



Audit Scotland report: Procurement in councils impact report

Committee Audit and Standards

Date of meeting 18 March 2016

Date of report 7 March 2016

Report by Assistant Chief Executive (Business Support)

1. Object of report

To advise the committee on the issue of an Audit Scotland report titled '*Procurement in councils impact report*' and SPT's response to the key messages and recommendations in this report.

2. Background

Audit Scotland report

On 8 February 2016, Audit Scotland published a report titled '*Procurement in councils impact report*'. The report describes the impact made by the Accounts Commission's performance audit report on '*Procurement in councils*' published on 24 April 2014.

The full report and supplement(s) can be found at:

http://www.audit-scotland.gov.uk/uploads/docs/report/2016/ir_160208_procurement_councils_impact.pdf

http://www.audit-scotland.gov.uk/uploads/docs/report/2014/nr_140424_procurement_councils.pdf

http://www.audit-scotland.gov.uk/uploads/docs/report/2014/nr_140424_procurement_councils_supp1.pdf

3. Outline of findings

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;
- 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.
- The recommendations contained in this report and SPT's response(s) are as follows:

Recommendation(s)	SPT's response(s)
Council staff involved in procurement should:	
<ul style="list-style-type: none"> • 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); 	<p>SPT is currently in discussion with the Scottish Government on the information requirements to the Procurement Hub.</p>
<ul style="list-style-type: none"> • examine the costs and benefits of differentiating ALEO and council expenditure in their Hub submissions; 	
<ul style="list-style-type: none"> • 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; 	
<ul style="list-style-type: none"> • 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>SPT has implemented specific procurement plans which address market place engagement.</p> <p>Staff are currently being trained on better supplier engagement.</p>
<ul style="list-style-type: none"> • use the Public Contracts Scotland (PCS) tender module for all applicable contracts; 	<p>SPT is piloting the PCS tender module for all applicable contracts.</p>
<ul style="list-style-type: none"> • make full use of national collaborative contracts and 	<p>SPT has implemented specific</p>

provide a clear explanation for non-participation in these contracts to the relevant council committee;	procurement plans which address options to all routes to the market, including collaborative contracts.
<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; • calculate procurement savings using a consistent and transparent methodology that demonstrates clearly how the savings are calculated and their relationship to improved procurement; 	In line with the Procurement Reform (Scotland) Act 2014 and the Procurement (Scotland) Regulations 2016, SPT will develop a systematic approach to collecting information and reporting requirements.
<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; 	
<ul style="list-style-type: none"> • aim to achieve the 'superior performance' level in the PCA, particularly in relation to: <ul style="list-style-type: none"> – 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. 	In line with national developments, SPT will engage with Scotland Excel and other partners to develop the Procurement and Commercial Improvement Programme (PCIP) which will replace the current Procurement Capability Assessment (PCA) monitoring tool.
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; 	SPT has and continues to review staffing levels as part of a programme of continuous improvement to achieve outcomes.
<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; 	SPT has implemented specific procurement plans which address options to all routes to the market, including collaborative contracts.
<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>SPT has introduced electronic tendering.</p> <p>The second phase of this process is to review and schedule electronic 'purchase to pay' systems.</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>SPT has recently (June 2015) reviewed, circulated and raised awareness of the Code of Conduct for Employees which include staff requirements to complete the register of interests.</p> <p>The annual risk based Internal Audit plan includes fraud prevention initiatives.</p>

Councils should:	
<ul style="list-style-type: none"> • require a report on procurement savings and non-financial procurement benefits to be submitted to the appropriate committee on a regular basis; 	In line with the Procurement Reform (Scotland) Act 2014 and the Procurement (Scotland) Regulations 2016, SPT will develop a systematic approach to collecting information and reporting requirements.
<ul style="list-style-type: none"> • 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. 	The ACE (Business Support) will review the training requirements for members to complement training provision in respective partner authorities.

4. Conclusions

Audit Scotland published a report titled '*Procurement in councils impact report*' in February 2016. The report describes the impact made by the Accounts Commission's performance audit report on '*Procurement in councils*' published on 24 April 2014. SPT has and continues to address the key messages and recommendations from this report.

5. Committee action

The committee is asked to note the contents of this report and the Audit Scotland report titled '*Procurement in councils impact report*'.

6. Consequences

Policy consequences	<i>None</i>
Legal consequences	<i>None</i>
Financial consequences	<i>None</i>
Personnel consequences	<i>None</i>
Social Inclusion consequences	<i>None</i>
Risk consequences	<i>None</i>

Name Valerie Davidson

Name Gordon MacLennan

Title Assistant Chief Executive
(Business Support)

Title Chief Executive

For further information, please contact Iain McNicol, Audit and Assurance Manager, on

0141 333 3195.

Procurement in councils

Impact report

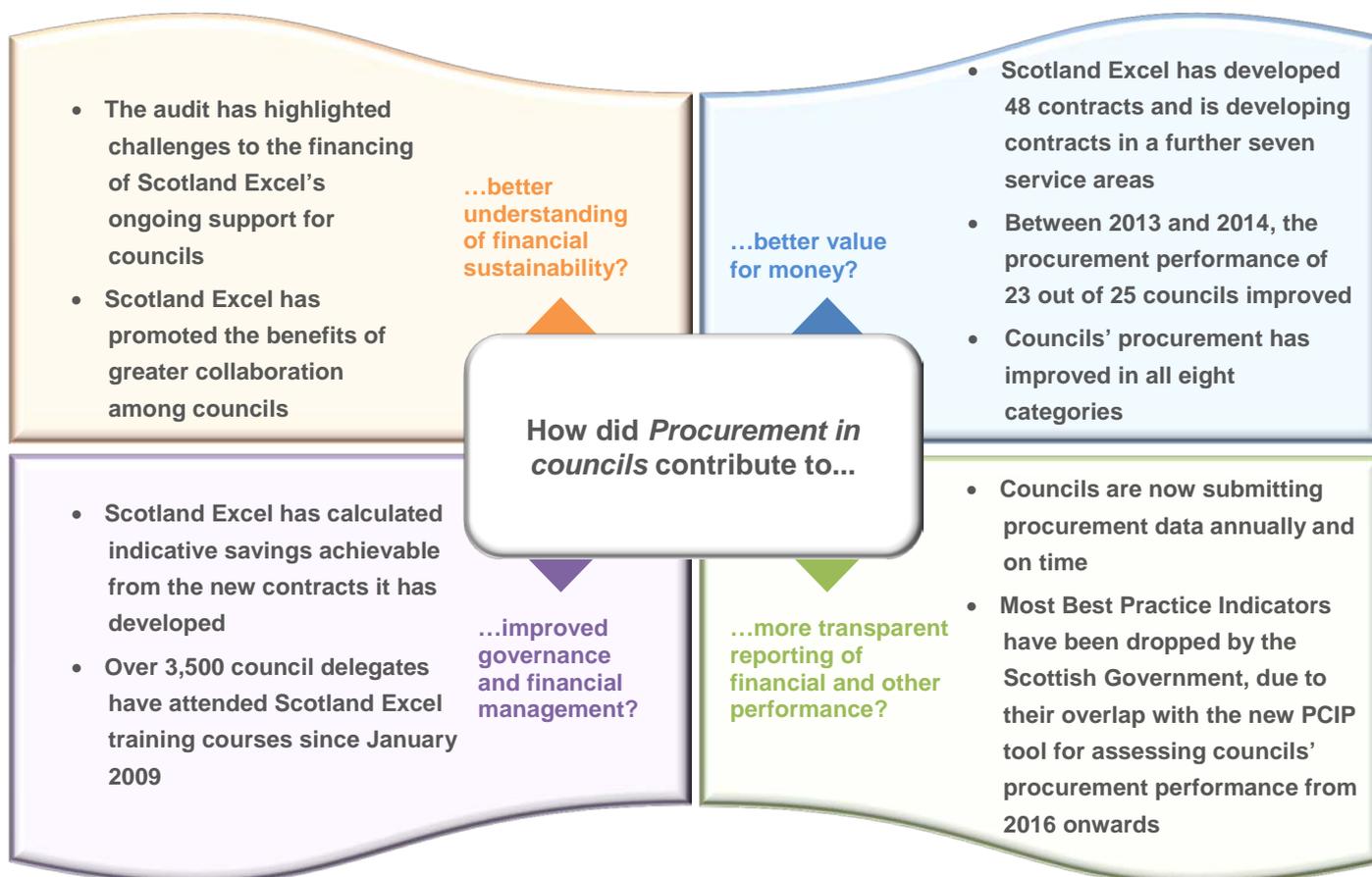
Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held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

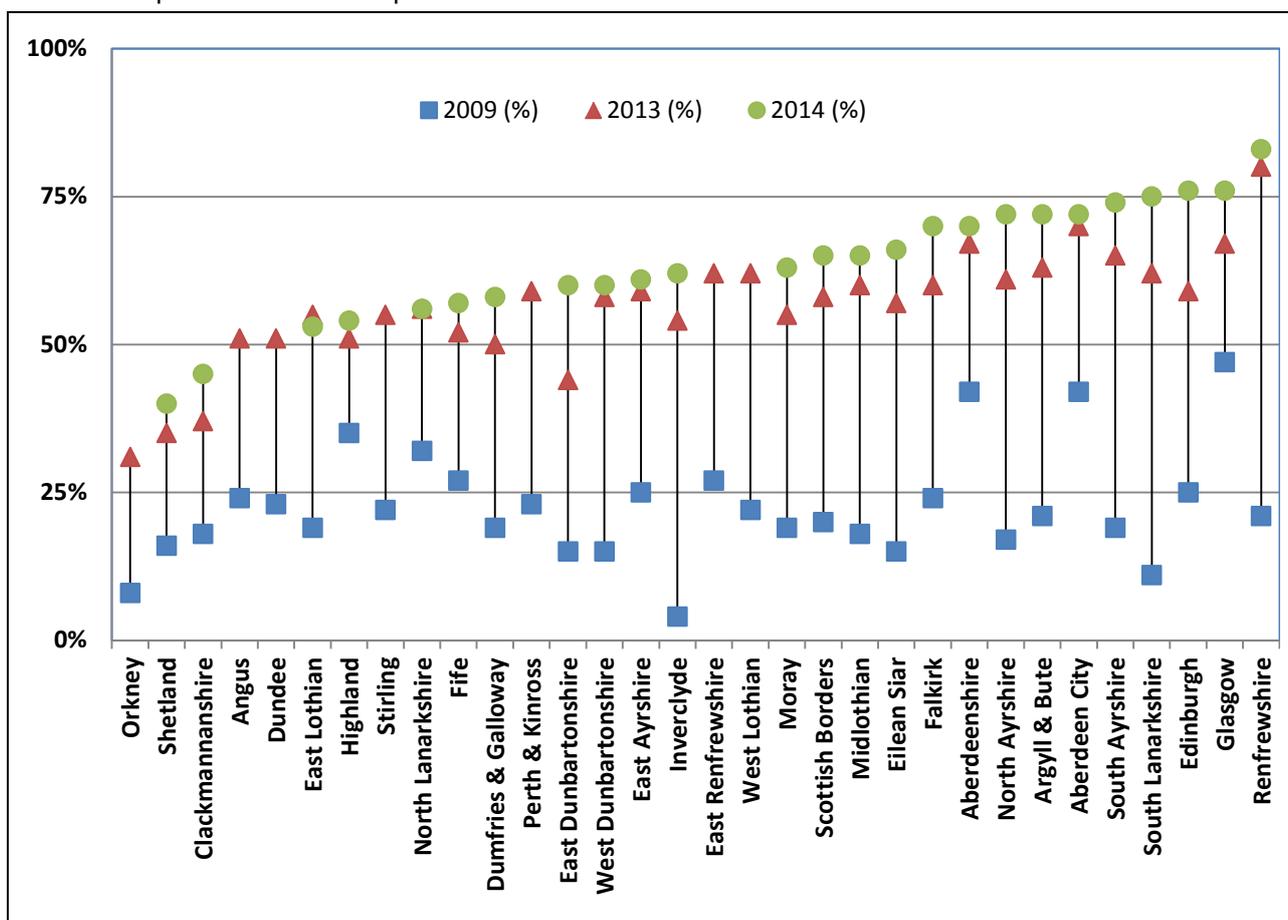
- Twenty-three councils improved their overall PCA score. North Lanarkshire Council's score remained the same and East Lothian Council's score fell by 2 per cent.
- Four councils were in the 'superior performance' category (Renfrewshire, 83 per cent; City of Edinburgh; 76 per cent; Glasgow City, 76 per 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

Recommendation	Progress
The Scottish Government should work with councils to:	
<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>
Scotland Excel should:	
<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 	<p>In its corporate strategy for 2015-18, Scotland Excel commits to <i>"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."</i>³⁷</p>
<ul style="list-style-type: none"> set realistic timescales and savings targets for contracts, particularly in new areas of contracting 	<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>
Scotland Excel and councils should:	
<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 Controller 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) 	<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>
<ul style="list-style-type: none"> examine the costs and benefits of differentiating ALEO and council expenditure in their Hub submissions 	<p>Not assessed.</p>
<ul style="list-style-type: none"> 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 	<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>
<ul style="list-style-type: none"> 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>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>

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</p> <p>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>
<p>Councils' corporate management teams should:</p>	
<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:	
<ul style="list-style-type: none"> require a report on procurement savings and non-financial procurement benefits to be submitted to the appropriate committee on a regular basis 	<p>Councils continue to seek savings from procurement, although reporting practices vary. For example:</p> <ul style="list-style-type: none"> Angus Council's Policy & Resources Committee took a report on '<i>...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.</i>' 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
<ul style="list-style-type: none"> 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 	<p>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 <i>Procurement in councils</i>, some councils have said procurement training is already in place, and some others have committed to improving training and support for elected members, eg:</p> <ul style="list-style-type: none"> 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 <p>However, the timescale for this impact assessment precluded a survey of all 32 councils.</p>

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.

