

POST OFFICE REVIEW



VALUE FOR MONEY REPORT

Final v. 1.0





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AUDIT REFERENCE	V48

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EXECUTIVE SUMMARY

The Post Office Review forms part of the Value For Money Audit Plan 2007/08. The objective of the audit was to examine whether the Post Office's objectives are pursued with proper regard to economy, efficiency and effectiveness.

The Post Office mission is to provide a reliable local and international postal and philatelic service which responds to the needs of their clients and contribute positively to St Helena's economic development. Its expenditure budget is £140,820 and its anticipated revenue is £100,700 for 2007/08.

Based upon the work undertaken and the findings detailed in the body of this report, the overall opinion is given below. The range of possible audit opinions given for Value For Money is good, adequate and inadequate. Definitions of the audit opinions can be found at Appendix A to the main report.

THE POST OFFICE

Inadequate

Management arrangements are not considered to be adequately conducive to achieving maximum value for money.

The Post Office does not adequately address two of their four strategic objectives. The strategic objective being:

- To provide an efficient Island wide delivery service which is cost effective; and
- To issue and sell stamps to promote St Helena and by maximising profit, contribute to its economic development.

During the 2007/08 budget process, St Helena Government identified an £8,000 decrease in the Post Office budget by stopping the door to door delivery service. St Helena Government did not consider the effects on revenue by stopping the door to door service. The savings identified from costs were not reflected in the Post Office 2007/08 expenditure for the following reasons:

- The vehicle hire charges budget was over budgeted for the previous two years; and
- The release of the dedicated vehicle back into the Transport Pool did not take place. The Post Office still pay a monthly charge for its use.

The Post Office has not provided adequate actions and performance measures in their Business Plan to determine whether they are making profits through the issue and sale of stamps. Due to the lack of expertise and resources the Post Office does not know whether they are making a profit or running at a loss through the issue and sales of stamps.

£50,000 is budgeted annually for the production of stamps. St Helena Government failed to test the market for other suitable stamp producers in 2006 before renewing their contract with CASCO Limited (UK Registered Company).

St Helena Government and Solomon's and Company PLC are potentially the biggest users of the Post Office. These organisations do not use the services of the Post Office due to the speed of delivery and because mail is not delivered to the customer.

In conclusion, the Post Office has tried to consider Value For Money during their annual planning process, but have not been successful so far.

We have made ten recommendations for management to consider. All recommendations are intended to improve the current strategic practices. The most significant are:

- It is suggested that during the Business Planning process the Post Office considers the actions required to address their strategic objectives and produce SMART¹ performance measures and targets to monitor their progress. (1 SMART – Specific, Measurable, Achievable, Realistic and Timely)
- To address the strategic objective of maximising profits, the Post Office should analysis the profit or loss made from the sale of each stamp issue.
- St Helena Government should review the option of stopping door to door delivery service and either reinstate it; or the Post Office should return the dedicated pool vehicle to the Transport Pool and make arrangement for its use during ship days and weekly sub post offices delivery days.

1. INTRODUCTION

- 1.1 The Post Office Review forms part of the Value For Money Audit Plan 2007/08. The objective of the audit was to examine whether the Post Office's objectives are pursued with proper regard to economy, efficiency and effectiveness.
- 1.2 The Post Office mission is to provide a reliable local and international postal and philatelic service which responds to the needs of their clients and contribute positively to St Helena's economic development. Its expenditure budget is £140,820 and its anticipated revenue is £100,700 for 2007/08.
- 1.3 Value For Money (VFM) audits are conducted by the Audit Service on behalf of the Legislative Council, in order to determine whether St Helena Government (SHG) resources have been used with proper regard to economy, efficiency and effectiveness.

2. SCOPE AND RESOURCING

- 2.1 To examine whether the Post Office's objectives are pursued with proper regard to economy, efficiency and effectiveness, the Audit Service structured a programme to assess the following:
- Whether recent business plans and the reviews of prior years contain within them form a useful basis for assessing whether and to what extent the Post Office's objectives have been achieved;
 - Whether costs and revenues have been within budget;
 - Whether planning, budgeting and charging are soundly based on data and analysis of costs and market conditions;
 - Whether services performed by the Post Office for other departments and postal services performed by other departments are adequately considered in planning; and
 - The extent of savings achieved by the decision to stop door to door delivery and the impact of this decision on demand.
- 2.2 This was done by interviewing the Post Mistress and other key SHG employees, researching information and data and analysing costs and revenue.
- 2.3 The audit was undertaken during the period December 2007 to March 2008 by Helena Bennett, VFM Audit Manager (Trainee) and Sheridan Richards, VFM Auditor (Trainee). Support and guidance was given by Tony Kilner,

Chief Auditor. The total cost of undertaking the audit was £2,700.

