

Best Practice Indicators for Public Procurement in Scotland: Summary



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Ministerial Foreword

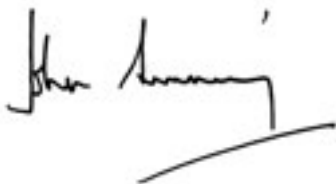
Public procurement in Scotland plays a key role in ensuring that Scottish citizens are provided with the wide range of goods, works and services that support public service delivery. From street lighting and school meals, to MRI scanners and social care, the people of Scotland rely on public bodies spending their budgets wisely and rightly expect that public contracts should deliver the best possible value for money while supporting high quality public services with due consideration to the impact on the local and global environment.

As you know, over the course of this spending review period there will be increasing pressures on public funding. It is therefore essential that we all make the best possible use of existing resources. If we are to meet the challenges that this spending review presents, while at the same time meeting the public's expectations in relation to value for money and quality, managers and procurement staff at every level in the public sector need to be able to measure and monitor their and their organisation's performance. Effective performance measurement has a key role to play in supporting our aim of building a wealthier and fairer Scotland.

As I made clear at the National Procurement Conference in October last year, my Cabinet colleagues and I expect every part of the public sector to actively participate in the drive for improved public procurement. There is simply no excuse for needless duplication of effort, disconnected and inefficient contract arrangements, or a lack of engagement with the public procurement reform programme. This document sets out the core best practice indicators that all public bodies should be looking to assess their procurement performance against. They have been developed by a group with representation from each key part of the public sector and, as Chair of the Public Procurement Reform Board, I am grateful to those who gave their time to support this work.

This is the first ever set of national best practice indicators for procurement in Scotland. Their development and adoption represents a significant further step towards implementation of John McClelland's recommendations on public procurement and towards delivering procurement reform. My colleagues on the Public Procurement Reform Board and I expect all organisations to measure and monitor their approach to procurement activity and these indicators are a vital tool for managers which I expect will be adopted as quickly and widely as possible.

We must take this unique opportunity to work together to take us closer to the vision of an open, joined up and professional public procurement sector that will help deliver high quality public services. That is what the people of Scotland deserve.

A handwritten signature in black ink, appearing to read 'John Swinney', with a long horizontal stroke underneath.

JOHN SWINNEY, MSP
Cabinet Secretary for Finance and Sustainable Growth

1 Introduction

Procurement services in the public sector are under considerable pressure to deliver performance improvements and to achieve financial savings through more efficient and coordinated service delivery. The McClelland report set out a vision of increased efficiency and professionalism through structured collaboration and a national effort to adopt best practice.

The public procurement landscape is changing – through the Scottish Procurement Information Hub we now have detailed spending and supplier data from a significant number of high spending public sector organisations in Scotland. This is the first time that public sector spending analysis of this level of complexity has been developed at a national level, not only within Scotland, but across the UK and the rest of Europe.

From this data, we can now identify clear opportunities for regional, sectoral and national collaboration, negotiate a better deal through collective public spending, and eliminate inefficient buying behaviours such as duplication of effort and price variations caused by disconnected contracting arrangements.

In addition to this, the new National and Sectoral Centres of Expertise are a radical transformation in the way that the public sector will contract for goods and services. These Centres have a vital role to play in promoting best practice, delivering efficiencies, and in maximising the use of limited resources through collaboration.

The Cabinet Secretary gave us a clear message at Scottish National Procurement Conference in October 2007 – he expects all public sector organisations to embrace these changes and engage in this national effort to collaborate, become more efficient, and adopt best practice. As the public procurement reform programme progresses, organisations will be increasingly expected to consider the contribution public purchasing decisions make to sustainable environmental and economic development.

To track progress and to keep focus amidst this changing environment, managers and procurement staff will need to monitor, manage and report on their performance in a consistent, straightforward and cost-effective way.

The McClelland Report stated that ‘the absence of consistent and reliable data will inhibit understanding, proper attention and essential action. Indeed, without the reported information ... it is difficult to create an environment in which performance can be properly assessed and its improvement encouraged’.



