

Key messages

Improving public sector purchasing



Prepared for the Auditor General for Scotland and the Accounts Commission
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Auditor General for Scotland

The Auditor General for Scotland is the Parliament's watchdog for ensuring propriety and value for money in the spending of public funds.

He is responsible for investigating whether public spending bodies achieve the best possible value for money and adhere to the highest standards of financial management.

He is independent and not subject to the control of any member of the Scottish Government or the Parliament.

The Auditor General is responsible for securing the audit of the Scottish Government and most other public sector bodies except local authorities and fire and police boards.

The following bodies fall within the remit of the Auditor General:

- directorates of the Scottish Government
- government agencies, eg the Prison Service, Historic Scotland
- NHS bodies
- further education colleges
- Scottish Water
- NDPBs and others, eg Scottish Enterprise.

The Accounts Commission

The Accounts Commission is a statutory, independent body which, through the audit process, assists local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has four main responsibilities:

- securing the external audit, including the audit of Best Value and Community Planning
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- carrying out national performance studies to improve economy, efficiency and effectiveness in local government
- issuing an annual direction to local authorities which sets out the range of performance information they are required to publish.

The Commission secures the audit of 32 councils and 44 joint boards and committees (including police and fire and rescue services).

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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Key messages

Introduction

1. Scottish public spending on goods and services is substantial at around £8 billion a year. This is around a quarter of Scottish public spending and it supports the delivery of all major public services in Scotland.

2. Around 150 public bodies (including the Scottish Government, its agencies, NDPBs, councils, health bodies, universities and colleges) each spend more than £1 million each year on goods and services ([Exhibit 1](#)).¹ Sixty of these public bodies each spend more than £25 million a year and are responsible for 92 per cent (£6.8 billion) of the spending.

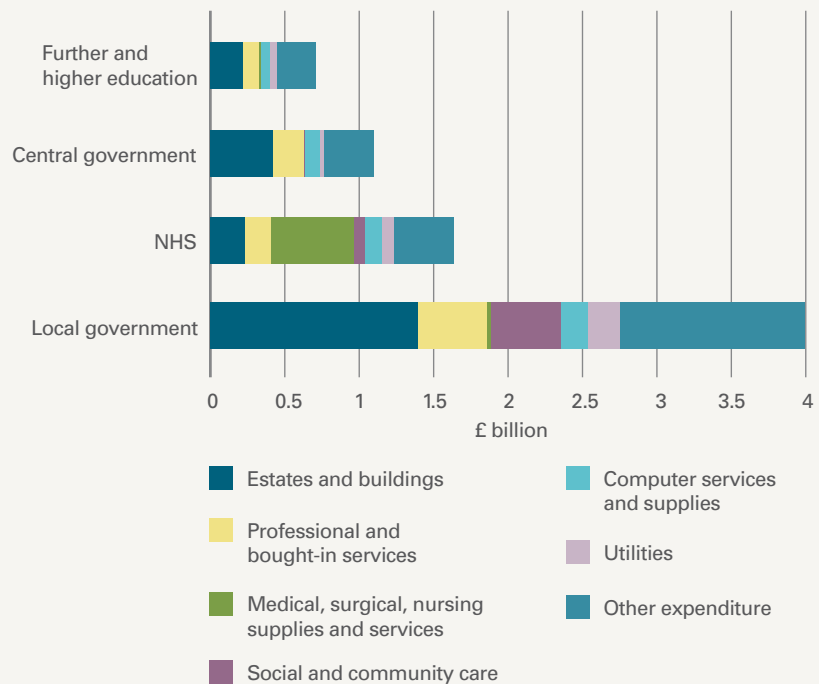
3. Since 2003/04, growth in the Scottish budget has been slowing down and consecutive governments have placed increasing emphasis on using public sector resources as efficiently and effectively as possible. The current economic climate is putting more pressure on public finances.

