
***Auditor General for Scotland
Improving Public Sector Purchasing
(July 2009)
Local follow up report***

South Lanarkshire Council

September 2011



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Summary of Findings

Introduction

Our work in respect of procurement follow up was undertaken during July 2011 through discussion with appropriate officers and review of relevant documentation.

Based on the results from the 2010 Procurement Capability Assessment (PCA) and Audit Scotland's procurement questionnaire there are three key areas that we considered:

1. Commitment to achieving improvements in purchasing practice based on the PCA process - Section 2;
2. System of delegation and authority for purchasing - Section 3; and
3. Purchasing strategy, supported by good information to secure savings and other benefits from better purchasing - Section 4.

Detailed Findings

Overall, South Lanarkshire Council (the Council) was able to demonstrate some improvement in its procurement arrangements with a PCA score of 11% in 2009 increasing to 23% in 2010. However the SLC score is still in the 'non conformance' grading category, below 25%.

The assessment team did note that the Council has begun to lay strong foundations for the delivery of future procurement benefits and acknowledged that the Council was already aware of the areas where development is required and noted a clear commitment could be seen from senior management towards the development of the procurement service.

The 2010 PCA highlighted the following areas as requiring the greatest focus from the Council:

- Creation of a procurement strategy;
- The need for standard processes across the council;
- The implementation of contract strategies detailing key data and consultation; and
- Extended supplier management.

Our detailed findings are set out in subsequent sections 2 to 4.

A detailed action plan is contained within Appendix A, including management responses, agreed implementation dates and responsible officers.

Section 1. Introduction

Report Background

- 1.01 The joint Accounts Commission and Auditor General for Scotland report, *Improving Public Sector Purchasing* was published in July 2009. The report examined the progress and impact of the Public Procurement Reform Programme, introduced in 2006, with the aim of improving public sector purchasing practice and the generation of substantial savings. In summary the report highlighted:
- The public sector in Scotland was improving its purchasing and making some savings. However some expected savings had been delayed and there was uncertainty about how future savings would be made, measured and reported.
 - More widely, the procurement reform programme had improved cross-sector working and helped purchasing activity on a number of levels – from promoting and developing purchasing skills and awareness to increasing the use of electronic purchasing. The scale of improvement however was difficult to quantify and there was wide variation across public bodies in the quality of purchasing data, practice and skill levels.
 - Best Practice Indicators (BPIs) to help improve purchasing had been agreed but many public bodies were still in the process of completing and using them.
 - Overall there was potential for the public sector to buy goods and services more efficiently and deliver more significant savings through increased collaboration and better management.
- 1.02 The 2009 Scottish Government report highlighted the need for greater assurance on the quality of purchasing practice in 150 public bodies each purchasing more than £1 million of goods and services a year. In July 2009, it introduced a new assessment tool, the Procurement Capability Assessment (PCA). This is an annual evidence-based assessment to monitor how far public bodies adopt good purchasing practice and is used as a basis for sharing best practice and promoting continuous improvement across the public sector.

Follow Up background

- 1.03 The current economic climate means that more than ever, the public sector needs to find cash savings without cutting services or quality. Therefore, Audit Scotland has requested that local auditors undertake a follow up review in this area, in order to assess how well public bodies are doing to ensure that they can demonstrate value for money when purchasing goods and services.

1.04 Audit Scotland has issued a standard checklist for all local auditors to complete. This checklist covers three areas.

1. Commitment to achieving improvements in purchasing practice based on the PCA process;
2. System of delegation and authority for purchasing; and
3. Council's purchasing strategy.

1.05 Our work consisted of completing the Audit Scotland questionnaire and reviewing supporting documentation where available. We did not undertake a detailed audit and the purpose of this report is to provide additional information to Audit Scotland only. During the course of our work we identified areas where South Lanarkshire Council may wish to consider further as they continue to implement improvements within its purchasing arrangements and these have been highlighted within Sections 2-4 where applicable.

