit of £925k at the period end.

Our Mails division reported a 10% increase in revenue, a remarkable result. Whilst letter volumes have continued to fall (down 16.5%) our parcel volumes continued to see healthy increases (up 19.3%) due in the main to the rise in online shopping during the three pandemic lockdown periods.

Whilst the letter decline is considered an acceleration of the inherent trend, there is a realistic expectation that an element of the increased parcel volume will be reflective of sustained changes in consumer shopping habits, whilst an element will be an anomaly of the pandemic. Letters, whilst remaining our largest postal stream by volume, continue to decline leading us to review how we structure our delivery duties, thus the reasoning for the introduction of letter deliveries to five days a week from six in 2019, while continuing to deliver parcels six days due to the uplift in volumes in this area. During the lockdown periods, IOMPO promoted its 'better by letter' campaign, encouraging Islanders to send letters to friends and family, both near and far, as a way of keeping in touch.

Competition for first and last mile parcel delivery remains fierce. Online market traders are increasingly dominant, able to shift delivery partners at will while growing their own logistics businesses, while our main logistics trading partner is seeking to ensure they retain their market position while transforming their business. While our pricing strategies have been effective to date, agreeing a pricing strategy with Royal Mail that is competitive and to our mutual financial benefit, remains challenging such that the outcome of ongoing negotiations may have a significant impact on the profitability of the business going forward.

Operationally we have been focused on adapting to the accelerated change in demand for our postal delivery services of significantly less letters and more parcels, with further investment in technology, duty revisions, increasing the size of the vans in the fleet to accommodate larger items and tracking to improve productivity and customer experience.

During the year the network of independent providers of postal services (the retail network), including its head office support requirement, continued to be loss making, reporting a loss of £1.3m for the year, broadly similar to the prior year. Although not unexpected, it is regrettable that the pandemic has accelerated the decline in counter transactions (down 13% overall in the last year) as customers transition to diverse convenient alternatives to face-to-face services, notably Treasury welfare cash payments that reduced by 24% during the pandemic.

Our IMS division saw its revenue increase marginally compared to the prior year, due in part to the pandemic, which saw increased interest for IMS services such as fulfilling ad hoc corporate customer communications, and mail opening services as businesses switched from office working to home working. We also actively

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Chief Executive Officer's Report (continued)

promoted our local-to-local delivery services, providing retail businesses with a secure, reliable and cost-efficient way to get their products and services to their consumers' on-Island.

Our highly respected Stamps and Coins division continued to hold its own by remaining profitable, despite a decline in the regular collector base, and when many other postal administrations across the world have been unable to achieve this and have closed their doors. Activity to mitigate the decline by improving collectability and desirability through innovative designs has been key. The Queen's 95th birthday was successfully developed in collaboration with other Crown Dependency and British Overseas Territory bureaus, allowing knowledge, experience and costs to be shared. In a contracting market place, IOMPO expects collaborations to increase in order to maintain profitability. To the detriment of our collector base and revenue, the outsourcing of the Isle of Man Coin programme to Tower Mint Limited and marketing to Westminster Collection, both off-Island companies, has led to issues accessing Treasury's coin programme and purchasing coins for resale.

At IOMPO we take the health and safety of our people very seriously and this has never been more so in light of the pandemic. Our health and well-being programme continues to develop, with the creation of an employee forum, as we seek to encourage good health and reduce absence by expanding access to services, training and advice. It was particularly pleasing to see the results of the Isle of Man Government's first pulse survey of the year to which 55.5% of IOMPO's workforce responded. The business is keen to evolve the culture within the business and these results are helpful in enabling us to make continuous improvements and increase employee engagement.

IOMPO is also very aware of its corporate responsibility when it comes to respecting the environment. It has therefore taken the opportunity to commission a carbon audit to understand the business' current carbon footprint and opportunities to continually drive it down in line with the climate change targets and funding parameters, further demonstrating its commitment to being a greener organisation.

Looking back on the last year, I wish to reiterate my thanks to all the team at IOMPO for their extraordinary team efforts over the last 12 months. They have all done a sterling job in enabling our businesses to operate as close to normal as possible, and provide our usual high standard of service to our customers. Our business has proven its robustness and reliability during the pandemic with colleagues showing commitment and loyalty to their roles as we continued to keep customers and businesses alike connected by post.

As we have now entered a new financial year, it has triggered a mid-term review and refresh of the strategic actions necessary to take the business forward into the years ahead. We remain steadfast on this transformational journey and as part of this, we look forward to continuing to work with the unions which represent our workforce while building on our engagement with our people who do remain our greatest asset. We start the new period in a strong financial position and I look with great optimism on the work that is yet to be done to enable the business to continue to make changes to best suit the needs of our business and that of our customers.

Simon Kneen
Chief Executive Officer
29 July 2021

Isle of Man Post Office

Statement of Internal Control

Introduction

The Isle of Man Post Office is constituted as a Statutory Board of Tynwald under The Post Office Act 1993. This report is made by the Isle of Man Post Office to Isle of Man Government Treasury in accordance with the requirements of the Isle of Man Government's Corporate Governance Principles and Code of Conduct ("the Code").

Responsibilities of the Board and the Accounting Officer

The Board consists of a Chairman, a Vice Chairman, and three other Board members. The Board controls the strategy, policies, and key financial and operational matters within the Isle of Man Post Office, and it is the Board's responsibility to ensure that the work of the Accounting Officer and the other Executive Directors supports the strategy and policies approved by the Board. The other Executive Directors include the Finance Director and the Chief Operating Officer.

As Accounting Officer, the Chief Executive of the Isle of Man Post Office is responsible for implementing and maintaining systems of corporate governance, internal control and risk management, that:

- ensure compliance with legislation and other regulations;
- safeguard money, ensure that it is properly accounted for and that it is used economically, efficiently and effectively; and
- support the achievement of the strategy and policies approved by the Board.

In discharging this responsibility, the Chief Executive works with the other Executive Directors to put in place arrangements for the governance of the Isle of Man Post Office's affairs and the stewardship of resources, in accordance with the Code.

Corporate Governance

There are two key elements of the corporate governance framework: firstly, the workings of the Board, and its sub-committees; and secondly, the corporate governance environment itself. These are described below:

Board

The Chairman and other members of the Board are appointed by the Council of Ministers, subject to approval by the Court of Tynwald; the Chairman and Vice Chairman are either a Member of the House of Keys or a Member of the Legislative Council.

