

## CHAPTER 2

### **The organisation of procurement in the Post Office**

2.1. The Post Office, which became a public corporation in 1969, was responsible for both posts and telecommunications until October 1981 when telecommunications was transferred to British Telecommunications (BT). The Post Office retained responsibility for posts (mail, including parcels and counter services) as well as for Girobank. Procurement for the sole use of Girobank, which is now constituted as a separate business within the Post Office, is excluded from our terms of reference. In its financial year 1985–86<sup>1</sup> the Post Office had a turnover for posts of £3,159 million, fixed assets valued at £1,436 million and a capital spend of £122 million. The corporation employed some 180,000 staff, 125,000 of them being uniformed postal grades, and used around 28,000 vehicles. There were 1,509 main and 19,796 sub-post offices.

2.2. Before the separation of the Post Office and BT, there were a variety of arrangements for procurement of goods and services which owed much to the Post Office's previous position as a Government department. A central procurement agency was responsible for the procurement of goods and services, such as motor vehicles, which were obtained centrally for the use of posts and telecommunications. However, major services such as the carriage of mail and advertising were procured by the Headquarters user departments. Stationery and small stores common to both posts and telecommunications were procured through Her Majesty's Stationery Office (HMSO) and by direct purchase through competitive tender. Office furniture, sorting office fittings, household stores, heating oil and catering equipment were obtained under contracts negotiated by the Property Services Agency (now the Crown Suppliers). Many other goods and services required at the local level were procured by the regions and local offices of both businesses.

2.3. When the businesses were separated a Supply Department (SD), with its headquarters at Swindon and depots at Swindon, Hemel Hempstead and Edinburgh, was set up by the Post Office under a Director (now General Manager) of Supply who is responsible for procurement policy and reports to the Post Office Board member for Personnel and Corporate Resources. SD is directly responsible for negotiating the purchase of a wide range of goods which are delivered via the central store or directly to users or are available under 'call-off' contracts. Purchasing on behalf of the Post Office by BT, HMSO and the Crown Suppliers has been phased out and goods or services are now obtained from them only if in any particular instance they are considered to be the most competitive suppliers. The Crown Suppliers still supply some furniture and some fuel oil. SD is required to provide direction and advice on purchases and contracts throughout the Post Office and has gradually been involving itself directly in a wide range of procurement activities. The approach which is adopted in some of these areas is discussed in Chapters 3 to 6.

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<sup>1</sup> The Post Office financial year ends on the Wednesday nearest to 31 March.

## The goods and services procured

2.4. Table 2.1 shows Post Office expenditure on goods and services in 1985–86, which totalled £380 million, broken down by product categories and purchasing arrangements. The total of payments for goods and services purchased under SD contracts was £126 million. Expenditure on goods purchased for holding centrally in stock, including stamps and stamped stationery, uniforms and printed forms, amounted to £31 million. Payments under specific contracts for goods to be delivered directly to users, such as computers and some engineering supplies, totalled £24 million. Payments of £71 million were made for goods, in particular vehicles and fuel, supplied under centrally negotiated call-off contracts to users who placed their orders directly with the suppliers. A wide range of Post Office requirements are purchased regionally or locally where this has been found to have advantages, for instance because of the convenience of having a local supplier, the small amount involved or the ability to obtain favourable terms in the region. Regional and local purchases (apart from those under centrally negotiated call-off contracts) involved expenditure totalling £79 million and included building maintenance and furniture and fittings; some were under regionally negotiated call-off contracts although the Post Office could not provide a separate figure for these.

