

Improving public sector purchasing



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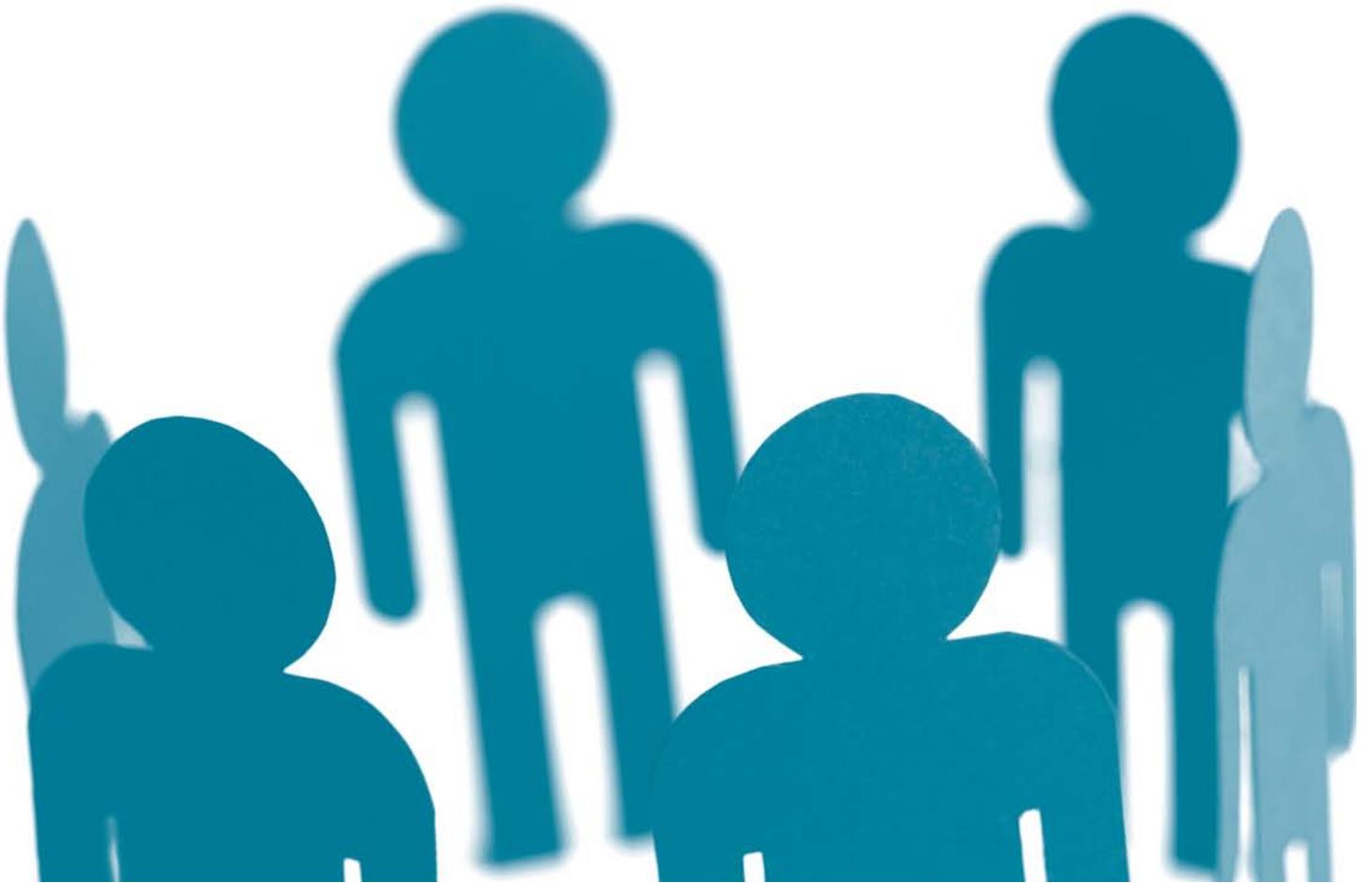
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Summary



Scottish public spending on goods and services is substantial at around £8 billion a year.



Effective purchasing is essential for service delivery

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. Since 2003/04, the Scottish budget has increased in cash terms from £23.4 billion to a planned level of £35.7 billion in 2010/11. But the rate of increase has been slowing down and consecutive governments have placed growing emphasis on using public sector resources as efficiently and effectively as possible. The current economic climate is putting more pressure on public finances. For example, Scotland's budget for 2010/11 has reduced by £844 million as a result of the overall reduction in the UK budget in April 2009.¹

3. In June 2004, the Scottish Executive launched the Efficient Government Initiative.² This was a key element of a programme of investment, reform and modernisation of the Scottish public sector. This initiative has been developed and in 2007, the Scottish Government renamed it the Efficiency Programme. The Efficiency Programme has a target of achieving efficiency savings of two per cent a year for the three years to 2010/11. This target covers a range of activities, including purchasing.

4. Purchasing the right goods and services, at the right time and for the right price, can significantly influence the quality of services that public bodies deliver. Through better purchasing, public bodies can secure savings and ensure that spending is properly controlled. However, if purchasing is not done well it can lead to public bodies paying more than necessary, reducing the money

available for other service priorities. Effective purchasing can lead to the release of cash and help the delivery of high-quality public services.

5. Effective purchasing involves often complex procedures to determine:

- what goods and services are required and when
- who can supply them and under what terms
- what are the best options to get value for money
- how buying goods and services should take into account wider policies, such as improving the environment and supporting economic development
- what legislation, including EU directives, is applicable.

6. Public bodies need to continually improve the way they buy goods and services to ensure that they achieve value for money.

The Public Procurement Reform Programme (the Programme)

7. The Scottish Executive introduced the Public Procurement Reform Programme (the Programme) in April 2006 in response to the McClelland report.³ The McClelland report concluded that public sector structures, people and technology were not in place to deliver purchasing improvements and that urgent effort was needed.

8. The Programme is ambitious in scope, scale and complexity. It aims to introduce substantial changes in how the public sector in Scotland buys goods and services and requires all public bodies to work together to deliver results. To be successful,

public bodies must have the people and skills to manage the necessary changes, to act and think in new ways, and at the same time introduce new systems and approaches.

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

Our study

10. At the start 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 of the financial and other benefits of the Programme and to provide a baseline position against which future performance can be evaluated.

11. This report examines the progress of the Programme over the three-year period 2006/07 to 2008/09. It concentrates on savings and the wider benefits secured as a result of the Programme. It identifies the risks to successfully achieving the Programme's aims and makes recommendations to manage these risks.

12. During our study, we concentrated on the impact of the Programme at a national and sector level, though we also examined the impact of the Programme on a small number of local organisations. In summary, we:

- analysed data from the Scottish Government and other organisations, including available data on costs and savings
- interviewed and received written comments 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

¹ *Budget 2009 – Building Britain's future, Economic and Fiscal Strategy Report and Financial Statement and Budget Report*, HM Treasury, April 2009.

² 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.

³ *Review of Public Procurement in Scotland, Report and Recommendations*, John F McClelland, Scottish Executive, 2006.

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

- reviewed national documents relating to purchasing.

13. A project advisory group provided the project team with advice and feedback at key stages of the project. Members included representatives from the Scottish Government, some centres of expertise, NHS boards, colleges and councils ([Appendix 1](#)).

14. This report is in three parts:

- Setting the scene ([Part 1](#)).
- Savings from the Programme ([Part 2](#)).
- Wider benefits of the Programme ([Part 3](#)).

15. In this report, we use the term public bodies to refer collectively to councils, colleges, universities, health bodies, non-departmental public bodies (NDPBs) and the Scottish Government and its agencies.⁴

Audit follow-up

16. Audit Scotland will follow up this report with further audit work on public sector purchasing. This will include:

- a Best Value review of the centres of expertise. This review will compare the centres' costs and assess progress against savings and other targets. It will review the centres' ability to deliver and monitor savings, and highlight areas of good practice and areas for improvement. It will also review the centres' performance in achieving wider benefits from their work, including their impact

on improving the environmental impact of public sector purchasing

- a follow-up national study to examine how public bodies have implemented our recommendations.

Summary of key messages

- The Programme has made significant progress putting in place the processes, guidance and structures needed to improve public sector purchasing. However, some parts of the Programme have been delivered later than planned and it is not clear that it has yet achieved the level of improvement and impact sought at the outset. The Scottish Government intends to put in place a new plan from summer 2009 to help the Programme achieve its full potential.
- At the outset the Programme anticipated that, with urgent attention, better purchasing could deliver cumulative savings of £740 million in the three years to 2008/09.
- At the time of our audit there was no systematic basis for reporting savings directly attributable to the Programme – only 41 of 177 bodies had reported savings using the agreed indicators. However, around £327 million of savings reported under the Scottish Government's wider Efficiency Programme may be attributed to the Programme for the two years to 2007/08. This is broadly in line with the original Programme target for this period (£340 million), but owing to changes and delays in collecting and reporting savings data it is unclear how progress towards the third year target (£400 million) will be monitored.
- Savings from new collaborative contracts, a key feature of the Programme, are being achieved more slowly than expected. The health sector, which has the longest standing procurement centre of expertise, has been most successful, introducing 150 new contracts over the two years to 2007/08, with savings of £54 million.
- Overall, the wider impact of the Programme appears positive. It has helped purchasing on a number of levels – from promoting and developing purchasing skills and awareness to increasing the use of electronic purchasing. The Programme has improved cross-sector working.
- There are wide variations across public bodies in the quality of purchasing data, practice and skill levels. Best Practice Indicators (BPIs) to help improve purchasing have been agreed but many public bodies are still in the process of completing and using them. The Scottish Government is working with the centres of expertise and public bodies to encourage further improvement in these areas.

⁴ A public body is generally an organisation which receives at least 50 per cent of its funding from central government, *On board: A guide for board members of public bodies in Scotland*, Scottish Executive, April 2006.

