



House of Commons  
Committee of Public Accounts

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# The Government Procurement Card

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**First Report of Session 2012–13**

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

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## Committee of Public Accounts

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### Committee staff

The current staff of the Committee is Philip Aylett (Clerk), Sonia Draper (Senior Committee Assistant), Ian Blair and Michelle Garratty (Committee Assistants) and Alex Paterson (Media Officer).

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## Summary

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The Government Procurement Card (GPC) was introduced in 1997 as a convenient and cost-effective way for government bodies to make low-value purchases. A GPC is a payment card which individuals can use to purchase goods and services; the supplier is paid immediately and the balance is paid in full each month by departments. There may be clear benefits to using the GPC, but departments must maintain strong controls over its use to reduce the risk of inappropriate use or fraud, and any subsequent reputational damage.

Transactions using the cards are quicker to process than other methods of procurement, and suppliers are paid more quickly. Use of the cards can also enable departments to have greater control by limiting what individuals can purchase and the suppliers they can use, and providing detailed management information on transactions.

However, inappropriate or fraudulent use of the card brings significant risks, both to value-for-money and to government's reputation. The strength of the controls in place varies significantly between departments. This is particularly evident in the Ministry of Defence, which is the biggest spender, and accounts for around three-quarters of total GPC expenditure, but which limits checks to only a sample of its transactions. One third of DWP transactions checked by DWP did not have receipts.

All 17 central government departments operate their own card programmes, setting their own policies and controls designed to ensure staff use cards appropriately. However, the Cabinet Office has overall responsibility for setting out Government policies on the use of the Government Procurement Card. The Cabinet Office recently created a GPC Steering Group, to shape how cards should be used, and to share best practice. The Steering Group introduced a central GPC policy in November 2011, setting out a minimum standard across government.

The central policy should consider going further, for example by specifying: 100% transaction checking, blocking categories of expenditure by default, banning use of the card for certain items (such as alcohol) and ensuring that all cardholders are permanent staff members. However, the initial challenge will be for the GPC Steering Group to ensure that the policy as it stands is being implemented, and to hold departments to account where there are found to be gaps in the design and implementation of controls. Departments themselves need to improve upon these minimum standards.

It has been fourteen years since the benefits of using the Government Procurement Card were quantified. As procurement processes have advanced substantially, the estimated difference in cost of using a card over other methods has reduced. The Cabinet Office has now committed to refreshing the business case, which should help departments to make the right decisions about when using the cards is the most cost-effective way of buying

goods and services.

On the basis of a report by the Comptroller and Auditor General,<sup>1</sup> we took evidence from the Cabinet Office and the Ministry of Defence on central government's use of the Government Procurement Card.

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1 C&AG's Report, *The Government Procurement Card*, HC 1828, Session 2010-2012

## Conclusions and recommendations

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- 1. The current level of controls on the use of the Government Procurement Card (GPC) is not sufficient to prevent and deter inappropriate use.** There is significant variation in the adequacy of, and compliance with, controls in departments over the use of GPC. While most departments check all transactions, the largest spender, the Ministry of Defence, checks only a sample which can be as little as 5% and, in the Department for Work and Pensions, a third of transactions tested by the NAO did not have receipts and there was a large backlog of transactions waiting to be checked. This does not provide us with adequate assurance that purchases are controlled strongly, and that they represent a suitable use of public funds. We welcome the development of the Cabinet Office's new central policy but this will only be effective if it is implemented consistently across all Government departments. We recommend a number of actions to follow up on this:

  - The Cabinet Office should write to departmental Accounting Officers to obtain assurance that the central policy has been implemented as a set of minimum standards, and that this is being monitored by appropriate management information.
  - The Cabinet Office should emphasise the Accounting Officer's responsibility to ensure strong controls over card use, and to ask departments to consider where controls could be improved to reduce the risks of inappropriate use.
  - The GPC Steering Group should hold departments accountable where there are gaps in their implementation of the central policy.
- 2. The Ministry of Defence accounts for around three-quarters of total GPC expenditure, but its controls are weaker than in many other departments.** The Department checks only a sample of transactions (between 5% and 100%). The Department told us that it had made a judgement about the level of internal control versus the risk, but did not present a convincing case for ensuring probity and value with this approach. While the cost of controls should be balanced with the scale of the risk, we are concerned that the balance is not appropriate here. If it is not cost-effective for the Ministry of Defence to adopt a system of 100% checks, the Department should write to us to explain how it undertakes risk profiling, the rationale for setting checks at this level, and whether and how it is assured that its controls are at the right level to counter the risks of card misuse.
- 3. There are inconsistencies in how the cards are used and controlled across government.** For example, some departments block certain spending categories by default, such as 'hotels and accommodation' and 'travel', while others do not. There is also considerable variation in the use of 'lodge cards' which are limited to one contracted supplier. The GPC Steering Group should strengthen the minimum standards where appropriate, and should facilitate sharing best practice in card use across departments.

4. **There is insufficient control over who is eligible to hold a Government Procurement Card.** Some departments prevent non-permanent members of staff from holding a card, but this is not a universal requirement. The Ministry of Defence was unable to identify how many non-permanent members of staff held a card, and admitted that this was a weakness. Departments should review their cardholders and approvers to identify those who are not permanent staff members. Non-permanent members of staff should only be permitted to hold a card and approve expenditure in exceptional circumstances, where fully supported by a business case.
5. **There is no central system for collecting and monitoring instances of card fraud, or of subsequent prosecutions.** The Cabinet Office conducted a one-off data collection exercise, which identified 99 cases of inappropriate use across central government in the past three years. However, it does not know how many of these cases resulted in criminal prosecutions. Departments should report all instances of inappropriate use of the cards, and subsequent action taken, to the Cabinet Office, which should disseminate this information to all departments. The Cabinet Office's fraud taskforce should consider how to make greater use of the National Fraud Database in all types of procurement.
6. **There is no up-to-date business case to demonstrate in which circumstances use of the Government Procurement Card represents good value for money.** The most recent assessment of the value-for-money of the GPC was conducted 14 years ago, and, due to significant advances in procurement systems since that time, this assessment is outdated. The Cabinet Office should conduct a comprehensive assessment of the costs and benefits of using the cards compared with other procurement methods, and communicate its findings to all departments by autumn 2012.

# 1 Current controls over use of the Government Procurement Card

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1. The Government Procurement Card (GPC) was introduced in 1997, to enable more convenient and cost-effective purchasing of low-value goods and services. The cards were made available to a range of public sector bodies, including central government departments, their arms' length bodies, and local government and NHS organisations.<sup>2</sup> Central government spent £322 million using the cards in 2010-11.<sup>3</sup>

2. The Cabinet Office told us that there were a range of benefits in using the cards. They enable a large number of small purchases to be made, particularly by people who are on the move, such as those in the armed forces. The cards also facilitate prompt payment to the supplier, which is particularly beneficial for Small and Medium-sized Enterprises.<sup>4</sup> Card providers offer rebates, which amounted to £2.1 million in 2009-10, and this money can be reinvested by departments in improving procurement.<sup>5</sup> The cards also provide greater transparency of transaction data, and departments have the ability to block certain categories of expenditure, or even suppliers.<sup>6</sup> However, there are significant risks associated with the cards, including reputational risk for departments if cards are abused, and their use needs to be controlled strongly. There has been no assessment of the value of procurement cards since 1998.<sup>7</sup>

3. Responsibility for setting Government policy on procurement cards lies with the Cabinet Office but it is for individual departments to determine their own controls and audit procedures.<sup>8</sup> In the Department for Work and Pensions, a third of the transactions tested by the NAO did not have receipts, and there was a backlog of transactions, valued at over £600,000, which had not yet been approved.<sup>9</sup> The NAO reviewed ten departmental policies and found that only one department, the Foreign and Commonwealth Office, did not require receipts to be submitted with monthly reconciliations of card spending.<sup>10</sup> The Cabinet Office agreed that this was unusual and that, if a civil servant claims an expense, they should submit a receipt.<sup>11</sup> The Foreign and Commonwealth Office subsequently told us that this is because cardholders and approvers are in different, often international, locations, and that it considers the risk to be managed by the requirement for the cardholder to retain receipts in case of an audit.<sup>12</sup>

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2 C&AG's Report, *The Government Procurement Card*, Session 2010-12, HC 1828, para 1

3 Q 44

4 Q 1

5 Q 124

6 Qq 50, 55

7 Qq 2,3

8 Qq 10-11

9 Q 53; C&AG's Report, para 2.24

10 Q 117

11 Q 120

12 Q 122 (see memorandum)

4. The Ministry of Defence only checks a sample of transactions, even though it is responsible for 74% of card spending. As the largest spender, it is of great concern to us that the Ministry of Defence does not operate a system of 100% checks.<sup>13</sup> The sample can be anywhere between 5% and 100%, but it is unclear what determines its size.<sup>14</sup> The Ministry of Defence told us that it had made a judgement about the level of internal control versus the risk, but it did not present a case for the effectiveness of this approach. The Ministry of Defence's published GPC expenditure in December 2011 lists a number of transactions in golf clubs and hotels, restaurants and bars. This is not necessarily fraud but it is questionable expenditure. The sampling approach, which could mean that as little as 5% of transactions are checked, means that the Ministry of Defence cannot provide us with adequate assurance that these transactions represent a legitimate use of public funds.<sup>15</sup>

5. Another area of inconsistency was the use of the category blocking facility, where card providers block certain categories of expenditure, such as 'hotels and accommodation' or 'travel', or certain suppliers.<sup>16</sup> The Cabinet Office explained how the Home Office had reviewed the number of categories it had in place and had cut the number from 36 categories, down to 8. However, there seems to be a fairly random approach across departments to which categories are allowed on cards.<sup>17</sup>

6. There is also variation across departments in the type of cards used. The Cabinet Office told us that it had seen an increase in the use of 'lodge cards' which are limited to a contracted supplier, with around 30% of expenditure now going through that route. Lodge cards are most predominantly used in travel and hotels as a form of controlled purchasing and consolidated invoice payment. The Cabinet Office accepted the recommendation from the NAO report to use lodge cards more extensively, and stated that its plan was to reduce the number of overall individual cards and move to greater use of lodge cards across government.<sup>18</sup>

7. Checks on cardholder eligibility should be one of the first controls in place on using the cards. The Cabinet Office told us that contractors should not be given a card, but that they should be for permanent civil-servants, unless exceptional approval is received within a department. However it admitted that there were 'shades of grey' where people were fulfilling the role of civil servants but may be on a short-term or interim contract.<sup>19</sup> We discussed a case within the Ministry of Defence of a contractor not only having a card, which he used fraudulently, but also being able to authorise the expenditure of other civil servants.<sup>20</sup> The Ministry of Defence admitted that it was clearly a weakness that it could not identify how many non-permanent civil servants had a card.<sup>21</sup>

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13 Qq 5-6

14 Q 14

15 Qq 62-69

16 Qq 59-61

17 Q 57

18 Q 38

19 Q 109

20 Qq 111-113

21 Q 115

8. Using the card carries the risk of inappropriate or fraudulent use. The Cabinet Office told us that 99 cases of inappropriate use had been identified in the past three years. This was drawn from a one-off data collection exercise, but there was no regular process in place to collect such information. In addition, the Cabinet Office did not know how many of these cases resulted in criminal proceedings, and therefore did not use this to assess the risk profile.<sup>22</sup> The Cabinet Office agreed that there should be a procedure in place to report these cases routinely.<sup>23</sup>

