

PERTH AND KINROSS COUNCIL**STRATEGIC POLICY AND RESOURCES COMMITTEE
20 APRIL 2016****SCRUTINY COMMITTEE
20 APRIL 2016****AUDIT SCOTLAND: PROCUREMENT IN COUNCILS: IMPACT REPORT****Depute Chief Executive, Environment
(Sustainability, Strategic and Entrepreneurial Development)**

This report provides an update on the report published by the Accounts Commission in February 2016, on the impact of the Audit Scotland report – ‘Procurement in Councils’ (2014). An update on how progress with procurement reform at Perth and Kinross Council compares with the key messages set out in the audit, is provided as an appendix to this report.

1. BACKGROUND

- 1.1 During February 2016 the Accounts Commission released a report which describes the impact made by the Commission’s performance audit report on ‘Procurement in Councils’ which was published in 24 April 2014. See links to the reports below:
[‘Procurement in Councils’ report 24 April 2014](#)
[Impact Report 8 February 2016](#)
- 1.2 The audit aimed to assess whether councils were efficiently and effectively managing how they procured goods and services. The specific objectives were to determine:
- How much did councils spend on goods and services, and what savings and other benefits councils identified through better procurement?
 - Did councils manage procurement well and have good governance in line with good practice?
 - How well was Scotland Excel helping councils to improve procurement and achieve savings in spending on goods and services?
- 1.3 The key messages of the audit report are listed as Appendix 1 to this report. Consideration was given to how closely the Council’s management of procurement was aligned to these messages in the preparation of the Council’s Procurement Strategy and Action plan which were approved by Council on 16 December 2015 ([report 15/572](#) refers).

2. PROPOSALS

- 2.1 This report is for noting and provides an overview of the extent to which the procurement reform work currently underway in Perth and Kinross Council is responding to the key messages of the audit report.
- 2.2 Appendix 2 sets out in more detail the measures in place at Perth and Kinross Council which provide assurance that the Commission's recommendations are being met. It is worth noting that in some cases the measures were in place within the Council prior to the publication of the audit report.

3. CONCLUSION AND RECOMMENDATIONS

- 3.1 Effective procurement helps support a prosperous, fair and sustainable area, whilst delivering best value, including local economic and social benefits. One impact of the audit report has been to provide impetus for councils to check their procurement is being managed to maximise the potential for delivering local outcomes.
- 3.2 Our continued commitment to achieving the key messages highlighted by this report will be measured by the Procurement Capability and Improvement Programme (PCIP) assessment. This national evaluation is expected to take place in Perth and Kinross Council during October 2016.
- 3.3 The Strategic Policy and Resources Committee is requested to:
- (a) Note the key messages from the Accounts Commission report (Appendix 1).
 - (b) Note the current position pertaining to the Audit Scotland recommendations and approve the resulting Council actions (Appendix 2).
 - (c) Note the contribution of the approved Procurement Strategy 2016 and the Procurement Transformation project in moving the Council closer to meeting the Audit Scotland recommendations.
- 3.4 The Scrutiny Committee is requested to scrutinise and comment as appropriate on the contents of this report.

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	YES
Corporate Plan	YES
Resource Implications	
Financial	NO
Workforce	NO
Asset Management (land, property, IST)	NO
Assessments	
Equality Impact Assessment	NO
Strategic Environmental Assessment	NO
Sustainability (community, economic, environmental)	NO
Legal and Governance	YES
Risk	YES
Consultation	
Internal	YES
External	YES
Communication	
Communications Plan	NO

1. Strategic Implications

Community Plan / Single Outcome Agreement

- 1.1 The proposals support the delivery of the Perth and Kinross Community Plan / Single Outcome Agreement in terms of the following priorities:

- (i) Giving every child the best start in life
- (ii) Developing educated, responsible and informed citizens
- (iii) Promoting a prosperous, inclusive and sustainable economy
- (iv) Supporting people to lead independent, healthy and active lives
- (v) Creating a safe and sustainable place for future generations

Corporate Plan

- 1.2 The proposals support the achievement of the Council's Corporate Plan Priorities:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

2. Resource Implications

Financial

- 2.1 There are no direct financial implications arising from this report. The proposals in this report will constitute to the delivery of revenue budget savings.

Workforce

- 2.2 There are no workforce implications.

Asset Management (land, property, IT)

- 2.3 There are no asset management implications.

