



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

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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.

PART ONE

Prison Service procurement since 2003

In 2003 procurement was fragmented and costly

1.1 Her Majesty's Prison Service (the Prison Service) procures goods and services for the 128 publicly run prisons across England and Wales. Goods include those essential for the daily running of prisons, such as food and clothing, while services procured include utilities and drug rehabilitation programmes for inmates. While the Prison Service procures the majority of its goods and services, some are managed by different government departments or organisations: for example, the Department of Health is responsible for prison healthcare. In total, the Prison Service had budgeted responsibility for £449 million of procurement expenditure in 2007-08.

1.2 The National Audit Office conducted a review of the Prison Service procurement function in 2003. In our study *Modernising Procurement in the Prison Service*¹, we found that procurement activity was disaggregated to establishment level, with widely varying practice at individual prisons, and low use of centrally negotiated contracts which could offer significant cost savings. While there was a balance to be struck between reliance on central contracts and local discretion and flexibility, the Prison Service accepted the conclusion of the Public Accounts Committee that “the Procurement of goods and services within the Prison Service [was] fragmented and costly to deliver”.

The Prison Service's major new procurement strategy

1.3 Following publication of our report, the Prison Service designed and implemented a new strategy for procurement as part of a wider package of reforms to back office functions. Reforms included:

- the implementation of a single computer system to deal with procurement issues across the Prison Service, where previously each individual prison had its own isolated finance systems with no procurement capability;
- the implementation of an “Acquisition Model” for the Prison Service, whereby only certain specified methods are to be used for particular types of procurement, and the authority to procure at individual prison establishments was removed;
- the creation and implementation of category strategies – which are detailed plans for individual lines of procurement to achieve better value, for example, in the procurement of food;
- the implementation of a shared service function in Newport to provide back office support in finance, human resources and procurement to individual prisons, thereby reducing administrative costs at those establishments.

1.4 Reforms to the procurement function represented a major departure from previous practice within the Prison Service. Prior to the reforms, individual prison establishments had significant autonomy in running their procurement functions. However, following implementation of the strategy and the introduction of the Acquisition Model, central procurement policies were made compulsory for all establishments. Prisons' administrative budgets were reduced as a result of the expansion of the central procurement function.

¹ *Modernising procurement in the Prison Service*, HC 562, 2002-03.

The new strategy has led to savings

1.5 The Prison Service has found that implementation of these reforms has led to significant savings. It saved £83 million between 2003-04 and 2006-07, and has estimated savings of £37.5 million for 2007-08. These savings have been achieved through a better use of purchasing power to achieve lower costs for individual items across the Prison Service, and by releasing time for front-line staff to concentrate on offender management.

1.6 There have been some difficulties in implementing the strategy. While the Prison Service has generally made good progress in implementing the appropriate technological support to run its support functions efficiently, in late 2006 the electronic purchasing system failed, which contributed to substantial delays in the Prison Service settling invoices. This put some strain on supplier relationships and led to increased costs as the Prison Service was obliged to pay compensation in some cases.

1.7 More generally, while the Prison Service's strategy and policies for procurement are now well understood throughout the Service, some staff at prisons have not always adhered to the approach initiated by the centralisation of procurement. 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. Some establishment staff also believe their own contractual arrangements offer better value than those negotiated by central procurement.

Scope of the National Audit Office study

1.8 Our study focused on three main areas. First, we reviewed whether the Prison Service had successfully implemented the recommendations made by the NAO in our report *Modernising procurement in the Prison Service*, and recommendations made in the subsequent Public Accounts Committee report (Appendix 2). Secondly, we sought to compare the reformed Prison Service procurement function with appropriately benchmarked leading practice, whether in the public or private sector. Finally, we aimed to provide recommendations that would lead to further financial savings.

1.9 Since our 2003 report, responsibility for a number of areas of procurement have changed, either through other government departments taking the lead, or through control being exercised by the National Offender Management Service. Our report focused specifically on those elements of procurement retained within the responsibility of the Prison Service itself. We have completed or are conducting a number of studies on other aspects of Prison expenditure, such as on diet and exercise programmes and offender education.²

1.10 On 29 January 2008, the Justice Secretary announced a new structure for the Ministry of Justice, which came into effect on 1 April 2008. The key change was in the National Offender Management Service. The Prison Service and the Probation Service were brought together in the National Offender Management Service under the then Director General of the Prison Service. As part of the changes consequential to this restructuring, the Department is currently considering creating one organisation to undertake procurement for the whole of the Ministry of Justice, which would have a budget of up to £2.5 billion.

2 *Serving Time: Prisoner Diet and Exercise*, HC 939, 2005-06; *Meeting Needs? The Offenders' Learning and Skills Service*, HC 310, 2007-08.

PART TWO

Prison Service procurement assessed against best practice

Reform to Prison Service Procurement

2.1 Following our 2003 report *Modernising procurement in the Prison Service*, the Prison Service established a strategy for improving procurement in 2004. The strategy set out a vision for the proposed reforms to the procurement function, backed by a detailed management plan. An experienced procurement professional was recruited as Head of Procurement to lead implementation of the strategy.

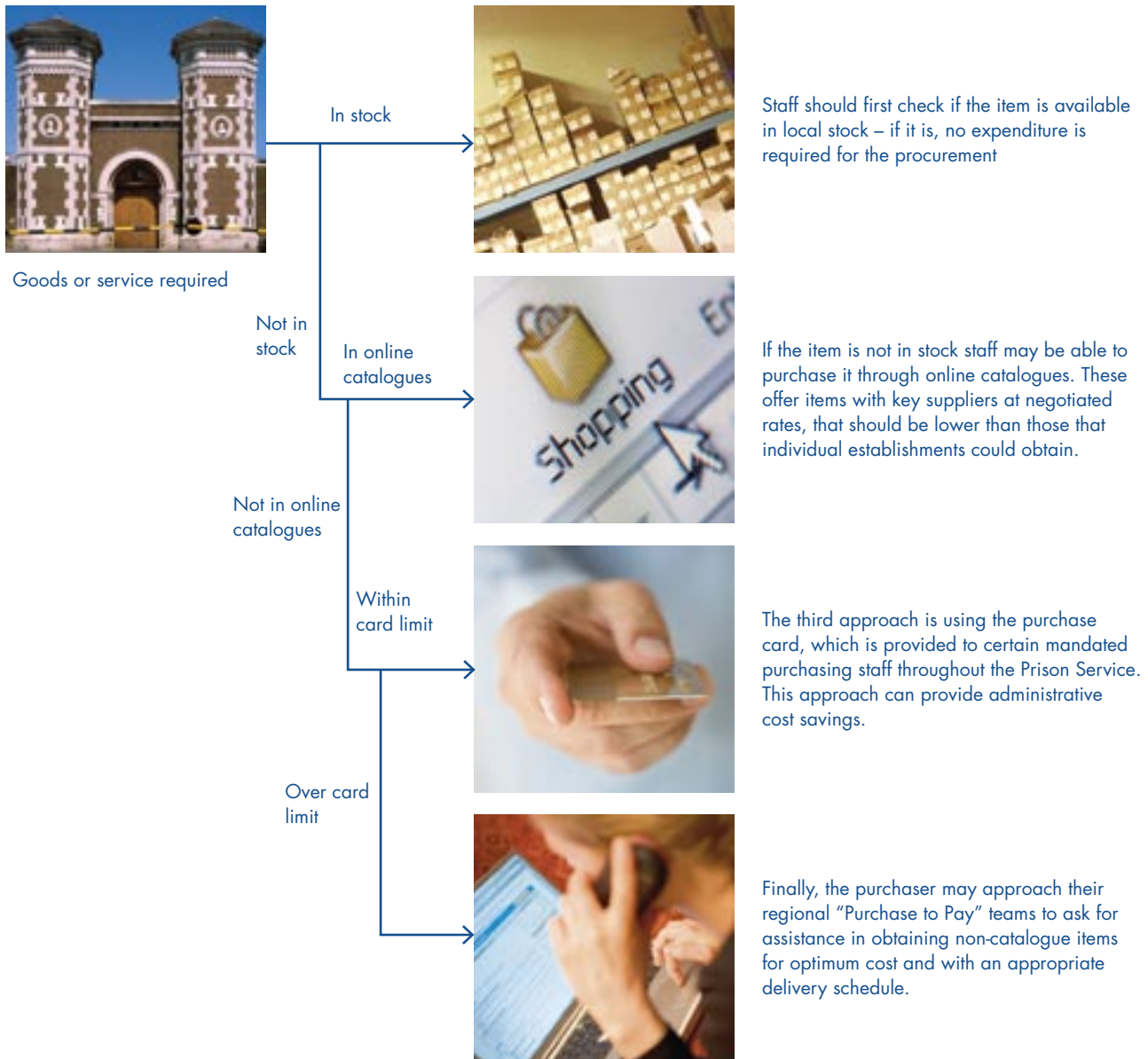
2.2 The strategy included the following main elements:

