National Audit Office

REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL

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Ministry of Justice

# Restructuring of the National Offender Management Service

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National Audit Office

Ministry of Justice

# Restructuring of the National Offender Management Service

Report by the Comptroller and Auditor General

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This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act

Amyas Morse
Comptroller and Auditor General
National Audit Office

14 September 2012

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This report examines the Agency's progress in making savings from the restructure of its headquarters and across its operations as a whole. It examines whether the drive to secure savings has affected its performance against its key business priorities.



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The National Audit Office study team consisted of:
Craig Adams, Dawn Girlich, Alex Quick, Rebecca Sidell and Matthew Wilkins, under the direction of Aileen Murphie

This report can be found on the National Audit Office website at www.nao.org.uk/restructuring-NOMS-2012

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Enquiries: www.nao.org.uk/contactus

Website: www.nao.org.uk

Twitter: @NAOorguk

# Key facts

**86,000**
the number of prisoners in England and Wales as at June 2012

**>£2bn**
the real terms savings the Department will need to make annually by 2014-15

**£246m**
the Agency's real terms savings target for 2012-13

| | |
|---|---|
| **165,000** | offenders being supervised by probation trusts in the community |
| **117** | public sector prisons in England and Wales |
| **35** | probation trusts in England and Wales |
| **37 per cent** | the Agency's cash savings target from its headquarters for the spending review period |
| **£122 million** | the amount of voluntary early departure funding which the Agency requires over the next two years to support its long-term cost reduction plans |

# Summary


1 The National Offender Management Service (the Agency) is an executive agency of the Ministry of Justice (the Department). The Agency unites the headquarters of the prison and probation trusts of England and Wales with the aim of enabling a single organisation to manage offenders in custody and in the community. It became an executive agency of the Department in 2008, and its priorities include protecting the public and reducing reoffending by delivering the sentences and orders of the courts.

2 The Agency directly manages 117 public sector prisons, with a workforce of 43,000, and is responsible for a prisoner population of around 86,000, as at June 2012. The Agency manages the contracts of 14 private sector prisons, as well as other private providers supplying services, including prisoner escorts and electronic monitoring. The Agency commissions and funds services from 35 probation trusts, which oversee approximately 165,000 offenders serving community sentences.

3 Under the terms of the 2010 comprehensive spending review and following the 2011 Autumn Statement, the Department needs to achieve savings of over £2 billion a year by 2014-15, representing an overall resource saving of 24 per cent in real terms. For 2012-13, the Agency's budget, net of allocations to other departments, is £3,401 million. The Agency has spending targets for all years of the spending review and is currently planning additional savings of £262 million in 2013-14 and £145 million in 2014-15, giving a cumulative planned annual saving of £884 million in 2014-15 from the 2010-11 baseline.

4 Over the spending review period, the Department requires the Agency to reduce the cost of its headquarters' functions by 37 per cent in cash terms. To deliver this saving, the Agency has abolished its regional structure and introduced directorates for each function. In parallel, the Agency is seeking to transform offender management through new models for commissioning and delivering services, increasing the involvement of the private and voluntary sectors in both prisons and probation trusts.

## The scope of this report

5 This report examines the Agency's progress in making savings from the restructure of its headquarters and across its operations as a whole. It examines whether the drive to secure savings has affected its performance against its key business priorities. Additionally, it examines whether the restructured Agency board and headquarters have the information and decision-making processes necessary to oversee offender management by prisons and probation trusts. The report also examines the effectiveness of the tools the Agency supplies to prisons and probation trusts as they deliver their own programmes of service transformation.

**6** This report does not examine the implementation of the Agency's current key initiatives, such as modernising the prison workforce, introducing payment by results for the rehabilitation of offenders, or other commercial initiatives such as transferring public prisons to the private sector. This report also does not examine individual prisons and probation trusts, or their performance in key areas such as managing risk and individual offenders.

## Key findings

### On the Agency meeting its savings and performance targets and planning for the future

**The Agency does not control demand for its services, and sentencing reforms to reduce the prison population did not go ahead as originally planned**

**7** The demand for prison places and the services of probation trusts is determined by the sentencing decisions of individual judges and magistrates. In 2010, the Department proposed a range of sentencing reforms, designed to give it greater influence over what it described as "the unsustainable rise in the prison population". The Department initially estimated that the implementation of these reforms would result in over 6,000 fewer prisoners in custody than it projected for 2015, allowing it to achieve savings by closing less efficient prisons. However, in June 2011 the government decided not to move ahead with some of the proposed sentencing reforms. The Department now estimates that the number of prison places which are likely to reduce through sentencing reforms has fallen to around 2,000 (paragraph 1.3).

**The inherent difficulty of predicting the prison population impacts on the Agency's ability to meet its savings targets over the remainder of the spending review period**

**8** The Department's savings targets under the comprehensive spending review were set on the understanding that sentencing reforms would reduce the size of the prison population by the end of the review period. When some elements of sentencing reforms did not move ahead, the Department's savings targets were not reduced. The Agency's savings targets at the end of the review period are now more challenging: the Department estimates it will lose around £130 million of savings from sentencing reforms not proceeding as planned. Nevertheless, the Agency achieved its savings target of £230 million in 2011-12 in the face of substantial financial and operational challenges, while maintaining performance in a number of areas of key public interest, such as reducing reoffending. Given the delays in making savings by closing prisons, the Agency's 2012-13 savings target of £246 million is more challenging. In July 2012, the Agency projected that it would spend £32 million more than its budget in 2012-13. The Agency's financial position is vulnerable to unexpected changes in the prison population (paragraphs 1.3, 1.12–1.13).

### The Agency and the Department do not yet have fully funded plans for delivering long-term savings in the remainder of the spending review period

**9** The Agency has identified it needs to make savings in the remainder of the spending review period primarily by improving efficiency in the prison estate and from front-line efficiencies resulting from increasing competition in prisons and probation. The Agency currently estimates it will require a further £122 million of funding for early staff departures across all of its operations over the next two years. The Department has provided the Agency with £16 million of its estimated remaining requirement for 2012-13. The Department has further agreed that its £40 million ring-fenced budget for voluntary early departures in 2013-14 will be allocated to the Agency. This leaves a total funding deficit for staff departures within the Agency of some £66 million over the next two years. The Agency and the Department agree the Agency can deliver further savings through initiatives increasing the efficiency of the prison estate, and the Department has identified staff exit funding as a priority. Discussions regarding further funding for staff departures are ongoing (paragraphs 1.19 and 1.26).

## On the Agency's restructured headquarters

### The restructure of the Agency's headquarters has been well received by prisons and probation trusts

**10** As the Agency restructured, it reduced the number of staff at its headquarters by 650 from around 2,400. Despite having fewer staff at its headquarters, the prison governors, probation trust chief executives, and other stakeholders whom we consulted generally regarded the restructure positively, considering it to have produced a more efficient organisation with greater clarity on accountability. In May 2012, the Major Projects Authority conducted a review of the Agency headquarters' organisational restructure programme, which resulted in a positive delivery confidence assessment (paragraph 1.10).

### The Agency's restructured board has clear lines of accountability but needs to become more strategic

**11** As part of the reorganisation of its headquarters the Agency has restructured its board, and its governance arrangements continue to develop. Under the restructure, it reduced the number of its executive members by seven to nine directors from April 2011, with each member now responsible for a function instead of regions. The board is responsible for both setting the Agency's strategic direction and holding it to account. The board is supported by an executive management committee for managing the Agency's operations. In parallel to the new governance arrangements, the Agency worked extensively with board members to develop the management information necessary for decision-making around performance, risk, and finance. The board members we interviewed were broadly positive about the management information they received. As the Agency's governance arrangements embed, it acknowledges there is a need to address the lack of clarity between the role of the board and its supporting committees. This is demonstrated by the board tending to examine operational as well as strategic issues (paragraph 2.6).

**Overall, the Agency has strong risk management in place at its headquarters and in prisons**

**12** The Agency's responsibility for offenders means its core business is managing risk. It has strong risk management mechanisms at its headquarters and in the oversight of prisons. The Agency's headquarters has clear accountability and ownership of risks, with information flowing directly and swiftly from prisons. However, there are gaps in how the Agency records risks below national level emanating from prisons (paragraph 2.15).

## On delivering through prisons and probation trusts

**The Agency has improved its understanding of the cost drivers of offender management activity**

**13** Since 2008, the Agency has improved its knowledge of the cost drivers of specific offender management activities and of the variation in costs across prisons and probation trusts. The Agency's 'Specification, Benchmarking and Costing' programme is comprehensive, covering £2.5 billion of the Agency's spending, and gives prisons and probation trusts tools to cost their activities. The use of benchmarks is not yet mandatory in objective setting, and this should be a next step. The Agency is complementing its benchmarking costing tool with others designed to enable public prisons and probation trusts to report back on their spending and to enable a greater understanding of their cost drivers. The Agency acknowledges that these tools do not yet contain data of sufficient quality to give its headquarters a full understanding of the drivers of variation in costs across prisons and probation trusts (paragraphs 3.3-3.4).