Recommendations

To ensure 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:

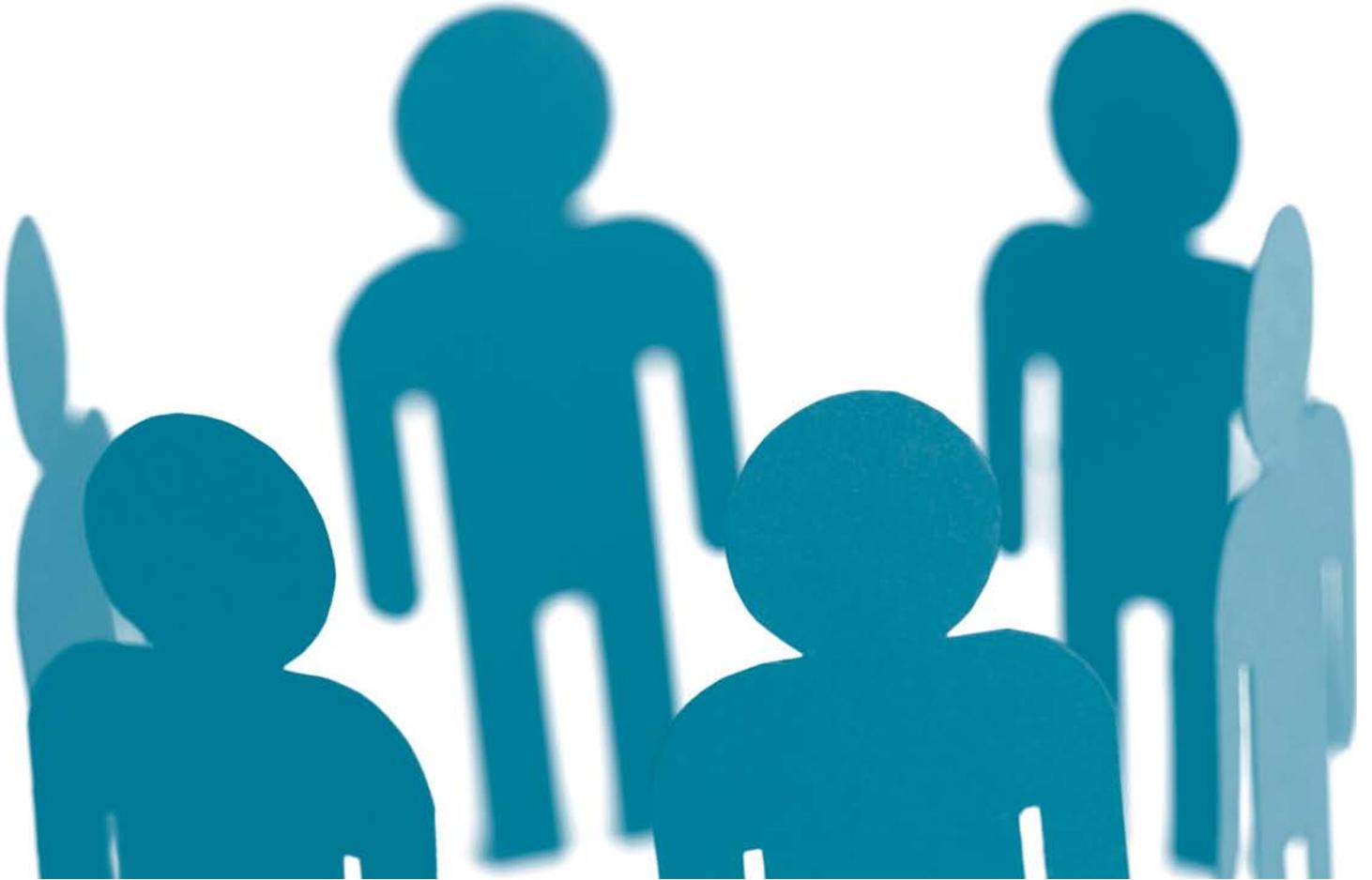
- work together to develop the skill-sets of key staff to meet their business needs
- individually and collectively monitor and manage risks, to ensure that Programme benefits are delivered as intended
- work with the Scottish Government and partners to identify, develop and demonstrate opportunities 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 their performance and to continually improve how they buy goods and services
- report savings and other benefits on a regular and consistent basis.

Part 1. Setting the scene



The Programme is ambitious. It aims to introduce substantial changes in how the public sector in Scotland buys goods and services.



Key messages

- Public bodies in Scotland spend around £8 billion a year on goods and services. Local government and health bodies are responsible for three-quarters of this spend. Spending by individual public bodies varies significantly – the largest 60 (a third of the total) are responsible for 92 per cent of spending.
- In 2006, the Scottish Executive introduced the Public Procurement Reform Programme to deliver significant improvements in purchasing, over the three years to 2008/09. The Programme is ambitious. It aims to introduce substantial changes in how the public sector in Scotland buys goods and services and requires all public bodies to work together to deliver results.
- Five centres of expertise have been established to coordinate improved purchasing across the public sector. There were delays in setting up three of the five centres because of extra time taken to secure funding and difficulties in recruiting staff.

Public bodies in Scotland spend around £8 billion a year on goods and services

17. The primary source of information about public sector spending on goods and services in this report is a Scottish Government database called the Procurement Information Hub (the Hub).⁵ The Hub provides a broad picture of spending using data provided by public bodies. It identifies the value and type of expenditure by supplier and provides a useful starting point to identify those areas of spend and suppliers that are common across public bodies.

Exhibit 1

Estimated annual public spending on goods and services in Scotland 2006/07¹

The main areas of spending were construction, professional services, medical and nursing supplies and services, and social and community care services.

| Expenditure type | Spend £ million 2006/07 | Percentage of total Hub spend |
|---|-------------------------------|-------------------------------------|
| Estates and buildings, including spend on major capital projects, professional services, maintenance, estates, building plant and equipment | 2,260 | 30 |
| Professional and bought-in services, including spend on legal, financial, research and consultancy services and advertising | 949 | 13 |
| Medical, surgical, nursing supplies and services, including spend on consumable items, equipment and small apparatus | 608 | 8 |
| Social and community care services, including care for older people | 544 | 7 |
| Computer supplies and services | 462 | 6 |
| Utilities | 370 | 5 |
| Travel and transport, including vehicle hire and subsistence | 297 | 4 |
| Telecommunications, postal and mail room services | 238 | 3 |
| Vehicles (purchase, lease, contract hire) | 211 | 3 |
| Workshop and maintenance supplies | 205 | 3 |
| Catering supplies and services | 192 | 3 |
| Safety and security | 183 | 3 |
| Furniture, furnishings and textiles | 119 | 2 |
| Laboratory and animal house supplies and services | 95 | 1 |
| Stationery and office supplies | 82 | 1 |
| Library and publications | 81 | 1 |
| Other, including expenditure which has not been classified | 527 | 7 |
| Total | 7,423 | 100 |

Note: 1. For most public bodies, 2006/07 is the latest year for which complete spending information is available in the Hub. As at April 2009, 44 public bodies (25 per cent of total Hub bodies) had provided 2007/08 data. Source: Scottish Government

18. However, the Hub has some limitations. It classifies expenditure based on suppliers' main business and not on specific goods or services purchased and it does not include all spending on goods and services. For example, it excludes all health bodies' payments to General Practitioners (GPs) because it is too complicated to separate out payments to GPs for goods and services from payments to them for other activities. Also, although the Hub data are updated periodically, for most public bodies 2006/07 is the latest year for which spending information is available.

19. The Scottish Government plans to develop the Hub during 2009/10 to enable data to be analysed by type of goods and services purchased.

20. Hub data show that public bodies in Scotland spent around £7.4 billion in 2006/07. Allowing for spending excluded from the Hub, the Scottish Government estimates that total public spending on goods and services is currently about £8 billion.⁶ This is around a quarter of Scottish public spending and involves several millions of individual purchases every year on a wide range of goods and services (Exhibit 1).

⁵ The Scottish Government created the Hub as part of the Programme in 2007.

⁶ The Hub has data for 163 public bodies but does not have data for a further 35 mostly smaller public bodies. Spending by four public corporations, including Scottish Water, is also excluded.

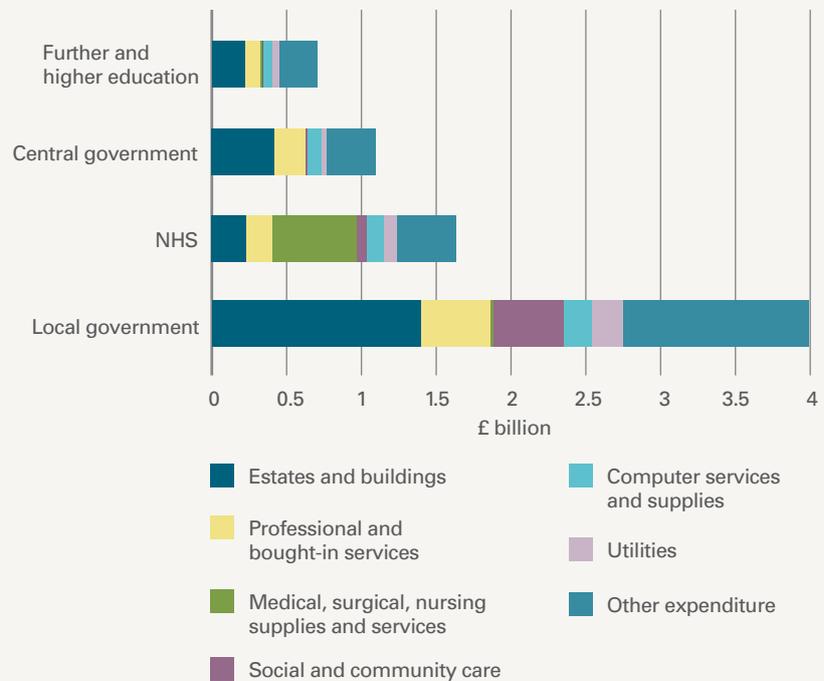
21. The Hub's 2006/07 data provide purchasing spend for 163 public bodies, including 151 bodies spending more than £1 million a year each on goods and services. Spending on goods and services varies by sector (Exhibit 2):

- Thirty-two councils and 16 fire and police boards spent £4 billion, just over half of the public sector total. Council spending ranged from £30 million by Orkney Islands Council to £400 million by Glasgow City Council. Spending by fire and police boards ranged from around £1 million by Central Scotland Fire and Rescue to £55 million by Strathclyde Police.
- Twenty-two health bodies spent £1.6 billion, a fifth of the total. Spending by NHS bodies ranged from £30 million by the NHS National Waiting Times Centre to £459 million by NHS Greater Glasgow and Clyde.
- Forty-three central government directorates, government agencies and non-departmental public bodies (NDPBs) spent £1 billion. Thirty-four of these bodies each spent more than £1 million, with Transport Scotland spending the most (£345 million).
- Further and higher education institutions spent £0.7 billion.⁷ Forty-eight of these bodies each spent more than £1 million, with Edinburgh University spending the most (£112 million).

22. The level of spending by individual public bodies varies significantly. The 60 largest bodies – spending more than £25 million a year each – represent around a third of the total but are responsible for 92 per cent of spending (Exhibit 3).