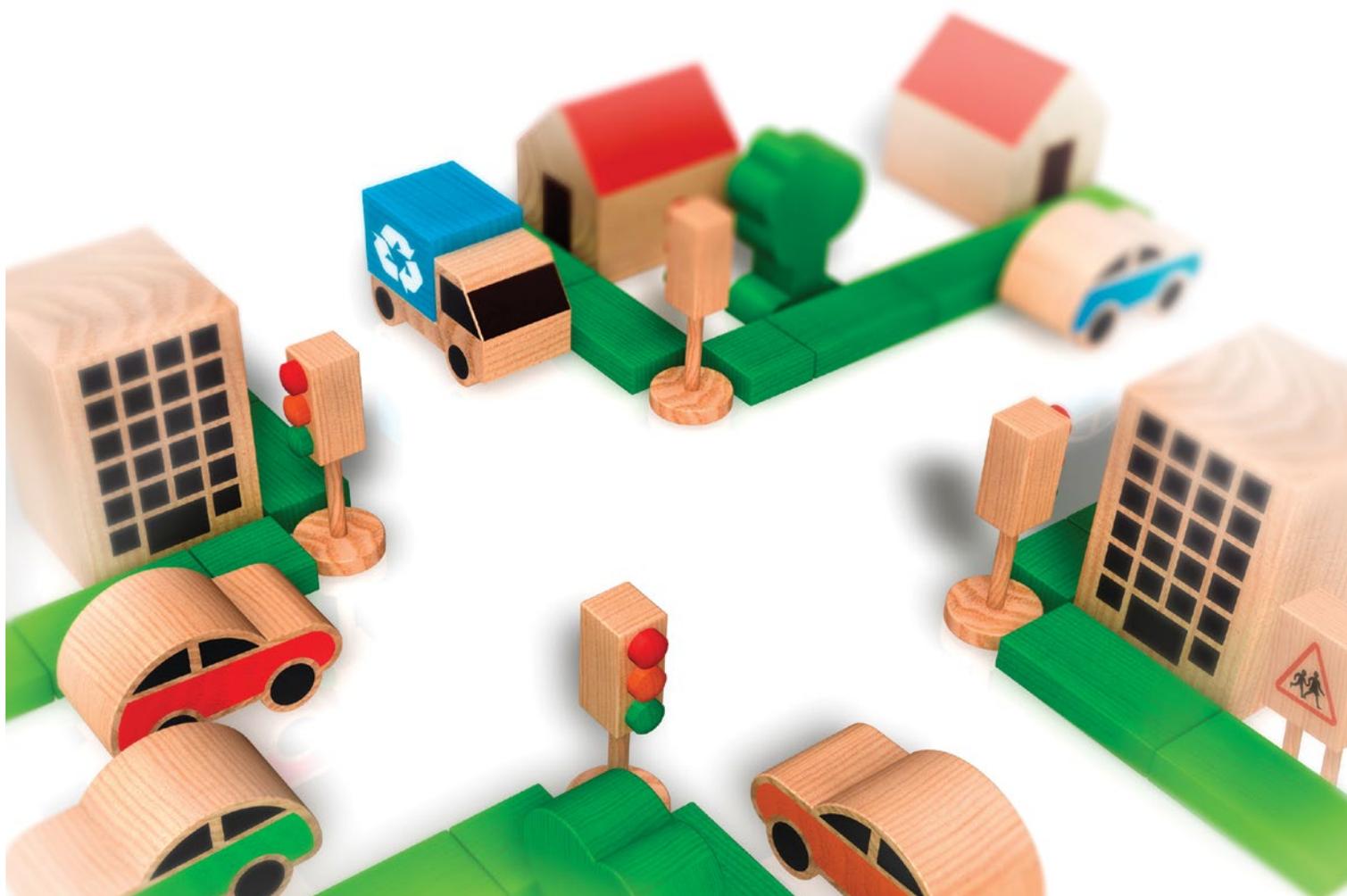
⁵⁹ Presentation by Scotland Excel to councils in consultation events during 2015.

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.

Procurement in councils



 ACCOUNTS COMMISSION

Prepared by Audit Scotland
April 2014

The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about/ac 

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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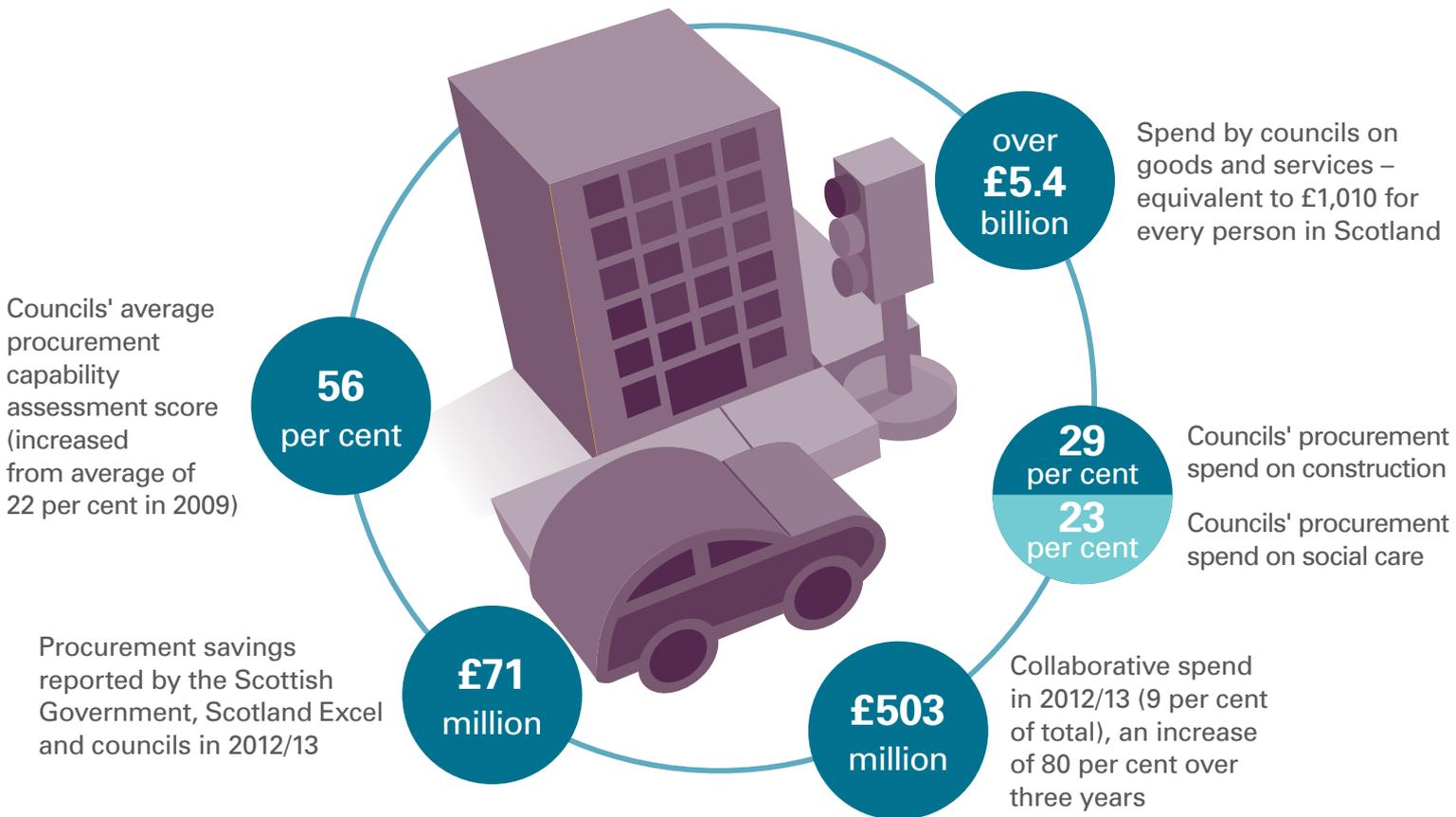
Exhibit data

When viewing this report online, you can access background data by clicking on the graph icon. The data file will open in a new window.

Summary



Key facts



Background

1. Procurement is the process that councils follow to buy the goods and services they need to provide public services. Effective procurement is important in helping councils achieve their local outcomes and priorities, secure value for money and deliver other benefits. Effective procurement involves the following:

- Having the right people in the right place – does the council have adequate numbers of appropriately qualified staff and appropriate organisational structures?
- Defining the supply need – does the council have a well-planned process for deciding what it needs, including deciding how it should provide services and looking at alternative ways of delivering services?
- Sourcing strategies and collaborative procurement – does the council have a good idea of how it can best meet its needs?
- Contract and supplier management – does the council manage its suppliers and contracts effectively?
- Purchasing processes and systems – does the council have effective and reliable processes and ICT systems to support procurement?

2. Councils spent over £5.4 billion, over a quarter of their total capital and revenue spend, on procurement in 2012/13. This represents over half of the public sector procurement spend and about £1,010 for every person in Scotland.

3. In March 2006, the Scottish Government published the *Review of Public Procurement in Scotland* (the McClelland report). This concluded that public sector structures, people and technology were not in place to improve procurement. The report identified the opportunity to achieve significant, recurring financial savings across the public sector through increased use of collaborative contracts (agreements between one or more contracting authorities and one or more companies, which set out the terms under which the companies will enter into contracts with a contracting authority). Since 2006, the Scottish Government and Scotland Excel have launched several initiatives to improve procurement in councils.

4. Our 2009 report, [Improving public sector purchasing \(PDF\)](#)  concluded that public bodies' progress in making savings from better procurement had been variable and slower than expected. It also identified wide variation across public bodies in the quality of purchasing data, practice and skill levels. Our other performance audits have also examined aspects of councils' procurement. These include:

- [Improving public sector efficiency \(PDF\)](#)  (2009)
- [Getting it right for children in residential care \(PDF\)](#)  (2010)
- [Commissioning social care \(PDF\)](#)  (2012)
- [Major capital investments in councils \(PDF\)](#)  (2013).

About our audit

5. The aim of our audit was to assess whether councils are efficiently and effectively managing how they procure goods and services. The specific objectives were to determine:

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

6. This report focuses on the performance of councils and Scotland Excel; the latter is the centre of procurement expertise for Scottish councils. We did not look at procurement by arm's-length bodies set up by councils to provide services. We did not evaluate procurement activities outside local government such as the operation of Public Contracts Scotland or the wider work of the Public Procurement Reform Board (the PPRB brings together leaders from across the public sector to champion procurement reform and influence their sectors). We did draw on information from these areas where they were relevant.

7. We gathered audit evidence from:

- published and unpublished information on procurement, including the results of councils' Procurement Capability Assessments (PCAs) undertaken by Scotland Excel
- fieldwork at six councils and Scotland Excel
- our survey of 32 councils and analysis of data from the Scottish Government Procurement Information Hub (the Hub)
- interviews with representatives from organisations including the Scottish Government, Scotland Excel, private sector organisations such as the Scottish Chambers of Commerce and the Federation of Small Businesses, and the Scottish Council for Voluntary Organisations.

8. Further details of our audit approach are included at [Appendix 1](#).

9. This report has three parts:

- [Part 1. Setting the scene](#)
- [Part 2. The benefits of effective procurement](#)
- [Part 3 How councils are performing.](#)

10. In addition to this report, we have prepared a [Checklist for elected members in councils \(PDF\)](#)  to help them in their scrutiny role.

11. The Accounts Commission may undertake a follow-up audit, depending on councils' progress.

Key messages



- 1** 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.
 - 2** 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.
 - 3** 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.
 - 4** Councils and Scotland Excel have used the Procurement Capability Assessment 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.
-

Recommendations

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 for contract development, 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 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
- 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
- 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.
-

Part 1

Setting the scene



Key messages

- 1 Since 2006, Scottish Government and Scotland Excel initiatives have led to significant changes in councils' procurement practices. Procurement now has a higher profile and councils buy more goods and services collaboratively. New legislation and EU directives will bring about further change.
- 2 Councils spent over £5.4 billion on goods and services in 2012/13; over half of the total public sector spend in Scotland. This spending is extremely diverse, although more than half is on social care and construction.
- 3 The Scottish Procurement Information Hub is a powerful source of information for analysing council spending data, but not all councils are fully using it. Councils populate the Hub with information on BPIs, but we found little evidence that they use these effectively.

