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Rt Hon Margaret Hodge MP  
Chair of the Public Accounts Committee  
House of Commons  
London SW1P 3JA

By email

19 December 2013

Dear Margaret

### **MOJ CONTRACTS**

You will be aware that following concerns in the summer about significant anomalies identified by the Department in the billing practices of Serco and G4S under our electronic monitoring contracts we have been taking action to address our management of these contracts and to review all aspects of contract management across the department.

Our first priority was to improve our management of those G4S and Serco contracts where we had found evidence of wrongdoing:

- On the electronic monitoring contracts, we swiftly put in place a new contract management team with considerable experience of commercial contract management. MoJ staff were placed permanently at each contractor's site, with direct access to supplier systems and data, to monitor the suppliers' performance in operational delivery on the ground. As a result, we have a much greater level of assurance that the suppliers are complying with their obligations in all aspects of the delivery of the contract. Courts staff are in daily contact with Serco and G4S to tackle weaknesses in existing processes so we can address issues as they arise.
- We have also improved management of Serco's PECS contract, with an MoJ official providing administrative supervision of the contract since August. We have obtained access to the base data used by Serco to assess performance against the contract, and have been working with the Serco team to improve processes for capturing and recording performance. As a result, we are able to produce our own independent reporting and are no longer reliant on the suppliers' data. The courts are also being proactive in raising poor performance as soon as it occurs so that we can address any issues with Serco immediately.
- On facilities management, we are working with G4S to address performance issues as a matter of urgency through contractual routes. While there is more to do, we

are already starting to see improvements. At this stage we do not have evidence to confirm that dishonesty has taken place. However, we have today, following legal advice, referred both matters to the SFO in order to establish whether this is the case.

At the same time as addressing these immediate problems, we wanted to ensure that we took action to improve the department's overall approach to contract management. The Justice Secretary therefore asked Tim Breedon – the lead non-executive director of the department and formerly Chief Executive of Legal and General – to oversee a review of the way our major contracts are being managed. The review which has been mapped against the NAO 'Good practice contract management framework' has now concluded and I attach it for your information. Throughout this review, we have also worked closely with the Cabinet Office team which has conducted a wider cross-Government review which is also being published today.

As Tim Breedon notes in the foreword to his report, the review has focused on those high-risk and high-value contracts where the MoJ believed it most likely that issues would be uncovered and therefore the findings of this sample are likely to appear starker than if a full assessment of every contract held by MoJ had been conducted. While the review identified pockets of good practice, it is clear that there are significant and long-standing weaknesses in our arrangements and that there is therefore considerable further work to do. The report lists a number of priority actions for all major contracts which when implemented will provide early assurance that these contracts are being properly managed. We are therefore taking immediate steps to:

- Undertake risk assessments on all our major contracts
- Develop contract assurance plans for all these contracts
- Strengthen processes for payment and service verification
- Establish governance processes for issues, changes, payments and service verification and
- Define roles and responsibilities more clearly

I have also established a programme under Ann Beasley, the Director General, Finance, Assurance and Commercial, to take forward the detailed recommendations of the review. The report makes recommendations which fall under seven key themes:

- Governance, process documentation, decision-making and escalation
- Definition of roles and responsibilities
- Resource capability and capacity
- Management information, reporting and contract data
- Collaboration and communication

- Performance management, measurement and monitoring of service delivery
- Validation and assurance of supplier delivery and charges

As part of this the Director General has also written to all business owners of major contracts to ensure that they undertake a self-assessment of each contract for which they are responsible and provide a personal assurance that appropriate actions will be undertaken by the end of January 2014.

The programme will be tasked to ensure that the priority actions have been implemented on all major contracts by the end of January 2014, and that new contract management processes are in place across MoJ by the end of March 2014. The new processes will be progressively embedded and reviewed across the department in 2014/15. Our programme will draw on external expertise including from the NAO.

Alongside these new arrangements, three-quarters of all senior managers have now attended the Civil Service Learning masterclass in commercial awareness that includes guidance on contract management. The remainder will have completed this course by end of March 2014.

You will be aware that, in addition to this programme of work, we continue in our efforts to recover overpayments made on the electronic monitoring contracts held by G4S and Serco. Serco has now agreed to reimburse the Government to the value of £68.5m excluding VAT, to repay the money owed. This figure includes amounts overcharged on the electronic monitoring contract and the cost of investigating these issues. It also includes £4.2m which will be set against future costs incurred as we transition to the new electronic monitoring arrangements.

G4S has not yet agreed a position on repayment. However, the Justice Secretary has been clear that he will pursue all legal options to recover the taxpayer's money.

I am copying this letter and the Ministry of Justice's contract management review to the Auditor and Comptroller General. Copies are also being placed in the libraries of both Houses.



**URSULA BRENNAN**