

Audit Scotland Report: Procurement in Councils

Report by: Iain Johnston, Procurement Manager, Finance and Integrated Service Support

1 Purpose of Report

To advise Audit Committee of the findings of the Audit Scotland report, '*Procurement in Councils*' and to reflect the extent to which Midlothian Council is working in accordance with the recommendations of that report.

2 Background

- 2.1** Audit Scotland published '*Procurement in Councils*' in April 2014. The report drew evidence from published and unpublished procurement information, fieldwork at Scotland Excel (the centre of excellence for Local Authorities) and six Local Authorities, interviews from public and private sector organisations, including the Federation of Small Businesses and the Scottish Council for Voluntary Organisations.
- 2.2** The report is designed to assess whether Councils are efficiently and effectively managing the procurement of goods and services, what savings and other benefits can accrue through good procurement, the management of the procurement process within Councils and the role of Scotland Excel in facilitating these aspirations.
- 2.3** The report's conclusion is that, although there is good practice in procurement being demonstrated in local authorities across Scotland, there is room for improvement in the manner in which procurement is being utilised as a tool to deliver savings and benefits. It identifies a number of areas where improvement can be made and allocates these to Scottish Government, Scotland Excel, Councils, Council Management teams and procurement staff as appropriate.
- 2.4** The report is in three parts:
1. Setting the Scene - which sets out detail of the initiatives by the Scottish Government and Scotland Excel in this area since 2006;
 2. The Benefits of Effective Procurement – which considers the benefits of greater participation in collaborative procurement activity and the impact of Community benefits on local economies;
 3. How Councils are performing – predominately looking at the Procurement Capability Assessment (PCA) results to give a pan Local Authority procurement picture. The PCA is a procurement

audit undertaken annually by Scotland Excel on behalf of the Scottish Government.

- 2.5** The legislative framework for procurement is currently undergoing significant change with the Procurement Reform (Scotland) Act 2014 about to be implemented. The 2014 EU Procurement Directives and the Social Care (Self-Directed Support) (Scotland) Act 2013 will also have a significant impact on Councils' procurement.

3 Midlothian Position

- 3.1** The following provides information on how Midlothian Council has or is addressing the key points and challenges raised in the Audit Scotland Report.

3.2 Submission of Information to Scottish Government Procurement Information Hub

As a minimum Midlothian Council submit accurate and complete spend information on annual basis and within agreed timescales, with the purchase to pay systems currently being rolled out across the Council it has brought opportunities for more detailed management information to be provided, in the future this will enable the Council to submit quarterly spend reports to the information hub along with more line item level of detail.

3.3 Make greater use of tools and facilities provided by the Hub

With the increased focus on reporting, use of tools available within the Information Hub have become common practice across the procurement team, the Council use the Best Practice Indicators for monitoring and reporting on procurement performance, the procurement team annually benchmark performance with other similar sized local authorities utilising the information held on the Hub.

3.4 Use Public Contracts Scotland tender module for all applicable contracts

Midlothian Council procurement team have been trained on using Public Contracts Scotland e-tendering system and have put through a number of tenders through the system, further use of the system will be rolled out across all applicable contracts over the coming year.

3.5 Make full use of collaborative contracts

Before any procurement process is initiated, the procurement team advise stakeholders where opportunities exist to utilise collaborative or framework contracts in order to maximise participation by Midlothian Council. Where the service decides not to use a collaborative or framework contract, a reason is recorded for that decision.

3.6 Calculate procurement savings using consistent and transparent methodology

The procurement team work closely with finance and service managers in identifying and delivering procurement savings, savings are reported quarterly and are recorded on benefits trackers system.

3.7 Report savings and non-financial procurement benefits to an appropriate committee

Forecasted procurement savings are identified during the development of the contract delivery plan, actual savings delivered through procurement activity against the contract delivery plan are reported to Performance, Review and Scrutiny Committee. A procurement board is being established to provide further scrutiny on procurement performance and savings whether financial or non-financial (community benefits).

3.8 Examine the benefits of joint working or joint procurement teams

The report anticipated that economies of scale should be achievable through more extensive use of joint working or collaborative procurements. Midlothian Council participates in a number of procurement forums including the Scottish Local Government Procurement Forum and a cross sector group hosted by NHS Scotland. Forthcoming contract delivery plans are shared with a view to identifying the opportunity for collaboration. Officers from Midlothian Council attend East Lothian Councils monthly procurement improvement meetings to share good practice and identify any areas where joint procurement may be appropriate.

3.9 Phase out paper purchasing systems

The report asks Councils to move towards automation of procurement and payment processes. Midlothian Council is currently rolling out a Purchase to Pay system across the whole Council and the first phase of the strategy is to target services currently using paper based ordering systems, so far Sport & Leisure, Travel Team, Adult Social Services (Including care Homes) and Education (all schools) have moved onto the new system. After orders have been authorised the system automatically emails the purchase order to the supplier, making the process more streamline and efficient.

