

# Review of Public Procurement in Scotland Report & Recommendations

by John F. McClelland CBE



SCOTTISH EXECUTIVE

# **Review of Public Procurement in Scotland Report and Recommendations**

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**report**

**and**

**recommendations**

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## Foreword and Scope

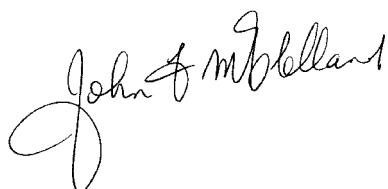
In 2005, at the request of the Minister for Finance and Public Sector Reform, I commenced a detailed review of Public Sector Procurement in Scotland. The remit of this review is to report on status and provide recommendations in the following areas.

- › Current structure and organisation
- › Current skills and capability
- › Current practices and procedures
- › Performance indicators and targets
- › Opportunity for improvements and new techniques

The review is being conducted within a distinctive agenda of efficient government and, in particular, a focus on procurement such as that referred to in the Scottish Executive's "Building a Better Scotland" publication. I have interpreted the term "public sector" in its widest possible context therefore my work has covered a wide range of Scottish Executive-funded organisations including health, local authorities, tertiary education system, agencies, departments, non-departmental public bodies and other publicly-funded or owned bodies, such as Scottish Water. I have conducted this work personally to ensure my own experienced participation is a cornerstone of the analysis and review. Another feature of the work is the degree to which it has benefited from consultation based input. A list of the individuals and organisations consulted is appended (Appendix A). The contacts total more than 80 and include suppliers and most recognised industry organisations.

I see this consultation being not only a major factor in assuring the relevance of the findings and resultant recommendations but also it should provide a platform for launching implementation of the action required. I am therefore optimistic that these findings, recommendations and the proposed implementation plan incorporated in this Review will have a higher level of acceptance and stronger cross public sector support as a result of this approach.

In making my assessment I am sensitive to the fact that my remarks will be interpreted as applying in every case. It should be clearly understood that there is a wide diversity of status and operating environment within the public sector and there are of course exceptions to the statements contained in this document.



# 1 Economic Environment

The mix of goods and services being purchased by the public sector is complex but, equally important, widely varied. Therefore the supply base demand and capacity profile varies with that diversity. In some areas of expenditure there are supplier capacity constraints and price is under pressure. At the other end of the spectrum there is existing or potentially free capacity that can offer opportunities for procurement organisations to obtain good value and improved results.

In addition the regional, UK and international aspect of spend injects an additional element of geographical variability to the public procurement spending environment.

On the wider economic front, although debate continues on the likely outcome of current results for UK economic growth the fact is that whatever end of the forecast range the economy moves towards, economic growth and inflation are relatively low. Whilst these are positives for buyers, and in the wider context for a well-managed and stable economy, it means for private enterprise that there are limited opportunities for natural or organic growth. Companies are thus anxious to exploit other avenues. One of these is clearly reflected in the ongoing consolidation we see where acquisition or merger brings not only acquired growth but economies of scale and scope for cost rationalisation. Another is the capture of market share from competitors. In this environment, public sector business, which is large in scale, perceived to have good margin and which has insignificant cash collection or bad debt exposure, is extremely attractive to suppliers. In summary, in the current economic environment high-value public sector orders should capture very good value.



## 2 Public Sector Procurement Profile

One of the issues mentioned later in my report is that of the ongoing availability of accurate aggregated information on public procurement expenditure in Scotland, its analysis by organisation and type of goods and services procured and where geographically it's spent. The absence of this data is concerning. The following summary therefore is based on a combination of reported information and other assessments where complete financial data on procurement is not available.

Total Scottish Executive expenditure will be just under £30bn in the current fiscal year. This obviously excludes non-devolved Government department spending by entities such as the Ministry of Defence and other central UK departments and bodies. As indicated above there is no system of reporting of consolidated procurement spend. However, I estimate the value to be close to £8bn. Within this Local Authority spend with suppliers this year is in the region of £2.3bn. Overall Health Service procurement expenditure (including pharmaceutical purchases) will be approximately £2bn and universities and colleges will spend around £800m with suppliers. Organisations such as Scottish Water, the Scottish Executive Roads Department and Communities Scotland have significant external expenditure, the major proportion of it being of a capital nature which totals well in excess of £1bn for the sector as a whole.

The structure of the public sector, although logical in the context of the delivery of services and local infrastructure, is organisationally and financially fragmented. This granularity adds to the difficulty of aggregating spend to present an overall profile and of course taking advantage of that spend in the market place. For example, there are 32 local authorities, 22 health boards including special boards, 63 universities and colleges, 9 Scottish Executive Departments, 66 Non-Departmental Public Bodies, 8 Police Forces, 8 Fire Brigades and other bodies such as Agencies funded or owned by the public sector. On one hand the prospect of acting in a cohesive way offers a significant economic opportunity, on the other it's a huge challenge to act in a concerted manner in the area of procurement spending.



### 3 Vision for Public Sector Procurement

Having described external expenditure as a very significant element of total public expenditure in Scotland, I now focus on the relevance of that expenditure and the activities that support its management.

Commodities and services purchased from suppliers represent a critical working part of the operational fabric of any undertaking. Inadequate or poor performance in this area will have at least a similar negative impact on the undertaking's service delivery and business results as those originating from the underperformance of internally-managed resources and costs. Indeed, it can be argued that because of the "arms-length" nature of procurement transactions the consequences of supplier issues can be even more severe, and certainly when they happen, more difficult to respond to, and to take under direct management control. The balancing of the most fundamental criteria of quality, price, timeliness and other interests such as corporate and social responsibilities within a supplier contract is a vital but challenging goal for management to execute.

Also the dynamism of procurement and the transactional nature of funds disbursed to outside parties make it a vulnerable area where internal control and rigorous processes are essential.

Given the combination of expenditure levels, complexity, vulnerability and criticality to operations, it should be expected that extremely high priority be given to procurement by the most senior levels of management and others responsible for governance within public sector undertakings.

In addition, it is obvious that those involved in the day-to-day conduct of procurement operations have an important and highly professional role to perform. The procurement function and its organisation should be regarded as one of the most important in the undertaking and its status should rank with that of other professional functions such as finance. Indeed, given its dynamism, variability and external perspective, not only should those involved have the backing of professional training and accreditation they should preferably have interpersonal skills which support their externally facing roles as the delegated legal and commercial representatives of their organisations as they place business with suppliers. Also, there is a growing requirement for knowledge of and ability to satisfy legal and other corporate and social responsibilities such as sustainability.

I believe that one of the keys to progress is the definition and pursuit of a vision of the ideal model for procurement including its optimum characteristics.

I envisage a public procurement scenario in which the following critical success factors of organisation and practice are consistently established and maintained:

- Recognition and implementation of the principles of good governance and accountability as they apply to procurement activities within the public sector.
- An overall organisational structure in which the procurement function is recognised as a high priority operation.
- An adequately-staffed procurement organisation in terms of resources and skills and where enhancement of those resources and skills is perceived as an investment providing a financial return.
- The operation of sound practices and business processes that fully address the complexity and criticality of procurement activities and transactions, including the wider responsibilities of the public sector.
- The existence of effective information systems supporting the procurement operation and assisting its performance including the ability of internal users to access an information system at their work place and request goods and services independent of the organisation (local or remote) which has established the original contract.
- Leadership of, and within, the procurement function which ensures not only the deployment of policy, accountability and best practice but also the appropriateness of staff development, training, career paths and other ongoing skills and people-related support.
- All of the above contributing to highly-advanced and effective capabilities including collaborative procurement which consistently deliver Best Value performance and support a competitive but transparent and equitable environment for suppliers.

In summary, the management of externally-sourced public expenditure should be a very high priority and procurement is a distinct and important profession.

## 4 Executive Summary

Some significant improvements have been made in the last 3 years.

There have been a number of important developments. In particular the installation and partial adoption of the eProcurement Scotland service not only provides better processes but also symbolises that the theme of collaborative procurement is being focused upon. Also there has been an improvement in the central development of procurement policies within the Scottish Executive and the spread of good practice has been initiated including a special project on Purchase to Pay Solutions.

In some individual organisations in the public sector effective procurement organisational structures have been established, properly staffed and good business processes installed. These exemplary organisations compare well with the private sector. In others there has been increased awareness of the relevance of procurement and steps taken and action underway to address issues and opportunities. This type of action can be seen, for example, in SOLACE's (Society of Local Authority Chief Executives) efficiency initiative co-ordinated by its Improvement Services Unit which is sponsored by COSLA and the Scottish Executive.

I should also comment specially on the high level of commitment, work effort and the generally positive attitude I have perceived in my interaction with those involved in procurement in the public sector.

Despite all of the above, there are still, in many areas, weaknesses in resources, skills, organisation structures and practices which adversely impact upon achievement of minimum standards and obviously do not provide a good foundation for pursuit of Best Value and further cost savings through enhanced performance. These weaknesses are inconsistent with good governance and the strict accountability requirements of the public sector and need to be addressed urgently. As a result an investment in skills and resources is required.

Although there is growing awareness of the value of good procurement, there is still an insufficient level of practical priority given to it by some leadership groups within the sector.

Where progress has gone beyond the basic level there are shortfalls in execution resulting in low levels of penetration and only partial implementation of a number of very positive initiatives. For example, the phase control (Gateway) programme for capital projects is well documented and used in some organisations but not across the sector as a whole. There is also a special unit established to provide advice, guidance and support to Private Finance Initiatives but its use or engagement is not mandatory across the sector.

In the Health Service the Best Procurement Initiative (BPI) programme is a sound and far-reaching approach but has recently needed senior executive and ministerial involvement to re-establish its progress and put it on an accelerated track for complete rather than partial implementation.

Twelve of the 32 local authorities combine procurement spend in consortium fashion as members of the Authorities Buying Consortium (ABC) based in Paisley. However, although a positive example of collaboration, less than 20% of the total spend of those 12 authorities is channelled through the ABC. There are many reasons for this but irrespective of specifics the initiative is only partially implemented.