- 2.4 The assistance given by all SHG staff and third parties is acknowledged with appreciation. A list of those involved is included at Appendix B to this report.
- 2.5 Copies of this report were provided to the Post Mistress, Financial Secretary and Legislative Council. It is made available to the public through publication on our website (www.audit.gov.sh), in the Public Library and at the Audit Service offices. The executive summary will be provided to the Public Accounts Committee and Audit Committee.

3. FINDINGS AND CONCLUSION

- 3.1 The main findings and conclusions are presented here and are based upon the agreed scope of the audit and the actual work undertaken and evidence gathered.
- 3.2 Those findings which have resulted in recommendations being made are presented in Section 4 of this report together with management responses and action plans.

Prior Year Review

- 3.3 The 2006/07 prior year review included in the 2007/08 Business Plan was not complete. The review stated some detail such as the different designs of stamp issues and the introduction of a new procedure. The review does not cover whether they have achieved their performance measure targets set in the 2006/07 Business Plan. This would provide an overall picture of whether the Post Office is delivering against their strategic objectives.
(See Recommendation 1)

Post Office Strategic Objectives

To issue and sell stamps to promote St Helena and by maximising profit, contribute to its economic development.

*Post Office Strategic Objective
Business Plan 2007/08*

- 3.4 Maximising profits through the issue and sale of stamps is one of their strategic objectives. The Post Office does not analyse their data to confirm whether they are making a profit or running at a loss.
(See Recommendation 2)

3.5 There are no relevant actions and performance measures in the Business Plan to address the above objective for the year. As the Post Office does not monitor profit or loss made from sale of stamps, the Post Office cannot confirm at the year end whether they have achieved this objective. The Post Office also cannot set benchmarks for future years.
(See Recommendation 3)

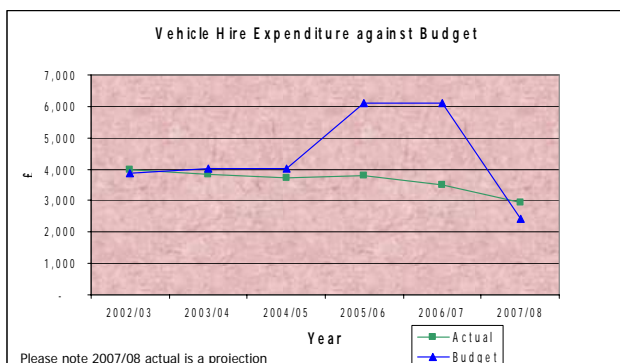
To provide an efficient island wide delivery service which is cost effective.
Post Office Strategic Objective
Business Plan 2007/08

3.6 To provide an efficient and cost effective delivery service, St Helena Government undertook a costing exercise of the previous door to door delivery service and the options available, during the 2007/08 budget process. A decrease of £8,000 was identified if the door to door delivery service was to stop. St Helena Government had not considered the implication on revenue by stopping this service.

3.7 In place of a door to door delivery service, the Post Office now operates a weekly delivery service to sub Post Offices and Outlets around the island. Residents in the area would go to these outlets to collect their mail.

3.8 The Post Office has noted since the daily door to door delivery service has stopped; the amount of local mail being delivered by the Post Office has decreased. But as mentioned in 3.6, a decrease in revenue was not considered.

3.9 The 2007/08 expenditure of the Post Office does not reflect the £8,000 savings identified. The vehicle hire budget was over budgeted in 2005/06 and 2006/07 (see the graph below), so some of the savings identified were actually a cutting back of the budget to reflect actual costs, rather than a result of the decision being considered.



