



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

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Eich cyf/Your ref
Ein cyf/Our ref:- SF/JD0123/06

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Deas Janet,

FURTHER UPDATE ON THE AUDIT COMMITTEE REPORT (2) 02-05

PROCUREMENT IN THE HIGHER EDUCATION SECTOR IN WALES

The Committee was last updated about the recommendations in the Audit Committee Report 'Procurement in the HE sector in Wales' in May 2005.

One of the recommendations was that the Higher Education Funding Council for Wales should update the Committee in twelve months.

I am pleased to be able to provide you with that update.

Yours

Jane Davidson AM
Minister for Education, Lifelong Learning and Skills

Report for the Audit Committee of the National Assembly for Wales.
12 month update on progress on Procurement in the Higher Education Sector in Wales.

During the twelve months since the Committee Report into 'Procurement in the Higher Education Sector in Wales' was published, the Higher Education Funding Council for Wales (the Council) has been active in implementing the recommendations laid out in the report.

The Council appointed a new procurement manager to work with the sector in July 2005. The procurement manager has attended meetings with all Institutions, to set up a procurement support link, through which regular day to day contact can be made. The Council appointed consultants to conduct Procurement Fitness Health Checks at each of the twelve Institutions in Wales. These have now been completed and reports on each institution have either been completed or are in preparation. The Council has produced its own Procurement Policy and Strategy Action Plan documents to cover its work with the HE sector. These are attached for information. The Council arranged a Procurement Seminar for the sector on 14th March 2006, to look at the sector wide themes and recommendations that have arisen as part of the fitness health check programme. The event made recommendations for the Institutions, the Consortium and the Council to consider taking forward.

The Council has provided three year funding to the Higher Education Purchasing Consortium Wales (HEPCW), which has resulted in the consortium being able to appoint a new Consortium Procurement Manager who took up the post in February 2006. The Further Education Purchasing Consortium Wales (FEPCW) has now become a member of HEPCW. This will result in wider collaboration across the HE/FE sectors.

The Council has actively encouraged the sector to put forward proposals for additional funding for procurement projects, under the 'Making the Connections Improvement Fund'. At the time of writing this report, two expressions of interest have been submitted by individual Institutions, and one from the HEPCW. The Council has strengthened its ties with the Assembly's 'Value Wales Procurement Team' to ensure that its procurement policies accord with those of the Assembly and to ensure that procurement best practice is communicated as widely as possible. The Council has also continued to be involved with the work of the Assembly's 'Business Procurement Taskforce'.

The report overleaf takes each of the Committee's recommendations in turn and covers the progress made to date.

Recommendation 1 - The Council implement as soon as practicable the measures that it has announced to improve the level of expertise, undertake procurement fitness checks at each institution and develop the consortium approach.

The Council appointed a new procurement manager in July 2005, who has been working closely with the HE sector on the implementation of the recommendations laid out in the report. The Council awarded a contract to PMMS Consulting Group in June 2005 to undertake the Procurement Fitness Health Checks at each institution. All twelve institutions have now undertaken their fitness health checks and ten have received their draft fitness health check action plans. Four institutions have agreed their action plans and have begun their implementation phase. The remaining institutions, who have received their draft reports, are close to finalising them. The fitness health checks identify institutions without adequate procurement expertise and make recommendations for improving that expertise. The Council is monitoring the implementation of the action plans, as they are agreed by each institution. The Council will be requiring institutions to report every six months on progress of their agreed action plans and the Council's procurement manager is providing ongoing assistance and support to institutions where required. The Council is working closely with the Higher Education Procurement Consortium Wales (HEPCW) and approved a bid from the Consortium for funding of £65,000 per annum, for three years beginning 2005 -06. This funding has resulted in the Consortium being able to appoint additional expertise, and a qualified consortium procurement manager took up post in February 2006. This post will again help to achieve many of the recommendations for improvements. It is the intention of the Council, to work closely with the new Consortium procurement manager and consortium staff, to ensure that there is no duplication of effort.

Recommendation 2 - The Council update this Committee on progress within twelve months of the date that this report is published.

Covered by this report.