Driven by the granularity of the public-sector structure and limited collaboration, there is a fragmented approach to procurement and undoubtedly lost opportunity to better utilise scarce skills and take financial advantage of a “corporate” approach by delivering economies from combined purchasing power. Collaboration within organisations and across the sector, although well intentioned, has not been completely effective and must be improved. Also, best practice although often recognised and disseminated is not extensively adopted so that exemplar organisations tend to remain “islands of excellence”. This report contains recommendations to establish Commodity Centres of Expertise which would address the opportunity to consolidate procurement spend.

A major effort is required. Initially an upgrade of resources, skills and practices is needed to meet governance and accountability criteria. Secondly, further steps should be taken to pursue advanced procurement capability to deliver targeted savings. In addition, more central leadership is required with procurement policy clearly defined and compliance mandatory across the whole public sector.

An area requiring special focus and action is interactions, tendering and contracting with suppliers. There are many problems and issues perceived by suppliers which require to be addressed by new approaches including a public sector-wide “Charter for Suppliers”. The recommendations in the report also recognise the advantages of having access to a base of competitive local suppliers which can also contribute to the local economy.

Targets have been set for public sector financial savings to be achieved through better procurement. These are summarised as follows:

	2005/6	2006/7	2007/8
£m	83	140	200

The implication contained in the approach to procurement is that these savings will be delivered mainly from collaborative buying. It is my opinion that by addressing and rectifying basic weaknesses there can be delivery of the first segment of the savings targeted. Advanced procurement including collaborative buying will add to this as progress is made.

In proportion to total procurement spend the 2005/6 target is relatively low but presumably recognises the current weaknesses in procurement effectiveness. From my review I believe that in the current year (2005/6) the target of £83m is likely to be met through existing momentum. In the medium term (2006/7) the target of £140m will only be met if urgent action is taken especially in the basic but quite critical areas highlighted in this report. Meeting the £200m per annum targeted for 2007/8 will require further progress on advanced procurement well beyond that basic level. However, it is my opinion that there is a subsequent and additional savings opportunity not yet targeted that can be captured in the longer term by full implementation of this report's recommendations aimed at Best Value through advanced procurement practices including collaboration.

This Review contains a number of detailed new recommendations but I believe that its general direction will have been anticipated by those involved in the sector. Determination to drive implementation will be the biggest single factor critical to delivering future success rather than that of reaching 100% agreement on every single facet of the approach.

I encourage strong Ministerial involvement and support to this initiative. Their personal backing of the important changes required is essential.



# 5 Accountability and Governance

## **Background Summary**

As illustrated by the Public Procurement Profile, the level of Public Sector purchased goods and services is estimated to be £8bn. Given that this represents average “funds disbursed” in excess of £30m per working day to external parties it should be expected that all possible attention is attracted to the issue of accountability and governance in the area of procurement. There are various fiscal and other legal requirements put upon those holding public office and governance positions. A short list of some of the documents which describe these requirements is shown below at 5.1 (Principles).

In summary, the category of procurement expenditure ought to be the highest priority focus for all those holding responsibility for conformance with accountability and governance responsibilities.

## **Findings Summary**

While my review did not constitute a detailed audit, its examination of organisation and structure, business practices and processes, resource levels and skills associated with public procurement leads to the conclusion that there are shortfalls in accountability and governance compared to the appropriately strict requirements associated with public office and in particular public expenditure with external parties.

This shortfall expresses itself in the following areas:

- › Conformance to Governance Principles
- › Priority given to Procurement
- › Organisation Structure and Reporting Lines
- › Authority to procure Goods and Services
- › Business Conduct Guidelines
- › Audit of Procurement

It must be emphasised that these areas are representative of practices required to meet basic requirements. They are certainly not characteristics associated with achieving more advanced and progressive levels of procurement capability and better performance. They are quite simply fundamental yet minimum business practice. However, without these mandatory minimum requirements being met there is little prospect of building upon that foundation to achieve better or ultimately Best Value in procurement.

## 5.1 Accountability and Governance – Governance Principles

### Background

Various fiscal and legal documents detailing the requirements put upon those holding public office and governance positions are shortlisted as follows:

- › EU legislation for Public Procurement
- › “Scottish Public Finance Manual”
- › Public Finance and Accountability (Scotland) Act 2000
- › The Independent Commission for Good Governance in Public Services 2004
- › Local Government in Scotland Act 2003
- › Guidance from Ministers on Local Government in Scotland Act 2003
- › Code of Conduct for Councillors May 2003
- › “Building a Better Scotland” Document 2004
- › Public Procurement Rules

### Findings

Despite the abundance of documented requirements and the public sector’s strong intention in the area of accountability, there is in some areas insufficient recognition, understanding and implementation of the principles of good governance as they apply to procurement in the public sector. Whilst there is growing awareness at senior and leadership levels of the importance of procurement this awareness has not been consistently translated into action to address these basic requirements. Indeed, what is in fact a need to conform to basic governance, is sometimes interpreted as a discretionary longer-term goal rather than an immediate requirement which demands correction. Rather than provide a complete transcript of the documentation listed above, I would refer to the following example of the governance prescribed by just one piece of legislation and its associated guidance.

- › Local Government in Scotland Act 2003 – Guidelines from Ministers:

“The authority should have a strategy for procurement and the management of contracts and contractors to ensure that it treats procurement as a key component in achieving all its objectives.”

“The Authority should have appropriate procurement expertise, guidance and training to support its procurement activity.”

#### 5.1.1 Recommendation

Each and every organisation within the public sector should be obliged to meet the minimum governance and accountability requirements and be required to provide personal certification by a senior executive of that conformance by 30 June 2006.

## **5.2 Accountability and Governance – Priority**

### **Background**

As previously indicated in this Review the relevance of and opportunity offered by excellence in procurement cannot be overstated. The starting point is where as part of good governance, the appropriate priority is recognised and applied within the organisation. The benefits that organisations and its officials will reap from applying this priority will be extensive and will include economies in resources, good management information, sound disciplines and, of course, cost savings in externally-procured expenditure.

### **Findings**

There is a growing awareness of procurement issues and a number of positive initiatives but still insufficient practical priority is attached to procurement within some parts of the Public Sector. This is apparent in aspects of structure, staffing, reporting of information and senior executive and non-executive management involvement.

#### **5.2.1 Recommendation**

A programme of communication of information associated with the essential priority of procurement in the public sector should be undertaken. It should provide education and reconfirmation to those in leadership roles of the value attached to good procurement and the risks associated with insufficient prioritisation. It should also reinforce the principles referred to in this review at 5.1 and require and encourage those at the leadership level to pursue not only conformance to basics but pursuit of best practice and associated Best Value.

## **5.3 Accountability and Governance – Structure and Organisation**

### **Background**

As already indicated in this Review conformance to basic principles and recognition of priorities are key aspects of what is required for procurement. The acceptance of this, or otherwise, is no more apparent than in the area of organisational structure and function reporting lines. The Head of Procurement, and equally important the procurement function's influence and the priority attached to it, can be judged by their positioning in the organisational structure. And, of course, there should be as a starting point a central procurement organisation.

### **Findings**

Although there is a general recognition of importance of the reporting line of procurement within public-sector organisations, there are still some situations where the most senior procurement manager is not placed at a sufficiently high level within the overall organisation. Indeed, there are some organisations without a fully operational central procurement department and where the responsibilities are widely dispersed throughout the undertaking. Often where there is a central procurement organisation, it is grouped with another function such as Finance or Information Systems.

### **5.3.1 Recommendation**

The optimum reporting line for the Head of Procurement is directly to the Chief Executive but at a minimum he or she should report to an Officer or Executive who reports to the Chief Executive. The Procurement Function should not have a less senior reporting line than this minimum.

### **5.3.2 Recommendation**

The Head of Procurement should have the procurement department under his responsibility.

### **5.3.3 Recommendation**

Organisations without a central procurement department should create one.

### **5.3.4 Recommendation**

Undertakings should recognise in their organisational and governance structures that Procurement, Finance, Information Systems and Facilities are separate disciplines with separate, though sometimes overlapping interests. In large mature organisations the separation of Procurement and other professional functions such as Finance should be considered within the optimum recommended at 5.3.1 above. In small organisations where this would pose difficulties or be administratively cumbersome given the size of the organisation, the minimum reporting line is adequate so long as the functional independence of procurement is recognised.

## **5.4 Accountability and Governance – Procurement Officer**

### **Background**

The transaction and associated documentation developed and executed to procure goods and services is, in effect, a legal contract between the entity and a supplier.

Over and above this legal status associated contracts are often commercially and operationally complex. The earlier description of procurement as a profession underlines the relevance of ensuring that goods and services procured externally are obtained under the management of a professional. Of course the business decisions linked to procurement will have internal approval cycles and other controls (e.g. capital expenditure) but it should be normal to have the supplier interface managed by a procurement professional who is formally recognised as “an officer” formally authorised to contract for the procurement of goods and services.

### **Findings**

The Procurement Officer concept is established in some parts of the public sector but not others. The “authorised officer” principle is not fully embraced as part of the management structure and management system. In addition, the uniqueness of the officer’s authority is not always recognised (see 5.5 Authority to Procure).

#### **5.4.1 Recommendation**

Contractual commitments on behalf of all organisations should be executed by a “Procurement Officer”. The Procurement Officer should have the sole authority to make these legal commitments on behalf of the organisation. Each body in the Public Sector should have a Procurement Officer network.

Any other departments within these bodies that have a specially delegated authority to procure goods and services (e.g. for technical reasons) should also have a formally designated “Procurement Officer” (Ref. 5.5.2. Authority to Procure). In smaller units this fiscal responsibility can be a part of an individual’s overall duties but scale of spend or other constraints are not reasons to be without this officially designated and accountable role within the unit. Even in specialised technical areas those authorised to act as “Procurement Officers” should comply with the formality of the responsibilities delegated to them.

#### **5.4.2 Recommendation**

Units not having the authority to procure are of course exempt from this requirement. Units currently having the authority to procure goods and services but not having a Procurement Officer should have this authority suspended until that is rectified.

#### **5.4.3 Recommendation**

Every public-sector organisation should have a Chief Procurement Officer. This person should be designated as the person with not only overall responsibility for day-to-day procurement transactions but also as the individual accountable for all other procurement functions including leadership of the procurement team throughout the undertaking.

