

Scotland Excel

To: Joint Committee

On: 17 June 2016

Report
by
Director Scotland Excel

Accounts Commission Report – Procurement in Councils

1. Introduction

The purpose of this report is to bring to members' attention the report published by the Accounts Commission in February 2016 titled "***Procurement in Councils – Impact Report***". This report describes the impact made by the Accounts Commission's performance audit report on '***Procurement in councils***' published on 24 April 2014 and to highlight the references in the report to Scotland Excel.

2. Background

The Accounts Commission is the statutory body responsible for monitoring and scrutinising spending by local government in Scotland and holds councils and joint committees such as Scotland Excel to account and helps them to improve performance.

The Impact report¹, attached at appendix 1 for information, sets out the findings of and progress on the initial audit carried out to assess whether councils were efficiently and effectively procuring goods and services. The specific objectives were to determine:

- How much did councils spend on goods and services, and what savings and other benefits councils identified through better procurement?
- Did councils manage procurement well and have good governance for it in line with good practice?
- How well was Scotland Excel helping councils to improve procurement and achieve procurement savings?

The key messages from the April 2014 report were as follows:

- Councils spent over £5.4 billion on goods and services in 2012/13; over half of the total public sector procurement spend in Scotland. This

¹ Procurement in councils – Impact report. http://www.audit-scotland.gov.uk/uploads/docs/report/2016/ir_160208_procurement_councils_impact.pdf

spending is extremely diverse, although more than half is on social care and construction. Since 2006, initiatives by the Scottish Government and Scotland Excel have led to significant changes in councils' procurement practices. Procurement now has a higher profile and councils are buying more goods and services collaboratively. New legislation and EU directives will bring about further change.

- Councils can use procurement to improve service quality and achieve benefits for the community. Councils are systematically using procurement spending to support local economic development.
- Councils have recently begun to make community benefits such as apprenticeships and environmental improvements an integral part of contracts.
- Councils' spending through collaborative contracts set up by the Scottish Government and Scotland Excel has increased by over 80 per cent over the past three years to £503 million, but accounts for only 9.3 per cent of their total procurement spend. This percentage is likely to increase further as Scotland Excel and the Scottish Government introduce more collaborative contracts. The Scottish Government, Scotland Excel and councils reported total procurement savings of £71 million in 2012/13, 1.3 per cent of procurement spend; with £43 million (61 per cent) of these savings arising from Scotland Excel or Scottish Government collaborative contracts. Councils are relying on procurement to generate savings to meet budget pressures, but some of their savings calculations may not be reliable or may be incomplete. Further savings are possible if councils make greater use of collaborative contracts and replace paper-based systems with 'purchase to pay' compliant ICT systems.
- Councils and Scotland Excel have used the Procurement Capability Assessment (PCA) process to improve procurement practice. All councils have improved their procurement capability since 2009. However, the average assessment score has only reached 56 per cent. The rate of improvement varies among councils and some need to improve more quickly. Councils that invest in qualified improvement staff and improved systems can both improve service quality and achieve financial savings.

A number of specific recommendations for Scottish Government, Scotland Excel and councils were made and are detailed within the original Audit Scotland report.

3. Impact Report

The **2016 Procurement in councils – Impact** report details the progress that has been made in implementing the recommendations detailed in the original report. It shows good progress made in a number of areas and highlights where further progress should be made. Additionally, the impact report highlights a number of challenges that face Scotland Excel and the sector:

Scotland Excel faces financial challenges

When Scotland Excel was established in 2008, the Scottish Government granted it £4.5 million to fund its set-up costs and procurement reform activities. At March 2013, £1.2 million remained. In the annual audit report on 2014/15, the external auditor reported that the ring-fenced funding for reform, £0.3m as at 31 March 2015, is likely to be fully utilised in 2016, with no plans in place to fund reform work from 2016 onwards. The auditor recommended that the organisation should prepare options as part of its budget-setting process for 2016/17. Scotland Excel developed funding proposals for its Joint Committee on 27 November 2015, which approved that the requisition for each council increase by 9.4 per cent for 2016/17 as a means of beginning to fund all of Scotland Excel's ongoing procurement activity sustainably.

In October 2015, Scotland Excel advised Audit Scotland that resolving the organisation's financial stability after 2016/17 will be challenging. A significant portion of its income derives from the sale of training and support to councils, and Scotland Excel has indicated that the financial climate is impinging on councils' ability to pay for it. If Scotland Excel is compelled to scale back its support for councils, this could compromise the maintenance of the PCIP framework and periodic assessments of councils.

Councils continue to face staffing challenges

In 2014, the Procurement in councils report noted that 'councils and Scotland Excel believe shortages of skilled purchasing staff remain, and that there is a limited pool of experienced purchasing staff in the public sector from which to draw. As the economy improves, there is a risk that councils will lose qualified staff to other public sector organisations and the private sector, where salaries are higher.' Scotland Excel reiterated to Audit Scotland in October 2015 that these challenges remain and that some councils risk having an insufficient number of suitably qualified staff to properly plan and manage procurement.

There is scope for a procurement-related audit about three years from now

With the roll-out of the PCIP to councils happening 2016, it is likely to be 2018 before the second PCIP cycle occurs and like-for-like comparisons become possible. PCIP will shortly be rolled out in the NHS. So in a few years' time, it should also be possible to map the changing performance of NHS procurement between 2016 and 2018. There is also some potential to consider thematic aspects of procurement across the public sector.

4. Recommendation

The Joint Committee is invited to note the Audit Commission report and the actions relating to Scotland Excel.