4. Effective purchasing by public bodies is essential to control spending and make savings while maintaining or improving the quality of services they deliver. If purchasing is not done well, public bodies may pay more than necessary and not receive the right goods and services at the right time.

5. Buying goods and services can be complex. Purchasing needs to take account of new legislation, EU directives and wider policy objectives such as an increasing emphasis on Best Value, supporting economic development and improving environmental performance. Public sector purchasers need to have the appropriate skills and experience to work within this complex environment and get value for money.

Exhibit 1

Estimated annual public spending on goods and services by sector 2006/07
Local government and the NHS were responsible for three-quarters of total public spending on goods and services.



Note: Based on spending returns from 163 public bodies.
Source: Scottish Government

6. In March 2006, the Scottish Executive published the *Review of Public Procurement in Scotland* by John McClelland. The report concluded that urgent action was needed across the public sector to improve the purchasing of goods and services. The report made 82 recommendations aimed at raising purchasing standards and making savings while also maintaining high quality services.

7. The McClelland report estimated that £740 million savings over the three years to 2008/09 could be made if public bodies significantly improved how they purchased goods and services.

8. In 2006, the Scottish Executive introduced the Public Procurement Reform Programme (the Programme) to take forward the recommendations of the McClelland report. The Programme aims were, over a three-year period, to make savings and improve purchasing policies, structures, processes and practice across all public bodies in Scotland ([Exhibit 2, overleaf](#)).

9. Following the 2007 election, the new Scottish Government affirmed its commitment to the Programme.

¹ Before September 2007, the Scottish Administration was called the Scottish Executive. It is now called the Scottish Government. When dealing with the earlier period this report refers to the Scottish Executive but otherwise it refers to the Scottish Government.

Exhibit 2

Aims of the Programme and main themes and benefits

The Programme aims to improve purchasing practice and achieve savings.

Aim	Programme themes and benefits
Release cash by better purchasing	<ul style="list-style-type: none"> Freeing money to be used on other priority services.
Improve procurement structures, capability and processes across the Scottish public sector	<ul style="list-style-type: none"> Increase numbers of skilled and experienced staff. Improve management information to support decision-making and help avoid unnecessary spending. Reduce costs where possible and free staff for other duties. Ultimately deliver better public services.
Have fair and efficient procurement practices and reduced commercial risk	<ul style="list-style-type: none"> Ensure value for money in purchasing. Ensure decision-making is robust and transparent. Improve relations between the public sector and suppliers, to help secure value for money, to encourage innovation and to support the Scottish economy, where possible.
Facilitate cross-sector collaboration	<ul style="list-style-type: none"> Avoid duplication of effort. Maximise potential gains including financial savings from collaboration. Enable the sharing of experience and information. Ensure that common suppliers and markets are managed effectively.

Source: Scottish Government

About our report

10. Our report assesses:

- savings from the Programme
- wider benefits of the Programme.

11. At the time of our study, evidence on purchasing performance was not readily available, particularly at local level. Given this limitation, our study was designed to provide an initial high-level assessment and a baseline position against which future performance can be evaluated.

12. Our report concentrates on the impact of the Programme at national and sector level. During our audit, we also examined the impact of the

Programme on a small number of public bodies. In summary, we:

- analysed published data and collected data from the Scottish Government and others at national and sector level, including available data on costs and savings
- interviewed and received written representations from: key staff in the Scottish Government and in the centres of expertise, established as part of the Programme; representative bodies such as the Society of Local Authority Chief Executives (SOLACE), Universities Scotland, the Confederation of British Industry Scotland, the Federation of Small Businesses; the

Improvement Service; and a small sample of councils and colleges.

Audit follow-up

13. Audit Scotland will follow up this initial high-level assessment with:

- a Best Value review of the centres of expertise
- a national study to examine how public bodies have implemented our recommendations.

Key messages

1 The Programme, which is ambitious and challenging, has made significant progress introducing important changes to improve public sector purchasing. But some changes are taking longer than first planned to implement and performance measures are largely incomplete.