Part of the project is to also reduce the amount of invoices we receive and process, work has began with suppliers to consolidate invoices where possible and looking at suppliers ability to submit e-invoices. Procurement cards are being deployed across the Council for low value orders/invoices.

3.10 Early engagement with suppliers to develop contract specifications and allow for greater innovation

Previously, procurement tended to work on a reactive basis; the requirement contained in the new Procurement Reform (Scotland) Act

2014 EU for Councils to publish an annual contract plan will ensure visibility of future procurement activity both in terms of new requirements and the re-letting of existing contracts. This visibility will allow more efficient workload scheduling and a more detailed analysis of the entire procurement journey as advocated by the Scottish Government and this will go some way to meeting this recommendation.

A key objective in the Council's new Procurement Strategy is to develop a local procurement policy, this policy will include level of engagement with suppliers, workshops, meet the buyer events and drop-in surgeries.

3.11 Make better use of market research, cost avoidance and improved contract management

The report recommends that these tools, if used fully, will result in further financial savings and potential service improvements. Contract Management in particular is weak in most Local Authorities, this area is a key objective in Midlothian Council's new procurement strategy and for the procurement team, actions have been identified and progress will be reported to a Procurement Strategy Board. Work is underway to explore IT systems which could assist in this aspect of the process.

3.12 Aim to achieve the superior performance level (75%) in the PCA

Midlothian Council has consistently improved its PCA score over the last five years; 23% in 2010, 33% in 2011, 54% in 2012, 60% in 2013 and 65% in 2014. The new procurement strategy has targeted a 75% score by 2018.

3.13 Benchmark procurement staffing against other Councils with a higher or comparable PCA score

The following table shows the procurement staffing levels and PCA scores for a selection of Scottish Local Authorities of a comparable size to Midlothian Council.

Local Authority	Total FTE Procurement Staff	PCA Score 2014
Angus	5.5	51%
East Dunbartonshire	4	60%
East Lothian	4	53%
Midlothian	5	65%
Moray	9	63%
South Ayrshire	7	74%

The figures demonstrate that, despite having a relatively small team, Midlothian Council is performing well in the PCA and have a score that is above the national average, and this reflects an efficient and effective procurement service.

3.14 Systematic collection and reporting of information on non-financial benefits

An enhanced benefits tracker system is currently being developed that will support the collection and reporting of all non-financial benefits delivered through procurement; Apprenticeships, Workshops, Work Experience etc. The delivery of community benefits is a key objective of the new procurement strategy.

3.15 Raise staff awareness of accountability and controls

The report identifies three methods of achieving this; implementing a written code of ethics, requiring procurement staff to complete a declaration of interests statement and requiring Internal Audit to conduct a regular assessment of procurement risk, including fraud.

All the above methods are currently in place, Internal Audit currently have procurement risk within their remit and regularly undertake audits and investigations as they consider appropriate, all procurement actions are passed to the Procurement Manager for necessary action.

3.16 Provide specific training on procurement for Elected Members to help them undertake their governance role more effectively

The introduction of the Procurement Reform (Scotland) Act and the new EU Directives which will come into effect late in 2015 offers an ideal opportunity to refresh and expand the training available to Elected Members.

4 Report Implications

4.1 Resource

There are no direct resource implications as a result of this report

4.2 Risks

There are no additional direct risks to be considered as a result of this report

4.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- Community safety
- Adult health, care and housing
- Getting it right for every Midlothian child
- Improving opportunities in Midlothian
- Sustainable growth
- Business transformation and Best Value
- None of the above

4.4 Key Priorities within the Single Midlothian Plan

Midlothian Council and its Community Planning Partners have made a commitment to treat the following areas as key priorities under the Single Midlothian Plan;

- Early years and reducing child poverty
- Economic Growth and Business Support
- Positive destinations for young people

This report has an impact on the 2nd and 3rd key priorities, development of a local procurement policy to strengthen engagement with local businesses and support/training in readying them for winning contracts with the public sector. A refresh of community benefits delivered through procurement activity, apprenticeships, work experience, workshops etc.

4.5 Impact on Performance and Outcomes

This report does not impact Midlothian Councils and wider partners performance and outcomes

4.6 Adopting a Preventative Approach

This report does not impact actions and plans in place to adopt a preventative approach

4.7 Involving Communities and Other Stakeholders

The report highlights that Councils need to increase local supplier engagement and deliver further community benefits, these are two key objectives in the new procurement strategy and will be reported through a Procurement Strategy Board.

4.8 Ensuring Equalities

This report does not recommend any change to policy or practice and therefore does not require an Equalities Impact Assessment

4.9 Supporting Sustainable Development

Sustainable procurement is at the heart of this report and Midlothian Councils procurement strategy.

4.10 IT Issues

There are no direct IT implications arising from this report

5 Recommendations

The committee is asked to note the Audit Scotland report and the position of Midlothian Council in relation to the report

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Background Papers:

Audit Scotland Report: Procurement in Councils

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