Procurement in councils

Impact report

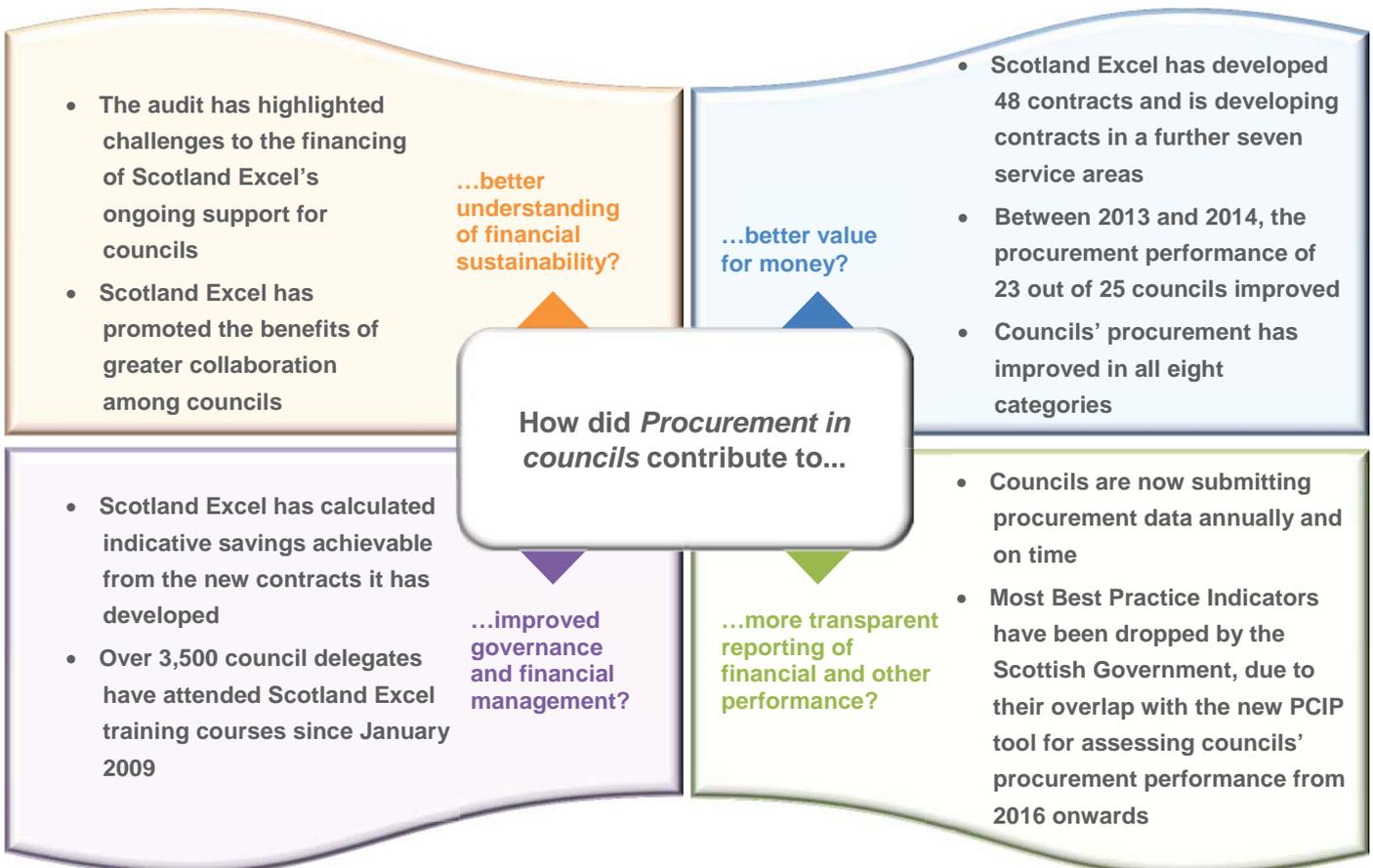
Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Summary of overall progress

Contribution to key aspects of public sector audit



Introduction

1. This report describes the impact made by the Accounts Commission's performance audit report on '[Procurement in councils](#)', published on 24 April 2014. The Accounts Commission sponsors for the audit were Colin Peebles and Sandy Cumming.

Audit aim and objectives

2. The audit aimed to assess whether councils were efficiently and effectively managing how they procured goods and services. The specific objectives were to determine:
 - How much did councils spend on goods and services, and what savings and other benefits councils identified through better procurement?
 - Did councils manage procurement well and have good governance for it in line with good practice?
 - How well was Scotland Excel helping councils to improve procurement and achieve savings in spending on goods and services?

Key messages

3. The key messages from the April 2014 report were as follows:
 - Councils spent over £5.4 billion on goods and services in 2012/13; over half of the total public sector procurement spend in Scotland. This spending is extremely diverse, although more than half is on social care and construction. Since 2006, initiatives by the Scottish Government and Scotland Excel have led to significant changes in councils' procurement practices. Procurement now has a higher profile and councils are buying more goods and services collaboratively. New legislation and EU directives will bring about further change.
 - Councils can use procurement to improve service quality and achieve benefits for the community. Councils are systematically using procurement spending to support local economic development. Councils have recently begun to make community benefits such as apprenticeships and environmental improvements an integral part of contracts.
 - Councils' spending through collaborative contracts set up by the Scottish Government and Scotland Excel has increased by over 80 per cent over the past three years to £503 million, but accounts for only 9.3 per cent of their total procurement spend. This percentage is likely to increase further as Scotland Excel and the Scottish Government introduce more collaborative contracts. The Scottish Government, Scotland Excel and councils reported total procurement savings of £71 million in 2012/13, 1.3 per cent of procurement spend; with £43 million (61 per cent) of these savings arising from Scotland Excel or Scottish Government collaborative contracts. Councils are relying on procurement to generate savings to meet budget pressures, but some of their savings calculations may not be reliable or may be incomplete. Further savings are possible if councils make greater use of collaborative contracts and replace paper-based systems with 'purchase to pay' compliant ICT systems.

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- Councils and Scotland Excel have used the Procurement Capability Assessment (PCA) process to improve procurement practice. All councils have improved their procurement capability since 2009. However, the average assessment score has only reached 56 per cent. The rate of improvement varies among councils and some need to improve more quickly. Councils that invest in qualified improvement staff and improved systems can both improve service quality and achieve financial savings.

Key recommendations

4. The report's key recommendations were:

The Scottish Government should work with councils to:

- review and update the Best Practice Indicators (BPIs), drawing on councils' experiences, to reflect changes in procurement since 2008 and improve their usefulness to councils.

Scotland Excel should:

- maintain and improve its sharing of knowledge and experience with the Scottish Futures Trust, and with the associated joint venture companies
- set realistic timescales and savings targets for contracts, particularly in new areas of contracting.

Councils and Scotland Excel should:

- review and formalise arrangements to fund procurement reform activity beyond 2016.

Council staff involved in procurement should:

- submit accurate and complete information to the Procurement Hub (the Hub) on a regular and timely basis (ideally quarterly, and as a minimum within three months of the end of the financial year)
- examine the costs and benefits of differentiating ALEO and council expenditure in their Hub submissions¹
- make greater use of the tools and facilities provided by the Hub, including the use of BPIs in their performance reporting and to benchmark their progress
- engage earlier with suppliers and the people who use public services to help develop contract specifications that more accurately reflect service user requirements and allow for greater innovation within contracts
- use the Public Contracts Scotland tender module for all applicable contracts
- make full use of national collaborative contracts and provide a clear explanation for non-participation in these contracts to the relevant council committee
- develop a systematic approach to collecting information on non-financial benefits including economic, community and environmental benefits and report the benefits to the relevant council committee on a regular basis

¹ ALEOs = arm's-length external organisations.

