



House of Commons

Committee of Public Accounts

Modernising procurement in the Prison Service

**Forty-first Report of
Session 2002–03**



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

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The Committee of Public Accounts

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Summary

In 2001–02, the Prison Service's 128 directly managed prisons in England and Wales spent £461 million on supplies essential to their daily running, including prisoners' food and clothing, and services ranging from maintenance and waste removal to the delivery of education and drug programmes. Prison Service headquarters spent a further £491 million on central projects and services, such as construction and information technology.

In 1998, an internal Prison Service review criticised aspects of procurement in prisons, including the high levels of stockholdings and poor use of purchasing power. In response, the Prison Service undertook to involve more senior staff in the management of procurement, centralise some procurement activities within headquarters, recruit qualified procurement staff, and better monitor performance.

By improving efficiency in its own administrative arrangements, the Prison Service could increase the resources devoted to its key objectives. For example, our Report *Reducing Prisoner Reoffending*,¹ made a number of recommendations to strengthen the Prison Service's programmes for rehabilitating and resettling prisoners with the aim of reducing the risk of reoffending.

On the basis of a Report by the Comptroller and Auditor General,² we took evidence from the Prison Service on the progress made in modernising procurement of goods and services required for the day to day running of prisons.

Our main conclusions are:

- The procurement of goods and services within the Prison Service is fragmented and costly to administer. Some 2600 staff, equivalent to 1,170 full-time posts, are involved in procurement at an overall cost of over £23 million. This number equates to 10 full time staff engaged on procurement activity within each prison. Stock holdings at March 2002 were some £47.6 million.
- By reducing stock levels to three month's supplies, the Prison Service would free up resources of around £12 million, but scope exists to reduce stock levels even further. The Prison Service should rationalise purchasing activity, for example by making greater use of central stores, and by combining procurement activity and stores where prisons are clustered within reasonable distances of each other.
- The Prison Service's ability to achieve significant efficiency gains is hindered by the absence of adequate information technology systems. Such systems would provide headquarters' staff and Prison Governors with better management information on, for example, stock levels, stock turnover rates and prices across the Prison estate. The Prison Service estimates that some £9 million could be saved but does not expect to have suitable systems in place before 2005.

1 53rd Report from the Committee of Public Accounts, *Reducing Prisoner Reoffending* (HC 619, Session 2001–02)

2 C&AG's Report, *Modernising Procurement in the Prison Service* (HC 562, Session 2002–03)

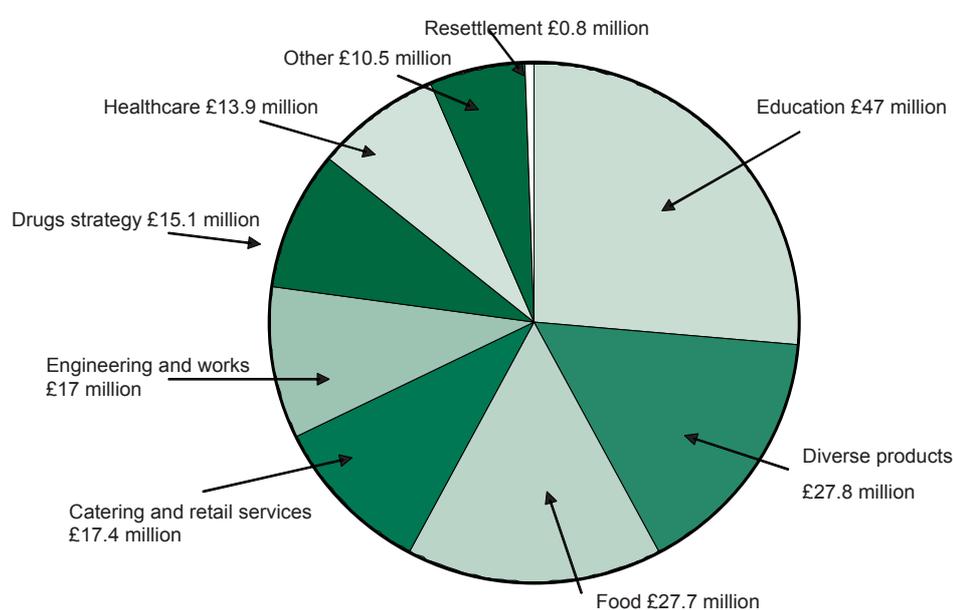
- The Prison Service should draw on the procurement practices of public and private sector operations facing similar challenges, for example hospitals, hotels and private prisons to improve its own practices. Some private prison operators, for example, hold main stores off-site, giving greater flexibility on delivery times and reducing security risks, and make greater use of centralised ordering.