Recommendation 3 - The Council coordinate activities in line with best project management practice, monitor the implementation of the action plans rigorously, and report on progress periodically to the Assembly Government.

The Council is using its Procurement Policy and Strategy Action Plan documents to ensure best project management. The Council has utilised the 'Value Wales Procurement Strategy Best Practice Tool' in developing its Procurement Policy and Strategy Action Plan documents. Monitoring of the four agreed fitness health check action plans has begun and the Council has built in regular review and reporting stages both directly with each Institution, with the Assembly and internally. Formal progress reporting to the sponsor division of the Assembly took place in September 2005, November 2005 and March 2006. Progress is also being reported via the Council's quarterly meetings with the Assembly's sponsor division.

Recommendation 4 - The Council formally review its plans every year, consulting the Institutions and identifying any changes necessary, in order to maintain the momentum once the initial phases have past.

The Council implemented its own Procurement Policy and Strategy Action Plan documents in December 2005. The Policy and Strategy Action Plans explain how the Council intends to work with the sector to implement the recommendations laid out in the report. (A copy of the documents is attached to this report for information). The Council approved the Procurement Policy and Strategy Action Plan documents in December 2005. HE institutions and other stakeholders, including the Assembly Government, were consulted on the preparation of the Procurement Policy and Strategy Action Plan documents. The strategy document is a three year action plan with a set of rolling actions, which will be reviewed by the Council on an annual basis.

Recommendation 5 - The Council take appropriate measures, including the withdrawal of funding as a last resort, if Institutions persistently fail to cooperate with the reasonable requirements of the Council in respect of procurement. These requirements should accord with those set out in Making the Connections and other relevant Welsh Assembly Government policies for procurement in the wider public sector in Wales.

The Council has communicated to the sector through its Procurement Policy that it will take appropriate measures if institutions persistently fail to cooperate with the reasonable requirements of the Council in respect of procurement. The Council has stated to the sector that it will attach terms and conditions of funding, which will allow it to withdraw grant from a specific institution or institutions, as a last resort. Any such terms and conditions would be attached in accordance with the Further and Higher Education Act 1992. This means that it will be necessary to undertake a process of consultation with such of the following bodies as appear to the council to be appropriate to consult in the circumstances, namely:

- (a) such bodies representing the interests of higher education institutions as appear to the council to be concerned, and
- (b) the governing body of any particular higher education institution which appears to the council to be concerned."

The timescale for consultation would depend upon the scale of funding at stake, but would not normally take more than a maximum of twelve weeks.

The funding to which the conditions would be applied would be proportionate to the amount of expenditure involved in regard to the savings target.

Recommendation 6 - The Council assess the level of expertise available to the sector, and to individual Institutions, and develop an appropriate strategy for ensuring that all parts of the sector have access to sufficient professional expertise. This should be organised to ensure optimum benefit for the sector as a whole.

The Council is currently using the institution's fitness health check action plans to assess available expertise. It is looking at where there are obvious geographic links to obtaining procurement support whether via the HE sector or on a cross sector basis. It is currently encouraging and supporting the sector to make proposals via the 'Making the Connections Improvement Fund', to obtain funding to investigate shared services or cross sector collaboration to obtain procurement expertise. It is also offering the services of its own qualified procurement manager to provide advice and support to individual institutions. The Council's three year funding to the consortium has meant the provision of additional expertise to the sector. The Council arranged a procurement seminar for the sector on the 14th March 2006, to pick up on themes and recommendations that have arisen from the procurement fitness health checks. This provided additional ideas and recommendations for opportunities to obtain procurement expertise. In addition the University of Wales, Swansea, jointly with Swansea Institute of Higher Education and Trinity College, Carmarthen has been awarded a grant from the Council's 'Reconfiguration and Collaboration fund' to scope the potential of sharing services between Institutions, which will include procurement.

Recommendation 7 - The Council require each institution to develop a robust procurement strategy, monitor its implementation and review it regularly. The Council should use professional support, its own or others', to assess the quality of each strategy and recommend improvements if appropriate.

