



House of Commons  
Public Accounts Committee

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# The procurement of goods and services by HM Prison Service

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**Sixth Report of Session 2008–09**

*Report, together with formal minutes, oral and  
written evidence*

*Ordered by the House of Commons  
to be printed 2 February 2009*

## The Public Accounts Committee

The Committee of Public Accounts is appointed by the House of Commons to examine “the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit” (Standing Order No 148).

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The following member was also a member of the committee during the parliament.

Mr Philip Dunne MP (*Conservative, Ludlow*)

### Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

### Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

### Committee staff

The current staff of the Committee is Mark Etherton (Clerk), Lorna Horton (Senior Committee Assistant), Pam Morris (Committee Assistant), Jane Lauder (Committee Assistant) and Alex Paterson (Media Officer).

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## Summary

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In 2003, the Committee of Public Accounts published a critical report on shortcomings in the Prison Service's procurement system, with a wide-ranging set of recommendations.<sup>1</sup> On revisiting the Prison Service's progress five years later, this Committee is pleased to note that the Prison Service has responded positively and decisively. The Prison Service has implemented a new strategy for procurement, and introduced a centralised professional procurement team, supported by five regional procurement teams and a new information technology system. We are also pleased to note that, as a direct result of implementing our recommendations, the Prison Service has generated cash savings of £120 million to 2007–08.

Where the Prison Service has encountered difficulties, it has addressed them promptly. These problems have included technical difficulties phasing in its new computer system. The electronic inventory management system is also now being rolled out, although with some delay. Importantly, the Service has acknowledged that while most staff across the Prison Service understood the benefits of centralised purchasing, there were still small pockets of local resistance. The Prison Service is addressing this point by tightening up compliance with laid down procedures, although it will take longer to win over 'hearts and minds'. Keeping the electronic system up to date will also be a challenge, as evidenced by the Prison Service's recent exercise to remove nearly 9,000 dormant supplier accounts from its system.

In October 2008, the Ministry of Justice announced plans to centralise procurement across the Ministry into a single procurement function, which would include the Prison Service and the Probation Service. With a potential budget of £2.5 billion, the new procurement function offers the opportunity to secure substantial savings.

On the basis of a Report by the Comptroller and Auditor General,<sup>2</sup> we examined the National Offender Management Service and the Ministry of Justice on the lessons learned when implementing its procurement strategy, and on the potential for further savings.

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1 Committee of Public Accounts, Forty-First Report of Session 2002–03, *Modernising procurement in the Prison Service*, HC 676

2 C&AG's Report, *The procurement of goods and services by HM Prison Service*, HC (2007–08) 943

## Conclusions and recommendations

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- 1. The Prison Service has made cash savings of £120 million and has improved the quality of the goods and services it procures.** These achievements are as a direct result of implementing the recommendations in this Committee's 41st Report of Session 2002–03, *Modernising procurement in the Prison Service*.
- 2. Centralising procurement and developing tailored procurement strategies for different types of goods and services would help other Government organisations improve their procurement and generate cash savings.** In partnership with the Office of Government Commerce and the National School of Government, the Prison Service should bring its success to the attention of senior management in other public sector bodies, for example, by participating in workshops, and by speaking at training events and conferences.
- 3. Using the Prison Service procurement model throughout the Ministry of Justice should generate further substantial cash savings.** We are pleased to note the Ministry's plans to extend the Prison Service model across the whole of its operations, and look forward to its successful implementation in the expectation that the Ministry will also generate substantial cash savings. The Ministry of Justice should set an annual target for finding savings from procurement.
- 4. Not all Prison Service personnel have understood or supported the move to centralised procurement.** The Prison Service acknowledged that it should have done more from the outset to win over the 'hearts and minds' of Prison Service staff to the benefits of centralised procurement. The Ministry of Justice procurement function should learn from this experience and increase staff awareness by publicising the aims, objectives and successes of its procurement strategy to staff, for example through articles on its intranet and in staff magazines, as well as at internal training events.
- 5. Reducing the threshold for procurement undertaken by the Service's Purchase to Pay teams from £20,000 to £5,000 will not be enough on its own to secure best value from local procurement.** In addition to lowering the upper limit for procurement by the Purchase to Pay teams, the Prison Service should periodically obtain details of the items procured most frequently through this route, with a view to extending central contracts to cover these items.
- 6. The Prison Service supplier database included 9,000 dormant supplier accounts.** The Prison Service acknowledged the NAO's role in identifying that its supplier database was out of date. The Prison Service should carry out validation checks on the integrity of the data in its supplier database at least annually, in order to confirm that it only holds details of current suppliers, and to check staff authorities to authorise the addition of new suppliers.
- 7. The new inventory control modules currently being introduced will help the Prison Service identify excess or obsolete stock.** The Prison Service has yet to fully implement the Committee's recommendations from 2003 relating to stock levels and

inventory control, pending deferment of the inventory control modules of its new computer system. The Prison Service should use the information generated by the new inventory management system to identify stock holding levels across the Prison Service and to act to reduce excess or obsolete stock, as appropriate.