- **Introduction of national, specialist and regional procurement units.** In 2004-05 dispersed procurement teams at prison establishments were abolished and national and regional support was provided through these new teams.
- **Implementation of an “Acquisition Model”.** Prison establishments were given a structured decision model to direct the purchase of goods. Central procurement experts made decisions on sourcing and supplier selection rather than dispersed procurement teams, who were now limited to ordering or requisitioning goods and services (see **Figure 1 overleaf**).
- **Integration of new Procurement Information Technology within a wider change programme for back office functions.** The Prison Service has introduced a shared services centre based in Newport, designed to provide finance, payroll and other back office functions for the entire Prison Service on one common system. In 2006, procurement functions were integrated into this system (known as Enterprise Resource Planning or ERP), which among other benefits enabled the Prison Service to produce management information for procurement expenditure on a national level for the first time.

A number of further reforms are still necessary to improve Prison Service procurement performance. Some of these changes are currently in progress while some are yet to start.

- **Implementation of a national inventory management project.** Our previous report found significant weaknesses in inventory management. The Prison Service has implemented our recommendation on reducing stock holdings (see recommendation 12 in Appendix 2), and from June 2008 it has started to provide improved information to purchasers across the prison estate, a process that should be completed by December 2008. Access to this information should improve efficiency by rendering some purchases unnecessary as well as improving general stock management.
- **Analysis of categories of supply.** While the Prison Service has introduced a number of category strategies – plans for achieving savings in relation to certain types of supply – there are still a number to be undertaken which could yield further savings. We have examined some of these categories in Part 3 of this report.
- **Use of management information.** Although the Prison Service is now able to make use of management information through the reforms made to its back office functions, full use is not yet being made of this functionality as access to the information is still being developed and reporting standards are still evolving.

1 The Prison Service Acquisition Model



2.3 Overall, however, progress since our last report has been substantial. The speed of implementation has been in line with similar scale reforms in the public and private sector, and substantial savings have been achieved. Staff costs have fallen by 38 per cent between 2003-04 and 2007-08. Reductions were achieved through redeployment of staff in Prison establishments to more frontline roles, natural waste and redundancies, leading to an overall reduction from 481 staff with procurement responsibilities to 119 dedicated Full Time Equivalent Staff and 59 staff in the Purchase to Pay teams. The Prison

Service has, for example, made estimated savings of £37.5 million in 2007-08 through negotiating better contracts with suppliers, through the new Enterprise Resource Planning system providing better information and by providing more control for procurement staff in advance of contract negotiations. Through such achievements the Prison Service has managed to restrain procurement costs to an increase of less than one per cent in real terms since our last report, while prisoner numbers have increased by 16.6 per cent (Figure 2).

2 Changes in Prison Service Procurement following implementation of the 2004 strategy

	2001-02	2007-08	Absolute Increase/ Decrease	Relative Increase/ Decrease %
Number of Prisoners ¹	61,604	71,838	10,234	16.6
Total expenditure on supplies for daily running of Prisons (2007 prices)	£445m	£449m	£4m	0.9
Proportion of expenditure covered by central contracts (%)	38	72	34	89.5

Source: National Audit Office analysis of Prison Service information

NOTES

1 This is the average number of prisoners in the publicly managed prisons in that year.

Since 2003-04, the Prison Service has reduced the number of full time equivalent staff involved in procurement from 481 to 178.

2.4 We compared the Prison Service's procurement function against 160 defined criteria of good procurement practice. The best procurement practitioners are more likely to adhere to these criteria than other operators. We tested the Prison Service's performance compared against these principles of good practice and were able to assess where its procurement function sat in relation to:

- those that fall within the top sixth of organisations ("High Performers");
- the average performing organisations ("Mid range Performers"); and
- the weakest performing organisations ("Low Performers").

Figure 3 overleaf shows that across all the main activities undertaken by a procurement function, the Prison Service's procurement team is consistently either a good performer or, in the case of its Acquisition Channel Management, close to high performance.

2.5 The advances the Prison Service's procurement function has made have been recognised externally. The Prison Service's policies, processes, procedures and toolkits received accreditation from the Chartered Institute of Purchasing and Supply in 2005, the first government body to do so. The Prison Service also received two awards for excellence from the Institute for the procurement function itself (2006) and for the Prison Service's Head of Procurement (2007).