#### **5.4.4 Recommendation**

The fiduciary responsibilities and accountability requirements for those officially designated as procurement officers should be documented. This role definition should be finalised with the help of the Society of Procurement Officers and other appropriate professional groups and become a formal aspect of appointment to the post.

It will then apply to all those formally authorised to procure goods and services whether members of the procurement department or not.

### **5.5 Accountability and Governance – Authority to Procure**

#### **Background**

Chapter 5.4 above describes the procurement officer’s authority and role and also equates it to one of having a delegated legal power to execute the internally approved procurement decisions on behalf of the organisation. It therefore follows that unauthorised individuals should not be involved in making legal commitments or executing contracts on behalf of organisations. Leaving aside the legal aspect, it is highly unlikely that enthusiastic amateurs, although well intentioned, will consistently achieve good

value and appropriate terms and conditions from suppliers to the public sector. Nor will they be able to manage the business process in a manner consistent with the public sector's corporate and social responsibilities. Finally, in some cases this unofficial buying can be inadvertently facilitated by weak or unresponsive business processes.

## **Findings**

The level of buying by those who would not normally be authorised to do so appears to be high in the public sector. The term "maverick buying" is widely used and the practice is recognised as a concern. In some areas this practice has become institutionalised.

Apart from circumventing formal procurement business processes it also means that expenditure incurred through "maverick buying" may also circumvent the pre-approval aspect of the undertaking's financial controls and result in retrospective approval of expenditure so that invoices can be paid.

### **5.5.1 Recommendation**

Procurement activities and transactions should be conducted by the appropriate staffed and skilled procurement function and its procurement officers. It should not be undertaken by non-procurement staff located either in central structures or employed in other (e.g. operational) sub-sections of the organisation.

### **5.5.2 Recommendation**

Where there are fully justified exceptions to the principle described at 5.5.1 then strict guidelines should be followed and these should include formally documented delegated authorities. The principle which must be established is, that those to whom authority is delegated, are in effect full- or part-time "procurement officers" subject to the same professional standards, responsibilities and accountability requirements as those operating in a professional procurement department.

### **5.5.3 Recommendation**

All organisation structures within the Public Sector should comprehensively review their procurement activities and transactions to establish or confirm which organisational units, departments or groups within their structure are entitled to be authorised to procure goods and services including in particular the creation of, and commitment to, contracts, orders and other goods/service requests to outside parties. This authority should be justified, documented and regularly reviewed for ongoing validity and its terms should include minimum requirements for sound business processes, practices, contracts and staffing.

As a consequence of this, there should also be established and maintained a full list of those persons within these units authorised and responsible for procurement and its transactions. The specific individuals designated as "Procurement Officers" should be identified and should consider themselves as members of the internal network of procurement officers and subject to those disciplines and accountability.

All other units and persons should be prohibited from engaging with suppliers in any communication or other activity that could represent, or be construed to represent, procurement tender, contract or related purchase commitments. This policy should be documented and circulated to employees.

#### **5.5.4 Recommendation**

In some cases internal business practices inadvertently facilitate the ease of unofficial buying. All organisations should review controls and practices with this in mind. For example, the payment of invoices that do not have a pre-requisite contract or order for the goods and services provided tends to facilitate unofficial buying by allowing the procurement function to be bypassed. It also means that authority to procure is retrospectively given rather than pre-approved. Therefore, suppliers should be given notice that goods and services should only be provided on receipt of appropriate contract or order reference information and within that same written notice informed that invoices received without contract or authorised order references will require special approval if they are to be paid. At a later and appropriate point in time invoices received without a pre-approved contract or order number should be returned to suppliers for this information. The payment cycle should not commence until a valid invoice with all required data is received.

#### **5.5.5 Recommendation**

Where the procurement of low-value goods or services creates anomalies in administration cost versus value procured, then alternative methods such as payment on receipt should be developed and introduced within the principles of full procurement and financial controls. Also emergency requirements may require a similar flexible but controlled alternative. Therefore, neither the value of the order nor the requirement for speed and flexibility should be reasons for complete circumvention of procurement controls. There are methods and techniques that can be deployed to respond to these situations and procurement organisations should cater for these needs in the services they offer to internal users.

### **5.6 Accountability and Governance – Business Conduct Guidelines**

#### **Background**

Within any private or public body it is relevant that there should be a clear and well-documented code of conduct associated with how the liaison, contact and business with outside parties should be conducted. This is not only good governance but it is also a safeguard against individuals within organisations finding themselves in situations where their judgements or decisions are subject to compromise or challenge.

#### **Findings**

Although there are guidelines for civil servants there is no single code of conduct for the wider public sector.

### **5.6.1 Recommendation**

A business conduct guideline document should be developed and issued for all of the Public Sector in Scotland. The documents should clearly define all that is expected in the conduct of employees and or those involved in public funds, particularly in any contact or dealings with external parties. Compliance with the document should be a condition of employment or of funding and compliance with it should be regularly monitored. The development of the document and its distribution should be undertaken by the Scottish Executive's Procurement Directorate.

## **5.7 Accountability and Governance – Audit of Procurement**

### **Background**

Given the level of procurement expenditure in the public sector in Scotland, its complexity and the fact that every transaction results in disbursement of funds outside of the entity to external parties, it is clearly a vulnerable area from the standpoint of fiscal and business controls. In addition, the opportunity to capture Best Value such as that embraced in the Scottish Executive's approach to the theme of Efficient Government makes it a key area of focus for those involved in the audit of procurement.

### **Findings**

There is not a specific and standard programme for the internal audit of procurement in the public sector in Scotland. The absence of this means that issues of governance and accountability and weaknesses in practices and processes may not be consistently reported and acted upon. The Audit Scotland Unit is aware of this issue and as part of its own audit programme has plans to ensure that internal audits address both basic conformance and more general procurement progress.

### **5.7.1 Recommendation**

All organisations within the public sector should be required to confirm that their Internal Audit departments (or externally contracted internal auditors where appropriate) will certify annually that the following minimum audit activities have been covered and reported upon for procurement.

- Minimum accountability and governance conformance.
- Appropriate structure, organisation and staffing including authorised procurement officer structure.
- Existence of adequate systems and performance reports.
- Conduct of basic practices and processes including compliance with EU legislation.
- Compliance with "Procurement Policy Handbook".

### **5.7.2 Recommendation**

Whilst conformance to governance and accountability requirements and the adequacy of basic practices and processes should be reported in Internal Audits, progress towards improved procurement including strategies, other action plans and Best Value savings achievements is planned to be consistently reviewed by Audit Scotland. This should include a commentary on current status of that organisation's contribution to the procurement savings element of the Efficient Government programme.

# 6 Procurement Leadership

## **Background**

Whilst central day-to-day management of public procurement on a Scotland-wide basis is inappropriate it is my opinion that strong leadership of the “functional” activity of professional procurement can provide benefits across the wide span of organisations in the Public Sector.

## **Findings**

Although the Scottish Executive’s Procurement Directorate has since devolution offered central leadership, this has often been driven by developing and adopting initiatives rather than by executing a formally assigned responsibility and authority. There have been a series of policy documents, workshops and meetings, a Purchase to Pay Project and of course the introduction and implementation of ePS has demanded and benefited from central leadership and effort. This absence of formally assigned authority and responsibility also impacts upon availability of a central and consolidated programme of reports.

### **6.1 Recommendation**

The leadership question should be resolved by formally assigning the overall procurement leadership role within the public sector in Scotland to the Scottish Procurement Directorate. With this the establishment and deployment of mandatory procurement policy for the whole public sector should be the unique responsibility of the SPD (see recommendation 7.1).

### **6.2 Recommendation**

The procurement leadership role should extend to those activities associated with functional excellence including staff communications, education and training, staff development, career paths, job gradings, salary scales and where appropriate workload balancing. (See recommendation 8.7.)

### **6.3 Recommendation**

The SPD organisation as part of its new central leadership role should define and agree a system of reporting Scottish Public Sector procurement results and information including progress towards previously agreed and published cost-savings targets.



# 7 Procurement Policy

## **Background**

In such a sensitive area as expenditure funded from the public purse, and given the level and diversity of procurement transactions and legislative requirements, it is fundamental that strong policy guidance is provided to those responsible for procurement in the public sector. There is a current practice of developing and issuing policy guidance and the area of tendering practices in the context of EU legislation has featured strongly in this.

## **Findings**

Whilst policy documents are issued their significance is not fully appreciated and compliance appears to be inconsistent. There is a tendency to treat these policy documents as guidance for optional implementation rather than a requirement tied to the provision of funding.

### **7.1 Recommendation**

A public sector-wide Procurement Policy Handbook should be established offering a standard and well-documented approach to be utilised across all of the public sector. Updates should be made as required and always in a timely manner.

The Policy contents of the handbook should be mandatory for implementation across all public-sector organisations and compliance measured and reported upon during audits and other reviews.

### **7.2 Recommendation**

The responsibility for developing and issuing policy statements and guidelines and maintenance of the handbook should be formally confirmed to be with the Scottish Executive's Procurement Directorate.



## 8 People and Skills

### **Background**

In any organisation, getting the balance right between staffing levels and outcomes for the organisation is critical. Too many overskilled people represents inefficiency. Too few can look superficially efficient but be ineffective in terms of achieving desired results and other outcomes.

### **Findings**

Generally, the level of procurement people and skills in the Public Sector fall short of the Private Sector equivalent and indeed some exemplary organisations within the Public Sector. This shortfall is inconsistent with the priority required. It impacts on accountability and governance and on the pursuit of Best Value where the return from purchase cost savings is potentially very significant.

In addition, where skills are scarce, nurturing, maintenance and top-up are key attributes of a well architected approach to human resources. Therefore, sound employee development and retention need to be more strongly pursued.

Within the allocated resources there are excellent skilled professionals but their numbers are relatively low compared to levels and diversity of expenditure in the public sector and compared to the equivalent skill levels in the private sector. I estimate that there are just over 250 “professionals” in the sector when, in my opinion, at least twice that number could be required. I emphasise strongly that this potential increase could be offset by better practices, collaboration and improved information systems. This assessment is based on the premise that exemplary organisations in the public sector have approximately one procurement professional per £15m of spend. Most organisations operate well below this level.

Given this situation there is little or no flexibility in resources or skills to handle workload peaks or support improvement initiatives such as procedural or information systems enhancements.