14. The Programme seeks to reform purchasing across the public sector in Scotland. It involves wide changes in policy, structures and behaviours affecting, to some extent, all public bodies in Scotland.

15. A Public Procurement Reform Board (PPRB) provides strategic direction, support for and monitoring of the Programme. The PPRB is chaired by the Cabinet Secretary for Finance and Sustainable Growth. Other groups help support and implement the Programme ([Exhibit 3](#)).

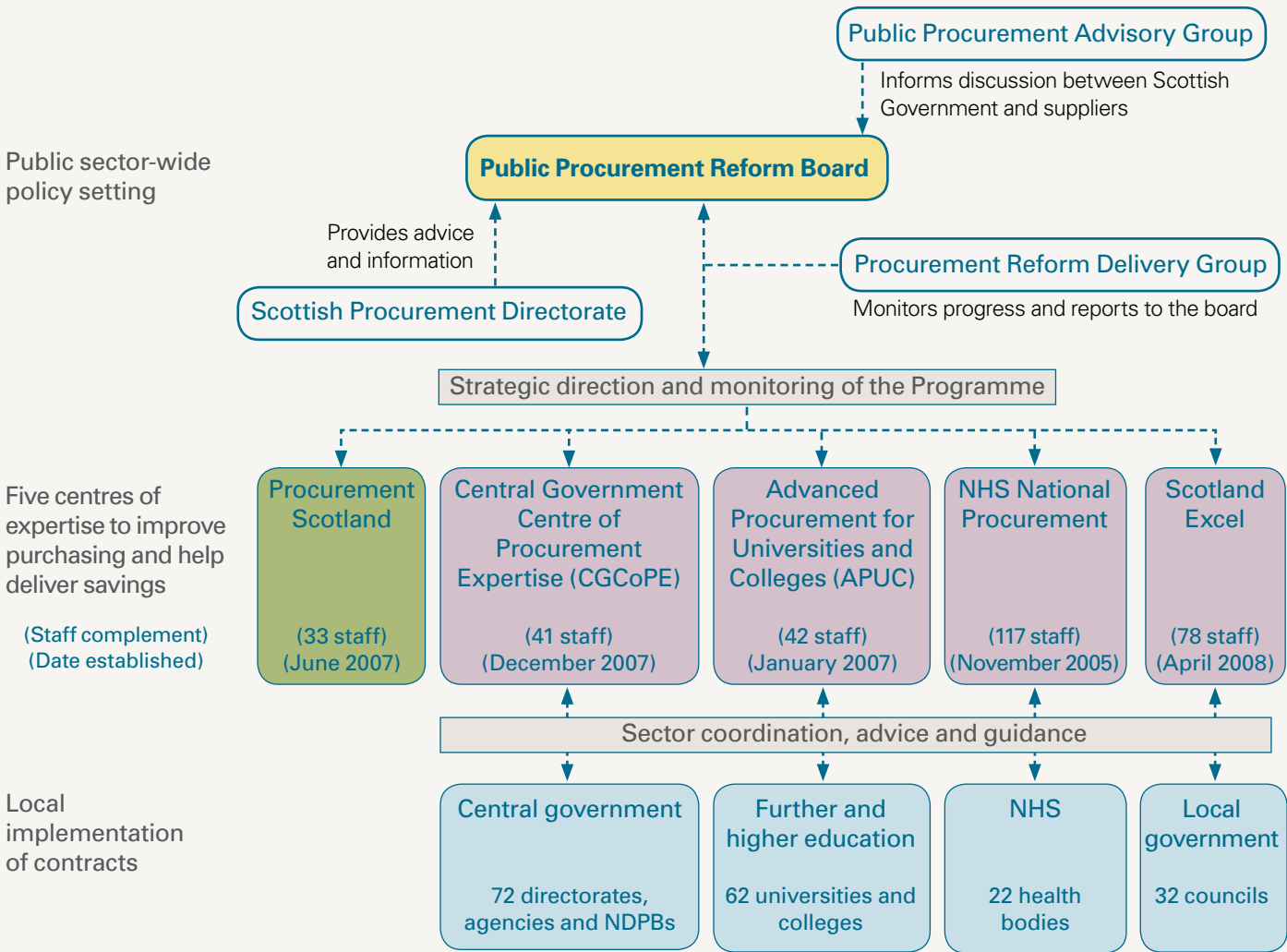
16. Support from public bodies to meet the aims of the Programme is essential as changes are needed at a local level to achieve benefits. Public bodies must have skilled people to manage the necessary changes, to act and think in new ways and, at the same time, introduce new systems and approaches. Change is being achieved through consultation and collaboration.