3. Assessments

- 3.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

- 3.2 The proposals have been considered under the Corporate Equalities Impact Assessment process (EqIA) with the following outcome:

- (i) Assessed as **not relevant** for the purposes of EqIA

Strategic Environmental Assessment

- 3.3 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals. No further action is required as it does not qualify as a PPS as defined by the Act and is therefore exempt.

Sustainability

- 3.4 The proposals in this report support sustainability through greater use of social and environmental benefit considerations in procurement, and also the reporting of these benefits regularly to Committee.

Legal and Governance

- 3.5 The Head of Legal and Governance Services has been consulted.

4. Consultation

Internal

- 4.1 The Head of Finance, Head of Legal and Governance Services and Head of Democratic Services have been consulted in the preparation of this report.

External

- 4.2 The Head of Tayside Procurement Consortium has been consulted in the preparation of this report.

5. Communication

- 5.1 Part of the Action Plan includes a commitment to communicate on procurement matters to staff and Elected Members.

2. BACKGROUND PAPERS

Hyperlinks to background papers are included in the text of the report.

3. APPENDICES

- Appendix 1 – Key messages from the Accounts Commissions report on Procurement in Councils from April 2014
- Appendix 2 – Audit Scotland Recommendations and Council Actions

Appendix 1

Key Messages from the Accounts Commission report on Procurement in Councils – April 2014

The key messages from the April 2014 report were as follows:

- Councils spent over £5.4 billion on goods and services in 2012/13; over half of the total public sector procurement spend in Scotland. This spending is extremely diverse, although more than half is on social care and construction. Since 2006, initiatives by the Scottish Government and Scotland Excel have led to significant changes in Councils' procurement practices. Procurement now has a higher profile and councils are buying more goods and services collaboratively. New legislation and EU directives will bring about further change.
- Councils can use procurement to improve service quality and achieve benefits for the community. Councils are systematically using procurement spending to support local economic development. Councils have recently begun to make community benefits such as apprenticeships and environmental improvements an integral part of contracts.
- Councils spending through collaborative contracts set up by the Scottish Government and Scotland Excel has increased by over 80 percent over the past three years to £503 million, but accounts for only 9.3 percent of their total procurement spend. This percentage is likely to increase further as Scotland Excel and the Scottish Government introduce more collaborative contracts.
- The Scottish Government, Scotland Excel and councils reported total procurement savings of £71 million in 2012/13, 1.3 per cent of procurement spend; with £43 million (61 per cent) of these savings arising from Scotland Excel or Scottish Government collaborative contracts.
- Councils are relying on procurement to generate savings to meet budget pressures, but some of their savings calculations may not be reliable or may be incomplete, further savings are possible if councils make greater use of collaborative contracts and replace paper based systems with 'purchase to pay' compliant ICT systems.
- Councils and Scotland Excel have used the Procurement Capability Assessment (PCA) process to improve procurement practice. All councils have improved their procurement capability since 2009. However, the average assessment score has only reached 56 per cent. The rate of improvement varies among councils and some need to improve more quickly. Councils that invest in qualified improvement staff and improved systems can both improve service quality and achieve financial savings.

Appendix 2

Audit Scotland Recommendations and Council Actions

Audit Scotland Recommendations	PKC Actions
<p>Councils and Scotland Excel should:</p> <ul style="list-style-type: none"> Review and formalise arrangements to fund procurement reform activity beyond 2016 	<p>The Joint Committee for Scotland Excel (procurement collaboration) considered proposals for funding to the end 2016/17 which included resources for the procurement reform activity identified in the Audit Scotland report.</p> <p>Since the Audit Scotland report, the Council has invested in reviewing the procurement function and has funded improvement work through the Transformation programme. This funding is in place to March 2019.</p>
<p>Council staff involved in procurement should:</p> <ul style="list-style-type: none"> Submit accurate and complete information to the Procurement Hub on a regular and timely basis (ideally quarterly, and as a minimum within three months of the end of the financial year) Examine the costs and benefits of differentiating Arm's-Length External Organisations (ALEO) and council expenditure in their Hub submissions Make greater use of the tools and facilities provided by the Hub, including the use of Best Practice Indicators (BPIs) in their performance reporting and to benchmark their progress Engage earlier with suppliers and the people who use public services to help develop contract specifications that more accurately reflect service user requirements and allow for greater innovation within contracts Use the Public Contracts Scotland tender (PCS-T) module for all applicable contracts 	<p>The Council has committed, through an enhanced license for the Procurement Hub (the hub), to submit information monthly. This gives the Council more current and accurate information on which to base contracting decisions.</p> <p>Following this recommendation the data uploaded to the Hub was changed to include all expenditure with Tayside Contracts, Live Active Leisure, Horse Cross and Culture Perth and Kinross.</p> <p>Prior to the publication of the Audit report, Perth and Kinross Council was using significant functionality of the Hub and has frequently been used as a benchmarking site for other Councils when assessing merits of using the Hub for performance reporting.</p> <p>The frequency of supplier engagement events as part of the development of contract strategies has steadily increased since 2008. A diverse range of contracts have used this mechanism from waste to print services. More work to embed this practice will be undertaken as part of the reform work (in the Council's Procurement Strategy) approved by Council on 16 December 2015.</p> <p>The procurement team started using the electronic tendering module (PCS-T) during the financial year 2014/15. 75 applicable contracts have been advertised in this time, (63 below the EU threshold and 12 above the EU threshold, and therefore subject to EU regulation and 35 projects have been carried out on PCS-T.)</p>