To address this, it was agreed that a common, core set of National Procurement Best Practice Indicators (BPIs) should be developed. The set of BPIs have been designed to be applicable and useful to procurement teams in all parts of the public sector in Scotland.

The fundamental objective of this project is to deliver measurable improvement in public procurement performance over time, across the whole public sector in Scotland. This can only be achieved if procurement teams in every organisation adopt a culture of collaboration and continuous improvement, create and actively use management information to inform strategic procurement decisions, embed best practice, and improve organisational processes.

This document outlines the key performance areas where procurement teams should aim to improve, and introduces the BPIs that will enable them to track their progress and seek out best practice elsewhere in the public sector.

Reporting – Method and Timings

Full and detailed guidance and definitions for each BPI are available on the Scottish Procurement Directorate website at www.scotland.gov.uk/BPIprocurementguidance

As procurement teams across Scotland face up to this challenge, they each will have different strengths to draw upon, and different weaknesses to overcome as part of that process. Some organisations may already have in place methods of scrutiny and reporting structures that go far beyond what is required for these BPIs. Such organisations will find reporting against the BPIs easier and will have much to teach the rest of the public sector as the reform agenda progresses. Other organisations may have procurement teams and processes that are under-resourced, and will find the move towards measuring their performance against the BPIs and using management information a more radical change, and onerous task.

To make reporting the BPIs as easy as possible, and to maximise the analysis that is available to organisations, a web-based reporting tool has been developed alongside the Scottish Procurement Information Hub. The reporting tool is available free to all publicly funded bodies.

For those organisations who currently use the Hub and have up-to-date spend data uploaded a 'refresh-lite' methodology has been devised (with reporting tools in place) to facilitate updating of the Hub with spend data during the year. As neither enhancement nor validation of the core creditor record is required (this will still happen at the 'annual refresh') the process will be quick, efficient and easy to execute. Organisations that update their quarterly 'refresh lite' data on the Hub in a timely manner and provide up-to-date contract information will have some of the BPIs and Financial Indices generated automatically for them.

A summary of the reporting frequency and a breakdown of which BPIs and financial indices will be done automatically by the Hub or will require manual input by organisations is shown in Annex 1.

The BPI reporting mechanism will also be available free of charge to those who do not currently use the Hub – although such organisations will have to calculate all BPIs and Financial Indices manually.

After the first report, organisations will be able to track their progress over time, within their sector, region, and against the national average.

At a national level, the key trends will be reported to the Public Procurement Reform Board and Delivery Group, and will help ensure that the public procurement reform programme is kept on track, with areas of national weakness and strength identified for targeted assistance or action.

Existing Governance and Audit Arrangements within Organisations

Public bodies are already responsible for establishing arrangements to ensure the proper conduct of their affairs, including conformance to standards of good governance and accountability with regard to procurement. They will usually involve their audit committees or similar groups in monitoring these arrangements.

Internal Audit should provide an independent and continuing appraisal of an organisation's internal control system and continuing assurance that its internal control systems are accurate and effective.

Each organisations' audit committee should set the degree of assurance it requires concerning the management of procurement risk, and internal audit should plan its work accordingly. This should address the Review of Public Procurement in Scotland recommendation that organisations confirm annually that they comply with minimum standards of governance and accountability for procurement.

External Audit provide an opinion on public bodies' financial statements and the regularity of transactions. As part of the wider scope of public audit, each year they review and report on public bodies' corporate governance arrangements, including arrangements to achieve best value and value for money in the use of resources.

External audit may review and report on standards of risk management and governance with regard to procurement in any public body. Additionally, Audit Scotland's programme of performance audits may scrutinise and report on public bodies' procurement systems and effectiveness.

2 Method – How the Best Practice Indicators were Developed

Working Group

To ensure that the set of National Procurement BPIs would be useful to all types of organisation in different parts of the public sector, key stakeholders from across the public sector have been involved in their development.

The BPI working group was formed in July, with representatives from central government, local government, health, enterprise, and the HE/FE sector. Many more representatives have commented on the draft proposals as the BPIs developed. Audit Scotland and Efficient Government were also represented on the group and were involved in the drafting process. Full membership is shown on page 17.