**The Agency needs to develop increasing levels of skills to support prisons and probation trusts in line with increasing calls for support over time**

**14** There are some areas in the Agency's headquarters with unfilled positions. In the spring of 2012, for example, the Agency had filled around half the positions in its unit responsible for supporting commissioners. The Agency reported it filled positions as its need for commissioning support skills grew over time. It did not consider the vacant posts affected its current support capability. The Agency is also using contractors to develop and train people in using its costing tools, with a view to transferring skills and knowledge (paragraph 2.19).

**Although probation trusts are central to many of the Department's and Agency's ambitions, there are tensions in relations between the Agency and the probation profession**

**15** The Agency plans to increase the role of commissioning in offender management, with probation trusts at the forefront of its plans. In February 2012, the Department opened consultation on proposals to reform community sentences. These include encouraging trusts to work in partnership with other public sector organisations, as well as the private and voluntary sectors, and granting providers new commercial freedoms. The Agency has a fundamentally different relationship with trusts than with prisons, as these are independent non-departmental public bodies. Many trusts we consulted welcomed the Agency's plans to increase commissioning. The Agency has taken extensive action to ensure knowledge of probation is captured at its headquarters. However, a perception remains among the trusts we consulted that the Agency does not fully understand how they work with offenders (paragraphs 3.8 and 3.13).

## Conclusion on value for money

**16** In 2011-12, the Agency delivered its savings target while restructuring its headquarters and broadly maintained its performance in the face of significant challenges, including a prison population greater than projected. The Agency therefore achieved value for money in this period. However, the Agency's spending is vulnerable to even slight fluctuations in demand, over which it has no control, and it has very little flexibility to absorb unforeseen costs. The Agency and the Department do not yet have shared, fully-funded plans for delivering savings over the longer term. There are risks to the Agency's ability to deliver long-term sustainable spending reductions during the remainder of the spending review period and beyond, during which the prison population is unlikely to fall substantially and the Agency's funding will continue to reduce.

## Recommendations

### To the Department and Agency in partnership

**a** **The Agency and the Department need to agree how to fund plans for delivering savings from the prison estate in the remainder of the spending review period and beyond. They need clarity on the costs of staff exits and agreed plans for how these will be funded.** Reducing the number of prison places and voluntary early staff departures are integral to the Agency's ability to meet sustainable savings targets further into the spending review period. Funding for staff departures is the key enabler for payroll savings. The Department and Agency have not yet fully developed shared plans for funding early departures, which is an ongoing iterative process.

## To the Agency

b **As the Agency's new governance structure embeds, it needs to review whether its board provides sufficiently strategic oversight, alongside its operational role.** Following the restructure of its headquarters, the Agency's board is tasked with the strategic leadership of the organisation, but there is unclear distinction between its role and that of more operational supporting committees.

c **The Agency should ensure its risk management below national level is as strong as that in headquarters and in prisons.** We found the Agency's headquarters has strong accountability and ownership of risks, with information flowing directly from prisons. There is scope for more formality in how the risks of prisons in different areas are managed.

d **Although the Agency considers it has sufficient capability and resources to support commissioning and resourcing at present, it needs to ensure it increases its support as the need for commissioning skills grows in the future.** In the spring of 2012, the Agency had filled around half the positions in its unit responsible for supporting commissioners. The Agency also needs the resources to develop some costing methods further.

e **The Agency should take action to improve the quality of data in its costing tools and consolidate their use among prisons and probation trusts.** The Agency has developed comprehensive tools to help prisons and probation trusts understand and benchmark their costs. It acknowledges that some of these require better quality data and need to be used more widely by prisons and probation trusts.

f **The Agency needs to continue to engage with trusts while it seeks to transform how offenders are managed in the community.** The Agency is reliant upon probation trusts to help deliver its proposed reforms and to introduce greater commissioning to offender management. The trusts we consulted expressed concerns at what they perceive to be a lack of understanding of probation issues at the Agency's headquarters and there are tensions in relations between the Agency's headquarters and probation trusts.

# Part One

## Reducing costs and maintaining performance

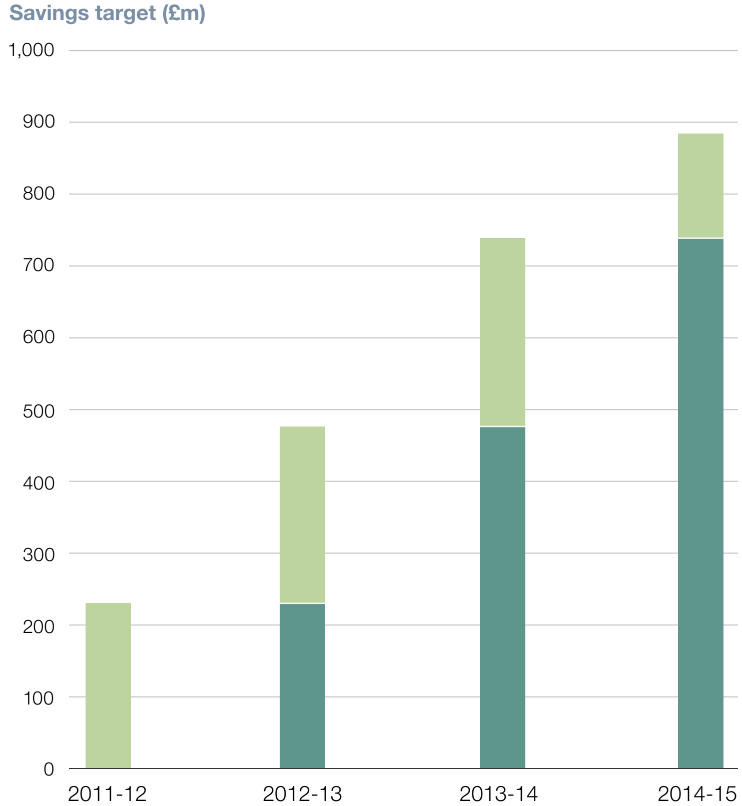
### Introduction

**1.1** The National Offender Management Service (the Agency) oversees a complex array of institutions and organisations delivering the custody and rehabilitation of offenders. It directly manages 117 public prisons, with 43,000 directly employed staff in prisons, and also manages the contracts of 14 private prisons. The Agency commissions and funds services from 35 probation trusts, which in turn oversee offenders serving sentences in the community. It also purchases a wide range of services from private providers, ranging from prisoner escorts to electronic monitoring. The prisoner population is around 86,000, and there are approximately 235,000 offenders supervised by probation trusts both on court orders and before and after their release. Many offenders have complex needs, including poor mental health, low levels of literacy, and substance misuse. The Agency seeks to address these through many of the services it commissions and supplies to offenders to reduce their risk of reoffending.

**1.2** Under the settlement the Ministry of Justice (the Department) received as part of the 2010 comprehensive spending review, and following the 2011 Autumn Statement, it needs to achieve savings of over £2 billion per annum by 2014-15, representing an overall resource saving of 24 per cent in real terms by 2014-15. For 2012-13, the Agency's budget, net of allocations to other departments, is £3,401 million. The Department and the Agency agree annual targets for making savings. **Figure 1** overleaf outlines the Agency's savings targets for 2011-12 to 2014-15, giving a planned annual saving of £884 million in 2014-15 from the 2010-11 baseline. The Department and the Agency agreed a target to reduce the cost of its headquarters by 37 per cent in cash terms over the spending review period.

## Figure 1
The Agency's savings targets for 2011-12 to 2014-15

**The light green bars represent the Agency's additional savings target for each year, over and above the savings achieved in the previous year. By 2014-15, the Agency plans to make an annual saving of £884 million over the 2010-11 baseline**




| | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|
| Additional in-year savings (£m) | 230 | 246 | 262 | 145 |
| Total annual savings (£m) | 230 | 476 | 739 | 884 |

**NOTE**

1 The savings targets for 2013-14 and 2014-15 are indicative and include estimated additional savings which the Department has provisionally allocated to the Agency. This is part of the Department's plans to operate within its overall settlement. The savings targets are subject to change.

*Source: National Audit Office*

**1.3** The 2010 comprehensive spending review target set for reducing the Department's real term spending was based on the agreed plan, later changed in part, that the government would implement its proposed sentencing reforms. These would in turn enable the Department to stem what it described as the "unsustainable rise in the prison population". One of the government's proposed reforms was introducing a discount of up to 50 per cent of the length of a custodial sentence for those pleading guilty at the earliest stage of a trial. In 2011, after the spending review had set the Department's savings target, the government decided not to move ahead with some sentencing reform proposals, such as that on early guilty pleas. The Department initially estimated that it could reduce the number of prison places by around 6,000 through implementing sentencing reforms. However, it now estimates that the number of custody places it can reduce from sentencing reforms has been reduced to around 2,000, mainly because of changes to remand legislation. The Department estimates that, as a result, its overall potential savings from prison capacity reduction over the spending review period have reduced from £324 million to £190 million, with £105 million of this planned between 2013-14 and 2014-15 (Figure 6).