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- calculate procurement savings using a consistent and transparent methodology that demonstrates clearly how the savings are calculated and their relationship to improved procurement
 - make better use of market research, cost avoidance and improved contract management to identify savings and potential service improvements
 - aim to achieve the 'superior performance' level in the PCA, particularly in relation to:
 - spend covered by agreed commodity/project strategies
 - participation in Scotland Excel contracts
 - automation of procurement and payment processes
 - spend captured in the council's contract register.

Councils' corporate management teams should:

- benchmark their procurement staffing against similar-sized councils with higher PCA scores and, where appropriate, produce a business case for employing additional qualified procurement staff where they have lower staffing levels
- examine the benefits of joint working or joint procurement teams as a way of securing economies of scale and creating collaborative contracts
- phase out paper purchasing systems and consider the business case for moving all purchasing systems to an electronic 'purchase to pay' basis
- raise staff awareness of accountability and controls by:
 - implementing a written code of ethics
 - requiring staff involved in procurement to complete a register of interest statement
 - require internal audit to conduct a regular assessment of procurement risk, including the risk of fraud.

Councils should:

- require a report on procurement savings and non-financial procurement benefits to be submitted to the appropriate committee on a regular basis
 - encourage elected members sitting on the main committee(s) dealing with procurement to complete specific training to help them undertake their governance role more effectively.
5. We anticipated that the report would add value in a number of areas by identifying lessons learned and highlighting good practice. To help with this, we also published a self-assessment checklist for councillors in April 2014. It set out issues that councillors may wish to consider in relation to procurement in their own council. It allowed councillors to assess themselves against each good practice statement; identify what actions need to be taken forward; and to apply the checklist annually to review a council's progress.

Raising awareness and communication of key messages

Media coverage

6. The Scotsman, Dundee Courier, Evening Times, STV Online and Public Finance all picked up on the report. Coverage was accurate, reflected the report's key messages and was largely based around a piece by the Press Association. A local radio station highlighted the performances of Aberdeen City Council and Aberdeenshire Council.² Comhairle nan Eilean Siar (Western Isles Council) issued a release based on its procurement practice.³ Also, Renfrewshire Council's work was highlighted by the Paisley Daily Express.⁴

Politics

7. COSLA President David O'Neill said: *"As today's report recognises, councils have made good progress in terms of procurement. We have established Scotland Excel and use of collaborative contracts has increased by 80% over the last three years... It is also worth noting that councils use procurement spending to support local economic development and some have begun to use it to deliver other local benefits such as apprenticeships and environmental improvements."*⁵
8. Scottish Labour's local government spokeswoman Sarah Boyack commented: *"Any area where local authorities can make much needed savings is welcome and cutting back on the cost of procurement has long been needed. Councils are under increasing financial strain from additional service requirements to cope with an ageing population and the cost implications of maintaining or replacing infrastructure that is no longer fit for purpose."*⁶
9. Scottish Liberal Democrats' leader Willie Rennie pointed to savings through the use of an electronic system for procurement: *"By bringing payments into the 21st Century councils could save the taxpayer £28 per invoice, amounting to £9m in total. It is in the taxpayers' interests for ministers to work with local authorities in order to enable this change to happen."*⁷
10. Scottish Green MSP Alison Johnstone said council spending should be more geared towards supporting local economies or sustainability.⁸

Downloads

11. Between publication of *Procurement in councils* in April 2014 and the end of September 2015, there were:
 - 4,216 downloads of the main national report, with 160 downloads in September 2015
 - 154 downloads of the self-assessment checklist for use by councillors
 - 128 downloads of the podcast.

² Original 106, www.originalfm.com

³ Press release, [Comhairle Commended For Procurement Procedures](#), Comhairle nan Eilean Siar, 24 April 2015.

⁴ Like other titles taken over by Trinity Mirror, the Paisley Daily Express has lost its own archive.

⁵ As reported by [STV news, 24 April 2014](#). COSLA = Convention of Scottish Local Authorities.

⁶ [Press statement](#), Scottish Labour, 24 April 2014.

⁷ As reported by [STV news, 24 April 2014](#).

⁸ As reported by [STV news, 24 April 2014](#).

Presentations

12. The Chair of the Accounts Commission gave the keynote presentation at the Capita conference about 'procurement in public services in Scotland', in May 2014. In June 2014, the audit team gave presentations to the Scottish Councils' Heads of Procurement meeting and to Scotland Excel. The audit team also made a presentation to South Ayrshire Council. All presentations were well received.

Parliamentary consideration

13. The Scottish Parliament Infrastructure and Capital Investment (ICI) Committee took evidence from the Scottish Futures Trust (SFT) on 5 November 2014, concerning the committee's scrutiny of the Scottish Government's draft budget 2015/16. The SFT said it would seek a corporate commitment from the bodies accountable for procurement, and increase focus on getting the '*right project and right deal*' by involving experienced individuals in planning.⁹

Local consideration of the report

Scotland Excel

14. Scotland Excel is the centre of procurement expertise for the local government sector, and a non-profit making organisation funded by participating local authorities. Through collaboration with councils and suppliers, it aims to raise procurement standards, secure best value, and improve the efficiency and effectiveness of public sector procurement.¹⁰
15. In response to the publication of *Procurement in councils*, the Director of Scotland Excel said "*Scotland Excel welcomes the findings of Audit Scotland's report and is pleased that it recognises the progress that has been achieved. Scotland Excel remains committed to supporting local authorities as they transform procurement within their organisations, and we are confident that ongoing improvements in sector performance will deliver additional benefits in future.*"¹¹
16. Scotland Excel has since conducted a consultation exercise in which councils' procurement activity was discussed with their procurement teams and senior management; and the support available from Scotland Excel was considered. Scotland Excel has said that *Procurement in councils* has helpfully provided a credible, independent assessment of council procurement and remains valuable in shaping the agenda for discussions with councils.¹²
17. Scotland Excel produced an updated corporate strategy in June 2015 for the period 2015-18. Supporting the implementation of the strategy is a performance management framework in which four corporate goals cascade to a set of strategic objectives and these in turn map to objectives for teams and individuals.
18. Since *Procurement in councils* was published, Scotland Excel has developed a wider range of standardised contracts for services typically procured by councils. Developed in consultation with service managers and service clients, standardised contracts have the potential to save a

⁹ Page 37, [Papers for the Finance Committee meeting on 5 November 2014](#), Scottish Parliament.

¹⁰ [Scotland Excel FAQs](#), Scotland Excel website as at 10 November 2015.

¹¹ News release: [Audit Scotland report on local authority procurement published](#), Scotland Excel, website at 12 November 2015.

¹² Audit Scotland meeting with the Head of Customer and Business Services, Scotland Excel, 29 October 2015.

council a considerable investment in developing its own contracts; reduce risk by providing assurance that the contract has been informed by good practice; and potentially generate savings. Further information on the contacts is contained in [Appendix 1](#).