Since 2006, Scottish Government and Scotland Excel initiatives have led to significant changes in councils' procurement practices

12. In March 2006, the Scottish Government published the *Review of Public Procurement in Scotland* (the McClelland report). The report concluded that public sector structures, people and technology were not in place to improve how the public sector buys goods and services and that the public sector needed to improve quickly. Since then, the Scottish Government has implemented several measures that have changed the organisation of procurement across the public sector. They include:

- **The Public Procurement Reform Board (PPRB)** – established in 2006, the PPRB brings together leaders from across the public sector. Although it has no formal powers to direct public bodies, its members promote procurement reform and influence their sectors.
- **The Scottish Procurement Information Hub (The Hub)** – set up in 2006, the Hub uses data from public bodies' payment systems to produce a broad picture of public sector spending. It provides a starting point for public sector bodies to identify areas of spend, common suppliers and spend with small and medium-sized enterprises (SMEs). Councils also populate the Hub with information on their BPIs.^{1,2}

councils spent over £5.4 billion on goods and services in 2012/13, £1,010 for every person in Scotland

- **Public Contracts Scotland** – launched in 2008, this website is the platform for all public bodies in Scotland to advertise and tender public sector contracts. It aims to promote efficiency and to give suppliers open access to contract opportunities.
- **The Scottish Futures Trust** – established in 2008 as a limited company, and wholly owned by Scottish ministers. Its purpose is to facilitate and improve the procurement and delivery of public sector construction projects.
- **The Single Point of Enquiry** – this was established in 2008 as an independent, impartial and confidential service for suppliers. It offers advice on procurement rules and works with suppliers and public sector bodies to resolve concerns about tender exercises.
- **The Procurement Capability Assessment (PCA)** – in 2009, the Scottish Government introduced a new improvement tool to assess all public bodies' purchasing activity and to promote improvement.

13. In 2008, councils set up Scotland Excel as a shared service funded by its members. Scotland Excel develops and manages a range of collaborative contracts for goods and services, from salt for winter road maintenance to secure care for children. It provides the centre of procurement expertise for councils in Scotland and works with them (and suppliers) to develop and share best practice and raise standards. It conducts PCAs annually with each council and supports them with the development of their improvement plans.

14. The McClelland report identified that increased use of collaborative contracts could achieve significant, recurring financial savings and service quality improvements, based on three groups of contracts:

- **National** – for goods and services that the whole of the public sector commonly uses, for example utilities and office supplies. The Scottish Government's Procurement and Commercial Directorate leads collaborative procurement of these goods and services.
- **Sector-specific** – for goods and services that a specific sector commonly uses. There are centres of procurement expertise for each sector that lead collaborative procurement for public bodies in their respective sectors. Scotland Excel is the centre for councils.³
- **Local** – for goods and services where public bodies make contracts at a local level. Local or regional collaboration may be useful for some goods and services.

Further changes in procurement legislation and practice are underway

15. The Scottish Government introduced The Procurement Reform (Scotland) Bill to the Scottish Parliament on 3 October 2013. It proposes to place a new general duty on public bodies to conduct procurement effectively and in a proportionate manner. It will require public bodies to consider social and environmental factors, such as the creation of apprenticeships, as part of their procurement decisions.

16. The Bill will sit alongside the 2014 EU directive, which also supports these aims by introducing a criterion of the 'most economically advantageous tender' in contract award procedures. This will enable councils to give greater weighting to quality, environmental considerations, social aspects or innovation in their procurement decisions. It will also encourage councils to call for tenders to solve a specific problem without pre-empting the solution, leaving room for innovative solutions.

17. The Social Care (Self-directed Support) (Scotland) Act 2013 came into effect on 1 April 2014. This requires councils to commission a wide variety of services to meet the needs of people who opt to direct their own care. The Accounts Commission will publish a report in mid-2014 on councils' preparations for this new duty.

18. The Scottish Government published the results of a review of how the public sector awards construction contracts in October 2013. The review made several recommendations, including a chief construction adviser to be appointed by the Scottish Government and a review of how construction priorities are set across the public sector.⁴

The procurement landscape is complex

19. In addition to councils and groupings of councils, other organisations are involved in supporting improved procurement in councils. The main ones are the Scottish Government, Scotland Excel and the Scottish Futures Trust ([Exhibit 1, page 13](#)). Councils also have access to frameworks and framework contracts set up by councils and groups of councils in Scotland and the rest of the UK.⁵

The Scottish Futures Trust will become increasingly important in construction procurement

20. The Scottish Futures Trust (SFT) was set up to support and improve public sector infrastructure investment. It manages the 'hub community infrastructure partnership programme' across five territories (in the South East, North, East Central, West and South West regions of Scotland). In each area, public bodies have joined with a private partner to form a new joint venture company. SFT intends these joint venture companies to be a value-for-money option, which can become a first port of call when a public body wishes to undertake a community construction project.⁶

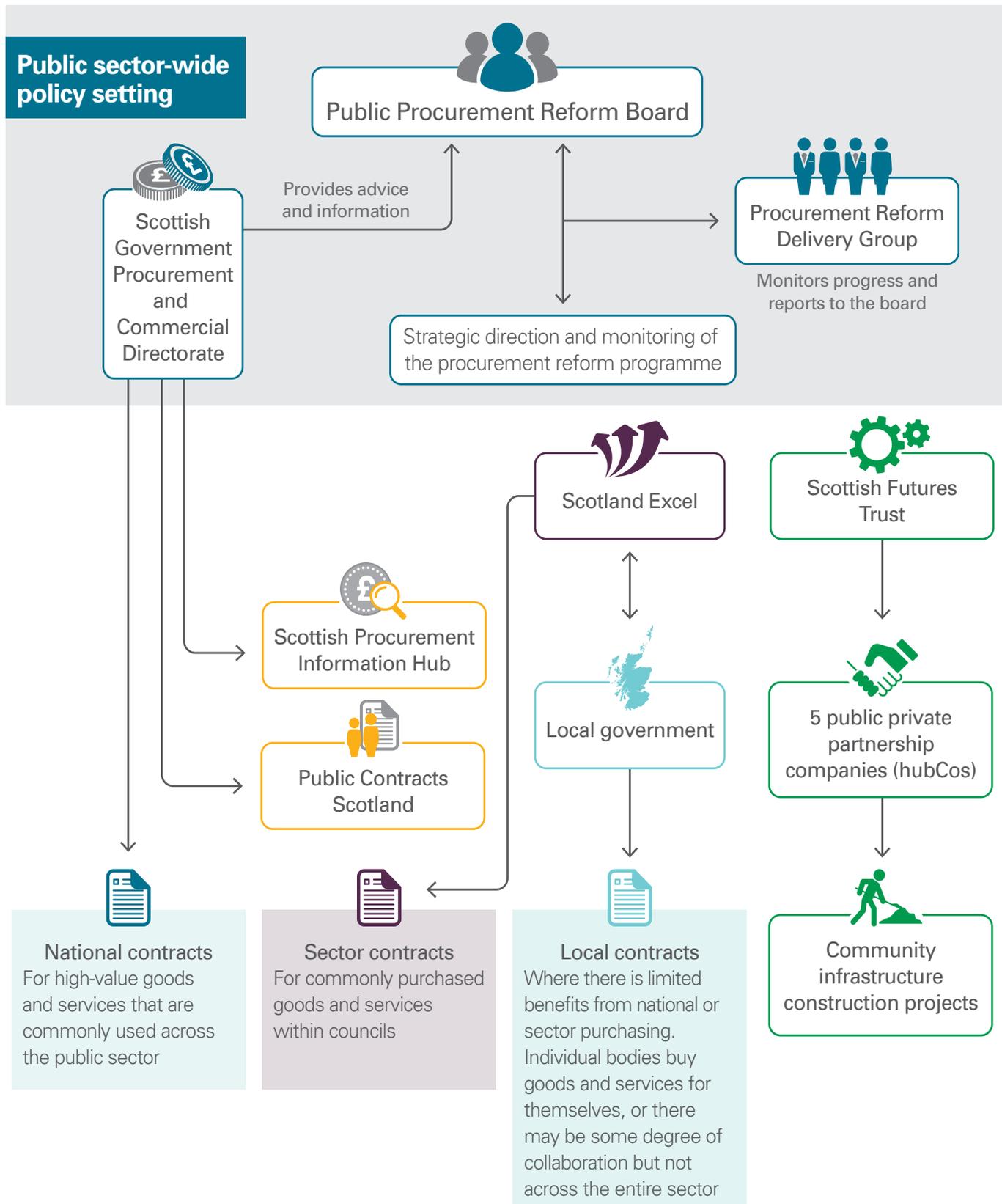
21. All 32 councils have signed up to the programme. SFT estimates the value of all current projects to be over £1 billion. Of this, over £700 million relates to councils. Most work is in the development stage, with £70 million completed and £225 million in construction. Almost 60 per cent of the programme is made up of school projects.

22. Each joint venture company has performance indicators that include the amount of work awarded to SMEs. SFT reported that SMEs have won 77 per cent of the £105 million of contracts awarded to date. The SFT also seeks to have apprenticeships built into contracts and is collecting data on other community benefits.

Exhibit 1

More organisations are becoming involved in council procurement

It is important that national procurement organisations maintain strong lines of communication.



23. It is important that national procurement organisations maintain strong lines of communication. We found that there was regular contact between Scotland Excel and the Scottish Government. There has also been engagement between Scotland Excel and the SFT on specific contracts; however, there was only limited evidence of engagement around the joint venture company activity. The expected growth in the number and value of construction projects through the joint venture companies may create further opportunities for Scotland Excel and the SFT to work together on contracts for items such as plumbing materials or education.

Councils spend over £5.4 billion on goods and services, over half the total for the public sector in Scotland

24. In 2012/13, councils spent over £5.4 billion buying goods and services, over one-quarter of their total capital and revenue spending. This represents over half of the total procurement spend for the public sector in Scotland and is equivalent to £1,010 for every person in Scotland. This includes £259 million spending by arm's-length external organisations (ALEOs), including £240 million by Glasgow ALEOs. ALEOs can be used by councils to deliver services.^{7,8}

25. Procurement spending varied among councils, depending on size, ranging from £35 million in Shetland Islands Council to £622 million in Glasgow City Council. Councils spend money on many kinds of goods and services, although over half is on construction (29 per cent) and social care (23 per cent) ([Exhibit 2, page 15](#)).⁹

26. Between 2010/11 and 2012/13 councils' procurement spending increased by £300 million (6 per cent) in real terms. The biggest increase was in construction spending, which rose by £208 million (15.2 per cent) in real terms. Spending fell in some areas, such as legal services and public transport. Real-terms spending increased in 20 councils and fell in 12 councils. Individual councils' annual procurement spend can seem volatile because of capital projects, which may cause large increases (and decreases) in procurement spending from year to year.

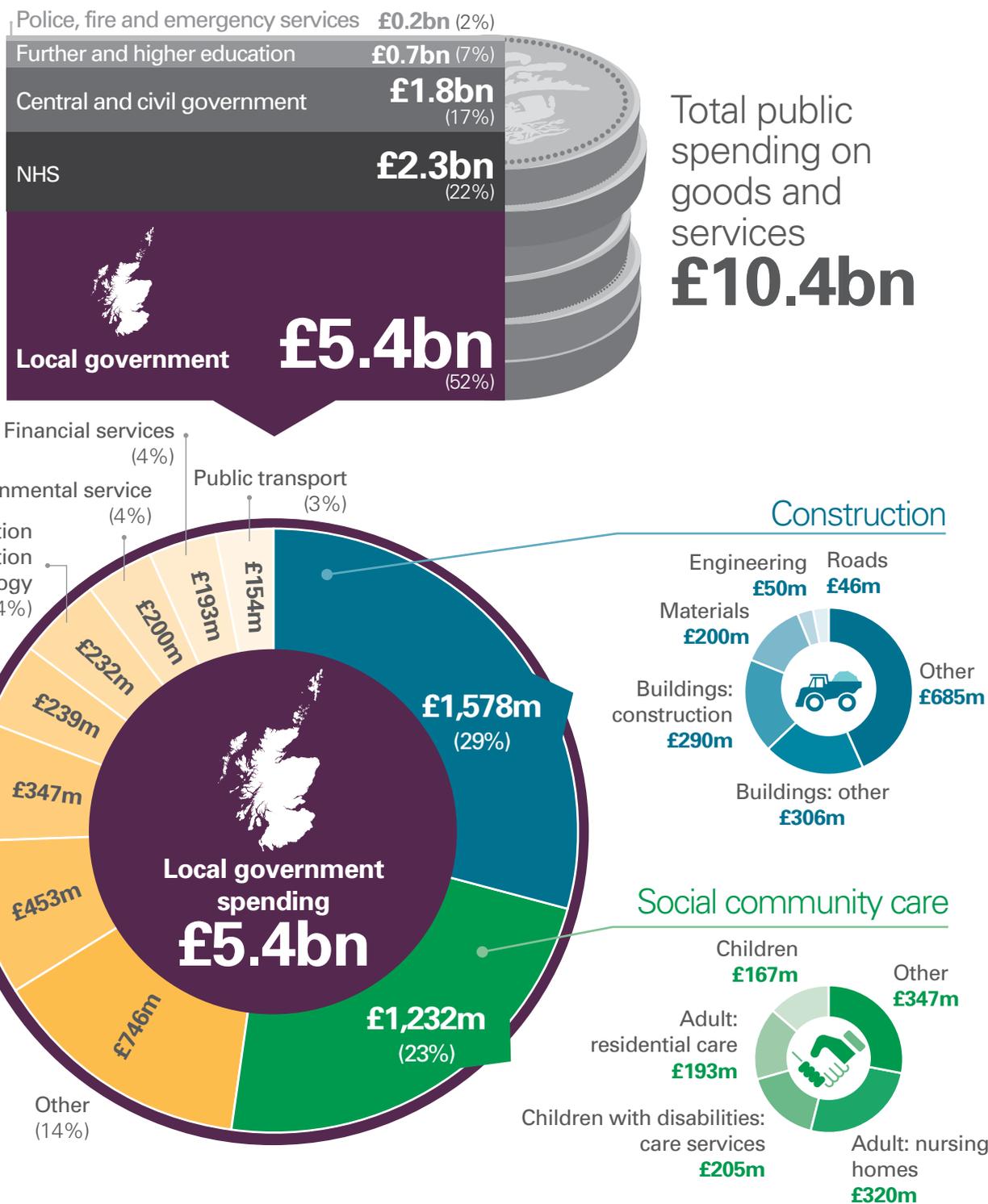
The Scottish Procurement Information Hub is a powerful information source but councils are not fully using it

27. The primary source of information about public sector spending on goods and services is the Scottish Procurement Information Hub (the Hub). Councils submit payment data to the Hub, which is then categorised in various ways, for example by supplier, local spend, spend with SMEs and contract type. The Hub has some limitations; for example, it classifies spending using a supplier's main business, not on the goods or services a council buys. This means that where a supplier's main business is ICT, but it also supplies air conditioning, the Hub would classify all spending with that company as ICT.

