

## CHAPTER 4

### Stock management in the Post Office

4.1. In this chapter we review stock management and storekeeping centrally and in the regions. We also refer to certain studies carried out by our consultants and staff at these locations.

#### Background to the present arrangements

4.2. Immediately prior to the 1981 separation of the Post Office from BT, three depots at Swindon, Hemel Hempstead and Edinburgh were transferred to Post Office control.

4.3. The Royal Mail network is used for distributing goods from the depots to users and no charge is made for this service. The cost of the working capital tied up in holding stocks is not identified or charged to either SD or the user groups.

4.4. We examined four aspects of the Post Office's present arrangements:

- (a) central store (at Swindon) (paragraphs 4.5 to 4.14);
- (b) stores in the regions (paragraphs 4.15 to 4.27);
- (c) printed matter (paragraphs 4.28 to 4.32); and
- (d) specialised stores (at Hemel Hempstead and Edinburgh) (paragraphs 4.33 to 4.35).

#### (a) Central store

4.5. We have estimated in Table 4.1 costs of operating the depot at Swindon.

TABLE 4.1 Swindon depot costs (excluding purchasing and finance staff based at Swindon) estimated for 1985-86

		£'000
Staff Costs	— Management and administration	451*
	— Warehouse	2,402
	— Operations	1,027
	— Reprographics	173
	— Cleaning, catering and patrol	370*
Non-staff costs (allocated)	—	1,271*†
Notional rental costs	— Stores	731
	— Offices	175
Depreciation on plant and office machinery		90
<b>Total</b>		<b>6,690</b>

Source: MMC from Post Office data.

\*Includes unquantified amounts for provision of services to SDHQ and Engineering Department.

†No estimate is available of the cost of PHQ central services provided for Swindon depot.

The allocated non-staff costs include rates. We have applied a notional rental charge of £23.14 per square metre for 31,598 square metres of stores and £53.82 per square metre for 3,249 square metres of offices to derive the full cost of

operating the storage facility. In paragraph 4.3 we referred to the Post Office policy of not charging the cost of working capital. For Swindon, with approximately £15 million worth of stocks this amounts to an additional £1.5 million per annum on the basis of an interest rate<sup>1</sup> of 10 per cent.

4.6. The stated policy of SD is to hold minimum centralised stocks. The criteria set for maintaining stocks include:

- (a) the need to maintain strategic engineering spares, normally subject to long procurement lead times;
- (b) the need to maintain centrally security items including alarm systems and anti-bandit screens;
- (c) items where distribution of small consignments to all 20,000 sub-post offices is best serviced centrally;
- (d) when cost advantages encourage bulk purchase, storage and distribution over direct delivery; and
- (e) when a call-off or direct delivery contract is not possible.

4.7. Exceptions to central control procedures for goods procured by SD are:

- (a) mailbags which are stored regionally except for a central strategic reserve;
- (b) raw materials owned by the Post Office delivered direct to contractors on a 'free issue' basis for making into final products. Examples are materials for mailbags, textiles for clothing items and paper for printed matter; and
- (c) manufactured goods stocked at the contractor's works awaiting direct delivery instructions, but remaining the property of the Post Office, eg letter boxes.

#### *Stock management at Swindon*

4.8. Stock management of certain goods is currently assisted by records on micro-computer systems. Table 4.2 lists the approximate number of lines and estimated value of stock on these systems.

TABLE 4.2 Swindon depot and SDHQ micro-computer stock management systems in operation

<i>Description</i>	<i>Approximate number of lines</i>	<i>Estimated value of stock £'000</i>
Postal mechanisation spares	3,500	3,100
Cycles and handcarts and parts	200	380
Counter and sorting office equipment	200	790
Mailbags	170	1,200
Uniforms and protective clothing*	1,000	4,500
Retail items	100	1,000
<b>Total</b>		<b>10,970</b>

Source: Post Office.

\*Recently put into the Pilgrim system (paragraph 2.9).

<sup>1</sup> Investment rate advised by the Post Office.

Low value stock, mostly stationery and printed matter, is recorded manually. Records are not kept of whom they are issued to, except for items deemed to be 'security' for example serially numbered forms. The procedures associated with forms are described in detail in paragraphs 4.28 and 4.29.

4.9. The micro-computer systems enable calculation of average monthly demand to be made from user requisitions provided at the time of issue. Where manual methods are used the demand is calculated by subtracting 'closing stock' from the sum of 'opening stock' and 'receipts from suppliers'.