Councils

19. It is difficult to identify how much of the improvement in councils' procurement performance can be attributed to *Procurement in councils*; to Scotland Excel's ongoing support for councils; and to councils' own improvement work.
20. Audit Scotland has taken stock of changes in councils' procurement performance, using data supplied by Scotland Excel. Between 2009 and 2014, councils' procurement performance was assessed annually by Scotland Excel using the Procurement Capability Assessment (PCA) tool. The PCA tool used 52 questions across eight sections, resulting in a score for each section and an overall percentage score for a council. For *Procurement in councils*, Audit Scotland examined the PCA tool and concluded that it effectively assessed a council's procurement arrangements.¹³ The audit was therefore able to place reliance on PCA results, and the audit report used PCA data for 2013 to analyse all councils' procurement capability. For the purposes of this impact report, we have updated the analysis to include the most recent PCA results, for 2014.
21. *Procurement in councils* noted that between 2009 and 2013, the average overall PCA score for all councils rose from 22 per cent to 56 per cent ([Exhibit 1](#), overleaf). In 2013, the average score was below 50 per cent for two of the eight PCA sections – contract & supplier management; and key purchasing processes & systems.
22. A total of 25 councils chose to participate in the 2014 PCA. Of the other seven, some chose not to participate because the PCA was about to be phased out and some councils would have liked to participate but were unable to due to limited staffing resources.¹⁴
23. Between 2013 and 2014, councils' overall PCA scores improved further – from 56 per cent to 62 per cent on average.¹⁵ Councils improved in all eight PCA sections:
 - Two sections improved to 'superior performance' (75 percent or over) – procurement strategy & objectives; people).
 - A further two sections, although improving, remained below 50 per cent – contract & supplier management; and key purchasing processes & systems. However, both these sections improved steadily from 2009 to 2014.
 - The section on contract & supplier management made the largest improvement (seven per cent).
 - For the third consecutive year, no section was in the 'non-compliance' category.

¹³ Paras 65-67 of the main report, *Procurement in councils*, Accounts Commission, April 2014.

¹⁴ The seven councils were Angus, Dundee City, East Renfrewshire, Clackmannanshire, Perth & Kinross, Stirling and West Lothian.

¹⁵ For the seven councils that did not have a 2014 PCA, their 2013 scores are applied to 2014 to enable 32-council comparisons.

Exhibit 1

Overall changes in Procurement Capability Assessment scores, 2009-2014

Overall, councils improved in all areas between 2009 and 2013, and from 2013 to 2014.

0-24 per cent	25-49 per cent	50-74 per cent	75 per cent or over
Non-compliance	Compliance	Improved performance	Superior performance

PCA section	Councils' average score (per cent)					
	2009	2010	2011	2012	2013	2014
Procurement leadership & governance	25	38	48	58	63	66
Procurement strategy & objectives	31	43	58	64	73	77
Defining the supply need	13	23	30	45	54	60
Commodity/project strategies & collaborative procurement	25	32	40	53	61	67
Contract & supplier management	14	18	24	33	39	46
Key purchasing processes & systems	26	37	39	38	40	44
People	25	39	49	58	71	76
Performance measurement	22	22	34	39	50	55
Overall score	22	32	40	48	56	62

Note: the seven councils without a 2014 PCA have had their 2013 scores applied to 2014 to allow 32-council comparisons.

Source: Scotland Excel, November 2015

24. Among the 25 councils that participated in the 2014 PCAs:

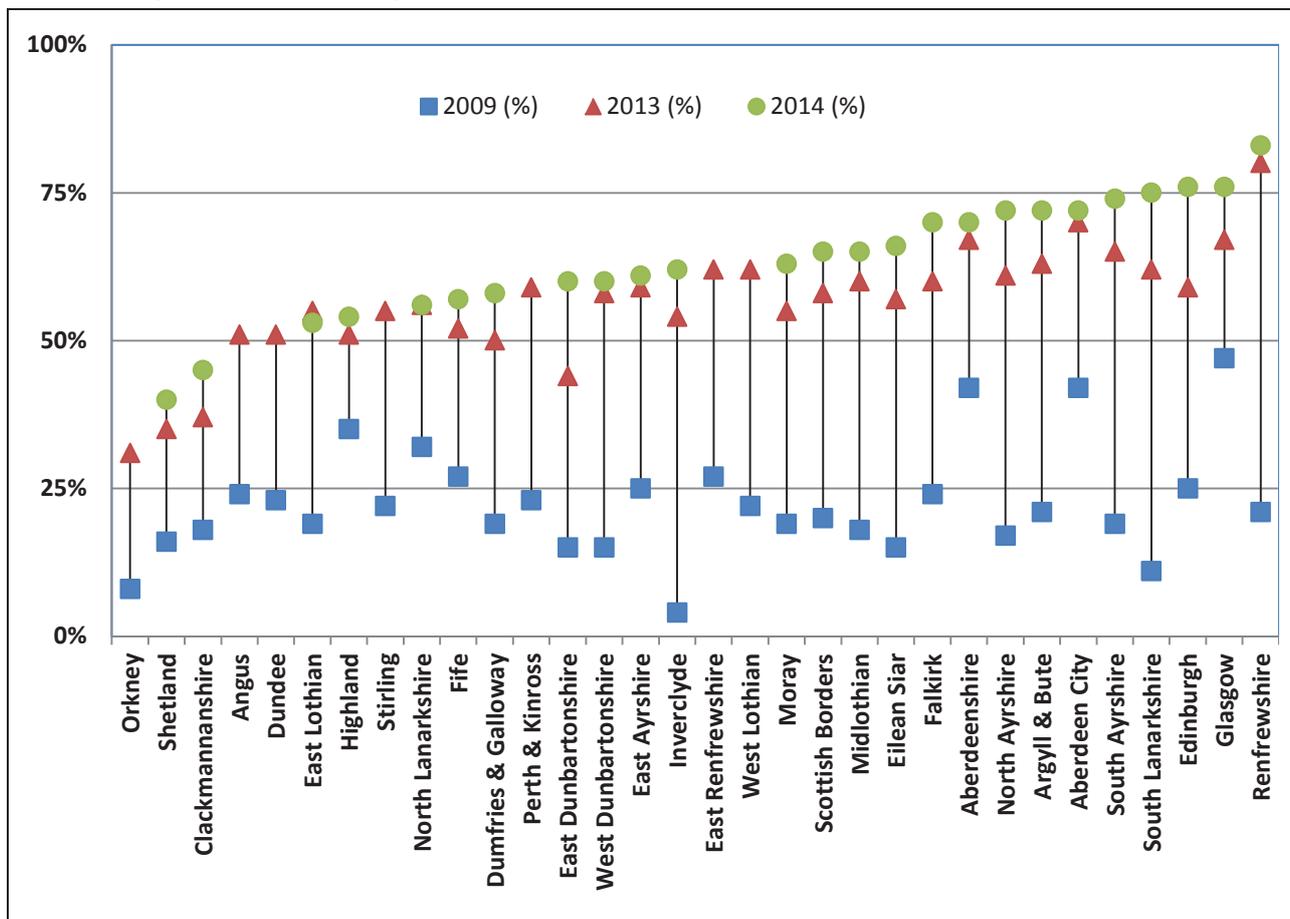
- Twenty-three councils improved their overall PCA score. North Lanarkshire Council's score remained the same and East Lothian Council's score fell by 2 per cent.
- Four councils were in the 'superior performance' category (Renfrewshire, 83 per cent; City of Edinburgh; 76 per cent; Glasgow City, 76 per cent; South Lanarkshire, 75 per cent).
- Nineteen councils were in the 'improved performance' category (50-74 per cent).
- Two councils were in the 'compliance' category (Shetland Islands, 40 per cent; Clackmannanshire, 45 per cent) ([Exhibit 2](#), overleaf).