Exhibit 2

Estimated public sector spending on goods and services in Scotland 2012/13

Councils are responsible for over half of all Scottish public spending on goods and services. This spending is extremely diverse, though most is on social care and construction.



Notes:

1. This is core trade spend, which is spend with suppliers with whom over £1,000 has been spent in a 12-month period, that have also been classed as a trading organisation or as a non-trade social care provider.
2. There are inconsistencies in how councils report ALEO spending. In some councils, ALEOs pay their suppliers through council payment systems. Where this happens, councils sometimes include ALEO payments in their Hub submissions. ALEOs with their own systems do not supply payment data to the Hub. Because of the way the Hub is configured, it is not possible to separate out ALEO spending.
3. The spending information includes spending information from all councils and health boards, 16 out of 19 universities, 12 out of 32 colleges and central and civil government bodies with significant procurement spend (with the exception of four public corporations, including Scottish Water).

Source: Audit Scotland analysis of Scottish Procurement Information Hub data.



28. The Hub is a potentially powerful source of information with a wide range of functions. It can enable organisations to:

- comprehensively analyse their spend on goods and services
- identify suppliers and analyse spending they have in common with other public sector bodies to help identify opportunities for collaborative purchasing
- find out how their spend profile compares with other public sector bodies
- connect contract and spend data to make it easier to analyse, track and manage spend
- measure their progress using a standardised set of public sector-specific key performance indicators, in this case BPIs (we consider these in more detail below).

29. Hub data is becoming more comprehensive and up to date. But councils submit data inconsistently; some councils submit data on a quarterly basis and some annually (some over three months after the end of the financial year).

30. It is in councils' interests to have a good working knowledge of the Hub and ensure they record their data accurately. Councils vary in how well they use the tools and facilities available on the Hub. Greater use of these could better inform councils' decision-making. There are good online training facilities on the Hub database, but some councils feel that additional 'hands-on' training would be helpful.

31. Both Scotland Excel and the Scottish Government use the Hub database to identify areas that may be suitable for national and sector-specific collaborative contracts.

Most councils collect information to produce BPIs but we found little evidence that councils are using them effectively

32. In May 2008, in consultation with other bodies, the Scottish Government introduced the Procurement BPIs. These include performance measures such as contracted spend, savings, staff qualifications and e-procurement. The intention was that the PPRB and Delivery Group would use the indicators to monitor improvements and identify areas of concern. Public bodies submit BPI data directly to the Hub to help them to share best practice, improve joint working and increase efficiency. In 2012/13, 31 councils submitted BPI data to the Hub. Only Stirling Council had not submitted BPI data to the Hub at the time of audit, although data was incomplete for several others.

33. In 2011, the Scottish Government made it an indicator in the PCA for councils to complete the BPIs. The Scottish Government identified inconsistencies in savings reported through the BPIs compared with those reported through Efficient Government in 2012. To ensure all public bodies report consistently, the Scottish Government published savings and benefits guidance in November 2012. Procurement policy has changed since 2008, for example in terms of sustainability and community benefit, and a review of BPIs would be appropriate to ensure they reflect current practice. Some council procurement managers do not currently use BPIs as they find them less useful than the PCA.^{10,11}

Recommendations

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.

Council staff involved in procurement should:

- submit accurate and complete information to the procurement Hub on a regular and timely basis (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.
-

Part 2

The benefits of effective procurement



Key messages

- 1** Councils can use procurement to improve the quality of services and achieve benefits for the community. Councils are systematically using procurement spending to support local economic development. Councils have begun to make other community benefits such as apprenticeships and environmental improvements an integral part of contracts.
- 2** The use of 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 total council procurement spend. It is likely to increase further as Scotland Excel and the Scottish Government introduce more collaborative contracts.
- 3** 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.

Councils are using procurement spending to stimulate local economic development; other community benefits are beginning to follow

34. The initial focus of the McClelland procurement reforms was on collaboration and financial savings. More recently, the Scottish Government launched the Scottish Sustainable Procurement Action Plan. In it, the Scottish Government defines sustainable procurement as 'A process whereby organisations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole-life basis and generates benefits not only to the organisation, but also to society, the economy and the environment'.¹²

35. To achieve Best Value when deciding between procurement options, councils consider the balance between cost, quality and wider community benefit. For some contracts, for example buying goods such as stationery, price is likely to be the biggest factor in the procurement decision. In others, for example social

council spending through collaborative contracts is increasing, but accounts for a relatively low proportion of procurement spend

care, it will be service quality. In major contracts, particularly larger construction contracts, whole-life costs and community benefits such as the creation of apprenticeships and economic development will also be significant factors. Achieving these wider benefits depends on councils having enough skilled procurement personnel, good ICT and effective procurement processes.

36. The Procurement Reform (Scotland) Bill places emphasis on encouraging innovation from suppliers and enhancing contract opportunities for newer businesses, SMEs and the third sector, such as voluntary organisations. The Bill also includes a sustainable procurement duty to promote economic, social and environmental wellbeing.

37. Scotland Excel has supported councils' economic development and community benefit policies by breaking contracts into smaller 'lots' to encourage SMEs to bid. Scotland Excel currently has 38 contracts with 409 suppliers valued at £408 million; of these:

- 286 suppliers (70 per cent) are SMEs and they account for 44 per cent of spend
- 167 suppliers (41 per cent) are Scottish SMEs and they account for 31 per cent of spend
- 48 per cent of overall spend is with Scottish suppliers.

38. Hub information shows that 54 per cent of Scottish councils spend is with SMEs, ranging from 35 per cent in Inverclyde Council to 77 per cent in Shetland Isles Council. While there was no change in spending with SMEs between 2010/11 and 2012/13, a 2013 survey, commissioned by the Federation of Small Businesses, indicated that these initiatives were having an impact. It found that 53 per cent of Scottish councils' spending was with SMEs compared to a UK average of 47 per cent.¹³

39. All councils are working with local suppliers to help them bid for council contracts. Additionally, the Supplier Development Programme (SDP), a local authority partnership programme supported by 25 councils, helps SMEs and third sector organisations to win more public sector contracts. It offers support, and runs training events, to help SMEs and third sector organisations understand councils' tendering processes. Councils are also using procurement to help benefit the community and the environment. North Ayrshire Council is particularly active in using procurement to improve local economic development ([Exhibit 3, page 20](#)).

40. Although most councils have a well-established supplier development programme, examples of community benefits and environmental improvements are relatively recent. Some councils, such as Renfrewshire and Dundee, have appointed community benefits managers to engage with suppliers and take a systematic view of community benefits (for example, they coordinate apprenticeships and training across council construction projects to enable local apprentices to complete their training). Falkirk Council has made environmental improvements ([Exhibit 3, page 20](#)). However, PCA results indicate that most councils have yet to implement a systematic approach to achieving community and environmental benefits.

Exhibit 3

Good practice examples of councils using procurement to achieve community, economic and environmental benefits

North Ayrshire Council's economic development programme

The council is implementing a plan to help SMEs and local businesses that includes:

- holding Supplier Development Programme (SDP) events and providing 'Meet the Buyer' and 'Is the Public Sector for you?' presentations
- offering to meet local businesses one-to-one
- offering to debrief unsuccessful suppliers to help with future bids
- monitoring the SME and local business success rate in the pre-qualification questionnaire (PQQ) process
- ensuring its tender strategies take account of SMEs' needs
- ensuring they invite a fair representation of local companies to bid for low-value quotes and monitoring the success rate of this policy
- reviewing tender documents to ensure they are consistent and user friendly and by streamlining the information required in a tender process.

The council is also working on a 'Partners for Change' pilot to improve its relationships and communication with the third sector.

The council uses community benefits clauses to maximise the economic, social and environmental wellbeing of the area. As well as targeted recruitment and training clauses, the council also requests other voluntary community benefits. The council has recruited a Community Benefits Officer to support this initiative. The council has advertised on the Public Contracts Scotland portal for expressions of interest from third sector organisations to provide services to the council. It aims to use this database for 'quick quote' requirements and to share it with main contractors to help with subcontracting opportunities.

Falkirk Council – environmental benefits

Falkirk Council has specified a minimum mandatory standard for cleaning products and cleaning services. Successful contractors work with the contracting authority to achieve best practice standards. Contract award conditions included an environmental assessment of tenderers' proposals to mitigate their impact on the environment, for example through waste disposal and fuel emissions. The council monitors contractor performance throughout the lifetime of the contract.

Renfrewshire Council – the benefits of improved supplier engagement

Renfrewshire Council's Building Better Communities (BBC) is a £103 million programme of investment in schools, sports, social care and community facilities. Improved supplier engagement and a partnership approach helped to improve the delivery of major capital projects. It also helped deliver community benefits. These included 31 per cent of subcontracted work going to local subcontractors; jobs for 27 apprentices; and the development of local environmental projects, including educational input to local schools.

Exhibit 3 (continued)

Fife Council – using outcome specifications to encourage to innovation

Following a review of its services by Fife’s Youth Offenders Management Group, Fife Council put services out to tender for young people who offend. Expected outcome specifications were set, including evidence that:

- young people and families satisfactorily engage with the services being provided
- young people using the service reduced the frequency and seriousness of their offending behaviour
- victims satisfactorily engage in restorative processes.

The review also helped to clarify the format of expected quarterly performance monitoring reports including key targets and outcomes. Following the revision of the service specification, the council was able to demonstrate the impact of the service provider on the level of offending in Fife.

Source: North Ayrshire Council, Falkirk Council, Renfrewshire Council, Fife Council

Better consultation with suppliers could lead to improved contracts

41. The Federation of Small Businesses and Chambers of Commerce believe that better and earlier engagement with suppliers could help develop contract specifications that more accurately reflect user requirements and allow for greater innovation. Good examples of early engagement with suppliers and using outcome specifications to encourage innovation are Renfrewshire Council and Fife Council ([Exhibit 3](#)). Some councils are nervous of early engagement with suppliers because of the risk that companies not awarded contracts could legally challenge them for giving some suppliers an unfair competitive advantage. The Procurement Reform (Scotland) Bill and the new EU procurement directive will specifically encourage innovation in this area.

42. Organisations representing small businesses have said that the bureaucracy and cost involved is a major disincentive to bidding for public sector contracts. One particular issue for small businesses is the way councils use pre-qualification questions (PQQs), which are time-consuming for small firms to complete. This becomes a significant problem when different councils require similar, but slightly different information. To help small businesses, Public Contracts Scotland has recently introduced PCS tender which holds businesses’ answers to standardised PQQs on the system, avoiding duplication and reducing the burden on businesses. More councils need to use this facility. Although 31 councils have been trained to use PCS tender; not all currently use it, although more plan to do so in future.^{14,15}

Council spending through collaborative contracts is increasing, but accounts for a relatively low proportion of procurement spend

43. The vast majority of councils' procurement spend is through local contracts. Almost 9.3 per cent is through Scottish Government and Scotland Excel collaborative contracts. Council procurement spending in 2012/13 can be broken down as follows:

- £253 million (4.7 per cent) – on national contracts negotiated by the Scottish Government's Procurement and Commercial Directorate for goods and services used across the whole of the public sector (utilities, such as gas and electricity, account for about 80 per cent of this total)
- £250 million (4.6 per cent) – on contracts negotiated by Scotland Excel
- About £4.9 billion (90.7 per cent) is spent on local contracts between the council and its suppliers, contracts where councils collaborate with each other or with other public bodies and off-contract spend. Of the councils who provided a breakdown of this spend:
 - 74.1 per cent is on local contracts between the council and its suppliers
 - 7.8 per cent is on contracts where councils collaborate with each other or with other public bodies
 - 18 per cent is off-contract spend.¹⁶

44. Council spending through collaborative contracts developed by Scotland Excel increased from £116 million in 2010/11, to £191 million in 2011/12 and £250 million in 2012/13. Over the same period, spending through Scottish Government contracts increased from £163 million in 2010/11 to £225 million in 2011/12 and £253 million in 2012/13. This represents an increase of just over 80 per cent.¹⁷

Scotland Excel is increasing the number and value of its contracts, but its original timescale was over-ambitious

45. Scotland Excel's 2012–15 business plan included a target to increase the value of its contract portfolio to £500 million in 2012/13. Its value had increased to £408 million at February 2014. Scotland Excel acknowledges that its original timescales were ambitious because of the high level of stakeholder and market engagement required for developing some contracts. It remains confident of meeting its overall target of £750 million by 2014/15.¹⁸

46. Scotland Excel reported particular difficulties in developing social care contracts, for example the extent of consultation required for the residential children's care services contract. Scotland Excel recognises that it needs to improve its estimates of the time required to develop contracts that are more complex.