2.6 Our detailed review of the Prison Service's procurement function focused on the following six elements:

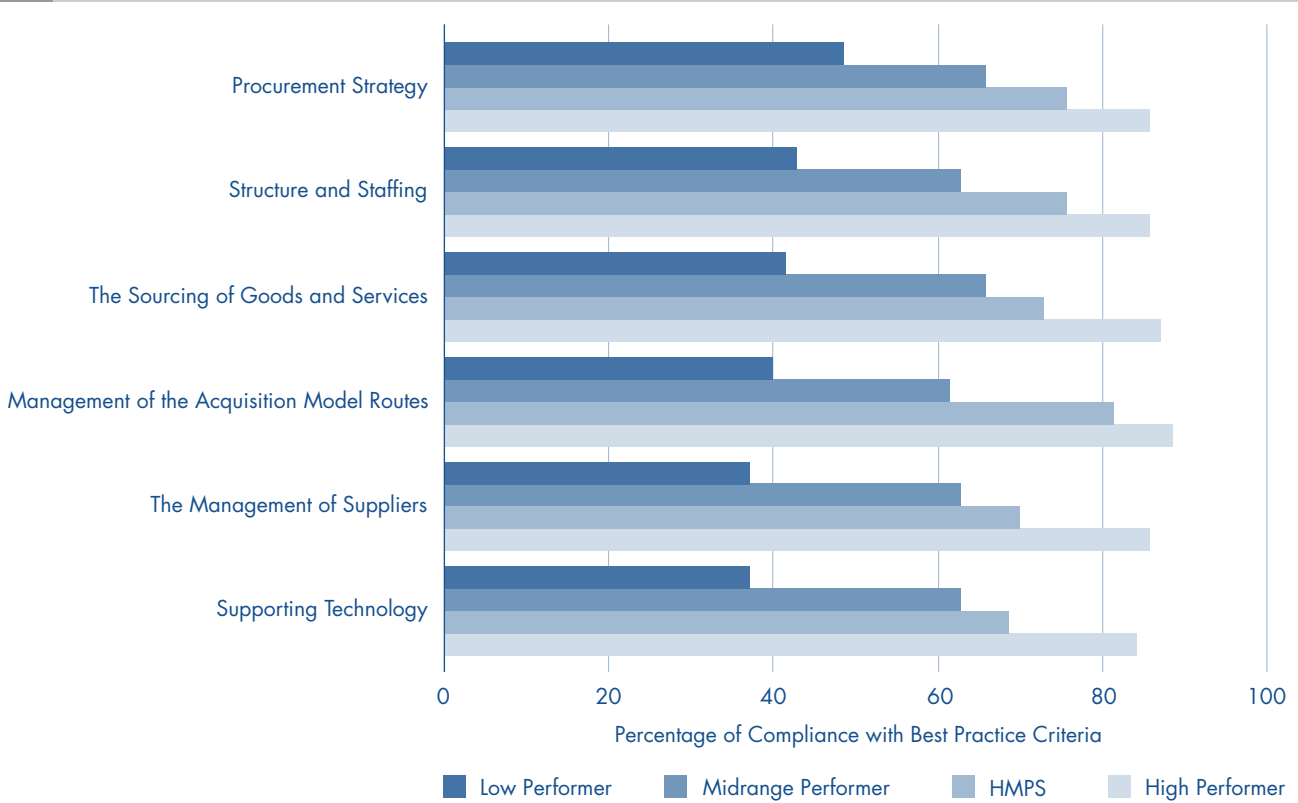
- Procurement Strategy
- Structure and Staffing
- The Sourcing of Goods and Services
- Management of the Acquisition Model routes
- The Management of Suppliers
- Supporting Technology

We found evidence of good progress in all of the above categories although there is some variability and scope remains for further improvement.

Procurement Strategy

2.7 The Prison Service issued a new strategy for procurement in 2004. This strategy was supported by a clear implementation plan which has been adhered to since its introduction and continues to provide direction for further reforms. The main elements of the strategy implemented to date have been organisational reforms designed to improve the ability to achieve savings through better sourcing of supplies, improving the technology infrastructure and improving the purchasing channels through the Acquisition Model.

3 The Prison Service’s procurement function compared to low, medium and high procurement performers



Source: National Audit Office

NOTE

The results are based upon Accenture’s database of findings from their assessments of 225 procurement organisations. Accenture assess a procurement function against six main activities.

2.8 The Acquisition Model specifies a structured approach to purchasing supplies for all units within the Prison Service. Potential purchasers are required to consider in turn the most efficient mechanisms for procuring supplies. The authority to request items for purchase has been restricted to designated individuals within prisons and the authority to make purchases has been removed from prisons altogether. Implementation of this model has meant that a larger proportion of procurement expenditure has been brought under management of the central procurement function. In 2007-08, 72 per cent of procurement expenditure was routed through central contracts. Our survey of prisons suggested that the changes made to the way goods and services are procured have generally been embedded and are now largely seen as effective, with 85 per cent of respondents being clear that it is the central procurement function which decides which suppliers will be used for their prison. Sixty seven per cent of respondents believed that they had the right suppliers in place.

2.9 Further changes are required at prison level. At present some prison staff do not understand the financial benefits that have been achieved by adopting a centralised approach to procurement. These benefits include such factors as the savings made on transactions, the mitigation of inflationary pressures, and the benefits provided by negotiated discounts available through the bulk purchase of items with contracted suppliers (**Case Example 1**).

2.10 The Prison Service is a strong performer on procurement strategy. It has set out a clear mandate for the procurement function and the majority of staff in the prison service now adhere to the requirements of centralised procurement.

CASE EXAMPLE 1

National versus local food buying at HMP Leeds

In 2008 the National Procurement Unit continued to receive feedback stating that local suppliers of food offered greater value for money than central contracts. The National Procurement Unit investigated by conducting a detailed comparison of costs at HMP Leeds. Foodstuffs purchased outside the national contract over a two month period were compared product-by-product to costs through the national contract. The analysis found that overall costs were 9.2 per cent cheaper under the national contract. The National Procurement Unit also learned lessons from the study as it highlighted the need for catalogues to be expanded to include specific items outside the range in place at the time. The Prison Service plans to extend the study across the rest of the prison estate.

Structure and Staffing

2.11 In *Modernising Procurement in the Prison Service*, we noted that the Prison Service had a disaggregated procurement function with widely varying practice at individual prisons. Following implementation of the procurement strategy, all procurement staff are now employed within one of three types of procurement units:

- **Specialist Procurement Unit.** This is a team of sourcing specialists who have been tasked to address priority categories of supply.
- **National Procurement Unit.** This is the central support and delivery unit for procurement within the Prison Service.
- **Regional Procurement Units.** The five regional units provide more locally based support for prisons in discrete geographical areas.

Along with a reduction in headcount, this rationalisation has seen a reduction in costs for procurement staff from £10.9 million in 2003-04 to £6.7 million in 2007-08.

2.12 Notable improvements in procurement staffing have included the introduction of comprehensive job roles, role-based competency frameworks, use of objectives for staff (known as Staff Performance Development Records), and a specified training budget.

2.13 With the bringing together of the Prison Service into the National Offender Management Service within the Ministry of Justice, there is scope for further improvements to suit the new structure and increase the potential for savings. Prisons are now becoming increasingly familiar with the concept of remote procurement and the geographical location of procurement units is of less relevance. There is an opportunity for the Prison Service to specifically focus its structure, staffing and training around a category-led strategy, aiming to achieve greater savings through expertise in sourcing the various necessary goods and services.

2.14 The Prison Service's current ability to share knowledge (an important aspect of efficient and effective procurement) is currently limited due to a lack of functionality in the Enterprise Resource Planning system. In addition, while the Prison Service has appropriate business targets for achieving high performance procurement, individual staff do not currently have access to reports or data that would enable them to understand the extent of expenditure or potential savings. The Prison Service is in the process of instigating the provision of this information which should be available by October 2008.

2.15 The Prison Service has made significant progress in introducing a centralised, well skilled procurement function which has resulted in significant savings in staff costs. The Prison Service acknowledges that it can do more to provide further information to its procurement staff and to consider further streamlining its staff in due course.