25. Some councils improved significantly from 2013 to 2014 (eg East Dunbartonshire, City of Edinburgh, Falkirk, North Ayrshire, South Lanarkshire). Progress has been slower in certain larger councils that performed relatively well in the early years of the PCA (eg Aberdeen City, Aberdeenshire, Highland, North Lanarkshire).

Exhibit 2

Councils' PCA scores, 2009-2014

All councils' performance has improved since 2009.



Note: seven councils did not participate in the 2014 PCA assessments. Eilean Siar = Western Isles.

Source: Scotland Excel, November 2015

26. Larger councils have tended to score more highly in the PCA and there is a statistically significant correlation between a council's overall PCA score and its size, measured in terms of its population. The top three performing councils in terms of 2014 PCA scores (City of Edinburgh, Glasgow City, Renfrewshire) accounted for 23 per cent of Scotland's population while the bottom three (Clackmannanshire, East Lothian, Shetland) accounted for three per cent. Nevertheless, some smaller councils (eg Eilean Siar) have performed better than other councils of a similar size. The strength of the link between council size and PCA scores has weakened since 2011, suggesting smaller councils are tending to catch up on larger ones.
27. Increasingly, councils are using standardised contracts developed by Scotland Excel. The total value of standardised contracts rose by 39 per cent between April 2014 and December 2015 – from £503 million to £698 million. Contracts' total national values ranges between £1.5 million for waste disposal equipment and £75 million for children's residential care.¹⁶
28. The PCA tool covered how well councils manage off-contract spend and control of maverick spend (spend outside of approved contracts). Scotland Excel reports that most councils have

¹⁶ Contract portfolio information supplied to Audit Scotland by Scotland Excel, January 2016.

improved their contract coverage since 2009. PCA data showed that in 2014, 80 per cent of councils tested demonstrated 'improved performance' (over 70 per cent of spend is covered by strategies) or 'superior performance' (over 70 per cent of spend is covered by contracts). However, Scotland Excel found that most councils still needed to do more to ensure staff use contracted suppliers. Only one council (Glasgow City) was in the 'superior performance' category. Specific responses of a random sample of eight councils to *Procurement in councils* are summarised in [Exhibit 3](#).

Exhibit 3

Some councils' response to the *Procurement in councils* report

Councils have reacted positively.

- **East Ayrshire** – The council published a new corporate procurement strategy for 2014-2019. It referenced *Procurement in councils* and council officers assured the Cabinet that 'the Council's Procurement Strategy reflects the key messages... and that where appropriate, required actions have been incorporated into our Corporate Procurement Strategy Action Plan to respond to the key recommendations...'
- **East Dunbartonshire** – In June 2015, the council issued its Procurement Strategy for 2015-18. The strategy acknowledged the contribution made by *Procurement in councils*.¹⁷
- **East Renfrewshire** – The Audit and Scrutiny Committee considered a council report on *Procurement in councils*, profiling the council's stance on each recommendation.¹⁸
- **City of Edinburgh** – A report to the Finance and Resources Committee outlined the council's response to each recommendation in *Procurement in councils*. It noted, for example, that a programme of training and awareness sessions was being developed for delivery to elected members.¹⁹
- **Midlothian** – A report to the Audit Committee asked its members to consider the extent to which the council was working in accordance with the recommendations in *Procurement in councils*. It profiled the council against each recommendation and addressed work planned by the council to develop a local procurement policy to strengthen engagement with local businesses.²⁰
- **Moray** – The Audit and Performance Review Committee noted that '...the Corporate Management Team had tasked the procurement team to challenge services to consider community and environmental benefits which would align themselves with the council's social responsibility targets in the strategic plan.'²¹ The committee agreed further procurement training would be arranged for elected members.²²
- **Highland** – The Resources Committee welcomed *Procurement in councils* '...as a positive contribution to the national Procurement Improvement Programme'. The committee agreed its response to each recommendation in the report.²³
- **Renfrewshire** – The Audit, Petition and Scrutiny Board was briefed on *Procurement in councils*, and about the council's standing in relation to each of its recommendation.²⁴

Source: councils' online meeting papers and reports

¹⁷ Para 1.1, [Procurement Strategy 2015-2018](#), East Dunbartonshire Council, June 2015.

¹⁸ [Report to the Audit and Scrutiny Committee](#), East Renfrewshire Council, 12 June 2014.

¹⁹ Item 7: [Report to the Finance and Resources Committee](#), City of Edinburgh Council, 30 September 2014.

²⁰ Item 6: [Report to the Audit Committee](#), Midlothian Council, 16 June 2015.

²¹ Item 7: [Report to the Audit & Performance Review Committee](#), Moray Council, 14 May 2014.

²² Item 6: [Committee minutes, Audit & Performance Review Committee](#), Moray Council, 14 May 2014.

²³ Item 13, [Report to the Resources Committee](#), Highland Council, 24 February 2015.

²⁴ Item 7: [Report to the Audit, Petition and Scrutiny Board](#), Renfrewshire Council, 201

Contribution to national developments

29. The audit team for *Procurement in councils* was consulted during the development of the new Procurement and Commercial Improvement Programme (PCIP) tool for assessing councils' performance in future. The PCIP focuses on policies and procedures driving procurement performance, the results they deliver, and has been endorsed by the Scottish Government.²⁵ Scotland Excel anticipates rolling out the PCIP in local government during the first half of 2016.