Exhibit 2

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

The McClelland report recommended urgent action to improve purchasing practice and make savings

23. In March 2006, the Scottish Executive published the *Review of Public Procurement in Scotland* (the McClelland report). In general, the report concluded that public sector structures, people and technology were not in place to deliver purchasing improvements and that urgent effort was needed. The McClelland report:

- recognised that there was much good practice but that overall the public sector in Scotland was not taking advantage of its combined purchasing power to obtain the best products and services at the lowest price. It found that similar goods and services were being purchased by multiple public

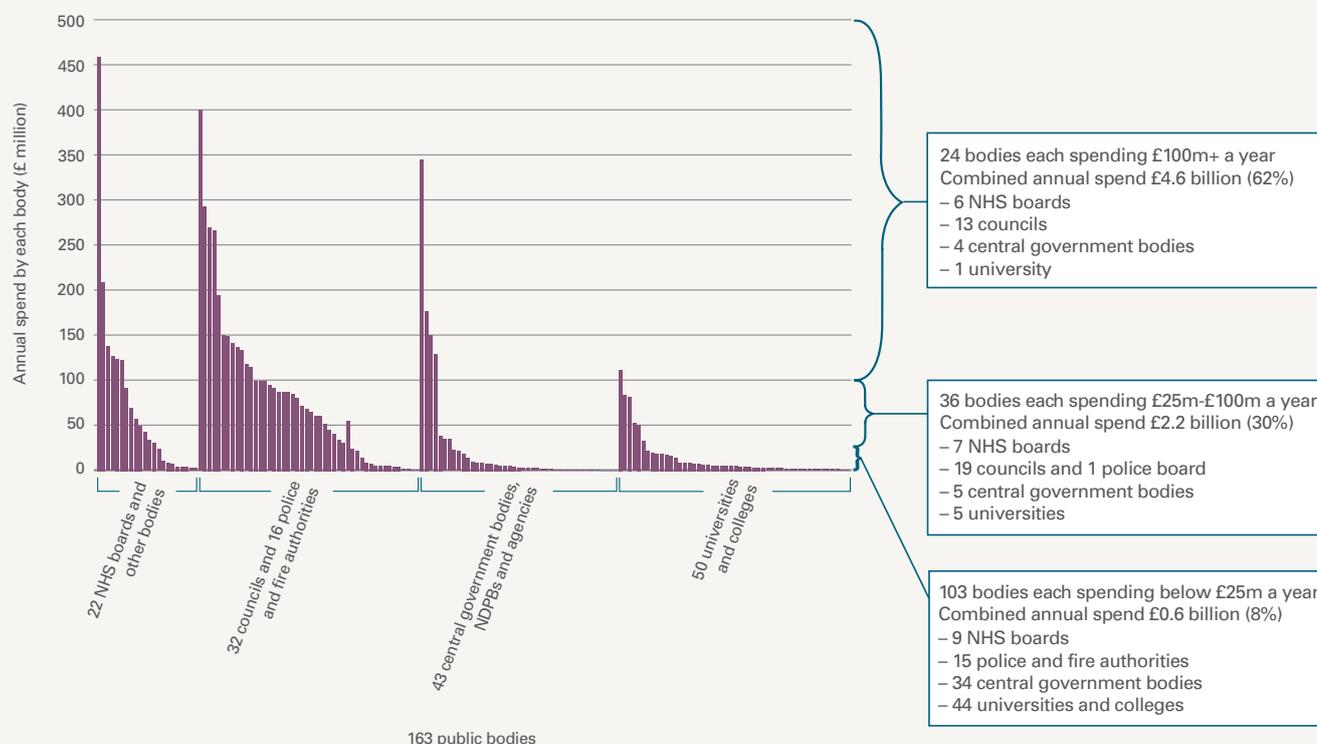
bodies and often through different contracts with the same supplier

- indicated that corporate and social considerations, such as sustainability, were taken seriously but there was uncertainty about how to apply these in practice
- identified the opportunity to achieve significant, recurring financial savings across the public sector through increased use of collaborative contracts. Collaborative contracts with suppliers are based on public bodies joining together to buy particular goods or services. If public bodies use collaborative contracts they can buy more efficiently and buy the same or better goods and services at lower costs

Exhibit 3

Estimated annual public spending on goods and services by public bodies 2006/07

Sixty public bodies are responsible for 92 per cent of spending.



Source: Scottish Government

- 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. This figure was around three per cent each year of the £8 billion that Scotland's public sector spends on goods and services.

24. The report made 82 recommendations aimed at improving purchasing. These ranged from recommendations on accountability and governance to recommendations on the purchase of information technology. [Appendix 2](#) summarises the wide range of recommendations.

The Scottish Executive launched the Public Procurement Reform Programme in 2006

25. The Scottish Executive fully supported the conclusions and recommendations of the McClelland report and aimed to ensure that all public bodies in Scotland used best practice purchasing. In 2006, it 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 4, overleaf](#)). Following this period, the Scottish Executive expected good practice purchasing to become business as usual.

26. Following the 2007 election, the Scottish Government affirmed its commitment to the Programme. It highlighted that it also wanted public bodies to use their purchasing of goods and services to contribute to wider policy objectives on safeguarding the environment and supporting economic development. The Scottish Government is continuing to develop policy and guidance to help public bodies take account of these factors when buying goods and services.⁸ This includes a strategy on sustainable procurement for publication later in 2009, which is expected to focus on improving the environmental impact of public sector purchasing and how buyers can help support economic development.

The Programme is ambitious and requires all public bodies to work together to deliver results

27. The Programme is ambitious in terms of scope, scale and complexity. This is because it seeks to reform purchasing across the public sector in Scotland. All public bodies in Scotland are within its scope and it seeks to make multiple changes to how these bodies purchase goods and services. These bodies must work together to deliver results, though many are autonomous with limited direct accountability to the Scottish Government. The individual bodies affected must have the people and skills to manage the necessary changes, to act and think in new ways at the same time as introducing new systems and approaches.

28. To help overcome some of these challenges, the Scottish Executive, and later the Scottish Government, have used consultation and collaboration to help pursue the Programme aims. The Scottish Executive established working groups for specific areas within the overall Programme, such as a People and Skills working group, and tried to ensure that they included appropriate representation from across the public sector.

The Programme has senior cross-sector support

29. The Scottish Executive established, in accordance with a McClelland report recommendation, a Public Procurement Reform Board (PPRB) to provide strategic direction, support for and monitoring of the Programme. The Cabinet Secretary for Sustainable Growth chairs the PPRB, reinforcing the importance that the Scottish Government places on effective purchasing.

30. The PPRB brings together senior representatives from across the public sector, including central government, local government, the NHS and further and higher education. It has

| 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

no formal powers to direct public bodies on the implementation of the Programme but its members have influence within their sectors and are expected to champion the Programme. Prior to the creation of the PPRB there was no single forum responsible for purchasing that operated across the public sector.

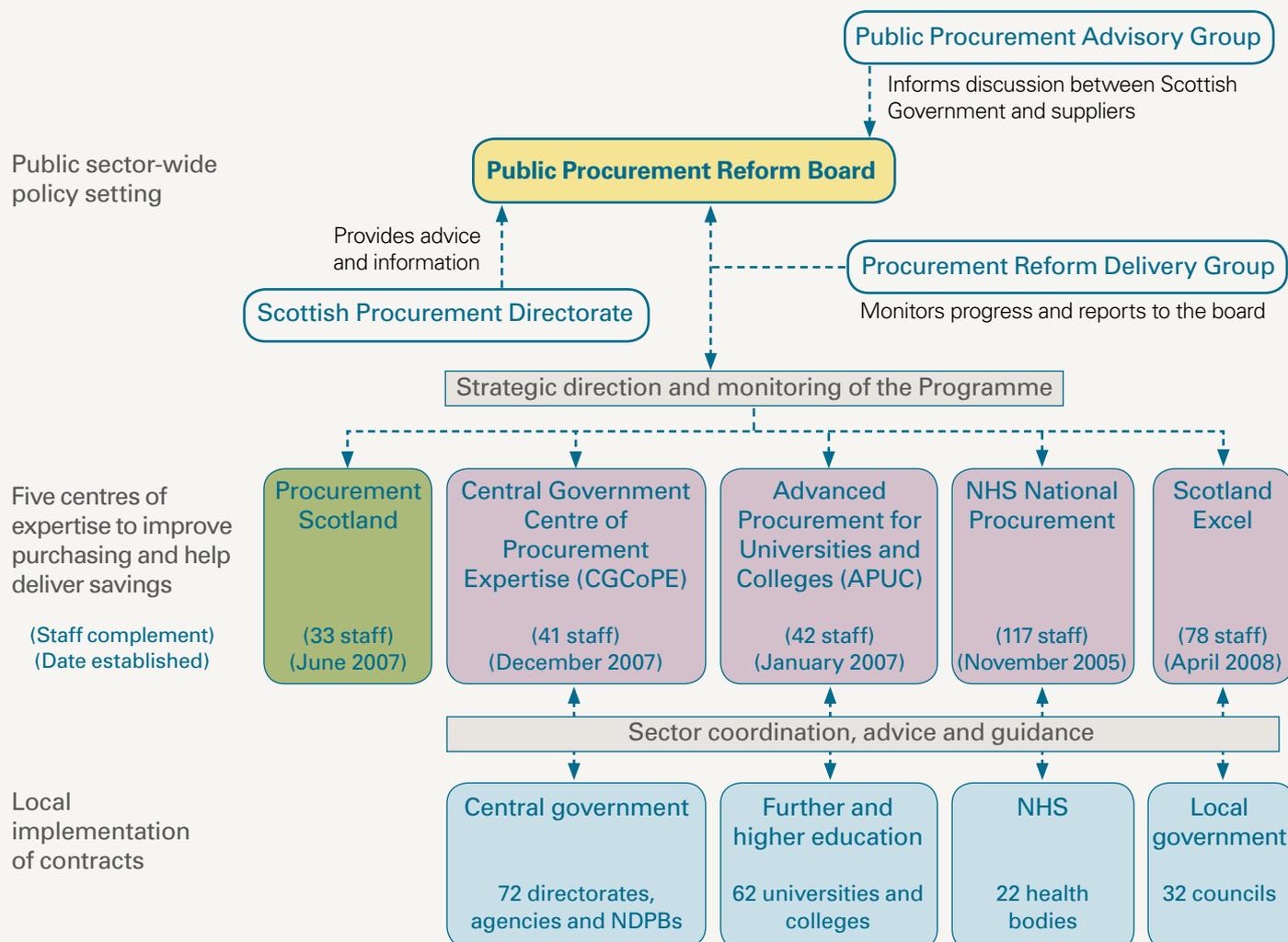
31. The PPRB has provided a forum for cross-sector discussion at a senior level, has helped raise the Programme's profile across public bodies, and has overseen and approved the main changes sought by the Programme.

32. While the PPRB provides strategic direction, other groups support and help to implement the Programme (Exhibit 5). The Public Procurement Advisory Group, established in 2006, supports the PPRB by allowing discussion between the Scottish Government and bodies representing suppliers' interests. The Minister for Enterprise, Energy and Tourism chairs this group. In addition, the Public Procurement Delivery Group was established in 2008 to promote co-operation within the Programme, monitor, manage and coordinate risks and issues, and report progress to the PPRB.