1 Improving procurement practice

1. Between 1998–99 and 2001–02, prison expenditure on supplies for daily running rose from £339 million to £461 million, an increase of £122 million (36%). Over the same period prisoner numbers increased by 2.7%. The Prison Service attributed £25 million of the increase to inflation and £19 million to the impact of Private Finance Initiative charges relating to new prisons, which include an element for the cost of capital. Most of the increase was, however, due to extra expenditure on priority activities such as maintenance (£21 million), medical services (£15 million), drug treatment (£14 million), education (£10 million) and security (£2 million).³

2. Each of the 128 prisons managed directly by the Prison Service is headed by a Governor with delegated authority to buy goods and services required to maintain and operate each establishment. To make use of its purchasing power, a central procurement team at Prison Service headquarters maintains central call-off contracts from which prisons can order goods and services. In 2001–02, the Prison Service spent some £177 million through centrally co-ordinated contracts, equivalent to 38% of total expenditure on goods and services (**Figure 1**). In the same year, the Prison Service estimated that centrally negotiated contracts had led to savings of £5.76 million. Other goods and services are purchased under local contracts. Supplies from contracts are supplemented by products from the Prison Service’s own industries. Such items, mainly prisoner clothing and equipment, are stored centrally at Branston, Burton on Trent.⁴

Figure 1: The annual value of contracts managed by the central procurement team in 2001–02



Note: Diverse products include materials for internal industries, office products and clothing

Source: HM Prison Service

³ Qq 19–20, 109; C&AG’s Report, Figures 1–2

⁴ C&AG’s Report, paras 1.2, 3.4 and Figure 10

3. Seventy-four centrally negotiated contracts were in place during 2001–02 for use by prisons across England and Wales. A survey by the National Audit Office found, however, that 70% of prisons continued to purchase goods under contracts set up locally rather than obtaining goods directly from centrally negotiated contracts. The Prison Service noted that only four of the national contracts were mandatory with a total value of £16.75 million, covering cleaning and hygiene, groceries, photocopiers, and dog food. The central procurement team had sought to encourage prisons to buy into national contracts voluntarily but now expected to make 40 high value contracts mandatory during 2003–04. The central procurement team had made progress in renewing national contracts, and had sought to take account of prisons needs. The Prison Service accepted that further improvements were needed if prisons were to make full use of the centrally negotiated contracts.⁵

4. In some areas, for example the provision of education services, the Prison Service has yet to build in targets for the outcomes or outputs to be achieved. Education contracts were, however, coming to an end and were due to be retendered. The objectives of the new education contracts would be to provide basic skills, school based curriculum, vocational learning and distance learning. The Prison Service intended to introduce output targets based on educational achievement into the new contracts, with flexibility to change the targets as the services evolved.⁶

5. The Prison Service had benchmarked its procurement operations against the performance of prisons operated by the private sector, although they were relatively small-scale operators compared to the Prison Service. Group 4, being one of the largest private operators, had three prisons compared to the Prison Service's 128 prisons. The benchmarking had shown that across a range of 47 expenditure areas, Group 4 had spent on average £936 per prisoner, compared to £1,777 per prisoner within the Prison Service. Prison Service expenditure, however, included some £620 per prisoner on maintenance of the prison estate, which the Prison Service considered reflected the estate's age. The Prison Service also considered "like for like" comparison of spending in public and private prisons to be difficult because of differences in the way public and private prisons accounted for certain costs.⁷