17. By April 2009, the Programme had introduced clearer guidance on purchasing, raised the profile of good purchasing practice and

Exhibit 3

Organisations involved in the Programme

The Programme seeks to improve purchasing by all public bodies in Scotland.



Key to contract responsibility

Category A
national contracts

For high-value goods and services that are commonly used across the public sector.

Category B
sector contracts

For commonly purchased and important goods and services within each of the health, local government, central government and further and higher education sectors.

Category C
local contracts

Little benefit from national or sector purchasing. Individual bodies buy goods and services for themselves, or there may be some degree of collaboration but not across an entire sector.

Note: Procurement Scotland and CGCoPE are part of the Scottish Procurement Directorate. APUC is a private company limited by guarantee, owned by its member institutions. Scotland Excel is a not-for-profit body mainly funded by its member councils. NHS National Procurement is part of NHS National Services Scotland.

Source: Audit Scotland

improved cross-sector working. It had also encouraged and supported improvements at local level. There have, however, also been some delays (Exhibit 4).

18. A fundamental change was developing five centres of expertise to lead improved purchasing practice, promote more cross-sector working and help deliver savings. There was a delay of between six and 15 months in launching three of the five centres owing to extra time taken to secure funding and difficulties in recruiting staff.

19. There has also been a delay in introducing Procurement Best Practice Indicators (BPIs). The BPIs are intended to help public bodies assess how well they follow good purchasing practice and to assess their performance, including purchasing-related savings.

20. In May 2008, in consultation with other public bodies, the Scottish Government agreed a set of nine BPIs. This was 14 months later than originally planned, reflecting the unforeseen time taken to consult with public bodies to ensure the BPIs would provide useful and relevant information.

21. Individual public bodies are responsible for providing BPI data to the Scottish Government but few have done so. By April 2009, only 41 of 177 public bodies had provided the required BPI data. The Scottish Government is developing action plans to encourage and assist the reporting of the BPI data but no revised date has been set for the first full set of BPI reports to be available.

2 Around £327 million efficiency savings may be attributed to the Programme for the two years to 2007/08. This is broadly in line with the Programme target. But some savings have been delayed and, because of limited data, it is unclear how progress towards the third year target of £400 million will be monitored.

22. Public bodies can save money by better purchasing in different ways. Savings may come, for example, from buying fewer items or buying them more cheaply, while maintaining the quality of public services.

23. The Programme included a target to deliver cumulative savings from better purchasing of £740 million in the three years to 2008/09. This was £340 million for the first two years to 2007/08 and £400 million for the third year 2008/09.

24. At the time of our audit, BPIs were not available to assess savings achieved by the Programme. We therefore examined public bodies' returns under the Scottish Government's wider Efficiency Programme to provide an indication of savings.²

25. Under the Efficiency Programme, the Scottish Government reported £559 million savings from better purchasing in the two years to 2007/08. Of this total, £327 million (58 per cent) may be attributed to the Programme.³ We have excluded savings that arose before the Programme commenced or are not connected with it. For example, we have not counted a saving of £112 million on a UK-wide contract for purchasing drugs for the NHS. This contract was negotiated with suppliers in 2004, before the start of the Programme.