# 1 Implementing past Committee recommendations

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1. In the five years since this Committee last considered prison procurement,<sup>3</sup> the Prison Service has made substantial improvements to the way it procures goods and services, and manages its suppliers. We are pleased to note that of the 19 recommendations made by our predecessors, 13 have been accepted and implemented, three have appropriate plans in place to implement them and six are no longer relevant.<sup>4</sup>

2. We are particularly pleased to note that, as a direct result of implementing this Committee's recommendations, the Prison Service has generated cash savings of around £120 million over the past five years (£83 million between 2003–04 and 2006–07, and estimated savings of £37.5 million for 2007–08).<sup>5</sup> While the average number of prisoners in publicly managed prisons rose by 16.6% from 61,604 in 2001–02 to 71,838 in 2007–08, the Prison Service's total expenditure on supplies for daily running of prisons increased by less than 1% (£4 million) over the same period.<sup>6</sup> The cost reductions achieved have not been made at the expense of quality, as is evidenced by the better quality uniforms acquired through the Prison Service's national uniform sourcing contract.<sup>7</sup>

3. The Prison Service's success with its procurement is built around its substantial recruitment and training of qualified staff, investment in supporting information technology and the adoption of centralised procurement arrangements.<sup>8</sup> The Prison Service's Acquisition Model specifies a structured approach to purchasing supplies for all units within the Prison Service. As at May 2008, over 72% of the Prison Service's procurement expenditure was under the management of the central procurement function. Using its procurement of drug rehabilitation treatment as an example, the Prison Service summarised the lessons it had learned (**Figure 1**) that had helped it to maximise savings and the other benefits it had achieved. These included lessons that may be of relevance and interest to other government departments.<sup>9</sup>

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3 Committee of Public Accounts, Forty-First Report of Session 2002–03, *Modernising procurement in the Prison Service*, HC 676

4 Qq 1, 4; C&AG's Report, Appendix 2

5 Qq 2, 33; C&AG's Report, Summary para 4

6 C&AG's Report, Figure 2

7 Qq 8–10; C&AG's Report, Case Example 2

8 C&AG's Report, para 1.3

9 Qq 7, 13–14

**Figure 1: Lessons learned by the Prison Service when procuring goods and services, as illustrated by its drug treatment procurement**

	General lesson learned	Drug treatment specific lessons learned
The goods or services required	Know what you want and the options for providing it	
Markets and suppliers	<p>Market awareness—know the market, the types of product and the skills available.</p> <p>Market knowledge—be aware of the main suppliers, their capabilities and their limitations.</p> <p>Research suppliers (for example, through due diligence checks).</p> <p>Specify exactly what you want, having established first with potential suppliers the feasibility of your proposal.</p> <p>Use a ‘level playing field’.</p> <p>Hold a properly run and evaluated procurement exercise.</p> <p>When procuring from overseas, visit the supplier to monitor the quality of production and ethical treatment of staff.</p>	<p>The Prison Service has not let large national contracts for drug rehabilitation. It opted to let smaller contracts to drug treatment agencies with a strong local base, gaining the benefit of good local area knowledge.</p> <p>The drug treatment contracts were all let at the same time. Lessons learned will be taken into account when letting the next round of contracts.</p>
Staff buy-in	<p>Explain to staff how the contracts work and what the performance objectives are.</p> <p>Communicate the benefits of central contracting to staff.</p>	
Supporting technology	<p>Put in place a contingency plan when expanding, adding to or modifying a computer system.</p> <p>Monitor system capacity when adding new functions.</p>	
Management information	<p>Generate management information about the volume and type of procurement taking place, and the usage rates.</p> <p>Make use of the information generated to improve procurement practices, for example, by setting tighter “just-in-time” limits.</p>	
Contract management	<p>Monitor the contractor’s compliance with the contract.</p> <p>Manage the contract and the contractor.</p> <p>Be alert to the inter-relationship between programmes and manage contracts accordingly.</p>	<p>Partnership working with contractors has helped deliver drug rehabilitation services alongside resettlement and other initiatives.</p> <p>Differential performance from suppliers has been addressed through contract management and encouragement</p>

## 2 Securing further improvements

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4. In October 2008, the Ministry of Justice Corporate Management Board endorsed a new department-wide procurement strategy to extend the Prison Service procurement model to the remainder of the Ministry of Justice. The Ministry is to set up a new Procurement Directorate, modelled on the Prison Service procurement model, to cover the whole Department as part of its “Procurement Success” project.<sup>10</sup>

5. The new Directorate, which will have a combined budget of some £2.5 billion, will bring together in one organisation existing procurement units, including the Prison Service procurement unit. The Ministry of Justice intends to build on the Prison Service unit’s organisation and infrastructure, so as to benefit the whole of the Ministry. The Ministry estimated that centralising the procurement function would generate cumulative cash savings of over £141 million by the whole Ministry by the end of 2010–11. Detailed work is still ongoing but the Prison Service told us it expected some of the saving to be realised from prisons, some from probation and ‘quite a lot’ from across the rest of the Ministry.<sup>11</sup>

6. The savings generated to date by its procurement modernisation have been impressive, but the Prison Service acknowledged that there was still scope for it to make further ones. The Prison Service has been working closely with OCGbuyingsolutions and recognised the scope for greater collaborative working with the Office of Government Commerce (OGC), whereby OGC could potentially buy from much bigger contracts on the Prison Service’s behalf. Where OGC was not best placed to meet the Prison Service’s needs, for example, for hotel bookings, the Prison Service used smaller specialised suppliers.<sup>12</sup>

7. The Prison Service has a similar organisational structure and expenditure profile to that of the Irish Health Service Executive on food, linen, uniforms, mattresses and some other items (**Figure 2**). Both organisations have a central procurement unit supporting an establishment network in multiple locations. Unlike the Prison Service, the Irish Health Service Executive’s performance measures include targets for finding savings through identifying repeat items purchased locally that could be procured through central contracts or catalogues. The Prison Service was not forthcoming as to why it does not have similar savings targets, alluding instead to the new lower thresholds it planned to introduce for those items purchased through its Purchase to Pay teams. These teams currently buy non-catalogue and non-contract items under £20,000, and the Prison Service believes that reducing this threshold would produce a similar effect to introducing a savings target (see paragraph 11).<sup>13</sup>