**1.4** This part of the report examines the Agency's progress in making savings from its headquarters as well as from across its wider operations. The report evaluates two points. The first is whether the Agency is achieving savings in a manner consistent with its status as an executive agency responsible for delivering offender management services for the Department. The second is whether the Agency is delivering savings which are sustainable in the long term.

## The Agency's responsibilities

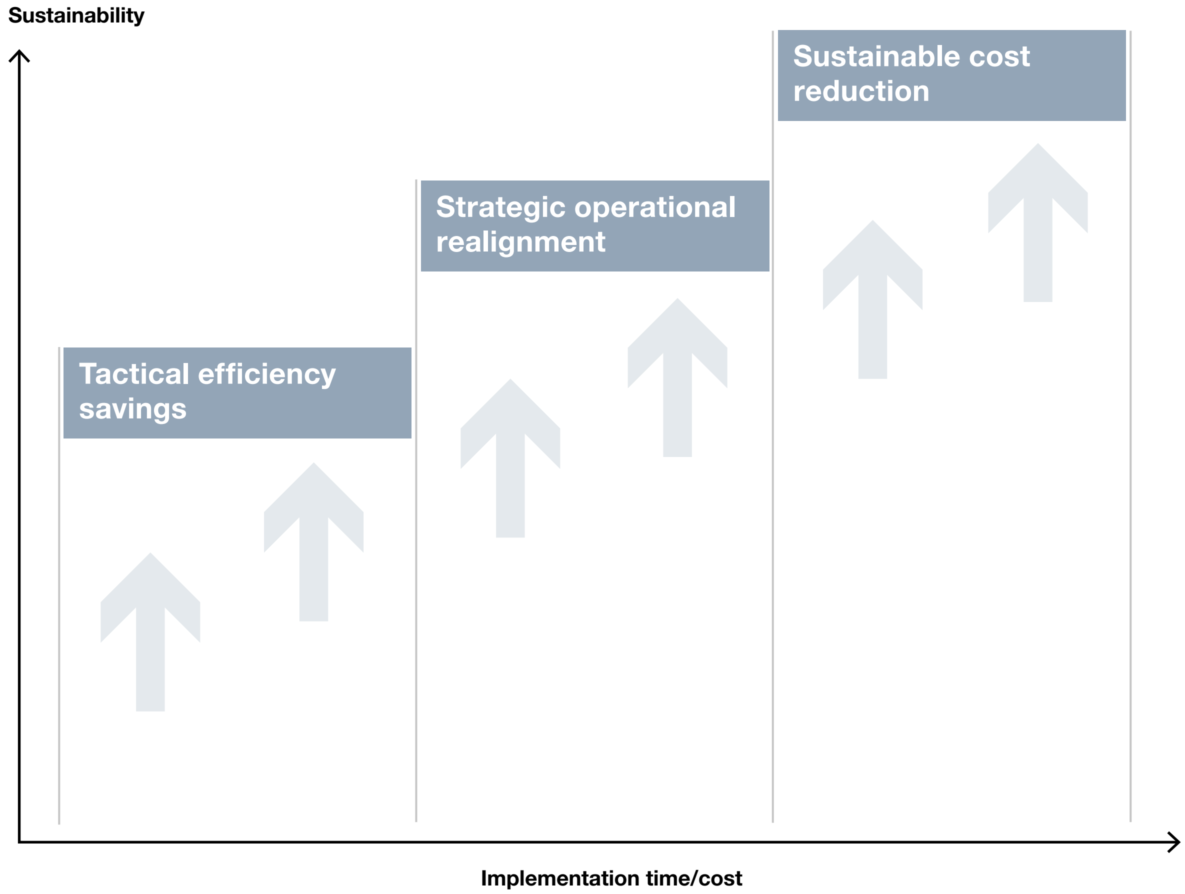
**1.5** Under the Department's operating model, it is responsible for funding and setting strategy for the Information and Communications Technology and estates utilised by its arm's-length bodies. As an executive agency of the Department, the Agency engages in developing the Department's estates strategy in matters such as prison building. The Agency does not control demand for the offender management services it supplies. Demand for prison places and community sentences, which drive the majority of the Agency's costs, is determined primarily by the sentencing decisions of individual judges and magistrates. The Agency has some influence over them through probation officers, who sit in court hearings and deliver pre-sentencing reports to judges and magistrates.

## Making long-term sustainable cost reductions

**1.6** Making savings of the scale which the Agency is required to achieve, over a prolonged time period, will require it, and the Department, to have a clearly defined target operating model on which to base savings plans. As **Figure 2** overleaf sets out, the NAO would expect to see an organisation progress through three key stages as it seeks to sustain far-reaching cost reductions. In the first stage, an organisation would make tactical efficiency savings. It would reduce costs in those areas where it is easy to do so swiftly, such as targeting discretionary spend. In the second stage, an organisation would go through strategic operational realignment by, for instance, developing alternative models for providing services. In the final stage, where an organisation sustainably reduces costs, it should have a transformational change programme which enables it to embed cost management throughout its organisation. The Department's approach to 'Transforming Justice', which is an agreed programme of change across the Department, illustrates its progress through these stages. However, beyond its headquarters, and in its wider operations, the Agency is finding it challenging to achieve transformational change by, for example, changing the prison estate to respond to changes in the prison population.

## Figure 2
Stages of sustainable cost reduction

**This figure shows the key stages through which the NAO would expect an organisation to proceed as it achieves sustainable cost reduction**




*Source: National Audit Office*

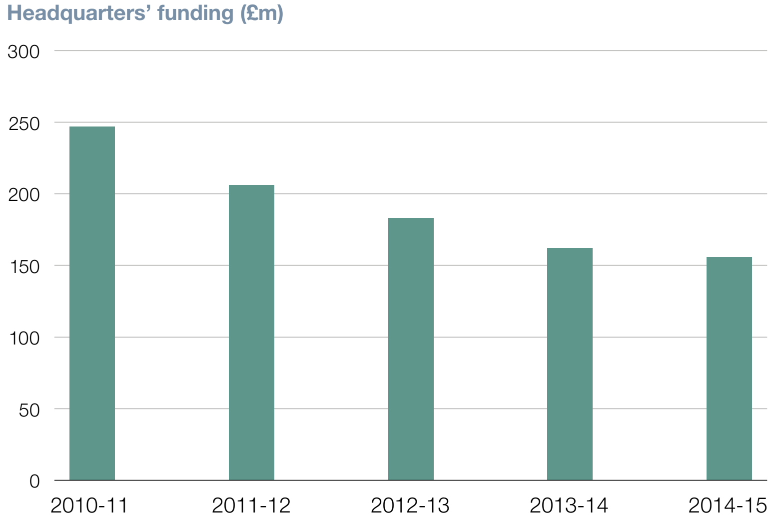
## Making tactical efficiency savings at the Agency's headquarters

**1.7** Between 2010-11 and 2014-15, the Agency is required to reduce the annual cost of its headquarters' functions, which provide back-office services, from £247 million to £156 million. As **Figure 3** sets out, the Agency was required to make the greatest savings from its headquarters' functions early on in the spending review period. For 2011-12, the Department set the Agency a target to make £41 million in savings from its headquarters' functions, which it achieved, reducing the annual cost of its headquarters' functions to £206 million.

**1.8** The scale and time frame of the Agency's savings targets meant it was necessary to focus its organisational restructure plans on delivering savings by reducing its payroll bill through voluntary early departures for headquarters' staff and by freezing recruitment. From 1 April 2012, when its new headquarters' functional structure was in place, the Agency had around 650 fewer headquarters' posts. For 2011-12, the Agency focused on securing the required savings through tight controls on non-pay expenditure, such as conference fees, and limiting travel and subsistence costs, and controlling pay expenditure through managing vacant posts and freezing staff recruitment.

### Figure 3
The reduction in headquarters' funding 2010-11 to 2014-15

**The figure shows the actual headquarters' budgets for 2010-11 and 2011-12, and the projected budgets through to 2014-15 to achieve the required annual savings of £91 million by 2014-15**




| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|
| Headquarters' funding (£m) | 247 | 206 | 183 | 162 | 156 |
| Change on the previous year Reduction (£m) | – | 41 (17%) | 23 (11%) | 21 (11%) | 6 (4%) |

*Source: National Audit Office*

## Reducing the costs of the Agency's headquarters in 2012 to 2015

**1.9** Figure 2 sets out that in the second stage of cost reduction an organisation needs to progress through strategic operational realignment. This will include, for example, considering alternative delivery models. The Agency's plans to take a more strategic approach to delivering savings from its headquarters in the later part of the spending review period follow this stage of cost reduction. For 2012-13 onwards, as part of the restructure of its headquarters, the Agency developed a picture of the resources each directorate required. Each directorate mapped out the activities necessary to deliver its priorities, and each director then identified the resources they required. The Agency then identified any duplication and opportunities to strip out costs. This process aimed to ensure each directorate was as lean as possible, and budgeted to receive only those resources sufficient to deliver its priorities. Beyond its headquarters, the Agency is also implementing alternative delivery models for offender management.