My experience of dealing with similar issues in the private sector is that without adequate resources, skills and appropriate organisation and structure, the prospects of achieving efficiency and Best Value will be poor.

## **8.1 Recommendation**

Each organisation within the Public Sector should review its procurement organisation to establish the adequacy or otherwise of the resources including skill levels dedicated to the procurement activity. This work should identify both the base requirements essential to satisfy the issues previously referred to in governance criteria (Ref. 5) and separately that required to move the procurement operation towards improved performance, superior performance and Best Value. Whilst every procurement operation has some variation from the next one, a useful starting point for this evaluation should be the prospect mentioned above that there should be broadly one procurement professional for every £15m of contracted expenditure (see benchmarking 9.5.4).

## **8.2 Recommendation**

Additions required to staffing and skill levels should be addressed within individual organisations. Recognition should also be given to the potential offsets in resource and skill requirements offered by improving information systems and by more extensive collaborative procurement. (Ref. 12.) Also skill levels of existing staff should be upgraded through extensive programmes of professional training and development.

## **8.3 Recommendation**

First, the resources and skills required to bring standards up to the minimum required for accountability and governance should be injected as an urgent priority.

Secondly, given that procurement results can be tied back to efficient and effective procurement practices, executives and those in governance in the public sector should consider procurement resources and skills as an investment that is capable of providing a relatively short term payback on its cost and therefore progress towards financial savings targets.

## **8.4 Recommendation**

As part of the staff development and skills balancing work, a programme of liaison and career development should be established between the public sector, professional groups such as the Chartered Institute of Purchasing and Supply, SOPO and appropriate universities and colleges.

It will include support for education and training but should certainly incorporate arrangements for further and higher education of existing staff and also the planned provision of new graduate or professional recruitment to fill vacancies and accommodate maintenance of resources and skills.

## **8.5 Recommendation**

Work should be undertaken to establish how a complete, cross-public sector career path or ladder can be established which will facilitate career management and employee development and retention.

## **8.6 Recommendation**

Given the scarcity of skills and difficulty in recruitment, a review should be conducted of job gradings and salary scales to confirm whether these aspects are properly positioned to recognise the quality and experience required in public-sector procurement.

## **8.7 Recommendation**

There is little flexibility within the public-sector to find and assign skilled people to deal with workload peaks as described above.

A centrally co-ordinated pool of skills should be established and deployed on an as required basis to organisations or groups within the sector to supplement existing capability where a special one-time effort or peak workload is causing difficulty. That pool of skills should be established, funded, managed and assigned to priorities by the Scottish Procurement Directorate.

## **8.8 Recommendation**

The programme for Efficient Government within the Public Sector could lead to adjustments in resource levels in some areas. Where redeployment of people is a potential, then strong consideration should be given as to whether and if so how individuals from other functions could be retrained to take up procurement work.



## 9 Procurement Practices and Business Processes

### 9.1 Procurement Practices and Business Processes – Minimum Standards

#### Background

Without sound business practices and processes, it is impossible to operate in a way that is internally efficient and that also delivers good value in procurement cost. Where practices are particularly weak there is also, potentially, an impact on accountability and governance needs. The following illustrates the spectrum of potential performance across a range that starts with a less than adequate performance and ends with excellent performance. These gradings result from evaluating an undertaking's status and performance across a number of key attributes including governance, resources and business practices. A table describing this in more detail is shown in Appendix B. The gradings are:

Level 0 – Non Conformance

Level 1 – Conformance

Level 2 – Improved Performance

Level 3 – Superior Performance

#### Findings

Given the structural weaknesses described earlier in this document it is a logical consequence that the adequacy of practices in some cases falls short of that required to meet minimum standards of accountability and governance. In general, practices are not anywhere near the higher standards necessary to deliver the capability and results which would deliver Best Value. Organisations in the Scottish Public Sector with basic shortcomings would feature in the “non-conformance” segment as described above. Others meeting the minimum requirements would be classified within “conformance”. In my opinion only a few would be in the “improved” category and I have identified none that would offer “superior performance”.

There are two distinct tranches of purchase cost savings available to the public sector. The first comes from bringing standards up to Level 1 where the basics have been met. The second tranche would come from the journey through Level 2 to “improved performance” and then to Level 3 “superior performance” and capture of very Best Value.

#### 9.1.1 Recommendation

The minimum content for standards of procurement practices and business processes should be documented, deployed and fully implemented within all of the Public Sector in Scotland.

These minimum procedural needs should be the practices within procurement essential to satisfy legislation, codes of conduct and financial guidelines applying to Accountable Officers and all others in executive and non-executive positions with responsibility for public funds and in particular procurement expenditure. These minimum requirements should also be a review item within internal audit programmes and other corporate level infrastructure reviews and reports.

All procurement and procurement-related business processes and practices should be upgraded where necessary to minimum standards. The work associated with these definitions should be co-ordinated by the Scottish Procurement Directorate but be actively supported by other organisations across the sector.

## **9.2 Procurement Practices and Business Processes – User Groups**

### **Background**

Within the public sector, there are goods and services of a similar type used by more than one department within the entity. Often there is the additional issue of technical or other complexity where procurement expertise alone cannot compensate for users' difficulty in specifying and agreeing upon common standards and technical requirements within the undertakings. There are also EU legislative technical issues to be understood and recognised.

### **Findings**

Any weakness in users' capability to specify their requirements and also the absence of standard requirements within a public body undermines effective procurement. It also makes it difficult to establish catalogues and approved lists. User Groups have been formed in some organisations to facilitate agreement on common standards and to provide more intelligent technical input to Procurement.

#### **9.2.1 Recommendation**

Organisations should strongly consider the establishment of internal "User Intelligence Groups" to help co-ordinate requirements and specifications so that the procurement functions can rationalise the content of tenders and contracts to obtain Best Value and to ensure specifications to suppliers are comprehensive and accurate from an early point in the process. These User Groups can also provide feedback to Procurement on the services provided to the wider internal user community in that organisation. They can also provide, under procurement supervision, a forum in which suppliers can demonstrate their offerings including innovative future products.

## **9.3 Procurement Practices and Business Processes – Information Reporting**

### **Background**

The importance of internal management information is an accepted principle within business whether private or public sector. It has many purposes. To focus on just a few in the context of procurement, I would emphasise its value in the following areas:

- › Informing management of current results

- › Informing management of current performance versus targets or plans
- › Providing information for better decision making
- › Providing information to support pursuit of improved performance

In procurement, often the effective analysis of information is a critical success factor, e.g. how much is actually spent externally? On what commodities and services is it spent? With which suppliers is it spent? Where are those suppliers based? How much does it cost to administer the spend? How does current value achieved compare with previous performance? Are financial targets being met? Is the content or format of the reported data consistent with that of other public sector organisations?

Obviously, while organisations can, in extreme cases, drown themselves in data, in most instances the absence of consistent and reliable data will inhibit understanding, proper attention and essential action. Indeed, without the reported information being translated into key performance indicators (KPIs) it is difficult to create an environment in which performance can be properly assessed and its improvement encouraged.

## **Findings**

While there are some good procurement information and reporting practices at the individual organisation level, there is not, organisation by organisation, a high standard of dissemination of procurement information and results to the appropriate executive and leadership levels. Even where information is reported there is often insufficient analysis for decision support and performance monitoring. In addition, because of inconsistent definitions across organisations and the absence of agreed and centrally defined reporting requirements there is an absence of aggregated information at an overall public sector level. There is also currently an absence of sound and consistent reporting on the cost benefits being achieved through procurement compared to Scottish Executive targets already established.

### **9.3.1 Recommendation**

Every public-sector organisation should review and update their internal reporting on procurement. Also, the Scottish Procurement Directorate should develop, agree and publish the minimum reporting requirements that not only should be utilised effectively within organisations but also must be provided to SPD regularly so that they can assist the Scottish Executive to understand status and monitor progress towards already established financial targets within the Efficient Government programme.

### **9.3.2 Recommendation**

Each organisation within the Public Sector should be required to report quarterly on procurement cost savings achieved. The methodology used should be founded upon an agreed and clearly specified baseline which once established should be consistent year to year. It should also include the principle of a “basket of goods/services” described at 9.3.3.

### **9.3.3 Recommendation**

To ensure consistency in reporting and performance evaluation a standard “basket of goods/services” should be agreed and implemented within each major element of the public sector. This index-based measurement should be used to report year-on-year savings in a consistent and comparable manner which can also be translated into, and reconcile with, absolute annual financial savings being claimed.

## **9.4 Procurement Practices and Business Processes – Efficiency and Key Performance Indicators**

### **Background**

The management of the efficiency of procurement and procurement-related processes is important in a functional sense but also is a key element supporting the theme and the value of efficient government programmes. There are of course two aspects to this. One is the efficiency of internal operations and the other of course success in results achieved. In other words the effectiveness of procurement.

### **Findings**

Only some organisations within the Public Sector have a precise view of or a unique formal programme of internal efficiency aimed at procurement. Where it does exist it is in the early stages so that measuring and managing improvements from an established and stable base is difficult. Also, measurement of the effectiveness of procurement, i.e. results is at best inconsistent and not well defined.

### **9.4.1 Recommendation**

Every public-sector organisation should have a formal programme of procurement internal efficiency measurement and management. The programme should also measure the effectiveness of procurement in terms of results achieved. These data should be incorporated in the internal reporting recommended at 9.3.1. The reported information should rely heavily on key performance indicators (see 9.4.2).

### **9.4.2 Recommendation**

In support of efficiency and effectiveness a standard set of key performance indicators (KPIs) should be developed and regularly measured by all units within the public sector.