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10 Ev 7

11 Q 12

12 Qq 15–16, 21–23

13 Q 26

**Figure 2: A comparison of the key performance outcomes on items procured by the Prison Service and the Irish Health Service Executive other than through its centralised contracts 2007–08**

	The Prison Service	The Irish Health Service Executive
Expenditure on food, linen, uniforms, mattresses etc procured other than through the central procurement unit	£107.5 million	£78.9 million
Non-centralised procurement as a proportion of total expenditure	24%	8%
Planned savings	None	£7.89 million
Number of Full Time Equivalent Staff (FTEs)	59	40
Average expenditure per FTE	£1.82 million	£1.97 million
Average planned savings per FTE	None	£197,000

Source: C&AG's Report, Case Example 4

8. The Prison Service acknowledged that it could have done more from the outset to help staff understand and support the move to central purchasing. Awareness of the savings achieved by centralised procurement and other benefits made had been low amongst prison staff, and the Prison Service accepted that it had been poor in the past at communicating the benefits of central contracting to staff. Work was ongoing to change attitudes amongst staff. Compliance was generally good but pockets of resistance remained. Winning over 'hearts and minds' had been hampered at times by other factors, such as: difficult trading conditions, particularly in the food market; new working arrangements; changes to local delivery schedules; and by the need for staff to build working relationships with new suppliers.<sup>14</sup>

9. Since our previous hearing, the Prison Service has made a concerted effort to improve the information it provides to purchasers. From 2006, the Prison Service has been able to produce management information for procurement expenditure on a national level, following the integration of new procurement information technology within the shared services centre that handles finance, payroll and other back office functions for the Pension Service. This facility has the potential to provide greater functionality and better management information than is currently available.<sup>15</sup>

10. **Figure 3** summarises the Prison Service's Acquisition Model. The National Audit Office found that purchases made through the Purchase to Pay team route offer scope for significant further savings.

<sup>14</sup> Qq 5, 24, 32

<sup>15</sup> C&AG's Report, para 2.2

**Figure 3: The Prison Service Acquisition Model**

ACTION	CHECK	ACTION
Goods or services required	Are they available from local stock?	If available from local stock, no expenditure is required for the procurement
	If not in stock, are they in online catalogues?	If available, purchase through online catalogue, as these offer items with key suppliers at negotiated rates
	If not in online catalogues, are they within card limit?	If yes, use of the purchase card, which is provided to certain mandated purchasing staff, can provide administrative savings
	If over card limit	Approach the Purchase to Pay team to ask for assistance in obtaining non-catalogue items for optimum cost and with an appropriate delivery schedule.

Source: National Audit Office

11. The National Audit Office reported that of the £107.5 million spent in 2007–08 on items purchased through the Purchase to Pay teams, £23.3 million was in practice spent with some of the Prison Service’s largest existing suppliers but outside the centralised contracts. Rerouting this expenditure through the centralised contracts and catalogues, for example, may generate savings in the region of 3%–5%. In response, the Prison Service has reduced the upper ceiling for individual Purchase to Pay transactions from £20,000 to £5,000, and is diverting the procurement of individual items over £5,000 to its central procurement teams.<sup>16</sup> Directing a proportion of the remaining £84.2 million of expenditure through the Prison Service’s existing suppliers could lead to savings of between 5% and 8% on such transactions. Directing more requisitions through the established acquisition channel would also generate administrative savings for the Prison Service since handling transactions through the Purchase to Pay teams costs approximately twice as much to administer as handling requisitions through central contracts or catalogues.<sup>17</sup>

12. The Prison Service also acknowledged that it had not managed its list of suppliers adequately. It took prompt corrective action in response to shortcomings identified by the National Audit Office, updating the listing of individuals authorised to approve suppliers, and amending its procedures for adding new suppliers to the list. The Prison Service has also removed from its supplier database the accounts of nearly 9,000 suppliers, where they have not been used within the last 18 months.<sup>18</sup>

13. The Prison Service has made a concerted attempt at addressing the inventory management issues raised by our predecessors. It acknowledged that its inventory systems were not yet robust enough to provide an estimate of how much has been spent on unnecessary purchases since our last report.<sup>19</sup> This issue should not detract, however, from the encouraging progress made on reducing its stock holdings from £47.6 million in 2002

16 Q 6; C&AG Report, paras 3.2, 3.3; Figure 1

17 C&AG’s Report, paras 3.4, 3.6

18 Qq 11, 18

19 Q 27

to £34.7 million in 2007. During 2008, the Prison Service has begun roll-out of its new inventory module, which should make management much more aware of products delivered to prisons (excluding works and perishables such as food), and help root out excess and obsolete stock.<sup>20</sup>

# Formal Minutes

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**Monday 2 February 2009**

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon  
Keith Hill

Mr Austin Mitchell  
Dr John Pugh

Draft Report (*The procurement of goods and services by HM Prison Service*), proposed by the Chairman, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 13 read and agreed to.

Summary read and agreed to.

*Resolved*, That the Report be the Sixth Report of the Committee to the House.