**1.10** In March 2012, the NAO published a real-time evaluation of the Agency's overall approach to restructuring its headquarters.[1] We found its planning and implementation of the restructure followed a number of the NAO's good practice principles for departmental restructure. For example, the Agency took a strategic view in evaluating the skills required in its new functional directorates and it swiftly put in place governance and risk management structures. In May 2012, the Major Projects Authority conducted a review of the Agency headquarters' organisational restructure programme, which resulted in a positive delivery confidence assessment.

## Reducing costs across the Agency's operations in 2011-12 and 2012-13

**1.11** The Agency's savings target for 2011-12 was £230 million: £41 million from the restructure of its headquarters, and the remainder from making efficiency savings in public prisons and probation trusts.

**1.12** We found the Agency met this target, although it was required to control tightly the distribution of funds to prisons and probation trusts. At the start of 2011-12, for example, allocations to probation trusts excluded inflation. The Agency subsequently went back to prisons two months into the financial year to request the return of inflation-related funds to help balance its books and meet its savings targets.

1 Management Report by the Comptroller and Auditor General, *National Offender Management Service: Realising the benefits of the headquarters' restructure,* March 2012.

**1.13** The Agency is required to achieve savings of £246 million across all its operations in 2012-13. As at July 2012, it had a projected deficit of £32 million. The Department agrees annual budgets for all its business groups including the Agency. In December 2011, the Department and the Agency agreed a net resource allocation of £3,401 million for 2012-13, net of transfers to other government departments. The agreed amount was 96 per cent of the Agency's bid to the Department. The Department's other business groups received between 88 per cent and 98 per cent of their bids for 2012-13. In March 2012, the Agency wrote to the Department highlighting the risks in aiming to deliver its business priorities within this resource allocation, and emphasised it was likely to require substantial financial cover from the Department.

**1.14** The causes of the Agency's projected budget deficit in 2012-13 illustrate that its overall budget position is sensitive to major changes in the prison population. The budget position also reduces its flexibility to address unforeseen cost pressures. As detailed below, the Agency's projected overspend in 2012-13 is attributable to: a greater than expected prison population; limited ability to deliver savings from Information and Communications Technology projects and from procurement; and less funding for voluntary early departures than its estimated requirement. In addition to the specific causes of its projected deficit for 2012-13, the Department also agreed with the Agency a target of a further £60 million of savings beyond its original spending review settlement.

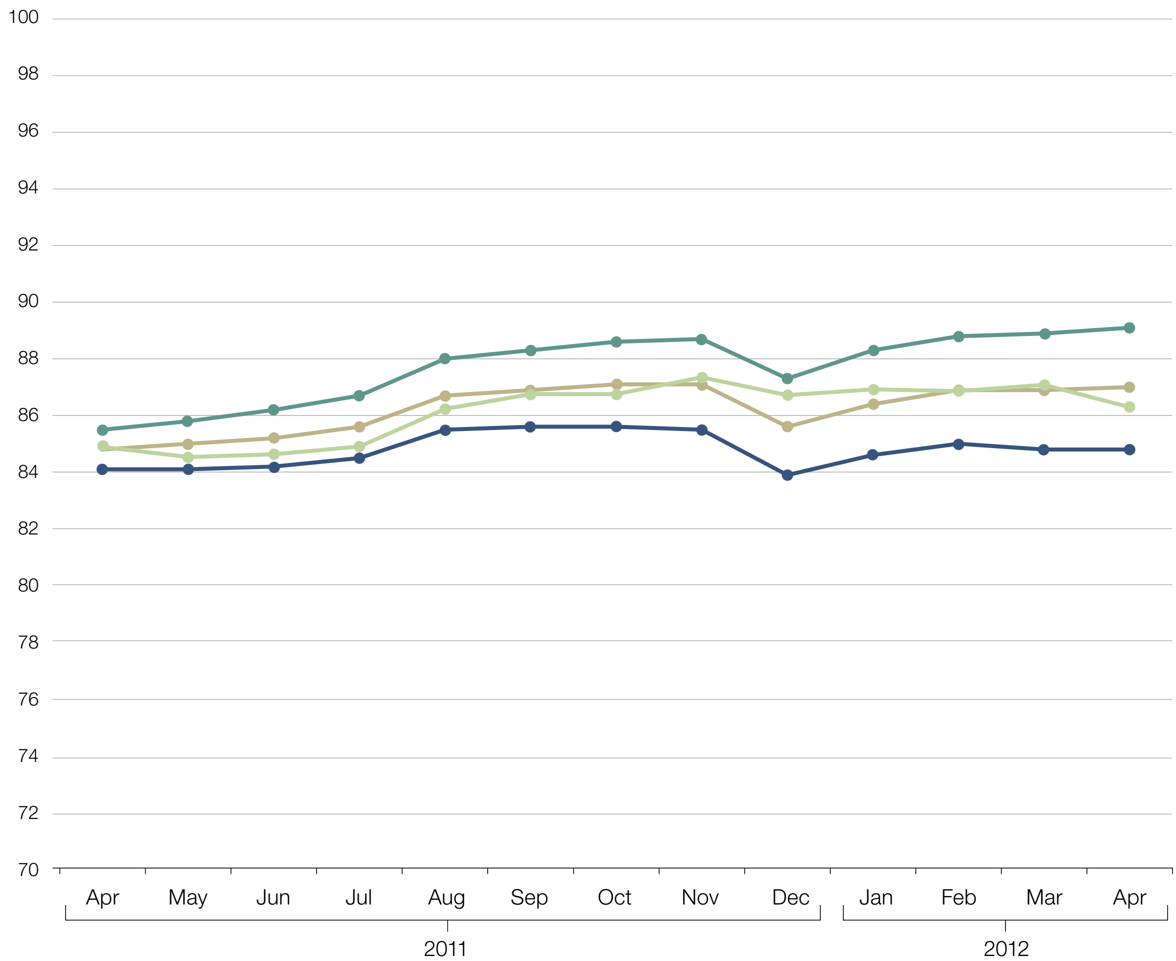
## Causes of the Agency's projected deficit: the prison population

**1.15** At the start of 2012-13, one third of the Agency's projected budget deficit for the year was due to the higher than anticipated prison population. As **Figure 4** overleaf sets out, in 2011-12 the prison population often exceeded the Department's medium projected level, and grew at a faster rate than the Department assumed in its financial planning forecasts. The Department is responsible for projecting the prison population, and each year publishes its population projections for England and Wales for the following six years. This is to plan the capacity of the prison estate and to allocate resources. These projections include lower, medium and higher forecasts of the prison population for each period.

**1.16** The increase in the prison population in late 2011 was driven, in part, by the riots of August 2011, which resulted in approximately 800 additional prisoners in custody by February 2012. During the first half of 2012-13, the prison population fell back to the medium projected level. As **Figure 5** on page 19 indicates, in the long term to 2017 the Department projects the prison population is unlikely to fall significantly. This means the Agency's budget position is vulnerable should similar events recur. The Department's medium projection for the prison population, which excludes the impact of the proposed sentencing reforms, shows it increasing from 86,900 in June 2012 to 87,500 in 2014 and to 88,900 in 2017. Taking into account the impact of the sentencing reforms, which achieved Royal Assent in May 2012, the Department expects the medium projection for the prison population to remain largely stable for the next six years.

## Figure 4
Projected and actual prison population, 2011-12

**Between November 2011 and March 2012 the actual prison population exceeded the medium projected population, but has started to fall back since**