1.06 Please note our observations in respect of the Council's procurement arrangements may contribute to the publication of a national follow up report by Audit Scotland.

Acknowledgements

1.07 We would like to thank all staff at SLC for the cooperation and goodwill we received during the course of our fieldwork.

Section 2. Commitments to Improvements in Purchasing Practice based on the PCA process

2.01 Set out below is a summary of our main observations, based on audit Scotland's checklist in this area:

Procurement Capability Assessment

2.02 The Council was able to demonstrate improvements in its procurement arrangements since 2009.

2009 – 11% 2010 – 23%

2.03 The Council score is still in the 'non conformance' grading category, below 25%. However, the assessment team noted management has started to lay strong foundations for the delivery of future procurement benefits.

2.04 The PCA assessors acknowledged that the Council was already aware of the areas where development is required and noted a clear commitment could be seen from senior management towards the development of the procurement service.

2.05 Improvements were made in the following specific areas:

- The establishment of the central procurement unit;
- Creation of processes to provide improved formal governance; and
- The completion of the e-procurement implementation.

Improvement plan

2.06 An Improvement Plan is being developed following the 2010 PCA. The Improvement Action Plan is being developed alongside the Procurement Strategy that has been drafted and at the time of preparing this report was awaiting final approval. To bridge the gap between the PCA and approval of the Procurement Strategy and Procurement Improvement Plan a 'Quick Wins' Action Plan was developed. This was able to focus attention in the short term and ensure immediate progress could be made to develop the procurement service. On the 13 September 2011, the Procurement Strategy was approved by the Council.

Actions taken by senior management and the Risk and Audit Scrutiny Forum

2.07 The findings of the 2010 PCA were reported at the Risk and Audit Scrutiny Forum and Corporate Management Team (CMT) in March and April 2011 respectively. The CMT has endorsed the SLC response to the PCA and plans for the future. The development of the Procurement service is being considered at a senior level with the acting Director of Finance and Head of Finance taking responsibility for taking improvements forward. Regular reporting is in place through the Finance & IT Resource Committee, Financial Strategy Group and Procurement Network.

2.08

Recommendation

While the Council demonstrated improvements across the PCA from 11% in 2009 to 23% in 2010, the improvements were from a very low level of performance. The Council continues to be graded as non-conforming and received a score below the national average for Local Authorities of 32%. The Improvement Action Plan to address the areas for development is included within the Procurement Strategy currently awaiting approval. Management should ensure the Procurement Improvement Action plan is finalised as soon as possible to ensure work is appropriately focused to deliver improvement. The Action Plan should be prioritised to ensure the areas with the greatest potential to deliver benefits are addressed first.

Action 1

Section 3. System of Delegation and Authority

3.01 Set out below is a summary of our main observations, based on audit Scotland's checklist in this area:

Delegation of purchasing authority

3.02 The Council has a defined Scheme of Delegation which details authorities to procure goods and services. The Scheme of Delegation is supported and enforced through the Standing Orders on Contracts and managed automatically through the e-procurement system. The Head of Finance remains responsible and accountable for procurement throughout the council.

Influence of procurement function with respect to spending

3.03 The Procurement Department is beginning to exert increased influence on the procurement of goods and services across the Council, estimated at being involved in around 60% of expenditure on goods and services. This balance however remains below the 70% target implied by the PCA for an Authority of this size. The procurement action plans already include further areas to increase this influence, for example through the establishment of individual procurement team plans and use of benefits tracking by each team, assisted by contract registers and ongoing reporting from the e-procurement system.

Internal Audit

3.04 The procurement department was found to have been subject to Internal Audit reviews on an ongoing basis. A detailed follow up review of a 2007 McClelland review was included in the 2010 internal audit plan. Internal audit reviews in all areas commonly include consideration of authority levels and compliance with standing orders and the scheme of delegation. A review of i-procurement across the Council is included in the 2011/12 annual plan.