*Ordered*, That the Chairman make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 4 February at 3.30 pm]

## Witnesses

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Wednesday 10 December 2008

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**Mr Phil Wheatley**, Director General, National Offender Management Service, and **Mr Vincent Godfrey**, Director of Procurement, Ministry of Justice

Ev 1

## List of written evidence

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HM Prison Service

Ev 7

## List of Reports from the Committee of Public Accounts 2008–09

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First Report	Defence Information Infrastructure	HC 100
Second Report	The National Programme for IT in the NHS: Progress since 2006	HC 153
Third Report	Skills for Life: Progress in Improving Adult Literacy and Numeracy	HC 154
Fourth Report	Widening participation in higher education	HC 226
Fifth Report	Programmes to reduce household energy consumption	HC 228
Sixth Report	The procurement of goods and services by HM Prison Service	HC 71

# Oral evidence

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## Taken before the Committee of Public Accounts

on Wednesday 10 December 2008

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon  
Nigel Griffiths

Keith Hill

**Mr Tim Burr**, Comptroller and Auditor General, **Mr Martin Sinclair**, Assistant Auditor General, and **Ms Aileen Murphy**, Director, National Audit Office, were in attendance.

**Mr Marius Gallaher**, Alternate Treasury Officer of Accounts, HM Treasury, gave evidence.

### REPORT BY THE COMPTROLLER AND AUDITOR GENERAL THE PROCUREMENT OF GOODS AND SERVICES BY HM PRISON SERVICE (HC 943)

*Witnesses:* **Mr Phil Wheatley**, Director General, National Offender Management Service, and **Mr Vincent Godfrey**, Director of Procurement, Ministry of Justice, gave evidence.

**Q1 Chairman:** Good afternoon and welcome to the Committee of Public Accounts where today we are considering the Comptroller and Auditor General's Report *The procurement of goods and services by HM Prison Service*. We welcome back to our Committee Phil Wheatley, who is the Director General of the National Offender Management Service in the Ministry of Justice, and Vincent Godfrey, who was formerly Head of Procurement for the Prison Service, who was recently appointed as the Director of Procurement for the Ministry of Justice. You are both very welcome. Mr Wheatley, I have to say that this is a good Report. Sometimes the Committee of Public Accounts is criticised for being over-critical, but we are very anxious to reward good management and good risk-taking. Of course, I have got some questions to ask you because not everything has worked perfectly, but we are very pleased that, whilst things did not appear to be run well by the Prison Service up to 2002; we had a hearing; we issued a Report on procurement; we made a number of recommendations (they are listed in Appendix Two) and, unusually if you go through all these recommendations I think certainly up to when we get to recommendation 12, which is on stock holdings, every recommendation that the Committee of Public Accounts has made you have carried out.

**Mr Wheatley:** Yes.

**Q2 Chairman:** And that is very reassuring and it is reassuring for Parliament that, when this Committee works hard and we make recommendations, they are accepted by the Government. As a result of this, we reckon that you have saved about £83 million by carrying out all these recommendations, so we are very grateful, especially as we are all on commission! For the record, that is not true! Perhaps to Mr Godfrey, this is a success story, how are you going to spread good practice through the Ministry of Justice generally now? How are you going to learn from what we carried out with the Prison Service?

**Mr Godfrey:** Essentially, we have now put in place a strategy that will bring together procurement for the whole Ministry under one umbrella and, essentially, that is building on the organisation and infrastructure that the Prison Service has and actually scaling it, so, as I say, it should benefit the whole of the Ministry now across a wider spend and across more business areas.

**Q3 Chairman:** Mr Wheatley, you started off as a prison officer 40 years ago, did you not?

**Mr Wheatley:** Yes.

**Q4 Chairman:** Do you think this has given you an advantage? You do not often see this with accounting officers, although we did see it with another good project with Lesley Strathie in the roll-out of Jobcentre Plus. Do you think that because you started 40 years ago at the sharp end that this gives you insight into what can go wrong and sorting out problems before they occur?

**Mr Wheatley:** I think there are advantages in running prisons that I know about what the sharp end does, and I try to keep up-to-date with that by getting out and about in prisons and drawing keys and walking the landings and not doing a "royal tour", which I remember seeing Directors General way in the past do where they only saw the nice things. I think the real advantage is of knowing a business, which you do not have to be in for 40 years although there are some advantages, and working hard at it because what you are looking at here is work in progress. You are quite right, it builds on the Report that the NAO did and the Committee of Public Accounts hearing to which I came. We have worked away at it and change, in my experience, takes time to deliver, and you have got to persist over time. We are looking here at work in progress, which is why there is more to do, and the Report correctly identifies more things that we should be doing. If you scale it up across the Ministry to get advantages across the whole of the Ministry, that is even better.

## Ministry of Justice

**Q5 Chairman:** There are one or two questions where things perhaps do not seem to have worked as well as they might. We read in paragraph 1.7 that: “A substantial number of purchases are not made through the most efficient route, as Prison Service staff are not always taking advantage of the savings available through the use of online catalogues,” and we read also in 2.9 of the Comptroller and Auditor General’s Report: “At present some prison staff do not understand the financial benefits that have been achieved by adopting a centralised approach to procurement.” How are you changing attitudes within the Service, Mr Wheatley?

**Mr Wheatley:** Just in practical terms we have set a system up which means that you cannot find a way round the system, and that is the advantage of both central procurement and using the Phoenix IT system, which means that the only way of buying is through the system, so we can enforce order, as it were. That is a different thing from winning hearts and minds. We have tried to make sure that we communicate clearly to staff the advantages. We have been a bit held back because many of the changes came in at a point when inflation was increasing (it is now decreasing) and that meant that as we went to central procurement of food, for example, instead of getting big cashable savings we have managed to avoid the inflation that otherwise would have hit us. People were a bit inclined to say, “We used to pay X for this,” forgetting that in the world of buying food prices had gone up. We are communicating it to our staff, particularly to our senior managers, and there is now general acceptance from our senior managers that this works and it has saved money, and we will have to keep on doing that. We must enforce it, so as well as changing hearts and minds we have got to make sure that you cannot find a way round the system. We are moving work from the Purchase to Pay teams back into the Category Management Teams by dropping the limit which Purchase to Pay teams can agree to purchase.