The sourcing of Goods and Services

2.16 The Prison Service has made significant progress in bringing more procurement expenditure under the management of its specialist staff. In 2001-02, 38 per cent (£197m³) of expenditure was covered by contracts let by procurement staff. At the time of our fieldwork in 2008, we estimated that their share stood at 72 per cent (£322m). The benefits of this approach are a better use of expertise in the appropriate categories, more strategic oversight from senior management, and greater aggregation of contracts enabling negotiation of improved prices. We reviewed two case studies of such procurement practice. Our evaluation of uniform and food purchasing arrangements shows evidence of a more proactive approach to involving suppliers at an earlier stage than in 2003, and combined with greater supplier and market intelligence this has led to some significant cost reductions (**Case Example 2 overleaf**).

3 Adjusted for inflation to 2007 prices.

CASE EXAMPLE 2

National Uniform Sourcing

The new contract for supply of uniforms was let in May 2008. The tender attracted interest from suppliers around the world including the USA and China, and after a pre-qualification questionnaire phase, 15 suppliers were selected, based on their ability both to meet the order requirements and provide a fully managed service. Suppliers were also required to provide evidence of compliance with ethical trading standards and quality controls.

The process involved stakeholders across the Prison Service, such as the Head of Dog Handlers, as well as the National Procurement Unit. The Prison Service worked actively with suppliers through methods such as providing current samples of uniform to enable suggestions for improvement. Garment trials, co-ordinated by a technical expert from the Specialist Procurement Unit, were conducted in 12 prisons, with feedback being returned to suppliers to assist them in developing their specifications.

After the second garment trial the list of potential suppliers was reduced to five. The Prison Service worked with these suppliers to produce a detailed specification for each uniform item against a range of published industry standards (e.g. durability to washes). The end result was a significant improvement in uniform quality at a 30 per cent discount to the previous contract, representing savings of £703,000 per annum.

2.17 The Prison Service's approach to sourcing is structured and professional. It has made significant progress in making savings within a number of its individual categories of expenditure. In the medium term the Prison Service should be able to allocate the specific ownership of the remaining categories and sub-categories to named individuals to ensure there is a systematic basis for identifying opportunities to make further savings.

2.18 The Prison Service has taken the lead role in initiating a number of pan-Government contracts for goods and services and also makes significant use of the government wide framework contracts provided by OGcbuying.solutions in areas such as the provision of energy. In two cases, the provision of telecoms and of hotel accommodation and conference facilities, the Prison Service has not used OGcbuying.solutions framework contracts. In the case of the contract for use of hotel accommodation and conference facilities, the Prison Service felt that the OGcbuying.solutions contract did not offer the best value for money and has let its own contract.

2.19 Overall the Prison Service is an above average performer in its sourcing management, with particular strengths being its well developed category management structure and its use of strategic sourcing.

Management of the Acquisition Model Routes

2.20 The Prison Service National Procurement Unit manages online catalogues as part of the Acquisition Model, with £88 million of expenditure in 2007-08 being channelled through 483 different catalogues. Using catalogues provides a number of advantages to a more dispersed buying approach. Catalogues enable an organisation to channel demand to certain contracted suppliers, which over time allows the organisation to manage supplier performance standards more actively and to negotiate better discounts. As the use of catalogues develops and more expenditure is aggregated with contracted suppliers the National Procurement Unit will be able to achieve further savings and efficiencies through a better specified, more bespoke service. As we noted in Case Example 1 the purchase of food through catalogues, for example, led to savings of 9.2 per cent when compared to local, non-catalogued buying.

2.21 The use of catalogues also enables the National Procurement Unit to monitor better levels of consumption of supplies at prisons, and therefore to improve demand management. During our review of the management of key categories of supply we found several instances where procurement staff were continually benchmarking prices to alternative sources.

2.22 The Prison Service has to date maintained its database of catalogues by means of a manual rather than an automated process, leading to some deficiencies in control. For example, some procurement staff stated they had been required to place purchase orders with suppliers when the relevant catalogues had expired or were out-of-date. The Prison Service introduced a new function in its Oracle system at the end of June 2008 to improve both the automation and control of this process.

2.23 We also found that 200 of the catalogues (41 per cent) only had an aggregate value of £1.7 million and that 45 suppliers were providing items to the Prison Service in multiple catalogues. One supplier was featured in 25 of the Prison Service catalogues. Some of these numbers can be accounted for by the need for the Prison Service to have agreements with some suppliers on a regional basis. The evidence does however suggest that the Prison Service could rationalise the content of its catalogues by reviewing the expenditure it incurs with some catalogue suppliers.

2.24 The Acquisition Model presently routes all requisitions for non-catalogue items of a value less than £20,000 to the Prison Service's Purchase to Pay (Assisted Buying) teams. These staff are part of the shared service function rather than Prison Service procurement. In 2007-08, 137,000 requisitions involving £107.5 million of annual Prison Service procurement expenditure passed through this team.

2.25 The Purchase to Pay staff are required to identify three quotes from suppliers for items over £2,000. Most Purchase to Pay staff are meeting that requirement, but their performance is measured on how quickly they can respond to the requests for items. Their measures of performance do not include the level of savings made, any improvement in the reduction of exception purchases, or customer satisfaction levels. In some cases we could not find an audit trail for the basis of the decision for selecting a particular item, or the basis on which staff completed purchase justifications on behalf of requisitioning staff. The Purchase to Pay staff are required to record any savings they may identify from their work on manual returns. This is outside the Prison Service's automated systems and may mean that any savings identified are not being recorded.

2.26 Case Example 3 provides an example of how Network Rail manages this type of procurement while **Case Example 4** compares the Prison Service's approach to that adopted by the Irish Health Service Executive.

CASE EXAMPLE 3

Catalogue Management at Network Rail

Like the Prison Service, in 2006 Network Rail went live with an e-procurement function based on online catalogues with 11,000 users dispersed around the country. Network Rail use performance information to assess the level of purchase volumes being made through the catalogues compared to overall purchase volumes, and the extent of expenditure compared to overall expenditure. Network Rail have recorded that 72 per cent of all Purchase Orders go through catalogue requests, compared to the Prison Service's 58 per cent. Network Rail have saved money with iProcurement through five drivers: improved prices, better compliance, prompt payment, superior management information and efficiency in processing transactions. Their tracking of savings in processing transactions is a key element of their strong performance in catalogue management.

While Network Rail have an enforced discipline of buyers systematically rejecting non-catalogue requests if the supply could be covered by catalogue, the Prison Service is reliant upon the diligence of its Purchase to Pay staff to identify these cases and follow up compliance. At present this team has 59 staff handling 137,000 transactions a year. The process also relies on users complying with requests to use catalogues.

2.27 On the basis of our analysis of external comparator organisations, we consider that the Prison Service could make financial savings on the £107.5 million of expenditure that is incurred outside nationally mandated contracts. The Prison Service could also make savings through a better alignment of this expenditure with existing central strategies for the procurement of a range of goods and services (see Part 3), and reductions in administrative costs. The Prison Service could make greater use of the potential functionality of the Enterprise Resource Planning system. For example, the Prison Service could record supplier quotations to enable comparisons nationally and to provide opportunities for making more use of category controlled expenditure.

CASE EXAMPLE 4

A comparison of Non Catalogue Requests and Assisted Buying at the Prison Service and the Irish Health Service Executive

We compared the Assisted Buying function within the Prison Service to that of the Irish Health Service Executive. The two organisations have a similar expenditure profile (on items such as food, linen, uniforms, mattresses etc) and organisational structure, with a central procurement unit supporting an establishment network in multiple locations.