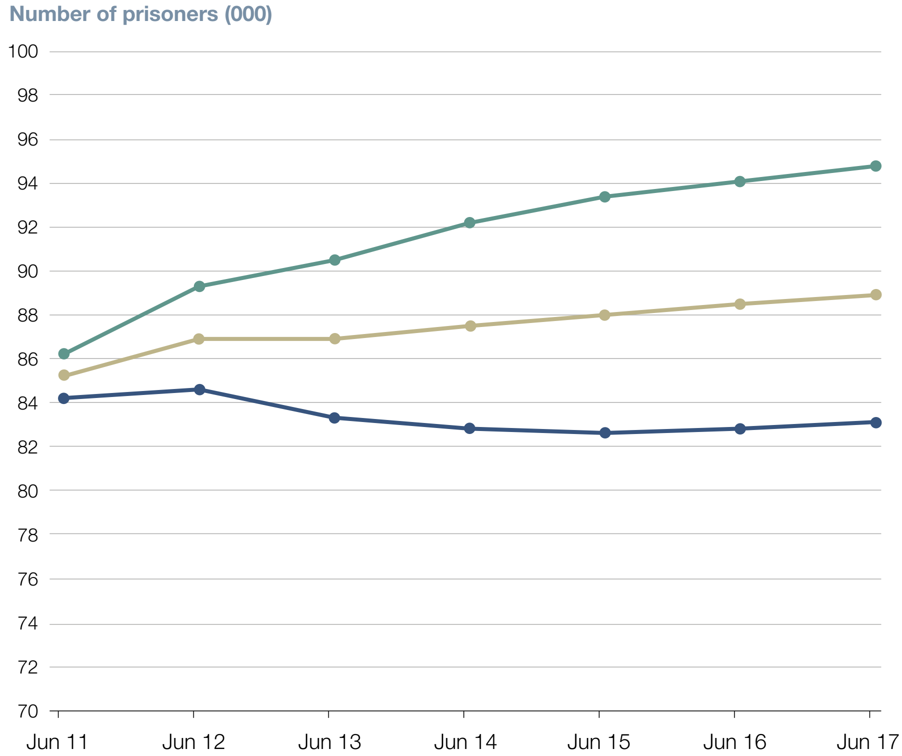



| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Higher | 85,500 | 85,800 | 86,200 | 86,700 | 88,000 | 88,300 | 88,600 | 88,700 | 87,300 | 88,300 | 88,800 | 88,900 | 89,100 |
| Actual | 84,883 | 84,529 | 84,634 | 84,902 | 86,233 | 86,751 | 86,754 | 87,348 | 86,719 | 86,919 | 86,861 | 87,080 | 86,296 |
| Medium | 84,800 | 85,000 | 85,200 | 85,600 | 86,700 | 86,900 | 87,100 | 87,100 | 85,600 | 86,400 | 86,900 | 86,900 | 87,000 |
| Lower | 84,100 | 84,100 | 84,200 | 84,500 | 85,500 | 85,600 | 85,600 | 85,500 | 83,900 | 84,600 | 85,000 | 84,800 | 84,800 |

*Source: National Audit Office analysis of 'Prison population projections 2011-2017', October 2011*

## Figure 5
The projected prison population to 2017

**The Department projects the prison population will continue to rise in the long run to 2017, although this does not reflect the potential impacts of future legislation**




| | Jun 11 | Jun 12 | Jun 13 | Jun 14 | Jun 15 | Jun 16 | Jun 17 |
|---|---|---|---|---|---|---|---|
| Higher | 86,200 | 89,300 | 90,500 | 92,200 | 93,400 | 94,100 | 94,800 |
| Medium | 85,200 | 86,900 | 86,900 | 87,500 | 88,000 | 88,500 | 88,900 |
| Lower | 84,200 | 84,600 | 83,300 | 82,800 | 82,600 | 82,800 | 83,100 |

*Source: National Audit Office analysis of 'Prison population projections 2011-2017', October 2011*

## Causes of the Agency's projected deficit: Information and Communications Technology

**1.17** The Agency estimates the additional costs necessary to resolve defects in legacy Information and Communications Technology projects will be in the region of £12 million to £35 million in 2012-13. In the summer of 2011, the Agency learnt that two of its suppliers were experiencing significant difficulties in meeting agreed delivery dates. Both a national case management platform for probation and a national offender risk assessment system, shared between prisons and probation, were in difficulty. The suppliers had not understood the complexity of the project requirements when they committed to fixed price contracts, and underestimated the difficulties of migrating data from legacy systems. Upon review, the Agency found that suppliers' plans to resolve these issues were unrealistic.

**1.18** The Agency invited the Major Projects Authority to conduct a series of reviews in 2012 on probation Information and Communications Technology projects. A review in April 2012 recognised the Agency's positive progress throughout the year. However, the projects remained high risk and would continue to require a high degree of scrutiny. Problems persist in resolving the projects' data migration and management information issues. These projects are part of the Agency's National Offender Management Information System, which the NAO previously examined in a value-for-money report in 2009.[2]

## Causes of the Agency's projected deficit: voluntary early departures

**1.19** The Agency has a deficit in funding its planned staff voluntary early departures. Following a round of early departures in July and August 2012, the Agency estimates it will require a further £122 million of funding for voluntary staff early departures across all of its operations over the next two years. Voluntary early departures are funded by central departments. The Agency estimates its remaining requirement for 2012-13 to be £42 million and its requirement for 2013-14 to be £80 million. The Department has provided the Agency with £16 million of its estimated remaining requirement for 2012-13. The Department has further agreed that its £40 million ring-fenced budget for voluntary early departures in 2013-14 will be allocated to the Agency. This leaves a total funding deficit for staff departures within the Agency of some £66 million over the next two years.

## Delivering further savings in 2012-13

**1.20** The Agency began the 2012-13 financial year with a projected budget deficit in excess of £100 million. The Agency's board agreed a number of actions designed to make further savings. These enabled the Agency to reduce its projected deficit to £32 million by July 2012. While the Agency expects to be able to reduce its 2012-13 deficit further, it does not expect to be able to remove it altogether. The Department has provided the Agency with a "letter of comfort" to the effect that a claim on its unallocated provision of £50 million would be considered a priority should the Agency be unable to make savings through closing prisons in the remainder of the financial year.

## The Agency's plans for making further savings in the spending review period

**1.21** The Department agrees with the Agency its overall savings targets in an annual allocations process. Although savings targets have not yet been finalised for 2013-14 and 2014-15, the Agency is making plans against its indicative savings targets of £262 million in 2013-14 and of £145 million in 2014-15. Examples of key areas in the Agency's plans for savings for each year are included in **Figure 6**. The Agency also projects it will need to make further savings beyond those set out in the Figure to contribute to additional targets to enable the Department to operate within its spending review settlement.

2 Comptroller and Auditor General, *The National Offender Management Information System*, Session 2008-09, HC 292, National Audit Office, March 2009.

## Figure 6
The Agency's plans for delivering savings in 2013-14 and 2014-15

**This figure shows key areas in which the Agency plans to reduce spending to make further savings during the spending review period**

| Area of spending | 2013-14 (£m) | 2014-15 (£m) |
|---|---|---|
| Front-line efficiencies | 69 | 52 |
| Prison capacity reductions | 79 | 26 |
| Operating Model Review | 21 | 6 |
| Information and Communications Technology and procurement | 15 | 24 |
| **Total** | **184** | **108** |

*Source: National Audit Office analysis of Agency data*

**1.22** As Figure 2 shows, the Agency needs to transform its operations and make sustainable cost reductions during the spending review. The Agency and the Department need a transformation programme which embeds ongoing cost management processes throughout the organisation. This should be accompanied by a clearly defined operating model from which the Agency can develop its plans for spending reductions. The Agency should also ensure a clear logic to underpin its strategy for cost savings.

**1.23** As at June 2012, the Agency had set out plans to make ambitious cost savings in the remainder of the spending review period – the financial years 2013-14 and 2014-15. Given the Agency employs large numbers of staff, the greatest opportunity for savings is through reducing staff numbers. The Agency is working together with the Department to identify the funding required beyond 2012-13, but they do not as yet have a shared strategy identifying the sources of funding. A lack of funding for staff departures will restrict the Agency's ability to bring down payroll costs and reduce its deficit.

**1.24** The Agency is seeking to deliver a substantial part of its savings targets during the remainder of the spending review period by closing older, less efficient establishments and replacing these with newer, less expensive prisons. The most recently opened prisons are far less costly than older establishments. For example, HM Prison Oakwood, a category C prison which opened in 2012, will operate at a direct cost of around £13,000 per prisoner place per year when fully operational. The average direct cost of a prisoner place per year is around £29,000 across all categories of prison. Longer term, the Agency also plans to construct new cell blocks within existing prison sites.

**1.25** The Agency is also seeking to deliver substantial savings from front-line efficiencies in 2013-14 and beyond, which it believes it can achieve through increased prison competition; expanding competition in probation trusts; and through re-tendering currently contracted services. The Agency is seeking to reduce costs from its headquarters further through reviewing whether it can draw out additional efficiencies from its operating model. It also aims to reduce spending on procurement and Information and Communications Technology.

**1.26** The Agency has carried out a round of voluntary early departures for staff in July and August 2012, which will contribute to payroll savings. The Agency is planning further voluntary early departures for staff in both 2012-13 and 2013-14 to enable additional payroll cost reductions as a contribution towards its savings targets. The Agency is working closely with the Department to update its workforce plans and discussions regarding further funding for staff departures are ongoing. The Department does not have ring-fenced funding for voluntary early departures after 2013-14. The Department has identified staff exit funding as a priority and is seeking opportunities to bring funding forward to reduce payroll costs.

**1.27** The Department has indicated its agreement with the Agency's proposed approach to delivering savings, particularly on prison capacity management. The Department and Agency have not yet developed a shared strategy for funding a programme to replace older prisons after 2013-14. The Department's estate directorate, which has responsibility for estate strategy across its arm's-length bodies, has developed prison designs aimed at reducing operating costs, and has engaged with HM Treasury to gain support for this. The Agency can close prison places swiftly: the time between the planning and closure of those it closed in 2011-12 was only six months.

## Maintaining performance

**1.28** As **Figure 7** sets out, in 2012-13 the Department will hold the Agency to account through impact indicators on the following:

- Delivering the punishment and orders of the courts.
- Public protection.
- Reducing reoffending.
- Reducing costs.
- Corporate matters such as staff sickness.

These impact indicators replaced key performance targets for the Agency in 2012-13.