**Q6 Chairman:** I wanted to ask you about that because we read on page 18 of the Comptroller and Auditor General’s Report in paragraph 3.3: “We analysed the £107.5 million of annual expenditure made through the Purchase to Pay teams.” Clearly this does not give you the best value for money so I wanted to ask why you allowed this to happen, but you are now addressing this, are you?

**Mr Wheatley:** I should ask Vincent to comment on this because he has done most of the work on this. There is a limit to what we can put through the category teams as we developed them and we did the detailed work to get some really good buying. Because we have done that work, we are now in a position to be able to divert more work from the Purchase to Pay teams. By dropping the limit from £20,000 to £5,000, we will move a lot more in scope with the Category Management Teams and get the further savings. As I say, this is work in progress. Vincent may be able to add some additional information on that if that would help.

**Mr Godfrey:** Absolutely, and it reflects the fact that some of our category management was in its infancy so whilst we have national contracts for food, getting the scope right has taken some time in driving up the level of compliance. Since the Report was written we have already seen some significant shifts in that so a lot of the business that is reported in the £107 million has already started to shift on to national contracts and within the national categories.

**Q7 Chairman:** Why do we read in paragraph 1.6 that in late 2006 the electronic purchasing system failed, which caused you some problems, and can you assure us that it will not happen again?

**Mr Wheatley:** I can tell you why it happened. We were rolling this out area-by-area because I am not an enthusiast, and nor is anybody else in the management team, for a “big bang” approach, in which we just say it is going to happen all over the Service instantly. It went smoothly for a time but as we added on another area, the amount of bandwidth—and I am not an IT expert as compared to Richard Bacon, who is—was not sufficient to cope with the amount of traffic that was being generated, particularly at peak times, causing the system to fall over. That was a combination, I am told (my expertise is limited) of the way that the system asked questions of itself to verify that the orders were real and simply not having enough bandwidth. We have bought more bandwidth and now we have bought the bandwidth we do not have a problem. We do need to watch that as we add on additional IT that, in my mind, the wires are thick enough for it to go through, because if we are generating more work we need to keep an eye on the amount of bandwidth that we have available for transferring information around. We recovered from that quickly. We had a contingency plan; it went into action; we were able to add the bandwidth in and go back to rolling it out. I was very grateful that we had done it on a staged basis with a proper contingency plan. If we had known we needed more bandwidth earlier on, obviously that would have been better.

**Q8 Chairman:** Thank you for that. We read in case example two, on page 14, that you are now having your uniforms made in China, obviously at a considerable saving. Can you assure us that the staff there who work for you and for us are dealt with ethically and paid properly?

**Mr Wheatley:** We have carefully researched our supplier—I will ask Vincent to speak because he has been and visited them—to make sure that we are not buying from an outfit that is abusing Chinese workers or behaving improperly, and we think that we have done as much due diligence as we reasonably can to make sure that we are buying from a good outfit.

**Q9 Chairman:** If you have been there, do you want to comment? How are they paid? How are they treated?

**Mr Godfrey:** Absolutely, and we use internationally recognised standards and we picked a supplier that complies with the Ethical Trading Initiative which closely monitors minimum wages and working

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 Ministry of Justice
 

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hours and working conditions and so on. The other good thing about the way we procure is that we procure in bulk so we are able to physically inspect the factories ourselves at the time of production to verify it with our own eyes. It is a relatively inexpensive exercise because, as I say, the manufacturing is happening all at one time in bulk for us so we have been able to physically verify it ourselves.

**Q10 Chairman:** Obviously as it is a public service one would like these uniforms to be made here but what is the saving?

**Mr Wheatley:** Two things: if we had bought from firms that were based here, we found that actually the manufacturing was taking place offshore, so although we were buying from somebody ostensibly who was in the country, the work was being done elsewhere, and because we therefore did not control it we had even less control over what happened. In terms of savings, Vincent can tell you what we think we have saved.

**Mr Godfrey:** The annual saving in the current financial year will be £703,000 at the moment, compared to what we used to pay, and we have also been able to improve the quality of the uniform as well, which was very necessary.

**Mr Wheatley:** It is one of the few occasions I have had emails from grateful staff saying, “This is actually what you said it was going to be and it is rather good.” It has been pleasant to upgrade the quality.

**Q11 Chairman:** On the matter of suppliers could you have managed this process better? I see in paragraph 2.34, on page 16, that the Prison Service is in the process of removing 9,000 suppliers from its list. “We found the list of individuals who could authorise the creation of a new supplier was two years old and contained 980 names . . .” Have you managed this list well enough, do you think?

**Mr Wheatley:** The straightforward answer to that is no and that should not have been the case when this was looked at. If we had been on top of absolutely everything, this would not have appeared. We have since corrected it so we have made sure that only the Purchase to Pay teams can approve suppliers. We have taken all the other people who can approve off the list. Many of the 9,000 suppliers had not been used for a long period and if they had not been used within the last 18 months, I think it is, we have simply removed them from the list, we have pruned our list, and we are now nicely on top of that issue. It was a real issue drawn to our attention by the NAO and we have responded promptly to it. No, it should not have been like that; not everything is perfect here.

**Q12 Chairman:** My last question is: can you commit yourself to further savings and over what timescale?

**Mr Wheatley:** We can commit ourselves to further savings, although they will be made across the whole of the Ministry because we are now using a whole ministry model, and we think that we will be able to make over £141 million of cumulative savings by the

end of 2010–11. At the moment that is a projection. We cannot commit to that absolutely because lots of detailed work is being done but that is what we are aiming to do as a Ministry. That is across the whole of the Ministry, some of which will come from within the prisons area, some may come from within the probation area, which is another area for which I am now responsible, and quite a lot across the rest of the Ministry. We will get additional buying power which we can exploit.