3.10 According to the budget cutting exercise, by stopping the door to door delivery service the Post Office no longer needed a dedicated vehicle. The dedicated vehicle was not released back to the Transport Pool after stopping the door to door service. The Post Office still pays a monthly vehicle hire charge.



3.11 Whilst being an immaterial amount, the Post Office pays a fee to the sub Post Offices and Outlets. The Post Office has also made a provision to pay the sub Post Offices and Outlets for door to door delivery service in their areas. This was not identified in the budget savings exercise.
(See Recommendation 4)

3.12 In conclusion, the Post Office needs to improve upon their annual planning process and prior year reviews. Their prior year reviews were not sufficiently complete to confirm how well the Post Office performed against their strategic objectives for the year. St Helena Government did not consider in detail all implications involved in changing a delivery service, but had focused solely on reducing the Post Office's costs.

Stamp Issues

3.13 The Post office budgeted £50,000 each year for the production of stamps. In 2006 the contract with CASCO Limited expired. St Helena Government did not test the market for other potential stamp producers before renewing their agreement with CASCO Limited. It was found during the audit that St Helena Government did not provide for sufficient time to test the market before the previous contract expired and did not adhere to the Contract Regulations.
(See Recommendation 5)

Services Provided

3.14 The Post Office performs the following services on behalf of government departments:

- Collection of Customs Duties;
- Collection of Water and Electricity payments;
- Sale of Commemorative Coins;
- Sale of Maps; and
- Sale of Statistic Books.

3.15 Of the five services performed, the Post Office receives commission from two. Public Works and Social Services (PW&SD) pay the Post Office for the collection of Water and Electricity

payments and Finance pay for the sale of commemorative coins.

3.16 The Post Office should consider the staff resource time used for counter services to sell or collect the above items. The administration and accounting time to take stock of items and forward monies to the appropriate departmental account. The display and stock cabinet space of the Post office should also be considered. The Post Office could make more revenue by charging for such services.

(See Recommendation 6)

3.17 St Helena Government and Solomon's and Company PLC are potentially the largest users of the Post Office. Government departments do not consider the speed of delivery and the assurance of the mail reaching the recipient adequate. Most government departments keep a messenger to deliver mail around the Island, and the PW&SD Central Billing Staff hand delivers most of their mail. Solomon's and Company PLC rely on a door to door delivery as some mail requires written confirmation of

receipt. We note that as the draft report was being prepared, the Post Office issued a customer survey.

(See Recommendation 4)

3.18 To conclude, the Post office does not make the most of the commercial opportunities available to it.

3.19 We note that the Post Office does not have commercial freedom and is subject to the same budgetary rules as other government departments. In particular its expenditure budget is fixed regardless of any additional revenue it may generate. We acknowledge that this constrains the ability of the Post Office to seize commercial opportunities. We have raised the impact of SHG accounting rules on commercial activities elsewhere.



4. MANAGEMENT RESPONSE AND ACTION PLAN

Please see Appendix A for Audit Recommendation Priorities Definitions

Recommendation <b style="font-size: 1.5em;">1 Priority: (H/M/L)	The Post Office should wait until the year is complete before carrying out a prior year review. The prior year review should include: <ul style="list-style-type: none"> Progress made against their performance measures; and Summary of how successful and unsuccessful they were in achieving their objectives. Where they were unsuccessful, include what constraints there were.
MEDIUM	<i>(For Audit Findings on which this is based, refer to Main Report, Section 3.3)</i>
Management Response	General comments: Agreed Officer responsible for Implementation: Post Mistress Implementation expected to be complete by: (Month & Year) May 2009 (for end of financial year 2008/09)

Recommendation <b style="font-size: 1.5em;">2 Priority: (H/M/L)	To address their strategic objective of maximising profits, the Post Office should analyse the profit or loss made from the sale of each stamp issue. This analysis would also provide the Post Office with an indication of how well each stamp issue is being sold.
HIGH	<i>(For Audit Findings on which this is based, refer to Main Report, Section 3.4)</i>
Management Response	General comments: The Post Mistress commented that she requires an additional staff member to analyse the profit or loss made from the sale of each stamp issue and to manage the running of the Philatelic Section. She is unable to carry out these analyses herself and at the level required. Officer responsible for Implementation: Post Mistress This includes taking forward the justification for recruiting an additional member of staff Implementation expected to be complete by: (Month & Year) <i>Pending on approval to recruit an additional staff member</i>