Exhibit 5

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 | Category B sector contracts | Category C local contracts |
|--|---|---|
| For high-value goods and services that are commonly used across the public sector. | For commonly purchased and important goods and services within each of the health, local government, central government and further and higher education sectors. | 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

Three of the five centres of expertise were launched later than planned

33. A fundamental element of the Programme was developing five centres of expertise to coordinate and lead improvement and to help make savings. Four sector-specific centres were established, with a fifth national centre responsible for leading purchasing of goods and services common to all sectors:

- Scotland Excel (for local government)
- National Procurement (for the NHS)
- the Central Government Centre of Procurement Expertise (CGCoPE)
- Advanced Procurement for Universities and Colleges (APUC)
- Procurement Scotland (the national centre) (Exhibit 5).⁹

34. The Scottish Procurement Directorate is responsible for supporting the delivery of the Programme.

35. The centres of expertise are responsible for working with public bodies and suppliers. Their key role is to ensure that better purchasing takes place and in particular to deliver substantial savings from greater use of collaborative contracts. Although some public bodies had previously worked together to purchase common goods and services, the scale and extent of collaboration anticipated through the work of the centres goes well beyond this.

36. The original Scottish Executive target was for all five centres of expertise to be established by 31 December 2006. Two were operating by January 2007 – APUC (established January 2007) and NHS National Procurement (which had been

established in November 2005 but required additional resources to meet the Programme aims). The remaining three were formally launched in June 2007, December 2007 and April 2008, although each had recruited some staff and started preparatory work before these dates. These delays were mainly because of unforeseen time taken to secure government funding to allow the establishment of some of the centres, and difficulties appointing and retaining staff owing to scarcity of appropriate staff.

⁹ The fire and police authorities in Scotland work together to buy uniforms and other common equipment. At the time of our audit the Scottish Government was appraising the option to introduce separate centres of expertise for these authorities.

Part 2. Savings from the Programme



Savings from better purchasing may come from buying fewer items or buying them more cheaply while maintaining the quality of public services.



Key messages

- At the outset, the Programme specified a cumulative savings target of £740 million over the three years to 2008/09.
- At the time of our audit there was no systematic basis for reporting savings directly attributable to the Programme. Only 41 of 177 public bodies had reported savings using indicators intended for this purpose.
- Under the wider Efficiency Programme, the Scottish Government reported efficiency savings of £559 million from better purchasing in the two years to 2007/08. Around 58 per cent of these (£327 million) may be attributed to the Programme. This is in line with the original savings target for the first two years of the Programme (£340 million). But because of changes and delays in collecting and reporting savings data it is unclear how progress towards the 2008/09 target of £400 million will be monitored.
- NHS National Procurement is the longest-standing of the centres of expertise and has delivered most of the savings from collaborative contracts. The other centres are at an earlier stage and have significant scope to achieve further savings.
- The Programme has cost at least £61 million, but full costs across the public sector are not known because they are spread across a large number of individual public bodies.

Performance indicators for the Programme have been delayed

37. An important part of the Programme is the development of a set of indicators to help public bodies

Exhibit 6

Procurement Best Practice Indicators (BPIs)¹

BPIs are designed to provide consistent data on the purchasing activity of public bodies.

| Best Practice Indicator | Purchasing area |
|-------------------------|---------------------------|
| BPI 1 | Efficiency savings |
| BPI 2 | Customer satisfaction |
| BPI 3 | Supplier satisfaction |
| BPI 4 | Collaborative contracting |
| BPI 5 | Contracted spend |
| BPI 6 | Improvement indicator |
| BPI 7 | Qualified staff |
| BPI 8 | Staff in training |
| BPI 9 | Electronic procurement |

Note: 1. See Appendix 3 for further details.
Source: Scottish Government

assess how well they follow good purchasing practice and to assess their performance. In May 2008, in consultation with other public bodies, the Scottish Government introduced a set of nine performance indicators – the Procurement Best Practice Indicators (BPIs). They include an indicator to track and measure purchasing-related savings on a consistent basis (Exhibit 6). Appendix 3 provides further details on the BPIs.

38. The Scottish Government introduced the BPIs 14 months later than originally planned, reflecting the unforeseen time taken to consult with public bodies to ensure that the BPIs would provide useful and relevant information.

39. Individual public bodies are responsible for providing data to the Scottish Government to generate BPI reports. By April 2009, of the 177 public bodies required to provide BPI data:

- 41 had provided all the required information¹⁰

- 72 had provided partial information
- 53 were still gathering the necessary data and had not provided any returns
- 11 bodies had not indicated when they would provide BPI data.

40. The Scottish Procurement Directorate and the centres of expertise are working together to help public bodies to generate and submit BPI data, but no revised date has been set for the first full set of BPI reports to be available.

The Scottish Government reported efficiency savings of £559 million from better purchasing in the two years to 2007/08

41. A major objective of the Programme is to make cash savings (Exhibit 7). At the outset of the Programme, the Scottish Executive set a savings target from better purchasing of £740 million over the three years to 2008/09. This was a cumulative savings figure based on

10 Public bodies are required to provide data for BPIs 2 and 3 later in 2009. In addition, there is still work to be done to ensure other BPI information is consistently reported.

Exhibit 7

Illustrative examples of savings from better purchasing

Savings may come from buying fewer items or buying them more cheaply, while maintaining the quality of public services.

| The baseline – year 1 | | Saving example 1 – Buy less in year 2 | |
|--|-------------|--|--|
| | | A conscious decision to buy fewer items that does not compromise level of service. | |
| Unit price | £1 each | Unit price | £1 |
| Demand | 1,000 units | Demand | 600 units |
| Total spend | £1,000 | Total spend | £600 |
| | | Saving | £400 (Baseline less year 2 total spend) |
| Savings example 2 – Buy cheaper in year 2 | | Savings example 3 – Buy more but cheaper in year 2 ¹ | |
| Through collaborative purchasing suppliers provide identical quality items at a lower price. | | A conscious decision to buy more items, with justification (and at a lower unit price) to maintain or improve service. | |
| Unit price | 80p | Unit price | 80p |
| Demand | 1,000 units | Demand | 1,500 units |
| Total spend | £800 | Total spend | £1,200 |
| Saving | £200 | Saving | £300 |
| (Baseline less year 2 total spend) | | (Adjusted baseline total spend, £1,500, less year 2 spend) | |

Note: 1. Savings example 3 increases spending but may be counted as a cash saving under Scottish Government guidance when the budget holder can justify the increased volume in terms of service delivery.
Source: Scottish Government

combining existing targets of £340 million savings for the first two years of the Programme with an additional, new target of £400 million for the third year.

42. The Programme plan did not identify in any detail which bodies would be responsible for delivering savings. Although it was expected that BPI results would show progress, the delay in reporting BPIs means that no systematic reports on total Programme savings have so far been made.

43. To provide an indication of Programme savings, we examined public sector bodies' returns under the Scottish Government's wider Efficiency Programme. From these returns, we identified those reported savings from better purchasing that may be linked to the Programme. We did not attempt to validate the reported savings figures.

44. Audit Scotland's report *The Efficient Government Initiative: a progress report* (December 2006) showed that improvement was needed in how potential efficiencies are forecast and measured. Audit Scotland will publish a further report on delivering efficiencies in 2009.

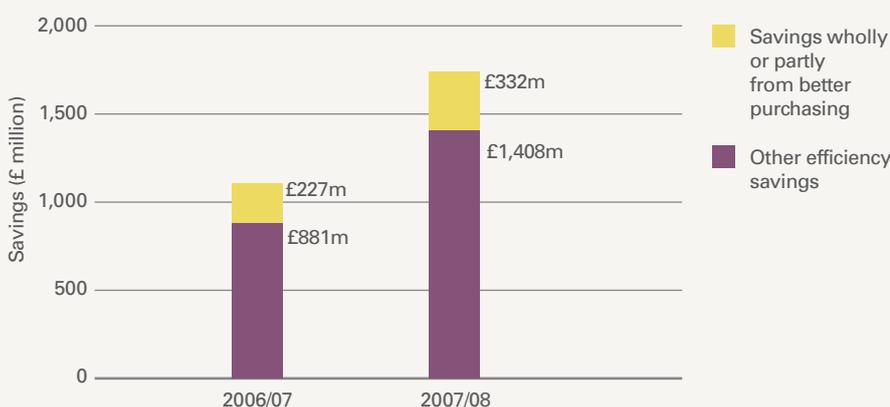
45. Public bodies reported efficiency savings from better purchasing totalling £559 million in the two years to March 2008 (£227 million and £332 million – Exhibit 8). The Scottish Government will report 2008/09 savings for all sectors in autumn 2009.

46. Public bodies report savings under the Efficiency Programme annually, including recurring savings from earlier years. The £559 million savings is a cumulative figure, combining reported savings from two years. This is on the same basis as the original £740 million Programme target. However, distinguishing in-year savings from recurring savings and the cumulative position is important. In the NHS, for example, total

Exhibit 8

Cumulative savings reported by the Efficiency Programme 2006/07 and 2007/08

Reported savings from the Efficiency Programme include £559 million from better purchasing.



Source: Scottish Government, COSLA and the Scottish Funding Council

efficiency savings and new in-year savings are reported for different purposes (Exhibit 9).

Savings of £327 million may be attributed to the Programme

47. Cumulative savings from better purchasing that may be attributed to the Programme are less than £559 million because:

- public bodies use a broad definition of savings from better purchasing to report Efficiency Programme savings. The returns provide little detail or analysis of the type of savings from better purchasing or how they have been achieved. It is not clear that all reported savings are related

to changes introduced as part of the Programme. For example, the returns attribute some savings to lower contract prices or reduced requirements without providing any other information about their origin

- the Efficiency Programme includes some savings from better purchasing that are not linked to the Programme. For example, reported efficiency savings from better purchasing include a saving of £112 million to April 2008, on a UK-wide contract for purchasing drugs for the NHS. This contract was negotiated with suppliers in 2004, before the Programme started in 2006.

48. Around 58 per cent (£327 million) of the total reported efficiency savings from better purchasing for the two years to 2007/08 may be attributed to the Programme (Exhibit 10). These are estimates only in the absence of more reliable data.

49. The savings to 2007/08 are in line with the original Programme target (£740 million comprising £340 million for first two years to 2007/08 and £400 million for the third year 2008/09). However, 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 targets. Because of these changes and delays in collecting BPI savings data,

Exhibit 9

Reporting savings from better purchasing in the NHS

The NHS reports both new in-year and recurring savings for different purposes.

| | | 2005/06 £million | 2006/07 £million | 2007/08 £million |
|---|---------|---------------------|---------------------|---------------------|
| Annual savings from collaborative purchasing reported by NHS benefits tracker | 2005/06 | 33 | 33 | 33 |
| | 2006/07 | | 23 | 23 |
| | 2007/08 | | | 17 |
| Total reported savings in Efficiency Programme reports | | 33 | 56 | 73 |

Savings reporting in the NHS focused on additional savings achieved each year from new collaborative contracts. The NHS has saved an estimated £33 million a year from new contracts agreed in 2005/06, £23 million from more new contracts agreed in 2006/07 and £17 million from more new contracts in 2007/08.