**Chairman:** Thank you very much. Nigel Griffiths?

**Q13 Nigel Griffiths:** I want to echo what our Chairman has said. In some ways it has been a pleasure to read this Report because it is so positive, and I hope we might lead out of you in my questioning the lessons that other government departments might learn from that, and also focus on some aspects of the Report that I think would be helpful to expand on. Your services cover utilities and drug rehabilitation programmes for inmates, clearly a serious issue given the number of people I read about who are in prison who have got serious problems with drug addiction and related additions. What are the lessons from this Report for your Service on drug rehabilitation?

**Mr Wheatley:** I think the lessons are the same as lots of other areas of procurement: to procure properly you have got to be careful to specify exactly what you want; you have got to know the market that you are dealing with; you have got to speak to suppliers so that you know some of their problems and what they can and cannot do, not just write an *ex cathedra* specification without paying any attention to what people can do, so there is market intelligence and market knowledge about the main providers; and then a level playing field and a proper procurement exercise, properly evaluated. In this area where there are local agencies (because not all of this is best done nationally so the drug treatment agencies have a strong local base) they know the local area very well and there is a positive gain to that. In this area we have not let giant national contracts; we have let smaller contracts because again we know our market and know what skills there are there. We have got a better service as a result. Then of course you must manage the contracts and not just say, “Hey, we have got a contract”; it requires active management of contracts and that involves a degree of partnership working, not just clogging the contractor, which sometimes people think is active management. That is part of it but you have really got to work in partnership to get a finished product which knits together re-settlement alongside drug work. It has got to work with lots of other things that we do. I think those are the lessons.

**Q14 Nigel Griffiths:** Are you frustrated that some of these exemplar projects locally are not replicated elsewhere? Are there things you do to try and ensure that the various models of best practice—and I am not saying there is one and I think you stressed that earlier and I appreciated that—where others do not seem to be able to replicate it in any way are following it?

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**Mr Wheatley:** We have probably not found that. We try to learn from the contracts that we have let. We have a round of drug contracts all done at the same time. That originally dates back to the early part of my time so it would be early 2000 since we first let the contracts. We have had differential performance from our providers. We need to manage that through ordinary contract management and trying to encourage as well as just saying, "Hey, you are not doing it." We can replace people if push comes to shove. We need to learn as we get to the next round of contracting what are the best ways to improve it. What we have done particularly well under Vincent is to think about what is the best way to learn the lessons and build that into the next round.

**Q15 Nigel Griffiths:** The Report on page 14 draws out certain criticisms that your method has of pan-government contracts, ie you seem to have improved on them. Do you sit on committees on pan-government contracts? Are they listening to the improvements that you seem to have achieved and the National Audit Office seems to have endorsed?

**Mr Wheatley:** I should ask Vincent to give the detail because Vincent works most closely with OGCbuying.solutions. Some of the things we buy are specifically things that relate to prisons where we have quite different contractual requirements on the things you might otherwise expect OGC to be buying.

**Q16 Nigel Griffiths:** A hotel wants a range of telephone contracts; you want a restricted range?

**Mr Wheatley:** Yes, so there are different things. We are working co-operatively with them but you can probably put a better gloss on that.

**Mr Godfrey:** We are working extensively with them and it has improved to the point where we are potentially asking OGCbuying.solutions to actually buy on our behalf where they are better placed to manage certain categories of expenditure for us. Of the instances that are referred to in the Report, one particularly is hotel booking accommodation. It may seem peculiar but as the Prison Service we have a slightly different requirement to a lot of other government departments, with prisons often being out of city centres and in more remote locations as opposed to being in city centres, where a different type of accommodation is required. We are using a smaller supplier that is better able to tap into that type of market compared to perhaps more mainstream requirements for other departments. Generally, the reason why we are not using them is not because OGCbuying.solutions' contracts are poor; it is an issue about meeting legitimate business needs but, as I have said to you, the relationship with OGCbuying.solutions is actually progressing quite significantly.

**Q17 Nigel Griffiths:** So if I ask you what other areas you think they may be lagging behind in, you are likely to say it is not that they are lagging; your needs are slightly more specific and specialised?

**Mr Godfrey:** Absolutely, yes.

**Mr Wheatley:** And it is important that we do not buy off big contracts if they do not meet our needs, so we do not get the business advantage that we are looking for.

**Q18 Nigel Griffiths:** Where the Report seems to be critical, it is of things like the number of staff with authority to approve new suppliers. How are you dealing with that?

**Mr Wheatley:** By stopping them doing it, because the Report is correctly critical. That relates to the previous answer I gave. We have taken the power to add people on who can approve and simply pulled it back to the Purchase to Pay team, so we keep it constrained within a relatively small buying community. That is something that the NAO picked up and we have actioned; it was a good piece of advice from them.

**Q19 Nigel Griffiths:** When you were a prison officer, were you critical of the quality of the uniforms or speed of supply?

**Mr Wheatley:** I was critical of most things as a prison officer; prison officers always are! It was mainly because I worked in the stores, I was relief storeman as a very junior officer, and in my day you bought off big central contracts that often did not supply to time, so you put in for several brush heads and none turned up even though you still had to sweep the paths, and you cursed like mad. It is important that these contracts actually deliver. These do actually and so it was a very restrictive, 1960s, as you would expect, central contract that very often did not provide the stuff you needed. We even had to go out and buy our own because it did not work. The run to get toilet rolls for Hatfield Borstal because the supply centrally had failed was not a good time.