Recommendation <b style="font-size: 1.5em;">3 Priority: (H/M/L)	During the annual business planning process, the Post Office should consider relevant actions and performance measures to address their strategic objectives, in particular their objective to maximise profit.
HIGH	<i>(For Audit Findings on which this is based, refer to Main Report, Section 3.5)</i>
Management Response	General comments: Agreed. The Post Mistress commented she will require guidance on what is expected and the best method of collating and portraying this information. Officer responsible for Implementation: Post Mistress Implementation expected to be complete by: (Month & Year) <i>April 2009</i>

Recommendation 4 Priority: (H/M/L)	If the Post Office continues with the current weekly delivery to sub Post Offices and Outlets, the Post Office should consider returning the dedicated vehicle back to the Transport Pool. Arrangements can be made with the Transport Manager for hire of the vehicle during ship days and weekly sub Post Office and Outlets delivery.
HIGH	Or The Post Office should reconsider how they could address their strategic objective to provide an efficient and cost effective Island wide delivery service, whilst increasing revenue. This could be done by consulting departments and leading Island businesses, to find what type of services the Post Office could profitably provide. ie courier service. <i>(For Audit Findings on which this is based, refer to Main Report, Section 3.11 & 3.17)</i>
Management Response	General comments: It was understood by the Post Mistress that this option was on a one year trial. This should be reviewed at the end of its trial period; however the Post Mistress was not given a timescale by SHG. Officer responsible for Implementation: Post Mistress to follow up with SHG Implementation expected to be complete by: (Month & Year) <i>Pending date of completing trial period</i>

Recommendation 5 Priority: (H/M/L)	The Post Office should adhere to the Contract Regulations when procuring a stamp producer, so that this service is procured economically.
HIGH	<i>(For Audit Findings on which this is based, refer to Main Report, Section 3.13)</i>
Management Response	General comments: The Post Mistress commented the current stamp production contract was approved and signed by St Helena Government. Officer responsible for Implementation: Financial Secretary and Post Mistress Implementation expected to be complete by: (Month & Year) The end of the current stamp production contract

Recommendation 6 Priority: (H/M/L)	The Post Office should consider charging departments for providing the counter services mentioned in 3.16.
MEDIUM	<i>(For Audit Findings on which this is based, refer to Main Report, Section 3.16)</i>
Management Response	General comments: The Post Mistress commented she had pursued this option but was told the revenue raised was allocated to the same subhead. She however agreed a commission should be charged. Officer responsible for Implementation: Post Mistress Implementation expected to be complete by: (Month & Year) April 2010 (the new 3 year budget process)

APPENDIX A**AUDIT OPINION DEFINITIONS**

Every Value For Money audit concludes with an overall opinion based upon individual opinions that are applied to each of the review areas identified in the scope of the audit. The range of opinions, together with an explanation of their meanings, is as follows:

<i>Value Form Money Opinions</i>	
GOOD	Management arrangements are conducive to achieving Value For Money and only minor enhancements, if any, can be identified.
ADEQUATE	Management arrangements are generally conducive to achieving Value For Money – but further important enhancements could be made.
INADEQUATE	Management arrangements are not considered to be adequately conducive to achieving maximum Value For Money.

AUDIT RECOMMENDATION PRIORITIES

<i>Priority</i>	
HIGH	Immediate risk to achieving the outputs of the operation at lowest cost, efficiently and effectively.
MEDIUM	Issues identified which would improve the quality of the operation, with regards to cost-effectiveness and / or output.
LOW	Minor enhancements identified to improve the effectiveness of the operation.

APPENDIX B**LIST OF PERSONNEL CONSULTED DURING THE AUDIT**

The assistance given to the Audit Service by all those listed below during the course of the audit is acknowledged with appreciation.

NAME	JOB TITLE	DEPARTMENT
Beverly Francis	Post Mistress	Post Office
Delia Henry	Senior Clerk Philatelic	Post Office
Christine Turpin	Accountant, Financial Planning and Analyst	Finance
Dax Richards	Senior Accountant	Finance
John Cranfield	Senior Transport Manager	PW&SD – Transport Division
Eric Constantine	Operations Director	Solomon and Company PLC