47. Scotland Excel currently has four social care contracts in place: fostering, prepared meals, secure care and telecare equipment. A further four contracts, with an estimated value of £148 million, are planned in children's residential care services, adult specialist residential care, adult supported living and agency workers in social care. These contracts are currently at different stages of development and Scotland Excel has scheduled them for delivery between March 2014 and January 2015.¹⁹

48. Scotland Excel is making progress in social care contracts and this was recognised at the 2012/13 Government Opportunity awards (GO Awards),

where its social care team won the 'John F McLelland Collaborative Procurement Initiative of the Year Award' for work on the secure care contract.

49. Scotland Excel's management group monitors progress against its contract delivery schedule. The schedule for 2013/14 includes 50 contracts with an overall value of £732 million. Scotland Excel will:

- continue to manage 20 existing contracts valued at £217 million
- consider extending eight contracts, valued at £37 million
- renew ten contracts, valued at £153 million
- develop 12 new contracts valued at £325 million.

50. The Scottish Government has plans to introduce or renegotiate 27 contracts between 2013/14 and 2015/16, covering various goods and services, including server maintenance, travel services, general stationery and office paper.

Councils have saved money by using collaborative contracts

51. In 2012/13, total reported procurement savings were £71 million:

- £25.6 million (36 per cent of overall savings) reported by the Scottish Government for national contracts
- £17.7 million (25 per cent of overall savings) reported by Scotland Excel for sector contracts
- £5 million (7 per cent of overall savings) reported by councils for collaborative savings with other local councils or public bodies²⁰
- £23 million (32 per cent of overall savings) reported by councils for individual council contracts.²¹

52. We identified significant differences between savings reported by the national bodies responsible for making the collaborative contracts and savings reported by councils using those contracts. We looked in detail at the savings methodologies councils and Scotland Excel used to find out reasons for these differences.

Scotland Excel produces reasonable estimates of potential savings from collaborative contracts

53. Scotland Excel estimates potential savings for each new collaborative contract. It bases its calculations on the total spend of participating councils in the previous year(s) and current market data. It works closely with councils to develop its savings estimates and councils agree these estimates during the contract development process.

54. Scotland Excel calculates savings using the percentage saving that a council might achieve if it opted for the best value supplier in a framework agreement. When the contract becomes operational, Scotland Excel collects spend information from suppliers and applies the expected percentage saving to the actual spending on the contract.²²

55. Scotland Excel reports savings to councils through quarterly business review reports and to its governance committees. Its method of calculating savings is reasonable. But it may not always reflect the savings achieved by councils for the following reasons:

- The cheapest option in the framework may not be available to the council.
- The council may not choose the cheapest supplier from those in the framework, for example they may not choose the cheapest tyres in a framework contract if higher cost, but better-quality, tyres have a lower whole-life cost to the council.
- A council may join a contract after Scotland Excel has awarded it and the saving may be higher or lower depending on the price in the council's predecessor contract.

Councils need a more consistent approach to calculating savings

56. It is difficult to draw conclusions by comparing councils' savings figures with those provided by Scotland Excel because of the variation among councils in how they record and report savings. For example:

- some councils rely on savings figures provided by Scotland Excel and the Scottish Government for national collaborative contracts without calculating their actual savings
- councils use different methods to calculate and report savings ([paragraph 57](#))
- some councils do not calculate or report all procurement savings, including collaborative savings; some said that this was because their procurement teams did not have the time to do so.

57. We asked all councils to provide details of their three highest procurement savings for the year 2012/13. We reviewed seven to assess whether the savings calculations were reasonable. We found that:

- In two councils, the biggest savings arose from changes in recycling collection contracts. Instead of paying contractors to uplift recyclables, the councils sold the contract to uplift recyclables to private companies.
- Three councils made savings by securing a better price. They did this by introducing framework contracts or by securing a lower price than a previous contract.
- In one example, the saving arose from an open competition, where the council selected the bid with the best combination of price and quality.
- In one example, it was questionable whether the saving could be attributed to improved procurement. The council changed how it delivered one of its services. Savings were from staff costs and how buildings were being used. The council attributed the savings to improved procurement.

58. Although we consider the first three examples above to be procurement savings, the variation in how councils make and calculate savings shows how difficult it is to present a clear picture. The way councils use procurement savings also varies. In 2012/13, the 23 councils that were able to break down how their savings were used reported that, of their £34.3 million total recurring revenue savings:

- £9.4 million was recycled within the department making the savings
- £9.6 million was returned to the corporate centre to re-allocate
- £15.3 million was used to reduce service budgets to meet savings targets.

Councils could generate further savings if they made greater use of existing collaborative contracts

59. Most of the councils we visited viewed collaborative contracting as their preferred procurement method when looking to buy goods and services. In many cases, this is written into their standard procurement procedures, as these examples show:

- South Lanarkshire Council looks for contracts that are already available before setting up new contracts. They also use contracts set up by consortia in the rest of the UK (East Anglia, Yorkshire and West Midlands), as well as Scotland Excel contracts.
- The Tayside councils (Dundee, Perth & Kinross and Angus) and Tayside Contracts use Scotland-wide contracts. In addition, the Tayside Procurement Consortium (TPC) sets up contracts across the region and supports the procurement teams in each council.
- Aberdeen City and Aberdeenshire Councils have a joint procurement team that manages contracts on behalf of both councils and looks for opportunities for collaboration wherever possible.
- Renfrewshire Council has a policy of consulting surrounding councils to examine the scope for joint contracting when setting up a new contract.²³

60. Not all councils participate fully in collaborative contracting. In 2013, councils' uptake of Scotland Excel and Scottish Government contracts ranged from 49 per cent of available contracts in Orkney Islands to 92 per cent in West Lothian. The average participation rate was 58 per cent in Scottish Government contracts and 78 per cent in Scotland Excel contracts. There was a significant correlation between how councils used Scottish Government contracts and Scotland Excel contracts. The main reasons put forward by councils for not participating in national or sector contracts were as follows:

- The council or an ALEO provides the service directly, for example City Building in Glasgow.
- The council is tied to an existing contract and would incur penalties if they withdrew.

- There is little or no demand for the particular service in the council area.
- No suppliers came forward in the national tender exercise for a particular council area. This is a particular issue for islands councils, although it affects other councils too.
- The council has a specific focus on community benefit and has opted for a local supplier not included in the national contract.
- The council has identified a local supplier who can provide a better combination of price and quality than in the national contract.

61. In 2012/13, 23 councils reported savings of £6.5 million on spending of £250 million on Scotland Excel contracts. Councils could make greater savings if they all made better use of Scotland Excel contracts. We calculated that councils could make additional savings of £4.9 million if they used all of the available contracts at a similar level of spending to the ones they currently use. However, for the reasons outlined in [paragraph 60](#), this method of calculation is likely to overstate the achievable savings.²⁴

62. Scotland Excel believes there is significant scope for more collaborative contracts and greater savings. However, the complexities involved in setting up collaborative contracts mean it is not possible at present to estimate the savings that might be available. Scotland Excel and Scottish Government collaborative contracts currently account for 9.3 per cent of council spend, while collaborative spend is 34 per cent for the NHS and 28 per cent for further and higher education. However, collaborative procurement has a considerably longer history in the health sector and smaller ranges of goods and services are purchased in both sectors.

Councils are relying on procurement to generate savings to meet budget pressures

63. Councils have identified procurement as a source of significant savings. During 2013/14, 23 councils reported that they are planning to make £27 million of savings from procurement, representing 13 per cent of their overall savings targets. Targets set by individual councils vary from 0 per cent of their overall savings target (East Ayrshire, Orkney Islands and Stirling Councils) to 100 per cent (Comhairle nan Eilean Siar). The City of Edinburgh Council's four-year budget is heavily dependent on improved procurement delivering recurring annual savings of £41 million by 2017/18. However, as only a small number of councils set savings targets for more than a year in advance, it is not possible to make a reasonable estimate of the expected contribution of procurement savings beyond 2013/14.²⁵

64. In some cases, councils may have already achieved the savings available through collaboration, and saving money when renewing contracts will become more difficult. Because of this, the focus of high-performing councils is changing. It is now on making savings through improved market research, cost avoidance (avoiding buying unnecessary items) and improving how they manage contracts, rather than relying purely on competition in the bidding process.

Recommendations

Scotland Excel should:

- set realistic timescales for contract development, particularly in new areas of contracting.

Council staff involved in procurement should:

- 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
- 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.

Councils should:

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

Part 3

How councils are performing



Key messages

- 1** Councils and Scotland Excel have used the Procurement Capability Assessment process to improve procurement practice. All councils have improved their procurement capability since 2009; however, the average assessment score has reached only 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.
- 2** Councils have increased the proportion of spend covered by contracts and are using IT to reduce the risk of fraud and error and improve performance information, but there is scope for improvement.
- 3** Savings of £9 million are possible by replacing paper-based systems with 'purchase to pay' compliant ICT systems.

The Procurement Capability Assessment is a reliable process that focuses on improving procurement practice

65. The Scottish Government introduced the Procurement Capability Assessment (PCA) to help public bodies improve their procurement structures, capability, processes and performance, and to achieve the best procurement standards. The aim of the PCA is to assess procurement capability in important areas against common criteria and standards and to help councils continuously improve. The PCA process involves an annual assessment visit by Scotland Excel staff. To facilitate the process, councils can provide evidence to Scotland Excel in advance of the formal assessment.

66. We examined Scotland Excel's PCA process and concluded that it effectively assesses councils' procurement arrangements. Scotland Excel employ experienced and knowledgeable assessors and they challenge councils' evidence appropriately. The PCA is accepted by councils as a demanding but worthwhile exercise.

67. The PCA uses 52 questions in eight sections ([Exhibit 4, page 29](#)) to assess councils' capability. For each question, Scotland Excel rates councils' capability from level 0 to level 3 and calculates a percentage score for each section and an overall percentage. Ratings are:

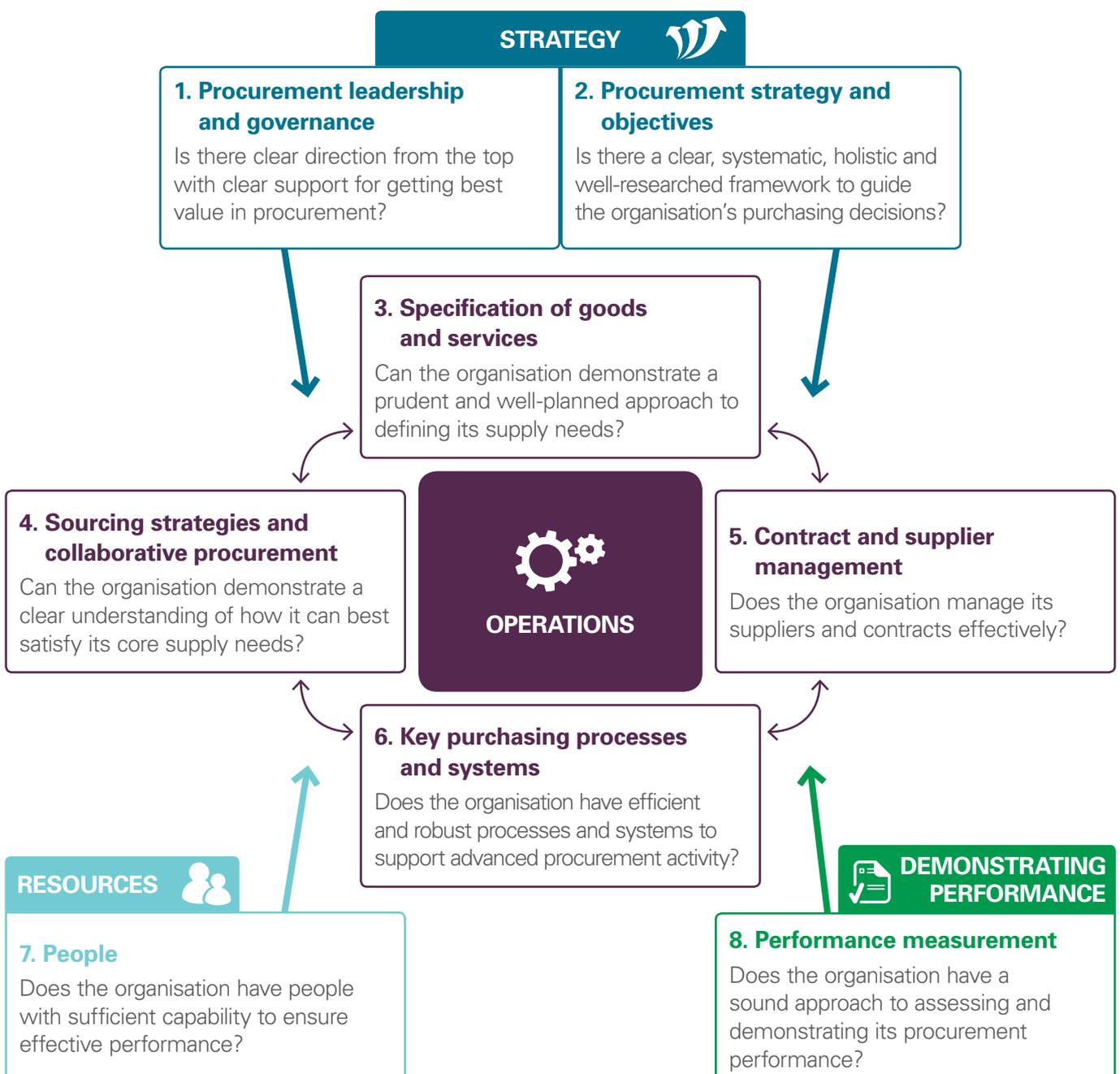
all councils have improved their procurement capability, but some councils need to improve more quickly

- 0–24 per cent – non-compliance
- 25–49 percent – compliance
- 50–74 per cent – improved performance
- 75 per cent or over – superior performance.