**Q20 Nigel Griffiths:** Has all that been eliminated or have you got a wish-list of one or two things, if you were a prison officer now, that you would like to see a bit of focus on?

**Mr Wheatley:** I think most of that has been eliminated. Certainly as I walk around establishments, I do not have people complaining that that is what is happening nowadays. People do complain about lots of things, about not being paid enough and all sorts of things, but this is not one of them any more. Once it would have been one of the things that the average cleaning officer, those who clean the landings, would have said: "I cannot get hold of equipment," and that is not what people are saying at the moment.

**Chairman:** Thank you, Mr Griffiths. Richard Bacon?

**Q21 Mr Bacon:** Thank you very much. Mr Wheatley, you mentioned the OGC and you said that it is important that we do not buy off big contracts that do not meet our needs. Plainly, as you have said, you do not therefore get the business benefits of that big contract. To what extent are you therefore trying to pressure the OGC into

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negotiating better big contracts that are flexible enough that they do meet your needs so that you can buy through them and get the business benefit?

**Mr Wheatley:** That is what we are doing. We are trying to look at taking some of the things we currently buy and simply asking OGC to buy them because they can buy off much bigger contracts where they are things that lots of other bits of government use. Obviously they will not be using prison uniforms but there are lots of things that they will be using.

**Q22 Mr Bacon:** Yet!

**Mr Wheatley:** Unless we spread throughout government entirely! So those are the things that we are trying to get them to buy for us. Do you want to add any detail on that?

**Mr Godfrey:** We are developing very close relationships, for example one that we are developing at the moment is professional services, so where we buy temporary labour agency staff and so on and forth we are actually going through a process at the moment of potentially transferring the actual buying activity itself to OGCbuying.solutions on a managed service basis, simply because their capability has evolved beyond the level where we could reasonably develop it. They have got the scale and infrastructure and positioning to do that. As I say, I think our relationship with them is growing ever closer. Certainly all of the main commodity categories in which we are operating, we sit on their category boards, their user committees and so on. I think OGCbuying.solutions certainly in the past year to two years have upped their game quite significantly.

**Q23 Mr Bacon:** That is good to hear because we looked at them as a Committee and they had this enormous catalogue with an enormous amount of stuff in it that never ever got purchased. Most government departments and agencies said, "We would not use that, would we . . ." You think that is changing?

**Mr Godfrey:** Absolutely, and I think there are some very good case studies. For example, they procure all of our kitchen equipment for us, so everything in our capital programmes for kitchen equipment is, to all intents and purposes, delivered by OGCbuying.solutions, and it is a very good job.

**Q24 Mr Bacon:** Can I draw your attention to paragraph 2.8 where it says at the bottom there not only that 72% of procurement expenditure in 2007–08 was routed through central contracts and 85% of respondents to the survey were clear that it is the central procurement function which decides which suppliers will be used for their prison, but also that 67% of respondents believed that they had the right suppliers in place. That sounds quite good but it also suggests that one-third of respondents, which is also pretty high, do not believe they have the right suppliers in place. Why is it so high?

**Mr Godfrey:** I think it reflects the recommendation that is given in the Report that our communication of the benefits of central contracting was poor, so in

a lot of instances information that we have put out to target groups about performance of central contracts has not been what it should be, and that is something that we have got to address and have been addressing. The other thing that it belies is that certain markets have been very difficult, the food market has been difficult, so they have experienced some significant price increases relative to where they were. The other thing is that it is getting familiar with different working arrangements. When we put in national contracts it does cause local change. There are teething troubles when we change delivery schedules and things of that nature, and new relationships have to be formed at a working level. As I say, those three things would impact on that.

**Mr Wheatley:** Just one other add-on to that, in the previous world quite a lot of contracting was done locally in very small amounts, so a caterer would go down to a big grocer and order things from the big grocer. Actually, that was quite expensive because that was the caterer's time doing that. If you were a caterer that was quite good: you got out and had a break from the prison and you went to the shop and picked what you wanted. Now you do not; now you simply order it. I can see why you would look back nostalgically to the days when you could go down the road and do something that was a bit of a break from being in the prison, but we have made the gain in additional time that is available for doing things in the prison.

**Q25 Mr Bacon:** Case study three talks about what you were just referring to, Mr Godfrey, about getting staff to comply with using the contracts. It compares it with Network Rail and says that while Network Rail has recorded 72% of purchase orders going through their catalogues, when this Report was published in July, you were at 58%. This was three or four months ago when the Report was published; do you think it will already be a higher number than that?

**Mr Godfrey:** It already is. As I say, we are monitoring contract compliance very closely now so we already know that in our main categories of expenditure compliance has improved quite significantly, and that will see the £102<sup>1</sup> million reduced by quite a bit by the end of this financial year.

**Q26 Mr Bacon:** What about the next box over on the right-hand side, case study four, where it talks about the Irish Health Service Executive, which it says has a similar expenditure profile as you. In bullet point two it talks about their performance measures "including targets for finding savings through identifying repeat items that could be obtained through central contracts or catalogues." Why does the Prison Service not have a savings target in the same way?