TABLE 2.1 Analysis of contracts and purchases—payments in financial year 1985–86

Product area	Total	Supply Department			Other HQ departments	£ million Regional and local, including regionally negotiated call-off contracts
		Specific for direct delivery	Specific for central stores	Call-off contracts		
Carriage of mail						
Letters	45.9				45.9	
Parcels	21.8				21.8	
Other inland	18.3				18.3	
Overseas	55.7				55.7	
Vehicles						
Capital purchase	19.6			19.2		0.4
Leasing	8.8			6.2		2.6
Contract mtce	7.3					7.3
Vehicle parts	13.3			4.1		9.2
Buildings mtce	20.9				1.2	19.7
Fuel	31.9			23.6		8.3
Engineering stores	28.8	8.0	2.8	3.3		14.7
Advertising	21.4				21.4	
Computers						
Capital purchase	12.5	7.1		5.4		
Revenue	8.6	6.0		2.6		
General stores	10.5		4.3	6.2		
Consultants' fees	10.7			0.7	9.9	0.1
Furniture and fittings	10.9					10.9
Printing and stationery	11.8	1.2	8.9			1.7
Stamps and stamped stationery	7.1		7.1			
Uniforms—Mails	7.4		6.2			1.2
—Counters	0.3				0.3	
Counter and sorting office equipment	3.4	1.9	1.5			
Contract cleaning	3.0					3.0
	379.9	24.2	30.8	71.3	174.5	79.1

Source: Post Office.

Note: Excludes catering supplies (paragraph 2.5).

2.5. Other Headquarters departments than SD have the main responsibility for procurement in certain areas, mainly services. Recently SD officers have been involved in this work sometimes on a trial basis. Expenditure under contracts for the carriage of mail amounted to £142 million in 1985–86 (Table 6.1) and are negotiated by the operational departments with the help of SD staff. Most of the externally procured maintenance of buildings was handled locally but overall policy was the responsibility of the Estates Executive (to which an SD staff member is seconded on an experimental basis) as regards building structure and decoration and the Engineering Department as regards building engineering services (paragraphs 6.51 to 6.54). Advertising cost £21 million and was arranged by the Royal Mail Marketing Department (RMMD) and Counter Services Department (CSD), supported by the Post Office Media Unit (paragraphs 6.23 and 6.24). There was expenditure of more than £10 million under management consultancy contracts arranged by the departments concerned, with SD involvement (paragraph 6.76). Most of the catering supplies for Post Office canteens were purchased under call-off contracts arranged by the Catering Division of the Management Resource Department with the help of SD; expenditure on catering supplies totalled £2.9 million in 1984–85 but for 1985–86 only a figure (£0.4 million) for all catering services net of catering receipts was available.

### **Organisation of Supply Department**

2.6. Figure 2.1 shows the organisation of SD. Under the General Manager Supply there is provision for two divisional heads. One post was vacant during our review, and we were told that the post holder was on long-term secondment, the functions being shared temporarily by the General Manager and the Head of Purchasing and Contracts. At March 1986 SD employed 822 staff.