The Board has a schedule of powers reserved for its approval, which includes non-delegated and delegated powers to be exercised by the Board itself, members of the Board sub-committees and the Chief Executive. The Board of the Isle of Man Post Office has published this "Schedule of Reserved and Delegated Responsibilities" within its own corporate governance documentation to enable the day to day operations of the business.

There are generally 10 Board meetings a year with other meetings taking place as and when necessary, and the Chief Executive, Executive Directors and the Personal Assistant to the Chief Executive (acting as "Secretary to the Board") attend the Board meetings. The Board receives, and can request, reports from the Chief Executive, Executive Directors and Senior Managers on financial and operational matters, and the Secretary to the Board captures any actions and maintains minutes of proceedings on behalf of the Board that are approved at the next meeting.

Board sub-committees

Audit and Risk Committee ("ARC")

The ARC generally meets quarterly and consists of two members of the Isle of Man Post Office Board. The meetings are also normally attended by the Chief Executive, the Finance Director, the Head of Procurement and Compliance, the Senior Risk and Compliance Officer, the Secretary to the Board, and a representative from Isle of Man Government Treasury Audit Advisory. A representative from the external auditors also attends meetings as appropriate.

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Statement of Internal Control (continued)

Audit and Risk Committee (continued)

The ARC ensures that the business maintains a systematic approach to risk management. It reports to the Board on issues concerning corporate governance, risk, internal control, financial reports and associated information issued by the Isle of Man Post Office. It is also the principal point of contact for the external auditors.

The ARC is active in embedding risk management practices through regular comprehensive reviews of each individual department's approach to risk management. These reviews have helped to develop a wider understanding of the nature and criticality of risks affecting the Isle of Man Post Office.

The ARC is responsible for reviewing the current top risks faced by the business and reporting them to the Board, and occasionally other Senior Managers are invited to attend meetings to assist the members in their deliberations.

Remuneration Committee

The Remuneration Committee is a sub-committee of the Board and consists of two members of the Isle of Man Post Office Board. The Committee makes recommendations to the Board on Executive Directors' (including Chief Executive's) pay and conditions and to act as an appellate body for Executive appraisals and to address any matters directed by the Board.

Corporate Governance environment

Corporate governance at the Isle of Man Post Office revolves around an effective environment of attitudes, behaviours and processes that aim to support the delivery of the long-term strategy, goals and objectives established by the Board.

A corporate governance framework has been developed which contains a number of documents detailing Board policies and operational procedures in relation to financial and operational management; internal control and risk management; organisational capability and capacity; people management and standards of conduct, and management of health, safety and the environment.

The management framework provides a structure for documenting policies, procedures, delegated duties, roles and responsibilities, activities, standards and guidelines. This is additional to divisional and department structures, authorities and organisational arrangements, activities, processes and records maintained within each service area, which when taken together with the framework, create the environment of good corporate governance, risk management and internal control.

Internal Control and Risk Management

The Isle of Man Post Office has a system of internal control and risk management that is designed to enable it to assess its performance in these areas and determine, where appropriate, relevant actions to improve the control environment.

The system of internal control is based on ongoing processes designed to:

- Identify the principal risks to the achievement of the organisation's strategic aims and objectives.
- Identify the principal risks associated with the organisation's operational activities.
- Consistently evaluate the nature and extent of the above risks and agree appropriate mitigating controls.
- Provide assurance that key risks are being managed efficiently, effectively and economically and that existing controls are robust.
- Ensure adherence throughout the organisation to Isle of Man Post Office policies and relevant legislation.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the organisation's policies, aims and objectives. It can, therefore, only provide reasonable and not absolute assurance of effectiveness.

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Statement of Internal Control (continued)

Internal Control and Risk Management (continued)

The Isle of Man Post Office is committed to an effective risk management approach that protects business operations and stakeholders affected by its operations. The risk management process ensures consistency to the assessment, monitoring and reporting of risks, and the appetite to risk is set out in Board approved policies.

The Isle of Man Post Office has established risk registers at operational and strategic levels; issues arising out of these registers form part of the standing agenda at operational and certain Board meetings. The identification, evaluation and management of risk is a line management responsibility, with Board guidance as appropriate.

The Chief Executive and Executive Directors identify, evaluate and monitor corporate and strategic risks, and monitor risks at an operational level via divisional and departmental managers. Each divisional and departmental manager has the appropriate delegated authority and resources to manage risks to a reasonable level. The Senior Risk and Compliance Officer meets quarterly with the divisional and departmental managers to update the risk registers. The risk management process is an important part of the internal control environment.

The management of the organisation's most significant current and emerging risks is subject to Board oversight. A high-level summary of the current top risks faced by the business is presented quarterly to the Board, with any newly identified risks being brought to the Board's attention at the earliest opportunity. This summary includes: i) a heat map depicting the risks in pictorial format, and ii) a schedule of top risks that details the risks, the existing mitigation or controls, and any proposed improvement actions, together with assigned responsibilities and expected implementation dates. The current status (Red-Amber-Green) is evaluated for each key risk.

Improvements made to the system of Internal Control during the period

In accordance with best practice, the systems of internal control across the Isle of Man Post Office are subject to continuous review and improvement. Some of the most significant improvements made to the Isle of Man Post Office management of risk over this period have been:

Risk Management - Improvements Made During The Period (2020 - 21)	
Improvement	Details of Improvement
ICT Development	<ul style="list-style-type: none">• Concluded tender exercise to obtain a more resilient and flexible core ICT infrastructure• Progressed micro-architecture software / infrastructure design to improve efficiencies, compatibility and ease in upgrade pathways
Mails Information Dashboard	Collation of key performance indicators onto dashboard for operational business areas, to monitor performance in terms of customer, quality, employee and financial measures. This will help manage the day-to-day operation effectively and prioritise future improvement opportunities.
Mails – Workload Assessment	Improvements to reduce or mitigate manual entering of data into the business critical system, and to introduce additional control procedures to further reduce risk of fraud and/or error.
Website Enhancement	Introduce enhancements to the corporate website to improve the customer experience, reduce enquiries/manual processes and include additional security matters.
Business Continuity Planning	Improvements have been made to all business continuity plans following the pandemic, with secure remote working now available for many non-operational roles.