The procurement fitness health check reports will give independent evidence on the robustness and quality of each individual institution's procurement strategy. The reports will make recommendations on improvements. As part of the Council's monitoring of the action plans, it will work with the institutions to improve their procurement strategies where required. The Council is also recommending use of the Value Wales Procurement team for help and support. They have developed a best practise Procurement Strategy Tool, which can help the Institutions in improving their procurement strategy documents.

Recommendation 8 - All Institutions set a savings target of at least three per cent of their current procurement expenditure, in line with the national target in 'Making the Connections' and that the Council assist and monitor the achievement of this target.

This recommendation has been taken forward as part of the Council's 'Making the Connections' action plan. In line with the 'Making the Connections' target, the sector will be expected to generate procurement and value for money savings amounting to 3% of the total procurement budget per annum by 2008, beginning with a target of at least £3.8m in the first year of the programme, beginning 1st August 2005. Subsequent years are also expected to generate at least £3.8m per year, but these will be subject to review in line with the procurement budgets set.

The Council is working with Institutions to secure improvements to procurement systems and practices necessary to deliver their savings targets. The Council has communicated through its Procurement Policy that it expects institutions to use the 'Value Wales Savings Measurement System' to record the savings. The Council will require the HEPCW to report savings on collaborative procurement involving member institutions. Individual institutions will be required to report their savings, as part of their progress updates on fitness health check action plans. The agreed action plans for each Institution, which follows the procurement fitness check, together with collaborative work via the procurement consortium, should ensure that the savings target is met.

The Council's own procurement function will implement a savings measurement system, which will record savings made against each tendered contract. This will enable the Council to evidence its own 3% procurement savings, against its Making the Connection savings target. The measurement system used will be the 'Value for Money Measurement System' implemented by the 'Value Wales' procurement initiative.

Recommendation 9 - Develop their management information to enable them to demonstrate their performance against savings targets.

The fitness health check action plan reports will provide recommendations for institutions to develop their own management information to demonstrate procurement performance, including performance against savings targets. The Council will be monitoring developments, as part of progress on individual action plans. The Council will also monitor this performance as part of annual institutional monitoring. The Council's Procurement seminar for the sector on 14th March 2006 also highlighted recommendations to develop institutions management information to help them demonstrate their procurement performance.

Recommendation 10 - The Council work closely with individual institutions to achieve practical improvements in value for money from their procurement, taking full account of the Auditor General's recommendations on the relevant issues, as well as our own recommendations.

All the above recommendations, and also those contained in the Auditor General Wales's report, were taken into account as part of the production of the Council's Procurement Policy and Strategy Action Plan Document. By annual review and consultation of these documents, the Council can ensure that it works closely with individual institutions, giving them the practical support that is needed. For clarification, the Auditor General Wales's recommendations, together with the Council's response, are attached.

Action taken in response to the recommendations in the Auditor General Wales' report, *Procurement in the Higher Education Sector in Wales*, November 2004

<i>Recommendation</i>	<i>Action taken by HEFCW</i>
<i>To the Council</i>	
(i) Agree with the sector a strategy for achieving the savings targets set out in <i>Better Value Wales</i> and <i>Making the Connections: Delivering Better Services for Wales</i>	Covered by HEFCW procurement policy para 43 and action Plan (no 9) – strategy agreed by 31.7.06 to work with institutions and assist in implementing their individual action plans
(ii) Monitor the implementation of the strategy and hold the institutions to account for their procurement performance	Annual review of policy / action plan (no 10 on Action plan), informal monitoring of institutions' action plans on quarterly basis and formal reporting every six months (nos 12-14 on Action Plan)
(iii) Work with the institutions to secure any improvement to procurement systems and practices necessary to achieve and record the target savings	Extensive work under way to assist institutions, mainly through fitness checks and related action plans, and assistance for HEPCW
(iv) Actively support the expansion of the purchasing consortia based on an agreed a strategy for the sector that incorporates the main targets and recommendations of <i>Connections: Delivering Better Services for Wales</i> . If necessary, the Council should consider providing financial assistance for consortia provided on the basis of agreed targets and effective working with other groups to ensure that most efficient distribution of administrative resources	Financial support from HEFCW and reporting of progress every six months (no 18 on Action Plan)