5 Qq 9, 56, 61; Ev 16; C&AG's Report, paras 3.8–3.9

6 Qq 145–147; Ev 18

7 Qq 4, 45–47; Ev 16

2 Reducing stock levels

6. The Prison Service's 1998 review of purchasing had found that stockholdings were high. In response, the Prison Service asked each prison to make reductions of between 25% and 35%, based on the average stock levels across the estate. Stock holdings fell subsequently by £15 million, from £62.7 million in March 2000 to £47.6 million in March 2002. The Prison Service acknowledged, however, that pockets of resistance remained, and some senior management teams were ambivalent to the importance of good stock control. The challenge was to win over area managers and Prison Governors. The National Audit Office estimated that if stock levels were maintained at around a maximum of three months worth of supplies a further stock reduction of £12 million could be achieved. The Prison Service acknowledged that stock reductions below this level could be achieved with sharper management, thereby releasing resources.⁸

7. Some prisons order large amounts of routine items, for example sweatshirts, T-shirts and boxer shorts (**Figure 2**). Variations arose from factors such as the type of prisoner held. Remand prisoners, for example, usually wore their own clothes and their stay in prison was generally shorter, increasing the need to re-use or acquire items such as sheets and blankets. The National Audit Office had found that about two thirds of the variation could be explained in this way. The Prison Service acknowledged that anomalies in usage existed between prisons. Some prisoners misused items and in searching cells prison staff looked for excess kit, for example. The Prison Service expected anomalies in usage levels to be identified faster in future, with greater attention to procurement performance at local level.⁹

8 Qq 34–35, 105; C&AG's Report, paras 1.7, 2.2–2.3, 2.6

9 Qq 6, 91–92; C&AG's Report, para 2.14

Figure 2: Variations in stock used by prisons

Many of the variations in stocks used can be explained by the type of prisoner held at each establishment. Prisons with a high turnover of short stay prisoners and those institutions housing prisoners more difficult to control are likely to require larger amounts of clothing. The extent of variation identified by the National Audit Office included:

- **Boxer shorts.** During 2001–02 the Prison Service’s central store at Branston issued 430,000 pairs of boxer shorts worth £870,000. On average, 4,170 pairs of shorts were issued to each establishment, equivalent to 6 pairs for each prisoner place. The Young Offenders Institution at Wetherby received 37 pairs per prisoner place. Other prisons issued with high numbers of boxer shorts per prisoner place included Rochester (26), Pentonville (26) and Liverpool (19). The Prison Service believes some of these variations are likely to be because young offenders tend to require more clothing and local prisons have a high turnover of prisoners.
- **T-shirts.** Branston issued over 506,000 T-shirts in 2001–02, costing £1.2 million. On average, around 4,050 T-shirts were issued to each prison, equivalent to 7 items for each prisoner place. Lewes prison ordered 31 T-shirts for every prisoner place and Liverpool the equivalent of 25 for each prisoner place. Both of these prisons have a high turnover of prisoners.
- **Sweatshirts.** Prisons ordered 170,000 sweatshirts, worth over £950,000 in 2001–02. On average, almost 1,400 sweatshirts were issued to each establishment, equivalent to 2.4 sweatshirts for each prisoner place. Buckley Hall prison ordered 11 sweatshirts for every prisoner place and Guy’s Marsh and Portland prisons ordered 10 sweatshirts for each prisoner place. The Prison Service believes that some of these variations had occurred because Buckley Hall had to re-stock when the prison changed from holding male to female prisoners in 2001–02 and young offenders at the other two institutions tend to require more clothing.