The list of KPIs must include as a minimum:

- › Total Procurement Expenditure
- › Procurement Expenditure Analysed by Spending Department
- › Procurement Expenditure Analysed by Commodity or Service
- › Procurement Spend by Geographical Spread
- › Total Number of Procurement Transactions
- › Total Cost of Resources in Procurement Department

- › Total Cost of Resources in Procurement Process, i.e. including support departments, e.g. Accounts Payable
- › Procurement Resources Analysed by Commodity or Service Procured
- › Procurement Department Cost per £ of spend
- › Procurement Process Cost per £ of spend
- › Procurement Department/Process Cost per £ of Specific Commodity Spend
- › Process Cost per Transaction
- › Savings Achieved Year-on-Year in Absolute Terms
- › Year-to-Year movement in Index of Basket of Procured Commodities Tracked
- › Number of Suppliers (active/inactive)
- › Spend Identified by Supplier
- › Average Spend per Supplier
- › Average Spend per Order placed

## **9.5 Procurement Practices and Business Processes – Benchmarking**

### **Background**

In any environment understanding an activity's performance and results compared to those of other undertakings is not only interesting it provides the opportunity to recognise success or otherwise relative to peer operations. It also provides the stimulus for positive action and also potentially information which through additional analysis and understanding can drive improvement through the spread of best practice. In the private sector although companies do rely on benchmarking internal efficiency and external results there is often, for obvious reasons, a reluctance to share best practice with outsiders, particularly competitors. This inhibitor should not exist in the public sector.

### **Findings**

There is very little comparative benchmarking pursued across the public sector although organisations such as the Local Authority Improvement Service have made a start on this. Given the level of spend there is a significant opportunity through benchmarking and subsequent spread of best practice to pursue efficiency gains internally and capture purchase cost savings externally.

#### **9.5.1 Recommendation**

Absolute information and performance data should be exchanged and shared across the public sector in a formally co-ordinated procurement benchmarking programme. The data elements should include the KPIs referred to earlier in this Review and such other data that would prove useful in identifying and spreading best practice through adopting the approaches that achieve the best benchmarked results.

### **9.5.2 Recommendation**

The co-ordination of the benchmarking programme should be positioned centrally within each major element of the public sector such as Local Authorities, Health and other unique sections with multiple organisations.

### **9.5.3 Recommendation**

A National Benchmarking and Best Practices Forum should be established and co-ordinated within the public sector. Its co-ordination should be undertaken by the Scottish Procurement Directorate and it should meet at least quarterly.

### **9.5.4 Recommendation**

As part of the benchmarking initiative one of the first areas which should be approached is that of numbers of skilled procurement professionals related to value spent. Although there are wide variations in spending organisation to organisation and significant diversity in the mix and complexity of that which is spent my observations within the public sector indicate that in well-managed and staffed exemplary groups a minimum of £10m per annum and a maximum of £20m per annum per professional should be expected. Taking for a moment an average of £15m per professional, this would mean a procurement organisation spending £60m and might require four professionals. This staffing level together with all other costs would still offer a procurement process cost of less than 1% of spend which compares with private industry.

It is appreciated that this is a broad and raw measurement but the recommended benchmarking should provide a validated view of optimum levels for like organisations within the public sector. As indicated in Chapter 8 (People and Skills) some of the less effective organisations are operating well below this level.

## **9.6 Procurement Practices and Business Processes – Innovative Techniques**

### **Background**

It is important that the services provided by procurement to its parent organisation are continuously updated and that Procurement Officers engage in a constant search for new ways to satisfy the needs of internal users, be it for flexibility, urgency or other response related requirements. Also, for many transactions the cost of the purchase to pay process can greatly outweigh the actual value of the goods or services obtained.

### **Findings**

More could be done to simplify and streamline processes to satisfy special needs such as emergency requirements and the purchase of low-value items, for example the adoption of the use of purchase cards and payment on receipt is slower than it should be.

### **9.6.1 Recommendation**

A programme to rapidly widen the use of procurement cards and payment on receipt should be initiated and organisations should be strongly encouraged to adopt their use.

### **9.6.2 Recommendation**

The Benchmarking and Best Practices Forum should include in its agenda the topic of innovative techniques so that this opportunity is addressed and pursued as needs evolve.

## **9.7 Procurement Practices and Business Processes – EU Guidelines**

### **Background**

There is no more complex an issue for, or influence on, procurement than that of EU legislation. Its requirements are not only exacting but also still evolving so there is a challenge in developing and implementing practices and procedures which are subject to ongoing revision. There are however a number of mandatory elements which should be regarded as basic processes and legal requirements and be subject to the operation of good governance and accountability. It is important that organisations strive for Best Value in procurement while at the same time conform with these requirements.

Finally, although at times bureaucratic the requirements do encourage essential disciplines in support of governance and accountability.

### **Findings**

Policy and procedures are well documented and distributed yet it would seem that despite a strong awareness of EU legislation and OJEU requirements practical conformance is inconsistent. Sometimes where the required procedures are initiated their completion is partial or flawed in some aspect. Also, there is a tendency to attribute to EU legislation the reasons for not being able to achieve Best Value. There is also no central consolidated understanding of compliance rates for the Public Sector in Scotland. The most recent European legislation was enacted in Scotland on 31 January 2006 and within this local interpretation the value threshold for the competitive tendering has been lowered.

### **9.7.1 Recommendations**

There should be a formal programme of EU legislation workshops. In addition to re-emphasising the strict legal and procedural requirements the workshop content should also focus on how Best Value can be achieved within their legal framework. Every procurement professional in the public sector should attend a workshop during 2006 and then at a minimum annually thereafter. The effort required to conduct procurement within EU legislation should also be channelled towards capturing benefit from the procedural disciplines stipulated.

## 9.7.2 Recommendations

Conformance with EU legislation should be a subject of focus for all internal and external audits. Conformance levels should be covered as part of the internal reporting to Governance levels within the organisation. This information should also be made available to the Scottish Executive.

## 9.8 Procurement Practices and Business Processes – Advanced Procurement

### Background

Earlier in this chapter of the report there was focus on the issue of upgrading procurement capability to “conformance”, “improved” and then “superior” performance. The attributes attached to this ultimate status would require to include the following:

- › An overall Procurement Strategy
- › A market driven Commodity by Commodity Strategy
- › A Supplier Strategy including features such as the rationalisation of numbers of suppliers and a supplier rating of scorecard system
- › Procurement a top priority in the organisation
- › Advance collaboration with aggregation of specific commodity spend optimised in Centres of Expertise (Ref. Chapter 11)
- › Investment in more than absolute minimum resources with high skilled professionals
- › Operation of “Best in Class” practices with adequate information systems
- › Sound reporting and management information including KPIs
- › Benchmarked internal efficiency and performance effectiveness

These attributes are consistent with the optimum envisaged within the vision for procurement described in Chapter 3 and it should be noted that these are incremental to the basic foundations of adequacy in resources, skills, practices and processes.

Pursuit and achievement of the above will upgrade capability and deliver significant financial savings.

### Findings

There are few organisations that have goals and a structured plan to achieve superior performance and Best Value. Without these plans and some progress being made the existing savings targets will not be delivered in the medium term. However, full achievement of the above would deliver, in the longer term, financial benefits beyond those currently targeted.

### **9.8.1 Recommendation**

Each organisation within the Public Sector in Scotland should develop, establish and pursue an advanced procurement plan which includes the attributes listed above. The plan should incorporate specific milestones of progress and financial savings targets year by year. They should seek through this plan to achieve “improved” and then “superior performance” status thus delivering Best Value and significant financial savings.

## **9.9 Procurement Practices and Business Processes – Corporate and Social Responsibilities**

### **Background**

This aspect is important for the Public Sector and is becoming an issue for procurement practices. Its relevance in the context of the wider responsibilities of the Public Sector is obvious.

### **Findings**

Corporate and social considerations such as sustainability are taken very seriously. There is, however, uncertainty as to the practical priority to be given to this issue, and also a lack of understanding as to how policy and principles can be appropriately applied to tendering and award processes, including legal questions, on how suppliers and their practices are addressed.

### **9.9.1 Recommendations**

While the achievement of Best Value remains the primary goal, each organisation’s adopted corporate and social responsibilities should be translated into guidelines and a specific practices document for each organisation. The requirements of that document should be deployed for implementation by the procurement organisation. Given legal sensitivities as to how CSR can be part of the award process, central Scottish Executive guidelines should also be provided to support this translation. In addition, workshops and education should be organised to assist procurement staff in the application of this policy including how to address this issue of suppliers being required to participate in and support, where appropriate, the undertaking’s corporate and social policies.



# 10 Procurement Information Systems

## **Background**

As electronic commerce is proven to provide meaningful benefits, it is a key aspect of government policy and efficient government. For several years the Scottish Procurement Directorate has driven the development and deployment of the ePS service, which incorporates a transactional purchasing system (PECOS) as well as an eTender and eAuction module as the standard electronic procurement system. A system of this type offers internal efficiencies in terms of resources and skills. It also offers improved disciplines and a uniform interface to suppliers. In addition, it helps address and resolve the key concern of procurement information reporting both at the individual unit level and for the overall public sector.

Finally, one single system is a key pre-requisite for the aggregation of purchase volumes to support Best Value through collaborative purchasing. (Ref. 11.1.)

## **Findings**

More relevant than focusing on detailed evaluations of other alternatives is the fact that ePS has all the hallmarks of a good system. It is operating effectively and the majority of organisations in the public sector have either joined or committed to joining ePS for the provision of their electronic purchasing system. Bridges have been designed and introduced to allow ePS to interact with other systems and in particular finance systems. As indicated above a single system is essential to capture the benefits of collaborative procurement.

### **10.1 Recommendation**

eProcurement Scotland should be adopted as the standard within the Public Sector. All new installations of procurement functional systems should be a part of ePS. Other recently installed purchasing systems can be utilised for volume Category C transactions (Ref. 11) until replacement is cost justified. However, organisations in this situation should also join ePS for the procurement of Centre of Expertise contracted commodities and services in categories A and B. (Ref. 11).

## **10.2 Recommendation**

Given the criticality of this dependency to savings, the complexity and challenge of systems installation and the scarce and fragile nature of available skills, an ePS Installation Task Force should be established under the leadership of the Scottish Executive's Procurement Directorate. This Task Force should be assigned as required to provide additional support and skills to the project teams at the individual organisation level. (Also see recommendation 8.7.)

## **10.3 Recommendation**

Funding to encourage efficient government has been made available under different programmes but not always tied to projects that are sector-wide in their implementation and benefit. Serious consideration should be given to providing a specific sector-wide programme of turnkey funding to accelerate the acceptance and more rapid implementation of ePS and other procurement initiatives within any funding required to implement the recommendations of this review.