9. There is a National Fraud Database which keeps records, not just of whether there is a criminal prosecution, but where there is evidence to the level required for a prosecution.<sup>24</sup> The Cabinet Office maintained that civil servants are employed having been security checked and security cleared, and it does not think that it is necessary to run a further check on staff using the National Fraud Database.<sup>25</sup> The Cabinet Office told us that it takes the threat of fraud very seriously in all types of procurement, and explained that it had created a cross-government fraud taskforce, to examine fraud inside the system and fraud outside the system, particularly in tax and benefits.<sup>26</sup>

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22 Qq 19-21

23 Q 23

24 Q 25

25 Q 31

26 Q 53

## 2 Improving controls over use of the Government Procurement Card

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10. Individual departments are responsible for designing and implementing their own policies, but the Cabinet Office has a central role in overseeing the use of the Government Procurement Card (GPC). The Government Procurement Service, an executive agency of the Cabinet Office, manages the central contracts and monitors and reports on spending. The Cabinet Office has established a cross-government GPC Steering Group, which includes members from departments, and is jointly chaired by the Cabinet Office and the Ministry of Justice.<sup>27</sup> The Cabinet Office chose the Ministry of Justice to lead the Steering Group, because the Ministry of Justice has invested in improving its electronic purchasing systems, and, rather than looking to reduce its use of the cards, it has been looking to use them more effectively.<sup>28</sup>

11. In November 2011, the Cabinet Office introduced a new central policy regarding the use of the Government Procurement Card, developed by the GPC Steering Group. The individual departments are responsible for implementation of the central policy as a minimum standard, and it is the role of the GPC Steering Group to oversee this implementation. If departments' policies and practices are failing to reflect the central policy, the Cabinet Office will hold these departments to account.<sup>29</sup>

12. There are areas where the minimum standards in the central policy could be strengthened. There is currently no central list of categories which should be blocked or banned, and decisions on this are delegated to departments.<sup>30</sup> The Cabinet Office agreed that alcohol should not be purchased by civil servants using taxpayer's money, except in a limited number of stated exceptions.<sup>31</sup> The Cabinet Office also agreed that there should be less use of five star hotels, and that second class travel and appropriately priced hotels would be good enough.<sup>32</sup>

13. It is also up to departments to improve upon the minimum standards outlined in the central policy.<sup>33</sup> The Cabinet Office told us that the GPC Steering Group is creating internal pressure for all departments to comply and to improve performance.<sup>34</sup> The Cabinet Office also welcomed the idea of a league table, and said that it would consider whether transparent publication of this would create more pressure.<sup>35</sup> To improve

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27 C&AG's Report, para 3.4

28 Q 58

29 Qq 85-87

30 Q 84

31 Q 61

32 Qq 46-48

33 Q 85

34 Q 89

35 Q 90

departmental controls further, the Cabinet Office told us that it intends to use the GPC Steering Group as a forum to identify and facilitate best practice.<sup>36</sup>

14. There are different patterns of usage across departments, in terms of overall spending, but also concerning what the cards are used for, the types of card used, and the processes in place to manage their use. We questioned why there is such a variance if there is supposed to be a single policy across government, and the Cabinet Office told us that some of this was due to how departments have used the cards historically. Although departments will have needs specific to the nature of their business, the current inconsistency of use of the cards suggests that this cannot be optimal.<sup>37</sup>

15. There is no current value-for-money case for using the Government Procurement Card.<sup>38</sup> This was last tested in 1998, when the government concluded that there was a saving of £28 per transaction for using a Government Procurement Card over a traditional invoiced purchase, based on staff time and processing costs.<sup>39</sup> The Cabinet Office described improvements departments had made over the past five years in electronic invoice, purchase order and payment processes, and told us that, as they increase the automation of ordinary procurement, the cost-benefit difference will diminish.<sup>40</sup> The Cabinet Office acknowledged that the value-for-money analysis should be updated, and endorsed the illustrative example in the C&AG's report, based on Ministry of Justice transactions, which suggests that the saving may be around £5 per transaction.<sup>41</sup>

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36 Q 57

37 Qq 34-39

38 Q 2

39 C&AG's Report, para 3.16

40 Qq 55, 79

41 C&AG's Report, para 3.17-3.21

# Formal Minutes

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**Wednesday 16 May 2012**

Members present:

Rt Hon Margaret Hodge, in the Chair

Mr Richard Bacon	Mr Austin Mitchell
Jackie Doyle-Price	Nick Smith
Chris Heaton-Harris	Ian Swales
Mr Stewart Jackson	James Wharton
Meg Hillier	

Draft Report (*Government Procurement Card*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 15 read and agreed to.

Conclusions and recommendations 1 to 6 read and agreed to.

Summary agreed to.

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

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

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

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Tuesday 22 May at 3.00 pm]

## Witnesses

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**Monday 26 March 2012**

*Page*

**John Collington**, Head of Procurement, Efficiency Reform Group, and **Ian Watmore**, Permanent Secretary, Cabinet Office, **Jon Thompson**, Director General Finance, Ministry of Defence

Ev 1

## List of printed written evidence

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3	Cabinet Office	Ev 19

## List of Reports from the Committee during the current Parliament

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The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

### Session 2012–13

First Report

The Government Procurement Card

HC 1915



# Oral evidence

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## Taken before the Committee of Public Accounts

on Monday 26 March 2012

Members present:

Margaret Hodge (Chair)

Mr Richard Bacon  
Stephen Barclay  
Matthew Hancock  
Chris Heaton-Harris  
Meg Hillier

Mr Stewart Jackson  
Fiona Mactaggart  
Austin Mitchell  
Nick Smith  
Ian Swales

**Amyas Morse**, Comptroller and Auditor General, National Audit Office, **Keith Davis**, Director, National Audit Office, **Ashley McDougall**, Director of Parliamentary Relations, National Audit Office and **Marius Gallaher**, Alternate Treasury Officer of Accounts, were in attendance.

### REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

#### The Government Procurement Card (HC 1828)

##### Examination of Witnesses

*Witnesses:* **John Collington**, Head of Procurement, Efficiency and Reform Group, Cabinet Office, **Jon Thompson**, Director General Finance, Ministry of Defence and **Ian Watmore**, Permanent Secretary, Cabinet Office, gave evidence.

**Q1 Chair:** Welcome. I am sorry that we are a bit late. Ian, I will start by asking you to tell us what you think is the justification for using this card, given all the risks and the potential reputational damage that is inevitably associated with it.

**Ian Watmore:** Thank you, Chair. First, I thought that it was an excellent NAO Report; it was very crisp and clean, and contained good recommendations. The fact is that we use these cards for a very large volume of very low-cost purchases, which together amount to less than 1% of the total amount of money that the Government spend. About three-quarters of 1% of all purchases goes through these cards, so it is a relatively small sum of money. We have them because they enable a large number of small purchases to be made, particularly by people who are on the move. Jon Thompson from the Ministry of Defence has a lot of them because the armed forces and his staff are on the move and so on, whereas Her Majesty's Revenue and Customs has a low number as it has rather a more static base. They tend to be useful for people in that world. Most importantly, money gets to the suppliers very quickly. Because of the nature of these transactions, most of the suppliers that benefit are small and medium-sized enterprises. So there are a lot of benefits.

**Q2 Chair:** You haven't tested the value for money. I understand from the Report that it was last tested in '98. That is a long time ago.

**Ian Watmore:** It was, and one of the recommendations is that we should upgrade that. The best information we have at the moment comes from the Ministry of Justice, which says that it saves about £5 per transaction. If you take that as the average, that

would be about £8.5 million across the system that is saved by using these. So it is worth having—it is real money.

**Q3 Chair:** My feel was that I was not sure about it when I started looking at the reputational risks and the endless stories in the press, some of which we will no doubt come to during the inquiry.

**Ian Watmore:** That is a good question. You asked me that and I did not answer—forgive me. There is a reputational risk if you use them in an abusive way, so we have an absolutely rigid policy. We crack down on anybody who we find abusing. If people are doing so fraudulently, we obviously take criminal prosecutions against them. So there is no weakness in that area.

**Q4 Fiona Mactaggart:** How many prosecutions have there been?

**Ian Watmore:** We believe that less than 100 out of 4 million transactions over the last three years were in some way problematic. Many of those were accidental, people using them and then repaying them, and a small number were brought to criminal prosecution. I do not have the number in my head. Jon, do you have it?

**Jon Thompson:** We had five in the last four years.

**Q5 Chair:** But you only check between 5% and 100%.

**Jon Thompson:** We do check between 5% and 100%, which has led to five prosecutions in the last four years.

**Q6 Chair:** One of the questions for you is about reputational damage and the fact you do not have somewhere in the system a 100% check. Some 74% of total spend on a card comes through the MOD. I think it is of great concern that you have this rather sampling approach to checking.

**Jon Thompson:** Yes, but as figure 21 of the National Audit Office Report sets out, there is an interaction between the cost of internal control and the risk that you are running. It is set out on page 39 of the Report. You have to make a judgment about the level of internal control versus the risk.

**Q7 Chair:** So your judgment is no. What is your judgment, Ian, on that? Is that good enough?

**Ian Watmore:** My judgment is that I think the Report pointed out that the controls were well designed. I agree with them.

**Q8 Chair:** That is the theoretical controls.

**Ian Watmore:** I think that the Report also pointed out that we should improve the implementation of that. That is right.

**Q9 Chair:** Are you, as I understand it, in charge?

**Ian Watmore:** No. I would like to be in charge of lots of things, but I am not.

**Q10 Chair:** You are in charge of the policy.

**Ian Watmore:** In this particular case, the policy on procurement cards lies with the Cabinet Office.

**Q11 Chair:** And therefore presumably the monitoring and the implementation lies with you, too.

**Ian Watmore:** Yes. And the accounting officer responsibility in the MOD lies with Ursula. It is for Ursula, Jon and colleagues to decide whether or not they have appropriate audit procedures.

**Q12 Chair:** But if we have an internal audit, which is figure 16 on page 31, saying that the MOD identified a number of staff who were not complying with policy and we hear from the Report that the checks can be anything between 5% to 100%, is that good enough in your view?

**Ian Watmore:** Yes, I think that the controls set out—

**Q13 Chair:** Is what the MOD is doing good enough?

**Ian Watmore:** Yes. I am happy with the policy that exists. What we have to check—

**Q14 Chair:** I understand that you are happy with your policy. I am questioning how the MOD—I think we will come to the fact it has most instances of abuse—chooses, rather differently from your policy, to check in some instances only 5%. I have no idea where it is 5% or where it is 100%. Are you, as the policy lead with both policy and monitoring responsibilities, happy with that?

**Ian Watmore:** I am happy with the situation that the MOD is trying to implement our policy.

**Q15 Chair:** Are you happy with what it has done? You are trying to evade my question.

**Ian Watmore:** Not really. Because it is not primarily my job.

**Q16 Chair:** You are not.

**Ian Watmore:** It is not primarily my job to determine whether the accounting officer for the MOD is properly discharging her responsibilities.

**Q17 Chair:** It is your job. This gets us into such a muddled area.

**Ian Watmore:** You like the clarity of accountability.

**Chair:** I do like the clarity of accountability.

**Ian Watmore:** The clarity of accountability is that money spent by the Ministry of Defence rests with the accounting officer for the Ministry of Defence, Ursula Brennan.

**Q18 Chair:** What we want to hear from you, as the official who has the responsibility for devising and monitoring the policy, is your view, and you are reluctant to give it to us.

**Ian Watmore:** My view is that the policy that we now have is the correct policy.

**Chair:** That is different. One of the criticisms in the Report—

**Ian Watmore:** No, the policy is the correct policy. The NAO has made some helpful recommendations about how we can improve compliance with that policy. If that improvement is applied to the MOD, I would expect the MOD to improve.