4.10. The replenishment of stocks of goods procured by SD and held centrally at Swindon is the responsibility of Purchasing Section. It determines a 're-order level'. The 're-order level' is calculated by multiplying the moving average of the monthly demand by the sum of a contingency allowance and the lead time required to tender, award contracts, manufacture and deliver. The sum was usually found to represent ten months' average use. Purchasing Section reviews stocks once per month. Placing orders for variable quantities at fixed intervals of time results in more stocks being necessary than if fixed quantities were ordered as soon as 'set re-order levels' were reached.

4.11. When manufactured goods purchased by SD are to be stocked at the contractor's works awaiting instructions to deliver direct to users a different approach to stock management is adopted. The users within the Post Office are required to forecast their annual requirement. Purchasing Section then prepares quarterly schedules of user requirements to enable it to place orders.

4.12. Our consultants examined the stock management system used for uniforms (paragraphs 5.14 to 5.20). They found that the micro-computer system (paragraph 2.9), which was used for charging the cost of the uniforms to the users within the Post Office, had proved inadequate for stock management. Purchasing Section maintained life history cards manually for this task. SD emphasised the difficulties it has in forecasting demand for uniforms.

#### **Measurements of the efficiency of stock management at Swindon**

4.13. Within SD two measures of stock management are in use:

- (a) stock levels expressed in months; and
- (b) 'owings/availability' ratio, which reflects the satisfaction of each item requested relative to the current range of items in the Post Office.

Our consultants considered that the latter measurement yields a deceptively favourable performance measurement. It is expressed as a percentage of total line items normally stocked for that commodity. If eight frequently-used types of forms were discovered to be out of stock, the 'owing/availability' ratio would be 0.3 per cent, ie eight divided by the total number of types of forms in current use (2,568). Our consultants examined one day's standing orders and found that a conventional calculation of the level of stock-outs of line items against a total of 100 items requested, ie an 'owings/requests' ratio, gave a figure of 8.0 per cent, instead of the 'owings/availability' ratio of 0.3 per cent.

4.14. Stock levels have been reduced but are still high by private sector standards. Overall stock levels are shown in Table 4.3.

TABLE 4.3 Stock levels in months

Description	1983-84		1984-85		1985-86	
	Target	Actual	Target	Actual	Target	Actual
Print and paper	9	21	9	17	9	8
General stores	9	12	6	12	6	10
Engineering	6	22	6	13	6	11
Postal fittings	9	12	8	7	8	7
Uniforms	9	28	6	12	6	3

Source: Post Office.

We understand that manufacturing companies are moving to 'just-in-time' minimal stocks and that local authorities would expect average stock levels of two months, except for strategic spare parts. This comparison was not acceptable to the Post Office which suggested SD's role was on a different scale and provided a different type of operation.

#### (b) Stores in the regions

4.15. Four principal activities have regional stores functions:

- (a) Engineering;
- (b) Motor transport;
- (c) Catering; and
- (d) Head Post Office: stationery and printed matter; household and domestic requirements; clothing; and bicycle and handcart parts.

The Post Office told us that no information on the number of stores, number of storekeepers or labour involved in stock-keeping was maintained at PHQ or in Regional Headquarters. These matters are controlled by the responsible local managers and are subject to the normal budget procedures. The Post Office carried out a special exercise for us and this indicated that there were an estimated 1,140 full-time equivalent staff in the purchasing and stores function outside SD. Of this total 370 were estimated to be in purchasing, the remainder in stores. The Post Office could not inform us without a special exercise how many local stores were in existence. The Post Office, as we explain elsewhere, maintains no central or regional records of the stocks held in local stores and there are at present no arrangements for periodic centrally reported stock checks to determine volumes or values of stocks held in these stores.

#### *Regional engineering stores*

4.16. There are two categories of engineering stores:

- (a) mechanisation stores for sorting offices; and
- (b) building maintenance stores, which include:
  - (i) light fittings, lamps and maintenance items;
  - (ii) security items, eg alarms; and
  - (iii) direct purchases for specific jobs.

In addition there are district stores holding stocks of less-used spare parts for the benefit of a group of engineering stores. Our consultants reported that

engineering stores visited were generally well organised. Tallies were kept of stores used and stock checks, including an annual check by the Finance Division, took place.