**1.29** In 2011-12, as the Agency reduced costs both in its headquarters and in its wider operations, its performance remained broadly steady. In some areas the Agency recorded some improvements. During 2011-12 there was, for example, a reduction in the rate of reoffending, and a small increase in the percentage of offenders settled in accommodation following completion of their sentence. In other areas, such as prison overcrowding and the proportion of minority ethnic staff, there was no notable change in performance. There was a small increase in the number of escapes from prisons and prisoner escorts in 2011-12.

## Figure 7
### The Agency's impact indicators for 2011-12

**This figure shows how the Agency performed against its impact indicators in 2011-12**

| Impact Indicator | Outcome 2009-10 | Outcome 2010-11 | Outcome 2011-12 | Performance |
|---|---|---|---|---|
| **Delivering the punishment and orders of courts** | | | | |
| Percentage of orders or licences successfully completed | 75.0% | 75.8% | 76.2% | ▲ |
| Percentage of prisoners in overcrowded prison accommodation | 24.0% | 23.8% | 23.9% | ▶ |
| The rate of self-inflicted deaths per 100,000 prisoners (3-year rolling average) | – | 70 | 70 | ▶ |
| The rate of drug misuse in prisons as reflected by those testing positive in mandatory drug tests | 7.8% | 7.1% | 7.0% | ▲ |
| **Public Protection** | | | | |
| The number of category A escapes | 0 | 0 | 1 | ▼ |
| The number of escapes from prison and prison escorts | – | 2 | 4 | ▼ |
| The number of escapes from contractor escorts | 5 | 10 | 13 | ▼ |
| The rate of escapes from contractor escorts as a proportion of the throughput of prisoners | 1 in 97,799 | 1 in 99,577 | 1 in 72,510 | ▼ |
| **Reducing reoffending** | | | | |
| One year reoffending rate for adult offenders discharged from prison or commencing a court order[1] | – | 39.3% | 35.9% (July 2009 – June 2010 cohort) | ▲ |
| Percentage of offenders in employment at termination of their sentence order or licence | 35.0% | 37.6% | 37.9% | ▲ |
| Percentage of offenders in settled and suitable accommodation at termination of their sentence, order or licence. | 84.0% | 86.7% | 87.2% | ▲ |
| **Corporate** | | | | |
| Staff sickness: average days/year public prisons/probation | 10.48 days | 9.8 days | 9.75 days | ▲ |
| Proportion of ethnic minority staff | 9.1% | 9.2% | 9.2% | ▶ |

**NOTE**

1 The reoffending rate for 2010-11 is for the adult reconviction rate, not just those released from custody.

*Source: National Audit Office analysis of Agency data*

# Part Two

## Restructuring of the Agency's headquarters

### Introduction

**2.1** To make savings in the cost of its headquarters, in April 2011 the National Offender Management Service (the Agency) implemented a programme of organisational transformation. It abolished its regional directorates and moved to a structure of central functional directorates. In restructuring its headquarters, the Agency also reformed its governance arrangements and revised the management information received by its board. This change aimed to support the government's goals of reducing central prescription and oversight, streamlining back-office work, and encouraging local accountability.

**2.2** This part of the report evaluates whether, following its reorganisation, the Agency's headquarters has in place the governance arrangements, management information, risk management, and skills and staffing required.

### Abolition of the Agency's regional directorates

**2.3** Prior to the 2010 spending review, prisons and probation trusts were overseen by regional directors of offender management. This structure was abolished in keeping with the move away from regional management across the public sector in 2010. In September 2010, the Agency reviewed its regional management structure and concluded it did not enable it to maintain a sufficient grip on public sector prisons. The Agency developed five options for an organisational structure for offender management, ranging from abolishing the Agency to a restructure into eight central functional directorates, eliminating regional directorates. The Department approved this latter option, and the Agency moved to its new operating model in April 2011.

### The Agency's new functional structure

**2.4** The Department's business plan for 2011-15 required the Agency to complete changes to its board by April 2011. **Figure 8**, outlines the Agency's new board structure, based on functional directorates. This replaced directors of offender management in each English region and for Wales. Following the restructure, the number of executive directors reduced from sixteen to nine.

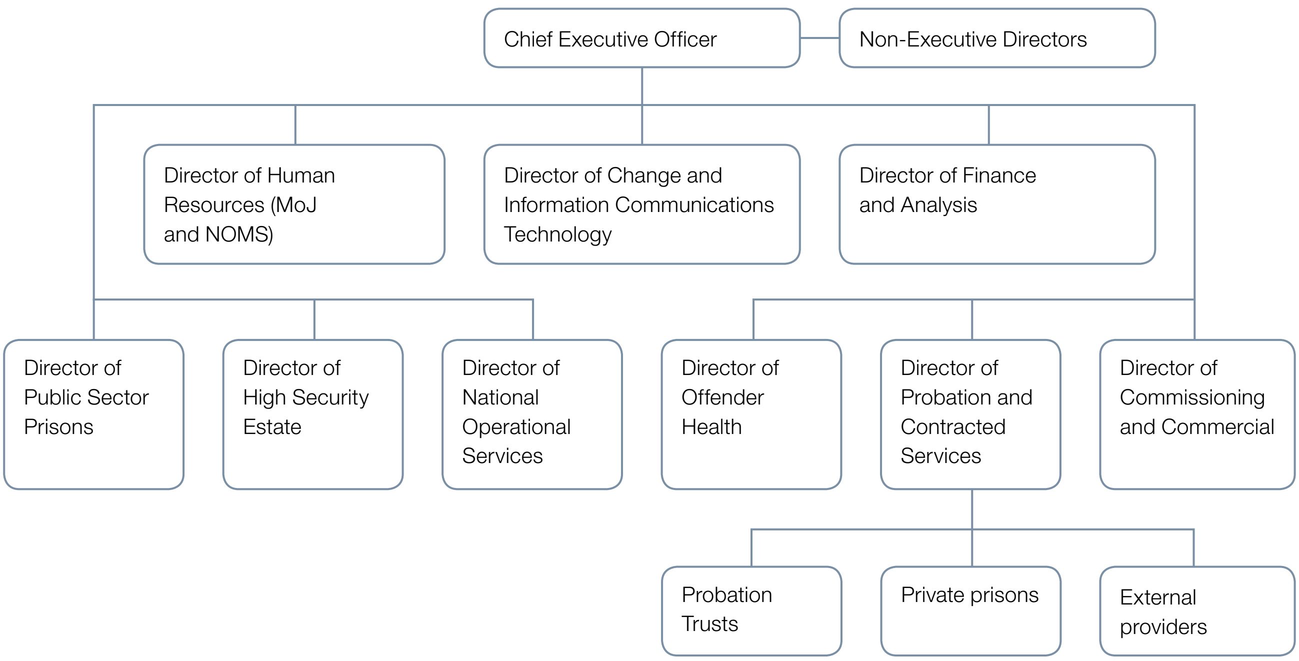
## Further Agency challenges

**2.5** While embedding the reorganisation of its headquarters, the Agency has also overseen other substantial changes in its management of prisons and probation trusts. These include the following:

- the ‘fair and sustainable’ workforce reform programme for public sector prisons, designed to maintain the long-term competitiveness of public sector prisons by reducing their labour costs. New prison officers have been recruited under this programme since April 2012; and
- the Agency aims to reduce costs in public sector prisons and to drive increased efficiencies by competing prison operation. This has the potential to transfer public prisons to the private sector. HM Prison Birmingham is the first public sector prison to be transferred to the private sector. This took place after a competition process, and the prison is now managed by a private contractor under a 15-year contract.

**Figure 8**
The Agency’s board structure from April 2011

**National Offender Management Service Agency**




*Source: National Offender Management Service*

## The new Agency board

**2.6** The Agency board's role is to set strategic direction and oversee its management of performance, risk, and its finances. In addition to executive directors, three non-executive directors sit on the board. Operational matters are overseen by the Agency's executive management committee. We found that, although the board's role is designed to be strategic, directors considered that it typically covered operational matters as well as strategic, leading to overlaps between the roles of the board and the executive management committee. Some directors also reported they were often unclear on how board papers with operational content differed from executive management committee papers.

**2.7** Directors held a range of views on how the board could be more strategic, given its position as an executive agency of the Department, which is responsible for developing strategic policy. Some directors suggested that the board should do more horizon-scanning of issues such as the potential impact of police and crime commissioners upon demand for custodial places. Others, however, believed that the board should address only the operational impact of strategic policy and how to influence policymaking affecting the Agency at the Department. Beyond board meetings, the Chief Executive holds away-days where members respond to the Agency's strategic challenges.

## The Agency board's use of management information

**2.8** In 2010, the NAO reported on management information submitted to the board. We concluded this was supplied in an effective reporting framework. We also found the framework was integrated throughout the Agency, and was based upon a clear understanding of how inputs contributed to strategic objectives. Alongside the board restructure, its members participated in redesigning the management information the board uses to make decisions on its performance, risks and finance. Since September 2011, the board has received information accompanied by a report providing the key issues affecting delivery of each business priority. We found the information the board receives has progressed since our previous review of the Agency's reporting framework. The board members we interviewed were broadly positive about the management information they were given. Several also noted areas in which information could improve to enable them to make decisions more effectively.