**Mr Wheatley:** To some extent we have tackled that in a slightly different way, although it has the same effect by dropping what the Purchase to Pay teams can do. That is the teams who make purchase off

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<sup>1</sup> Note by witness: The figure of £102 million has been amended to £107.5 million

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catalogue who are dealing with a request from an establishment. By dropping them to £5,000 as the maximum they can approve, otherwise it has to go to the category team, we forced the same approach. The purchases have to be dealt with by the category teams who are expert in finding savings. The small purchases total will be much less than we have seen in the Report when they had a larger limit of £20,000 (which is what they could purchase up to). We should get the same effect out of that. Obviously we do have to have that for what are often emergency purchases. That is why they are coming in out of the system because we have to do something quickly. We do need it to be done quickly so that a governor does not find that he cannot run a bit of the regime or a bit of the prison properly, and he cannot afford to have business disrupted, so timeliness is important. Skewing the big spend through the category teams will achieve the effect that we are all looking for, which is to get the best we can out of the money.

**Q27 Mr Bacon:** I would like to ask about stock control. The previous Report that we did looked at inventory management and identified that as a significant weakness and this is referred to in paragraph 2.2, on page 9, where it talks about the fact that there is now a concerted attempt to improve the information that is provided to purchasers, a process that should be completed by December 2008. Have you got an estimate for how much has been spent on unnecessary purchases over the last five years because you did not have good enough stock information?

**Mr Wheatley:** The answer to that is no, I have not, because we would have to have the information to know exactly what had happened. We have put in an IT system. We think that was the right way of doing it. It is a standardised IT system; we have not devised some clever thing that is built only for prisons. It is now in everywhere except for one prison, Lewes, where a store is yet to be built in which it will go, and it is not yet completed, so there is a very practical reason for that and that will enable us to get a lot more management information about what the usage rates of things are and help set tighter just-in-time limits really, so we make sure that we do not hold any more than we need. Like most IT, it has been quite a big and expensive job to do properly, alongside the major changes to Phoenix which have allowed all this to take place. This is IT-enabled business change. Without the IT link to the business change we would not have been anywhere near as effective.

**Q28 Mr Bacon:** You bring me on neatly to one question I wanted to ask about NOMIS, which I think is being piloted now in three prisons, the Isle of Wight, and I cannot remember the others.

**Mr Wheatley:** It is the Isle of Wight actually.

**Q29 Mr Bacon:** Are they all there?

**Mr Wheatley:** The prisons on the Isle of Wight. The Isle of Wight is on NOMIS.

**Q30 Mr Bacon:** How many prisons have been added in the last 12 months and are now fully operational?

**Mr Wheatley:** None has been added to NOMIS. The NAO is in the middle of doing a Report on NOMIS which will no doubt come into the Committee. I have seen an early draft and I know that is yet to be discussed. The only places on NOMIS are the three Isle of Wight establishments.

**Q31 Mr Bacon:** So the three Isle of Wight establishments?

**Mr Wheatley:** We are planning roll-out for next year of Prison NOMIS, P-NOMIS but, as I say, it will be subject to a separate and detailed NAO Report, I believe.

**Q32 Mr Bacon:** Okay, fine. Can I just ask you about paragraph 2.31 where it says at the bottom there: "69% of those surveyed said they did not understand the targets in place for managing supplier performance." What are you going to do to increase the understanding of the targets in place to manage supplier performance? It sounds like most people do not understand it at the moment.

**Mr Godfrey:** Again, I think it relates to the recommendation in this Report where we have had poor communication, and explaining how contracts work and what the performance objectives are. Again, we have already made significant inroads into that and we work very closely with people in establishments in their particular categories of spend to improve that. As I say, it was a fair recommendation and one that we are working on.

**Q33 Chairman:** Thank you very much, Mr Wheatley. That concludes our hearing. As I said right at the beginning, you have made big strides in the way that you purchase goods and services. This is largely due to you carrying out the recommendations of this Committee, which I think shows the value to the taxpayer of our work. Please pass the word amongst your fellow Accounting Officers that if they carry out our recommendations, an appearance here could be a pleasant and calming experience!

**Mr Wheatley:** I will do.

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## Memorandum from HM Prison Service

### INTRODUCTION

1. This memorandum updates the Committee on the C&AG's report: *The procurement of goods and services by HM Prison Service* (HC 943 Session 2007–08, 23 July 2008). The Committee is asked to note changes in the way that procurement of goods and services is organised throughout the Ministry of Justice since the C&AG's report was written.

### CHANGES IN THE WAY PROCUREMENT IS UNDERTAKEN

2. In October 2008, the Ministry of Justice Corporate Management Board (CMB) endorsed a new procurement strategy titled "Procurement Success". The strategy builds on the work already undertaken in HMPS and creates a new Procurement Directorate for the Ministry that replaces a number of individual procurement units including the HMPS unit that was the subject of this report. A Director of Procurement has already been appointed. Procurement Success will be delivered as a project reporting to the Corporate Procurement Board. Organisational design will be completed by April 2009 with individual category work streams delivering benefits throughout the CSR07 period.

3. Procurement Success embodies the findings and recommendations of the National Audit Office report on the Procurement of Goods and Services by HMPS and the Office of Government Commerce (OGC) Procurement Capability Review covering MoJ Procurement (5 August 2008). It will be updated periodically to reflect emerging circumstances so as to provide a constant strategic reference point for those engaged with procurement across the Ministry.

4. Procurement Success is based around eight pillars of procurement capability including six processes and two enablers. It explains in detail how each of these pillars will be built and introduced throughout the MoJ.

5. Procurement Success is concentric on category management. Category management differs from the traditional way of running a procurement operation. It is based on the premise that each major category of third-party spend is defined and managed across the Ministry. The focus of the effort therefore shifts towards the overall results achieved in the category and not just the individual business units covered by it. This means that, for example, the MoJ will be more concerned with the overall cost to provide say food rather than the cost of food at one particular site. A key objective is to operate on the longer-term basis of the category plan rather than a short-term, deal-by-deal and requirement-by-requirement basis.

21 November 2008

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