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Statement of Internal Control (continued)

Risk Management - Improvements Planned For The Forthcoming Period (2021 – 22)	
Improvement	Details of Improvement
ICT Development	<p>Introduce and embed new software development life cycle process to</p> <ul style="list-style-type: none"> • Reduce key man dependencies • Improve peer reviews and reduce iterations. Improve retirement of deprecated code and processes <p>Introduce and embed new Cyber Incident Response Plan</p> <ul style="list-style-type: none"> • Implement Cyber Response framework • Streamline response • Reduce risk / exposure to the business
Customer Services Processes	Eliminating avoidable paper based processes to improve customer experience and create efficiencies and enhance controls within the business.
Implement an automated purchase payables system	Digital scanning and processing of purchase invoices within tolerance of raised purchase orders. Digital payment authorisation and archiving for all purchase invoices.
Mails Management Information System (MIS)	<p>Building on the dashboard project of 2020/21 - analysis and improvement of current systems and controls within mails:</p> <ul style="list-style-type: none"> • Simplifying input and storage using databases rather than spreadsheets • Designing bespoke reports and outputs to improve management control • Series of exception reports to direct managers' attention to specified priorities.
IMS - Implementation of Management Information System	To automate the flow of information from customer work from booking in through to invoicing.
ICT Support – Infrastructure	Manage the migration of the existing infrastructure to new platforms and 3 rd party providers. To introduce greater flexibility, agility and enhanced security.
Improve the process for gathering of Electronic Advanced Data	To reduce the resource required to manage supply of data for goods supplied to the EU and as a consequence ensure full compliance with Brexit changes.
Website Enhancement	Undertake review of current website and implement recommended changes.
Supplier Management Framework	Introduce supplier management framework to monitor sub-contractors involved in any service provision, including audits of key areas handling sensitive personal data. This will formalise the approach to comply with certain commercial customer contracts and ISO 27001 accreditation.

Internal Audit

The Isle of Man Post Office contracts internal audit resource from the Audit Advisory division of Treasury. The ARC is responsible for the approval of the planned audit programme whilst the Audit Advisory division are responsible for delivery of the programme. A service level agreement is in place to ensure effective delivery of the service. The Isle of Man Post Office Senior Risk and Compliance Officer works closely with the Audit Advisory division and is responsible for reporting the audit findings to the ARC and for ensuring any follow up actions are executed. The Senior Risk and Compliance Officer is also charged with oversight of the business's risk management processes.

The Internal Audit Plan is structured against an agreed assurance framework (see below) that is designed to provide enhanced assurance over the effectiveness of the controls and processes used to ensure the organisation's Strategic Plan objectives are progressed and achieved.

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Statement of Internal Control (continued)

Assurance Framework

As part of the continuous assessment process, the Isle of Man Post Office has developed an annual review procedure that involves Executive Directors and Senior Managers completing self-assessment questionnaires on internal control, risk management and corporate governance arrangements within the business. A formal assurance framework for the business was established following a co-ordinated assessment of all forms of assurance available to the Board and its ARC. This framework continues to be revised and updated. The assurance framework is designed to be a systematic mechanism to ensure the adequacy and operation of existing key controls and systems to manage the major risks.

The Isle of Man Post Office's Internal Audit Plan is an integral part of the above framework, providing appropriately focused supplementary or independent assurance. Audit needs are determined according to the strength, independence and criticality of each of the current assurances.

In undertaking their review, managers have given specific consideration to each of the following operating risks within their business unit:

- Business Continuity
- Performance Management
- Financial Management and Compliance
- Procurement
- Information Management
- Value for Money
- Human Resources
- Change Management
- Health & Safety
- Environment
- Corporate Governance

The Executive Directors submit an assurance certificate to the Chief Executive on the adequacy of the control environment for the areas of the business for which they are responsible. The Chief Executive reviews the results of these assessments with the Internal Auditor, before being presented to the ARC.

External Assurances of Effectiveness

Further independent assurance is gained from a number of external reviews as below:

Division	Name of Review Organisation	Review Undertaken	Date Completed
IMS	Lloyd's Register Quality Assurance	ISO 27001:2013 and ISO 9001:2015	June 2020
IMS	ISO QA Isle of Man	ISO 27001:2013 and ISO 9001:2015	12 monthly audits throughout the period across both accreditations covering 62 topics
All	Seven commercial clients performed detailed assurance on our range of services	Assurance activities and audits	Twenty during the reporting period of 2020-2021

Management Review Meetings

The Chief Executive and the Executive Directors meet with divisional and departmental managers either monthly or quarterly to formally review their business unit and departmental financial and operational performance.

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Statement of Internal Control (continued)

Report on Internal Control and Corporate Governance environment

The effectiveness of the Isle of Man Post Office's internal control and corporate governance arrangements is continuously assessed by the work of the Chief Executive, Executive Directors, Senior Management and the ARC. In addition, the Senior Risk and Compliance Officer worked with management to assess compliance with the code of corporate governance, reviewed items on the risk registers and ensured action was being taken against outstanding issues.

Attention is drawn to the fact that systems of internal control and corporate governance are designed to manage, rather than eliminate, the risk of failure to achieve objectives. As previously stated, they can therefore only provide reasonable and not absolute assurance. Accordingly, reasonable assurance is given that the Isle of Man Post Office's Internal Control and Corporate Governance arrangements are adequate and operated effectively during the period ended 28 March 2021.

Simon Kneen
Chief Executive Officer
29 July 2021

Isle of Man Post Office

Statement of Responsibilities of the Board

The Isle of Man Post Office is constituted under the Post Office Act 1993 as a Statutory Board of Tynwald. The Chairman and Chief Executive Officer are responsible for preparing their Statement and Report, respectively. The Board is responsible for approving the Chairman's Statement and the Chief Executive Officer's Report, the Statement of Internal Control and preparing the financial statements, in accordance with applicable law and regulations.

The Audit Act 2006 requires the Board to prepare financial statements for each financial period, which meet the requirements of the Accounts and Audit Regulations 2018, made under the Audit Act 2006. The regulations require the Board to prepare the financial statements in accordance with UK Accounting Standards including FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland, as applicable to an Isle of Man entity.

The Board must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Entity and of the profit or loss of the Entity for that period. In preparing these financial statements, the Board are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Entity or to cease operations, or have no realistic alternative but to do so.