For 2005–08, the Efficiency Programme reported savings achieved each year. These included recurring savings from previous years. For example, the £33 million savings achieved in 2005/06 was reported as recurring and therefore also contributed to the total savings reported for the two subsequent years.

To measure savings on the same basis as the original Programme target, annual savings reported under the Efficiency Programme must be combined.

it is unclear how the public sector will monitor savings against the Programme's third year target (£400 million). This reinforces the importance of ensuring that public bodies use BPIs to help track and measure savings from better purchasing in future.

Savings from new collaborative contracts are being made more slowly than expected

50. Support from all public bodies within a sector for new collaborative contracts provides the centres of expertise with the strongest negotiating position with suppliers. But public bodies are at different contracting stages for their goods and services, with some bodies

holding existing contracts with suppliers which would incur financial penalties if they stopped using them. A further challenge is simply that public bodies must work together rather than independently, which can slow down decisions about collaborative contracts.

51. Delays in setting up the centres of expertise, staffing shortages and the work involved in maximising support

Exhibit 10

Reported efficiency programme savings from better purchasing 2006/07 and 2007/08

Efficiency savings of £327 million from better purchasing may be attributed to the Programme.

| Area | Source of savings | 2006/07 reported savings £ million | 2007/08 reported savings £ million | Cumulative savings for two years £ million |
|--|---|---------------------------------------|---------------------------------------|---|
| A – Savings that may be attributed to the Programme | | | | |
| NHS | Procurement efficiencies from collaborative contracts within the NHS led by National Procurement. | 56 | 73 | |
| Local government | Better procurement savings reported by councils to COSLA (as a contribution to the overall efficiency saving for local government). | 30 | 59 | |
| Central government bodies | Efficiency improvement from better value for money from purchases made by central government bodies. | 16 | 28 | |
| Further and higher education | Procurement efficiencies as reported to the Scottish Funding Council by institutions (as a contribution to the overall efficiency saving for each institution). | 21 | 34 | |
| Central government administration | Price and process savings through improved procurement practices, collaborative purchasing and e-procurement. | 4 | 6 | |
| A – Sub total | | 127 | 200 | 327 |
| B – Other savings from better purchasing | | | | |
| NHS | Efficiencies and savings from a revised Pharmaceutical Prices Regulation Scheme negotiated on a UK basis. | 38 | 74 | |
| Supporting People | Efficiencies and savings from service review process. | 35 | 31 | |
| Rail franchise | Efficiencies and savings from rail franchise renewal. | 15 | 12 | |
| Scottish Police Services Authority | Efficiencies and savings from service review process and better purchasing. | 12 | 15 | |
| B – Sub total | | 100 | 132 | 232 |
| Cumulative savings over two years 2006/07 and 2007/08 | | | | 559 |

Note: In line with the Scottish Government's Efficiency Programme reporting system, savings for 2006/07 and 2007/08 include recurring savings over the period 2005/06 to 2007/08, measured against a baseline year of 2004/05.

Source: Scottish Government, COSLA and the Scottish Funding Council

for the new contracts have limited the number of new collaborative contracts that have been put in place. At April 2009, NHS National Procurement, the largest and longest-standing of the centres of expertise, had made good progress, with 150 new contracts. But the other four centres of expertise had relatively few (Exhibit 11). The centres of expertise have undertaken significant work to prepare for future contracts, and increasing numbers of collaborative contracts are expected as they mature.

52. At the outset, the centres of expertise estimated the potential savings for public bodies from the new collaborative contracts. These estimates ranged from £13 million over three years to 2009/10 (by Procurement Scotland) to £48 million over three years to 2008/09 (by NHS National Procurement) and are dependent on uptake by individual organisations.

53. As at April 2009, the centres of expertise had identified that £66 million of new savings had been made from collaborative contracts for the two years to 2007/08. Over 80 per cent of these (£54 million) were savings identified by National Procurement.¹¹

54. The centres of expertise forecast further savings in 2008/09 and beyond. For example:

- Procurement Scotland awarded contracts for the supply of electricity to the public sector in April 2009. The total value of the contracts is around £200 million a year and Procurement Scotland expects these contracts to realise significant savings (around £10 million each year). The electricity contract also includes efficiency measures to reduce energy consumption and cut emissions.

Exhibit 11

Progress with collaborative contracts

National Procurement, the centre of expertise for the NHS, has delivered most of the new collaborative contracts.

| Centre of expertise | New collaborative contracts for the three years to 2008/09 |
|----------------------|--|
| | Number of contracts |
| National Procurement | 150 |
| Procurement Scotland | 8 |
| CGCoPE | 8 |
| Scotland Excel | 12 |
| APUC | 17 |
| Total | 195 |

Source: Centres of expertise

- By April 2009, Scotland Excel had introduced 12 new collaborative contracts ranging from catering supplies to specialist audio equipment to cars and light commercial vehicles. In total, these new contracts have an estimated annual value of £55 million, and Scotland Excel's provisional estimate is that they may save councils around £2.7 million each year. At the time of our audit, Scotland Excel was working with councils to improve the data available and to identify with greater confidence the level of savings that would be achieved from its new collaborative contracts.

55. In the medium to longer term, the Scottish Government expects that financial savings from collaborative contracts will exceed the costs of setting up and operating the centres of expertise. However, in the short term not all public bodies will necessarily make savings. For example, some councils, with well-advanced purchasing arrangements, do not expect to

make savings in the early years from the collaborative contracts developed by their centre of expertise. These councils consider significant savings and other benefits are likely in the longer term, because of the centre of expertise's increasing knowledge and understanding of supplier markets and as more and improved collaborative contracts are developed.

56. This view is supported by the NHS experience. The NHS, which has been working on improving purchasing since at least 2003, has achieved significant savings from the collaborative contracts set up by National Procurement. Exhibit 12 outlines the background to the set up of National Procurement; the benefits planning and tracking model it uses; and an example of a collaborative contract that has achieved savings for the NHS, while maintaining quality standards.

11 Savings figures are taken from the updated NHS benefits tracker as at June 2009.

Exhibit 12

National Procurement

National Procurement, the centre of expertise for the NHS, has well-established arrangements to help identify, deliver and report savings.

National Procurement

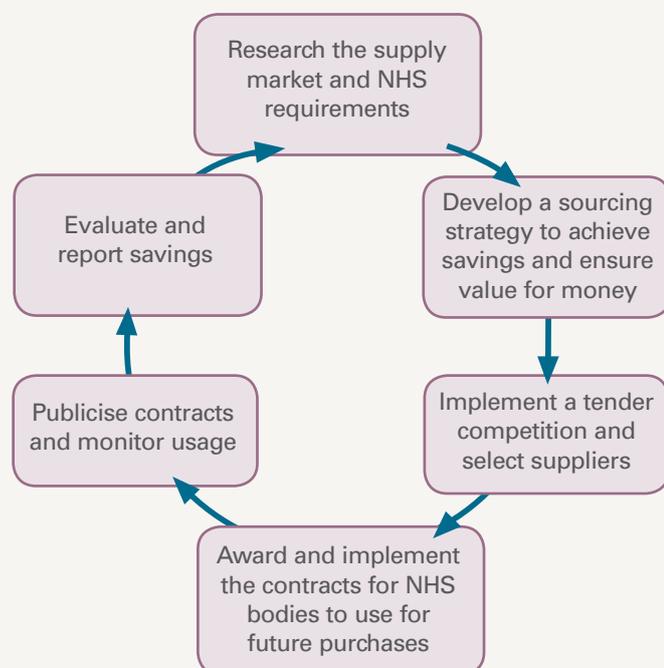
The NHS in Scotland has a history of making improvements to purchasing. In 2001, the Audit Scotland report *In Good Supply* found that the management of supplies in the NHS in Scotland was fragmented and did not demonstrate good value for money. NHS National Services Scotland launched a procurement improvement programme in 2003 to identify and deliver savings through better purchasing and improved operational processes. In

particular, it sought to improve purchasing information and to track and report purchasing performance.

National Procurement was set up in 2005, before the Programme was started, to maximise opportunities for collaborative purchasing within the NHS. It is the largest of the centres of expertise, with running costs of £6.3 million and a staff complement of 117.

National Procurement – benefits planning and tracking model

National Procurement uses a well-established benefits planning and tracking system to help identify, deliver and report savings from collaborative contracts. This system involves a systematic annual cycle of planning and review, in collaboration with other NHS bodies.



Savings from collaborative contracts

National Procurement identified savings of £54 million for the two years to 2007/08. These savings are built up from savings made each year on a wide range of individual contracts for the goods and services that are used by the NHS in Scotland.

Example of collaborative contract savings – NHS surgical gloves

The NHS in Scotland spends around £2.6 million each year on surgical gloves.

National Procurement estimates that it will save the NHS at least £534,000 per year from price reductions in its most recent contracts for surgical gloves (April 2008 to Oct 2010). For these contracts National Procurement provided a clear specification for suppliers to bid against. This led to an open competition between suppliers and resulted in National Procurement securing prices with suppliers for the same types of gloves but at lower prices.

Additional savings are also available from health bodies moving to alternative suppliers and products. National Procurement worked closely with NHS staff to understand the different types and volumes of gloves that were required, for example latex or synthetic gloves. National Procurement then identified those suppliers that could meet these needs. It estimates that savings of up to £1.5 million are possible if health bodies increase their use of the new contracts and purchase gloves from the supplier that offers them best value for money.

The Programme has cost at least £61 million but full costs across the public sector are not known

57. In 2006, the Scottish Executive estimated the Programme would cost £110-120 million in its first three years to 2008/09. The forecast cost for setting up and running the centres of expertise was £40 million; forecast cost for central government work directly linked to the Programme was £10 million and the broad estimate for additional costs by public bodies was £65 million (Exhibit 13).

58. The centres of expertise estimate that they have cost £42 million in the three years to 2008/09 (Exhibit 14). This is five per cent more than their original budget of £40 million and reflects updated costs in their revised business plans.

59. The centres of expertise are funded in different ways. The Scottish Government fully funds the costs of three centres – NHS National Procurement, Procurement Scotland and CGCoPE. The Scottish Government has awarded funding to two centres – APUC (£11.4 million) and Scotland Excel (£4.5 million) – to assist in establishing them and to provide financial stability over the period to 2010/11. However, in the longer term these two centres are required to be self-financing:

- Scotland Excel expects to cover its running costs from membership fees. In 2008/09, membership ranged from £32,000 for Shetland Islands Council to £323,000 for Glasgow City Council.
- The future funding model for APUC has still to be agreed but could, as with Scotland Excel, involve the running costs being met by membership fees. Its current funding of £12.9 million (£11.4 million from the Scottish Government and £1.5 million from the Scottish Funding Council) will enable it to operate until autumn 2009.

