

The Highland Council

Resources Committee - 25th February 2015

Agenda Item	13
Report No	RES/15/15

Audit Scotland Review of Procurement in Scottish Local Authorities

Report by Director of Finance

Summary

This report presents the Council's proposed responses to the above report and recommends that Members agree to the actions listed at **Annex A** in dealing with the report's findings.

1. Background

- 1.1 In support of the Scottish Government Public Procurement Reform Programme, Audit Scotland have carried out a review of Procurement across the Local Authority sector. Whilst this is the first such review carried out, it is anticipated that a follow up review will be undertaken in 2016 to ascertain what actions Local Authorities have taken in response.

Its findings together with proposed responses are set out at **Annex A** to this report.

2. Discussion

- 2.1 The report which is available here http://www.audit-scotland.gov.uk/docs/local/2014/nr_140424_procurement_councils.pdf makes specific recommendations in respect of Councils, their Corporate Management Teams, Council staff, Scotland Excel, and Councils working jointly with Scotland Excel and the Scottish Government.
- 2.2 As all 32 Councils were included in the Audit and since each is slightly different, the findings are necessarily "broad brush" in nature, and each recommendation will not necessarily apply to every Council in the same way. Nonetheless the report is to be welcomed as a positive contribution to the national Procurement Improvement Programme.
- 2.3 As such an individual response from each Council, tailored to its own context and priorities, will be required.
- 2.4 It should be noted that the Council is already progressing well with its own Procurement Improvement Programme aimed at standardising the ways in which different parts of the Council work, and ensuring that the needs of sustainable economic growth are taken into account appropriately in procurement decisions.

2.5 Proposed responses to each recommendation from the Highland Council's perspective are set out at **Annex A** to this report.

3. Implications

3.1 Resource, Legal, Risk, Equalities, Climate Change/Carbon Clever, Gaelic and Rural Implications:

There are no direct implications, however a strong procurement strategy, policy and procedures ensures a consistent and fair approach that mitigates any negative implications of any of the above.

Recommendation

That the Resources Committee approves the proposed response to the Audit Scotland Review of Procurement in Local Authorities.

Designation: Director of Finance

Date: 10 February 2015

Author: Ashley Gould

Attachments: Annex A - Audit Scotland Recommendations

Annex A: Audit Scotland Recommendations

Councils and Scotland Excel should:

1. Review and formalise arrangements to fund procurement reform activity beyond 2016.

This is being taken forward by Scotland Excel as part of their business planning activity.

Council staff involved in procurement should:

2. Submit accurate and complete information to the procurement Hub on a regular and timely basis (ideally quarterly, and as a minimum within three months of the end of the financial year)

Recommendation: THC already does this, no change necessary

3. Examine the costs and benefits of differentiating ALEO and council expenditure in their Hub submissions

Recommendation: These are currently excluded from THC submissions and will be considered for FY 15/16 and onwards

4. Make greater use of the tools and facilities provided by the Hub (a national repository for procurement information) , including the use of Best Practice Indicators (BPIs) in their performance reporting and to benchmark their progress

Recommendation: BPIs have been widely recognised as being of limited use and the report itself recommends that they should be revised. The Council should therefore await the outcome of that review

5. Engage earlier with suppliers and the people who use public services to help develop contract specifications that more accurately reflect service user requirements and allow for greater innovation within contracts

Recommendation: this is a concern reflected in the Procurement Reform Act which will become a statutory duty by December 2015 in respect of major Contracts. The Council should commit to examining how it can implement this recommendation in major contacts (i.e. those with a total value in excess of £4m) and should this as part of its Procurement Improvement Programme with a target date of 31st December 2015

6. Use the Public Contracts Scotland tender module for all applicable contracts

Recommendation: Audit Scotland have clarified that this means any contract required to be openly advertised/tendered under the Procurement Reform (Scotland) Act 2014. The Council's core Procurement Team already does this. It is recommended that the Council should migrate to full use across the Council as part of its Procurement Improvement Project by December 2015

7. Make full use of national collaborative contracts and provide a clear explanation for non-participation in these contracts to the relevant council committee

Recommendation: whilst this is reflected in THC's Standing Orders Relating to Contracts for reporting to management level, it has historically been extremely difficult to secure Services' input into non-adoption reports in particular. The Executive Leadership Team should be requested to commit to the sign-off of adoption or non-adoption reports within three months of contract awards.