4.17. Replenishment of stock is undertaken in the order of preference:

- (a) items listed on a computer report of stocks held at Swindon;
- (b) contacting the district stores;
- (c) under a call-off contract where it exists;
- (d) through the Crown Suppliers Supplies Engineering Guide; and
- (e) direct purchasing/contracting.

4.18. Present Post Office procedures do not identify level of stocks as a measure of engineering service efficiency, which is assessed on standard and speed of end-service. Our consultants found that Post Office staff were aware of the very slow moving and obsolescent parts still retained in stores. These stocks often arose from strategic stores set up from a recommended spare parts list at the commissioning of a mechanised facility. Our consultants found generally that engineering staff sought to reduce purchase costs by, for example, taking full advantage of discounts (up to 90 per cent available for bearings from stockists in Birmingham) and using reconditioned equipment, particularly electric motors. However, when they visited a district stores they found 12 gross of electrical fluorescent lamps, even though a call-off contract for lamps provided for delivery to any United Kingdom address within 28 days for a minimum order of ten. The Post Office has told us that its general policy is progressively to close district stores except when a strong case can be made for their retention.

*Regional motor transport stores*

4.19. Motor transport stores are set up wherever there are motor transport workshops. Stock control and storekeeping procedures are laid down in Postal Engineering Instructions. Other instructions detail the procedure for action on losses and stocktaking discrepancies. Stock control is by means of tally cards which indicate stock levels, issues and receipts. Yellow cards indicate high value or attractive items and white cards are used for other stock. Receipts only are noted on to white cards. Stock balances are added after stock checks. When high value or attractive items are issued the works docket number is recorded on the yellow card to provide an audit trail.

4.20. Our consultants undertook a stock check on filter items at Birmingham HPO motor transport (MT) stores. There was no discrepancy with Post Office records. Table 4.4 shows stockholdings of five and eight weeks. These appear rather high for items available on national contract from manufacturers.

**TABLE 4.4 Stock check of filter items at Birmingham HPO MT stores**

<i>MT part no</i>	<i>Vehicle</i>	<i>Annual usage</i>	<i>Stock check</i>	<i>Weeks' holding</i>
PH 2869	Marina	66	11	8
PH 2855 A	Sherpa	93	3	2
CH 815 PL	EA 420 Diesel	65	6	5

*Source:* MMC consultants' check on 21 February 1986.

4.21. Stocks replenishment should be initiated when stock levels fall to the re-order quantity. Sufficient items should then be re-ordered to restore the maximum stock-holding level. The stores supervisor consults a contracts register, known as the 'Purchasing List'. Data on new contracts, both national and regional, are distributed through the regional organisation. Prices paid and parts utilisation are reviewed by Regional Transport managers in liaison with Motor Transport Division and SD and, for locally purchased items, the RPSO. We were told by the Post Office that these reviews in conjunction with the maintenance monitoring procedures had, for example, recently identified a systematic fault in a particular make of clutch for a small van. We learned that a computerised system, known as the Road Transport Information System, is being implemented and includes a stores control module which would greatly assist in stock control and in identifying parts supplied which were of unsatisfactory quality.

#### *Regional catering stores*

4.22. Catering stores are held locally to support term requirements. Our consultants reported that the stores they saw held 'dry' goods and that quantities were not excessive. A tally card system is used to record receipts and issues with records submitted to independent audit. Stock utilisation calculations have been developed by Catering Division to check portion sizes with numbers of customers.

4.23. Stock replenishment uses a contracts register, known as the 'Purchasing List' which includes data on regional contracts for both fresh and 'dry' goods and on eight national contracts for 'dry' goods. Catering Division has encouraged regions to set up an alternative source of supply for groceries and provisions where they believe they can obtain keener prices or a better level of service.

#### *Head Post Office stores*

4.24. The stationery stores visited by our consultants had a full-time Postal Officer assigned. We were told in Birmingham that there were about 3,500 items including forms, stationery, labels and ties. About 100 low usage items are issued by Swindon SD to the HPO for distribution to subordinate offices. HPOs have addressing machines primarily for the production of mailbag and letter bundle labels, which are high volume items. Table 4.5 shows the results of a stock check performed by our consultants. It shows that of the four stationery items, two had six months of stock though they are issued six-monthly, indicating excessive buffer stock.