Progress on implementing recommendations

30. Progress has been made across the recommendations in *Procurement in councils*, and is ongoing in some areas. Appendix 1 lists all the recommendations in the report and, where possible, profiles the progress that has been made.

Outlook

The method for assessing public bodies' procurement is about to change

31. The PCA tool is about to be replaced by the PCIP. Some key points are that:
- PCA was used to assess bodies annually whereas PCIP will occur every two years.
 - PCIP results will not be comparable to PCA results.
 - There will be three types of PCIP depending on an organisation's sector, size, complexity and uniqueness.²⁶

New procurement legislation will take effect

32. The regulatory framework for procurement is changing across the public sector. For example:
- The Public Bodies (Joint Working) (Scotland) Act 2014 introduced a framework for integrating health and social care.²⁷ Scotland Excel plans to work with local government and the NHS to ensure procurement services respond to the needs of Joint Boards.²⁸
 - The Procurement Reform (Scotland) Act 2014 establishes a legislative framework for sustainable public procurement. It provides ministers with powers to make regulations and issue statutory guidance. The new duties are to take effect from April 2016.²⁹
 - The Community Empowerment (Scotland) Act 2015 aims to empower communities in making decisions about their local areas, including how services are provided, and takes effect from April 2016.³⁰

²⁵ [Procurement – Procurement and Commercial Improvement Programme](#), Scottish Government website as at 12 November 2015.

²⁶ Audit Scotland meeting with the Head of Customer and Business Services, Scotland Excel, 29 October 2015.

²⁷ The Act, [Explanatory notes](#), The Public Bodies (Joint Working) (Scotland) Act 2014.

²⁸ Page 8, [Shared Vision, Shared Success: our corporate strategy 2015-18](#), Scotland Excel, June 2015.

²⁹ [The Procurement Reform \(Scotland\) Act 2014 \(Commencement No. 3 and Transitional Provisions\) Order](#), January 2016.

³⁰ [The Community Empowerment \(Scotland\) Act 2015 \(Commencement No. 3 and Savings\) Order 2015](#), November 2015.

Scotland Excel faces financial challenges

33. When Scotland Excel was established in 2008, the Scottish Government granted it £4.5 million to fund its set-up costs and procurement reform activities. At March 2013, £1.2 million remained.³¹ In the annual audit report on 2014/15, the external auditor reported that the ring-fenced funding for reform, £0.3m as at 31 March 2015, is likely to be fully utilised in 2016, with no plans in place to fund reform work from 2016 onwards.³² The auditor recommended that the organisation should prepare options as part of its budget-setting process for 2016/17. Scotland Excel developed funding proposals for its Joint Committee on 27 November 2015, which approved that the requisition for each council increase by 9.4 per cent for 2016/17 as a means of beginning to fund all of Scotland Excel's ongoing procurement activity sustainably.³³
34. In October 2015, Scotland Excel advised Audit Scotland that resolving the organisation's financial stability after 2016/17 will be challenging.³⁴ A significant portion of its income derives from the sale of training and support to councils, and Scotland Excel has indicated that the financial climate is impinging on councils' ability to pay for it. If Scotland Excel is compelled to scale back its support for councils, this could compromise the maintenance of the PCIP framework and periodic assessments of councils.

Councils continue to face staffing challenges

35. In 2014, the *Procurement in councils* report noted that 'councils and Scotland Excel believe shortages of skilled purchasing staff remain, and that there is a limited pool of experienced purchasing staff in the public sector from which to draw. As the economy improves, there is a risk that councils will lose qualified staff to other public sector organisations and the private sector, where salaries are higher.' Scotland Excel reiterated to Audit Scotland in October 2015 that these challenges remain and that some councils risk having an insufficient number of suitably qualified staff to properly plan and manage procurement.³⁵

There is scope for a procurement-related audit about three years from now

36. With the roll-out of the PCIP to councils happening 2016, it is likely to be 2018 before the second PCIP cycle occurs and like-for-like comparisons become possible. PCIP will shortly be rolled out in the NHS. So in a few years' time, it should also be possible to map the changing performance of NHS procurement between 2016 and 2018. There is also some potential to consider thematic aspects of procurement across the public sector.

Fraser McKinlay
Director of Performance Audit and Best Value
Audit Scotland

February 2016

³¹ Para 71, *Procurement in Scotland*, Accounts Commission, April 2014.

³² Scotland Excel: Annual audit report to Members and the Controller of Audit, 2015.

³³ Page 27, [Agenda document pack](#), Scotland Excel Joint Committee, 27 November 2015.

³⁴ Audit Scotland meeting with the Head of Customer and Business Services, Scotland Excel, 29 October 2015.

³⁵ Audit Scotland meeting with the Head of Customer and Business Services, Scotland Excel, 29 October 2015.

Appendix 1. Progress on implementing the recommendations

Progress	
<p>The Scottish Government should work with councils to:</p> <ul style="list-style-type: none"> review and update the Best Practice Indicators (BPIs), drawing on councils' experiences, to reflect changes in procurement since 2008 and improve their usefulness to councils. 	
<p>The Procurement Reform Delivery Group comprises the heads of centres of procurement expertise:</p> <ul style="list-style-type: none"> Scotland Excel (local government) Advanced Procurement for Universities and Colleges (APUC) NHS National Procurement, and Scottish Government representatives at deputy director level. <p>The Procurement and Commercial Improvement Programme Dashboard replicates some information from BPIs. In 2015, the Group therefore decided to drop BPIs except for indicators 1a and 1b, which relate to procurement savings. This does not affect the gathering of contract spend data into the Scottish Government's procurement Hub, which continues.³⁶</p>	
<p>Scotland Excel should:</p> <ul style="list-style-type: none"> maintain and improve its sharing of knowledge and experience with the Scottish Futures Trust, and with the associated joint venture companies set realistic timescales and savings targets for contracts, particularly in new areas of contracting 	
<p>In its corporate strategy for 2015-18, Scotland Excel commits to "monitor the progress of the Review of Procurement in Construction, working with the Scottish Futures Trust (SFT) and partners to determine how our collaborative contracts can support the implementation of its recommendations."³⁷</p> <p>A year-end performance report about Scotland Excel was taken by its Executive Sub-Committee in May 2015, showing performance against the business plan. For 2014/15, the plan had 21 objectives:</p> <ul style="list-style-type: none"> Nine objectives were fully achieved including: <ul style="list-style-type: none"> achieve savings of between two per cent and seven per cent against the delivery programme reduce and maintain sickness absence at below four per cent. Seven objectives were partially achieved including: <ul style="list-style-type: none"> eight extensions and 11 renewals were made to contracts developing a new three-year corporate strategy, which has subsequently been approved. 	

³⁶ Email from Scotland Excel to councils, 1 October 2015.