The working group is very grateful to Mik Wisniewski, an academic expert in the field of Performance Indicators and Balanced Scorecards, for assisting the process of developing the BPIs and placing them on a balanced business scorecard.

While the group representatives took part to ensure that the final BPIs are useful and workable for their parent sector and organisation, it has been a core principle of the working group that decisions are taken jointly with a view to a collective **national** vision, and that challenges or changes in behaviour that may be required within sectors or organisations are not a reason in themselves for deviating from that national vision.

Process

The process of developing effective indicators requires two key questions to be asked:

- **Which aspects of public sector procurement’s performance do we wish to improve and should we measure?**
- **How can we best measure those aspects of performance?**

The first question is one of focus: which aspects of procurement performance are of interest to managers and key stakeholders?

The second question is one of definition: what is a ‘good’ PI that will allow us to measure and report that aspect of performance effectively?

The working group followed a structured and systematic approach which identified **Key Performance Areas** for public sector procurement.

Firstly, the group agreed three high-level, strategic objectives for public procurement, the **core deliverables** expected of a procurement service.

Secondly, the group considered the **key processes** that have to be undertaken in order to achieve these objectives – these will be the core tasks or work that the service undertakes.



Finally, the group considered what resources the procurement service needs in order to be able to do the job properly – development or improvements in its **organisational capacity**.

Core Deliverables

What we want to achieve



Key Processes

What we need to do well as a procurement service in order to achieve these Deliverables



Organisational Capacity

What we need in order to be able to undertake these Processes well

Once the group had agreed the key performance areas to be improved within those three fields, it went on to consider how best to measure whether those aspirations were being met, and to agree the BPIs that will monitor progress towards those aspirations.

3 The Key Performance Areas

Core Deliverables

The group agreed the following 'Core Deliverables' for public sector procurement:

- *To provide a value-for-money procurement service that delivers financial savings*
- *To provide quality advice and contracts which deliver quality products and services*
- *To procure goods and services in a lawful and ethical manner which encourages participation and sustainable economic growth*

These are the three overarching aims of every procurement function. A high-performing, efficient and effective procurement function will deliver these central objectives. The rationale behind these core deliverables is explained below:

To provide a value-for-money procurement service that delivers financial savings.

It is a primary function of the procurement team to ensure that public money is spent wisely, ensuring value for money when purchasing the goods, works and services that address the needs of the organisation and of wider Scottish society. In an increasingly tight fiscal environment, the ability of the procurement team to achieve financial savings while ensuring that vital goods, works and services are still provided at the required levels is crucial to the long-term sustainability of the public sector.

To provide quality advice and contracts which deliver quality products and services.

The need to deliver financial savings must be balanced against the continuing requirement to ensure the timely delivery of quality goods and services that are fit for their intended purpose. To ensure that the drive to achieve savings does not lead to an unacceptable drop in quality, procurement must have an excellent understanding of its customer's needs, providing good customer service and assistance where required, and should remain open to feedback from its customer and stakeholder base.

To procure goods and services in a lawful and ethical manner which encourages participation and sustainable economic growth.

It is a fundamental duty of procurement to ensure that public money is spent legally, through open and transparent contracting procedures and, where possible, taking account of prevailing economic, social and environmental policies. Public spending should also contribute to the growth of a wealthier Scotland, and should aim to engage all parts of the third and private sectors (including SMEs).

Procurement must be qualified to give professional advice, and must have influence and visibility within the organisation to ensure compliance with legal, policy and contractual decisions. Good governance is critical for success.



Key Processes

To achieve these Core Deliverables, the following processes and behaviours must be established:

- *Working effectively across public procurement sectors and organisations*
- *Ensuring effective contract and supplier management*
- *Communicating effectively and ensuring productive stakeholder and customer relations*
- *Ensuring compliance with good procurement practice*
- *Continuously improving performance and innovation*

Working effectively across public procurement sectors and organisations – procurement must be able to look outwards, learn from others, share ideas – and contract collaboratively.