TABLE 4.5 Stock check at Birmingham HPO stationery stores

<i>Part no</i>	<i>Item</i>	<i>Lead time from Swindon</i>	<i>Annual usage</i>	<i>Stock check</i>	<i>Stock-holding</i>
CA34	Printed pads	3 weeks	8,000 pads*	3,920 pads	6 months†
SS196	Duplicating paper	3 weeks	1,800 reams	40 reams	4-6 days
P1053	Delivery receipt books	3 weeks	120 books	57 books	6 months
P3960	Forms for recording non-deliverable items	3 weeks	1,440 rolls	206 rolls	8 weeks

Source: MMC consultants' check on 21 February 1986.

\* Initial estimate.

† Last delivery was November.

4.25. Household-type cleaning items are normally controlled by staff who also have other responsibilities. Many HPOs are supplied by the Crown Suppliers on annual delivery. This was noted in the Midlands by the RPSO as poor practice and the Post Office has told us that a regional contract has been arranged for 1986-87 giving price savings and other benefits. The LPR advised us that Crown Suppliers' business has been reduced with savings up to 30 per cent (for example on portorage).

4.26. The uniform and clothing store co-ordinates and controls all ordering and issues for the Head Postmaster's area. Because uniformed staff obtain cash in lieu of uniform (jacket and trousers) not supplied two months after joining, it is normal practice not to delay issue pending the receipt of all the garments.

4.27. Bicycles and handcarts have a full-time maintenance person in the larger HPOs. There are 556 bicycles within the Birmingham HPO area and 475 bicycles within the Cambridge HPO area. Each bicycle has a service history and a scheduled maintenance date and in Birmingham there are records showing stock balances for bicycle spares. Our consultants noted that there were no separate entries showing receipts and issues. This confused the audit trail. Table 4.6 shows the results of a stock check at Birmingham for a random sample. It shows poor control of bicycle lamps and bicycle wheels.

TABLE 4.6 Stock check Birmingham HPO uniform and bicycle stores

<i>Item</i>	<i>Lead time from Swindon weeks</i>	<i>Annual usage</i>	<i>Stock record</i>	<i>Consultants' physical check</i>	<i>Stock-holding weeks</i>
Bicycle wheels:					
front	4-5	150	105	105	36
rear	4-5	165	89	90	28
Front lamps	—	200	1,127	Not checked	293
Rear lamps	3-4	200	931	Not checked	242
Yellow gloves	4-6	2,000	None	920	24

*Source:* MMC consultants' check on 21 February 1986.

The Post Office told us that arrangements are being made to re-allocate the excess stocks.

### (c) Printed matter

4.28. The range of printed matter handled by SD at Swindon is wide and includes:

- (a) the Post Office's internal administrative forms;
- (b) forms issued to the public in relation to Post Office business; and
- (c) forms issued under agency agreement to take advantage of the Post Office's unique localised distribution network.

These items are in addition to the printed matter dealt with in the specialised stores described in paragraph 4.34.

4.29. At the time of our investigation there were:

2,568 stock forms including books, pads and labels;

375 stock items of postal envelopes, special prints and publicity items; and

4,000 (approximately) rule books or parts of books.

These are centrally issued from Swindon. Most issues are against standard requisitions, prepared by the user, typically a counter or subordinate office for a six-month quantity. At Swindon specific days of the year are assigned to fulfilling each requisition. In this manner packing and distribution to over 20,000 locations is spread across a six-month period.

4.30. The addressing machine unit at Swindon employs 40 staff to overprint forms and labels with office names and accounting codes. In addition ten staff are employed to service the addressing machine unit. Many of these forms are to be issued to the public for either Post Office or agency business. We were told that differing requirements of agency customers resulted in forms with non-standard layouts. These consequently had to be inserted individually by hand into the addressing machine. We were told that the Post Office had considered the possibility of automating the addressing machine function but had not been able to find a suitable system.

4.31. Most forms are either printed commercially or sent directly by the agency customer to Swindon. A reprographic unit undertaking approximately 10 per cent of Swindon's printing requirements employs 17 staff. It prints some stock forms and internal publications, such as rule books and bulletins. The reprographic facility operates as a cost centre and is able to produce up to 300,000 A4-size sheets within 24 hours in addition to normal scheduled activity. It aims to match or improve on external prices.

4.32. The technology available to provide printed matter is advancing. The Post Office is currently embarking on a multi-stage programme to automate counter services. The purpose of many of the forms being distributed from Swindon to post office counters is complementary to the tasks which are candidates in the long term for automation.