Exhibit 4

The Procurement Capability Assessment

The Procurement Capability Assessment tool involves systematically reviewing purchasing strategy, operations, resources and performance in eight sections.



68. Scotland Excel uses the results of PCAs and feedback from councils to help councils identify where they have not implemented good improvement practice and target improvement activity. Fieldwork councils told us that reporting PCA assessments to elected members (generally through a council committee) was helpful and led to a greater focus on improving procurement. All fieldwork councils had developed improvement plans in response to their assessment.

69. The chief executives and senior managers we interviewed said they found Scotland Excel's presentations to council management teams particularly valuable in providing an overview of their council's procurement challenges and identifying where the council needed to improve. Procurement managers also valued workshops that Scotland Excel held after completing PCA assessments.

70. Scotland Excel carried out customer satisfaction surveys for the first time in 2013. This involved surveying procurement leads, other procurement and technical contacts and chief executives. All surveys provided positive feedback, but also highlighted a small number of areas where Scotland Excel could improve, for example reporting progress on contract delivery, price stability within contract terms and the focus on sustainability in contracts.

71. When councils created Scotland Excel, the Scottish Government gave it a grant of £4.5 million to fund its set-up costs and procurement reform activities. At March 2013, £1.2 million remained, which Scotland Excel intends to continue to use to fund procurement reform activities, including the PCA. At current spending rates, these funds will run out in two to three years. Scotland Excel is reviewing options for long-term funding of reform activity, for example through secondments, central government funding or through charges. Introducing charges may be a challenge in the current economic climate.

Between 2009 and 2013, average council PCA scores improved from 22 per cent to 56 per cent; improvement rates vary and some councils need to improve more quickly

72. Our analysis of councils' PCA results between 2009 and 2013 indicates a general trend of councils improving their procurement performance. Between 2009 and 2013, average council PCA scores increased from a low base of 22 per cent to 56 per cent ([Exhibit 5, page 31](#)).

73. Although councils have improved in all PCA sections, progress has been slow in contract management, key purchasing processes and systems, and performance measurement where average scores remain at or below 40 per cent. Councils and Scotland Excel reported that it is more difficult to improve in these areas as improvement in contract and supplier management requires a culture change across the entire council. Changes in purchasing systems and processes generally require significant investment in ICT systems, which can be expensive and take time to implement.

74. There are significant differences between the highest- and lowest-performing councils in the PCA ([Exhibit 6, page 32](#)). Renfrewshire was the highest-performing council in 2013, scoring 80 per cent, and is the only council in the 'superior performance' category. Twenty-seven councils achieved 'improved performance' (50–74 per cent) and four councils were in the 'conformance' category (25–49 per cent). Orkney Islands Council was lowest at 31 per cent.

Exhibit 5**Overall changes in Procurement Capability Assessment areas between 2009 and 2013**

Councils have improved in all areas but significant improvement is still required.

Procurement Capability Assessment section	Average council score (%)				
	2009	2010	2011	2012	2013
Procurement leadership and governance	 25	 38	 48	 58	 63
Procurement strategy and objectives	 31	 43	 58	 64	 73
Defining the supply need	 13	 23	 30	 45	 54
Commodity/project strategies and collaborative procurement	 25	 32	 40	 53	 61
Contract and supplier management	 14	 18	 24	 33	 39
Key purchasing processes and systems	 26	 37	 39	 38	 40
People	 25	 39	 49	 58	 71
Performance measurement	 22	 22	 34	 39	 50
Overall score	 22	 32	 40	 48	 56


Non-compliance
 0–24 per cent


Compliant
 25–49 per cent


Improved performance
 50–74 per cent


Superior performance
 75–100 per cent

Source: Scotland Excel

75. The rate of improvement also varied among councils. Some, such as Renfrewshire, South Lanarkshire and Inverclyde, have improved significantly. But progress has been slower in some larger councils that performed well in the early years of the PCA, for example Aberdeen City, Aberdeenshire, City of Edinburgh, Glasgow City and Highland. Four councils have still not yet achieved the ‘improved performance’ target level set by the PPRB (Clackmannanshire, East Dunbartonshire, Orkney Islands and Shetland Islands).

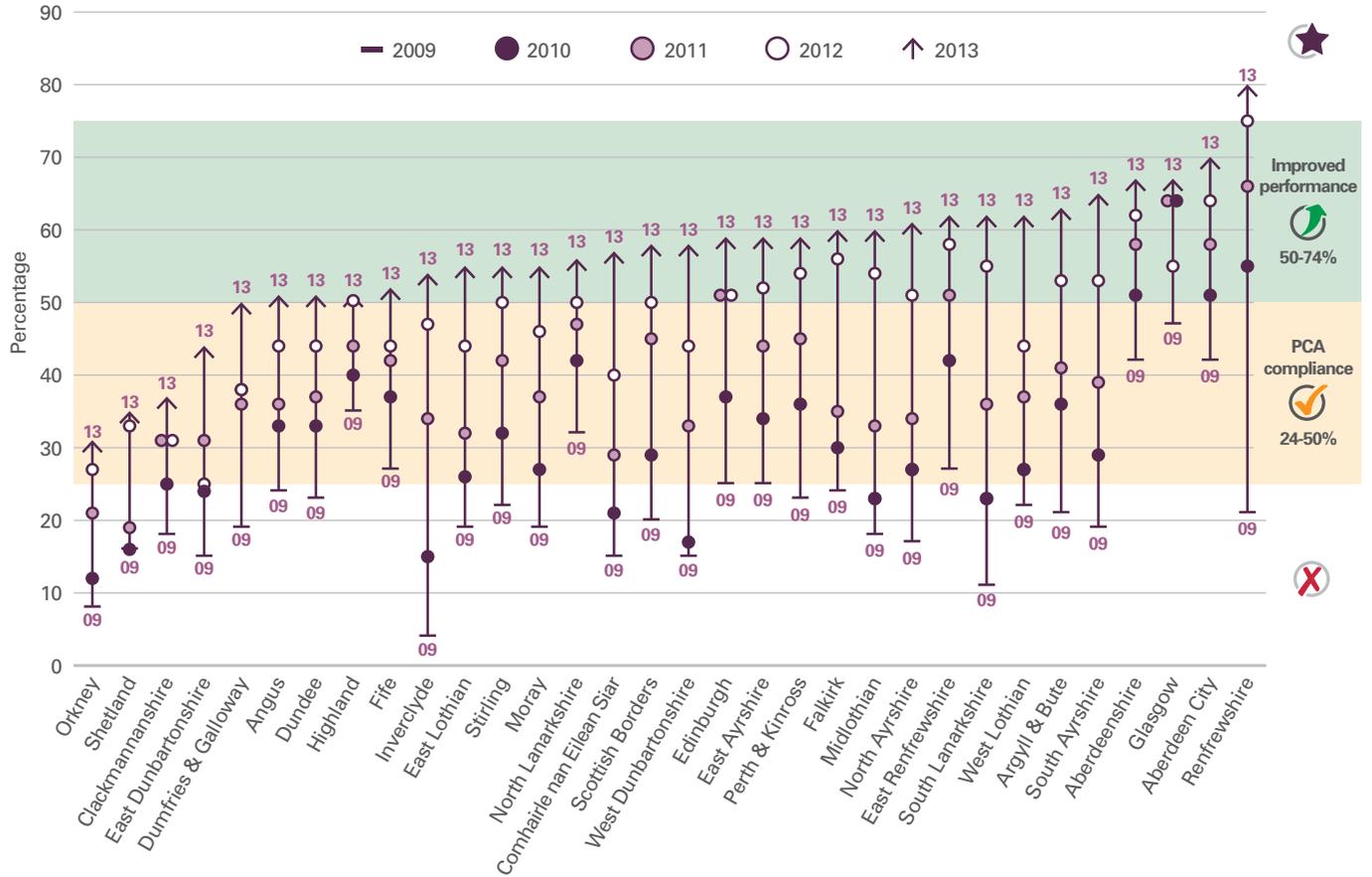
Larger councils perform better in the PCA, but smaller councils are catching up

76. Larger councils tend to score more highly in the PCA and there is a statistically significant correlation between PCA score and council size, (measured in terms of population or procurement spend). Some councils, such as Comhairle nan Eilean Siar and Renfrewshire, perform better than other councils of their size ([Exhibit 7, page 32](#)). ([Exhibit 8, page 33](#)) describes how these councils have invested in procurement and improved their performance. The strength of the link between council size and PCA scores has fallen since 2011, which indicates that smaller councils are catching up.

Exhibit 6

Changes in Procurement Capability Assessments 2009–13

Most councils have made improvements although their rate of progress varies significantly.

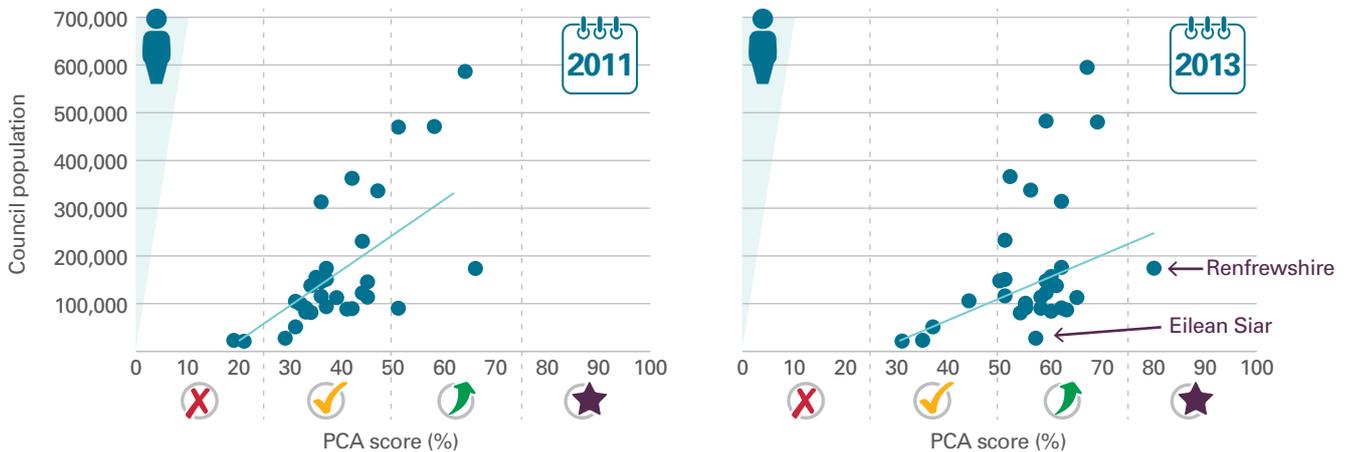


Note: Scotland Excel did not undertake the PCA in Dumfries and Galloway in 2010.
Source: Scotland Excel

Exhibit 7

Variation in PCA score against council size

Larger councils tend to score more highly in the PCA although the correlation between council size and PCA score is decreasing over time as smaller councils improve.



Source: Scotland Excel

Exhibit 8

Good practice examples of investing in staff to improve procurement performance

Renfrewshire Council

Renfrewshire is the highest-scoring council in the PCA. It attributes the improvement in its PCA score from 21 per cent in 2009 to 80 per cent in 2013 to the following factors:

- Visible and continuing support from the corporate management team and council members.
- The recruitment of a head of procurement with sufficient status within the organisation and leadership skills to develop the procurement function.
- Investment in qualified procurement staff over a period. This included:
 - In year 1 – three new procurement staff (in addition to the head of procurement).
 - In year 2 – seven new procurement staff, plus a change management team (consisting of three staff plus a project manager), plus some additional staff working within service teams.
 - Additional staff costs were £213,000 in year 1 and £300,000 in year 2.