# 11 Collaborative Procurement

## Background

As previously highlighted, one of the most significant opportunities that exists is the one of collaboration across the sector. There are many advantages. Some of the most important are as follows:

- › Better utilisation of scarce procurement resources and skills
- › Aggregation of spend to create greater purchasing power which will in return result in improved cost savings
- › A more efficient and less complex interface to suppliers utilising the efficiency of systems and other refinements of e-trading
- › Spread of best practice including sharing of market intelligence

## Findings

There are examples of well-founded collaborative projects where professionalism is displayed and savings delivered. These include the Authorities Buying Consortium, ProcSNI (universities and some colleges) and the Health Service's BPI where the project is being monitored at Ministerial level. These initiatives are so far only partially implemented and shortfall in penetration is a major detractor to delivering all of the advantages listed above. In addition, there are a number of good regional initiatives where cross-sector groups have acted to consolidate locally their resources and spend.

For the other spend, not actually aggregated in these initiatives, there is therefore poor utilisation of fragmented yet substantial effort, with the same or similar commodities being procured by multiple public-sector organisations and often through separate contracts with the same supplier. As well as being a poor utilisation of scarce procurement skills this situation does not capture the other advantages listed above including in particular delivery of cost savings from aggregated spend.

An unparalleled effort is therefore required to improve the infrastructure to support collaboration and in defining, once established, how support and utilisation can be guaranteed.

## 11.1 Recommendation

Procurement “Centres of Expertise” should be established on a commodity-by-commodity basis.

A theme of categorising commodities and services into a series of logical groupings should be adopted. These groupings should define how and by whom contracts are established for each of the categories. These Centres of Expertise should provide a service to their user organisations and thus not impact on the autonomy of individual entities.

### **CATEGORY A – NATIONAL CONTRACTS**

A relatively small number of high-value commodities and services should be classified as Category A items and these should be provided by call-off from a National Contract. These contracts should be established centrally for the public sector in Scotland by a procurement “Centre of Expertise” positioned within the Scottish Executive’s Procurement Directorate. Having been established once for Scotland by a team inclusive of experts in procurement of these specific commodities, contracts should be used on a mandatory basis by all units funded or owned by the public sector in Scotland irrespective of legal or other relationships with the Scottish Executive.

These Category A commodities and services should be those that would be most logically procured by one centre for the country’s public sector. Amongst the selection criteria would be the following characteristics.

1. Where the goods or services tend to be standard or of a similar nature across the largely common requirements of users in the public sector in Scotland.
2. Where the utilisation of contracts established by a single central organisation would offer:
  - improved cost through consolidated procurement volumes and value
  - the opportunity to avoid multiple-parallel activities by optimising the use of scarce procurement resources and skills and to concentrate market intelligence information. It should be noted that many same or similar commodities are currently procured multiple times by the 200+ organisations identified in Chapter 2 above
3. Where a single contracting interface facilitates the efficiency and competitiveness of suppliers.

It should be possible that the central Scottish national centre of expertise can also provide access to UK National contracts so that in some specific cases the contracts utilised are UK-wide, including those established by the OGC.

The list of National A commodities will require careful consideration but, in my opinion, will be less than 20 in number. It should also be noted that it may be appropriate to have more than one supplier contract established by the Centre of Expertise for each commodity. This will depend on the structure of the market and user requirements. It will also address the possible need for delivery and capability to be available within local economies and regions.

## **CATEGORY B – SECTOR SPECIFIC CONTRACTS**

A number of high-value commodities and services that tend to be unique to a specific sector yet common within that sector should be categorised as Category B. These items or services should be provided by call off from common “sector specific” contracts. These contracts should be established centrally within each sector rather than as at present individual organisations in that sector performing the same function multiple times and without any advantage of procurement volumes or value consolidation. Therefore, Centres of Expertise in procurement should be established for each of these specific sectors so that teams of “commodity experts” can be concentrated on goods and services demanded on a cross-sector basis. Once contracts are developed and established for the B category items their use should be mandatory across that sector irrespective of legal or other relationships within the sector or with the Scottish Executive.

Centres of Procurement Expertise and an associated agenda of “category B” commodities and services should be established for the following areas and organisations within the public sector. It should be obvious that there will be a separate commodity list for each of the following centres:

- › Scottish Health Service
- › Local Authorities
- › Scottish Tertiary Education System
- › Scottish Executive Departments, Agencies and NDPBs (wider Scottish Executive)

In addition, consideration should be given to the value of establishing and operating sector specific Centres of Expertise for the Police and Fire Brigades across all of Scotland. For example the proposed new Services Agency for Police could be the logical organisation to host a Police Centre of Procurement Expertise for Scotland.

Examples of the type of items that may be classified as B are as follows:

- › Prosthetics for the Health Service
- › Refuse services and equipment for Local Authorities
- › Library and publications for universities and colleges
- › Advertising and creative media for the wider Scottish Executive

It should be noted that although nearly all of the “call off” from the B contracts will be from within that specific sector, access to these contracts should be made available to other sectoral units, e.g. while refuse services and equipment would be a category B item within the Local Authority central contract, it could also be advantageous for Health Boards to procure their requirements for refuse services and equipment from the Local Authority contract. Similar arrangements and access could apply to other commodities across the public sector. The Centres of Expertise should work with their colleagues within each sector to agree on the list of B commodities for that sector. In my opinion there would be less than 50 of the B items for a Local Authority Centre of Expertise to initially concentrate upon.

The leadership associated with establishing each B Centre of Expertise should be taken up as follows:

- Scottish Executive – Minister for Finance and Public Service Reform
- Local Authorities – COSLA and SOLACE
- Tertiary Education – Scottish Funding Council
- Police – Justice Department

It should be noted that the Health Service has already created a Centre of Expertise with a new division allocated the responsibility to pursue collaborative procurement. This decision is commended. It should also be noted that in developing this recommendation it is recognised that Universities and Colleges are not technically public sector bodies. However, as recipients of significant public funds, it is expected that they adopt the principles of Efficient Government and Best Value and therefore participate in programmes that support those principles and provide benefit.

### **CATEGORY C – GENERAL CONTRACTS**

Where commodities and services are neither categorised as A (National Contracts) nor B (Sector Specific Contracts) then they will automatically be classified as C where the establishment of contracts will be conducted as the remit of a single organisation, e.g. Health Board, Local Authority or University.

It should be emphasised that while these local procurement departments represent the public sector-wide procurement community within their organisations and also provide procurement services to their parent organisation, they should not involve themselves in developing contracts for categories A and B items. Although as part of their responsibility they should liaise with the Centres of Expertise in ensuring that A and B contracts satisfy their own local users needs. There is in my opinion a substantial opportunity for local economic benefits as local suppliers are developed and encouraged to compete to win business in the C category.

### **CATEGORY C1 – LOCAL/REGIONAL CONTRACTS**

There is an additional opportunity within Category C commodities and services for local or regional optimisation. This is where items that do not merit consolidation as A's or B's could be consolidated in a region to the benefit of purchasing power and optimisation of skilled resources. There are a number of consortiums already operating in this manner and I recommend that this practice be extended wherever beneficial. I also recommend that the relevant Local Authority take the lead role in proposing and organising this form of regional consortium procurement.

## **11.2 Recommendation**

In establishing the central contracts in Categories A and B above, it is essential that the optimum type of contract is developed and established. Although there may be exceptions the central A or B contracts should generally be of the “commitment” type in that minimum volumes or spend have been committed

to a supplier as part of the contract process and award and all units within the sector are required to buy their requirements for A and B from these contracts and not from local contracts.

In some cases a framework contract with less specific volume commitments might be appropriate.

### **11.3 Recommendation**

It is obvious that there is a level of mandatory compliance required for the effective operation of the model described above. Given the level of co-operation and the positive spirit that I have observed in my work, I am hopeful at this point that a renewed comprehensive collaborative effort would reinforce this compliance requirement. However, it may be that other instruments or influence may be necessary to ensure that these A & B commodities are purchased through the contracts set up by the Centres of Expertise. Alternatives should be reviewed in light of response to this report.

### **11.4 Recommendation**

Once the Centres of Expertise are established their commodity-based structure will allow them to focus appropriate commodity aware skills in each of the commodity/service areas. A strategy for each A and B commodity or service should be developed including market intelligence, supplier strategies, economic modelling of demand and supply and recognition of other criteria and issues. These commodity strategies will have with them individual supplier strategies. These strategies should also address and accommodate the need for the existence and use of local supplier capability to deliver commodities and services. It is important to recognise that the theme of aggregation of spend is not synonymous with placing one large contract with a single remote supplier.

### **11.5 Recommendation**

The concept of National A and Sector Specific B commodities and services should have the support of a single electronic procurement system for a streamlined interface to suppliers and to facilitate the aggregation of contracts for A and B items. As recommended at 10.1, ePS should be adopted for this and should allow procurement departments and individual, and often remote users, to directly access and easily use A and B contracts independent of the organisation creating the contract.

### **11.6 Recommendation**

The Heads of Procurement responsible for the Centres of Expertise should undertake leadership roles for the procurement activities within the sectors served by their Centre of Expertise. The content of this leadership role should be similar to that assigned to the Scottish Procurement Directorate for the complete public sector. These Heads should also represent their sectoral communities within the central functional framework being co-ordinated by the Scottish Executive Procurement Directorate.



# 12 Competitive Supplier Base

## **Background**

The existence of a base of high quality and cost competitive suppliers is a vital ingredient of an optimum environment in which to achieve Best Value in procurement expenditure. The availability of that grade of supplier locally in Scotland can provide good service to the Public Sector, benefit the Scottish economy, and at the same time, conform to all EU and other purchasing legislation and guidelines. However, irrespective of the local, national or international characteristics of suppliers there is undoubtedly an important responsibility within the public sector to conduct procurement operations in a way that meets highest standards from the beginning to end of the procurement process yet delivers Best Value.

## **Findings**

There is a high level of general dissatisfaction amongst suppliers with the procedures and practices operated by Public Sector organisations in Scotland. These concerns are particularly strong amongst small and medium-sized enterprises.