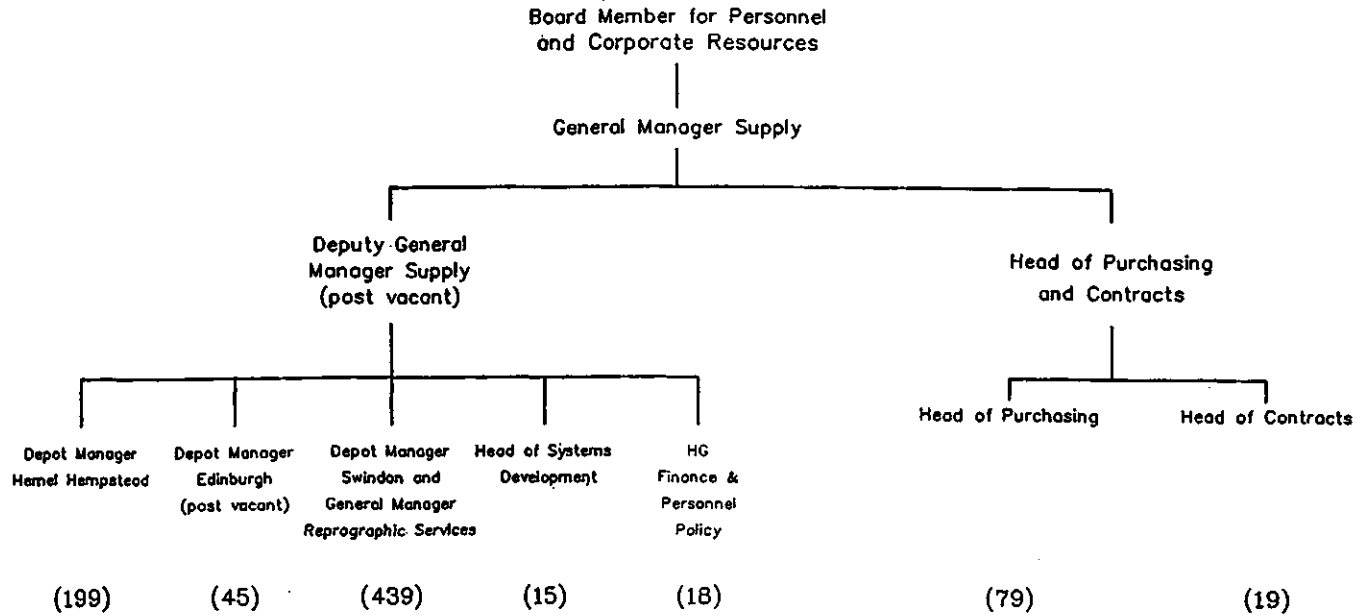
2.7. The Purchasing and Contracts Division has two sections the functions of which are shown broadly in Figure 2.2. The section under the Head of Purchasing is responsible for the purchase of a wide range of goods and generally for the stock control of items purchased by SD and stocked centrally at Swindon. The section under the Head of Contracts is responsible for purchasing strategy and contracts negotiation (often in association with the operational departments) for certain goods, notably vehicles and computer equipment. It controls fuel buying strategy and the operation of a series of regionally-based fuel contracts. It contributes to the procurement of transport services for mails and consultancies.

2.8. The duties of the vacant post of Deputy General Manager Supply include control of the department's depots: the main store at Swindon which includes a reprographic unit, a specialist stock and distribution depot at Hemel Hempstead with two sub-depots, and a small unit at Edinburgh responsible mainly for the assembly and despatch of philatelic goods. The post is also responsible for the Systems Development Section (SDS) and the Finance and Personnel Policy Group (FPP).

2.9. The work of SDS since late 1983 has included two major responsibilities. The first is the improvement of the systems operated at the Swindon depot. Micro-computer systems were introduced in six product areas (postal mechanisation spares, bicycles and hand carts, counter and sorting office equipment, mailbags, uniforms and protective clothing, and retail items) as an interim measure to improve stock control and management information as well as to facilitate