Source: C&AG’s Report

8. The Prison Service’s procurement systems are still largely paper based, limiting the amount of information available to managers on procurement activities. Establishments operated by Group 4 had access, for example, to their own centralised ordering systems. The Prison Service was taking advice from experts on how to re-engineer its finance and administrative systems. The Prison Service estimated that it could save £9 million on procurement if a suitable Information Technology (IT) system were in place. A new IT infrastructure had been introduced across all its establishments, and subject to letting a contract, a finance module would be introduced by April 2004. The Prison Service did not expect to introduce a procurement module, however, until April 2005.¹⁰

9. The Prison Service disposes of considerable volumes of waste each year at a cost of £2.3 million in 2001–02. In 1999, the Prison Service had established a Waste Management Team, comprising two staff, to advise prisons on their waste management practices. By March 2003, the team had visited 90 prisons. Only 25 prisons had implemented action plans arising from the visits, with another 33 progressing implementation, at least in part. Typical savings to date had been £30,000 per prison but, in some cases, savings require upfront investment of £10,000–£15,000, to install, for example, secure compounds. The Prison Service expected all prisons to have undergone waste audits by the end of 2003–04, and agreed that more savings could be made from better waste management.¹¹

¹⁰ Qq 4, 11, 40, 64, 98, 104

¹¹ Qq 50–55; C&AG’s Report, paras 2.18–2.20

3 Controlling stocks and administering procurement

10. The Prison Service estimates that around 2,600 staff are currently involved in procurement activities, equivalent to 1,170 full-time posts or almost ten full-time staff engaged in procurement activities in each prison. The administrative cost of the overall procurement operation is about £23.5 million. The Prison Service said that the estimates included people directly engaged in purchasing and stores staff. The Prison Service acknowledged that the number of staff could be reduced but considered that a significant number of stores staff would continue to be needed across the 128 establishments. Few prison officers, who were generally paid more than civilian staff, were now employed on procurement activities.¹²

11. Some 80 of the 128 prisons lie within 20km of each other, but only 38 of the prisons responding to a National Audit Office survey had negotiated local contracts jointly with co-located prisons. Joint purchasing saved staff time on negotiating contracts, and the Prison Service agreed that more purchasing at area or regional level could be put in place.¹³

12. The Prison Service has, on average, around 5 stores for each establishment, excluding subsidiary store rooms on prison sites, for example on prison wings. Fewer stores might reduce administrative costs and improve stock control, and possibly release space to ease pressure on overcrowded prisons. The Prison Service had sought to reduce the amount of stocks held in the forward stores to about 20% of its total holdings. Over the previous year, 24 storerooms had been converted to other uses, of which 3 were returned to prisoner accommodation. Little of the storage space was suitable for cells, being sited, for example, in cellars of Victorian prisons.¹⁴

13. The National Audit Office found that of the 547 different main stock rooms identified in its survey, only 149 had independent stock records kept by finance or procurement staff. Stores staff maintained the records for 327 stock rooms, and 71 stock rooms had no records at all. Nearly half the stores only checked their stock once a year. The Prison Service considered that records were not needed for stores holding items for usage over a brief period provided records were kept by the main prison store. The Prison Service had also sought to balance the costs of stocktakes against the risk of losses. Losses reported by prisons had fallen from £13,800 in 2000–01 to £8,800 in 2001–02. The Prison Service was not aware of any large-scale theft, and suggested that most stock items were not of high value, and would therefore be of little interest to thieves.¹⁵

14. The National Audit Office reported that the three prisons operated by Group 4 kept stores outside the prison, eliminating the security risks faced by prisons when gates have to be opened for deliveries. The arrangement may also offer greater flexibility over when deliveries can be made to main stores. As part of a pilot project, the Prison Service had

12 Qq 2, 63–64, 84–85, 137–138; C&AG's Report, para 4.2; Ev 16–17

13 Qq 77, 100; C&AG's Report, para 3.11

14 Qq 74–75; Ev 16 (Ref to Q 77)

15 Qq 8, 28–29, 83; C&AG's Report, para 2.8

started consolidating the stores for the three prisons on the Isle of Wight into one storeroom, and a similar arrangement was being trialled with three prisons in South Yorkshire, centred on Lindholme.¹⁶

