



National Audit Office

# The procurement of goods and services by HM Prison Service

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 943 Session 2007-2008 | 23 July 2008





# SUMMARY

**1** Her Majesty's Prison Service (the Prison Service) procures a range of goods and services for the 128 prisons it runs throughout England and Wales. Goods needed for the daily running of prisons include for example, food and clothing, while services cover utilities and drug rehabilitation programmes for inmates. In total the Prison Service was responsible for £449 million of procurement expenditure in 2007-08.

**2** We examined the Prison Service's procurement function in 2003, in our report *Modernising Procurement in the Prison Service*. We reported that procurement activity was disaggregated to prison level, with widely varying practice at individual prisons, and that this was combined with a low level of use of centrally negotiated contracts, despite the significant cost savings that these could offer. Appendix 2 provides details of the progress that the Prison Service has made in response to the recommendations made by the National Audit Office, and the Committee of Public Accounts in its subsequent report.

**3** Since we published our report in 2003, the Prison Service has made significant progress in the way it manages its procurement of goods and services. In 2004, it implemented a new strategy for procurement as part of a wider package of reforms to back office functions. It introduced a centralised professional procurement team, supported at regional level by five purchasing units. Greater control over purchasing was established through the introduction of an Acquisition Model. This specifies certain methods to procure goods and services, and the scope for prisons to undertake their own procurement has been removed. The Prison Service also introduced a shared service centre to provide back office support to prisons, thereby reducing administrative costs by removing these responsibilities from individual prisons.

**4** These changes have resulted in many important benefits for the Prison Service. Procurement staff costs have reduced by 38 per cent between 2003-04 and 2007-08. The Prison Service has been able to identify significant savings in procurement activity since it implemented its new strategy. It achieved savings of £83 million between 2003-04 and 2006-07 and has estimated savings of £37.5 million for 2007-08. Prisons are receiving more consistent supplies of goods and services often at much lower prices than before. The progress the Prison Service has made in its procurement practice has been recognised with professional awards. The Prison Service also has further major initiatives coming on stream, which include a National Inventory Management project designed to improve the management of stock, which started in June 2008.

**5** In this report we have assessed where the Prison Service currently stands against best external procurement practice and sought to identify the scope for further procurement savings. We employed Accenture (one of our strategic partners with expertise in procurement) to help us with this work. We found that the Prison Service procurement team has a clear vision and strategy for procurement which, allied to the Acquisition Model and detailed business plans, provides a strong framework for its procurement activity which is close to high performance.

**6** Seventy two per cent of Prison Service procurement expenditure in 2007-08 was routed through contracts and catalogues negotiated at either central or regional level. The Prison Service has adopted a proactive approach to involving suppliers in its procurement at an early stage and has made generally good use of national contracts available through OGCBuying.solutions and with other Government departments. On occasion the Prison Service has decided that the framework agreements negotiated by OGCBuying.solutions have not provided the best option for them and have negotiated their own contracts. The Prison Service has also started to source some items from low cost countries; most notably, its deal to buy prison staff uniforms from China. Such initiatives have enabled the Prison Service to achieve improvements in value for money.

**7** While the majority of expenditure is routed through preferred suppliers with nationally negotiated prices, in 2007-08 £107.5m of supplies were procured through the Prison Service's assisted buying function – known as the Purchase to Pay teams – which is part of the Prison Service's shared services operation, but not part of the procurement function. Of this total of £107.5 million, we found that £23.3 million was spent with the Prison Service's existing preferred suppliers but outside of negotiated contracts, and £84.2 million was spent with other suppliers. There is a significant risk that value for money is not being achieved with this expenditure. We have recommended that such expenditure should be aligned with centrally negotiated contracts, which should lead to further savings. The Prison Service could also take the lead to renegotiate the provision of the Government Procurement Card (a payment card) for the whole of the Ministry of Justice.

**8** We found that the Prison Service's procurement staff generally understood the principles of supplier relationship management, although there were some inconsistencies in approach across the procurement teams. We also found, however, that a substantial number of prison staff had, contrary to policy, retained the authority to approve new suppliers. This undermined the progress the Prison Service has made in streamlining the number of its suppliers. The Prison Service has issued an instruction that from 1 July 2008 only procurement staff or staff in the Prison Service's Purchase to Pay teams can approve new suppliers.

**9** The Prison Service has made significant progress in implementing the information technology infrastructure needed to support its procurement activity. The Prison Service acknowledges that its Enterprise Resource Planning system is capable of providing more reliable management information for active performance management, and greater information on the relative performance of suppliers.

**10** With effect from 1 April 2008, the Ministry of Justice has been restructured and now has the Prison Service and the Probation Service brigaded together within the National Offender Management Service. One of the possible consequences of these structural changes is the creation of a procurement function for the whole of the Ministry of Justice which would have a combined budget of approximately £2.5 billion. This could be based upon the Prison Service procurement model.

## Value for Money Conclusion

**11** The Prison Service has made major progress in achieving better value for money in procurement since we last reported in 2003. Through substantial recruitment and training of qualified staff, investment in supporting information technology and adopting centrally controlled contracting the Prison Service has realised steadily increasing and significant savings. It achieved savings of £83 million between 2003-04 and 2006-07 and has estimated savings of £37.5 million for 2007-08. Prisons are also more likely to receive a consistent product at a better price. The Prison Service acknowledges that it still has more work to do and we have quantified further potential savings of between 1.5 and 2.5 per cent through better management of purchasing and suppliers. That the Ministry of Justice is considering adopting the Prison Service model for all its procurement is indicative of the progress that has been made in the last five years, and this may also afford the potential for further savings to be made in areas such as staffing.

## Recommendations

We recommend that:

- 1** The Procurement Group should provide a table of up to 10 key pieces of information on its performance to all prisons that will improve prison staff's understanding of the benefits of centralised procurement and enable prison staff to understand how they can help to generate savings.
- 2** The Procurement Group has made significant progress in achieving financial savings from examining its categories of expenditure. The Group should develop a medium-term plan which allocates ownership of all the remaining categories and sub-categories of expenditure to designated staff so as to delineate responsibility for identifying further savings.
- 3** OGCBuying.solutions and the Prison Service should address the issues which have led to the Prison Service letting its own contracts in two cases where OGCBuying.solutions Buying Solution agreements are already available.
- 4** Building upon the work undertaken to identify a new supplier of prison uniforms, the Prison Service procurement function should identify opportunities to procure other items from low cost sources that meet its required standards on ethics and best business practice.
- 5** The Prison Service should set a shared objective for its procurement team and the Purchase to Pay team to move a minimum of 50 per cent of current non-catalogue purchases to catalogued activity.
- 6** The Prison Service should re-tender its Government Procurement Card agreement in conjunction with the Ministry of Justice as soon as practicable. The tender should request enhanced service standards (particularly on the provision of management information) as well as better terms.
- 7** The Prison Service should review its contractual processes so that all contracts include references to the need for suppliers to have processes for continuous improvement and to monitor continuously scope for identifying savings.
- 8** The Prison Service should use the existing functionality of its Enterprise Resource Planning system to record information on suppliers' performance, to support a systematic methodology of tracking and rating their performance.