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Mr Adrian Crompton
Clerk
National Audit Committee
Welsh Assembly Government
Cardiff Bay
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12 December 2003

Dear Mr Crompton

NATIONAL COUNCIL RESPONSES TO NATIONAL AUDIT COMMITTEE REPORTS

(i) Procurement in the Further Education Sector in Wales

The Chair of the Assembly's National Audit Committee wrote to the National Council in October 2003 requesting written responses to a number of questions on **progress with savings from procurement in the further education sector**. The questions relate to the progress report submitted to the Committee by the Council in May 2003, as recommended in the report by the National Audit Office on procurement in the further education sector.

The Committee's request indicated that it would be helpful if our reply could be provided in time for consideration at the Committee's meeting in January 2004. I am pleased to forward the Council's responses to these questions in the attached paper. I trust that the responses provide the Committee with the information it needs, but we will be happy to answer any queries arising.

(ii) Management of the Further Education Estate in Wales

In February 2003, the National Audit Office presented to the Welsh Assembly Government (WAG) its report on the management of the further education estate in Wales. The Assembly's National Audit Committee considered the report and, in its recommendations to the WAG, it suggested that **institutions should address immediately works urgently required under the Disability Discrimination Act 1995**, and that the National Council should report back to the WAG **by December 2003 on the progress being made in addressing the requirements of the Act**. The WAG accepted this recommendation and we understand that this reply is also required for the Audit Committee's meeting in January, the deadline for papers being today, 12 December.



GWETHIO!
SŴRKS!

Following receipt of the WAG request, work was put in hand to support the institutions in meeting the requirements on them, and to identify the progress made. I regret, however, that we are not able to provide our progress report in time for the Committee's January meeting. Internal restructuring and staff changes have adversely affected our usual forward planning to meet such deadlines, and the approaching Christmas break means that staff will not be available to complete the report. We anticipate that the report will be completed by the end of January 2004, which I understand will enable you to put the report to the Committee at its February meeting.

I appreciate that the delay in receiving the Council's report will cause inconvenience in terms of administration and Committee business, and would ask that you convey the Council's sincere apologies to the Chair and Members of the Committee. I can assure you that we will ensure that we meet future agreed Audit Committee reporting deadlines. With this in mind, Council officers are in discussion with Assembly officials to confirm the Assembly's expectations in this regard from 2004, and to set up a schedule for developing and forwarding updates and reports as required.

I hope that this provides you with the information you need at this stage, but please contact my colleague Mrs Lesley Virgin, Head of Compliance (telephone: 01443 663736), if you have further queries.

Yours sincerely



Dr Peter Higson

Acting Chief Executive

enc

cc

Sir Jon Shortridge KCB, Permanent Secretary

Mr Neil Thomas, Head of Lifelong Learning Division

Mr David Powell, Assembly Compliance Officer

Sir John Bourn KCB, Auditor General for Wales, National Audit Office Wales

Ms Gillian Body, National Audit Office for Wales

PROGRESS BY FURTHER EDUCATION INSTITUTIONS IN ACHIEVING COST SAVINGS THROUGH IMPROVED PROCUREMENT PRACTICE

Response to written questions put to the National Council for Education and Training for Wales by the Audit Committee of the Welsh Assembly Government

December 2003

The questions put by the Audit Committee relate to the report the National Council submitted to the Committee in May 2003. Text in *italic* shows the Committee's comments on the Council's report.

Financial savings

*Table 1 after paragraph 9 of the National Council's report states that the further education sector saved £2.3 million over the 16 months to December 2002, against the Council's target (as set out in the former Accounting Officer's evidence to this Committee) of three per cent, or some £2.5 million, **cumulatively** each year. The savings achieved by the sector are very welcome. However, they are equivalent to some £1.7 million over 12 months - some £0.8 million or 32% short of the Council's £2.5 million target.*

Question 1: Why did the sector fail to meet this target for the first year?

The Council considers that the initial reported savings are understated due to the absence of adequate management information at institutions. However, the Council took the view that prudence in the reporting of savings would be the preferred approach.

Slow initial take-up in the use of the Consortium contracts was primarily due to internal resistance to using the Consortium's new contracts. Institutions had particularly good relationships with local suppliers. There were internal and external pressures to use local suppliers, as a matter of colleges' policy designed to support local SMEs, as opposed to using national and international organisations.

The savings generated were affected by the Consortium's strategic decision that the initial contracts let focussed on low value commodities. Savings were also affected by the lack of a co-ordinated approach within institutions to procurement activities.

Question 2: The Auditor General published his report on Procurement in the Further Education Sector in Wales two years ago in September 2001. What is the current level of savings - has the sector achieved the target of some £5 million over the two years?

The National Council's report in May 2003 showed that:

- Savings achieved by the sector between August 2001 and December 2002 had accumulated to £2.3m – representing annual savings of approximately 2% of the sector's non-pay expenditure.
- The number of institutions employing dedicated procurement staff had increased from 5 to 10.
- The total number of dedicated procurement staff had increased from 11 to 17.
- The work of the Welsh Further Education Consortium (the Consortium)) was making an increasingly significant contribution to the achievement of savings, and to improving procurement practice throughout the sector.