26. The £327 million Programme savings are in line with the original savings target for the first two years (£340 million). From 2008/09, the Scottish Government has changed how public bodies should calculate efficiency savings. The new method is no longer comparable with the Programme savings target. Because of these changes and delays in collecting BPI savings data, it is unclear how the public sector will monitor savings against the Programme's third year target of £400 million.

27. This reinforces the importance of ensuring that public bodies use BPIs to help track and measure savings from better purchasing.

28. Greater use of collaborative contracts should deliver significant new savings. But delays in setting up the centres of expertise, staffing shortages and the work involved in maximising support for the new contracts, have limited the number of collaborative contracts that have been put in place so far.

29. The health sector, which has the largest and longest-standing centre of expertise, has made good progress introducing 150 new contracts with savings of £54 million over the two years to 2007/08.

30. By April 2009, the four other centres of expertise had established 45 new collaborative contracts with estimated savings of around £12 million over the two years to 2007/08.

31. The Scottish Government and others expect that savings from collaborative contracts will exceed the costs of setting up and operating the centres of expertise. The centres have incurred set-up and running costs of £42 million in the three years to 2008/09 (five per cent more than their original £40 million budget).










² We did not attempt to validate these reported savings. Our report *The Efficient Government Initiative: a progress report* (December 2006) showed improvement was needed in how potential efficiencies are forecast and measured. Audit Scotland will publish a report on delivering efficiencies across the public sector in 2009.

³ This is an estimate in the absence of more reliable data.

Exhibit 4

Programme progress to April 2009

Progress has been made against the areas for improvement identified at the start of the Programme, though some parts were subject to delay.

Key	 Delivered on time	 Not delivered
	 Delivered, but with some delay	 Progress is unclear
Area for improvement	Programme objectives	Progress to April 2009
Governance structures and policy	Establish and operate the Public Procurement Reform Board and Advisory Group to lead, monitor and develop the Programme.	 Public Procurement Reform Board and Advisory Group established as planned in April 2006. New Delivery Group established in February 2008.
	Introduce additional guidance setting out fundamental rules and standards for public purchasing.	 The <i>Scottish Procurement Policy Handbook</i> was published in December 2008, 20 months later than originally expected.
	Support improved purchasing practice in individual public bodies.	 Improved practice evidenced in NHS but there is more variability in the other sectors.
Purchasing systems	Develop best practice toolkit.	 The toolkit (online guidance on purchasing procedures) was published in August 2007, nine months later than planned.
	Encourage the use of electronic purchasing, and in particular the adoption of eProcurement Scotland (ePS), a common system to help buyers conduct business with suppliers more effectively.	 The target of 60 organisations using ePS by summer 2007 was met.  By April 2009, 102 public bodies were using ePS for annual spend of around £2 billion.
Management information	Develop a set of Best Practice Indicators (BPIs) – core measures to help public bodies assess their purchasing performance.	 Nine BPIs were agreed for use by all public bodies in May 2008, 14 months later than planned.  But by April 2009 only 41 of 177 public bodies had reported using BPIs. Another 72 had provided some data and 53 more were gathering data.
Collaboration and advanced purchasing	Establish and operate five centres of expertise with responsibility for increasing collaborative contracts and promoting good practice.	 There was a delay of between six and 15 months in launching three of the five centres although each had recruited some staff and started preparatory work before being formally launched.  195 new collaborative contracts have been introduced since 2006, mainly in the NHS.
Number of experienced staff	Develop training and staff development projects. <ul style="list-style-type: none"> Workforce strategy. Staff development programme. Improved training opportunities with professional body. Develop competency guidelines. 	 These projects were originally scheduled for completion between September 2007 and June 2008. Some were completed in June 2008 and the rest are planned to be completed by summer 2009.
Relations between the public sector and suppliers	Create a single point of enquiry to address suppliers' concerns.	 Informal launch in August 2007 as planned and formal launch in January 2008.
	Publish a Suppliers' Charter that sets out clear working practices.	 Published in August 2006 as planned.
	Introduce standard terms and conditions for suppliers working with the public sector.	 Work on this has not yet started.
	Develop a web-based advertising site for all public sector contracts (Public Contracts Scotland).	 Informal launch in August 2008 and formal launch in October 2008, 17 months later than planned.