Exhibit 13

Programme costs 2006/07 to 2008/09

The Programme has cost at least £61 million but full costs are not known.

| | Original forecast cost | Latest estimate |
|-----------------------------------|------------------------|------------------|
| | £ million | £ million |
| Centres of expertise (Exhibit 14) | 40 | 42 |
| Central government | 10 | 19 |
| Public bodies ¹ | 65 | Not known |
| Total | 115 | Not known |

Note: 1. The full costs of the Programme across the public sector are not known because they are spread across a large number of individual public bodies.

Source: Scottish Government and centres of expertise

Exhibit 14

Centres of expertise costs 2006/07 to 2008/09

The centres of expertise set-up and running costs were £42 million in the three years to 2008/09.

| Centre of expertise | 2006/07 £ million | 2007/08 £ million | 2008/09 £ million | Total £ million |
|-----------------------------------|----------------------|----------------------|----------------------|--------------------|
| National Procurement ¹ | 4.2 | 5.1 | 6.3 | 15.6 |
| APUC | 3.2 | 4.1 | 4.8 | 12.1 |
| Scotland Excel | – | 1.1 | 4.4 | 5.5 |
| Procurement Scotland | 0.3 | 2.5 | 2.1 | 4.9 |
| CGCoPE | – | 2.0 | 1.8 | 3.8 |
| Total | | | | 41.9 |

Note: 1. National Procurement costs exclude special projects and NHS Logistics costs.

Source: Centres of expertise

60. In addition to the centres of expertise, the Scottish Government has incurred estimated costs of £19 million in implementing the Programme, almost double its original budget of £10 million. The main reason for the increased cost to the Scottish Government is the higher cost of assisting public bodies to use electronic purchasing. In the three years to 2008/09, the roll-out of an electronic purchasing system (ePS) cost the Scottish Government £16.6 million.

61. The Scottish Government has not asked public bodies to monitor costs associated with the Programme. Consequently there are no central data on the costs that public bodies, such as councils and health bodies, are incurring as part of the Programme.

Recommendations

To ensure that the Programme delivers the maximum savings as quickly as possible, the Scottish Government should as a priority:

- 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 monitor reported savings and other benefits against forecast on a regular and consistent basis, and ensure that forecast savings and other benefits can be easily validated. This should include net savings after taking account of the centres' operating costs.

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

- work with the Scottish Government and other partners to identify, develop and demonstrate opportunities for collaboration that most benefit the public sector.

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

- 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 their performance and to continually improve how they buy goods and services
- report savings and other benefits on a regular and consistent basis.

Part 3. Wider benefits of the Programme



The foundations for better purchasing are now in place. More assurance is needed on purchasing practice.



Key messages

- The Programme has made significant progress putting in place the processes, guidance and structures needed to improve public sector purchasing. However, weaknesses in Programme management have contributed to delays in implementing some of these. The Scottish Government intends to put in place a new plan from summer 2009 to help deliver the Programme.
- Overall the impact of the Programme appears positive. It has helped purchasing on a number of levels – from promoting and developing purchasing skills and awareness to increasing the use of electronic purchasing. The Programme has provided clearer guidance on purchasing policy and improved cross-sector collaboration. But more needs to be done.
- There are wide variations across public bodies in the quality of purchasing data, practice and skill levels. The Scottish Government is working with the centres of expertise and public bodies to encourage further improvement in these areas.

The foundations for better purchasing are now in place

62. In 2006, the Scottish Executive prepared a broad plan for the Programme for the three years to 2008/09. The plan involved the introduction of new purchasing policies, structures, processes and practice across all public bodies in Scotland, to achieve better value for money in the delivery of public services.

63. The Scottish Executive set out six main areas for improvement at the start of the Programme. The Programme has largely delivered against these areas and has put in place the structures and processes that were set out in the original plan. Overall, the potential impact of the Programme appears positive. However, some parts of the Programme have been delivered later than originally planned and it is not clear that it has yet achieved the level of improvement and impact sought at the outset (*Exhibit 15, overleaf*).

The Scottish Government is developing a new plan to help deliver the Programme

64. It is good practice to use a formal, structured management process to support change that has high levels of complexity and challenge.¹² In the case of the Programme, a structured approach is important because of the significant scale of change sought and the large number of public bodies involved. Formal change management techniques are important to help ensure the organisations involved apply the people and skills needed to secure change.

65. The 2006 plan for the Programme identified 42 work areas, 31 of which were within the direct control of the Scottish Executive (and later the Scottish Government) and 11 were primarily for other public bodies to pursue. By April 2009, the Scottish Government had completed or made progress towards all but one of the 31 work areas it was responsible for. However, the original delivery dates for around a third of them were not achieved. The Scottish Government does not collate information on progress made on the remaining 11 work areas, which involve activity by individual public bodies. [Appendix 2](#) provides more detailed information about progress against the original 42 work areas in the Programme.

66. Weaknesses in Programme management have contributed to delays in implementing it:

- The 2006 plan for the Programme covered actions over the three years to 2008/09. But, until recently, this plan had not been reviewed or adjusted to take account of delays and other issues such as slower than expected savings.
- Formal roles and responsibilities were assigned for the Programme as a whole and for individual work areas. But there has been limited reporting to provide assurance that the Programme is on track, both at sector level and for the Programme as a whole. In April 2009, the Scottish Government developed a revised reporting format to provide the PPRB with monitoring reports on purchasing improvements taking place across the public sector. This new reporting format is partly reliant on BPI data which are not yet complete.

67. Savings are a key part of the Programme but the original plan to introduce BPIs to measure performance has been delayed. This delay means the PPRB has not received comprehensive information about the benefits and impact of the Programme. This makes it more difficult for the PPRB to set priorities for further development and improvement of the Programme.

68. The Scottish Government started a review of the Programme in 2008. This review identified that the original 2006 delivery plan should be updated to enable the Scottish Government to monitor and manage progress. The Scottish Government is developing a new strategic Programme plan to be introduced from summer 2009. This aims to clarify what the Programme is intended to achieve and will set revised objectives and milestones.

Exhibit 15

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 (see Exhibit 12). |
| 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. |

The Scottish Government has introduced clearer guidance on purchasing policy

69. The McClelland review recommended that a public sector-wide purchasing handbook should be developed for use across the public sector. This was published in December 2008.¹³ As an interim measure, the Scottish Government produced guidance for public bodies, setting out the minimum requirements needed to meet legislation, codes of conduct and financial guidance.¹⁴

70. The handbook provides a single, high-level guide to the rules, behaviours and standards for public sector purchasing in Scotland. It describes the key roles and responsibilities in relation to the purchasing function and outlines the governance and accountability arrangements that public bodies should have in place.

The Programme has improved cross-sector collaboration

71. The centres of expertise are promoting cross-sector working. By April 2009, 28 councils were members of Scotland Excel, the centre of expertise for local government. Membership was lower for the centre of expertise for the further and higher education sector (APUC) but has been increasing recently. By April 2009, nearly 70 per cent of Scotland's colleges (30 of 43) and almost 60 per cent of universities (11 of 19) were members. By June 2009, 18 of 19 universities were members.

72. The Scottish Government has identified scope for centres of expertise to work more closely

together to further share experience and good practice. It is working with the centres to coordinate their business plans more effectively. This should ensure greater consistency in delivering the Programme across sectors and help to identify further opportunities for cross-sector collaboration.

Public bodies are increasingly using electronic purchasing

73. As part of the Programme, the Scottish Government has encouraged the use of an electronic purchasing system for the Scottish public sector. The eProcurement Scotland (ePS) programme was launched in 2002. It provides a range of services including e-sourcing (electronic tendering and auctions) and electronic purchasing and payment.¹⁵

74. Significant potential benefits of electronic purchasing include:

- savings in staff time. For example, North Lanarkshire Council has estimated that the development of electronic purchasing has led to a 40 per cent reduction in the cost of processing individual transactions. In the college and university sectors APUC has estimated savings in staff time of between £5 and £12 per transaction
- improved control by enabling only authorised staff to make purchases and by monitoring the use of established contracts. Some public bodies continue to have relatively high levels of expenditure that are not part of established contracts. For example, around £1.7 million of Midlothian Council's spend on goods and services in 2007/08 was on one-off purchases and not part of established contracts¹⁶

- better information for decision-makers through real-time reporting of purchasing activity
- clearer tender documents, fewer errors in invoicing and more prompt payment of bills.

75. By April 2009, more than 100 public bodies had joined ePS. Almost £2.5 billion a year had been spent through it by December 2008.

76. Neither the Scottish Government nor the centres of expertise collect data on electronic purchasing benefits on a consistent basis. However, indicative figures on staff efficiencies suggest that savings of between £9 million and £25 million may have been gained since 2002 by public bodies in Scotland introducing electronic purchasing.

More assurance is needed on purchasing practice

77. There have been some sector-led assessments of purchasing practice by public bodies, although the methodology varied from sector to sector. The health sector has assessed practice in each of the three years to 2008. Single-year assessments are available for the local government (2007) and university sectors (2008).¹⁷ There are no similar sector-led assessments for central government bodies or for colleges.

78. The completed assessments provide benchmarking data that public bodies within sectors can use to compare and contrast their own performance and to inform their decisions on purchasing practice. They include assessments of:

- compliance with national and European regulations

¹³ *Public Procurement Reform Programme, Scottish Procurement Policy Handbook*, Scottish Government, December 2008.

¹⁴ *Public Procurement Reform Programme, Best Practice Toolkit*, Scottish Government, August 2007.

¹⁵ The ePS system has won multiple awards, including the eGovernment National Award 2007, and was a finalist in the Chartered Institute of Purchasing and Supply management award 2006.

¹⁶ *The Audit of Best Value and Community Planning, Midlothian Council*, Audit Scotland, June 2008.

¹⁷ NHS National Procurement carried out the assessments in the health sector 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 extent to which tenders take account of value for money and wider policy objectives, including whole-life costs, the quality of the goods or services delivered and the impact on the environment and economic development
- the extent to which public bodies have efficient and effective systems for ordering goods and processing and paying invoices
- contract management, including contract review, project planning and timetabling and how well risks are managed
- collaborative working, both within and across public bodies.

79. The assessments show significant variations in purchasing practice and performance within the sectors. The systematic approach to assessments in the NHS shows gradually improving practice, especially among bigger-spending NHS bodies, though gaps remain. Priorities for better purchasing in the NHS include improvements in supplier management and better information systems.

80. There is more variability in the other sectors. For example, an overall assessment of the higher education sector in 2008 showed strong performance against business processes and people and skills, but a need for greater focus on how purchasing can help secure wider corporate and social responsibilities.