**Q19 Stephen Barclay:** Can I come back to your earlier answer? Mr Thompson said there were five criminal prosecutions in four years. You seem to say that you do not know at the centre what that is across the piece. Is that the case?

**John Collington:** Yes, we asked every Department to give us the information that they had obtained over the last three years of inappropriate use, and the figures we were given resulted in 99 single instances. We did not ask how many of those instances resulted in criminal proceedings.

**Q20 Stephen Barclay:** So we do not know at the centre how many criminal proceedings there have been over the past four years?

**John Collington:** We could find out. It is a simple question to ask.

**Ian Watmore:** It will be less than 99.

**Q21 Stephen Barclay:** Sure. Logic would suggest that if you are going to assess the risk profile, your starting point surely is to say across Government, how many criminal prosecutions have flowed, and you have not asked that question.

**Ian Watmore:** We have not asked the specific question of each Department, no. We could easily do so.

**Q22 Stephen Barclay:** Perhaps we could have a note with that.

**Q23 Ian Swales:** The way you said it suggested that it was a one-off exercise. Should there not be some procedure that those defaults are routinely reported to the people who are responsible?

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26 March 2012 Cabinet Office and Ministry of Defence

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**Ian Watmore:** I agree with that, yes, I think going forward, that is what should happen. In any Department in this area particularly, if there is any prosecution or criminal intent, that should be escalated.

**Ian Swales:** Then you should know.

**Q24 Stephen Barclay:** For that number, whether it is 70, 80 or 90, have you disclosed those names to the National Fraud Database?

**Ian Watmore:** Again, I think the vast majority of those were done in error and have been rectified. The ones that have been fraudulently dealt with were passed to the police, and from the police, I presume, into the National Fraud Database. I do not follow the workings of the police in these situations.

**Q25 Stephen Barclay:** There is a National Fraud Database that keeps records, not just of whether there is a criminal prosecution but whether there is evidence to the level required. Often the police do not pursue criminal proceedings for other reasons. If you have dismissed someone where you feel there is evidence of the level required for a criminal prosecution, do you disclose that to the National Fraud Database?

**Ian Watmore:** Again, I could find out. I do not know the specific answer.

**Q26 Stephen Barclay:** I understand that you do not, and I find that very surprising. That brings me on to my next question, which is have you checked against the National Fraud Database how many of the staff you have issued cards to have records currently on the National Fraud Database?

**John Collington:** If I can speak from the position of an ex-commercial director in the Department, we would go through the application process and the vetting process of any member of staff who applied to have a card. We would basically also go through the process when that individual joined the Department through the appropriate security-controlled procedures. We do not do that centrally in the Cabinet Office.

**Q27 Stephen Barclay:** You own the policy. As far as I am aware not a single Whitehall Department actually data-matches its staff against the National Fraud Database. You are potentially giving cards to people who are known on the National Fraud Database as of now. Why are you not doing a simple data-match?

**Ian Watmore:** There are two points here. One is that all staff are security checked to the level appropriate to do their job, which would include—

**Q28 Stephen Barclay:** That is a different security check, Mr Watmore.

**Ian Watmore:** Secondly, one of the things that this Report has highlighted is that there is no systemic abuse of the system. We are highlighting a handful of cases in 4 million, and we are saying that we have the controls and mechanisms to deal with that. We are not talking about the fact that in 4 million transactions, they went through properly, cleanly, paid suppliers on time and were an effective use of the procurement system.

**Q29 Stephen Barclay:** With respect, that is quite a misleading answer. We know, as the Report says, that there are flaws in the checks. The fact that you are not discovering people is not necessarily because there is no fraud there. It is potentially because the controls have weaknesses in them. I come back to the original question, which is would it not make sense to data-match those you are giving cards to against those who are known to have committed fraud, or tried to commit fraud, against insurers, banks, store cards and other things that are kept on the National Fraud Database.

**Ian Watmore:** I would rather not employ them in the first place.

**Q30 Stephen Barclay:** First of all, many civil servant staff have been in post for many years, and therefore the fraud that happened against the private sector may have taken place during their employment, not prior to their employment. Not every recruitment firm is registered with the National Fraud Database, so, again, it is a different point. What I am saying is you have a finite population of 24,000 people that you are giving cards to, who by their nature therefore are an increased risk, and you do not even check them against the National Fraud Database.

**Ian Watmore:** We security check them when they are employed with us. If people were convicted of fraud we would cease to employ them.

**Q31 Stephen Barclay:** The National Fraud Database is not just convictions. Insurers often do not prosecute; but to be a record on the National Fraud Database it has to be of a level sufficient for prosecution, whether the organisation for commercial reasons decides to prosecute or not. What I am asking really is about the risk profiling, if someone is known to have committed fraud, or to have tried to commit fraud, against their insurer, bank, store card or other. Incidentally, the National Audit Office is an affiliate member of the National Fraud Database, the Big Lottery is a member, the Financial Services Authority is a member, the Student Loans Company is a member, so it is open to public sector bodies; there is no restriction for data protection reasons, so I come back to why, if you have a risk, you would not run a simple data-match. We can come on to a wider debate around why Whitehall isn't doing it for DWP, which has £3.2 billion of fraud and other loss, and for £240,000 could run all its benefits matches—I think there is resistance in the civil service to even doing that—but I really cannot understand why you wouldn't do it for 24,000 people.

**Ian Watmore:** I think I have given you my answer. Civil servants are employed having been security checked and security cleared. I am not, because one of them applies for a card, going to run an extra security check on them. The point about them is they are either security cleared or they are not.

**Q32 Stephen Barclay:** If someone is known, Mr Watmore, to have tried to commit fraud against the private sector, is that not a higher risk, therefore, if you are going to give them a card?

**Ian Watmore:** We would expect, if they were one of our employees, to deal with the employee—full stop.

**Chair:** Steve, do you have instances of this?

**Q33 Stephen Barclay:** When I phoned them this morning, they don't data-match, and therefore if you don't data-match you have no idea whether your population is on that register.

**Chair:** Well, that might well end up being a recommendation from us, but let's leave it at that.

**Q34 Matthew Hancock:** I want to drill down into the answer you gave at the start, that these are normally for small purchases, and large scale, and hence the example of the Ministry of Defence—the explanation for why the figures are so much larger, with the number of people, because they are often on the move. The variance in terms of the amount spent per card, looking at the FOI material that was provided in July 2011, is quite high, from £41 million in the case of the L&Q housing trust—although there was £41 million spent and only one card apparently in issuance, which may have a specific explanation—down to £100,000 for the City of Edinburgh, all the way down to £2,000 at the Home Office. These are obviously used in quite different ways across Government. Why is there such a variance if there is supposed to be a single policy across Government?

**Ian Watmore:** I cannot answer for the City of Edinburgh, because that is a local government one, but the majority of the larger invoices that you see are because people have done multiple purchases and it is aggregated up, so it might be that they stayed in a hotel for 10 nights instead of one night.

**Q35 Matthew Hancock:** I understand that. The question is the variance.

**Ian Watmore:** They come in larger amounts when it's multiple—

**Q36 Matthew Hancock:** Sure. I understand that if you spend more then more goes on the card, but why the variance between Departments if there is supposed to be a single policy?

**Ian Watmore:** The variance between Departments I think largely reflects the nature of the work load in those Departments. HMRC issue a very small number of cards to their staff and they spend relatively low amounts, largely because they are office-based, static staff. The MOD, which is at the other end of the spectrum, has people travelling and moving around the country and the world, often in clandestine situations, and they have the largest number. Maybe John can describe—

**Q37 Mr Bacon:** If you're clandestine, the last thing you would want to do is use a credit card that says GPC in large letters.

**Ian Watmore:** These are not credit cards.

**Q38 Matthew Hancock:** Ian, this is not quite getting at my question. This is not really about number. This is about amounts spent on the card, because in your example, where you said, if it was booking hotels, one way to keep spending tight is to restrict the number of cards in circulation, so you may expect a large chunk to go on a relatively senior manager's card,

because they have paid for the hotel rooms of their whole team. But it seems that in some Departments more cards are in wider circulation with smaller amounts and in others they are not in such wide circulation, with larger amounts. I am not saying that either is necessarily right or wrong. It might be better to have the smaller number of cards spending larger amounts, because only senior management are actually allowed to use them. That, in a private organisation trying to reduce costs, would be a classic policy to introduce. The question for you at the centre is, "Why the variance?" Have you drilled down into the variance to understand what is going on on the ground?

**John Collington:** We are seeing an increase in the use of lodged cards. The NAO Report covered the use of individual cards that were in the hands of individuals who have gone through the application process in Departments and then, also, lodged cards. Lodged cards would be a card number—the 10-digit card number—that would be lodged with a supplier who has been contracted by the Department and the individual charges would then be allocated against that card.

Lodge cards are most predominantly used in travel and hotels as a form of controlled purchasing and consolidated invoice payment. It was one of the recommendations that the NAO made, and I am glad to say that as much as 30% or more of our expenditure is now going through those lodged cards. As a consequence of the controls we have put in place over the past 12 months, and as part of our continuation of the reform of procurement, our plan would be to reduce the number of overall individual cards and move to more lodged card products.

**Q39 Matthew Hancock:** What about the variance between Departments?

**John Collington:** The variance would be how Departments have used the card products historically. Some Departments, for example, have restricted the travel and hotels for the moment, which, as the Report has correctly identified, accounts for the majority of expenditure. Some Departments may have chosen individual cards to pay for the rail and the hotel accommodation. Other Departments, as we did in the Home Office, would have consolidated that through lodged card products.

**Q40 Matthew Hancock:** I see. Another area of changes that the data might make you look at, in terms of trying to make sure that none of this is used fraudulently, is what happens to changes over time. If I could just bring you to the Environment Agency line. In 2008, the Environment Agency spent £62.6 million on the GPC card, in 2009, £61.9 million and in 2010, £38.5 million. That is a big drop. I wonder whether that would lead you to investigate what had happened and whether the 2009 figure was appropriate.

**Ian Watmore:** Well, we haven't done. I am happy to look into that, if you wish. But the generality is that since the election, the amount of money being spent on external items, full stop, is falling.

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**Q41 Matthew Hancock:** Yes, of course. But this is a much bigger fall. On average, that is true, looking down the figures.

**Chair:** No, it's not.

**Matthew Hancock:** On average it is, but not in every case. In the Environment Agency case, that is a really significant drop and that makes it—when I first looked at this sheet of data, the first thing I thought was, there's a big drop, I wonder what happened when they put the squeeze on that.

**Ian Watmore:** I don't know the answer. We can find it out.

**Q42 Chair:** I've just got to correct you, Ian. I know you like to think everything went magically right, but in 2009–10, Government spent £359 million through this system, in 2010–11, £322 million and this year it looks to me as though you're going to end up at around the same figure. So it isn't dropping and hasn't been dropping, and that means the concerns that people have about it being used properly are as true today as they were two years ago.

**Ian Watmore:** I agree. I am just saying that I think in general they are falling: I think about 18% is the figure I have in my head.

**Q43 Chair:** No, it's not. Well, there was a little bit of a fall from 2009–10 to 2010–11, but this year looks the same as last year. There is not a fall.

**John Collington:** Based on our third quarter numbers for the actual track performance, our projection is a spend of £300 million this financial year, to the end of March, which is approximately £70 million less than the 2009–10 baseline of £370 million.