Both the Prison Service and the Irish Health Service Executive are developing their plans for assisted buying. However, the Irish Health Service Executive has more of a focus on obtaining better value from this activity:

- their assisted buying team is part of the procurement function and its objectives and strategy are therefore aligned;
- the IHSE's performance measures include targets for finding savings through identifying repeat items that could be obtained through central contracts or catalogues; and
- both new and standing supplier data is centrally coordinated, helping to prevent a proliferation of new suppliers and allowing the IHSE to route more of its expenditure through its preferred suppliers.

Key facts	HMPS	IHSE
Expenditure through this route (£000)	£107,500	£78,900
Expenditure through this route/ total expenditure	24%	8%
Planned savings (£000)	none	£7,890
Number of Full Time Equivalent Staff (FTEs)	59	40
Average expenditure per FTE (£000)	£1,822	£1,973
Average planned savings per FTE (£000)	None	£197

2.28 The Prison Service has made effective use of the Government Purchasing Card, with £19.2 million (4 per cent) of transactions being undertaken through this procurement route in 2007-08. We found evidence of good practice in the Regional Procurement Units in their dealings with expenditure with contracted suppliers that was not conducted through catalogues, a significant use of catalogued items, and in making representations to the card supplier to provide management information that is more aligned with the Prison Service’s category expenditure approach.

2.29 Overall we found that the Prison Service has developed a strong Acquisition Model which has significantly improved value for money. This is being undermined by the weaknesses we have identified in the amount of procurement expenditure that is being routed through the Purchase to Pay teams who do not have the evidence to demonstrate that they are achieving best value for money.

The Management of Suppliers

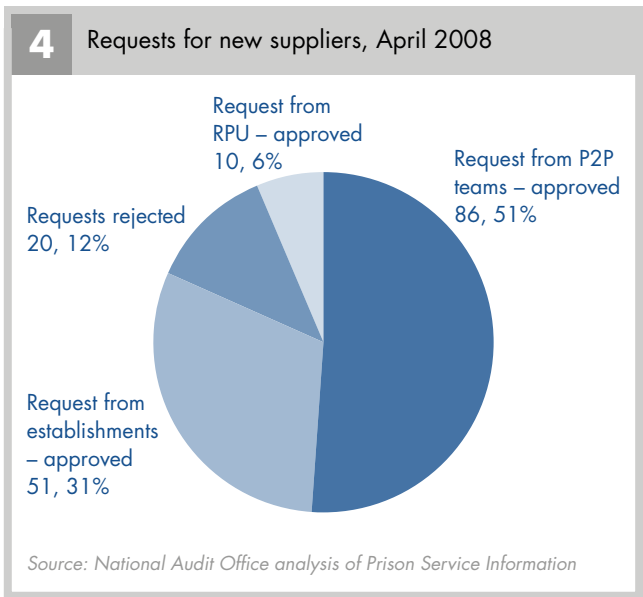
2.30 Managing suppliers effectively is a key part of any successful procurement organisation. Following implementation of a category-based procurement model and the establishment of the Specialised Procurement Unit, Prison Service procurement staff have generally been able to develop significant expertise in supplier relationship management. This expertise is reflected in the job descriptions for operational procurement staff and in the amount of time (between 25 and 40 per cent) that operational procurement staff spend on managing supplier relationships and post contract performance.

2.31 We found evidence of pro-active supplier management during our visit to the Specialist Procurement Unit, but some inconsistencies in approach at the Regional Procurement Units, with a more limited focus on commercial performance criteria as evidenced in key performance indicators. Procurement practitioners at the Regional and National Procurement Units stated that key performance indicators were set by policy staff and focused on technical performance rather than commercial performance and continuous improvement. Sixty nine per cent of those surveyed said they did not understand the targets in place for managing supplier performance.

2.32 At present the full functionality of the Enterprise Resource Planning system is not being used in supplier management. Supplier performance information is not automatically captured and disseminated through the system, and a manually updated spreadsheet is used in its place to capture supplier contract information. This increases the risk of inconsistencies and errors in the collection of data which can reduce the value of the management information produced.

2.33 Reducing the number of suppliers is an important objective for any procurement organisation and is a key driver of performance for the Prison Service. However, we found that 1,611 requests for new suppliers were approved between 01 April 2007 and 30 April 2008. We conducted an analysis of new supplier requests received in April 2008 (Figure 4) and found that the vast majority of approved requests were from the Purchase to Pay teams or from prisons. In practice new supplier requests were only rejected if they were found to be duplicates of suppliers already on the system.

2.34 We found that the list of individuals who could authorise the creation of a new supplier was two years old and contained 980 names; membership of this list also made it possible for individuals to create orders at the same time as new suppliers. This list was largely made up of prison staff who can therefore retain an element of control over which suppliers the Prison Service trades with. The Prison Service has now amended this procedure with effect from 1 July 2008 to ensure that only staff in the Procurement Group and Purchase to Pay teams can approve new suppliers. The Prison Service is in the process of removing nearly 9,000 suppliers from its list. Having now restricted the number of individuals who can approve new suppliers this process should not be undermined by continual inappropriate additions being made.



2.35 We found that the Prison Service's management of suppliers was above the average performance of other organisations. The key areas for improvement are the need for more pro-active management of contracts in some cases and to introduce more automated tracking and reporting of supplier performance.

Supporting Technology

2.36 The Prison Service has made substantial progress in implementing a technology strategy that supports its use of the Acquisition Model. The system empowers procurement to influence the channelling of demand to commercially appropriate suppliers. The online catalogues are accessible and actively used by all prisons, and managed to achieve lower transaction costs and a faster supply process.

2.37 There remain some weaknesses that the Prison Service could resolve. There is a manual process in place for creating and maintaining supplier catalogues which can be prone to errors. Additionally, when catalogues expire there have been instances of manual ordering occurring before updates have been made.

2.38 There is inconsistency between the way expenditure data is classified on the Prison Service's Enterprise Resource Planning system, the categorisations used on a day-to-day basis by the Prison Service procurement function, and the approach adopted by OGCBuying.solutions. As a result the Prison Service is not always making full use of the management information it has available.

2.39 The Prison Service is aware that the more sophisticated its analysis of its expenditure, the more ability it will have to measure, predict and control expenditure and the more certainty it can provide to suppliers in the volume of items it will need. Setting up this analysis will be challenging because it will depend upon extracting information from a number of different systems and it will have to be based upon OGCBuying.solutions's definitions. If the Prison Service can work with OGCBuying.solutions to adopt such common classifications its expenditure data will be more comparable both historically and externally.

2.40 Overall we found that the Prison Service's technology supporting its procurement function was of above average quality, with a particular strength being the automated requisition to pay function. Further benefits could be achieved through improving performance management information and the recording and use of supplier information, and over time by making more use of the data on expenditure that it already generates.

PART THREE

Scope for further savings from Prison Service procurement

3.1 This part of the report identifies some areas where there could be scope for the Prison Service to achieve further savings from some aspects of its procurement activity.