81. The local government assessment in 2007 concluded that 11 councils were making good progress in applying good purchasing practice and a further three councils almost fully complied with good practice. Good practice includes having appropriate purchasing staff and arrangements in place to ensure good practice

competition takes place and that EU legislation is complied with. The remaining ten councils that were assessed had to make significant improvements in areas such as basic business processes for purchasing and ensuring compliance with legislation.¹⁸ More recently, Audit Scotland's *Overview of the local authority audits 2008* reported some of the challenges for councils on procurement matters.¹⁹ It noted that more work is needed to realise and demonstrate the efficiencies that can be generated from improved purchasing practices. Audit Scotland's Best Value audits of councils also indicate that significant variations in procurement practice remain.

82. The Scottish Government has recently developed an assessment tool for public bodies to monitor how far they adopt good purchasing practice and to prioritise and address identified risks. The Scottish Government was due to publish this tool in July 2009 ([Exhibit 16](#)).

83. Public bodies face significant challenges in improving their purchasing activities. These include ensuring that they:

- have a clear overarching purchasing strategy for the whole organisation and standard purchasing practice across different parts of the organisation
- work well together and take opportunities to make savings from collaborative purchasing
- are clear about expectations and priorities for securing Best Value purchasing as well as how to meet wider policy objectives, such as supporting economic development
- have adequate information and financial systems to inform decision-making and assist control

- have sufficient experienced staff to manage and deliver purchasing services for the benefit of the organisation as a whole.

Purchasing information needs to be improved, particularly at a local level

84. Public bodies need more detailed information about their purchasing activities to help improve purchasing at local level. In the absence of BPI or other comprehensive data it is difficult to quantify the extent to which public bodies comply with good practice or, more widely, the impact of the Programme across the public sector.

85. The slower than expected progress in collecting BPI data is mainly a result of inadequate data, related to gaps in purchasing systems and expertise within public bodies. However, by highlighting these gaps, the collection of BPI data should help public bodies to make wider improvements in purchasing systems and control. For example, to produce BPI data public bodies need to have a full list of contracts (a contract register) against which to compare spending. Some public bodies are introducing contract registers for the first time. This has delayed the preparation of BPI returns, but should help these public bodies to manage their purchasing better in future.

86. The Procurement Reform Delivery Group and the Scottish Procurement Directorate are developing action plans to encourage and assist the reporting of the BPI data.

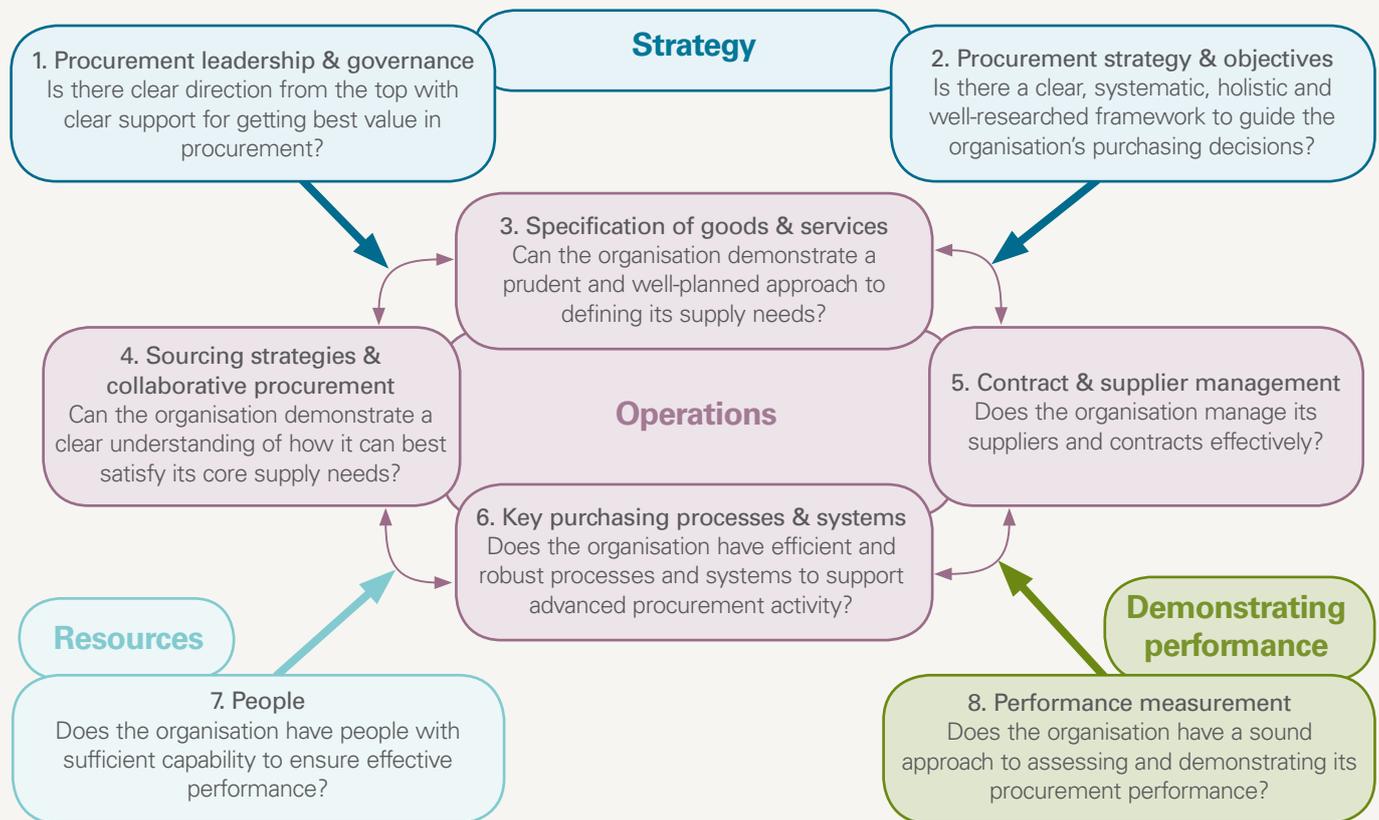
18 Twenty-four of 32 councils were included in the local government assessment *Procurement...are we buying in?*, National Assessment of Compliance, Scottish Local Authorities Chief Internal Auditors' Group, 2007.

19 *Overview of the local authority audits 2008*, Audit Scotland, February 2009.

Exhibit 16

Assessing purchasing performance

The Scottish Government's purchasing capability assessment tool involves a systematic review of purchasing strategy, operations, resources and performance under eight key areas.



Source: Scottish Government

Shortages of skilled staff and high staff turnover are risks for the Programme

87. The McClelland report identified that there was a shortage of skilled purchasing staff in the Scottish public sector. While the Programme has helped by promoting and developing purchasing skills and awareness, at the time of our audit there were indications that shortages of skilled purchasing staff remained. Filling skill gaps can be challenging. Public bodies have to justify investing in purchasing staff against other spending demands,

including money for front-line public services. Also, there are indications that there is a limited pool of experienced purchasing staff in the public sector from which to draw.

88. In April 2009, one centre, the CGCoPE, remained almost 17 per cent below staff complement, with seven vacant posts. High levels of staff turnover have also been a challenge. For example, in 2008/09 National Procurement had staff turnover of around 20 per cent and APUC had turnover for its collaborative procurement team of 36 per cent.

This compares with a UK public sector average of 14 per cent.²⁰ Staff have generally moved between the centres of expertise, which has helped share skills and knowledge in the public sector. But the high turnover reflects the lack of staff with relevant skills within the public sector and the public sector's previous inability to attract suitable people from the private sector.

89. The Scottish Government is taking action, in consultation with public 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.

The Programme is encouraging improved relations with suppliers

90. The centres of expertise are building up a picture of the supply and demand of goods and services within their sectors. This work is aimed at avoiding unnecessary spending on goods and services; improving terms, such as faster delivery; and identifying more innovative ways of purchasing goods and services, such as contracting for a transport service rather than buying vehicles.

91. Each centre of expertise has established user groups to explore with their sectors the specifications of the goods and services required. In parallel, the centres of expertise are developing their understanding of their suppliers and market conditions. This includes detailed reviews of specific areas. For example, Procurement Scotland has undertaken a detailed review of the requirements for and the effect on suppliers of using a Scotland-wide contract for office equipment. This review produced an overall purchasing strategy for office equipment. It identified potential risk areas and made recommendations to mitigate these.

92. The Scottish Executive introduced a Suppliers Charter in 2006 that sets out standards suppliers can expect from the public sector. The Scottish Government is also committed to widening private sector access to public sector markets. In support of this commitment, and as part of the Programme, it has introduced:

- a Single Point of Enquiry. This service provides suppliers with access to purchasing-related information and enables suppliers to raise with the Scottish Government any purchasing-related concerns. Since its launch in August 2007, the Scottish Government has investigated and responded to 20 substantive issues raised by suppliers
- a Public Contracts Scotland website. This is a contract advertising website which aims to make public sector contracting more open and transparent. By April 2009, the site had 22,000 registered suppliers and had advertised contracts which gave suppliers access to 2,500 opportunities to deliver public sector goods and services.

93. The Confederation of British Industry and the Federation of Small Businesses (FSB) are supportive of the Programme. In particular, they welcome the Single Point of Enquiry, the Suppliers' Charter and the Public Contracts Scotland website. However, these representative bodies consider it is too early to assess whether the Programme has widened, or otherwise improved, supplier access to public sector contracts.

94. In the longer term, the Scottish Government expects to be able to use supplier satisfaction questionnaires, to assist in evaluating supplier relations.

The impact of the Programme on supporting the Scottish economy is unclear

95. The Scottish Government considers a strong small and medium enterprise (SME) sector to be an important factor in securing its strategic goal of a successful Scottish economy. The Scottish Government encourages SMEs to contract with the public sector in Scotland and has commissioned research on some barriers SMEs face in doing so, which is due to be published in summer 2009.²¹ The Scottish Government expects the results from this work to inform its strategy on sustainable procurement, which is due to be published later in 2009. This strategy is expected to focus on improving the environmental impact of public sector purchasing and how buyers can help support economic development, including working with SMEs.

96. Public bodies are aware of these wider policy commitments and in some cases their purchasing strategies already take account of them. For example, Fife Council views purchasing as an important contributor to supporting the local economy and in becoming a green council. It considers that using local suppliers will not only support local businesses and the Fife economy but will reduce transportation costs and its carbon footprint.²²

97. In contrast, some public bodies appear to have concerns that the Programme, and in particular the move to more collaborative contracts, may lead to a reduction in the number of contracts with SMEs. This is not necessarily the case, as collaborative contracts can result in goods and services being delivered by multiple suppliers, including SMEs. But it is a concern shared by the FSB which considers that the increased focus on collaborative contracts is acting to exclude Scottish SMEs.²³

²¹ *Opportunities and Barriers to Consortia Bidding for Public Sector Contracts*, Scottish Government, 2009.