Ensuring effective contract and supplier management – the procurement team must work closely and continuously with their customers and suppliers to ensure that business is conducted professionally throughout the life of a contract.

Communicating effectively and ensuring productive stakeholder and customer relations – the procurement team must be visible and accessible within their organisation, understanding their customer's needs, and offering clear, user-friendly professional and legal advice.

Ensure compliance with good procurement practice – the procurement team must have authority to ensure that established contracts are used and to discourage maverick, off contract spend. This is crucial to ensure that all public money is spent legally and transparently.

Continuously improving performance and innovation – procurement staff should be open to feedback and should seek out opportunities to improve their internal operation and the service they provide.

Organisational Capacity

Underpinning these processes, the following resources must be in place:

- *Effective governance and accountability of procurement*
- *The procurement process must be resourced by skilled staff appropriate to spend*
- *The organisation should adopt an end-to-end e-procurement service*
- *A competitive supply base*

Effective governance and accountability of procurement – every organisation will have in place appropriate levels of accountability and sign off for key stages of contract negotiation, recommendation, and award – with professional qualifications as standard at senior levels.

The procurement process must be resourced by skilled staff appropriate to the value and risk of spend – procurement staff will be encouraged to develop their skills by following structured training opportunities appropriate to their level of responsibility, and will view procurement as an exciting career option.

Adopting an end-to-end e-procurement service – procurement teams should encourage their organisation to embrace technology to ensure good practice is consistently followed, accelerate change, and minimise process costs and the administrative burden across the organisation.

Encouraging a competitive supply base – the procurement team should have a good understanding of the demands placed on its supply base, and will tender accordingly.

How to measure progress – the Best Practice Indicators

The Best Practice Indicators are the specific measures by which we will all be able to monitor our progress towards these Key Performance Areas.

The Core Deliverables, Key Processes and Organisational Capacity key performance areas are shown with their corresponding best practice indicators on a balanced scorecard (fig. 1).

When taken as a balanced group, the BPIs are designed to help managers and public procurement officials monitor their progress against the key performance areas and national vision described above. In summary, the BPIs are designed to encourage improvement and best practice in the areas of: **Efficiency; Collaboration; Compliance; Skills; and e-Procurement.**

Efficiency – we will measure cash (and non-cash) savings achieved by the procurement function. This will be balanced by a customer satisfaction measure which checks that efficiency is not achieved through an unacceptable loss of quality.

Collaboration – if we work together we will improve faster, save more money and eliminate duplication. We will measure how much spend is through collaborative contracts.

Compliance – the best contracts in the world are worthless if people don't use them. We will measure the proportion of total spend that is with contracted suppliers on contract, and will use the customer satisfaction questionnaire to ensure that our customers know how to access these contracts.

Skills – to be the best we must get the best out of our people. We must view procurement as a professional discipline with a clear training path, and track progress along that path. We must also ensure that procurement decisions are handled professionally and strategically, and that procurement resources in organisations are appropriate to the complexity and size of spend.

e-procurement – the Scottish Government has pledged to see an increase in the use of e-procurement systems, and we will measure the use of e-technology throughout key stages of the procurement process, to identify best practice, and areas of national weakness.

Figure 1 – Best Practice Indicators – Balanced Scorecard

	Key Performance Area
Core Deliverables	<ul style="list-style-type: none"> • To provide a value-for-money service that delivers financial savings • To provide quality advice and contracts which deliver quality products and services • To procure goods and services in a lawful and ethical manner which encourages participation and sustainable economic growth
Key Processes	<ul style="list-style-type: none"> • Working effectively across public procurement sectors and organisations • Ensuring effective contract and supplier management • Communicating effectively and ensuring productive stakeholder and customer relations • Ensure compliance with good procurement practice • Continuously improving performance and innovation
Organisational Capacity	<ul style="list-style-type: none"> • Ensure effective governance and accountability of procurement • Ensuring the procurement process is resourced by skilled staff appropriate to spend and commodity • Adopting and end-to-end e-procurement service