Streamlining non-catalogue procurement

3.2 As noted in paragraph 2.24, in 2007-08, the Prison Service spent £107.5 million on items which were purchased through the Purchase to Pay team route of the Acquisition Model. The main objective of staff working in this team is to ensure that prisons' requests for items are met as soon as possible followed by the need to achieve best value for money. The Purchase to Pay staff are required to ensure that the item requested is not already covered by a central contract or a catalogue, but this check can be difficult and time consuming for staff and does not always happen. If the Purchase to Pay staff accept the requisition, they are to obtain three quotes for any item that will cost over £2,000. They are required to accept the quote that provides the best value for money and should record any savings they may identify from their work on manual returns. This is outside the Prison Service's automated systems and may mean that any savings identified are being lost. As a result it is not possible to assess whether they are obtaining the best possible prices for items.

3.3 We analysed the £107.5 million of annual expenditure made through the Purchase to Pay team. We found that £23.3 million of this total is spent with some of the Prison Service's largest existing suppliers already under contract, but outside of those contractual arrangements. If this procurement expenditure were re-routed through these contracts and catalogues, we estimate that it may be possible to achieve savings of between three and five per cent.

3.4 The remaining £84.2 million of expenditure was spent with suppliers currently outside of the Prison Service's top cadre of suppliers. Directing at least a proportion of this expenditure to existing, preferred suppliers could also result in the Prison Service obtaining lower prices through the better negotiated terms, potentially leading to savings of between five and eight per cent in these areas.

3.5 The Prison Service has told us that it intends to produce an improvement plan in October 2008 that will both increase the proportion of the expenditure of £107.5 million that is routed through its existing catalogues and make proposals to increase the amount of this expenditure being spent with the Prison Service's existing top suppliers.

3.6 In addition, directing requisitions through the established acquisition channels would generate administrative savings for the Prison Service since handling transactions through the Purchase to Pay teams costs approximately twice as much as handling requisitions through central contracts or catalogues. We consider that a reasonable target would be to reduce the number of transactions being routed through the Purchase to Pay team by a minimum of a half.

3.7 We also consider that further savings will be possible in future years as Purchase to Pay staff carrying out assisted buying develop their skills in identifying cost savings and improve their joint working with expenditure category leads. Evidence from other organisations we examined indicates that some of them are targeting savings of up to 10 per cent from the effective management of this type of procurement activity. **Figure 5** summarises the possible savings that the Prison Service may be able to generate from making improvements to this element of its procurement.

5 Estimate of savings to be generated from streamlining procurement undertaken through the assisted buy channel

Non Catalogue Request Expenditure	Expenditure (£m)	Potential Savings	
		Lower Estimate (£m)	Upper Estimate (£m)
with core HMPS suppliers	23.3	0.7	1.1
with non-core HMPS suppliers	84.2	4.2	6.7
Total (year 1)	107.5	4.9	7.8
Year 2		3.4	5.5
Year 3		2.4	3.8
Total over three years		10.7	17.1

Source: National Audit Office analysis of Prison Service Information

Further savings could be generated by examination of all main categories of expenditure

3.8 The Prison Service divides its procurement into categories of expenditure such as Food, Utilities and Transport. **Figure 6 overleaf** shows the level of expenditure incurred by the Prison Service in each of its individual categories for the 12 months to 31 March 2008. It shows that the top 14 categories accounted for over 80 per cent of the Prison Service's expenditure as recorded on its Oracle system.

3.9 The Prison Service has already undertaken substantial work on a number of its categories of expenditure to improve value for money or has entered into collaborative contracts with OGCBuying.solutions or with other Government Departments. This work has enabled it to make significant savings on a number of its highest categories of expenditure including Prison Shop Supplies, Utilities, and Clothing and Equipment. Our analysis established that £322 million (72 per cent) of the total expenditure of £449 million is already covered by central contracts and is likely to be providing good value for money. The remaining £127 million of the service's expenditure is not currently covered by these central contracts.

3.10 We examined eight of the categories in more detail, Food, Works Services, Building Services, Office Equipment, Industries Materials and Agency temporary staff, Transport and Recruitment to consider the scope for further savings. The Prison Service considered that the potential for generating further savings was limited, but accepted that there might be scope to identify some further savings from introducing further competition into some of its more minor categories of expenditure.

3.11 In particular we identified potential for savings in the expenditure it is currently incurring on Works Services and Buildings Services. The Prison Service considers that one way to identify the scope for more substantial savings in the future is to consider outsourcing part of its procurement function, in particular transport and logistics.

6 Prison Service Category expenditure 2007-08¹

Category	Total value 07-08 (£000)	% of total	Cumulative (%)
Top 14 Categories – 81% of expenditure			
Catering	59,936	13.9	13.9
Prison Shop Supplies	52,251	12.2	26.1
Works Services	45,719	10.6	36.7
Utilities	45,374	10.6	47.3
Probation Services	26,742	6.2	53.5
Drugs Workers	21,276	4.9	58.5
Building Services	15,909	3.7	62.2
Industries Materials	15,465	3.6	65.8
Clothing & Equipment	14,750	3.4	69.2
General Services	12,775	3.0	72.2
Agency Staff	9,452	2.2	74.4
Education Services	9,363	2.2	76.5
Office Equipment	9,157	2.1	78.7
Cleaning/Hygiene	8,527	2.0	80.7
Remaining Categories – 19% of expenditure			
Communications	8,450	2.0	82.6
Consultancy	8,280	1.9	84.6
Transport	7,945	1.8	86.4
Training Services	7,299	1.7	88.1
Resettlement	7,062	1.6	89.7
Conference facilities & accommodation	5,872	1.4	91.1
Industries Equipment	5,260	1.2	92.3
Health Care	4,888	1.1	93.5
Recruitment	4,884	1.1	94.6
Occupational Health Services	4,472	1.0	95.6
IT Specialist Equipment	4,112	1.0	96.6
Prison Shops	3,958	0.9	97.5
Environmental	3,936	0.9	98.4
Prison Security	3,213	0.7	99.2
Visitor Centres	1,524	0.4	99.5
Performance Recognition	1,018	0.2	99.8
Audio Equipment	479	0.1	99.9
Subscriptions	250	0.1	99.9
Staff Mess	231	0.1	100.0
Total	429,829	100.0	

Source: HM Prison Service

NOTES

We stratified the expenditure categories to those 14 making up the first 81 per cent of expenditure, and the remaining 19 covering 19 per cent. We focussed our detailed work on savings to be made from six specific categories from the top 14, with a further two selected from the remainder.

¹ This does not include the £19.2m of expenditure on the Government Procurement Card in 2007-08.

APPENDIX ONE

Methodology

The fieldwork for this study was carried out on our behalf by our strategic partner Accenture between April and June 2008. Accenture have significant expertise in procurement practice in both the public and private sector and in reviewing procurement functions. Accenture provided a main team of two staff who worked full time for the NAO during the period, with further support provided on a regular basis by a senior procurement professional.

The study examined the following areas

- whether the Prison Service had successfully implemented the ten recommendations made by the NAO in our report *Modernising procurement in the Prison Service*, and the nine recommendations in the subsequent PAC report;
- a comparison of the Prison Service's procurement practice, subsequent to its procurement reforms, to external practice in the public and private sector; and
- work to identify areas where additional financial savings could be made.