Recommendation

Action taken by HEFCW

To the institutions:

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| (v) | All institutions revisit their procurement strategies, or where none exists, develop one, in the light of existing guidance. The strategy should include time-related, measurable targets, including financial savings | Fitness checks will assess quality of strategies, action plans will indicate improvements required, and Council will monitor these (covered by recommendation 7 above) |
| | Senior management and the governing body at institutions regularly review the performance of their procurement function, through formal reporting arrangements, both to inform their strategic decisions and to ensure value for money is being achieved | To be covered by fitness checks |
| (vii) | Senior management review their organisational structure to ensure that wherever practicable the procurement manager reports directly to the executive director responsible for procurement | To be covered by fitness checks. |
| (viii) | All institutions consider, individually or collaboratively, the cost-effectiveness of appointing a dedicated procurement officer ensure that their expertise is deployed across the range of capital and current expenditure | To be covered by fitness checks. |
| (ix) | Institutions ensure that their management information is sufficiently developed to provide basic information on suppliers, purchase transactions and process costs. This in turn will facilitate the setting, achievement and monitoring of savings over time within the higher education sector | Fitness health checks will cover this, as will work that the 'Value Wales' management information project is doing with the sector (action plan point 16). |

Recommendation

Action taken by HEFCW

- (x) All institutions develop a robust and balanced performance management system with time-related, measurable targets, including explicit savings targets. Performance against objectives should be reported regularly to senior management
- (xi) The Higher Education Purchasing Consortium Wales (HEPCW) enhance its efforts to expand the coverage of consortium contracts and to introduce new contracts, based on informed judgements on the potential for both financial savings and non-financial benefits. This should include closer working with other consortia to obtain economies of scale in contracting and contract administration
- (xii) Institutions continue to collaborate at local and UK level, and expand such collaboration where there is a clear case for doing so, for example by sharing expertise with smaller institutions, join contracting and spreading best practice. This should include collaboration with other sectors where appropriate
- (xiii) Institutions maintain or develop a suitable supplier management system. This should include a database of approved suppliers, proper vetting of new suppliers and a formal system for
- To be covered by fitness health checks.
- The Consortium has been strengthened by the appointment of a dedicated procurement manager, one of whose functions is to ensure that such developments are pursued where they provide value for money. The FE Consortium is now a member of the HE Consortium and this will therefore provide a more joined up approach to its procurement. There are also several bids being taken forward at present from the HE sector, under the 'Making the Connections Improvement Fund' which are intended to look at cross sector collaboration and the sharing of services.
- To be covered by fitness checks, also by work of the HEPCW consortium and also possibly through several bids that have been submitted to the Assembly under the 'Making the Connections' fund.
- To be covered by fitness health checks.

Recommendation

Action taken by HEFCW

- monitoring the performance of suppliers
- (xiv) Institutions continue their efforts to rationalise suppliers, whilst ensuring that contracts are regularly reviewed to ensure that they remain value for money
- (xv) Institutions make best use of the discount structure they have negotiated for commodity contracts, taking practical measures to increase the use of core items
- (xvi) Where appropriate, institutions consider the benefits to be obtained from partnering and other long-term collaboration with suppliers
- (xvii) Institutions develop a programme of best value reviews for non-core services, which may lead to full market testing, as part of their procurement strategies. This should be based on the evidence available on the likely benefits of market testing for the services considered
- (xviii) Institutions consider sustainable development in their procurement strategy and develop practical measures to advance sustainable procurement, based on available guidance and good practice
- (xix) Institutions review their purchasing systems with a view to adopting greater automation of
- To be covered by fitness health checks.
- To be covered by fitness health checks and also the work of the HEPCW.
- To be covered by fitness health checks.
- To be covered by fitness checks.
- To be covered by fitness checks but also covered in point 6 of the Council's sector action plan.
- HEFCW serves on the WAG's sustainable procurement working group and will share with the sector its results, findings, information and guidance (para 63 of procurement policy)
- To be covered by fitness health checks.

Recommendation

Action taken by HEFCW

transactions where this proves
cost effective.