The dissatisfaction level has been strongly enforced by CBI, Chambers of Commerce, Federation of Small Businesses and a number of individual suppliers. Their documented concerns and aspirations include the following:

- Poor general communications to and from the public sector
- Access to, and information about, tenders and potential tenders
- Tender management process, feedback and formal decisions reviews
- Inconsistent standards in public sector from unit to unit
- Multiple sets of terms and conditions
- Artificial barriers to entry perceived
- EU rules seen to be not conformed with
- Accreditation of suppliers not consistent nor portable to other public sector organisations
- Delays in finalising contracts
- Absence of interface point for complaints or review requests
- Lack of transparency in decision-making process and in who decision makers are
- Small and medium-sized indigenous businesses specially disadvantaged by pre-tender specs

- › Social economy agenda not well articulated
- › Evaluations do not fully recognise whole life cost and in particular the value provided by local service
- › Poor awareness of full-cost recovery requirement of voluntary-sector providers bidding for contracts

## 12.1 Recommendation

A Charter for Suppliers should be established for the complete public sector in Scotland. It should essentially describe the sector's commitment to suppliers by defining the generic standards which suppliers can expect from the operation of public-sector procurement and in turn what will be expected of them as suppliers to the sector. Establishment and publication of the Charter, which will bind all units within the public sector to its contents, will require extensive work across the sector in a number of areas and the undernoted recommendations highlight the topics and areas where focus, agreement and improvement is required before a "Charter" can be finalised.

This report commends the existing work being conducted within the Scottish Executive, including the Procurement Directorate, to address the issues raised by SMEs.

## 12.2 Recommendation

Whilst recognising the diversity of operations there should be some standardisation across the public sector in Scotland of the Terms and Conditions required by the public sector from suppliers. The following areas are those indicated in my findings as causing most concern to suppliers but should not be regarded as exhaustive:

- › Minimum business scale
- › Indemnity insurance
- › Number of years of audited accounts demanded
- › Payment terms
- › e-auction rules
- › Procedures and timing parameters
- › Portability of supplier accreditation across public organisations

## 12.3 Recommendation

It is vital to maintain the competitive market environment referred to above. Therefore an open market environment supported by a single public sector "electronic portal" should be established. Suppliers must be able to access all essential information on opportunities to offer services and bid for contracts for the supply of commodities and services to the whole Public Sector in Scotland. Access to, and participation in, tenders should be free of charge.

## **12.4 Recommendation**

There should be total transparency in connection with procurement decisions. All awards should be formally notified to the successful bidder and then publicly through the Public Sector portal website. All unsuccessful bidders should have access to the decision principles and be able to understand why they were unsuccessful on this occasion. A closed loop is mandatory.

## **12.5 Recommendation**

Suppliers need to have a single point of enquiry within Scotland to which they can address concerns and obtain clarification of decisions and procedure related to public procurement. There should be a designated point of appeal positioned within the Scottish Executive and authorised to address this need. If the appeal concerns a decision or procedure of SPD, the point of appeal should include some element of independence from SPD.

## **12.6 Recommendation**

The Centres of Expertise described at 11.1 should have commodity and supplier strategies. In support of this each Centre of Expertise should conduct regular “supplier forums” during which buyer and supplier issues can be exercised, logged and resolved.

## **12.7 Recommendation**

There should be a special effort to ensure that regional suppliers are developed to provide goods and services locally. In the context of the collaborative procurement recommendations at 11.1, the opportunity being created for local suppliers to competitively bid for all categories of commodities and services should be encouraged, especially for Category C items.



# 13 Estates, Construction and other Capital Projects

## **Background**

There is in excess of £1bn per annum spent in Scotland by the Public Sector on capital and capital-related projects. It includes expenditure on land, buildings, roads and community-sponsored housing. Also, nearly every project is unique in its content and purpose.

The Scottish Executive has developed a procedure for handling projects of this capital nature. The Gateway Review Process is well documented and distributed and is administered and supported by a professional department within the Scottish Procurement Directorate.

## **Findings**

Although well recognised and understood, the Gateway Process is not consistently applied and utilisation occurs in less than 20% of the situations where it could be implemented.

Also some of the capital expenditure is handled by “technical experts” not all of whom also have procurement expertise.

### **13.1 Recommendation**

The Gateway Process should be a mandatory part of the fabric for all public sector projects of this nature and over a value parameter. Its adoption must not be optional. Where in exceptional circumstances the specific “Gateway” process is not used organisations must substitute a documented equally effective capital project phase procedure. There should also be a central report from the Gateway Unit on the current status of each Gateway project to the relevant Minister.

### **13.2 Recommendation**

Although the special nature of capital projects does not always lend itself to central contracts, the procurement officer principles and potential for delegated authority should still apply. In effect, capital projects not supported directly by the procurement department must still be administered by an individual who has formally delegated authority and who is classified as a “Procurement Officer”. This means that the authority to procure delegated to that department and the register of authorised procurement officers for the department should be formally documented.

### **13.3 Recommendation**

A Public Sector Capital Projects Committee should be formally established to share best practice and monitor market conditions and individual contractors. This should include executives and senior managers from across the sector who should, in a collegiate manner, pursue market place optimisation and the spread of best practice for capital projects management.

# 14 Procurement of Outsourcing Capability

## **Background**

There is in my opinion an economic opportunity for the Public Sector to extend the current low level of outsourcing to sub contractors. This could potentially reduce costs and certainly introduce more variability into the Public Sector cost profile. Also, where internal resources are growing or under pressure outsourcing can offer a sound alternative to recruiting additional fixed resources.

## **Findings**

Although there is some interest, there is not a widespread practice of evaluating outsourcing alternatives compared to the traditional in-house provision and conduct of operations from internal resources.

### **14.1 Recommendation**

There should be a review of non-core activities to establish candidates for outsourcing evaluation.

### **14.2 Recommendation**

Where there is a sound business case and internal resource issues are manageable then outsourcing strategies should be pursued.



# 15 Procurement of Information Technology

## **Background**

The acquisition of information technology capability from an external company or companies is usually one of the highest value and often most complex of procurement transactions. It is the role of the procurement officers to work with internal parties and external IT suppliers to achieve best results at best possible whole life cost.

## **Findings**

The most common features of a less than satisfactory information systems implementation are those of timing, delay and cost overrun. Often this is due to underestimating the business process re-engineering effort and/or the adding of new requirements to a systems specification which already requires a bespoke project.

In my opinion, a significant part of the business need and associated volume transactions in the public sector, including those of procurement, can be satisfied by standard applications or the use of existing applications that have been tried, tested and proven effective elsewhere in the public sector.

### **15.1 Recommendation**

To achieve savings in initial procurement and in life time running costs, and to assist in implementation timescales, industry standard or existing already designed applications should be procured from and, wherever possible, installed directly by the software company. Organisations should have a policy to avoid the process re-engineering, consultancy and bespoke system cost premiums associated with long analysis and design cycles. The package procured should have wide applicability.

### **15.2 Recommendation**

I believe that a clear and unambiguous central information systems strategy for the Scottish Public Sector would deliver major benefits in terms of effectiveness of services, staff productivity and overall cost, including improved benefits to procurement. As stated at 15.1, it is my view that this strategy should be founded upon maximum use of standardised and integrated applications for significant transaction-related aspects of public-sector business and not new bespoke or unique local systems. If this is not possible or practicable for the overall public sector then at a minimum a strategy for each major element of the sector (e.g. Health) should be adopted. This is not a recommendation to establish a

heavily centralised IT organisation but more to ensure that requirements are orchestrated, rationalised and standardised as much as possible across the public sector before entering the market place for solution acquisition.

### **15.3 Recommendation**

The procurement of standard and generic applications such as for Finance or Human Resources should be regarded as a Category A item and be contracted for by the National Centre of Expertise. If this is not practicable then default should be to the B Category standard and generic applications should not be contracted locally at the individual unit level.

### **15.4 Recommendation**

The procurement of other sector specific standard applications (e.g. for Health) should be categorised as B commodities and should have contracts established by the B Category Centres of Expertise.

### **15.5 Recommendation**

Although large-scale standard applications are often provided by multinational companies, it is also the case that specialised and innovative functions can be provided by niche applications from smaller companies. This area offers an opportunity for local IT companies. The User Group recommended at 9.2 should be used to introduce these offerings to the public sector.

# 16 Public Private Funding Partnerships

## **Background**

One of the most significant developments in the public sector in recent years has been the growth of Public Private Partnership funding initiatives. Whilst these have been generally perceived as positive to date, there have been challenges with some projects. As might be anticipated a consistent factor where projects have gone well is when careful planning and analysis has been performed and sound procedures followed.

Where proper planning analysis and effective definitions, specifications and accurate costs are well understood and documented at a very early point, then the project has had a much higher likelihood of achieving a successful outcome. To facilitate this the Scottish Executive has established a special unit, the Financial Partnerships Unit (FPU). Staffed by a team of professionals it provides experienced support to projects from the very earliest stage including the essential financial decision analysis and business case work. Its services are available across the public sector to support individual projects.

## **Findings**

Whilst the Unit is well positioned and perceived as effective, it is not always utilised as a matter of course by public sector organisations embarking on capital projects where private funding should be considered.

### **16.1 Recommendation**

Engagement with, and guidance from, the FPU should be a mandatory requirement for all public sector capital projects that are potential candidates for public/private funding.



# 17 Wider Scottish Executive Procurement

## **Background**

The Scottish Executive Procurement Directorate is responsible for the execution of the procurement responsibility for some central Scottish Executive contracts but not for all of the procurement activities of Scottish Executive departments.

## **Findings**

There is undoubtedly a dispersal of procurement skills and in some cases the absence of a critical mass of procurement activity at the individual department or unit level. Also there is inconsistency, department by department on this subject. This same issue extends beyond the core Executive Departments and extends to some Agencies and NDPBs. At a minimum there is duplication across the “wider Scottish Executive” (Departments, Agencies and NDPBs) of similar procurement activities and therefore poor utilisation of scarce skilled resources. There is not optimisation of consolidated procurement volumes and or value.

### **17.1 Recommendation**

In addition to the responsibility for central contracts for National A and for Scottish Executive Sector Specific B Commodities, the Directorate or other associated central procurement group should be assigned the responsibility for procurement of all remaining (C) Commodities and services for the wider Scottish Executive. There may be exceptions to this, e.g. where the potential C Commodities are highly specialised. Exceptions should be justified and formally approved as deviations from the norm.