These were significant improvements compared to the situation described in the Auditor General's report in September 2001.

Information collected from institutions in September 2003 shows that there has been further improvement, including in terms of financial savings.

- The cumulative savings achieved to August 2003 shows an increase to £3.65 million.
- Information supplied by the Consortium shows that spend on contracts between August 2002 and July 2003 more than doubled to £5 million compared with the same period in the preceding year, generating savings of £537,000. This exceeded the savings of £400,000 anticipated for the period in the Council's report of May 2003.
- The sector has achieved cumulative savings of some 4.6% of annual non-pay-expenditure over the 2-year period from August 2001 to July 2003. We do not have an exact annual breakdown because the first analysis was undertaken after 16 months. However, looking particularly at the build-up of the Consortium's contracts and the sector's increased usage of these contracts, we estimate that the savings in 2001-02 were approximately 1.8% of annual spend, increasing to some 2.8% in 2002-03. So the sector is getting very near to the annual target of 3%.

This is a significant achievement.

Question 3: What prospect is there that you will recover this position?

Achieving the full annual target of 3% or £2.5m in the first year was not realistic. The improvement of procurement activities across the sector was inevitably going to be a cumulative process.

It is unlikely that the shortfall against the annual target for the first two years will be recovered.

Question 4: Given the difficulties apparently experienced by the Further Education sector in meeting this target, does the Council have the sector's commitment to this target?

The potential current and future savings varies from institution to institution. In some institutions, it is appropriate that the target should be more than 3%, whilst at others, particularly on an ongoing basis, a 3% target would be difficult to maintain.

The National Council believes that the sector is committed to securing best value for money in procuring goods and services. *fforwm* is also committed to savings in the sector, as demonstrated by its commitment to underwrite the costs of the Purchasing Consortium's activities and to promote the sharing of good procurement practice.

Purchasing Consortium

The Further Education Purchasing Consortium's contracts still only represent five per cent of the sector's non-pay annual spend (paragraph 12 of the National Council's report).

Question 5: What is the Council doing to support the work of the Consortium and increase the amount of expenditure going through the Consortium?

The National Council, working within the powers available to it, has been very pro-active in providing advice and guidance to the sector on procurement matters. The National Council and the former FEFCW together provided the Consortium with total funding of £115,000 up to April 2003 for set-up costs, legal advice on contracts and the time of staff from individual colleges deployed to the Consortium. *fforwm*, the association of FE colleges in Wales, is now taking over this role, underwriting the costs of the Consortium's activities and promoting the sharing of good practice.

Question 6: For those Consortium contracts which have been let, are all institutions required to use them?

All colleges now make use of one or more of the Consortium's contracts. The institutions are autonomous, self-governing organisations, originally established under the Further and Higher Education Act 1992. Responsibility for operational matters lies with the individual colleges. The National Council does not have the power to make it compulsory for institutions to use Consortium contracts. However, it has encouraged all institutions to optimise the use of Consortium contracts.

Question 7: to what extent are institutions capable of achieving savings from procurement not involving the Consortium?

The potential for achieving savings from procurement not involving the Consortium again varies from institution to institution. Some institutions, particularly those which have established a professionally-staffed procurement unit are achieving substantial savings on goods and services not covered by the Consortium contracts.

Of the sector's reported cumulative savings of £3.65m during the period August 2001 - August 2003, some £0.8m has resulted from the use of Consortium contracts. Therefore, 78% of reported savings are being achieved from procurement activities not associated with the Consortium.

The barriers to good procurement practice

Paragraph 24 of your report identifies procurement expertise and the resource gap as the principal barrier to progress on both good practice and savings.

Question 8: What is the Council doing to ensure improvements in these important areas?

The National Council, in discussion with *fforwm* and the National Assembly's Welsh Procurement Initiative Team (WPIT) is currently considering an initiative to provide some incentive funding to institutions to employ professionally qualified staff. Due to budgetary constraints in 2003-04 it is anticipated that the Council will implement the initiative in 2004-05, following further discussion with the sector in the meantime on the precise mechanics of the scheme.

The National Council welcomes ongoing work by the WPIT and consider that the FE sector will particularly benefit from the following

- Continuation of the WPIT professional procurement training strategy;
- The development of a common Savings Measurement methodology for the entire Welsh public sector; and
- Improving FE institutions' existing procurement strategies through use of the template to be issued by WPIT by December 2003.

Question 9: What is the current position as regards the spread of procurement expertise throughout the sector?

- The number of institutions employing dedicated procurement staff has increased from 10 to 14.
- The total number of dedicated procurement staff has increased from 17 to 21.
- The number of professionally qualified staff is now 7.
- The number of staff studying for qualifications has further increased to 7.
- In addition a total of 17 staff have attended procurement and contract management courses arranged through the WPIT's contract with training provider PMMS.