The Board are responsible for keeping adequate accounting records that are sufficient to show and explain the Entity's transactions and disclose with reasonable accuracy at any time the financial position of the Entity and enable them to ensure that the financial statements comply with the Accounts and Audit Regulations 2018 made under the Audit Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Entity and to prevent and detect fraud and other irregularities.

The Board are responsible for the maintenance and integrity of the corporate and financial information included on the Entity's website.

Isle of Man Post Office

Independent auditor's report to the Board Members of Isle of Man Post Office

Our Opinion

Our Opinion on the financial statements is unmodified

We have audited the financial statements of Isle of Man Post Office for the period ended 28 March 2021 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102; The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice), as modified by the Accounts and Audit Regulations 2018 made under the Audit Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the Isle of Man Post Office's affairs as at 28 March 2021 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with applicable law including the requirements of the Accounts and Audit Regulations 2018 made under the Audit Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Isle of Man Post Office in accordance with the ethical requirements that are relevant to our audit of the financial statements, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Isle of Man Post Office Board Members use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Isle of Man Post Office's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Isle of Man Post Office Board Members with respect to going concern are described in the relevant sections of this report.

However, as we cannot predict with certainty all future events or conditions and as any subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report cannot be viewed as a guarantee as to the Isle of Man Post Office's ability to continue as a going concern.

Matters on which we are required to report by exception

In accordance with section 6(2) of the Audit Act 2006, we are required to include a statement in our audit report providing particulars where in relation to the accounts we:

- are not satisfied as to any of the matters specified in section 4(1) of the Audit Act 2006; or
- consider that any matter specified in section 4(2) of the Audit Act is contrary to law; or
- consider that the relevant body has failed in any respect mentioned in section 4(3) of the Audit Act 2006.

With regard to section 4(3) of the Audit Act 2006, recommendations in respect of internal controls matters identified during the course of our audit are reported to the Isle of Man Post Office in a separate Controls Report.

Except as noted above, we have nothing to report in respect of the matters we are required to report by exception.

Isle of Man Post Office

Independent auditor's report to the Board Members of Isle of Man Post Office (continued)

Other information

The Isle of Man Post Office Board Members are responsible for the other information. The other information comprises the information included in the Chairman's Statement and Chief Executive Officer's report set out on pages 3 to 6, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board

As explained more fully in the statement of responsibilities of the Board set out on page 13, the Isle of Man Post Office Board Members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Isle of Man Post Office Board Members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Isle of Man Post Office Board Members are responsible for assessing the Post Office's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board intends to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit are to identify and assess the risks of material misstatement of the financial statements due to fraud or error; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud or error; and to respond appropriately to those risks. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

– The Isle of Man Post Office is subject to laws and regulations that directly affect the financial statements including financial reporting legislation. We determined that the following laws and regulations were most significant including Financial Reporting Standard 102, the Accounts and Audit Regulations 2018 made under the Audit Act 2006, and taxation laws. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

– We understood how the Isle of Man Post Office is complying with those legal and regulatory frameworks by, making inquiries to management and those responsible for legal and compliance

Isle of Man Post Office

Independent auditor's report to the Board Members of Isle of Man Post Office (continued)

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)

procedures. We corroborated our inquiries through our review of minutes and documents provided to the board.

– We assessed the susceptibility of the Isle of Man Post Office's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the engagement team included:

- identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
- understanding how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
- challenging assumptions and judgements made by management in its significant accounting estimates; and
- identifying and testing journal entries, in particular any unusual journal entry postings.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Isle of Man Post Office Board Members', as a body. Our audit work has been undertaken so that we might state to the Isle of Man Post Office Board Members' those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Isle of Man Post Office and the Isle of Man Post Office Board Members as a body, for our audit work, for this report, or for the opinions we have formed.

Grant Thornton Limited

Douglas
Isle of Man

Date: 3 August 2021

Isle of Man Post Office

Income Statement

for the period ended 28 March 2021

	Note	Period ended 28 March 2021 £	Period ended 29 March 2020 £
Turnover	1(b), 2	23,373,827	27,914,985
Cost of sales	1(c)	(15,845,385)	(22,582,982)
Gross profit		7,528,442	5,332,003
Other operating expenditure	1(c)	(5,853,497)	(5,846,327)
Operating Profit / (loss)		1,674,945	(514,324)
Interest receivable		22,140	63,805
Interest payable and similar charges		(88,600)	(53,827)
Profit / (Loss) for the period	3	1,608,485	(504,346)

The notes on pages 22 to 35 form part of these financial statements.

The Board considers that all results derive from continuing activities.

Isle of Man Post Office

Statement of Comprehensive Income

for the period ended 28 March 2021

	Note	Period ended 28 March 2021 £	Period ended 29 March 2020 £
Profit / (Loss) for the year	3	1,608,485	(504,346)
Other comprehensive income			
Remeasurement of the net defined benefit pension liability	9	3,746,887	(933,438)
Revaluation of freehold land & buildings	4	-	1,339,409
Total other comprehensive income for the year		3,746,887	405,971
Total comprehensive income/(loss) for the year		5,355,372	(98,375)

The notes on pages 22 to 35 form part of these financial statements.

The Board considers that all results derive from continuing activities.

Isle of Man Post Office

Statement of Financial Position

as at 28 March 2021

	Note	28 March 2021	29 March 2020
		£	£
Non-current assets			
Fixed assets	1(d), 4	7,154,700	7,563,083
Investments	1(e), 5	40	40
		<u>7,154,740</u>	<u>7,563,123</u>
Current assets			
Stocks	1(g)	169,885	186,961
Trade and other debtors	6	6,333,856	3,948,246
Amounts due from Isle of Man Government	8	1,999	10,353
Short term cash deposit	1(f)	8,100,109	8,073,298
Cash at bank and in hand	1(f)	2,811,523	3,787,052
		<u>17,417,372</u>	<u>16,005,910</u>
Creditors: amounts falling due within one year			
Trade and other creditors	7	(2,121,174)	(1,967,398)
Amounts due to Isle of Man Government	8	(1,583,975)	(2,015,458)
		<u>(3,705,149)</u>	<u>(3,982,856)</u>
Net current assets		13,712,223	12,023,054
Pension scheme liability	9	(924,512)	(4,999,098)
Net assets		19,942,451	<u>14,587,079</u>
Represented by:			
Reserves	1(k)	19,942,451	<u>14,587,079</u>

The notes on pages 22 to 35 form part of these financial statements.