## The Agency's management of risk

**2.9** Effective risk management is embedded throughout the Agency's operations. The Agency defines its key risks below:

- Prison capacity not matching demand.
- The restructure headcount reduction reducing staff morale.
- The impact of high profile escapes.
- The failure of its cost reduction strategy.

**2.10** Each risk is assigned to an individual director to manage, and is monitored using risk and control assessments which summarise the impact the risk would have on business priorities and the Agency's ability to control the risk.

**2.11** The NAO reviewed the Agency's risk management and found its risk register and the risk assessments provided to the board and to the Agency's audit committee are effective. Our review found the board's examination of risk contributes to its decision-making around issues such as resource allocation. For example, the Agency identified that one of the key operational risks during the restructure of its headquarters was maintaining the performance of public prisons. In response, early appointments following the restructure were for deputy directors of custody who are responsible for public prisons. Some directors did, however, express concerns over the degree of subjective judgement and instinct in the risk ratings.

**2.12** We found the Agency's risk governance incorporates clear ownership and accountabilities for risk from the board and throughout the organisation. There is a clear understanding of when, and how, to escalate risks to the Department. Ownership of risks and communication routes to the board are integral elements of each deputy director of custody's role. There are clear linkages between risks on the Agency's risk register and its business priorities.

**2.13** Despite strong risk governance, the Agency acknowledged that the effectiveness of its risk mitigation was not absolute. As covered in Part One, in January 2012, it experienced the first escape of a Category A prisoner since 1996. The Agency responded by conducting a review of the escape to see whether it could have been prevented and the lessons learned.

### The Agency's management of risk in prisons and probation trusts and scrutiny arrangements

**2.14** Individual prisons have their own risk management mechanisms. Each prison has a risk register. The Agency monitors risk management procedures in each of its prisons through its deputy directors of custody who manage relations between the Agency and around 12 prisons each, and who report to the Agency's board.

**2.15** In 2012, an internal Agency review of risk management concluded that these processes were strong overall. While risk management was integral to its deputy directors' of custody's oversight of prisons, the deputy directors of custody did not always keep risk registers monitoring key issues in their areas which could affect the Agency's performance. This created the potential for the Agency being unaware of risks in different areas.

**2.16** As covered in Part Three, probation trusts are independent non-departmental public bodies of the Department, with boards responsible for owning and managing risks. The Agency aims to support effective risk management in probation trusts through guidance to staff. The Agency also discusses risk issues with probation trusts as part of their general performance monitoring. The risk management and performance of individual probation trusts is outside the scope of this study.

**2.17** Individual prisons are under regular scrutiny by independent monitoring boards. These boards report recommendations directly to the Minister for prisons. Prisons are also inspected by HM Inspector of Prisons, who makes detailed recommendations to individual establishments. Probation trusts are inspected by HM Inspector of Probation.

**2.18** We consulted the Chief Inspectors of probation trusts and prisons and both were generally content with the Agency's approach to following up their recommendations. Although it is the responsibility of individual probation trusts and prisons to implement Inspectorate recommendations, the Agency monitors the implementation of recommendations specifically to individual probation trusts and prisons. For HM Inspectorate of Probation's reports on probation themes, the Agency has work in hand to establish a clear process for implementing reports' recommendations.

## The Agency's skills and staffing

**2.19** As covered in Part Three, the Agency commissions services from probation trusts and other providers, and is seeking to increase competition in offender management. Commissioning, and supporting commissioning by stakeholders, is a key responsibility of the Agency. Following the restructure of its headquarters, the Agency established a new commissioning support unit, to enable commissioners to commission effectively and efficiently. In the spring of 2012, the Agency had filled around half the unit's positions. The Agency reported it was taking a staged approach to staffing the unit, as its need for commissioning support skills would grow in the future. It did not consider that the vacant posts affected its current support capability.

# Part Three

## Delivering through probation trusts and prisons

### Introduction

**3.1** Beyond its headquarters, the Agency is making significant reductions in the spending by individual prisons and probation trusts, and is also implementing a range of new approaches to tackling reoffending. Probation trusts in particular are fundamental to the Agency's plans to increase the role of commissioning in managing offenders in the community. For trusts to take on a greater commercial role, and for the Agency to support them in doing so, they will need a greater understanding of their cost drivers. This part of the report examines two issues. First, the effectiveness of the tools which the Agency supplies to prisons and probation trusts to help them understand their costs, as they make savings in their operations. Second, the Agency's relations with probation trusts as they prepare for the transformation of offender management in the community. This report does not examine the performance of individual probation trusts or prisons.

### The impact of the restructure of the Agency's headquarters upon prisons and probation trusts

**3.2** We consulted prison governors and probation trust chief executives and their representative bodies on the restructure of the Agency's headquarters and how this had affected them. None reported that the restructure of the headquarters had impacted negatively upon the support they received. Indeed, many stakeholders regarded the restructure positively and considered it to have produced a more efficient headquarters, with greater clarity on the roles of each directorate. Stakeholders expressed some concerns that the restructure had resulted in lower visibility of senior Agency figures beyond its headquarters.

### Helping prisons and probation trusts to understand their costs

**3.3** Since its establishment in 2008, the Agency has developed tools to help prisons and trusts understand their cost drivers, manage their businesses more effectively and make savings. The first costing work began in 2008 with the Specification, Benchmarking and Costing programme for offender management across prisons and probations trusts. This has been complemented by 'Preview' and 'Inview', systems which aim to demonstrate how money has been spent on different activities in prisons and probation trusts, and the variations between them in this spending.

**3.4** The Agency has developed a comprehensive understanding of what offender management activities by prisons and probation trusts should cost. The Specification, Benchmarking and Costing programme specifies the minimum legal and safe requirements for services delivered by prisons and probation services and quantifies how much the Agency considers these services should cost. Following development in consultation with stakeholders, the programme set out 58 detailed specifications for activities ranging from the reception of prisoners to their pastoral care. It defined minimum standards, operating models, key assumptions, and the tools to enable trusts and prisons to understand what their services should cost. In 2011-12, the programme covered £2.5 billion worth of direct costs of prisons and probation trusts. This excludes indirect costs and depreciation. In 2011, the National Audit Office reviewed the programme in our Financial Management Report of the Department,[3] finding that over 90 per cent of the specification work was complete. In April 2012, the final specification was implemented and rolled out to prisons and trusts.

**3.5** The Agency estimates that full use of the programme to inform budget allocations and tendering for contracts for private prisons may help deliver up to £99 million in savings annually. The Agency has mandated the delivery of outcomes and outputs contained in the specifications developed as part of this costing programme. However, providers are free to use their own operating models to deliver these outcomes, to account for local variations in offender management practices. In March 2012, an internal Agency review found the programme was being incorporated into service level agreements entered into by prisons and probation trusts. The review also found that to consolidate the programme's benefits further, the Agency needs to reinforce communications with operational managers in prisons and probation trusts.

**3.6** To complement the Specification, Benchmarking and Costing programme in probation trusts, the Agency has developed 'Preview', which records spending against specified activities. In 2012, all trusts are using 'Preview's tool to help identify their use of staff and other resources. In late 2012, other tools, such as benchmarking reports, will be available to trusts. The Agency acknowledged the data entered into 'Preview' is currently unreliable for back-office costs and staff time allocation, and is working with trusts to improve it.

**3.7** To complement the Specification, Benchmarking and Costing programme in prisons, the Agency has also developed 'Inview', which is designed to provide an overview of how prisons spend their budgets against the Specification, Benchmarking and Costing service directory. The Agency plans to use it to produce monthly information to drive more efficient staff usage. The Agency considers it has insufficient resources to deliver the project, and that it lacks the permanent staff to train people in a tool required to ensure quality of the data entered on 'Inview'. The Agency has temporarily filled these vacancies with contractors, and is taking action to fill them in the longer term.

3 Comptroller and Auditor General, *Ministry of Justice Financial Management Report 2011*, Session 2010–2012, HC 1591, National Audit Office, November 2011.

## The Agency's relationship with probation trusts

**3.8** As **Figure 9** sets out, the Agency has a fundamentally different relationship with probation trusts than with public or privately operated prisons.

**3.9** Although probation trusts are non-departmental public bodies independent of the Department, they perceive themselves as lacking many of the commercial freedoms implied by their semi-autonomous status. They are also required to use national Information and Communications Technology contracts managed by the Department. The trusts which we consulted suggested the national contracts restrict their commercial flexibility and ability to make savings. For example, most of the work of a probation officer is done out in the community, but probation officers must return to their offices to complete paperwork because of Information and Communications Technology restrictions, which trusts regard as an inefficient use of time.

**3.10** The Department plans to introduce greater competition into the management of offenders in the community. In February 2012, the Department consulted on proposals which it described as radical reforms to how community sentences are carried out. The consultation set out the Department's goal of improving the effectiveness of community sentences by allowing probation trusts to work in partnership with other public sector organisations, as well as the private and voluntary sectors. In the Department's payment by results pilots, probation trusts are allowed to pursue new commercial freedoms and flexibilities, to enable them to introduce innovative service delivery models.