A well-resourced procurement unit, which takes an active role in all areas of the council, can also significantly improve procurement performance. The council reported savings of £1.6 million in 2009/10, £6.9 million in 2010/11, £4.1 million in 2011/12 and £5.6 million in 2012/13.

Comhairle nan Eilean Siar

Comhairle nan Eilean Siar attributes the improvement in its PCA score from 15 per cent in 2009 to 57 per cent in 2013 to the following factors:

- Meetings between the senior stakeholders and Scotland Excel staff secured corporate commitment to improving procurement.
- A head of service to spend 50 per cent of time working in procurement, plus the refocusing of resources within the purchasing team to enable the establishment of a new procurement officer.
- The council established a procurement steering group consisting of three directors and three heads of service. This group approves all procurement strategies, specifications and contracts, and has raised the profile of procurement across the council.
- A procurement checklist for all contracts ensures that processes are followed and sets contract outcomes are set. This fosters a corporate approach to procurement and helps mitigate procurement risks.
- The council has a focus on bringing off-contract spend under contract and on reducing maverick spend.
- It has established a procurement training programme for managers, which 120 staff have completed to date.
- Investment in and the enforcement of the use of electronic procurement systems across the council.

Note: Maverick spend is where someone in the council purchases goods or services from a non-contracted supplier where the council already has a contract for those goods or services.

Source: Renfrewshire Council, Comhairle nan Eilean Siar

77. The impact of council size on the PCA depends on the area examined. Economies of scale appear most significant in purchasing systems and processes and defining the supply need, and least significant in the areas of people and commodity/project strategies and collaborative procurement.²⁶

78. Collaborative contracts have helped smaller councils to benefit from economies of scale and bring down the cost of some goods and services. They have also helped reduce procurement teams' workloads. But councils still need to contribute to Scotland Excel user groups to ensure that contracts meet their needs.

79. Another way for councils to achieve economies of scale is through joint working. This helps smaller councils to achieve economies of scale and local collaboration. Apart from Scotland Excel there are two formal examples of joint working among Scottish councils:

- The Tayside Procurement Consortium was launched in November 2007 as a shared service for Angus, Dundee City and Perth & Kinross Councils, in association with Tayside Contracts, to develop joint procurement. It comprises a central procurement unit based in Dundee together with procurement teams within the partner authorities.
- Aberdeen City and Aberdeenshire councils operate a fully shared procurement service. This enables collaboration across the councils and ensures consistency, economies of scale, and the best use of resources.

Councils with more qualified staff tend to perform better in the PCA

80. In 2012/13, councils spent £14 million on central procurement staffing. This varies significantly from £56,000 in Clackmannanshire to £1.5 million in Glasgow. Staffing levels varied considerably among councils, both in terms of numbers of staff and staff per procurement spend. Councils with higher levels of Chartered Institute of Purchasing and Supply (CIPS) qualified staff relative to procurement expenditure tended to have higher overall PCA scores, although there are exceptions.²⁷

81. The McClelland report identified a shortage of skilled purchasing staff in the Scottish public sector. Since then many councils have encouraged staff to undertake CIPS training. Currently there are 133 CIPS qualified staff and 67 trainees in Scottish councils. However, 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.

82. A council's ability to properly plan and manage procurement will depend on having enough qualified staff available to do the work, with even the smallest council requiring a team of staff. Above a minimum number, the staff required will increase depending on the scale and complexity of procurement spend. Significant investment in qualified staff has helped Renfrewshire Council to become the only council to achieve superior performance in the PCA and significant financial savings. Comhairle nan Eilean Siar, one of the smallest councils, has also achieved significant improvements ([Exhibit 8, page 33](#)).

Developing a council-wide approach to procuring particular goods and services can improve purchasing effectiveness

83. In addition to developing an overall strategy, it is also important that councils develop a strategy for purchasing in a particular service, for example social care or construction or for purchasing particular commodities used across the council, for example vehicles. Such strategies can lead to more consistent and better coordinated purchasing across the council. PCA evidence indicates that less than a third of councils perform well in this area with strategies accounting for:

- less than 50 per cent of procurement spend in nine councils
- 50–70 per cent of spend in 12 councils
- over 70 per cent of spend in five councils (Argyll & Bute, East Renfrewshire, North Ayrshire, North Lanarkshire and West Lothian)
- over 90 per cent of spend in five councils (East Lothian, Falkirk, Midlothian, Renfrewshire and Scottish Borders).

84. In some councils, the central procurement team is responsible for all procurement activity. In others, service departments, particularly social work and construction, have considerable autonomy. To ensure a consistent approach and minimise risk, it is important that the central procurement team has an influence over all council spend. For example, in Renfrewshire Council category managers are physically located in services. Working together in this manner ensures that services have access to both procurement and service-specific expertise and can improve service quality and reduce costs. Some councils also have special arrangements to ensure scrutiny of high-risk, high-value contracts ([Exhibit 9](#)).

Exhibit 9

Good practice example of taking a corporate approach to ensure contract quality

South Lanarkshire – arrangements for managing high-risk, high-value contracts

South Lanarkshire council uses a risk-scoring matrix to identify high-risk contracts. Procurement staff examine and score every contract based on the financial, reputational, service delivery and compliance risks, the complexity of what they are purchasing and the complexity of the procurement process. Procurement managers score each aspect of the contract on a scale of one to three, with definitions available for each score.

Where necessary, senior managers establish independent scrutiny groups to assess procurements classified as high-risk. These groups consist of a range of officers representing departments of the council, and procurement, legal services, finance and audit. They sign off each stage of the procurement (business case and options, specification and evaluation and the award process) and present their findings to the Corporate management team of the council.

Councils have increased the proportion of spend covered by contracts

85. It is good procurement practice to obtain goods and services through contracts. Contracts give councils a clear understanding of what they are buying and at what price. Councils can use contract registers to aggregate spending for particular goods or services across the whole council (or public sector) to bring about economies of scale and ensure value for money.²⁸

86. To reduce inefficient spending, council staff need to know which contracts to use to buy goods and services. The procurement team can play an important role in ensuring that staff are able to do this and to monitor spending to ensure it is in line with council policy and meets service requirements.

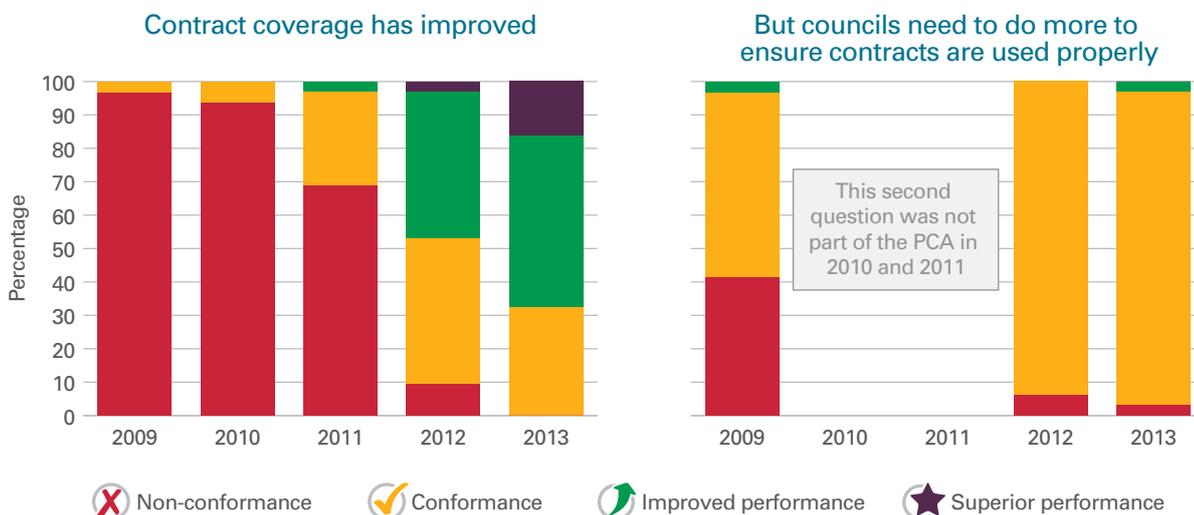
87. The councils we assessed in our fieldwork made good use of contract registers to identify areas for improvement, for example to identify regular off-contract spend. They used the registers to plan contracts coming up for renewal or retendering within a certain period. The 25 who could supply information in our survey reported that their total off-contract spend was about £704 million.

88. We asked councils to provide us with details of their three highest value areas of off-contract spend. Most of this spending (totalling £194 million) was in social work (60 per cent), land and environment (4 per cent), education (5 per cent) and roads (4 per cent).

89. The PCA covers how councils manage off-contract spend and control of maverick spend (spend outside of approved contracts) ([Exhibit 10](#)). Most councils have improved their contract coverage since 2009 – over half of councils are in the improved performance category (over 70 per cent of spend is covered by strategies) or superior performance category (over 70 per cent of spend is covered by contracts). Most councils still need to do more to ensure staff use contracted suppliers. Almost all councils are still in the conformance category and no councils are in the superior performance category.²⁹

Exhibit 10

PCA scores for contract coverage and ensuring councils use contracts properly



Councils are using IT to reduce the risk of fraud and error and improve performance information, but there is scope for improvement

90. Before the McClelland report, procurement and purchasing systems were seen as separate functions from finance and accounting. ICT systems reflected this split. The absence of joined-up processes and detailed council-wide reporting of procurement spending meant that there was little opportunity to generate efficiencies. Councils can now generate significant procurement efficiencies by implementing integrated 'purchase to pay' systems (P2P) ([Exhibit 11](#)).

Exhibit 11

Advantages of 'purchase to pay' systems

'Purchase to pay' systems bring about significant efficiencies and reduce risks.

Advantages of 'purchase to pay' systems (P2P)

P2P is the process that covers requesting, purchasing, receiving, paying and accounting for goods and services. It is often associated with the technology that supports it, such as e-procurement.

P2P helps councils manage procurement more effectively:

- End-to-end automated processes reduce costs and the risks of fraud and error.
- They bring about a council-wide view of the goods and services provided by each supplier allowing a council to manage more effectively supplier relationships.
- They allow procurement staff to look at spending across the whole council, allowing them to monitor compliance with contract processes and adherence to council policies.
- They create opportunities for closer collaboration with suppliers on initiatives such as demand planning and forecasting.

Source: Audit Scotland

91. Our survey gathered information about the number and value of invoices processed through councils' paper and computerised payment systems. Seventeen councils used some paper-based procurement systems and one council, Clackmannanshire, used exclusively paper systems. Overall we found that:

- there were 322,523 transactions through paper-based systems (7.5 per cent) and four million electronic transactions (92.5 per cent)
- £544 million (9 per cent) of spending was through paper systems and £5.5 billion (91 per cent) through electronic systems
- 57 per cent of councils' electronic purchasing systems were fully P2P compliant

- of the transactions through electronic systems, £4.1 billion (75 per cent) of spending was through P2P-compliant systems and £1.4 billion was through non-compliant systems.³⁰

92. Councils tended to use more than one system to manage procurement, with an average of three procurement systems in each council. Councils commonly have separate purchasing systems in roads, construction and social work, although this is not always the case. Some systems provide additional functions such as care planning packages. Having multiple systems does not prevent councils achieving efficiencies, providing their systems can operate effectively together. However, this is not always the case and separate systems create inefficiencies in some councils, for example when records have to be reconciled using spreadsheets.

Savings of £9 million are possible by replacing paper-based systems with P2P compliant systems

93. Scottish Government guidance suggests that invoices processed through P2P systems offer a saving of £28 per invoice compared to paper systems, and £9 compared to on-line ordering with a procurement card. We estimate that savings of £9 million are possible by replacing paper-based systems with P2P-compliant systems. Councils could make further savings if all spending was through P2P-compliant systems. IT systems can also make better performance measurement possible by providing reporting systems and the ability to analyse spending data.³¹

Detected procurement fraud is low but it remains a high-risk area

94. Procurement fraud is any fraud relating to the purchasing of goods and services and can happen before and after a contract award. Examples include price fixing and bid rigging, false or duplicate invoicing, altered payment details and diverted payments and the delivery of inferior products. Detected procurement fraud in Scottish Councils averaged about £200,000 a year over the last three years, less than 0.1 per cent of procurement spend. Examples include fictitious creditors and nurseries claiming for children who have left.

95. Procurement fraud is difficult to detect and measure. Research by the National Fraud Authority and the CIPS among procurement professionals from the private, public and voluntary sectors found that:

- 9.3 per cent confirmed that their organisation had suffered at least one procurement fraud in the last year
- 41 per cent stated 'procurement fraud poses a significant risk to my organisation'
- 41 per cent said that spend on construction is at greatest risk from procurement fraud
- only 29 per cent said their organisation had ever undertaken a fraud risk measurement exercise.³²

96. The survey also found that a perceived lack of accountability and controls enables procurement fraud, and that more visible auditing and fraud awareness could prevent this. Only seven councils asked staff to complete a register of interest statement and only two (Eilean Siar and Midlothian) asked all staff involved in purchasing to complete a statement.