These financial statements were approved by the Board on 29 July 2021 and were signed on their behalf by:

Julie Edge MHK
Chairman

Simon Kneen
Chief Executive Officer

Martin Kneale
Finance Director

Isle of Man Post Office

Statement of Changes in Equity

for the period ended 28 March 2021

	Note	Period ended 28 March 2021		Period ended 29 March 2020	
		Profit and loss reserve	Total equity	Profit and loss reserve	Total equity
		£	£	£	£
Balance at start of year		14,587,079	14,587,079	14,685,454	14,685,454
Total comprehensive income for the period					
Profit / (loss) for the period		1,608,485	1,608,485	(504,346)	(504,346)
Remeasurement of net defined pension obligation	9	3,746,887	3,746,887	(933,438)	(933,438)
Remeasurement of freehold land and building	4	-	-	1,339,409	1,339,409
Total comprehensive income / (loss) for the period		5,355,372	5,355,372	(98,375)	(98,375)
Balance at end of period		19,942,451	19,942,451	14,587,079	14,587,079
The Profit & Loss Reserve is analysed as follows :					
Property revaluation surplus		3,138,766	3,138,766	3,138,766	3,138,766
Defined benefit pension scheme deficit		(924,512)	(924,512)	(4,999,098)	(4,999,098)
Retained profit		17,728,197	17,728,197	16,447,411	16,447,411
Total Reserves		19,942,451	19,942,451	14,587,079	14,587,079

The notes on pages 22 to 35 form part of these financial statements.

Isle of Man Post Office

Statement of Cash Flows

for the period ended 28 March 2021

	Note	Period ended 28 March 2021 £	Period ended 29 March 2020 £
Net cash flow from operating activities	11	(621,312)	555,937
Cash flows from investing activities			
Payments to acquire fixed assets		(397,416)	(432,022)
Receipts from sales of fixed assets		47,870	100,390
Net cash flow from investing activities		(349,546)	(331,632)
Cash flows from financing activities			
Interest received		22,140	63,805
Levy to Isle of Man Government		-	(500,000)
Net cash used in financing activities		22,140	(436,195)
Net decrease in cash and cash equivalents		(948,718)	(211,890)
Cash and cash equivalents at start of year		11,860,350	12,072,240
Cash and cash equivalents at end of period		10,911,632	11,860,350

The Isle of Man Post Office does not have any debt; therefore, a reconciliation of net debt has not been presented.

The notes on pages 22 to 35 form part of these financial statements.

Isle of Man Post Office

Notes

(forming part of the financial statements for period ended 28 March 2021)

1 Accounting policies

a) Basis of accounting

These financial statements have been prepared in accordance with UK Accounting Standards including Financial Reporting Standard 102: the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as applicable to an Isle of Man entity. The presentation currency of these financial statements is Sterling. They have been prepared in accordance with the Accounts and Audit Regulations 2018 made under the Audit Act 2006 as modified by any Direction issued by Treasury under Section 13 of the Audit Act 2006. These financial statements have been prepared under the historical cost convention, with the exception of land and buildings and investment property, which are measured at fair value.

On 11 March 2020, the World Health Organisation officially declared COVID-19, the disease caused by novel coronavirus, a pandemic which remains prevalent. Through its business continuity planning, management has continued to closely monitor the evolution of the pandemic, including how it has affected the Isle of Man Post Office operations. Throughout the pandemic Isle of Man Post Office has been able to maintain substantially all of its core services, and as part of its response plan, management created a COVID-19 risk register, including a review of potential supply chain vulnerabilities.

The consequences of the COVID-19 outbreak have continued to materially affect demand for certain Isle of Man Post Office products and services, some favourably and others adversely. Letter mail volumes and revenues have declined, however maintenance of buoyant packet and parcel volumes and revenues has fully mitigated the financial impact. Societal restrictions resulted a material decline in footfall through the Isle of Man Post Office retail network, which has adversely impacted divisional results (particularly foreign exchange business) albeit mitigated to an extent by the variable nature of sub-postmaster remuneration. Workforce reductions resulting from illnesses and quarantines have not resulted in critical or material interruptions to normal service levels.

Financial information for the period subsequent to the period end indicates that the Isle of Man Post Office continues not to be adversely financially impacted by the ongoing pandemic. Accordingly management are satisfied that the going concern basis for preparation of the financial statements is appropriate, but will continue to monitor and assess the ongoing development of the pandemic and respond accordingly.

b) Turnover

Turnover has been accounted for on an accruals basis net of discounts and has been recorded in the Statement of Comprehensive Income. Turnover is the value of services provided and goods sold excluding VAT.

Foreign currency sales are included in revenue based on the transaction values of monies exchanged at advertised rates, net of any promotional discounts, on the date of the transactions.

Stage of completion of rendering of services

Amounts earned and not invoiced are included within accrued income, in line with time based costs as and when services are provided, forming the basis of the stage of completion.

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for the period ended 28 March 2021)

1 Accounting policies (continued)

c) Expenses

Expenses are accounted for on an accruals basis. The general policy is that no provision is made for any charges which may be incurred in respect of stamps sold, but unused at the statement of financial position date. However where specific circumstances allow the amount and type of stamps to be clearly identified and an estimate of the likely liability to be made, then a provision is made in accordance with FRS102.

d) Tangible fixed assets

Tangible fixed assets (except Land and Buildings) are stated at cost less accumulated depreciation and accumulated impairment losses. Land and Buildings are stated at fair value less any subsequent accumulated depreciation and impairment losses.

Land & buildings are independently valued every 5 years. The board value the portfolio every 3 years at the midpoint of the external valuation cycle. The last independent valuation was carried out on 30th March 2018. The last mid-point valuation was carried out on 31st March 2020.

The fair value was assessed by a qualified valuer on the basis of the comparison and investment methods of valuation using notional rents where applicable, in accordance with RICS Valuation – Global Standards 2017 (the Red Book).

Gains on revaluation are recognised in Other Comprehensive Income and accumulate in the profit and loss reserve. However, any increase is recognised in the Income Statement to the extent that it reverses a revaluation decrease previously recognised in the Income Statement.

Losses arising on revaluation are recognised in Other Comprehensive Income to the extent of any previously recognised revaluation increase accumulated in equity in respect of that asset. Any excess is recognised in the Income Statement.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the Post Office assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases and accounted for in tangible fixed assets. All other leases are classified as operating leases.