**Q44 Chair:** No—it is £22 million less than last year. It was £359 million in 2009–10 and £322 million in 2010–11.

**Mr Bacon:** Where are those figures?

**Chair:** They are somewhere in the Report. I cannot remember where.

**Ian Watmore:** I think you are right.

**Chair:** I got them from the Report.

**Ian Watmore:** The baseline year against the comparison that I was talking about was the 2009–10 figure, which is the last full year, and that is about £370 million.

**Q45 Chair:** It is £359 million,

**Ian Watmore:** Okay. I have £370 million.

**Q46 Chair:** I think that it has hardly moved. Given that you are cutting expenditure so massively, you would have thought that this would be one area in which you would see less use of five-star hotels.

**Ian Watmore:** It is less than 1%.

**Q47 Chair:** We will come to that, but one of the things that one would say that this is about is less use of five-star hotels by so many people.

**Ian Watmore:** I would agree with less use of five-star hotels, full stop.

**Q48 Chair:** I'm not sure that all your accounting officers would.

**Ian Watmore:** I am very happy to be on the record agreeing with that. Second-class travel and appropriately priced hotels are good enough.

**Chair:** It doesn't look like it in the figures, if I am honest.

**Q49 Stephen Barclay:** If the figures are down from about £360 million to about £320 million to £300 million, that is a fall of 20%.

**Chair:** That is not a lot.

**John Collington:** Our projection is that it is an 18% reduction in two years, which we believe is significant.

**Q50 Austin Mitchell:** There isn't much in the Report about fraud and people don't seem to think that there is a great deal of fraud, but anybody who has had a credit card knows that there is an enormous amount of fraud. My card was cloned at a filling station on Walworth Road—I do not want to drop any names—and I then found that I had been placing thousands of pounds backing something called euro bets. I would not involve myself in anything called euro bets—bets maybe, but not euro bets. How are such things detected? What control is there over fraud and the duplicating and cloning of cards?

**John Collington:** The policy that applies in the Department is that each Department has its own card administrator who is responsible for gaining the information from the card providers and reconciling that information against the card transactions. The transparency of data provided by the cards gives us the opportunity to identify any unusual activity, and that process of rigorous checking in Departments identifies any fraudulent or unusual behaviour. Of course, if there is any unusual or, certainly, proven fraudulent behaviour, the card providers guarantee to recompense the Department with money.

**Q51 Austin Mitchell:** It is not always noticed by the card providers. The Report says that the Ministry of Defence, for instance, checks a sample of between 5% and 100%, so it must vary enormously when the cards are checked physically.

**John Collington:** That was one of the key points of the NAO Report that we welcomed. We in the Cabinet Office put together a standard policy for the first time ever last year, and we are working with Departments to ensure that they are responsible and compliant to that standard policy. The sampling that the NAO did as part of its review is enlightening and welcoming. We plan to write to all Departments to make them aware of their responsibilities and obligations to adhere to that policy.

**Q52 Austin Mitchell:** A borough such as Tower Hamlets has 444 cards and the BBC has 2,784 cards. How far can you trust these people?

**Ian Watmore:** Those are outside our central Government remit, so I cannot deal with them.

**Chair:** But they would stick by your policy, would they not?

**Q53 Stephen Barclay:** On DWP, figure 14 of the Report says that a third of the sample did not have

receipts and that there was a backlog worth £600,000. Turning to Austin's point, how do you check if there are no receipts to check against?

**Ian Watmore:** I think we should take the threat of fraud very seriously in all ranges of procurement. This is one aspect of procurement, but we have created a cross-Government fraud taskforce on this very topic—fraud inside the system and fraud outside the system, particularly in tax and benefits.

**Q54 Austin Mitchell:** Amen to that. The Report also considers restricting certain suppliers. I have worked in television; human ingenuity has no bounds. This is a story that has never been told before. I remember once, having been thrown off an oil tanker where we were filming, we were dumped in Rotterdam for no reason, and we could not get a plane back. The entire crew wanted to go to a sex club and watch live sex acts, and I, being a prospective Labour candidate, of course did not go. When their expenses came in—they all paid with credit cards—they had all been to an art exhibition. Now, how can you have effective control when there is ingenuity such as that?

**Ian Watmore:** I will refer your concerns to the custodian of the Government art collection.

**Austin Mitchell:** That does not quite answer the question. Unless they thoroughly check—

**Chair:** It is the Danish art collection.

**Ian Watmore:** Or even the Dutch one, Chair.

**Q55 Ian Swales:** I would like to come back to the question of different use in different Departments. One interesting thing from the freedom of information table that the Chair has given us is that it shows some Departments where use has been going down spectacularly. Home Office use more than halved in the four years in the table. I don't know what has happened to the Courts Service, but it shot up to £15 million in one year and then looks as though it almost stopped using them altogether in 2010. So what are we learning from the patterns of usage? There is what has happened in those two cases, and I notice that DWP's usage has gone down over four years to only a third of what it was, so something is obviously going on in those Departments. I cannot imagine that that reflects just savings; there is some policy thing going on there. What can we learn from that?

**John Collington:** May I take care of that question? I will use my experience in the Home Office. I was the commercial director in the Home Office for three years, and I came to that position after extension experience in the private sector. One of the first things that we did in the Home Office was to identify the role of these payment cards within our purchase-to-pay strategy and policy. We identified the number of categories that were in place previously for which a purchase card was allowed to be used, and we significantly cut that number from over 30, I think 36, categories, I think, down to eight. So we significantly restricted the number of categories, and it is one of the benefits of the cards that you can put in place those controls and block types of category of expenditure and even suppliers that can be used, as the NAO Report has identified. That is one reason.

The second reason was the improvement that Departments such as the Home Office and DWP have made over the past five years in their invoice, purchase order and payment processes, through greater use of what is known as electronic accounts payable. An electronic purchase order would be made and the invoice would then be received, approved and processed accordingly.

**Q56 Ian Swales:** Without using a card.

**John Collington:** Without the use of a card. I was appointed to my position as chief procurement officer last year, and my view is, having seen that dramatic reduction in the Home Office, that there is a role for purchase and acquisition cards within any organisation's purchase-to-payment strategy and process, so long as the card product is effectively administered, managed and monitored.

**Q57 Ian Swales:** That is really interesting, and it leads to two further questions. I think that the Report highlights that there is a fairly random approach to which categories are allowed on cards, or at least that the approach is not consistent. Listening to your answer there, my other question is: to what extent is that kind of best practice that you are referring to shared around all the various Departments and, indeed, out into the public sector generally? We have an issue right now in my local police force, about the use of procurement cards; this is not just about central Government.

**John Collington:** Of course. Our immediate remit is the central Government Departments, and last year we created a purchasing card steering group. We identified the best performing Department in our opinion in the use of GPC, and that was the MOJ. We asked the MOJ to lead that steering group on our part. The members of the group meet regularly. It was that group that formed the basis of the new policy. We are putting in place the improved commercial arrangements with the card providers—I can elaborate on that in a moment—and the identification of best practice and then its facilitation. So the recommendations of the NAO Report and this Committee will then be channelled through and executed by the steering group that we created.

**Q58 Ian Swales:** Why was the MOJ regarded as the best performing? I think the Report says somewhere that the MOJ checks everything?

**John Collington:** One of the reasons is that the MOJ has a wide and disparate range of users—if we take the MOD as one extreme and HMRC as another extreme, the MOJ is placed firmly in the middle. It has a number of disparate users controlled through the prisons, as well as a high proportion of office-based resources. It has also invested heavily in improving its electronic purchasing and payable systems. It is a Department that needs to use purchase cards, to enable the business to be done, primarily across the prison estates. The MOJ has focused more than any other Department. While I was at the Home Office looking to reduce the volume of purchase cards as part of our purchase-to-payment process, the MOJ has been looking to use them more effectively as an acquisition

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and payment tool. That is why we identified it as the best performing Department.

**Q59 Mr Bacon:** My question was about specific categories of use. I have just been word-searching the electronic version to see if I can find any reference to the word “alcohol”, but I cannot. I am just wondering whether there is a policy on alcohol? If so, what does it say? Does it say that the purchase of alcohol using Government procurement cards is okay or not okay? Or is there no policy? Is it silent? You know what Thomas More said in “A Man for All Seasons”—that silence betokens consent.

**Ian Watmore:** I don’t know the specific answer, so we will look it up for you, but I do know that the cards get used on occasion to support ministerial and other senior entertainments. They do, because I have seen those come through.

**Q60 Mr Bacon:** I am very curious about this, because our constituents pay the taxes that are purchasing this alcohol, but we as a Committee have been overseas and whoever authorises these things deems that a Committee going overseas needs to eat, and that it can drink water, but if it wants to drink alcohol, it shall pay for it itself. The then Clerk of our Committee would go around the table in the restaurant where we are having a meal and get however many euros or marks or whatever from each person and pay for it. It was expected that the taxpayer should not fund alcohol.

**Ian Watmore:** I agree. I do not think that we are disagreeing.

**Q61 Mr Bacon:** There was a story a couple of years ago about the Government Procurement Service and its own use of the card—I am trying to look for the story—here we go: “Government credit card quango”—the Government Procurement Service—“spent £1.7m on night clubs, fast food and taxis in just one year.” How much of that was alcohol I do not know—there is a particular reference to a nightclub in Liverpool which has a number of cocktails, the names of which I shall not bother to repeat. But the issue is serious. We all understand that if British embassies overseas are doing things that involve entertaining, there may be alcohol involved. The same might be true of Departments domestically—it does happen in circumstances in which a reasonable person would think that it is right that it should do so. Equally, there are probably far more occasions on which it should not happen. It would be very easy to ban, as a policy, the use of alcohol purchasing on these cards, wouldn’t it, and to put that into effect electronically, with a limited number of stated exceptions, rather than what appears to be the case, although you cannot tell me the facts, which is that these cards can generally be used for alcohol? Is that right, that they can be?

**Ian Watmore:** I don’t know if there is a policy against, but I would agree with much of what Mr Bacon has said. If staff are meeting or conducting business themselves, they should pay for their own drink and so on. That is what we try to do. I think there will be a small number of exceptions to that rule, such as people visiting from overseas to whom it may be

appropriate to offer an alcoholic beverage, and in a small number of cases, you might decree that to be the right thing to do, but in the vast majority of cases, I agree with Mr Bacon.

**Q62 Chair:** Ian, I therefore draw to your attention the transparency extract—this is an MOD one—from December 2011, so it is very recent. You can see what I have marked up: members, clubs, sport, rec, golf on 2 December, £1,485; 16 December, £987; 12 December, £972; 9 December, £860; 13 December, £822; 29 December, £780; 7 December, £745; 29 December, £640; 2 December, £500. I then move on to restaurants and bars, MOD: 9 December, £1,220; 13 December, £750; 13 December, £510; 5 December, £3,400—this is all coming up to Christmas—13 December, £3,400; 20 December, £3,400; 19 December, £1,502; 23 December, £1,000; 8 December, £920; 12 December, £744; 15 December, £652; 6 December, £554; 13 December, £514; 12 December, £500. In your terms and in terms of Government expenditure, they are small amounts, but they are all post-control stuff from a December 2011 extract, and it does not give me confidence of evidence that your policy or any of the things you have agreed with us today in the Committee are in fact being implemented by MOD.

**Jon Thompson:** I have been asked by Mr Watmore to have a go at that. The Ministry of Defence’s expenses policy for military personnel who are not at their home base is that they may claim various expenses, including eating out because they are not at home. There is an expenses policy, and in some cases they will pay for their evening meal on a GPC.

**Q63 Chair:** All this stuff. I haven’t dealt with boat dealers—goodness knows what that is—but on 6 December, £4,586; 7 December, £3,540; and 7 December, £1,946. That was presumably for going out on boats. It is a shocking list. I take my staff out for a Christmas dinner, which I pay for myself, and I think that is probably what all of us around this table do. We don’t charge it to our IPSA expenses. We couldn’t, and we don’t.