32. In addition to these costs, the Scottish Government has incurred estimated costs of £19 million, almost double its original budget of £10 million. The main reason for the increase is the higher cost of assisting public bodies to use electronic purchasing.

33. The Scottish Government expects to fully fund the costs of three centres – Procurement Scotland (the national centre), CGCoPE (for central government) and NHS National Procurement. The other two centres APUC (for further and higher education), and Scotland Excel (for local government), are required, in the longer term, to be self-financing.

3 Overall, the impact of the Programme appears positive. But the scale of improvement is difficult to quantify and there are variable levels of engagement by public bodies.

34. Public bodies agree on the importance of improving purchasing practice and getting efficiency savings through collaboration.

35. But in the absence of BPI or other comprehensive data it is difficult to quantify how far public bodies meet good practice or what impact the Programme has had.

36. The Scottish Government has recently developed an assessment tool for all public bodies to monitor their purchasing practice. The Scottish Government was due to publish this tool in July 2009.

37. Before this some individual sector-led assessments had taken place. These showed variations in

purchasing practice and performance within the sectors.⁴ For example, the 2007 local government assessment concluded that 14 councils were improving. The other ten councils assessed had to make significant improvements in areas such as basic business processes for purchasing and ensuring compliance with legislation.⁵

38. The slower than expected progress in collecting BPI data reflects underlying gaps in purchasing systems, data and expertise within public bodies. By identifying gaps, however, the process of producing BPIs should help public bodies to manage their purchasing better in future.

39. The centres of expertise are promoting joined-up purchasing by public bodies. By April 2009, 28 of 32 councils were members of Scotland Excel. Membership was lower for APUC with nearly 70 per cent of Scotland's colleges (30 of 43) and almost 60 per cent of universities (11 of 19) being members by this date. By June 2009, 18 of 19 universities were members.

40. As part of the Programme, the Scottish Government has encouraged the use of an electronic buying system for the Scottish public sector (ePS). Significant potential benefits of electronic purchasing include improved control over purchasing spend, better information for decision makers and savings in staff time. By April 2009, more than 100 public bodies had joined ePS and almost £2.5 billion a year had been spent through it by December 2008. Indicative figures suggest savings of between £9 million and £25 million may have been gained since 2002.

41. The Confederation of British Industry and the Federation of Small Businesses (FSB) are supportive of the Programme. In particular, they welcome the Suppliers' Charter (which sets out how the public sector should work with suppliers) and the Public Contract Scotland website (which aims to make public sector contracts in Scotland more accessible to suppliers).

42. However, these representative bodies consider it is too early to assess whether the Programme has improved supplier access to public sector contracts.

43. The Scottish Government encourages SMEs (small and medium enterprises) to contract with the public sector in Scotland but the FSB has raised some concerns that the increased focus on collaborative contracts may be restricting access by Scottish SMEs to public sector contracts.⁶

4 Key risks to the Programme include maintaining momentum, programme management, availability of information and shortages of skilled staff. These need to be addressed to help accelerate the Programme.

44. In general, public bodies have high expectations of longer-term savings and other benefits as more and improved collaborative contracts are developed.

45. It is essential for their continued commitment to the Programme that individual public bodies can clearly identify where they can make savings and how they can secure wider benefits.

4 National Procurement carried out health sector assessments in 2006, 2007 and 2008. SLACIAG (Scottish Local Authorities Chief Internal Auditors Group) conducted an assessment in local government in 2007. The Scottish Universities Head of Procurement Group and the Scottish Universities Finance Directors Group coordinated a self-assessment for Scottish Universities in 2008. The assessment methods varied between sectors. There are no assessments for central government or colleges.

5 Twenty-four of 32 councils were included in the 2007 local government assessment.

6 *The Global Financial Crisis and Scotland's Real Economy*, FSB Briefing Paper for the Economy, Energy and Tourism Committee, 21 January 2009.