Interviews with procurement staff

Accenture conducted semi-structured interviews with 29 staff from the Prison Service's procurement function. The interviewees were selected from the strategic and the transactional procurement teams to ensure all aspects of expenditure management were covered. Selection of staff was based around the following factors:

- those who had ownership of, and involvement in, key expenditure categories as defined from an analysis of expenditure;
- to ensure coverage of staff across the range of procurement roles; and
- to ensure coverage of all the Regional Procurement Units, the National Procurement Unit and the Shared Services Centre in Newport.

The interviewees included the Chief Procurement Officer, the Heads of the National, Regional and Specialist Procurement units, the Regional Procurement Unit managers, and operational staff with responsibilities for key expenditure categories across the Prison Service. The interviews focused on issues relating to:

- the development and delivery of the procurement strategy;
- the achievement and documenting of value for money;
- the procurement procedures, technology infrastructure and practice in place;
- relationships with internal stakeholders and the internal environment for Prison Service procurement; and
- relationships with suppliers and the approach to tendering and letting contracts with major suppliers.

The interviews sought to understand the key internal and external factors influencing procurement performance and the important issues affecting the function's ability to achieve value for money for the Prison Service.

Interviews with internal and external stakeholders to the procurement process

The team also interviewed a selection of stakeholders in the procurement process. These included:

- Senior staff responsible for setting policy and for approving specifications for bought out goods and services within the Prison Service. Our interviews with these groups explored procurement's contribution to the processes of involving suppliers in specification setting, cross functional decisions on supplier selection and in influencing technical colleagues in achieving value for money.
- Representatives from the Office for Government Commerce to assess the interaction of Prison Service procurement with OGCBuying.solutions relative to other public sector procurement operations.

The team also conducted a review of stock holding practice and distribution operations at the Prison Service's National Distribution Centre in Branston.

Surveys of operational procurement staff and of establishment staff covering a further eleven establishments

We conducted two surveys. The first survey was of 50 procurement practitioners which was designed to augment our interviews and data analysis. A representative cross section of strategic and transactional staff across the procurement units was selected. The surveys were completed during May and June by these staff via the internet, with a response rate of 78 per cent.

The survey was split into two parts, with the first requiring information on respondents' roles and responsibilities within the Prison Service, and the second part asking respondents to rate seven different aspects of the Prison Service's procurement function. Each of these seven aspects was assessed through a number of sub-questions on a sliding scale.

The second survey was of a sample of prison staff. This was a telephone survey and encompassed operational, finance, works and stores staff. It focused on four aspects of prison operations relating to procurement:

- perceptions and impact of the procurement strategy and acquisition model;
- inventory management at prisons;
- the role of costs and procurement savings for prisons; and
- views on supplier liaison and performance.

The survey had 20 responses, a response rate of 80 per cent.

Visits to three prisons and the Prison Service National Shared Service Centre

The team visited three prison establishments – Wandsworth, Leyhill and Leeds - to understand front line staff's perceptions of procurement and supplier performance and to observe the supply chain arrangements in prisons. The three prisons were selected on the basis of prisoner numbers, inventory holdings, and budgeted expenditure and to ensure some coverage of those prisons featured in the 2003 report on *Modernising procurement in the Prison Service*. We met with the heads of finance in each prison as well as representatives from catering, works and stores departments. Our interviews focused on the provision of the procurement service to prisons under the new, remote arrangements and on the issues of prime concern to establishment staff.

The team also visited the national shared services centre at Newport and the transactional procurement teams co-located with the regional procurement units, to interview and observe staff involved in the Purchase to Pay process. This fieldwork sought to assess their interactions with the procurement function and with suppliers, and to observe the operational practice of fulfilling demands from prisons for non-catalogue requests. We interviewed:

- the head of the Purchase to Pay function;
- the head of the accounts payable function;
- the trade database team leader responsible for maintenance of supplier account details; and
- a selection of regional transaction staff and team leaders.

Review of documentation and data analysis

The study obtained published information and data extracts from the Prison Service's financial systems. This information was used to inform interviews and validate the findings from the interviews and surveys.

There were two aspects to this work:

Expenditure Analysis: information on expenditure, classified by procurement category and supplier was taken from the Prison Service's financial system. The team used this data to conduct a structured assessment of external expenditure to estimate potential savings opportunities within categories of procurement expenditure, by comparing the results to external procurement practice.

Activity and Performance Analysis: a review of documentation and data files covering strategy, procurement policy, processes and performance in the Prison Service. The team undertook quantitative and qualitative analyses of these files to identify trends in activity, the tracking of effectiveness and indicators of critical performance for Prison Service procurement. The results were validated against findings from surveys and interviews.

A comparison of Prison Service procurement with external practice

The study compared procurement practice within the Prison Service to high performing organisations in procurement in six areas:

- Procurement Strategy
- Structure and Staffing
- The Sourcing of Goods and Services
- Management of the Acquisition Model routes
- The Management of Suppliers
- Supporting Technology

The methodology is based on Accenture's "High Performance in Procurement" Model. Accenture have collected data from 225 organisations internationally on the compatibility of those organisations' procurement functions with 160 criteria under the six areas above. For example, areas for assessment under the management of suppliers were whether organisations had a partnership approach with suppliers, and whether they worked with suppliers to develop superior products during tendering processes.

By comparing the degree of compliance with these assessment criteria in these organisations, Accenture have identified their characteristics of low, mid-range and high performers in procurement. The methodology for assessment of adherence to best practice works on the assumption that the closer organisations are to meeting the criteria commonly exhibited by the best practice organisations (the top 16 per cent), the stronger their procurement functions and the greater savings they will make. Similarly, the more organisations fall short of these standards the greater scope there is for savings through reform.

The Prison Service's procurement function was therefore compared to these 225 practitioners across the public and private sectors in a number of countries. The results of the review have enabled us to identify the key areas that the Prison Service can choose to focus on to improve its procurement performance, and based on comparisons of the efficiency of previously assessed procurement functions, we could estimate potential savings that could be achieved through such improvements.

During our review we liaised with the OGC, which is also undertaking Procurement Capability Reviews across the public sector. We ensured we considered the assessment criteria used by the OGC, and where appropriate shared the results of our review to help inform their work.

APPENDIX TWO

Progress against NAO and PAC recommendations

Ref No.	Recommendation	Implementation Status	Comments
1	Each prison at local level should designate someone with clear responsibility, and authority, other than the Governor, for the efficient and effective management of all procurement, for example, deciding the proper balance between central and local purchasing, ensuring that Prison Service guidance on management controls is followed and management information scrutinised.	Implemented	The implementation of a central procurement function and the acquisition model, supported by structured delegations of authority in the ERP system, has effectively met this requirement. By channelling requirements to local stores, a range of negotiated supplier catalogues, a purchasing card, or to a team of staff tasked with obtaining competitive quotes, demand is substantially routed through authorised procurement.
2	As part of its performance management arrangements, the Prison Service should routinely hold each prison accountable for its procurement performance and for driving forward Service-wide initiatives in procurement.	Substantially implemented. The rest of the recommendation is no longer relevant.	<p>In the current procurement model responsibility for procurement performance lies with the Prison Service Procurement team. Prison Service Procurement are accountable for the selection of, and contracting with, suppliers.</p> <p>All prison staff interviewed and surveyed through our study agreed that prison staff now had responsibility for upholding the model.</p> <p>In addition, prison staff felt they were able to reflect any procurement related savings in their operating budgets.</p>
3	The Prison Service should seek regular feedback from prisons on the cost and quality of goods and services offered through National contracts, and with prison establishments, determine whether local supply is more cost effective, taking into account administrative costs as well as the cost of items purchased.	Substantially implemented, Further action recommended	<p>The prison staff interviewed largely felt that the mechanism for them to provide feedback on procurement and supplier performance was adequate. Examples still exist of prison staff claiming that local suppliers represent better value for money than National contracts.</p> <p>Prison Service procurement practitioners work with prison staff on supplier related issues. There is currently no systematic process for involving prison staff in price, service and quality benchmarking on key expenditure categories.</p>