³⁷ Page 26, [Shared Vision, Shared Success: our corporate strategy 2015-18](#), Scotland Excel, June 2015.

Recommendation	Progress
	<ul style="list-style-type: none"> • Five objectives were not achieved, including: <ul style="list-style-type: none"> ◦ eight new contracts were delivered against a target of 16 ◦ the advertised annual value of contracts fell £102m below the target of £750m. <p>Scotland Excel's 2015/16 operating plan includes plans to deliver a rolling schedule of new contract opportunities, identified and agreed with local authority stakeholders.³⁸</p> <p>Scotland Excel's corporate strategy 2015-18 commits to ongoing partnership working, specifically mentioning areas like a Review of Procurement in Construction.³⁹ It claims that its 'growing portfolio of collaborative contracts delivers around £4 in savings for every £1 invested by councils, not to mention the efficiency gains of developing one national contract instead of 32'.⁴⁰</p>
<p>Scotland Excel and councils should:</p> <ul style="list-style-type: none"> • review and formalise arrangements to fund procurement reform activity beyond 2016 	<p>This has been flagged as a challenging issue by both Scotland Excel and its appointed auditor. In December 2014, Scotland Excel established a transformation programme to underpin the delivery of its corporate strategy. The programme comprises six project areas: funding; leading change; stakeholder engagement; organisational development; business intelligence; and governance, policy and process.⁴¹</p> <p>Scotland Excel developed funding proposals for its Joint Committee on 27 November 2015, which approved that the requisition for each council increase by 9.4 per cent for 2016/17 as a means of beginning to fund all of Scotland Excel's ongoing procurement activity sustainably.⁴²</p>

³⁸ Pages 15-16, [Scotland Excel: Annual audit report 2014/15 to Members and the Controllor of Audit](#), August 2015.

³⁹ Page 26, Shared Vision, Shared Success: our corporate strategy 2015-18, Scotland Excel, June 2015.

⁴⁰ Total savings from the use of standardised contracts versus Scotland Excel's requisitions on councils, information supplied to Audit Scotland in January 2016.

⁴¹ Page 42, Shared Vision, Shared Success: our corporate strategy 2015-18, Scotland Excel, June 2015.

⁴² Page 27, [Agenda document pack](#), Scotland Excel Joint Committee, 27 November 2015.

Recommendation

Progress

Council staff involved in procurement should

<ul style="list-style-type: none">• submit accurate and complete information to the procurement Hub on a regular and timely basis (ideally quarterly, and as a minimum within three months of the end of the financial year)• examine the costs and benefits of differentiating ALEO and council expenditure in their Hub submissions• make greater use of the tools and facilities provided by the Hub, including the use of BPIs in their performance reporting and to benchmark their progress• engage earlier with suppliers and the people who use public services to help develop contract specifications that more accurately reflect service user requirements and allow for greater innovation within contracts	<p>Scotland Excel reports that councils are now much better at submitting their procurement data annually and on time. However, it also recognises the benefits to councils of quarterly reporting, which could provide a more timely national overview and useful benchmarking data for councils themselves.⁴³</p> <p>Not assessed.</p> <p>The Procurement Reform Delivery Group comprises the heads of centres of procurement expertise:</p> <ul style="list-style-type: none">• Scotland Excel (local government)• Advanced Procurement for Universities and Colleges (APUC)• NHS National Procurement• Scottish Government representatives at deputy director level. <p>The PCIP reporting Dashboard replicates some information from the BPIs. In 2015, the Group therefore decided to drop the BPIs except for indicators 1a and 1b, which relate to procurement savings. This decision does not affect the gathering of contract spend data into the Scottish Government's procurement Hub, which continues. The first cycle of PCIP assessments will be conducted in councils in 2016.</p> <p>The standardised contracts developed by Scotland Excel are devised following research with a range of stakeholders, including councils, service providers, and service clients. For example, a framework for care home services for adults with learning disabilities is now available as part of Scotland Excel's social care contracts portfolio. People with learning disabilities who had direct experience of living in care homes were involved in the development and evaluation of the framework, and their views were embedded in the service specification.⁴⁴</p>
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⁴³ Audit Scotland meeting with the Head of Customer and Business Services, Scotland Excel, 29 October 2015.

⁴⁴ Page 3, [Scotland Excel News: Summer 2015](#), Scotland Excel, Summer 2015.

Recommendation	Progress
<ul style="list-style-type: none"> use the Public Contracts Scotland tender module for all applicable contracts 	<p>The Procurement Reform (Scotland) Act 2014 requires all public sector contracting organisations to keep and maintain a contract register, and to provide an internet-based publicly viewable version of it from 18 April 2016. While the onus is on individual organisations to produce and publish contract registers, in order to provide support to the public sector, Public Contracts Scotland (PCS) will provide functionality on the portal to produce a contract register that meets the requirements of the Act.⁴⁵</p>
<ul style="list-style-type: none"> make full use of national collaborative contracts and provide a clear explanation for non-participation in these contracts to the relevant council committee 	<p>Scotland Excel has developed contracts in areas including Construction and maintenance (16 contracts); Transport & environment (10); Social care (8); Education & corporate services (4). Councils are using many existing contracts. New contracts under development by Scotland Excel address: Surveying & construction management; Playground equipment & artificial surfaces; Home energy efficiency programme; Road services; Adult supported living; Architecture services.⁴⁶</p>
<ul style="list-style-type: none"> develop a systematic approach to collecting information on non-financial benefits including economic, community and environmental benefits and report the benefits to the relevant council committee on a regular basis 	<p>Scotland Excel has included community benefits as a scored element in tenders since 2013.</p> <p>The Community Empowerment (Scotland) Act received Royal Assent in July 2015. The Act empowers communities in making decisions about their local areas, including how services are provided.⁴⁷</p>
<ul style="list-style-type: none"> calculate procurement savings using a consistent and transparent methodology that demonstrates clearly how the savings are calculated and their relationship to improved procurement 	<p>Scotland Excel calculates that its standardised contracts have generated £85 million of savings in comparison to councils' £22 million of fees for membership of Scotland Excel, and that £1.4 billion has been spent through councils' use of its contracts since 2008.⁴⁸</p>

⁴⁵ [Forward Plan 30th October 2015](#), Public Contracts Scotland, website as at 26 November 2015.

⁴⁶ Presentation by Scotland Excel to councils during consultation events in 2015.

⁴⁷ [Explanatory Notes](#), Community Empowerment (Scotland) Act, July 2015.

⁴⁸ Presentation by Scotland Excel to councils during consultation events in 2015.