#### **(d) Specialised stores**

4.33. The operations of the two specialised stores at Hemel Hempstead and Edinburgh are an integral part of a cycle of transactions involving the operating businesses of the Post Office.

4.34. The product range handled through the two stores covers:

stamps and stamped stationery;

postal orders;

philatelic products;

agency value stationery, eg for DHSS, BT, Driver and Vehicle Licensing Centre, Home Office; and

National Giro cheques and other stationery.

The range is wide and is changeable. Currently it includes 1986 £2 Royal Mint coins. The functions undertaken at Edinburgh are limited to affixing stamps on first day covers and inserting stamps in presentation packs for distribution. The remainder of the tasks are centred on Hemel Hempstead and its sub-depots at Wolverton and High Wycombe. These tasks are primarily stockholding, the control of stamp printing, distribution (using Royal Mails) to HPOs (and all post offices in the inner London area), and the destruction of printed waste. HPOs in turn deliver to post offices and sub-post offices in their areas.

4.35. It is understood that contractually Hemel Hempstead cannot directly recover costs imposed on it by, for example, different stockholding policies of its various clients or last minute disruption caused by production problems and supplier failures beyond its control. The changing relationship between the businesses within the Post Office will make the need to identify those additional costs more important. During the course of our inquiry we learned that a comprehensive computer system for Hemel Hempstead had been proposed but could not be justified after its costs were fully estimated. Both cost considerations and security risks suggest that a series of simple systems would be easier to justify and would replace much clerical effort. During the course of our inquiries the Post Office told us that it intends to review the scope for computerisation at Hemel Hempstead.

### **Conclusions and recommendations**

4.36. Since separation from BT in 1981 the Post Office has made significant reductions in amount of stock held. However, the Post Office still retains stock valued at over nine months' use and we believe that with good management the present level of service could be maintained with an average, by value, of only three months' stock.

4.37. We recommend that the Post Office reduce its stocks (excluding strategic stocks) to an average by value of three months by not later than August 1987 and that it should consider whether there is scope for further reduction to two months.

4.38. The longer-term viability of centralised goods warehousing at Swindon will depend on its future ability to satisfy the requirements of three separate businesses. We recommend that the Post Office ensure that centralised warehousing is competitive. The Swindon depot must recover all its overheads and operating costs to justify its viability and the separate businesses must be satisfied that they are obtaining supplies from the most cost-effective source.

4.39. We found in the limited sample of regional goods stores visited shortcomings in stock management and storekeeping. There were no consistent records kept of stocks in the regions. There was evidence of duplicate stores, where on-demand provision would have been more appropriate, and unnecessarily high stock levels.

4.40. We recommend that the separate businesses should be obliged to account for their stocks. It will be appropriate when the businesses have been set up for each business to review its stockholdings and set stock levels for each item and location so as to minimise the costs chargeable to the business without undue lowering of levels of service.

4.41. We note that engineering parts are held in local stores, district stores and the Swindon depot. We recommend that where spare parts for machinery have for operational reasons to be located sufficiently near to the machinery to avoid any delay in effecting repair, and the frequency of use does not justify a holding (or more than a minimal holding) by every local store, strategic stocks should be held by designated local stores to serve other offices in the surrounding areas. This should avoid any need for district stores and we recommend that the Post Office's expressed policy of progressively closing district stores should be expedited.

4.42. We have noted the huge variety of forms used and distributed by the Post Office. We suggested to the Post Office that its commitment to counter automation should enable it to reduce or remove the present need to address forms individually. We believe that the automation programme should lead to a significant reduction of forms. The Post Office told us that it intends to examine the possibility of reducing paperwork with transaction records being generated electronically or printed on a conventional computer printer. We therefore recommend that the Post Office review the implications of its counters automation programme on the present form supply organisation.

4.43. The addressing machine unit prints the names of post offices on a large range of forms intended for issue to the public and for use in the Post Office. The system at present in use involves inserting each form by hand into the addressing machine. We recommend that the Post Office examine again the possibility of standardising the place for post office names and the introduction of more modern printing methods.

4.44. We note that initial attempts to use computers at Hemel Hempstead were dropped on cost grounds and that the Post Office intends to re-examine the case for enhanced information technology. We recommend that the reviews should include an examination of the implications of extending distribution from Hemel Hempstead to all post offices and sub-post offices in the United Kingdom and ensure that all costs of the existing specialised stores are known and minimised by CSD.