FIGURE 2.1

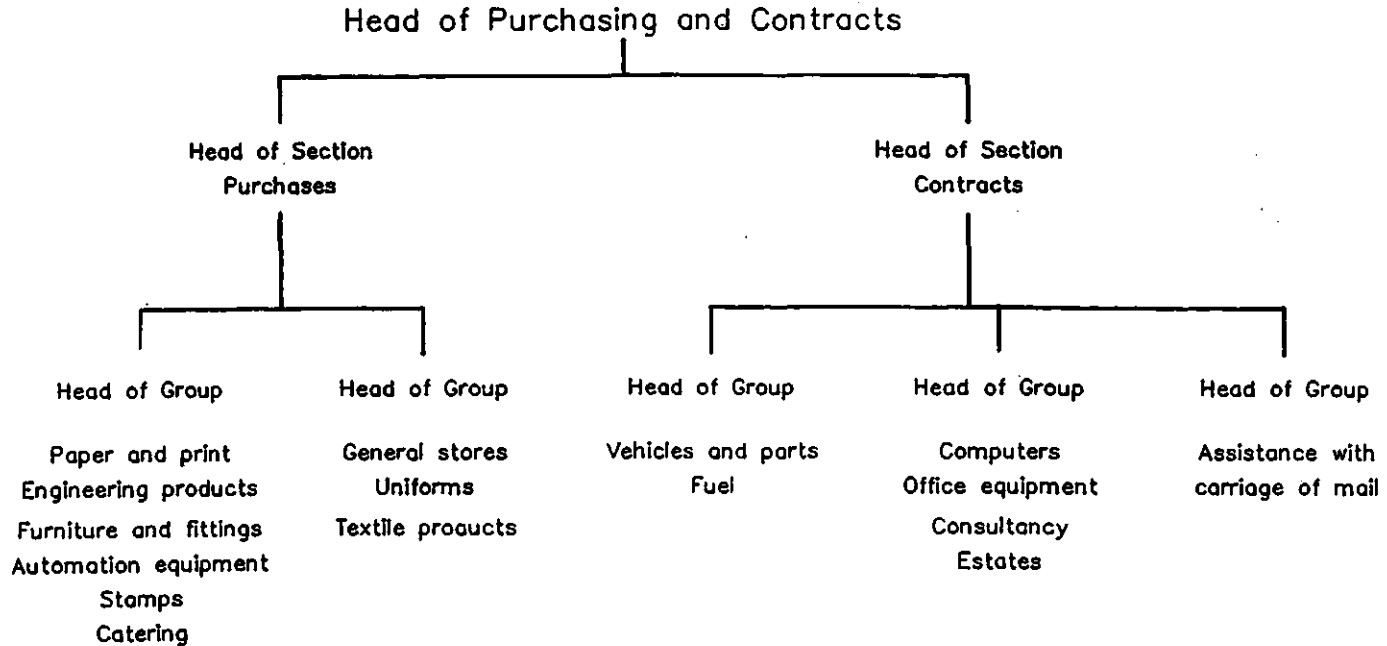
## Organisation of the Supply Department



**NOTE :** The numbers of staff employed at 31 March 1986 are shown in brackets.

FIGURE 2.2

### SDHQ Purchasing Outline Organisation



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charging users with the purchase price (except in the case of retail items, for which CSD is charged directly by the suppliers). A comprehensive computer system, known as Pilgrim and based on an NCR 9300 mini-computer, has been developed with the assistance of Information Technology Department (responsible to the Board Member for Corporate Finance and Planning) to cover warehouse management, contract administration, a distribution labelling system, inventory control and accounts for all the goods stocked at Swindon. Pilgrim absorbed the micro-computer system for uniforms and protective clothing earlier this year, is to include the remaining micro-computer systems in the autumn, and is expected by the Post Office to be fully implemented early in 1987. The second of the SDS main responsibilities is a major project to improve purchasing and stores in the regions. This project is known as PICS (Purchase and Inventory Control System) and is based on NCR 9300 mini-computers to be installed in HPOs and linked to the Pilgrim computer at Swindon. The Post Office said that the PICS system will not need to be significantly altered to take account of the reorganisation described in paragraph 2.23 *et seq.*

2.10. FPP, besides having a range of administrative functions, authorises the payment of accounts and the levying of charges on user departments. It provides the 'separation of powers' required by good purchasing practice and is responsible for:

- (a) SD staff budgets;
- (b) the print and stationery budgets;
- (c) processing requests to the Post Office solicitor's office;
- (d) administering tenders likely to exceed £10,000;
- (e) numbering contracts prior to distribution by purchasing sections;
- (f) maintaining approved supplier listing;
- (g) recording contract prices;
- (h) authorisation of accounts; and
- (i) development of charging systems and levying of charges.

In liaison with SDS and other departments, FPP has responsibility for developing charging systems with the objective of establishing SD as a cost centre.