**Jon Thompson:** To be clear, neither do we—

**Q64 Chair:** This looks a pretty shocking list of relatively small amounts, which then add up.

**Jon Thompson:** To be really clear, neither do we take our staff out and pay for it from the public purse. That is absolutely not the case. It is perfectly possible that the boat dealers issue was in relation to various supplies that are required for a whole range of boats that we have.

**Q65 Mr Bacon:** How many dinners does it take to make one aircraft carrier?

**Jon Thompson:** I thought the question was about boats.

**Q66 Matthew Hancock:** One of the advantages of having these cards is not only the direct advantage in terms of admin savings, but you receive management information about what the money is spent on, whether boats, golf clubs, hotels, or more widely. Do

you have a central policy, and do Departments use the management information to understand where the money goes, how they can save it, and how they can tighten up and query where it goes?

**Chair:** This is not necessarily fraud; this is questionable expenditure.

**Matthew Hancock:** But whether it is questionable expenditure or not, the question is whether can you get it more cheaply and use the information to see that, if 25 people are staying in an hotel in Bradford, it may be cheaper to do it some other way.

**Ian Watmore:** Let me start with central issue, and then perhaps Jon can pick up on the MOD side. Again, I agree with the direction of what you are saying. I cannot tell you what all those are—we would have to look at them—but often when things come out on the card, they look one thing, but when you probe, you actually find that it was somebody staying the night for £50 in a club rather than £100 in a hotel. You have to be a little bit clear on what you are looking for. If you have specific instances that we should look at, we are happy to look at them. We do look at them on that basis. If people are outside the policy, we come down on them like a ton of bricks.

There is a different question. What is the right local policy in a Department? We set the broad, generic cross-Government policy, but it is for the MOD to set the policy appropriate to military or civilian personnel in the MOD who might be working in London, having been based in the south-west all their lives, or vice versa, or overseas. The MOD sets those policies within the context of its overall budget.

**Q67 Chair:** I will let you have this list, and I look forward to the detailed analysis of it, but they only check 5% to 100% in some instances. We are back to that thing.

**Matthew Hancock:** If you only check 5% to less than 100%, then you cannot look at it in detail and think, “How can we be smarter about these purchases?” That management information should be an advantage of having these.

**Ian Watmore:** I agree. One of the recommendations in the Report is to get more cross-Government management information out of the card providers. That is what we are now trying to implement.

**Q68 Matthew Hancock:** It should be part of your tightened plan.

**Jon Thompson:** I think there is an underlying assumption in this conversation that what the GPC is used for is defraying personal expenses, but it is incredibly important, in our case, to understand that 700,000 of our transactions are against pre-existing contracts set up by my friend Mr Collington. So there is a contract set up for the purchase of furniture, we then order the furniture and the most cost-effective way of paying for the furniture is, rather than an invoice, to use the GPC. That saves at least £5, according to the Ministry of Justice. Our number is £18.43.

**Q69 Chair:** Mr Thompson, I am talking about golf clubs and hotels, restaurants and bars.

**Jon Thompson:** Sure. If I might try to explain, part of the complications with data which is released is the so-called merchant category group. Each retailer is categorised by Visa in a particular way. For example, for us—indeed, one of them is on that list—we spent £6,012 on cosmetic retailers. What you can do is drill into—

**Q70 Chair:** I am talking about golf clubs, hotels and bars.

**Jon Thompson:** I appreciate that. I am just trying to explain the generality of the merchant category groups. We spent £6,000 on what appear to be cosmetic retailers. When you dig into the transactions because you have the management information, you can identify that that is demineralised water, which we require for our radar equipment. The retailer is categorised as a cosmetic retailer, so on there it says we have spent it on cosmetics. That is not an issue for us; that is an issue for Visa.

**Chair:** I did not even pick that up. I will give you the list, and I look forward to a detailed analysis.

**Q71 Meg Hillier:** I think we have all had times when we have found things that do not look familiar on our personal cards. I hear what you are saying. Maybe you, as a big purchaser with these cards, could negotiate a different category.

To pick up on personal accountability, every cardholder has a personal responsibility to buy the most cost-effectively. They are all public servants, and every pound of public money saved is a pound that can be spent on something more important. What training or support goes into this?

I just want to highlight a couple of examples. For example, rail travel is often booked by a very junior member of staff, whoever the cardholder actually is, although I know that some of it is done through other routes. What incentive is there for them to get a cheap deal on trains? We all know that if you plan ahead and book it properly, you can get a much cheaper deal than if you buy it the night before. I have been in situations where I have gone online and bought a cheaper ticket myself than I had been provided with, and got a reimbursement of the more expensive ticket, saving the public purse money. What personal accountability is there for being efficient, and what training is there for people at levels where they have to use the card for boring, day-to-day, small but cumulatively large transactions?

**Ian Watmore:** I am like you; I do the same thing. I used to be given tickets that were usually first-class open, and I would reject them for a second-class advance ticket, or whatever the equivalent is. That is something that is changing through the system, but more slowly than I would like. The good news is that one of our policies on procurement is to aggregate demand for travel into two contracts, so that there are now two standard contracts across the whole of Government for people to call off for travel, which John has just let. I think we discussed one of them in the last meeting. It happened to have gone to an SME in Yorkshire—Redfern. The other is with Hogg Robinson for the more international travel. All the travel has to go through those contracts, or will do as

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they roll out across the system. That helps dramatically.

Secondly, we are training the users of those services in the procurement functions in all these Government Departments across a whole range of procurement best practices. Some of them are about how to shorten procurement times in other sorts of procurement, but some of it is in this sort of place, to make sure that they call off the short cheap travel, rather than the more open, flexible stuff. There will always be occasions when the open and flexible is needed, but we can make a big dent in that.

The final thing is that we are going through the whole civil service under the reform agenda, trying to get everybody to think that every pound of taxpayers' money spent should be treated as a pound of their own money and not thought of as some budget over there, but actual personal accountability. That is something more cultural that we have to do, but in the current climate, people are much more happy to do that. The increase in, for example, cheap second-class rail tickets is now ubiquitous across the system, whereas two, three or five years ago it was not.

**Q72 Meg Hillier:** From your position, Mr Watmore, you are setting the policy, but at departmental level—maybe Jon Thompson can answer this for the MOD—what incentives are there? If you are a member of staff on £20,000 a year and you are doing the booking, who is noticing whether you have saved 10 quid, 20 quid or 100 quid here or there, and what reward do you get for doing that? You probably just want the least hassle if you have a busy job and you are not paid very much. What incentive—encouragement—is there to spend less on your GPC?

**Jon Thompson:** Our rules are that you have to pass a test to get a GPC in the first place. The fact that you have passed the test is checked by our corporate GPC team, and you then get a card. In relation to travel, you have to use our corporate travel framework contract, agreed by Mr Collington and his team. If you do not, our policy on low-value purchasing, which is a uniform policy across the whole organisation, available on the intranet, says that we have the right to take disciplinary action. Included in one of the eight cases that I responded to earlier was an individual who decided to purchase flights outside the system. We subsequently took disciplinary action and then prosecuted the individual for not using the best value for money option, which is the framework—

**Q73 Meg Hillier:** You prosecuted?

**Jon Thompson:** In that particular case, yes. It was almost £4,000-worth of flights. They were not authorised. We took a prosecution against that particular individual.

**Q74 Meg Hillier:** So you will clamp down on even a small transaction, but that was obviously a big one.

**Ian Watmore:** Interestingly—I know this is anecdotal—if ever I travel, the person who does that for me takes a personal pride in trying to find the cheapest way of doing it. In fact, she comes up to me and says, “I managed to get you a 29 pounder instead of a 58 pounder.” That is part of her personal reward

system for the job, and it is part of the cultural change that we are trying to bring about.

**Q75 Meg Hillier:** I want to move on to the issue of moving from five card providers to one. Maybe this is for Mr Collington. What advantages are there? You are giving a big contract to somebody, and there is no competition with another existing provider. How are you looking at the value for money on that?

**John Collington:** We inherited a situation where there were five card providers, mainly for central Government, as has been highlighted in the Report, but the vast majority of that expenditure actually existed with one historically—Barclaycard Visa. Competition from a second supplier, J.P. Morgan—the DWP and MOJ made the award after a competition—has delivered more timely and more effective management information, so competition has proven to drive up the performance of the previous dominant incumbent. I think that is a good thing. As part of the work that the steering committee I mentioned earlier has been doing, we have also managed to better manage the existing suppliers, to the extent that the rebates that the NAO Report highlighted have increased by 70% over the same two years when our total expenditure has reduced by 18%. That is a great example of consolidated purchasing and better management of the existing suppliers, and of what can be delivered when that is applied.

Our strategy now is to plan for the next generation of contracts for the P card. The current contract expires in January 2013, and the steering group team that is in place, along with myself, will identify the right solution for the Government—I am talking about central Government—and whether that would be a one-supplier or two-supplier strategy. We will make that decision over the next two months, and we will start the procurement accordingly so that the new contract is in place by the turn of the year.

**Q76 Meg Hillier:** How long will that contract be for?

**John Collington:** My view would be to launch the contract for two years. The optimum time frame for a contract of this nature would be two years; the days of long-term contracts for these types of goods and services are over.

**Q77 Stephen Barclay:** Will you have standardised categorisation at that point?

**John Collington:** Yes. Also emphasising and putting in place the best practice identified as a consequence of the work of the steering group.

**Q78 Chris Heaton-Harris:** I am glad that you welcome the Report and will take its recommendations on board. I personally hate these things—

**Ian Watmore:** Cards or reports?

**Q79 Chris Heaton-Harris:** Cards in general—actually, reports as well, and if you had heard the discussion that we had before you entered the room, you would understand why. I thought that it was Government policy to head towards fewer of these things. Although a gradual reduction has been stated

in the amount of money going through these cards, there are other electronic means of procurement and payment, and they give you all the management reports that you would require. Why are we not heading more quickly down that route?

**Ian Watmore:** I personally hate them as well. I will not have one for the same reason as you, but that is a personal decision and partly because I can afford to do that and I can carry the expenses on my own credit card and charge them back. That is a personal thing, and not everybody is in a position to do that. These things are not credit cards. They do not give credit. They do not come back for people to tick off; people pay the transaction as though they have paid with cash.

The challenge that the Chair made about getting the value-for-money equation updated is a good one. When this was first done 10 or 15 years ago, it was a lot more expensive to do the alternative so the cards were very cost-effective. As you bring up the automation of ordinary procurement, the cost-benefit difference will slim. There will always be some reason to have them for highly mobile people and so on, but I think that over time they will be eradicated.

Right now, these cards are used for less than 1% of all Government spend. That involves a large number of very small transactions that add up to three-quarters of 1%. Our figure is £300 million and something, but the equivalent in America is \$30 billion through their cards. There are different philosophies. Our philosophy is to drive down the use of these cards and keep them small and local. *[Interruption.]* It is more like 3% or 4%—I know that America has a defence budget bigger than the entire UK public sector, but that is a different issue. In percentage terms, they use cards four or five times as much as we do. There are different philosophies. I think we will find that the use of these things will be driven lower and lower and eventually be largely excised from the system, but that is a few years off.

**Q80 Chris Heaton-Harris:** But one thing that will drive these things lower and lower is if you tighten the checks on their use. If the MOD went to 100% checking all the time, you would find that the amount of money spent on the cards would fall off a cliff. We had an interesting discussion before you came in because it turns out that the IPSA credit card is now a Government procurement card. A number of Members in the room—fortunately not me—have one of these things, but if anyone in government had to jump through the hoops that MPs have to jump through, they would stop spending on it straight away.