Audit Scotland Recommendations	PKC Actions
<ul style="list-style-type: none"> • Make use of national collaborative contracts and provide a clear explanation for non-participation in these contracts to the relevant council committee • Develop a systematic approach to collecting information on non-financial benefits including economic, community and environmental benefits and report the benefits to the relevant Council committee on a regular basis • Calculate procurement savings using a consistent and transparent methodology that demonstrates clearly how the savings are calculated and their relationship to improved procurement • Make better use of market research, cost avoidance and improved contract management to identify savings and potential service improvements • Aim to achieve the superior performance level in the Procurement Capability Assessment (PCA), particularly in relation to: spend covered by an agreed commodity strategy participation in Scotland Excel contracts automation of procurement and payment processes spend captured in the council's contract register 	<p>There are currently 47 contracts available for use through Scotland Excel, Perth and Kinross Council are using 45 of these. The Scottish Government procurement service offers a further 31 contracts and Perth and Kinross are actively using 21 of these. The Scottish Government contracts not currently in use are mainly for marketing services, print and design and media services. There are also some ICT infrastructure contracts which are not required by Perth and Kinross at present. Information on the collaborative contracts in use will be included in the annual report on tenders accepted, which is due to be considered by this committee in June 2016.</p> <p>Funding for the development of systems to capture detailed information as described by Audit Scotland was included in the transformation bid approved by Council as part of the Building Ambition Transformation programme. At present best practice and benchmarking information is being gathered, early indications are that the higher and further education sector have developed the most advanced set of tools and arrangements are in place to work collaboratively to explore the options to extend this tool to Councils.</p> <p>A methodology for the calculation of savings has been developed in preparation for reporting against the objectives set out in the procurement transformation project. This methodology was devised in consultation with the Council's Financial Controllers.</p> <p>The application of these professional disciplines more consistently and across a broader range of contracts is one of the foundations of our reform work, supported by the transformation funding and included in our Procurement Strategy 2016.</p> <p>The PCA has been replaced since the Audit Scotland report was published. The areas of focus identified have all shown progress since the 2014 report. Use of the electronic tendering platform drives the development of contract strategies. The Council's Contract Register has consistently reported coverage in excess of 80% of spend for several years. There are legitimate circumstances for spend not appearing on the register, such as low value, one off purchases, sundry payments and expediency orders (where the goods cannot be sourced from the existing contract).</p>

Audit Scotland Recommendations	PKC Actions
<p>Council's corporate management teams should:</p> <ul style="list-style-type: none"> • Benchmark their procurement staffing against similar-sized councils with higher PCA scores and, where appropriate, produce a business case for employing additional qualified procurement staff where they have lower staffing levels • Examine the benefits of joint working or joint procurement teams as a way of securing economies of scale and creating collaborative contracts 	<p>The funding bid submitted under the Transformation programme brings levels up from 3.74 FTE's in the procurement team to 8.74. Although this is a lower resource level than comparable Councils, our resource is supplemented by the Tayside Procurement Consortium officers (4FTE). There is also further work underway to identify service based procurement resource and optimise collaboration across Services.</p> <p>Since 2008 Perth and Kinross Council has been a partner in a collaborative procurement service, (Tayside Procurement Consortium) sharing resource and contracting efficiencies with Dundee City Council and Angus Council. This well established model has been recognised as an exemplar of good practice. Further opportunities for enhancing the collaborative approach across Tayside to procurement are being explored.</p>