The Post Office assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for the period ended 28 March 2021)

1 Accounting policies (continued)

d) Tangible fixed assets (continued)

The estimated useful lives are as follows:

Land	No Depreciation
Buildings:	
- Freehold (based on the estimated useful remaining life)	10-40 years
- Leasehold	Over period of lease
Motor vehicles	5 years
Office equipment and machines:	
- Letter boxes	5 to 30 years
- Other postal equipment	5 to 10 years
- Office furniture and equipment	5 to 10 years
- Office machines	5 to 10 years
- Safes in sub-offices	20 years
- Computers	3 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the Post Office expects to consume an asset's future economic benefits.

Investment property is carried at fair value, determined by an independent valuer, and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in profit or loss.

e) Investment in associates

The measurement basis for investment in associates is cost. The Post Office's share of profits or losses of associates that would ordinarily be included in the Income Statement and its interest in the net of any associate is not material.

f) Basic financial instruments

Trade and other debtors:

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument. Doubtful debt provisions are raised on long outstanding debts or in the event recoverability is otherwise doubtful, and measured at management's best estimate of the recoverable amount.

Trade and other creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If the arrangement constitutes a financing transaction, for example if payment is

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for the period ended 28 March 2021)

1 Accounting policies (continued)

f) Basic financial instruments (continued)

deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

g) Stocks

Commemorative stamp costs are fully written off in the year of issue. Other stock is stated at the lower of cost and net realisable value.

h) Operating leases

Payments (excluding costs for services and insurance) made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in the income statement over the term of the lease as an integral part of the total lease expense.

i) Research and Development expenditure

Expenditure on research activities is recognised in the Income Statement as an expense as incurred.

Expenditure on development activities may be capitalised if the product or process is technically and commercially feasible and the Post Office intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if it can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve design for, construction or testing of the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the Income Statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

j) Foreign exchange

Transactions in foreign currencies are translated to the Business's functional currency at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are retranslated to the functional currency at the foreign exchange rate ruling at that date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the Income Statement.

k) Reserves

Reserves comprise the Profit & Loss Reserve only, which includes all items of 'Comprehensive Income' net of levies paid and payable to Isle of Man Government Treasury (reserves are managed by agreement of Treasury under Section 6(1) of the Post Office Act 1993). Reserves include

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for period ended 28 March 2021)

1 Accounting policies (continued)

k) Reserves (continued)

unrealised gains and losses in respect of property and pension scheme revaluations which are taken into account in the determination of any levies paid and payable.

l) Pension costs

The Isle of Man Post Office operates a defined benefit pension scheme. A defined benefit scheme is a post-employment benefit plan other than a defined contribution plan. The Post Office's net obligation in respect of its defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Post Office determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability (asset) taking account of changes arising as a result of contributions and benefit payments. The discount rate is the yield at the Statement of Financial Position date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the Post Office's obligations. A valuation is performed annually by a qualified actuary using the projected unit credit method. The Post Office recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan. Changes in the net defined benefit liability arising from employee service rendered during the period and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in the profit or loss as a component of operating profit. Net interest on net defined benefit liability is recognised in interest payable. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to Other Comprehensive Income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Re-measurement of net defined benefit liability'.

The Isle of Man Post Office also operates a defined contribution pension scheme. Contributions payable are charged to the Income Statement.

m) Heritage assets

Heritage assets are not recorded at value in the Statement of Financial Position, unless the Board believes that there is sufficient ongoing business benefit accruing to justify the cost of revaluing assets.

n) Provisions for liabilities

Provisions are recognised when Isle of Man Post Office has a material present obligation (legal or constructive) as a result of a past event, it is probable that the Post Office will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

The Post Office recognises a provision for annual leave accrued by employees as a result of services rendered in the current period, and which employees are entitled to carry forward and use within the next 12 months. The provision is measured at the salary cost payable for the period of absence.

o) Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant accounting estimates relate to the pension liability and property valuation, whereby external specialists are used to determine the most appropriate estimate (see note 4 & 9).

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for period ended 28 March 2021)

o) Critical accounting judgements and estimation uncertainty (continued)

The accounting policies set out in this note, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

2 Turnover

	Period ended 28 March 2021	Period ended 29 March 2020
	£	£
Mails	19,701,892	17,874,973
Retail Counters *	1,674,803	7,980,006
Stamps & Coins	1,123,643	1,221,525
Integrated Mailing Solutions	873,489	838,481
	<hr/> 23,373,827	<hr/> 27,914,985

* Retail Counters turnover includes gross foreign exchange sales of £264,374 (2020: £6,449,144).

3 Total profit / (loss) for the period

Total profit / (loss) for the period is arrived at after charging/(crediting):

	Period ended 28 March 2021	Period ended 29 March 2020
	£	£
Auditor's remuneration	16,000	16,000
Depreciation (note 4)	795,630	794,433
Pension - current service cost (note 9)	1,828,849	2,370,011
Pension - interest on scheme liabilities (note 9)	88,600	53,827
Employee Remuneration (excl Pension)	11,441,660	12,178,918
Rentals payable under operating leases (note 10)	133,058	132,625
Accommodation (excl depreciation & rentals under op leases)	267,000	292,650
Retail network support payments	448,072	535,644
Retail network - other direct costs	539,568	642,752
Foreign exchange currency purchases	236,290	6,056,011
Logistics costs	3,756,118	3,626,571
Stamps & Coins - other direct costs	274,157	317,035
Integrated Mailing Solutions - other direct costs	172,776	190,704
Irrecoverable VAT	279,030	285,707
Information & Communication Technology Costs	312,215	311,501
Bank Charges	123,790	150,611
Plant & Machinery (excl depreciation)	549,443	508,138
Gain on revaluation of freehold land & buildings (note 4)	-	(308,803)
	<hr/>	<hr/>

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for period ended 28 March 2021)

4 Fixed assets

	Land & Buildings	Investment Property	Motor Vehicles	Office Equipment & Machines	Total
	£	£	£	£	£
Cost or valuation:					
At 29 March 2020	6,147,260	383,000	1,910,452	5,977,841	14,418,553
Additions	960	-	259,871	136,585	397,416
Disposals	-	-	(251,174)	(472,250)	(723,424)
At 28 March 2021	6,148,220	383,000	1,919,149	5,642,176	14,092,545
Accumulated depreciation:					
At 29 March 2020	(431,113)	-	(1,414,416)	(5,009,941)	(6,855,470)
Charge for the year	(196,583)	-	(209,101)	(389,946)	(795,630)
Disposals	-	-	241,005	472,250	713,255
At 28 March 2021	(627,696)	-	(1,382,512)	(4,927,637)	(6,937,845)
Net book value:					
At 28 March 2021	5,520,524	383,000	536,637	714,539	7,154,700
At 29 March 2020	5,716,147	383,000	496,036	967,900	7,563,083