**Ian Watmore:** You would not necessarily stop the spending though; you would transfer it.

**Chris Heaton-Harris:** No. You wouldn't stop the spending.

**Ian Watmore:** Because despite the popular press, I don't think there is evidence of the systemic abuse of these cards. These cards are purchasing things that would have been purchased anyway through a different route.

**Q81 Mr Bacon:** That is why I asked about alcohol. That is one of the obvious exceptions where, to use

your words, there may be systemic, generic, or general use of a kind that should not occur, but that is generally occurring. That is what I am interested in finding out more about.

**Ian Watmore:** I think I agreed with you on that point.

**Q82 Mr Jackson:** May I pick up on the point that Chris made? Reference is made in the Report to the United States, which you mentioned. The indicative figure, as a benefit in the United States, is \$77 to \$125, which is around, let us say, £80. By comparison, it is £28 in this country. To what do you attribute that substantial difference? Is it just economies of scale? Greater Government efficiency? What is it?

**Ian Watmore:** We certainly haven't compared the US level, but the £28 is probably nearer £5 or £6 now, given the MOJ experience. I think that just represents a decade of improvement on how to do this stuff. Over time, I think that £5 difference will fall. Eventually, it will become as easy to pay through normal routes, so the use of these cards will largely be eradicated. I think that is the convergence—

**Q83 Mr Jackson:** Are you looking at the US experience to learn lessons?

**Ian Watmore:** Well, I think they should be looking at us, actually, if theirs is nearer \$100 a pop and ours is at £5. They might want to come here and see how we are doing it so cheaply. The reason I introduced the US is because there are different philosophies at stake. We have taken the view: use them for large numbers of small purchases and eradicate them over time, and that is what we will do.

**Q84 Fiona Mactaggart:** I find some of the tables in the Report particularly interesting. It is good to see that since November 2011 you have had a central strategy policy, which is summarised in figure 19. One of the policies it suggests is that you can block certain categories of spending. What I have not understood from looking at this is whether there is any central list of things that should be blocked, or whether that is all delegated to Departments.

**John Collington:** At the moment, it is delegated to Departments, as Ian explained—the role of the accounting officers within Department. It is best left to the Department to determine how they use the card product. However, as a consequence of now having that steering group, part of its terms of reference are to identify and facilitate the use of best practice on a number of occasions; for example, to the point where you cannot bar alcohol to be used by the card. Policy would make quite clear that that was unacceptable, but you can stop, restrict and bar—forgive the pun—restaurants and bars. The way the categories are set up and managed, hotel and accommodation is one master category, and restaurants and bars is another category. So it is perfectly feasible to bar and restrict the types of categories on that basis. The plan would be to facilitate that as best practice. Then, of course, what you have to do, if you decide not to use the card, is put in place something that is actually better. If better would be cash advances and then cash in the system, I for one would advocate that we stick to P card,

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because that at least gives us the transparency in which to measure compliance and non-compliance.

**Q85 Fiona Mactaggart:** On compliance, if you are doing most of the policy by delegating it to Departments, and we know that Departments have very variant compliance testing, what authority does your committee have to raise the bar on compliance testing and on the kind of rules you might set up? It is not clear, from what we have seen, that your writ runs.

**John Collington:** The policy we have set from the Cabinet Office is a set of minimum standards and guidelines. It is then up to Departments to improve on those. What they cannot do is deviate from the minimum standards.

**Q86 Fiona Mactaggart:** Are you confident that every Department fulfils those minimum standards?

**John Collington:** After having read the Report, I was disappointed to identify that through the sampling, on a number occasions, that was not the case, particularly so when we put that standard policy in place as recently as November. As a consequence of the Report and the recommendations from this Committee, we plan to write to those Departments to make them further aware of their responsibilities.

**Q87 Chair:** And then? What is your sanction?

**John Collington:** To hold them to account.

**Q88 Stephen Barclay:** Have the accounting officers submitted their letters setting out the policy? Just to clarify, Keith, have all accounting officers submitted their letters? With the discussion we had last week, I thought there was data still outstanding from accounting officers.

**Keith Davis:** When we tried to get data from them? We struggled to get clear management information out of Departments, if that is what you mean, to understand the profile of spend that we used to populate these charts. Yes, that was very difficult.

**Ian Watmore:** Ultimately, the sanction would be to withdraw the delegation.

**Chair:** Right. That's very helpful.

**Ian Watmore:** I imagine that Francis has worded a control somewhere or other to allow him to withdraw that delegation.

**Q89 Mr Bacon:** Might there be a Department on which you will exercise this control pour encourager les autres, so to speak?

**Ian Watmore:** The reality is that when you get a group of procurement directors and they can all see their performance varying, there is a sort of internal pressure on them to comply and ratchet it up. That is what is already happening and that is what I think John's committee is creating.

**Q90 Fiona Mactaggart:** Do you have any plans to put that kind of league table possibly into a more public sphere, because it seems that, through this strategy board, you have the basis of creating a league table? Can we see it?

**Ian Watmore:** It is an interesting idea to consider whether a transparent publication of that would create more pressure. That is one we should look at.

**Q91 Meg Hillier:** Chair, let us look at where the Department for Communities and Local Government comes in figure 4 on the total spending in millions. In percentages, there was 0.09% spent. Maybe that is a reflection of the publicity that that Department places on expenditure. Maybe it would be good to publish.

**Ian Watmore:** You might be a brave civil servant to be using one of those in that Department, as you point out.

**Q92 Fiona Mactaggart:** One of the other tables that I was rather gripped by was in figure 5. I was gripped simply by the pattern it shows of when people used their cards and spent money. They do it in March. That makes me think that this is a quick way of gobbling through the end of your budget. Therefore it is not a necessary set of transactions. I wondered what you thought about that and what you thought your board might be able to do about that?

**Ian Watmore:** I will give you my view. Francis, Danny Alexander and others have debated long and hard about how to get the end of year pressure cap on all spending—not just through these cards—down. Unfortunately, it still remains part of the system that you would normally get credit for spending on your budget not under your budget. We continue to debate at Treasury level how to get different incentives into the system. I think you will find—the Chancellor probably said this last week—that Departments are going to forecast underspends this year. Normally, that does not happen.

**Q93 Chair:** This is odd, isn't it? I haven't noticed this before.

**Fiona Mactaggart:** It is a very clear pattern.

**Ian Watmore:** It is a great spot, but it is true on almost any spending pattern you look at in government.

**Q94 Matthew Hancock:** Is it because they pay out quickly? You were saying that one of the advantages is that these cards mean that suppliers get the cash quickly, but that might also mean that if you are coming to the end of the year, you can still be spending right up to the line, whereas on a more traditional route, you would not be able to extend—

**Ian Watmore:** You can do this on any spending pattern—

**Matthew Hancock:** I know that.

**Ian Watmore:** You can get purchases through the system quickly through any route if you have to.

**Matthew Hancock:** Right.

**Ian Watmore:** What I am saying is that there is always pressure on the Government to spend to their budget. So you always get a surge of expenditure in February and March.

**Q95 Chair:** I understand that, but Fiona has raised a very interesting thing. John, as the SRO on this, have you got data that will shed any further light on it?

**John Collington:** I have to say that when I read the Report—as Ian said, we welcome the

recommendations—I had to commend the NAO on the quality of the data and the simplicity with which the data were presented. In my five years in the civil service, I do not recall reading an NAO Report that was so concise and clear. In a way, we could say that that is a good advocate for the use of cards, because the sheer fact that we have that data available means it has been able to produce a report of such quality.

**Q96 Matthew Hancock:** The question is how you then use that data.

**John Collington:** Absolutely. We are using it—

**Q97 Chair:** Why March for you? The thing that Fiona talked about is interesting. This is slightly different from general Government expenditure. You can try to get various things in, but this is supposed to be, on the whole, travel and so on. That does not suddenly go up in March.

**John Collington:** No, it doesn't. The data is there for us to manage.

**Ian Watmore:** It will be consumables. Whether you buy it through the card, a normal procurement system or something else, Government expenditure always rises in February and March, and it has done since the time dot.

**Q98 Fiona Mactaggart:** So this is a subject that maybe our Committee should look at in future?

**Ian Watmore:** I would think that our Ministers would welcome, not in the context of procurement cards, but a broader discussion about how you get rid of this February and March effect from the system. I think that would be a welcome thing for the Committee to look at.

**John Collington:** But we will be acting upon the data that is now available and this will not be a one-off. We will produce the same the next time the NAO do an audit. We are using this quality of data regularly to drive further improvements.

**Q99 Stephen Barclay:** Can I clarify which Departments allow cash to be withdrawn on these cards?

**John Collington:** Within the policy that we issued, the ability to withdraw cash was eliminated, so it is against policy. No Department should be using the cards to withdraw cash.

**Q100 Stephen Barclay:** That is the policy, but it's not blocked, because paragraph 2.14 says: "Most commonly blocked categories are restaurants, fuel, and cash". "Most commonly" doesn't mean all. Are you saying that the policy now is clear that cash can't be withdrawn, in which case why has it not been blocked as a category in all Departments?

**John Collington:** Because we have issued the standard guideline and it has then been up to our Departments to execute that accordingly.

**Q101 Stephen Barclay:** Right. So logic would suggest, if that is the policy, they may need to block those categories.

**Ian Watmore:** I agree with you. I think—

**Q102 Chair:** Do you block cash, Mr Thompson?

**Jon Thompson:** We do block cash, although we do allow exceptional circumstances and you can ask for that to be removed. Last year £960 was taken in cash with pre-approvals for air accident investigators, who were in an emergency situation and required cash. But we do block it.

**Q103 Stephen Barclay:** It seems like something that could be quickly closed. How many non-permanent members of staff use the cards currently?

**John Collington:** Again, policy states that contractors should not be given a card. They should be used specifically for full-time civil servants, unless, again, exceptional approval is received within a Department.

**Q104 Mr Bacon:** What about full-time civil servants who are on a contract with a personal services company and are paid gross while being an accounting officer? Would they be entitled to a GPC card under your policy or not?

**Ian Watmore:** They would not be entitled—

**Q105 Mr Bacon:** It sounds frivolous, I know.

**Ian Watmore:** It is not frivolous.

**Q106 Chair:** It has happened.

**Q107 Mr Bacon:** The fact is, we know this has happened. We don't know yet, because Mr Alexander's review is not yet complete, how widespread the practice is, but to take the example of Mr Lester, who sat where you are sitting. I asked him when he came, "How much are you costing the taxpayer?" He said, "£900 a day". I then asked him, "How many days a week are you working? Is that a five-day week?" He said, "Yes", and it turns out that he was an employee and the policy was changed within 11 hours, which was good. But would a person in his position have been entitled, under your policy, to a procurement card, or not? Because he was a contractor. He had a personal services contract.

**Ian Watmore:** John would not know the case concerned. My understanding is that Mr Lester was fulfilling the job of a civil servant. Therefore he would have been deemed, for the purposes of this, to be a civil servant.

**Q108 Mr Bacon:** He had a permanent contract.

**Ian Watmore:** What was wrong about that was the way he was being paid.

**Q109 Mr Bacon:** Indeed, so it is not just people who are actual civil servants. It is people who are fulfilling the jobs of civil servants.

**Ian Watmore:** Well, yes. And there are people who are direct payroll civil service—people like all three of us, probably—people who are pure contractors and then a very small number of shades-of-grey types, where people are fulfilling the role of civil service, but may be on a short-term or interim contract.