### **Depots**

2.11. The Swindon Supplies Depot, which opened in 1973, was for eight years part of the Telecommunications Business, providing services to the Postal Business on an agency basis. After the separation of the businesses in 1981, the handling of items at Swindon for BT and reciprocal services provided by various BT depots were gradually phased out. By the end of 1984 the depot had become the main Post Office centre for the storage and distribution of:

printed matter, stationery, internal publications and external publicity material;  
uniforms and protective clothing;  
mailbags and coin bags;  
weighing, counter, and sorting office equipment, hand stamps and accessories;  
fire and burglar alarms and anti-bandit screens;  
bicycle, hand cart and trolley parts;  
engineering spare parts;  
building and engineering stores; and  
retail items.

2.12. Quality control examination is undertaken on the premises in the case of printed matter and stationery, mailbags and coin bags and general stores, while specialist mechanical handling and sorting equipment and bicycles, hand carts and trolleys are examined at manufacturers' premises. A workshop within the depot, besides making quality checks on clothing, alters uniforms for individuals who cannot be fitted with the standard sizes ordered.

2.13. The depot has a reprographic unit, with staff of 17, which prints internal Post Office publications and about 10 per cent of the forms stocked at the depot. The Post Office said that this unit has to match or beat the prices charged by external suppliers. The depot also provides an addressing machine service for the counters operations, employing some 40 staff on over-printing forms and labels with local office names and accounting codes. The Depot Manager is also responsible for a design and illustration studio, an engineering drawing print unit and a reprographic unit supplying services for Headquarters departments; these are all located in London and currently have a total staff of 17.

2.14. The depot at Hemel Hempstead is a specialised stock and distribution centre for such items as postage stamps, postal orders and a wide range of certificates, licences, savings stamps, tickets and tokens used by the Post Office Counters business in its agency work on behalf of, for example, the DHSS, BT and the Home Office. A sub-depot located at the premises in High Wycombe of the main supplier of postage stamps to the Post Office controls the printing of postage stamps. The other sub-depot, at Wolverton, controls the printing of certain other products and provides a distribution service.

2.15. The depot at Edinburgh handles philatelic supplies, including the fixing of stamps to first day envelopes and the making up (partly by machine) of presentation packs. It also embosses the metal plates required for addressing machines in HPOs and over-prints the labels used by Travelling Post Offices.

### **Procurement process**

2.16. The authority to obtain supplies and services rests with the holders of allocations for this purpose under the annual Post Office budget. These are the user departments, except for print and stationery, for which SD itself obtains budgetary authority. In determining the amount of the budgetary allocation to be applied for in respect of goods and services to be obtained under contracts negotiated or supervised by SD, the user departments consult SD about the likely cost of the volume of goods and services required.

2.17. For goods and services to be procured centrally, SD (often in consultation with the user department) selects suppliers, normally on the basis of competitive tendering and subsequent negotiation. The Post Office's stated preference is for contracts under which deliveries are made directly to the users and call-off contracts against which the users will place orders for direct delivery as their requirements arise during the period of the contract. SD's policy is only to hold central stocks where direct delivery is considered to be disadvantageous, eg because of cost, a need to meet requirements quickly as they arise, or security considerations. Of the goods stocked centrally at Swindon, some that are in

regular use, such as certain forms, are despatched regularly to post offices in response to requisitions submitted regularly on pre-arranged dates; the remainder, and those from the Hemel Hempstead and Edinburgh depots, are despatched against specific requisitions.

2.18. No money transfers are made by user departments to SD, payments to suppliers being offset against departmental budgets. The Post Office told us that the costs of SD itself are not charged directly to user departments although they have been allocated to departments as part of a central apportionment system.

2.19. The Post Office's decision to discontinue the practice of making free issues of goods and services, which we referred to in our report on the Post Office Letter Post Service (Cmnd 9332), is being implemented and local users are now charged with the purchase price of a large range of goods that are centrally stocked. Pending full computerisation free issue still remains for printed material, stationery and certain general stores items characterised by high volume and low unit value. The Post Office told us that it was its intention to devise systems that would take account of all the costs of procurement, storage and delivery. This would involve establishing the SD as a full cost centre and would take into account the overhead costs of purchasing, storing and transporting the goods. These costs are substantial in the case of centrally stored stocks. A consultant employed by the Post Office calculated that they might overall add up to 38 per cent (about £9.5 million) to the purchase costs (around £25 million in 1985-86) of goods stocked at Swindon (paragraph 7.26).