Best Practice Indicator

1. Total savings achieved year-on-year
2. Composite Score from Customer satisfaction questionnaire
3. Composite score from supplier satisfaction questionnaire
Also, will be monitored nationally by automatically generated financial indices:
 - % private sector suppliers with a formal contracted agreement
 - % third sector suppliers with a formal contracted agreement
 - % spend with SMEs
4. % of annual procurement spend that is channelled through a collaborative contract with other publicly funded bodies
 - 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*)
5. Compliance (to identify 'maverick' spend) –
 - 5(a) % procurement spend with contracted suppliers
 - 5(b) % procurement spend with contracted suppliers on contract (will be implemented in future)
6. % of Scorecard BPIs that show improvement since previous report
- 7(a) % of procurement officers who hold the professional procurement qualification, Member of Chartered Institute of Purchasing and Supply (MCIPS)
- 7(b) % of procurement officers with an appropriate procurement qualification
- 7(c) % of procurement spend actively influenced by procurement professionals
8. % procurement officers (FTE) who are undertaking any formal training towards a procurement qualification.
Supported by the financial indices:
 - Number of Procurement Staff (FTE) (Financial Index)
 - Procurement Department Cost per £ of Spend (Financial Index)
 - Procurement Department Spend per professionally qualified procurement officer
9. The following measures will be recorded individually, and automatically combined into an overall e-procurement maturity level for each organisation:
 - a. % electronic contract notice
 - b. % electronic award notice
 - c. % contracts through e-sourcing (e.g. electronic tendering systems)
 - d. % total transactions that are e-transactions (through an e-procurement system)
 - e. % payments processed via e-payment system
(i.e. through e-invoicing, e-consolidated billing/self billing, and first time automated match from purchase order to invoice)

Annex 1 – Reporting Method and Frequency Summary

Measure Type	Measure Definition	Method	Frequency
BPI	1. Total Savings Achieved Year on Year	Manual	Quarterly
BPI	2. Customer Satisfaction Survey	Automatic*	Annual
BPI	3. Supplier Satisfaction Survey	Automatic*	Annual
BPI	4. % procurement spend that is channelled through a collaborative contract	Automatic**	Quarterly
BPI	5(a) & 5(b) Spend with contracted suppliers (on contract)	Manual***	Quarterly
BPI	6. % of BPIs that show improvement since previous report	Automatic	Quarterly
BPI	7(a) % of procurement officers who hold the professional procurement qualification, Member of Chartered Institute of Purchasing and Supply (MCIPS)	Manual	Quarterly
BPI	7(b) % of procurement officers with an appropriate procurement qualification	Manual	Quarterly
BPI	7(c) % of procurement spend actively influenced by a procurement professionals	Manual	Quarterly
BPI	8. % procurement staff undertaking formal training	Manual	Quarterly
BPI	9. (a)-(e) E-procurement measures	Manual	Quarterly
FI	1. Average Process Cost	Manual	Spending Review
FI	2. Total Cost of Resources in Procurement Dept	Manual	Quarterly
FI	3. Number of Procurement Staff	Manual	Quarterly
FI	4. Procurement Department Spend per professionally qualified staff	Automatic#	Quarterly
FI	5. Procurement Department Cost per £ of spend	Automatic##	Quarterly
FI	6. Average Spend per contracted supplier	Automatic	Quarterly
FI	7. Average Invoice Value	Automatic	Quarterly
FI	8. % Private Sector suppliers with a formal contract agreement	Automatic	Quarterly
FI	9. % Third Sector suppliers with a formal contract agreement	Automatic	Quarterly
FI	10. % spend with SMEs	Automatic	Quarterly

* - if email addresses are provided to Hub provider by local organisation

** - if contract data is uploaded by local organisation

*** - but this will become automatic over time as contract data matures

- if local organisation inputs figure for BPI7(a)

- if FI2 is input by local organisation

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Mike Caithness – APUC

Fred Davidson – APUC

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Simon McLean – Central Government Centre of Procurement Expertise

George Sked – Edinburgh University

Nick Mellis – Scotland Excel

Joe Coyne – Scotland Excel

Andy Clark – Glasgow City Council

Ewan Storie – Glasgow City Council

Derek Barr – Clackmannanshire Council

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