8. Develop a systematic approach to collecting information on non-financial benefits including economic, community and environmental benefits and report the benefits to the relevant council committee on a regular basis

Recommendation: THC does not do this at present in respect of Procurement work. Head of Procurement will work with CIP staff to ascertain how this can be done with objective and effective measures and commence by 31st December 2015

9. Calculate procurement savings using a consistent and transparent methodology that demonstrates clearly how the savings are calculated and their relationship to improved procurement

Recommendation: THC already does this very basically as the difference between the price on day one of the new contract and the price of the last day of the old contract over one year's usage, assuming volume requirements remain the same. No change is necessary.

10. Make better use of market research, cost avoidance and improved contract management to identify savings and potential service improvements

Recommendation: Whilst the Council's core Procurement Team do this currently, it is also identified as an area requiring the Council to improve in in the annual Procurement Capability Assessment. It will require better forward planning and much earlier engagement on requirement planning and should specifically be built into the Procurement Improvement Programme with a target date for implementation of 31st December 2015.

11. Aim to achieve the superior performance level in the PCA, particularly in relation to:

- spend covered by agreed commodity/project strategies
- participation in Scotland Excel contracts
- automation of procurement and payment processes
- spend captured in the council's contract register.

Recommendation: THC has progressed from 35% in 2009 to 54% in 2014, however this is in the lower half of scores achieved across all Councils. The Council should therefore use this as a basis of performance reporting and

improvement, and agree at Executive Leadership Team the levels which it wishes to attain by when.

Councils' corporate management teams should:

12. Benchmark their procurement staffing against similar-sized councils with higher PCA scores and, where appropriate, produce a business case for employing additional qualified procurement staff where they have lower staffing levels

Recommendation: As this is a national requirement, the Executive Leadership Team should be asked to engage with either the Improvement Service, Audit Scotland, or CoSLA to carry out this work. Any staffing proposals will however require to be assessed against cost benefit criteria.

13. Examine the benefits of joint working or joint procurement teams as a way of securing economies of scale and creating collaborative contracts

Recommendation: the Council's core Procurement Team is already working with Moray, Shetland, Orkney, and CNES on joint contracting, and on other aspects with NHSH, SNH, UHI, Forestry Commission, and HIE.

14. Phase out paper purchasing systems and consider the business case for moving all purchasing systems to an electronic 'purchase to pay' basis

Recommendation: The implementation of the Procurement Reform (Scotland) Act will require all procurement transactions to be carried out electronically by 2018. A plan for delivering this including both staff and business/3rd sector development should be agreed by 31st December 2015. Electronic tendering as well as ordering and invoicing already takes place to some extent but will need considerable business development in order to achieve the requirement. The implementation of the new Financial Management System from 1st April 2015 will greatly assist in this process.

15. Raise staff awareness of accountability and controls by:

- implementing a written code of ethics
- requiring staff involved in procurement to complete a register of interest statement
- requiring internal audit to conduct a regular assessment of procurement risk, including the risk of fraud.

Recommendation: THC already has a code of conduct, however it lacks item 2. This recommendation should be implemented in full by 31st March 2015.

Councils should:

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

Recommendation: This is not currently done in respect of procurement except with regard to the ICT contract. Members' interest in and use of the information should be gauged prior to any implementation. This will be considered as part of the next members' training session.

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

Recommendation: Three sessions have been run in the past with approximately 25 members participating last time (April 2013): these should become a regular and annual feature and part of elected Members' core training.