### **Regional purchasing and supply organisation**

2.20. As we have already noted in paragraph 2.4, some 21 per cent of Post Office procurement of goods and services is undertaken within the regions. The local managers responsible for this procurement are the Regional Headquarters Department Heads, Head Postmasters and their delegates.

2.21. The Post Office has recently set up a regional purchasing and supply organisation with the aim of improving purchasing, stockholding and supply in the regions and communication between the regions and SD on matters of purchasing policy and practice. Regional Purchasing and Supply Officers (RPSOs) are being appointed and are already in post in eight of the ten Post Office regions. They work under the Regional Controllers (Finance) but have direct links with SD and with HPOs in the region.

2.22. RPSOs give advice and assistance to local managers and Regional Heads of Department. They decide, in conjunction with the user, whether regional call-off contracts would be advantageous and set up and administer such contracts. They also administer national call-off contracts, and feed back to SD information on these and other supply activities. Paragraph 3.51 gives fuller details of their responsibility. They are also responsible for making recommendations to improve the control, location and level of local stocks and for the disposal of surplus goods and scrap. SD has a small staff which, in consultation and agreement with RPSOs, can carry out procedural audits of local office stores and provide stores planning and storekeeper training services.

## **Post Office reorganisation**

2.23. The Post Office is undertaking a major reorganisation of its Posts activities into three separate profit-accountable businesses: Letters, Parcels, and Counters, each with its own Managing Director. The Post Office told us that the Counters Business will be producing audited accounts for 1986-87.

2.24. The present common structure of ten Regional Headquarters and 164 HPOs is to be reorganised into separate District Offices for Letters, Parcels and Counters under, in the case of Letters and Counters, separate Business Territorial Headquarters.

2.25. There will be 64 Letter Districts, based on the majority of the present Mechanised Letter Offices (MLOs), under District Letter Managers. They will report to four Business Territorial Headquarters.

2.26. Thirty-two Counters Districts will be created by an amalgamation of existing HPO Counter Units, each controlling on average about 50 Crown Post Offices and 700 sub-offices. They will report to the Headquarters of four Business Territories similar to but not identical with those for Letters. Counters will be constituted as a public limited company during the latter part of 1987.

2.27. The Parcels Districts will be based on 12 of the existing principal Parcel Concentration Offices (PCOs) and will control the other smaller PCOs. They will report directly to National Parcels Headquarters. The local collection and delivery of parcels will continue to be undertaken largely by the Letters Business on behalf of the Parcels Business until more dedicated parcels services are established. Premium business, including Datapost, will be handled by the Parcels Business.

## **The effect of reorganisation on procurement**

2.28. The reorganisation has considerable implications for Post Office procurement, for the allocation to each of the separate businesses of all the costs of any common procurement and supply, and for the position of the RPSOs.

2.29. During the inquiry the Group met the Post Office Chairman and discussed the approach to procurement that the Post Office might adopt in its reorganised business. After this discussion the Post Office told us of its conclusions about the organisation of purchasing and supply which are as follows:

### **A. Purchasing**

- (i) *Major items:* A corporate purchasing function will be retained to take advantage of the bargaining power and expertise that comes from centralised buying of major items and negotiation of major call-off contracts. It will act in support and on behalf of those executively responsible in the various businesses, who under their managing directors will have the overall responsibility to the Board for the decisions taken. The central supplies function will be answerable both to its own Board member and to the individual business executive(s) concerned for the professional quality of the purchasing side of the decision taken, including all the technical aspects of placing contracts. It will also have the responsibility for verifying and certifying that national contracts are being properly discharged, although to ensure probity

there will be a split between the authorisation and payments processes. Purchases in this area currently amount to some £250 million, but could rise to around £300 million in the light of a review the Post Office will be making of its arrangements for negotiating gas and electricity charges.