Recommendation	Progress
<ul style="list-style-type: none"> • make better use of market research, cost avoidance and improved contract management to identify savings and potential service improvements • aim to achieve the superior performance level in the PCA, particularly in relation to: <ul style="list-style-type: none"> ◦ spend covered by an agreed commodity strategy ◦ participation in Scotland Excel contracts ◦ automation of procurement and payment processes ◦ spend captured in the council's contract register 	<p>Scotland Excel claims its contracts follow this approach.⁴⁹ Between 2013 and 2014, the number of councils in this category increased from one (Renfrewshire, 80 per cent) to four: Renfrewshire (83 per cent and the top performer in 2013 and 2014), City of Edinburgh (76), Glasgow City (76), South Lanarkshire (75).</p> <p>Standardised contracts designed by Scotland Excel now cater for fluctuations in commodity prices.</p> <p>Scotland Excel has advised Audit Scotland that, on average, councils use 42 out of 48 available contracts, ranging between 31 contracts used (East Ayrshire, Glasgow City) and all 48 (West Dunbartonshire).⁵⁰</p> <p>Please refer to the recommendation below on electronic procurement.</p> <p>Scotland Excel does not maintain a list of spend on councils' contract registers but, against this, a contract register is a key area of focus for the organisation.⁵¹</p>
Councils' corporate management teams should:	
<ul style="list-style-type: none"> • benchmark their procurement staffing against similar-sized councils with higher PCA scores and, where appropriate, produce a business case for employing additional qualified procurement staff where they have lower staffing levels 	<p>The gap between high- and low-performing councils has been closing. Scotland Excel indicates that councils have been recruiting procurement experts, but that the pool of suitable staff is limited.⁵²</p>
<ul style="list-style-type: none"> • examine the benefits of joint working or joint procurement teams as a way of securing economies of scale and creating collaborative contracts 	<p>Scotland Excel indicates that it continues to promote the potential benefits of councils' pooling qualified expertise. Scotland Excel has also advised Audit Scotland that there is considerable scope for further progress on this issue, especially given the limited pool of procurement professionals in Scotland.⁵³</p>

⁴⁹ Audit Scotland meeting with the Head of Customer and Business Services, Scotland Excel, 29 October 2015.

⁵⁰ Email from Scotland Excel to Audit Scotland, 12 November 2015.

⁵¹ Audit Scotland meeting with the Head of Customer and Business Services, Scotland Excel, 29 October 2015.

⁵² Audit Scotland meeting with the Head of Customer and Business Services, Scotland Excel, 29 October 2015.

⁵³ Audit Scotland meeting with the Head of Customer and Business Services, Scotland Excel, 29 October 2015.

Recommendation	Progress
<ul style="list-style-type: none"> • phase out paper purchasing systems and consider the business case for moving all purchasing systems to an electronic 'purchase-to-pay' basis 	<p>The purchase-to-pay process encompasses all the steps that are followed from the time someone orders a product/service that they need, through the authorisation process, to sending the supplier the purchase order and ultimately to receiving the products/services and paying the suppliers invoice. Using systems to automate this process can help to deliver greater efficiencies.⁵⁴</p> <p>A number of improvement programmes have been led by the Scottish Government, eg:</p> <ul style="list-style-type: none"> • Public Contracts Scotland (PCS) provides suppliers with free access to all essential information on public sector business opportunities. All public sector bodies in Scotland are expected to use PCS. • PCS-Tender is the national eSourcing system provided free of charge by the Scottish Government. The system provides buying organisations with a set of web-based procurement tools. • eInvoicing is an electronic service that facilitates information exchange between buyers and suppliers. It allows invoices and related documents to be issued, received and reconciled electronically through a secure channel. In April 2015, the Scottish Government announced that eInvoicing had been extended to all Scottish public sector bodies in Scotland.⁵⁵ <p>Scotland Excel has advised Audit Scotland that local government has been actively engaged in these initiatives, but that electronic procurement remains an area of weakness, and also of opportunity.⁵⁶</p>
<ul style="list-style-type: none"> • raise staff awareness of accountability and controls by: <ul style="list-style-type: none"> ◦ implementing a written code of ethics ◦ requiring staff involved in procurement to complete a register of interest statement ◦ require internal audit to conduct a regular assessment of procurement risk, including the risk of fraud 	<p>The timescale for this impact assessment precluded a survey of all 32 councils.</p>

⁵⁴ Scottish Government Procurement: [eCommerce](#), Scottish Government website as at 26 November 2015.

⁵⁵ [Public Contracts Scotland – Tender](#), Scottish Government website as at 10 November 2015.

⁵⁶ Email correspondence between Scotland Excel and Audit Scotland, 10 November 2015.

Recommendation

Progress

Councils should:

- require a report on procurement savings and non-financial procurement benefits to be submitted to the appropriate committee on a regular basis

Councils continue to seek savings from procurement, although reporting practices vary. For example:

- Angus Council's Policy & Resources Committee took a report on '*...changes required to maximise Community Benefits from Angus Council's procurement activity in accordance with duties emerging from the Procurement Reform (Scotland) Act 2014 and aligned to the Tayside Sustainable Procurement Policy*.'
- East Renfrewshire Council's Cabinet took a report on the benefits of the council joining a nationwide telecommunications infrastructure for use by public bodies.⁵⁷
- The City of Edinburgh Council prepared an Equality and Rights Impact Assessment in relation to procurement savings on independent contracts for Older People's and Disability services.⁵⁸

- encourage elected members sitting on the main committee(s) dealing with procurement to complete specific training to help them undertake their governance role more effectively

A total of 3,585 council delegates have attended Scotland Excel training courses since January 2009.⁵⁹ Some delegates have comprised elected members. In response to *Procurement in councils*, some councils have said procurement training is already in place, and some others have committed to improving training and support for elected members, eg:

- Angus – the council has committed to deliver procurement training and briefing session(s) to councillors.⁶⁰
- Moray – procurement training has been offered to elected members and can be repeated if requested.⁶¹
- Renfrewshire – procurement awareness training sessions are available to elected members.⁶²

However, the timescale for this impact assessment precluded a survey of all 32 councils.

Final

⁵⁷ [Report by the Deputy Chief Executive to Cabinet](#), East Renfrewshire Council, March 2015.

⁵⁸ [Equality and Rights Impact Assessment](#), City of Edinburgh Council, February 2015.

⁵⁹ Presentation by Scotland Excel to councils in consultation events during 2015.

⁶⁰ Outcome 4, [Procurement Annual Report 2014/15 and Improvement Plan for 2014/17](#), Angus Council, September 2015.

⁶¹ Item 7: [Report to the Audit & Performance Review Committee](#), Moray Council, May 2014.

⁶² Item 7: [Report to the Audit, Petition and Scrutiny Board](#), Renfrewshire Council, September 2014.