### Figure 9
Key features of probation trusts

There are 35 probation trusts in England and Wales.

The Secretary of State appoints the Chair, Chief Executive, and board of each trust.

The Agency both commissions and funds services from probation trusts.

Probation trusts:

- were introduced from 2008 onwards;
- are independent non-departmental public bodies of the Department;
- derive the majority of their funding from the Agency, and earn income from other sources, such as primary care trusts;
- operate their own risk management procedures; and
- have their own policies on corporate matters, such as industrial relations.

*Source: National Audit Office*

**3.11** The probation trusts which we consulted generally welcomed the opportunities presented by greater competition in offender management in the community. Probation trusts do not draw all their income from the Agency, and several have already launched ventures aimed at generating revenue in a more competitive environment. However, the trusts which we consulted were also concerned that a lack of flexibility in national contracts could prevent them making savings in their areas. These included options to close costly unused offices and to use modern Information and Communications Technology, such as handheld devices, to allow home working and lower travel costs.

**3.12** The Agency has taken actions to address some of the concerns of probation trusts about their facilities. In the last two years, for example, it has introduced an estates rationalisation programme which has enabled some trusts to vacate premises. It has also invested £14 million in improving the quality of the offices of probation trusts.

**3.13** The Agency has made considerable efforts to engage with probation trusts. For example, it is seeking to engage with their representative organisations, and employs around 100 staff in its headquarters with direct probation experience, including five former chief executives of trusts. Some trusts which we consulted welcomed the Agency's leadership's efforts to engage with them since the restructure. Despite the Agency's efforts, there are tensions in the overall relations between its headquarters and the probation profession. In particular, the probation trusts and representative organisations which we consulted perceived the Agency's headquarters to be led by the prison service and lacking in knowledge of probation issues.

# Appendix One

## Our audit approach

**1** This study examined whether the National Offender Management Service (the Agency) is achieving value for money through delivering its financial savings targets, while maintaining performance against its key business priorities. We reviewed whether the Agency:

- has effective mechanisms in place to deliver its business priorities within its reduced budget;
- has a risk, financial and performance measurement framework for effective decision-making to deliver its business priorities; and
- manages risks effectively to achieve its business priorities.

**2** We applied an analytical framework with evaluative criteria which drew on National Audit Office good practice guidance. This included:

- structured cost reduction assessment methodology;
- reporting financial management information to the board;
- performance frameworks and board reporting;
- managing risks to support improvements in service delivery outcomes; and
- managing risks in central government: a principles-based approach.

**3** Our audit approach is summarised in **Figure 10** overleaf. Our evidence base is described in Appendix Two.

## Figure 10
Our audit approach

**The objective of the Agency**

NOMS aims to protect the public, reduce reoffending, deliver the punishment and orders of the courts and support rehabilitation by helping offenders to reform their lives.

**How this will be achieved**

The Agency aims to achieve its objective through commissioning prison and probation services in England and Wales and directly managing offender management services including public sector prisons. Its business priorities include the restructure of its headquarters, improving efficiency and reducing costs and rebalancing prison capacity.

**Our study**

**The study examined whether NOMS is achieving value for money through delivering its financial savings targets, while maintaining performance against its key business priorities.**

**Our evaluative criteria**

A clear strategy to deliver the financial savings targets and for maintaining performance against NOMS' key business priorities.

The board delivers its strategic role effectively. It reaches effective decisions on the Agency's strategy to deliver the required financial savings and to maintain performance and manage risks based on accurate, relevant and timely information.

The Agency carries out effective management of risks to achieve its financial savings requirements and to maintain performance. It provides robust support to prisons and probation trusts based on a good command of issues affecting them.

**Our evidence**

(see Appendix Two for details)

We examined the Agency's approach to structured cost reduction and to maintaining performance, by reviewing:

- its understanding and management of its costs and performance
- how it uses financial, risk and performance information to deliver financial savings and maintain performance

Through:

- **Interviews** with the Department's Directorates of Finance and Planning, Estates, and Analytical Services
- **Interviews** with the Agency's board members, and **analysis of papers** to the board.

We examined whether the Agency has provided its board with the information it needs for achieving value for money, delivering financial savings and maintaining operational performance, through:

- **Interviews** with board members
- **Interviews** with the Agency's Planning and Analysis Directorate staff
- **Observation** of a board meeting
- **Reviews** of board Papers, including the scorecard of key information.

We **consulted** board members on the strategic direction and operation of the board.

We examined the Agency's risk management and governance arrangements by:

- **Reviewing** risk and control assessments, the risk register and reports to the board
- **Interviews and consultation** with a sample of prison Governors and Directors, and probation trust Chief Executives
- **Interviews and consultation** with external stakeholders.

**Our conclusions**

We conclude that **the Agency delivered value for money** as it delivered its financial savings required in 2011-12, while broadly maintaining performance. However, it is not likely to achieve its financial savings required in 2012-13. This has been affected by the higher than projected prison population which is outside its control. **We expect to see:**

- the Department and the Agency work closely together in planning savings from the prison estate and funding staff exits
- The Agency's board taking a more strategic oversight of the financial, performance and risk factors facing the Agency
- The Agency continuing to engage with probation trusts as they take on a greater commissioning role.

# Appendix Two

## Our evidence base

1 Our independent conclusions on whether the National Offender Management Service (the Agency) is achieving value for money were reached following our analysis of evidence collected between February and April 2012.

2 We conducted a financial and performance review to determine whether the Agency achieved its financial savings and maintained its wider performance. We also examined the effectiveness of its risk management and reporting and the operations of its board. Our audit approach is at Appendix One.

3 We developed an analytical framework with evaluative criteria to examine the effectiveness of the Agency's business planning, budgeting and cost reductions.

4 We examined the Agency's Specification, Benchmarking and Costing programme. This aims to improve knowledge of what offender management activities in prisons and probation trusts should cost, and thereby improve cost controls and deliver savings. We examined the Agency's 'Preview' and 'Inview' costing programmes. These systems aim to demonstrate how money has been spent on different activities in prisons and probation trusts, and the variations between them in this spending, to identify opportunities to drive down costs. We examined their contribution to achieving value for money.

5 We interviewed the following people:

- The Agency's director of finance and analysis, to examine the Agency's financial planning and management to deliver the required financial savings.
- The Department's director of finance and planning, to examine the Department's approach to setting the Agency's reduced budget for 2012-13.
- The Department's director of estates, to examine its mechanisms for improving the efficiency of the prison estate, and its risk management to provide sufficient prison capacity.
- The Department's director of analytical services to examine its modelling framework for the prison population and its projections to 2017 for the prison population. We examined how the Department and the Agency are preparing for a projected increase in the population while still working to deliver savings.

**6** We examined financial papers to the Agency's board and supporting financial data on:

- its analysis of the funds required to deliver its business priorities; the projected budget deficit in 2012-13, and the range of potential mitigating actions and their savings; and
- its delivery of the £41 million savings required from its headquarters' restructure in 2011-12, and delivering the wider £246 million financial savings required from across its operations in 2012-13.

**7** We examined whether the board contributes effectively to the Agency's commitment to deliver the financial savings required and to maintaining the Agency's performance.

**8** We examined the 'scorecard' of performance information, the risk register, and the risk and control assessments provided for each board meeting, from April 2011 to April 2012, to determine their fitness for purpose in providing information required by the board for effective decision-making.

**9** We interviewed:

- the Agency's planning and analysis team to examine the developmental process for the 'scorecard' and their approach for determining the board's information requirements; and
- each of the Agency's executive and non-executive directors to gain their views on the scorecard's fitness for purpose. We looked at the degree this is relevant to, and assists, their decision-making, and their views on the clarity and analysis of risk, financial and performance information to the board. We also gained their views on the effectiveness of the board's revised structure; its strategy for delivering value for money and for maintaining performance; and its approach to managing key risks.

**10** We observed a board meeting to see how directors use risk, financial and performance information, how they evaluate risks, and their decision-making processes.

**11** We examined whether the Agency manages risk effectively to achieve its financial savings target and to maintain performance. We consulted a range of people:

- The Department's project director for the National Offender Management Information System to determine the impact of difficulties with the probation Information and Communications Technology projects on the Agency's delivery of its savings target. We also examined the outcomes from its measures to mitigate the problems identified.
- A sample of directors of private prisons, governors of public prisons, and chief executives of probation trusts. We included open, local, high security, and women's prisons and a young offender institution in the sample of prisons in England and Wales, and a geographic dispersion of probation trusts in England and Wales in our sample. We gained their views via visits or written responses. We asked about the impacts of the Agency's restructure of its headquarters on its performance and risk management. We consulted them on the Agency's knowledge and understanding of local prison and probation issues and the effectiveness of the Agency's support to prisons and probation trusts.
- A range of external stakeholders, through meetings or written responses. We asked for their experiences and views on the Agency's approach to meeting its financial savings target; the risks the Agency faced to delivering savings and to maintaining overall performance, and its approach to managing these risks.

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