**Q110 Mr Bacon:** What is the policy in relation to those people?

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**Ian Watmore:** I would imagine that the Departments concerned would look at it case by case, but normally if you are trusting that person to be a civil servant in all normal understanding of what that word is, they would be entitled to a card.

**Q111 Chair:** But—I don't know if you were coming to it—the case of Paul Herriman, who was a contractor working for Serco at the RAF in Cumbria. He was responsible for authorising the use of Government procurement cards on the base and was jailed. So, again, it is an MOD issue, and you may have a policy, but MOD does not appear to be—<sup>1</sup>

**Ian Watmore:** Again, the policy that we were talking about was in respect of whether the actual cardholder was a civil servant or not.

**Q112 Chair:** He was a cardholder. Do you know about him, Mr Thompson?

**Ian Watmore:** But the administration of those cardholders, I suspect—is that what you were saying?

**Q113 Chair:** This guy, he had his own card, which he used fraudulently, but he was also responsible for authorising the use of Government procurement cards on the base in Brampton in Cumbria.

**Ian Watmore:** I do not know the case, but I imagine the reason that he had the authorisation job was that the function had been outsourced to Serco.

**Q114 Chair:** Going back to Steve Barclay's original thing, he would not have had the checks because he would not have been employed as a civil servant.

**Ian Watmore:** In the new policy area, that sort of thing would stop.

**Q115 Chair:** Would it, Mr Thompson?

**Jon Thompson:** I cannot say whether it would. In fact, I asked Mr Barclay's question of my own staff before coming to this hearing. I am afraid, at the moment, I have not been supplied with an answer about how many non-full-time civil servants have a card in the Ministry of Defence. It is clearly a weakness.

**Q116 Stephen Barclay:** Perhaps we could have a note on it. It is material in relation not just to paragraph 2.13 in terms of the number of people, but to how many have cards and how many are approvers. It is also relevant in terms of whether someone as an approver is approving a large number of other cards and with the other demands on their time, how effectively they can be doing that. It also relates to other hearings, which Richard was alluding to within HMRC and its tax treatment of those staff and

<sup>1</sup> Paul Herriman was a contractor who was employed by Serco in support of the facilities management at RAF Spadeadam. He was issued with a GPC card in order to perform these duties but was not a GPC Card Manager or authoriser. GPC managers ("authoriser") must in all cases be Crown employees. Mr Herriman was convicted of fraud in July 2010 and was given prison sentence of 40 weeks imprisonment and ordered to pay costs to the Ministry of Defence. The case was brought because due process was not being followed and the MoD compliance and governance processes were not being applied.

whether those staff should be interpreted as employees or not from a tax point of view. I would have thought that a relevant factor in that assessment might be whether a member of staff has a procurement card as one of the criteria used. It is not a relevant factor for today, but around that grey interpretation of personal service companies, it might be a factor.

May I come on to another point which is around paragraph 2.19 where it says that nine out of the 10 policies reviewed require the cardholders to include receipts? Which Department does not require receipts?

**Ian Watmore:** I don't think it says nine out of 10 Departments. It says nine out of 10 policies.

**Q117 Stephen Barclay:** Sorry, let me rephrase it. Which policy does not require receipts?

**Keith Davis:** I can answer that. The one that doesn't is the Department of Health<sup>2</sup>.

**Q118 Stephen Barclay:** What is the reason for that?

**John Collington:** We will find out for you and report back. I do not have that information.

**Q119 Stephen Barclay:** Does it not strike you as odd?

**John Collington:** It strikes me as odd.

**Q120 Stephen Barclay:** I presume that, like me, you have read the Report. It just jumped out at me as odd.

**Ian Watmore:** I come from a simple school that if you claim an expense, you submit a receipt.

**Q121 Stephen Barclay:** I just wonder how they approve it in the Department of Health where they spend more than £110 billion in all. I do not know what the procurement spend is, although we do know from a previous hearing that there are problems with maverick spend—wards ordering at out-of-date prices and various other things. It strikes me as difficult for the approver actually to verify if receipts are not submitted.

**Ian Watmore:** I honestly do not know why they think that that is the right thing to do. If there is a good reason, we will find out.

**Stephen Barclay:** Perhaps we could have a note.

**Q122 Chair:** What I was going to suggest was that we ask the NAO to write to the Department of Health with an answer in time for us to incorporate it into our Report.

**John Collington:** I would also like to point out that it was the Department of Health that was basically rated in figure 13 as having the most checks. They basically went to 100% review, second review and third review, which in a sense meant that it was basically out on its own with regard to the level of check that it applies. So I think we may need to take that offline, and identify it as some form of anomaly.

**Q123 Chris Heaton-Harris:** A very quick question. You talked about rebate earlier, and I wondered how that figures. Does it go to Department budgets, or to

<sup>2</sup> Please see accompanying memoranda

the Treasury? Do we get Nectar points? Where does it come in the Government's accounts?

**Ian Watmore:** Do we have a big Christmas party, or do we put it into the Government's art collection?

**Q124 Chris Heaton-Harris:** I looked up Dutch artists, but PICT has blocked everything apart from Rembrandt.

**John Collington:** One of the things we addressed through the steering group was the inconsistency that was applied through the various individual departmental programmes. There was so much inconsistency in the level of rebates that one of the first things we did was to tighten that up as a consequence of better managing the Government's purchasing power, which is quite difficult given that our expenditure is reducing, so the card providers do not necessarily view us as such a major client, particularly in comparison with the US Government. The £3.7 million, which accounts for roughly 1.2% of our total expenditure, is used by Departments, so it is allocated back to Departments to use. Most of those Departments would use it to finance investments, and improve their own purchasing operations. For example, when I was in the Home Office I used my diminishing return, when expenditure was reducing significantly, to improve the purchasing processes in place at the Home Office—to reinvest in improving procurement.

**Q125 Stephen Barclay:** Do you collate the database from the centre?

**John Collington:** How the rebates are used?

**Stephen Barclay:** No—how much each Department's rebate is.

**John Collington:** Yes, we do. That is why we are able to make a projection of the £3.7 million, which is up from the £2.1 million in 2009–10.

**Q126 Austin Mitchell:** Do we know the scale of the rebates? Can we have an indication of how much each Department is getting back in rebates?

**John Collington:** Yes.

**Q127 Austin Mitchell:** It is clearly an incentive to use the cards. The big users like Defence must get a quite considerable rebate. I see the American Government gets an annual rebate of \$300 million. Do we get anything like that?

**John Collington:** No—£3.7 million, and the MOD would receive about 70% of that money back. It is a small figure in comparison—

**Ian Watmore:** It gets just under £3 million of that.

**Q128 Austin Mitchell:** How about local government? I see that the Ministry of Justice requires all transactions to be reviewed by a designated person, whereas the MOD does a sample. You said you set minimum standards. What sort of control do you have over local government use of it? If there is more corruption, there must be a greater possibility in local government than in central Government. What control do you have?

**Ian Watmore:** We don't overlap. That would be a matter for DCLG and the local authorities to come to

a view on. The boundaries of our responsibility are central Government only.

**Q129 Austin Mitchell:** So effectively the local government officials are issued with credit cards, but there's very little control at central level?

**Ian Watmore:** I don't know, because it would be between the local authority and DCLG.

**Q130 Chair:** Yes, I think there is a different system of accountability, although there are some shocking stories around about local government usage.

Can I just ask one final question; then Nick wants to ask Mr Thompson something. If you look at figure 7 on page 17—I think we have covered everything else—it looks like the Treasury is spending much more on average than everybody else. Mr Gallaher, why?

**Marius Gallaher:** I understand it is to do with bundling our payments, in the sense that when payment has to be made, or we have purchases to make, we go around the Department to see what payments have to be made, and then we can do it in one payment, rather than individual payments. So that puts up the average spend per payment.

**John Collington:** If I may add some further clarity to the response, 13% of HMT's expenditure was on invoices between £1,000 and £5,000 specifically related to ITC consumables, record management and newspaper services, where they bundle those and pay them as large single transactions, as opposed to using them for high-value, low-volume transactions. That was the reason.

**Chair:** Okay.

**Q131 Nick Smith:** Mr Thompson, we have had a letter from your boss, Mrs Brennan, about the PAC Report of November last year, on the carrier strike capability. Since we produced our draft, the Department has failed to respond to agree the Report for publication, and of course there is massive public interest in this. The PAC has missed an important publication deadline. However, in last week's press a report said the Government is chopping and changing its plans on carriers, we understand that it is going to be a different plane—a different design; and we flogged off our Harriers at a bargain basement price to the US military. When is the Department going to agree this draft? Cynics might say the Department is hobbling our Report, because I know we were critical. I am sure you will be able to confirm that you are going to produce the report as soon as possible, please, so that cynical view will not be seen to be true.

**Chair:** I think we want a date, actually, because you are now behind on time for the Treasury minute.

**Nick Smith:** We missed the deadline.

**Jon Thompson:** We have missed the deadline. I am sure the Secretary of State will announce to Parliament in an appropriate way the formalisation of the Ministry of Defence budget, including the aspiration in relation to the equipment plan, which we previously discussed. I am sure that the question of carrier strike will be

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**Q132 Chair:** To be honest, we asked Ursula Brennan last week, when she did not give us a date, and then this letter arrives with us today, so you mustn't be surprised. The Committee got it today. It is not acceptable not to have responses in time for the Treasury minute. It is just not on. You are saying you are sorry you can't, but what I am seeking from you is a date

**Jon Thompson:** I believe that the next day is the last week of April, or some such.

**Q133 Chair:** For what? For the next Treasury minute?

**Jon Thompson:** For the publication of the next Treasury minute. The Clerk is nodding, so I assume that is right.

**Q134 Chair:** It has been impossible to agree a final version of a Treasury minute within the deadline, so when are you going to—

**Marius Gallaher:** The next round of Treasury minutes is at the end of April, so we would hope that we would have a response from the Government—

**Q135 Chair:** That is not good enough. That is after the six-month deadline.

**Marius Gallaher:** That is true, but regrettably—

**Q136 Chair:** As a Committee, we are much more anxious perhaps than our predecessor Committees to

monitor implementation, and not meeting a deadline is pretty serious stuff.

**Ian Watmore:** Can I take it offline with Ursula? This is a hearing about something different. I am happy to—

**Q137 Chair:** Of course it is, but we happen to have this laid around.

**Ian Watmore:** I understand that, but I do not think that it is right for Jon to have that on him here. I will talk to Ursula, and if there is a problem I will get her to contact you directly.

**Q138 Nick Smith:** Mr Watmore, do you think that the Department should meet Treasury deadlines?

**Ian Watmore:** I would not want to speak for the MOD. I will ask the question and get the answer back to you.

**Q139 Chair:** Before we disappear tomorrow. It is our last day tomorrow.

**Ian Watmore:** I suppose that it will have to be then. I was going to do it on Wednesday when I get to see Ursula routinely, but I will find out tomorrow if we can.

**Q140 Chair:** You will come back to me tomorrow.

**Ian Watmore:** Yes.

**Chair:** Thank you. Thank you very much indeed. That was a very interesting exchange.

### Written evidence from the National Audit Office

#### THE GOVERNMENT PROCUREMENT CARD—26 MARCH HEARING

I am writing to apologise for the NAO incorrectly naming the Department of Health in connect with a control weakness at the Committee Hearing on Monday 26 March.

The NAO report (paragraph 2.19) refers to nine out of ten departmental Government Procurement Card policies requiring cardholders to include receipts with their monthly reconciliations. Stephen Barclay asked which department did not require this. While our report is correct and evidence-based, unfortunately an error in our briefing material led to me incorrectly telling the Committee that the one exception was the Department of Health, In fact the department in question is the Foreign and Commonwealth office.