97. The PCA presents a mixed picture of the controls that councils use to minimise fraud risk. It found that most councils had good internal controls and delegation arrangements, backed up by regular internal audit and reporting to the audit committee. Arrangements for managing supply risk and controlling maverick spend were poor.

Most councils have good governance arrangements but there is room for improvement in performance measurement

98. It is important that councils' senior managers and elected members oversee procurement decisions and have clear and accurate information about procurement performance. The councils we visited monitored procurement performance and reported procurement activity, including spend and savings. Member approval was required for all contracts over a certain predetermined limit.

99. In our fieldwork we found various committee structures in place to oversee procurement, with one council (Renfrewshire) having a dedicated procurement subcommittee. The level of detail presented to members about tendering processes and contract selection varied among councils.

100. All of the councils we visited reported their PCA scores to committee and all said that this improved the focus on improving procurement. However, the level of council members' knowledge of procurement varied. Given the importance of procurement in terms of financial, service performance and reputational risk, it is important that council members have a good knowledge of procurement rules and their role in the procurement process.

101. The PCA section on leadership and governance had the third-highest average section score in 2013; but councils scored less well on performance measurement. The PCA results showed the following:

- Most councils have defined performance measures but focus largely on financial benefits, with less systematic reporting of performance against other objectives such as community benefits.
- Most councils monitor procurement outcomes on a contract-by-contract basis, but without an overall picture of performance.

102. Better performance measurement would enable councils to improve the transparency of their reporting to committee and improve governance.

Recommendations

Councils and Scotland Excel should:

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

Council staff involved in procurement should:

- 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
- 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.

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 low 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:

- 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.
-

Endnotes

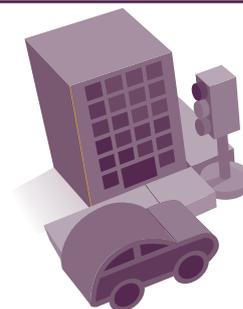


- ◀ 1 Spikes Cavell Analytic Ltd operate the Hub; users know it as the Spikes Cavell database.
- ◀ 2 SMEs are businesses with fewer than 250 employees.
- ◀ 3 The sectors are central government; universities and colleges; the NHS; and local government.
- ◀ 4 *Review of Scottish public sector procurement in construction*, Scottish Government, October 2013.
- ◀ 5 A framework is an agreement with suppliers to establish the terms that will govern contracts that may be awarded during the life of the agreement. The framework does not have to be a contract. However, where it is a contract it is treated like any other contract, and the EU procurement rules apply.
- ◀ 6 Each joint venture company is referred to as a 'hubCo' – these are not related to the Scottish Procurement Information Hub, mentioned elsewhere in this report.
- ◀ 7 For the purposes of this audit, we have focused on core trade spend. This is spend with suppliers with whom over £1,000 has been spent in a 12-month period, that have also been classed as a trading organisation or as a non-trade social care provider.
- ◀ 8 [Arm's-length external organisations \(ALEOs\): are you getting it right \(PDF\)](#)  Audit Scotland, June 2011.
- ◀ 9 Glasgow City Council spend includes ALEO procurement spend.
- ◀ 10 In the Efficient Government Initiative, the Scottish Government expects every public body to deliver efficiency savings of at least three per cent per annum during the course of the current Spending Review (2011/12 to 2014/15) and to report publicly on the actions undertaken and the results achieved.
- ◀ 11 *Scottish Publicly Funded Sectors: Procurement Benefits Reporting Guidance*, Scottish Government, November 2012.
- ◀ 12 *The Scottish Sustainable Procurement Action Plan for Scotland*, Scottish Government, October 2009.
- ◀ 13 *Local Procurement: Making the most of small businesses, one year on: Scotland Report*, Centre for Local Economic Strategies, July 2013.
- ◀ 14 *Local procurement – Making the most of small businesses*, Federation of Small Businesses, July 2012.
- ◀ 15 Shetland Islands Council have not been trained to use PCS tender and Shetland Islands Council and East Dunbartonshire Council have not used the PCS tender site.
- ◀ 16 Off contract spend is procurement spending with suppliers that is not covered by a contract. The figure quoted is from 21 councils.
- ◀ 17 Council spending and Tayside contracts.
- ◀ 18 *Three Year Business Plan 2012-15*, Scotland Excel, February 2012.
- ◀ 19 The January 2015 date for the adult supported living contract is under review.
- ◀ 20 Not all councils could provide local collaborative savings data. The figure quoted is from 13 councils.
- ◀ 21 Not all councils could provide local savings data. The figure quoted is from 24 councils.
- ◀ 22 A framework is an agreement with suppliers to establish the terms that will govern contracts that may be awarded during the life of the agreement. The framework does not have to be a contract. However, where it is a contract it is treated like any other contract, and the EU procurement rules apply.

- ◀ 23 All the councils we visited based their procurement documentation on the 'procurement journey', a complete set of documentation compiled by the Scottish Government and available on its website.
- ◀ 24 We made a number of assumptions in calculating these savings. Only total spend was analysed. We could not determine from the available data the individual contracts that each council used or the level of spend attributable to each contract. We calculated the estimated savings from councils using all available contracts by using estimated total spend and savings to calculate a 'savings rate' per council and applying this to actual spend. This was then pro-rated to the number of contracts each council used and adjusted upwards. This method does not take into account the contracts that each council currently uses or variation of demand from each council.
- ◀ 25 [The Audit of Best Value and Community Planning, The City of Edinburgh Council \(PDF\)](#)  Audit Scotland, May 2013.
- ◀ 26 There were statistically significant correlations between council population and purchasing systems and processes scores ($r^2 = 0.40$) and defining the supply need ($r^2 = 0.42$). Scores in the areas of people ($r^2 = 0.08$) and commodity/project strategies and collaborative procurement ($r^2 = -0.5$) were not statistically significant. The strength of the correlation between council population and overall PCA score fell between 2011 and 2013 (from $r^2 = 0.65$ to 0.38).
- ◀ 27 There was a statistically significant correlation between CIPS qualified staffing levels and PCA score ($r^2 = 0.36$).
- ◀ 28 A contract register will usually include the contract name, supplier name, contract start and end dates, total value, annual value, basic savings data, the level of contract management required, contract manager and procurement route (ie, whether it is a national, Scotland Excel or local contract).
- ◀ 29 We have based the exhibit on PCA questions: '5.2 Does the organisation have a clear understanding of its contract coverage?' and '5.1 How does the organisation ensure that contracts are being used?'
- ◀ 30 The total value of invoices is greater than the £5.4 billion included in [Exhibit 1](#) for several reasons: Hub core trade spend excludes annual spend of less than £1,000 with an individual supplier, payments to individuals, grants to organisations and some ALEO spend. In addition Edinburgh City Council's Hub return excluded over £300 million of relevant data.
- ◀ 31 *Scottish Publicly Funded Sectors, Procurement Benefits Reporting Guidance*, Scottish Government 2012.
- ◀ 32 *Annual Fraud Indicator*, National Fraud Authority, March 2012.

Appendix 1

Audit approach



The audit looked at the performance of councils and Scotland Excel. It did not examine procurement by any arm's-length bodies set up by councils to provide services. We did not evaluate activities outside local government such as the operation of Public Contracts Scotland or the wider work of the Public Procurement Reform Board.

Methodology

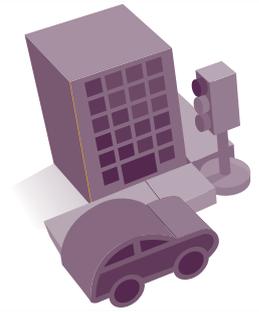
We used a range of approaches to address the aim and objectives of the audit, including document reviews, data analysis and interviews. The audit had three main components:

- **Desk research** – we reviewed a range of relevant written material on procurement, including council strategies and budgets, spending analysis, savings estimates and reports. We also looked at examples of good procurement practice by councils and reports on procurement by other audit agencies such as the National Audit Office.
- **Data analysis and surveys** – we analysed information on procurement spending including data from the Scottish Procurement Information Hub.¹ We analysed PCA results to show councils' progress in improving their procurement processes. We surveyed all 32 councils to collect information about procurement, including:
 - policies
 - staff numbers
 - consulting service users
 - spending data, including savings generated by improved procurement
 - use of information technology to streamline procurement processes.
- **Interviews with relevant public bodies and stakeholders** – we visited six councils (Aberdeenshire, Dundee City, Eilean Siar, Fife, Renfrewshire and South Lanarkshire) to look at how they manage procurement and collect qualitative information. We selected the sample so that it included large, small, urban and rural councils and reflected different levels of procurement capability. We also interviewed representatives from organisations including the Scottish Government and Scotland Excel. We also spoke to private sector organisations such as the Scottish Chambers of Commerce and the Federation of Small Businesses and third sector organisations such as the Scottish Council for Voluntary Organisations. We did this to seek their views on the effect of public sector procurement practice on local economies, including small to medium enterprises.

¹ Also known as the Spikes Cavell database. This provides extensive spending, supplier and contract data for public sector procurement in Scotland. The database draws on spending information provided by about 200 public bodies and the Scottish Government pays for its operation centrally. The database also provides a range of useful tools to enable users to analyse their own spending and spending across the public sector.

Appendix 2

Membership of the project advisory group



Audit Scotland would like to thank members of the advisory group for their input and advice throughout the audit.

Member	Position
Liz Cameron	Chief Executive, Scottish Chambers of Commerce
Dorothy Cowie	Director, Scotland Excel
John Downie	Director of Public Affairs, Scottish Council for Voluntary Organisations
Ian Howie	Deputy Director, Scottish Government procurement team
Ian Lorimer	Head of Finance, Angus Council
David Martin	Chief Executive, Renfrewshire Council
Angela Salmons	Corporate Procurement Manager, West Dunbartonshire Council
Julie Welsh	Head of Procurement and Business Support, Renfrewshire Council

Note: Members of the advisory group sat in an advisory capacity only. The content and conclusions of this report are the sole responsibility of Audit Scotland.

Procurement in councils

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Audit Scotland, 110 George Street, Edinburgh EH2 4LH
T: 0845 146 1010 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk 

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Procurement in councils

Self-assessment checklist for councillors



Audit Scotland published its national report, [Procurement in councils \(PDF\)](#) , on 24 April 2014. This paper accompanies that report and sets out some issues that elected council members may wish to consider in relation to procurement in their own council. Elected council members should assess themselves against each statement and identify what actions need to be taken forward. They may wish to apply this checklist annually to review progress.

Copies of the national report can be downloaded from our website www.audit-scotland.gov.uk .

Questions for elected council members to consider	Assessment	Required actions
Context and the crucial role of councillors		
Is there a committee with specific responsibility for procurement in the council?		
Am I clear about the principles of good procurement and my role in monitoring the council's procurement practices?		
Do I have a good understanding of the changing procurement environment, including legislative changes and policy developments?		
Do I have access to, and take-up, appropriate procurement training and development opportunities?		

Questions for elected council members to consider	Assessment	Required actions
The council's procurement goals and objectives		
Do I have a good understanding of the council's procurement strategies and improvement plans?		
Do the council's procurement strategies (and improvement plans) clearly link to: <ul style="list-style-type: none"> • the council's overall goals? • wider procurement reforms? 		
Does the council effectively use its procurement resources, including people and information technology, to meet its objectives?		
Approving contracts		
When approving contracts, do I have assurance that the council has carried out the following (or clearly indicated when it is not relevant to do so):		
<ul style="list-style-type: none"> • engaged early on 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, for example in social care contracts? • assessed and clearly set out the financial and non-financial benefits including community and environmental benefits to be secured from the contract? • put in place the systems to measure whether the intended non-financial benefits are realised? 		
Am I confident that my council carries out sufficient supplier development activities with suppliers including local companies, SMEs and third sector organisations?		

Questions for elected council members to consider	Assessment	Required actions
Performance management		
<p>Does the committee with a remit for procurement receive regular reports on:</p> <p>(a) procurement spend, including assurance that the council:</p> <ul style="list-style-type: none"> • makes full use of national and sector collaborative contracts, with clear explanations for non-participation? • is taking action to reduce the volume and value of off-contract spend where appropriate? <p>(b) procurement outcomes including progress against:</p> <ul style="list-style-type: none"> • the council's own key performance measures for procurement? • annual procurement savings achieved based on robust information and calculations? • savings achieved for key contracts? • non-financial benefits achieved for key contracts, including community and environmental benefits?¹ • Scottish procurement best practice indicators? 		
<p>Does the audit committee receive reports from internal audit covering internal systems for managing fraud and progress against any areas identified for improvement?</p>		
<p>Do I challenge officers on the performance information presented to me where it is unclear or where it indicates poor performance?</p>		
Cont.		

¹ The Scottish Sustainable Procurement Action Plan recommends that organisations carry out initial and periodic self-assessments against the Flexible Framework. This framework enables measurement against various aspects of sustainable procurement and areas for improvement to be identified.

Questions for elected council members to consider	Assessment	Required actions
<p>Do I know how well my council has performed on the procurement capability assessment? Do I receive regular reports to show how my council is progressing against its procurement capability assessment improvement plan?</p>		
<p>Promoting and sharing best practice</p>		
<p>Does my council play an active role in procurement networks and national working groups to gather and promote best practice in procurement?</p>		