46. However, weaknesses in Programme management have contributed to delays in implementing some planned changes and overall better information on costs, savings and other benefits is needed to demonstrate the level of improvement and impact of the Programme. Without this information, there is a risk that the Programme will not realise its potential.

47. Systematic cost monitoring is necessary for good programme management. For the first three years of the Programme there has been no monitoring of its overall costs. Data are available on the costs of the centres of expertise and Scottish Government costs including separate ePS costs. But no central data are available on the costs that public bodies such as councils and health bodies are incurring in implementing the Programme.

48. In addition, some public bodies have expressed concerns about aspects of Programme implementation. These concerns include the impact of collaborative contracts on the local economy.

49. The Scottish Government started a review of the Programme in 2008. This review identified that the Programme's original 2006 delivery plan should be updated to enable the Scottish Government to monitor and manage progress.

50. The Scottish Government intends to put in place a new plan from summer 2009 to help deliver the Programme. The aim of the new plan is to:

- update what the Programme is intended to achieve
- set objectives and milestones

- provide a clear statement on how the Programme will be managed
- outline a delivery plan
- update the communication strategy.

51. The Scottish Government has identified scope for the centres of expertise to work more closely together to share experience and good practice. This should ensure greater consistency in delivering the Programme across sectors and help to identify further opportunities for cross-sector collaboration.

52. The Scottish Government is also developing a strategy on sustainable procurement for publication later in 2009. This is expected to focus on improving the environmental impact of public sector purchasing and how buyers can help support economic development.

53. Shortages of skilled purchasing staff and high staff turnover are risks to the Programme. The Scottish Government is taking action, in consultation with public spending bodies, on staff recruitment and development. This includes:

- developing a workforce strategy, which is due to be published by summer 2009
- introducing a staff development programme for purchasing staff which is due to be piloted in summer 2009
- improving training opportunities with the Chartered Institute of Purchasing and Supply
- introducing competency guidelines to help public bodies recruit the right people and develop the skills they need.

Recommendations

To ensure that the Programme delivers the maximum potential benefits, the Scottish Government should as a priority:

- introduce its revised plan for the Programme as soon as possible. The plan should have measurable objectives and targets, including savings to be achieved, and make clear who is responsible for delivering it and how much it will cost
- publicly report progress against Programme objectives and targets
- explicitly consider and manage risks to the Programme to ensure Programme benefits are delivered as intended
- work with the centres of expertise and other partners to ensure that:
 - the centres coordinate their work to recruit and retain the highest quality of staff
 - the centres monitor reported savings and other benefits against forecast on a regular and consistent basis and ensure forecast savings and other benefits can be easily validated. This should include net savings after taking account of the centres' operating costs
 - existing guidance on good purchasing and responsibilities is developed and maintained

- new guidance covers how purchasing strategies and plans may take account of wider policy objectives such as supporting economic development.

To increase their effectiveness and demonstrate Best Value, the centres of expertise should as a priority:

- work together to develop the skill-sets of key staff to meet their business needs
- individually and collectively monitor and manage risks, to ensure Programme benefits are delivered as intended
- work with the Scottish Government and other partners to identify, develop and demonstrate opportunities for collaboration that most benefit the public sector
- work with other public bodies to identify good practice and priorities for improving how they buy goods and services and get value for money.

To demonstrate Best Value when purchasing goods and services, public bodies should:

- have high-quality purchasing strategies and plans in place, including a plan to meet future workforce needs
- have up-to-date information on their purchasing activities, such as supplier details, volume of transactions, value and type of spend
- ensure all purchasing practices, including control of spending, comply with good practice as set out in national and centres of expertise guidance

- work with the Scottish Government and centres of expertise to identify and develop opportunities for collaboration and for improved purchasing practice
- use BPIs to assess performance and to continually improve how they buy goods and services
- report savings and other benefits on a regular and consistent basis.