- (ii) *Smaller items:* The lesser scale items will fall to Purchasing and Supply Officers (PSOs) in the individual businesses; these will be outstationed in the field, reporting to the appropriate level of field management but with a strong functional accountability in the professional sense to the head of corporate supplies and purchasing. They will be provided by allocating the current eight Regional Purchasing and Supply Officers to the businesses. The businesses will give executive instructions to their managers on the use of the PSOs which will ensure that they are properly involved in more important purchases, and in ensuring that where they are not personally involved, the staff concerned operate within guidelines they have laid down. They will continually appraise the effectiveness of the purchasing function where, for the smallest items, it is fully delegated to management in the district office.
- (iii) *Review procedure:* There will be scope for reviewing what should be centrally bought, and what should be left to the PSOs in the field in the businesses. It will be part of the responsibilities of the head of corporate supplies and purchasing, who will be the professional head of all the PSOs in the corporation, to review this balance and make proposals for changes, with provision for reference up for decisions at Board level, if such issues cannot be resolved at lower level.
- (iv) *Estates matters:* The Estates Executive, whose professional officers have skills in contracting, will in accordance with agreements made earlier this year be assisted by an officer from corporate purchasing, for a test period, to enable the Board member to judge whether a permanent reinforcement of that kind is required for the work of the Estates Executive.

## **B. Supplies**

- (i) *Local stores:* Outside the three main depots, stores work will be the responsibility of the businesses where the PSOs will be charged with ensuring that it is conducted to increasingly high standards.
- (ii) *The main stores:* At the Swindon corporate stores action will be concentrated on:
  - (a) improving the cost effectiveness of operations;
  - (b) examining in depth the scope for reducing the levels of stockholding; and
  - (c) introducing effective arrangements for charging, which will progressively come into operation during the course of the present year, with hard targeting of the supplies depots to ensure cost reduction.

It is intended progressively to put Swindon into a competitive situation with no prescriptive right to provide services to the individual businesses. Progress on (a) to (c) above will be reviewed after two years when the businesses will have an opportunity to make the case for

taking over procurement. But any decision to move in that direction would depend on a corporate judgment, involving the three businesses, that such a step would maximise the corporate bottom line. The Post Office considers that the more the levels of stockholding can be reduced, the less likely is such a decision. Similarly, Hemel Hempstead and Edinburgh would operate on a contractual basis to their clients, and in the event of the major user being dissatisfied with their performance, there would be scope for that business to make a proposal to the Board for taking over the depot.

### **C. The role of the General Manager Supply**

The General Manager Supply will remain in executive control of the three depots and of central purchasing. He will be involved in the selection of the senior appointees to the purchase and supply functions in the businesses, and the career development of specialists in the functions throughout the corporation in concert with the corporate and business personnel functions. He will have the responsibility for seeing that high professional standards are maintained and that there is adequate provision for training. He will present an annual report on the performance of the supplies and purchasing function as a whole, through his Board member, to the Board.

2.30. We took these plans for reorganisation into account in formulating our detailed recommendations.

### **Conclusions and recommendations**

2.31. The Post Office has been considering the effects of its structural reorganisation on its procurement activities during our inquiry and has kept us fully informed of its proposals. We believe that the proposals are along the right lines in that they will give the individual Managing Directors of the businesses responsibility for their own procurement activities while providing a central supplies department responsible for policy and procurement of a specified range of goods and services in areas where the Post Office's overall buying power may be most effective.

2.32. We consider that in the proposed reorganisation of procurement, it is essential that where goods are purchased centrally they should be offered at 'prices' which take full account of all costs involved, in competition with those that may be purchased in the individual businesses. The individual businesses' right of direct procurement should only be refused where there is clear advantage to the Post Office as a whole. Where this means a substantial additional cost to an individual business it should be allowed to show the effect on its profits.