²² *The Audit of Best Value and Community Planning*, Fife Council, Audit Scotland, March 2009.

²³ *The Global Financial Crisis and Scotland's Real Economy*, FSB Briefing Paper for the Scottish Parliament's Economy, Energy and Tourism Committee, 21 January 2009.

98. In the longer term, the Scottish Government intends to use BPI data to develop indicators to monitor the extent to which public sector purchasing is supporting economic development. These indicators may include the percentage of private sector suppliers with a formal contracted agreement with a public sector organisation, the percentage of not-for-profit sector suppliers with a formal contracted agreement, and the percentage of spend with SMEs.

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
- 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
 - 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 business needs
- individually and collectively monitor and manage risks, to ensure Programme benefits are delivered as intended
- 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 centre of expertise guidance.

Appendix 1.

Project advisory group members

| Name | Organisation |
|-----------------|--|
| Chris Bowring | Director of Finance, NHS Fife Health Board |
| Dorothy Cowie | Director, Scotland Excel |
| Keith Davies | Director, Efficiency Practice, National Audit Office |
| Alex Linkston | Chief Executive, West Lothian Council |
| Howard McKenzie | Former Principal, Jewel & Esk College |
| Paul McNulty | Deputy Director, Procurement Policy and Development, Scottish Government |
| Jim Miller | Strategic Sourcing Director, National Procurement, NHS National Services Scotland |
| Hugh Ross | Interim Chief Executive, Advanced Procurement for Universities and Colleges (APUC) |

Appendix 2.

Summary of Programme progress

The following table sets out Programme activities and progress. The right column identifies the 42 activities, under six main areas, that constituted the Programme at the outset in 2006 and the progress made. The left column indicates how Programme activities correspond to the 82 McClelland report recommendations.

| Programme areas for improvement | Summary of Programme activities and progress |
|---|---|
| 1. Improve governance structures and policy | |
| <p>Thirty McClelland report recommendations regarding:</p> <ul style="list-style-type: none"> • Accountability & governance (16) • Procurement leadership (3) • Procurement policy (2) • Procurement practices and business processes (1) • Collaborative procurement (1) • Estates, construction and other capital projects (1) • Implementation plan (6) | <p>Completed on schedule</p> <ul style="list-style-type: none"> • PPRB set up – Public Procurement Reform Board set up in April 2006 to oversee the progress of the Public Procurement Reform Programme. • National landscape – paper on the proposed new purchasing arrangements for Scotland (November 2007). <p>Completed but not on schedule</p> <ul style="list-style-type: none"> • Policy Handbook – the Scottish Procurement Policy Handbook, providing a standard approach to purchasing across the public sector, was published December 2008, 20 months later than planned. • All organisations at McClelland category level 1 – all public bodies must provide evidence that they meet minimum governance and accountability standards for purchasing. • Toolkit – best practice toolkit, covering minimum needs to meet legislation, codes of conduct and financial guidelines, was published in August 2007, nine months later than planned. • Organisational development guidance issued. <p>Activities for individual public bodies to progress</p> <ul style="list-style-type: none"> • CPOs/CPDs in place – organisations have Chief Procurement Officers/Central Procurement Departments in place. • Clear governance in organisations – organisations have clear governance arrangements for their purchasing arrangements in place. • CPOs/CPDs fully functional – local organisations have fully operational Chief Procurement Officers/Central Procurement Departments. • Continue to certify governance standards – organisations to certify that minimum standards for purchasing arrangements have been met. |

2. Improve purchasing systems

Nineteen McClelland recommendations regarding:

- Accountability & governance (2)
- Procurement practices and business processes (6)
- Procurement information systems (3)
- Estates, construction and other capital projects (2)
- Procurement of outsourcing capability (2)
- Procurement of information technology (3)
- Public private funding partnerships (1)

Completed on schedule

- eProcurementScotland 30-40 customers by March 2007.
- eProcurementScotland 60 customers by summer 2007.
- Certify governance standards – organisations provided evidence that they met minimum standards for governance and accountability in purchasing via a survey carried out in June 2006.
- Procurement cards used widely.
- European Union training set up – EU training courses took place beginning in June 2005 to cover the strict legal framework for purchasing and show how best value can be achieved within that framework.

Completed but not on schedule

- Minimum standards agreed – minimum standards for purchasing practices were agreed and documented in the Procurement Toolkit, published in August 2007, nine months later than planned.

In progress

- All organisations have e-procurement systems – all organisations should use e-procurement systems.

Activities for individual public bodies to progress

- Advanced procurement plans – all organisations should adopt and implement an advanced procurement plan, setting out how it will work towards improving its performance.
- All organisations at level 2 – all organisations should be at 'improved' status for purchasing. The McClelland report defines how organisations should assess their performance against key attributes to meet this level of achievement.
- All organisations at level 3 – all organisations should be at 'superior' status for purchasing. The McClelland report defines how organisations should assess their performance against key attributes to meet this level of achievement.
- Advanced procurement policy embedded – public bodies should follow best practice for purchasing.
- 100 per cent OJEU compliance – all organisations should be 100 per cent compliant with EU legislation. This should be verified by audit and reported to the Scottish Government.

| 3. Improve management information | |
|--|--|
| <p>Ten McClelland report recommendations regarding:</p> <ul style="list-style-type: none"> • Procurement practices and business processes (10) | <p>Completed on schedule</p> <ul style="list-style-type: none"> • Management information available – Information Hub developed. • Reporting automated – Information Hub developed. • Procurement reporting – Information Hub developed. |
| | <p>Completed but not on schedule</p> <ul style="list-style-type: none"> • Value for money criteria agreed. • Key Performance Indicators defined – a set of Best Practice Indicators was agreed for use by all public sector bodies in May 2008, 14 months later than planned. |
| | <p>In progress</p> <ul style="list-style-type: none"> • Regular benchmarking – to share best practice across the public bodies. Owing to the delay in introducing the BPIs there is no effective benchmarking programme. |
| | <p>Activities for individual public bodies to progress</p> <ul style="list-style-type: none"> • Key Performance Indicators reported regularly – by April 2009 only 41 of the 177 public bodies had reported using Best Practice Indicators. |
| 4. Increase collaboration and advanced purchasing | |
| <p>Eight McClelland report recommendations regarding:</p> <ul style="list-style-type: none"> • Collaborative procurement (5) • Procurement of information technology (2) • Wider Scottish Executive Procurement (1) | <p>Completed on schedule</p> <ul style="list-style-type: none"> • Categories A, B, C confirmed – goods and services have been allocated to one of three categories; A (for those required throughout the public sector), B (for those required across a specific sector eg Health), or C (for specialised goods or services confined to a single body or small group of bodies). • A and B categories in use – arrangements have been established for organisations to purchase goods and services in the A and B categories through collaborative contracts. • A, B, C categories used universally – categories in common use across public bodies. |
| | <p>Completed but not on schedule</p> <ul style="list-style-type: none"> • Centres of expertise operational – centres of expertise to be established to set up collaborative contracts for each sector. 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. • A national organisation established to set up collaborative contracts for Category A commodities was established in June 2007. |
| | <p>In progress</p> <ul style="list-style-type: none"> • eProcurementScotland should be universal (as applicable) for Category A and B – eProcurement Scotland should be used by all organisations for purchasing Category A and B goods and services. |

5. Increase number of skilled and experienced staff

Eight McClelland report recommendations regarding:

- People and skills (8)

Completed but not on schedule

- Professional development embedded – further training opportunities with the Chartered Institute of Purchasing and Supply agreed autumn 2008; purchasing competency guidance in place summer 2008.

In progress

- Career path designed – workforce strategy due summer 2009; staff development programme to be piloted summer 2009.

6. Support good relations between the public sector and suppliers

Seven McClelland report recommendations regarding:

- Competitive supplier base (7)

Completed on schedule

- Suppliers' charter – a charter was published, on schedule, in August 2006, setting out the standards which suppliers can expect from public sector purchasers and in return what is expected of them.
- Redress process in place – a single point of enquiry, to which suppliers can turn for clarification of procedures or to express concerns, was operational from August 2007, the target date.

Completed but not on schedule

- Portal live – an electronic portal was formally launched in October 2008, 17 months later than planned, to enable suppliers to access all necessary information on opportunities to bid for contracts across the public sector in Scotland. But it has not yet been adopted universally by all public bodies.

Not yet started

- Terms and Conditions in place – introduce standard terms and conditions for suppliers working with the public sector.

Activities for individual public bodies to progress

- Local procurement organisations should be in place – organisations should form local or regional consortiums for category C items where such collaboration would be beneficial.

Appendix 3.

Procurement Best Practice Indicators (BPIs)

| | Best Practice Indicator description |
|-------|--|
| BPI 1 | Total savings achieved year-on-year |
| BPI 2 | Composite score from customer satisfaction questionnaire |
| BPI 3 | Composite score from supplier satisfaction questionnaire Also, will be monitored nationally by automatically generated financial indices: <ul style="list-style-type: none"> • % private sector suppliers with a formal contracted agreement • % third sector suppliers with a formal contracted agreement • % spend with SMEs |
| BPI 4 | % annual procurement spend that is channelled through a collaborative contract with other publicly funded bodies: <ul style="list-style-type: none"> • Supplier satisfaction questionnaire (specific question on procurement function's engagement with suppliers during the life of a contract) • Customer satisfaction questionnaire (specific question on visibility and helpfulness of procurement team/guidance) |
| BPI 5 | Compliance (to identify 'maverick' spend): <ul style="list-style-type: none"> • (a) % procurement spend with contracted suppliers • (b) % procurement spend with contracted suppliers on contract (will be implemented in future) |
| BPI 6 | % Scorecard BPIs that show improvement since previous report |
| BPI 7 | (a) % procurement officers who hold the professional procurement qualification, Member of Chartered Institute of Purchasing and Supply (MCIPS) (b) % procurement officers with an appropriate procurement qualification (c) % procurement spend actively influenced by procurement professionals |
| BPI 8 | % procurement officers (FTE) who are undertaking any formal training towards a procurement qualification Supported by the financial indices: <ul style="list-style-type: none"> • Number of procurement staff (FTE) (Financial Index) • Procurement department cost per £ of spend (Financial Index) • Procurement department spend per professionally qualified procurement officer |
| BPI 9 | The following measures will be recorded individually, and automatically combined into an overall e-procurement maturity level for each organisation: <ul style="list-style-type: none"> (a) % electronic contract notice (b) % electronic award notice (c) % contracts through e-sourcing (for example, electronic tendering systems) (d) % total transactions that are e-transactions (through an e-procurement system) (e) % payments processed via e-payment system (ie, through e-invoicing, e-consolidated billing/self billing and first time automated match from purchase order to invoice) |

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