Ref No.	Recommendation	Implementation Status	Comments
4	The Prison Service should routinely seek feedback from prisons at local level and suppliers on the performance of its central contracting and procurement team, seek views on potential service improvements, and ensure that arrangements for seeking feedback on the performance of central contracts and suppliers are working quickly and effectively.	Substantially implemented	See comment on recommendation 3 above for prisons. Examples exist of supplier service reviews, e.g.: cross functional reviews with foods and consumables suppliers.
5	The Prison Service should reduce the administrative cost of procurement by simplifying procedures at establishment level, possibly by creating central procurement teams at establishment or local level where this can be shown to be cost effective.	Implemented	The reforms implemented by the Prison Service have addressed this recommendation. The implementation of the acquisition model has moved tactical and strategic sourcing of supplies to the central specialist procurement teams and away from prisons. More administrative procurement functions are now performed in the regionally based Purchase to Pay teams and the Newport shared service.
6	The Prison Service should review current usage of the Government Procurement Card, identify those activities where its use has been cost effective, and set expectations on its use and the achievable cost savings for each prison.	Implemented	Use of the Government Procurement Card is an integral route in the acquisition model. Our audit found evidence of effective exceptions management of use of the procurement card, with regional procurement teams addressing instances where other channels would have been more appropriate.
7	The Prison Service should determine how it can better incentivise Prison Governors to realise cash savings through better procurement practice, and to utilise the savings more effectively on key objectives such as initiatives to reduce prisoner re-offending.	Substantially implemented. Further actions recommended	With the implementation of the revised procurement strategy and the acquisition model the decision making regarding procurement practice has moved away from Prison Governors to central procurement function. Responses from prison staff surveyed indicated that finance staff felt able to re-direct budget funds to other areas of their choice if they experienced an under-expenditure on overall budgets. However, awareness of savings achieved on supply contracts and of the financial benefits of these to prisons was low among prison staff.
8	When negotiating all new central contracts, the Prison Service should evaluate the potential cost savings to be derived from making contracts mandatory for prisons at local level, building on recent good practice with the national grocery contract.	Substantially implemented. Further actions recommended	We have found evidence of cost and benefits analysis during planning across several categories and procurement projects, in particular the projects undertaken by the Specialist Procurement Unit (e.g.: foods). However, the application of this is inconsistent nationally and awareness of addressable expenditure and potential savings was lacking amongst several procurement project owners we interviewed. Although ad hoc reviews occur, no systematic scheduling of consumption comparisons and achieved costs of goods and services occurs.
9	Where central contracts are not feasible, the Prison Service should review the scope for greater use of contracts involving groups of prisons at local level.	Substantially implemented. Further actions recommended	As at May 2008 over 72 per cent of relevant expenditure was under the management of the central procurement function. The Prison Service intends to increase this further.

Ref No.	Recommendation	Implementation Status	Comments
10	The Prison Service should improve communication with its suppliers, by drawing upon their knowledge of recent developments in the supply of goods and services, giving them regular feedback on their performance, and wherever possible reducing uncertainty.	Substantially implemented. Further actions recommended	<p>We have found evidence of effective supplier engagement at several levels within HMPS procurement.</p> <p>Before contract award the Prison Service have consulted suppliers for advice about supply market trends (e.g.: uniforms contracts). This advice has been included in tendering activity to increase the pool of potential eligible suppliers.</p> <p>The management of existing contracted suppliers in key areas includes processes to assess performance and to assess the cost competitiveness of the supplier relationship. This activity has not been comprehensively applied to all categories and there remains some potential for the Prison Service to achieve lower acquisition costs and to influence specifications in some categories.</p>
11	The Prison Service should include output and, where possible, outcome targets in all contracts with suppliers providing services contributing to the rehabilitation and resettlement of prisoners.	Substantially implemented. Further actions recommended.	The procurement function has made progress in increasing their role and influence in the management of providers of services for reducing offending. This has been enabled through positive engagement of the policy owning stakeholders and has resulted in central procurement influencing specifications and the supplier selection process. This process will be completed when all such contracts are under the control of the Procurement Group.
12	The Prison Service should reduce its stock holdings by setting benchmarks for the maximum amount of stock that may reasonably be kept by prisons at local level, taking account of potential fluctuations in the rate of demand.	Appropriate plans in place	<p>The 2003 Modernising Procurement report suggested that reducing inventory to levels of three months' worth of supplies would yield an inventory value of £35.6m. By 2007 the Prison Service had reduced the inventory to £34.7m. The Prison Service began a roll out of its new inventory module within the Oracle ERP system in June 2008 to be completed by December 2008. A review of the scope and objectives of this project indicates that it will provide visibility for most of the physical products delivered to prisons (excluding works and perishables such as food).</p> <p>The inventory project includes a principle of minimum and maximum stock holding levels for all in scope items; these will constitute stockholding levels at establishment level and will enable the future monitoring of consumption and demand management.</p> <p>Appreciation of the objectives and benefits of this initiative amongst prison staff was high.</p>
13	The Prison Service should review the level of demand and supply lead time for the main expenditure items within prisons, and use the outcome to set stockholding targets for its establishments, monitoring prison performance against the targets.	Appropriate plans in place	
14	The absence of stock records altogether in some stock rooms, the lack of independently held records in other stores, and infrequent physical stock checks increase the risk of fraud and error. The Prison Service should put in place adequate stock recording systems wherever stocks are held, but look to reduce the administrative impact by rationalising the number of store locations.	Appropriate plans in place	

Ref No.	Recommendation	Implementation Status	Comments
15	The Prison Service should monitor the use made of common items across prison establishments, and investigate the reasons for any anomalies in usage rates, to reduce unnecessary expenditure.	Fully implemented	The procurement function have enabled over £88m of annual expenditure through online catalogues. The extent of actual volumes transacted through these catalogues against planned consumption is routinely monitored by central procurement.
16	The Prison Service, at National and local level, should review periodically the consumption of goods and services against levels in other similar establishments and take action to deal with excessive over use.	Fully implemented	
17	The Prison Service should implement the recommendations made by its waste audits, where these can be shown to be cost effective.		Outside the scope of our review
18	Whenever major capital works are planned for individual prisons, the Prison Service should consider whether the number of existing stores on-site could be reduced to secure more efficient stock management, including holding stock off-site.		
19	In seeking to deliver its new IT system on time and on budget, the Prison Service should refer to the lessons set out in our predecessor Committee's Report, Improving the Delivery of Government IT Projects.		

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