An interim valuation undertaken as at 29 March 2020 by the Isle of Man Government Valuer reported the following revaluation movements:

- Post Office Headquarters was revalued upwards by £1,339k. This asset was previously reported at a surplus over historic cost, so this amount was recognised in the Statement of Comprehensive Income for the period ending 29 March 2020

- Units 3 & 4 at Barleyfields was revalued upwards by £309k. These units are valued at less than historical cost, so this amount was recognised in the Income Statement as a component of 'Other operating expenditure' in the period ending 29 March 2020

During the prior period unit 3 at Barleyfields was transferred to Investment Property as it was vacant and being marketed for let. This status was unchanged as at 28 March 2021.

The most recent independent valuation was conducted by Chrystals Estate Agents & Valuers at 30th March 2018.

The net book value of land, buildings and investment property is detailed below:

	Period ended 28 March 2021	Period ended 29 March 2020
	£	£
Land	1,375,000	1,375,000
Freehold Buildings	4,528,459	4,675,000
Leasehold Buildings	65	49,147
	5,903,524	6,099,147

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for period ended 28 March 2021)

5 Investment in associates

As part of the acquisition of property at Barleyfields, Isle of Man Business Park, the Post Office acquired 40 shares of Isle of Man Business Park (No 4) Management Company Limited, a company incorporated in the Isle of Man, representing 40% of the issued capital of the company. The principal activity of the company is the management of the shared element of the property acquired. The Board has taken the decision not to include the Post Office's share of profits or losses of associates or its interest in their net assets in these accounts, as in its view the results would be immaterial.

6 Trade and other debtors

	Period ended 28 March 2021	Period ended 29 March 2020
	£	£
Trade debtors (gross)	5,423,619	2,685,146
Less provision for doubtful debts	(11,764)	(8,661)
Trade debtors (net)	5,411,855	2,676,485
Other debtors	717,607	1,138,610
Prepayments and accrued income	204,394	133,151
	<u>6,333,856</u>	<u>3,948,246</u>

7 Trade and other creditors

	Period ended 28 March 2021	Period ended 29 March 2020
	£	£
Trade creditors, other creditors and accruals	1,693,129	1,473,140
Agency creditors	205,625	246,307
VAT	65,750	79,504
Philatelic subscriber balances	156,670	168,447
	<u>2,121,174</u>	<u>1,967,398</u>

8 Amounts due from and amounts due to Isle of Man Government (excluding trade debtors and creditors)

	Period ended 28 March 2021	Period ended 29 March 2020
	£	£
<i>Due from Isle of Man Government comprises:</i>		
Treasury department	1,999	10,353
<i>Due to Isle of Man Government comprises:</i>		
Agency creditors	1,583,975	2,015,458

All balances are interest free, unsecured and payable/repayable on demand.

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for period ended 28 March 2021)

9 Pension scheme

The Isle of Man Post Office operates a funded defined benefit pension scheme, The Isle of Man Post Office Superannuation Scheme ("the Scheme"), providing benefits based on final pensionable pay. Contributions to the scheme are determined by a firm of independent actuaries employed by the Trustees.

The actuarial assumptions used to calculate scheme liabilities under FRS102 are as follows:

	Period ended 28 March 2021	Period ended 29 March 2020
	%	%
Discount rate	2.15%	2.40%
Salary increase rate	2.90%	2.05%, 2.30%*
Pension increases:		
- CPI linked	2.65%	2.05%
- CPI min 0%, max 3%	2.30%	1.90%
- CPI min 0%, max 2.5%	2.05%	1.80%
RPI Price inflation rate	3.15%	2.65%
CPI Price inflation rate	2.65%	2.05%

*2.05% p.a. for the next 2 years, 2.30% p.a. thereafter.

Assumptions regarding life expectancy of members are based on published statistics and mortality tables.

The life expectancies at age 65 utilised in the actuarial assumptions are as follows:

	MALE		FEMALE	
	28-Mar 2021	29-Mar 2020	28-Mar 2021	29-Mar 2020
Current pensioners aged 65	22.1	21.3	24.4	23.2
Future pensioners now aged 45	23.5	22.4	25.9	24.5

The expected return on scheme assets is the best estimate of returns expected over the period from dividends, interest and capital gains, taking into account the expected returns for individual asset categories.

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for period ended 28 March 2021)

9 Pension scheme (continued)

Amounts recognised in the Statement of Financial Position

The fair value of the Scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the Scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were as follows:

	Period ended 28 March 2021 £'000	Period ended 29 March 2020 £'000
Equities	42,150	42,187
Property	16,565	14,060
Other*	47,949	27,186
Fair value of scheme assets	106,664	83,433
Present value of funded liabilities	(107,589)	(88,432)
Net defined benefit liability	(925)	(4,999)

* "Other" assets at 28 March 2021 comprised Diversified Growth Funds of £5,957,755 (£5,828,913 at 29 March 2020), and liability driven investments of £21,817,409 (£14,481,475 at 29 March 2020), Direct Lending at £5,645,167 (£3,854,199 at 29 March 2020) and net current assets of £14,528,989 (£2,287,980 at 29 March 2020)

The scheme does not invest in the employer's own financial instruments, including property or other assets owned by the employer.