3.05 **Recommendation**

Internal Audit was found to be supporting the procurement department and including operational and compliance reviews within their annual audit plans. However, the Internal Audit function could further support the procurement department by assisting with the PCA return. Internal audit by its nature has experience reviewing supporting documentation and assessing if evidence is appropriate and sufficient to validate a process. A review of any future PCA submission prior to the grading exercise could help the Council ensure processes are presented in the best way possible and achieving a score reflective of their procurement developments.

Action 2

Section 4. Purchasing Strategy

4.01 Set out below is a summary of our main observations, based on audit Scotland's checklist in this area:

Procurement strategy

4.02 The Council is still without an up to date approved Procurement Strategy. A draft strategy has been prepared but is still out for consultation. The PCA has highlighted to the Council the importance of completing the revised procurement strategy and included this as one of the key PCA recommendations.

4.03 A central focus of the current consultation process is how the centralised Procurement Department relationship with the Council's Resources will operate and where responsibilities will lie. As well as the time required to gain approval for the revised Procurement Strategy it will take time to embed and re-focus the relationships between the centralised unit and the various Council Resources.

Reporting procurement performance

4.04 The Head of Finance, responsible for Procurement, chairs the Procurement Network and sits on the Financial Strategy group, both of which receive regular monthly reports of procurement activity. In addition the Head of Finance meets with procurement managers on a weekly basis to discuss ongoing procurement activities. These reporting procedures are supported by quarterly benefits reports and Key Performance Indicators (KPIs).

4.05 The KPIs are being considered as part of the procurement strategy review. A revised suite of KPIs will be developed and monitored on a quarterly basis through the 'Improve' performance monitoring system.

Procurement savings

4.06 Cash savings targets are established in procurement department team plans and are part of the financial strategy each year. The Council recognises the key role Procurement has to play in identifying savings. The Finance Strategy to 2013/14 includes assumed cumulative procurement savings to ensure budgets are balanced over the period of the spending review. This is to be achieved in part through the identification of efficiencies in contract spend and renegotiation of contracts. In 2010/11 an efficiencies target of £1 million was reported as exceeded, in main due to the collaboration of Councils and the Scottish Government for utility contracts.

Collaborative procurement

4.07 The Council is active in collaborative procurement networks; examples include: the centres of expertise (CoE), Procurement Scotland, ad-hoc collaborations with other Councils, Clyde valley Partnership collaboration, and the National Category Forums.

Appendix A: Action Plan

Recommendation	Management Response, Responsible Officer and Implementation Date
<p>While the Council demonstrated improvements across the PCA from 11% in 2009 to 23% in 2010, the improvements were from a very low level of performance. The Council continues to be graded as non-conforming and received a score below the national average for Local Authorities of 32%. The Improvement Action Plan to address the areas for development is included within the Procurement Strategy currently awaiting approval. Management should ensure the Procurement Improvement Action plan is finalised as soon as possible to ensure work is appropriately focused to deliver improvement. The Action Plan should be prioritised to ensure the areas with the greatest potential to deliver benefits are addressed first.</p>	<p>Management Response: Agreed – the Procurement Strategy has been approved by the Finance and IT Resources Committee (13 September 2011). The Procurement Strategy includes an Action Plan.</p> <p>Responsible Officer: Paul Manning, Executive Director</p> <p>Implementation Date: Complete</p>
<p>Internal Audit was found to be supporting the procurement department and including operational and compliance reviews within their annual audit plans. However, the Internal Audit function could further support the procurement department by assisting with the PCA return. Internal audit by its nature has experience reviewing supporting documentation and assessing if evidence is appropriate and sufficient to validate a process. A review of any future PCA submission prior to the grading exercise could help the Council ensure processes are presented in the best way possible and achieving a score reflective of their procurement developments.</p>	<p>Management Response: Agreed – Internal Audit will be consulted on their input to the preparatory work for the CPA.</p> <p>Responsible Officer: Paul Manning, Executive Director</p> <p>Implementation Date: By end September 2011</p>

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