15. The Prison Service introduced use of the government procurement card in 1998. The card is intended to reduce the cost of processing transactions, particularly for large volumes of low cost items. KPMG, who advised the Prison Service, estimated that around 70% of the Prison Service's annual 450,000 transactions below £1,000 were suitable for purchase by the card, saving an estimated £3.8 million a year. Visits to prisons by the National Audit Office had found, however, that only limited use was made of the card. The Prison Service estimated that it was being used for only about 30,000 transactions a year. To date, implementation of the new card had cost £116,000 but savings had amounted to £1.217 million. Some managers had perceived a risk of fraud associated with using the card, and had therefore been reluctant to promote its use. Adequate checks on bills would, however, help prevent fraud. The Prison Service was seeking to reduce the number of small transactions by moving to central and mandatory contracts, reducing the number of transactions suitable for the procurement card. More could, nevertheless, be done to increase its use. The Prison Service planned to review use of the card prior to retendering the card contract, which expires later in 2003.¹⁷

16. Governors may not have sufficient incentives to achieve savings on general procurement activities. The Prison Service said that Governors were allocated resources at the beginning of each financial year, and had discretion on how these resources were used. Compared to other elements of their budget, such as staff costs, savings on procurement were easier to achieve, and hence by making savings Governors could redirect the resources to programmes such as prisoner education. Governors had been keen to have their own procurement operations reviewed by central procurement to achieve improved performance.¹⁸

16 Qq 72–78; C&AG's Report, Appendix 3

17 Qq 10, 149–154; C&AG's Report, paras 4.9–4.12; Ev 18

18 Qq 155–156

Conclusions and recommendations

Improving procurement practice

1. 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.
2. 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.
3. 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*.¹⁹

Reducing stock levels

4. 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.
5. 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 spending.
6. The Prison Service should implement the recommendations made by its waste audits, where these can be shown to be cost effective.

Controlling stock and administering procurement

7. 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.
8. 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.
9. 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.

19 1st Report from the Committee of Public Accounts, *Improving the delivery of Government IT projects* (HC 65, Session 1999–2000)

Formal minutes

Wednesday 2 July 2003

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Mr Ian Davidson
Mr Frank Field

Mr Brian Jenkins
Mr David Rendel

The Committee deliberated.

Draft Report (Modernising procurement in the Prison Service), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 16 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Forty-first Report of the Committee to the House.

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

Ordered, That the provisions of Standing Order No. 134 (Select Committees (Reports)) be applied to the Report.

Adjourned until Wednesday 10 September at 3.30 pm

Witnesses

Wednesday 30 April 2003

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Mr Phil Wheatley, and Mr John Cavell, HM Prison Service

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List of written evidence

1 HM Prison Service

Ev 16

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Third Report	Tobacco Smuggling	HC 143 (<i>Cm 5770</i>)
Fourth Report	Private Finance Initiative: redevelopment of MOD Main Building	HC 298 (<i>Cm 5789</i>)
Fifth Report	The 2001 outbreak of Foot and Mouth Disease	HC 487 (<i>Cm 5801</i>)
Sixth Report	Ministry of Defence: Exercise Saif Sareea II	HC 502 (<i>Cm 5801</i>)
Seventh Report	Excess Votes 2001–02	HC 503 (<i>N/A</i>)
Eighth Report	Excess Votes (Northern Ireland) 2001–02	HC 504 (<i>N/A</i>)
Ninth Report	The Office for National Statistics: outsourcing the 2001 Census	HC 543 (<i>Cm 5801</i>)
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Twelfth Report	Tackling pensioner poverty: encouraging take-up of entitlements	HC 565 (<i>Cm 5802</i>)
Thirteenth Report	Ministry of Defence: progress in reducing stocks	HC 566 (<i>Cm 5849</i>)
Fourteenth Report	Royal Mint Trading Fund 2001–02 Accounts	HC 588 (<i>Cm 5802</i>)
Fifteenth Report	Opra: tackling the risks to pension scheme members	HC 589 (<i>Cm 5802</i>)
Sixteenth Report	Improving public services through innovation: the Invest to Save Budget	HC 170 (<i>Cm 5823</i>)
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Thirty-fourth Report	The Office of Fair Trading: progress in protecting consumers' interests	HC 546
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Thirty-sixth Report	Improving service quality: Action in response to the Inherited SERPS problem	HC 616
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Forty-first Report	Modernising procurement in the Prison Service	HC 676

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