The C&AG has written to Una O'Brien at the Department of Health, and we have informed John Collington.

The Chair was keen that the NAO find out more about why one department has a department has a different approach to this matter. Following discussion with the foreign and Commonwealth office, we have prepared the attached short memorandum to include with the corrected transcript.

I am copying this letter to Richard Douglas at the Department of Health, Alison Currie at the foreign and Commonwealth office and John Collington at the Cabinet Office.

I very much regret that this happened and, once again I would like to offer my apologies.

#### MEMORANDUM

The C&AG's report (paragraph 2.19) states that nine out of ten departmental policies reviewed required cardholders to include receipts with their monthly reconciliations. At the hearing (Q117), Stephen Barclay MP asked which department did not require this, to which we named the Department of Health.

Unfortunately there was an error in our briefing material and we should have named the Foreign and Commonwealth Office as the exception. The Foreign and Commonwealth Office's policy states that receipts must be retained by the cardholder, and may be requested in the event of an audit, but does not set a requirement for receipts to be included when monthly reconciliations are sent to the approver or central Government Procurement Card team. The Foreign and Commonwealth Office has made this policy decision because the approver and central Government Procurement Card team are often in physically different (international)

locations from the cardholder and it considers that the forwarding of paper-based receipts would be time-consuming and prone to loss. The Department has judged the risk to be managed by the requirement for the cardholder to retain receipts for spot audit check.

The relevant extracts from the Foreign and Commonwealth Office's policy are included below:

*Record of Expenditure*

Evidence of the transaction must be obtained. This may include an email from the supplier, a screen print of the order confirmation, a PDF or other document file, or a physical invoice. In each case the evidence should show the value of the goods or services bought, the VAT element, a description of the goods or services, the transaction date and the name of the supplier (not the intermediary).

For audit purposes, the evidence of the transaction (ie receipts and/or invoices) must be kept by the Cardholder for the current financial year plus two subsequent years along with the relevant e-statement from Smart Data OnLine (SDOL). In the event of an audit check you will be expected to be able to provide receipts and/or invoices within two working days.

*Approver responsibilities*

The Approver must ensure that the Cardholder retains all evidence of their transactions as above together with a print-out from SDOL for the relevant period. Any discrepancies must be queried with the Cardholder and relevant comments made on SDOL to justify any unusual spend.

*Government Procurement Cardholder and Approver Policy, Foreign and Commonwealth Office intranet guidance, Last updated 15 February 2012.*

We have informed the Department of Health and the Foreign and Commonwealth Office of this correction.

3 April 2012

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**Written evidence from the Director General Finance, Ministry of Defence**

PAC HEARING—26 MARCH 2012: GOVERNMENT PROCUREMENT CARD

Thank you for your letter of 27 March containing a copy of the uncorrected transcript of oral evidence from the PAC hearing on "Cross Government Study on Government Procurement Card", held on 26 March 2012.

I enclose a version of the transcript with the MOD corrections shown as tracked changes. I would be grateful if you would arrange for the corrected version of the transcript to be posted on the PAC website.

I also enclose a note providing the supplementary material which we undertook to provide at the Hearing.

I am copying this to the Comptroller and Auditor General and the Treasury Officer of Accounts.

3 April 2012

## RESPONSE TO FOLLOW UP QUESTIONS: PAC HEARING 26 MARCH 2012

Question 62—*Breakdown of expenditure from a transparency extract from the Chair*

The Merchant Category Groups and their subordinate Merchant Category Codes are VISA designed categorisation terms which underpin their worldwide system to indicate both the types of supplier and their main line of business. These codes are provided solely to indicate the type of purchasing MOD is engaged in through the use of the Government Procurement Card (GPC) but clearly there are limitations and sometimes apparently incongruous descriptions appear eg “Jewellery”: maintenance of the office flexi-clock systems and; “Cosmetics”: Purified Water for military hardware. Overall the categories are useful but the limitations need to be considered when viewing the category data which are supplier descriptions rather than the items actually purchased, and provide the only centrally available description to provide a level of Transparency. The VISA categorisation descriptions underpin their worldwide activity and use of the VISA systems by Government is very minor part of the overall business and therefore it will not be possible to influence the groups and codes used.

Detailed below is a description of the list of transactions highlighted by the Chair.

<i>Date Of Transaction</i>	<i>Merchant Category</i>	<i>Merchant Category Description</i>	<i>Amount</i>	<i>Description</i>
07-Dec-11	Leisure Activities	BOAT DEALERS	3,544.37	Battery for Tannoy system
02-Dec-11	Leisure Activities	BANDS/ORCHESTRAS/ENTERTAIN	749.00	Welfare Service
07-Dec-11	Leisure Activities	MEMBER CLUBS/SPORT/REC/GOLF	745.99	Service School Sports
05-Dec-11	Restaurants and Bars	RESTAURANTS	3,400.00	Group booking—Operational
13-Dec-11	Restaurants and Bars	RESTAURANTS	3,400.00	Group booking—Operational
20-Dec-11	Restaurants and Bars	RESTAURANTS	3,400.00	Group booking—Operational
19-Dec-11	Restaurants and Bars	RESTAURANTS	1,502.99	Catering for Business Conference
09-Dec-11	Restaurants and Bars	BARS/TAVERNS/LOUNGES/DISCOS	1,220.00	Accommodation for pre-deployment training
15-Dec-11	Leisure Activities	SPORT/RECREATIONAL CAMPS	625.00	Accommodation for training
05-Dec-11	Leisure Activities	RECREATION SERVICES	1,138.20	Hire of swimming pool, welfare
12-Dec-11	Restaurants and Bars	RESTAURANTS	500.28	Accommodation, food, Strategy Conference
12-Dec-11	Restaurants and Bars	RESTAURANTS	744.82	Accommodation, food, Strategy Conference
13-Dec-11	Restaurants and Bars	RESTAURANTS	514.61	Accommodation, food, Strategy Conference
07-Dec-11	Leisure Activities	BOAT DEALERS	1,946.40	Paint for Ships
21-Dec-11	Leisure Activities	RECREATION SERVICES	1,000.00	Recruitment advertising
16-Dec-11	Leisure Activities	BOAT DEALERS	754.17	Repair to training boat
06-Dec-11	Restaurants and Bars	RESTAURANTS	554.21	Apprentice training
16-Dec-11	Leisure Activities	MEMBER CLUBS/SPORT/REC/GOLF	987.00	Fitness training
13-Dec-11	Leisure Activities	TOURIST ATTRACTIONS AND XHBT	732.05	Recruitment visits
21-Dec-11	Leisure Activities	BOAT DEALERS	632.40	Weapon mount repair
23-Dec-11	Restaurants and Bars	RESTAURANTS	1,007.20	Accommodation for strategy team meeting
12-Dec-11	Leisure Activities	MEMBER CLUBS/SPORT/REC/GOLF	972.00	Adventure training services
09-Dec-11	Leisure Activities	MEMBER CLUBS/SPORT/REC/GOLF	860.00	Physical Education Training
15-Dec-11	Restaurants and Bars	RESTAURANTS	652.50	Accommodation official visit
13-Dec-11	Leisure Activities	MEMBER CLUBS/SPORT/REC/GOLF	822.00	Fitness training
01-Dec-11	Leisure Activities	SPORT/RECREATIONAL CAMPS	1,785.00	Training

<i>Date Of Transaction</i>	<i>Merchant Category</i>	<i>Merchant Category Description</i>	<i>Amount</i>	<i>Description</i>
13-Dec-11	Restaurants and Bars	BARS/TAVERNS/LOUNGES/DISCOS	510.00	Accommodation on business
13-Dec-11	Restaurants and Bars	BARS/TAVERNS/LOUNGES/DISCOS	750.30	Accommodation on business
08-Dec-11	Restaurants and Bars	RESTAURANTS	920.00	Accommodation on business
09-Dec-11	Leisure Activities	TOURIST ATTRACTIONS AND XHBT	1,308.00	Service education publicity material
09-Dec-11	Leisure Activities	SPORT/RECREATIONAL CAMPS	1,240.00	Adventure training services
06-Dec-11	Leisure Activities	BOAT DEALERS	4,586.40	Minor ship maintenance
09-Dec-11	Leisure Activities	BOAT DEALERS	585.60	Minor ship maintenance
02-Dec-11	Leisure Activities	MEMBER CLUBS/SPORT/REC/GOLF	1,485.00	Travel for Cadets
29-Dec-11	Leisure Activities	MEMBER CLUBS/SPORT/REC/GOLF	780.00	Travel for Cadets
29-Dec-11	Leisure Activities	MEMBER CLUBS/SPORT/REC/GOLF	640.00	Travel for Cadets
02-Dec-11	Leisure Activities	MEMBER CLUBS/SPORT/REC/GOLF	500.00	Boat handling training

Question 112—*How many contractors within the MoD hold a GPC card.*

MOD does not a record of whether the Cardholder is a Contractor, or similarly it does not record whether the holder is a Civil Servant or a member of the Armed Services. The overriding responsibilities within the MOD control systems are firstly local compliance through the Budget Holder, a Senior Civil Servant (SCS) to personally delegate in writing the scope of items which may be purchased to the individual and for the GPC Manager (Civil Servant) to oversee correct application of the rules. At a corporate level a Low Value Purchasing Mentor carries out visits to assess the effectiveness of purchasing and additionally, all transactions are analysed monthly to identify any unusual spend patterns.

3 April 2012

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### Written evidence from the Cabinet Office

#### RESPONSE TO NOTES REQUESTED BY PUBLIC ACCOUNTS COMMITTEE MEMBERS

QUESTIONS FOR CABINET OFFICE TO RESPOND TO:

**Q22—Steve Barclay to John Collington**—criminal prosecutions for misappropriate use of GPC across govt depts.

**R22:** Over the past four years there have been seven criminal prosecutions, 5 MoD, 1 MoJ and 1 DWP; DfT currently have a single case under investigation.

**Q25—Steve Barclay to John Collington**—National Fraud Database of prosecutions and evidence—do you disclose dismissals to the NFD?

**R25:** No, where there have been cases of criminal fraud, card providers are responsible for reporting those cases to the National Fraud Intelligence Bureau (NFIB), who will then update their central intelligence database.

Furthermore, in the event that fraud does occur, card providers give indemnity against employee misuse.

**Q41—Matthew Hancock to Ian Watmore**—Environment Agency spent £61.9 million on GPC in 2009—dropped to £38.5 million in 2010—requested reason for this, was 2009 figure appropriate?

**R41** (Provided by Defra): The Environment Agency budget was reduced significantly at the start of Spending Review period 10 and they reduced staff numbers by around 2,000. This led to general reductions across various categories of spend that have been re-enforced by tighter expenditure controls.

**Q59—Richard Bacon to Ian Watmore**—Alcohol policy—is it ok to purchase alcohol using GPC?

**R59:** The purchasing of alcohol using a GPC is governed by specific Departmental policies. For example; the Cabinet Office overnight subsistence policy allows the purchase of alcohol with a meal, however it must not exceed £4 in value. HMT on the other hand, allow the purchase of alcohol for official entertaining but only in restricted circumstances. This also requires Permanent secretary approval in advance for any such purchases. A final example is that DfE do not allow staff to buy alcohol on GPC. They completely block that category of expenditure on their GPCs.

**Q126—Austin Mitchell to John Collington**—Scale of the rebates

**R126:** Rebates across Central Government start from 0.05% and can increase to just over 1%, if the amount of spend increases above set thresholds agreed between Departments and their card providers.

May 2012