Changes in present value of the funded liabilities:

	Period ended 28 March 2021 £'000	Period ended 29 March 2020 £'000
At beginning of period	88,432	91,279
Current employer service cost	1,577	2,109
Employee contributions	637	571
Interest cost	2,082	2,292
Actuarial movements	18,234	(5,025)
Benefits paid (including expenses)	(3,373)	(2,794)
At end of period	107,589	88,432

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for period ended 28 March 2021)

9 Pension scheme (continued)

Changes in fair value of the scheme assets:

	Period ended 28 March 2021 £'000	Period ended 29 March 2020 £'000
At beginning of period	83,432	88,399
Interest income on scheme assets	1,994	2,238
Employer contributions	2,245	1,238
Employee contributions	637	571
Return on scheme assets in excess of interest income	21,981	(5,959)
Benefits paid (including expenses)	(3,624)	(3,055)
	<hr/>	<hr/>
At end of period	106,665	83,432
	<hr/>	<hr/>

Amounts recognised in the profit for the period

	Period ended 28 March 2021 £'000	Period ended 29 March 2020 £'000
Current service cost (including expenses)	1,829	2,370
Net interest on net defined benefit liabilities	88	54
	<hr/>	<hr/>
Total expense recognised in income statement	1,917	2,424
	<hr/>	<hr/>

Amounts recognised in other comprehensive income (OCI)

	Period ended 28 March 2021 £'000	Period ended 29 March 2020 £'000
Return on plan assets in excess of interest income	21,981	(5,959)
Experience (losses) and gains on liabilities	(63)	2,995
Changes in assumptions	(18,171)	2,031
	<hr/>	<hr/>
Total gains/(losses) recognised in OCI	3,747	(933)
	<hr/>	<hr/>

Actual return on scheme assets

	Period ended 28 March 2021 £'000	Period ended 29 March 2020 £'000
Actual return on assets	23,974	(3,720)
	<hr/>	<hr/>

Defined contribution scheme

Employer contributions of £4,242 (2020: Nil) were payable to defined contribution pension schemes during the period. The creditor with respect to these contributions at the period end was £nil (2020: £nil).

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for period ended 28 March 2021)

10 Capital and lease commitments - per operating lease workings

a) There are capital commitments as at 28 March 2021 of £26,598 (2020: £10,800).

b) Future commitments under non-cancellable operating leases as lessee (all relating to Land and Buildings) are as follows:

	Period ended 28 March 2021	Period ended 29 March 2020
	£	£
Total payable:		
Within one year	119,698	128,601
In the second to fifth years inclusive	458,305	454,518
Over five years	-	-
	578,003	583,119

c) The operating lease expense for the period (all relating to Land and Buildings) was as follows:

	Period ended 28 March 2021	Period ended 29 March 2020
	£	£
Total	133,058	132,625

d) Future receivables under non-cancellable operating leases as lessor (all relating to Land and Buildings) are as follows:

	Period ended 28 March 2021	Period ended 29 March 2020
	£	£
Total receivable:		
Within one year	19,375	18,891
In the second to fifth years inclusive	82,828	99,782
Over five years	-	-
	102,203	118,673

e) The operating lease income for the year (all relating to Land and Buildings) was as follows:

	Period ended 28 March 2021	Period ended 29 March 2020
	£	£
Total	18,891	17,438

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for period ended 28 March 2021)

11 Reconciliation of operating profit to net cash flow from operating activities

	Period ended 28 March 2021	Period ended 29 March 2020
	£	£
Operating Profit / (loss)	1,674,945	(514,324)
Depreciation charges	795,630	794,433
Gain on revaluation	-	(308,803)
Net gain on sale of tangible fixed assets	(37,701)	(27,462)
Defined benefit scheme-current service cost in (deficit)/excess of contributions *	(416,299)	1,132,198
Decrease / (increase) in stocks	17,076	(25,648)
(Increase) / decrease in debtors	(2,385,610)	437,252
(Decrease) / increase in amounts owed to Isle of Man Government	(423,129)	189,244
Increase / (Decrease) in creditors	153,776	(1,120,953)
	<hr/>	<hr/>
Net cash flow from operating activities	(621,312)	555,937

* Current Service cost £1,829k (2020: £2,370k) less £1,145k (2020: £1,238k) regular contributions and £1,100,000 (2020 : nil) additional funding contributions paid in the period.

12 Salaries

Remuneration of members, officers and employees of the Post Office has been paid within the following bands:

	Period ended 28 March 2021	Period ended 29 March 2020
	Number	Number
£50,000 - £74,999	12	10
£75,000 - £99,999	1	1
£100,000 - £124,999	2	2

Changes to the number of members, officers and employees in the above bands occurred as a consequence of incremental adjustments to remuneration. Overall senior management headcount remained unchanged.

13 Related party transactions

The Isle of Man Post Office is required to disclose material transactions with related parties, that is bodies or individuals that have the potential to control or influence it, or to be controlled or influenced by the same. Disclosure of these transactions allows the readers to assess the extent to which the Post Office might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with it.

The Board considers that the main related parties are the Isle of Man Post Office Superannuation Scheme ("the Scheme"), Employer pension contributions and expenses met by IOMPO and recharged to the Scheme are disclosed in Note 9, Members of the Board and Senior Management of the Isle of Man Post Office. In accordance with FRS102 Section 33 as the Isle of Man Post Office is wholly owned by the Isle of Man Government and is included in the consolidated Government accounts, transactions between the Isle of Man Post Office and its beneficial owner, the Isle of Man Government are not disclosed in this note (non trade debtor and creditor balances at 28 March 2021 are disclosed in note 8).

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for period ended 28 March 2021)

13 Related party transactions (continued)

Remuneration of key management personnel (Remuneration includes contributions to the defined benefit pension scheme and employers National insurance payments) in the year was:

	Period ended 28 March 2021	Period ended 29 March 2020 Restated
	£	£
Board Members and Executive Directors	445,165	431,088

The comparative figure for the period ended 29 March 2020 has been restated on a consistent basis with the figure reported at 28 March 2021. The amount was originally stated at £407,842. There is no impact on net assets or profit & loss as a consequence of this restatement.

14 Contingent liabilities

The Isle of Man Post Office may have contingent liabilities to pay recharges for policy excesses in respect of insurance arranged on its behalf by the Department of Treasury. These policy excesses may be up to £150,000 although, to the best of its knowledge as at the date of this report, the Board believes that should a recharge be made, the total of these liabilities would be significantly below this figure.

15 Heritage assets

The Isle of Man Post Office owns a number of heritage assets that are not included in the statement of financial position at 28 March 2021. The assets comprise:-

- 1) A collection of paintings, representing the original artwork for stamps produced during the 1970s and 1980s.
- 2) A memorial World War 1 plaque designed by Archibald Knox
- 3) A memorial World War 2 plaque

These assets were purchased historically. It is the view of the Board that the costs incurred to reliably value these assets on an on-going basis, even if such values could be obtained, would be disproportionate to any additional benefits derived by the Post Office and users of the accounts.

16 Post balance sheet events

The Board are not aware of any material post balance sheet events requiring disclosure in the financial statements.