# 18 Scottish Executive Savings Commentary

## Background

As part of its Efficient Government programme the Scottish Executive has set and published financial savings targets for Public Sector procurement expenditure. These are as follows. The periods shown are fiscal, i.e. year ended 31 March.

	2005/6	2006/7	2007/8
	£m	£m	£m
Health	33	40	50
Other Units	50	100	150
	<u>83</u>	<u>140</u>	<u>200</u>

## Findings

As indicated earlier in this review there is a need to more formally define both the baseline and the standardised methodology to be utilised in measuring procurement savings. However, based on my Review and the improvement opportunities available, I have assessed current and projected procurement savings and the improvement opportunities available for achievement potential as follows.

The short-term savings for this year (2005/6), which represent a little over 1% of procurement expenditure, should be met through existing momentum. The following year (2006/7) set at £140m can be met only if the urgent attention required to address governance and accountability issues is completed and there is also some progress on advanced procurement as recommended by this report. Much more progress in the area of advanced procurement will be required to deliver 2007/8's annual savings of £200m. However, this potential progress, if solidified into superior performance, is capable of providing savings in 2008/9 and 2009/10 in excess of those already targeted. £400m is, in my opinion, a realistic minimum target for 2008/9 and £600m for 2009/10. This would provide cumulative savings over these five years of close to £1.5bn.

As the procurement capability improves and fills the gap in performance, then year-to-year annual savings will eventually stabilise, but they should do so at a substantial ongoing level of benefit.



# 19 Implementation Plan Proposal

## **Background**

This is not the first review of procurement in the UK but the detailed and extensive nature of the consultation and the specificity of recommendations offer additional dimensions and opportunities for Scotland. This should facilitate acceptance and increase the prospects for implementation.

## **Findings**

The organisation structure within the public sector is both complex and highly granular. Also, the fiscal relationship between the Scottish Executive and the organisations funded varies significantly across the units within the sector. In some cases it is completely direct, in others arm's length and/or autonomous.

As evidenced by this report, there is not a good track record in implementation, even for initiatives that are generally agreed to have merit. Therefore, a special focus is required to address the question of implementation. The benefits seem obvious and attainable and are capable of capture if a structured approach to implementation is followed.

### **19.1 Recommendation**

A Public Procurement Reform Board should be formed. Its immediate prime responsibility is to oversee the successful implementation of the actions essential to address the basic issues in Public Sector procurement and to drive pursuit of the additional work and changes required to achieve improved performance.

### **19.2 Recommendation**

Its membership should consist of executives from across the sector who understand the issues and priority required, and who can influence their own and other organisations in their drive to address basic weaknesses, and go on to capture the opportunities that lie beyond.

### **19.3 Recommendation**

The Board's remit should include the ongoing monitoring of results compared to savings targets already planned. It should also work within the public sector to develop and formalise the level of additional longer-term savings not currently planned.

## 19.4 Recommendation

The Public Procurement Reform Board should develop, as a first step, its detailed action plan. The undernoted list of high level actions and suggested milestone dates should provide a foundation to prepare that detailed plan.

## 19.5 Recommendation

The Public Procurement Reform Board should interact with, and be advised by, a Public Procurement Advisory Group made up of business organisations within Scotland. This group should provide an ongoing framework for dialogue about, and influence upon, public procurement practices as they affect suppliers.

## 19.6 Recommendation

Strong Ministerial support to this initiative is recommended. Their influence and authority is vital in overcoming any inertia or potential lack of commitment within the sector for the pursuit of implementation. For some issues Ministerial directives should be considered.

## IMPLEMENTATION PLAN

### PROPOSED KEY DATES

Topic	Action	Recommended Latest Completion Date
Supplier Approach	Review Plan	30 April 2006
Reform Board Plan	Present to Minister	31 May 2006
Authority to Purchase	Organisations' review completed	30 June 2006
Governance Principles	Bodies to certify conformance	30 June 2006
EU Workshops	Commence programme	31 July 2006
New Centres of Expertise	Initiate concept	31 August 2006
Business Conduct Document	Reform Board to approve	31 August 2006
Procurement Policy	Distribute Handbook	30 September 2006
Advanced Procurement	Organisation plans to Board	30 September 2006
Approach to Suppliers (Charter)	Final implementation	31 October 2006
Benchmarking	Implement programme	31 December 2006
New Centres of Expertise	Commence initial operations	31 December 2006
Advanced Procurement	All organisations at Improved Level 2	30 June 2007
Advanced Procurement	All organisations at Superior Level 3	31 March 2008
New Centres of Expertise	Fully operational and delivering savings	31 March 2008

The Reform Board should build on the above and present a more detailed plan to the Minister.

## 20 Highlight of Review Conclusions

- Some progress made to date but not consistently across the whole public sector
- Specific good work has created some “islands of excellence”
- Urgent action required on governance issues
- Higher priority needed for procurement
- Action also required on resources and skills. Some investment is necessary
- Attention to basic practices essential to deliver already targeted financial savings
- More leadership needed from centre with policy being mandatory
- New approaches and supplier charter are required to address significant concerns held by suppliers
- Advanced procurement practices have to be pursued
- More collaboration also needed
- New “Commodity Centres of Expertise” – a vital step
- Achievement of superior performance will deliver Best Value and long-term savings above current targets
- Direction understood – missing ingredient is conviction to implement. A Procurement Reform Board is proposed in support of this. Ministerial support is a prerequisite.

# Appendices

## Appendix A

### LIST OF THOSE CONSULTED AND PROVIDING INPUT

#### HEALTH

- Tayside (Gerry Marr)
- Tayside (Peter Bates)
- Lanarkshire (Lex Gold)
- Ambulance (Jenny Neville)
- Scottish Executive, Andy Kerr
- Scottish Executive, Peter Collings
- NSS (Scott Haldane/Michael Healey)
- Cap Gemini (Paul Robinson)
- NHS Grampian (Steven Glass)
- NHS Lothian (Dennis Rowe)
- NHS Glasgow (Gordon Beattie)
- NHS Tayside (Michael Cambridge)
- NHS Highland (Gordon Tait)
- NHS Forth Valley (Scott Bell)
- SHS (Lynne Cameron)

#### LOCAL AUTHORITIES

- Aberdeen City (Craig Innes)
- Argyle & Bute (Alan Brough)
- Clackmannanshire (Derek Barr)
- Dundee City (Brian Rose)
- East Renfrewshire (Jim Livingstone)
- Edinburgh City Leadership Group
- Fife (John McHugh)
- Glasgow City (Elma Murray)
- Glasgow City (Frank Rowell)
- Glasgow City (Ruth Simpson)
- Highland (Ashley Gould)
- Renfrewshire (Tom Scholes)
- Renfrewshire (Gary Robinson)
- Renfrewshire (Sandra Black)
- South Ayrshire (Andy Shilliday)
- South Lanarkshire (Kay Brown)
- Stirling (Don McMillan)
- West Lothian (Alex Linkston)
- West Lothian (Graham Proudfoot)
- SOLACE Forum
- Improvement Service (Colin Mair)
- ABC (Ronnie McLean)
- COSLA Leadership Forum

**TERTIARY EDUCATION**

- SFC (Martin Fairbairn)
- Proc-SNI (Douglas Bell)
- University of Strathclyde (Peter West)

**SCOTTISH EXECUTIVE/  
OTHER ORGANISATIONS**

- Nicol Stephen
- Tom McCabe
- John Aldridge
- John Elvidge
- Mike Neilson
- Eddie Frizzell
- Andrew Goudie
- Robert Gordon
- Colin McKay
- Peter Russell
- Sandie Rosie
- Alastair Wyllie (Gateway)
- John Howison (Roads)
- Richard Henderson (Legal)
- Audit Scotland (Dick Gill)
- Audit Scotland (Hugh Hall, Lynn Bradley)
- Jack Perry (Scottish Enterprise)
- Billy Macintyre (Scottish Enterprise)
- Joe Rowan/Chris Bank (Scottish Water)
- Procurement Directorate (N Bowd and staff)

- Jeremy Purvis MSP for Tweeddale, Ettrick & Lauderdale
- Peter Gershon
- OGC (H. Barrett)
- Scottish Prison Service (Jim Kelly)
- Historic Scotland (Keith Downie)
- Scottish Police Training College (Tony Ward)
- West of Scotland Collaborative Programme (Janet Matthews)
- Communities Scotland (Carole Oatway)
- Strathclyde Police (Robert Kirkwood)
- George Gytes, UK Government Adviser
- SOPO (Society of Procurement Officers)
- Chartered Institute of Public Finance & Accountancy

**BUSINESS**

- CBI (Iain McMillan)
- Federation Small Businesses (John Downie)
- Supplier Forum Meeting
- Oracle (Eddie Chance/Lance Gilmour)
- Scottish Chambers of Commerce (Liz Cameron)
- Hedra (Owen Clarke)
- BIP (Ron Burges)
- Millstream (M. Hirst)
- Initiative Software (K. Clarke)

## Appendix B

**PROCUREMENT ATTRIBUTES AND PERFORMANCE ASSESSMENT**

<b>Attributes</b>	<b>Assessed Status</b>			
Governance Role	No involvement	Adequate	Proactive	High-priority focus
Organisational Structure	Poor	Meets minimum	Seen as key function	One of top-level organisations
Resources and Skills	Inadequate	Meet minimum	Valued	Seen as investment
Practices and Processes	Weak	Meet minimum standards	Pursuing advanced procurement	Achieving advanced procurement
Information Systems	Inadequate	Supportive	Adding good value	Fully capable
Involved in Collaboration	None	Intent	Developing	Established
Corporate and Social Responsibilities	No recognition	Intent	Pursuit	Inclusion
Reporting/KPIs	Inadequate	Minimum	Adding value	Comprehensive and basis for action
Benchmarking	None	Intent	Some	Practice routine and basis for action
EU Guidelines	Not met	Meet minimum	Developed	Advantageous
Supplier Policy and Strategy	None	Basic	Developed	An asset
Overall Value of Results	Weak	Just adequate	Better value	Best value
<b>Overall Procurement Status for the Organisation</b>	<b>Non Conformance</b>	<b>Conformance</b>	<b>Improved Performance</b>	<b>Superior Performance</b>

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