



# Supply Chain Intelligence

May 2025



# Introduction

Scotland Excel first started providing Supply Chain Intelligence updates to inform members of the key challenges facing suppliers whilst navigating the Covid-19 pandemic. The report has since evolved to reflect the changing and complex challenges faced by suppliers over recent years, including the cost-of-living crisis and record levels of inflation, international wars, post-Brexit trading legislation, environmental and climate change, funding, and the effects of policy changes to suppliers.

In providing these updates to members, key themes impacting suppliers across Scotland Excel's portfolio of frameworks have emerged. Going forward, Supply Chain Intelligence updates will set out the supplier landscape in the context of the following key drivers of disruption and change impacting suppliers:

[The Economic Outlook](#)

[Global Market Security](#)

[The Labour Market](#)

[Policy and Funding](#)

[Environmental Change](#)

[Technological Change](#)

The update will set out key developments related to these themes, and consider the effect of these themes on the businesses delivering public services in Scotland and for members. Please click on underlined content for further information relating to the topics explored.

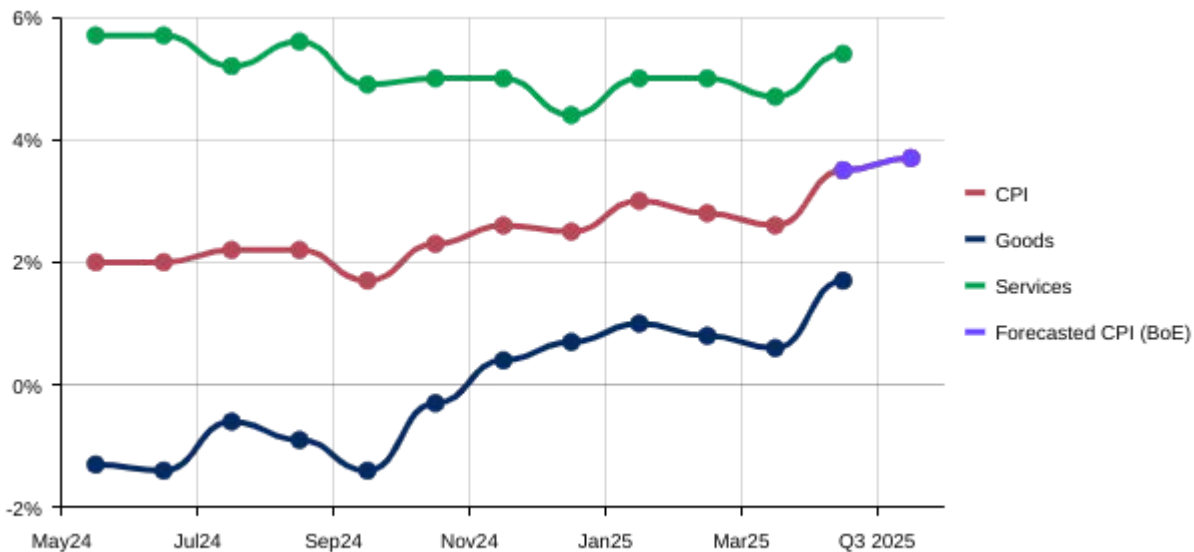
Scotland Excel is committed to sharing intelligence that can support members in planning for and navigating market uncertainty. In 2025, Supply Chain Intelligence updates will be shared with members on a bi-annual basis.



# The Economic Outlook

The economic outlook influences the output and productivity of suppliers, and the purchasing power and patterns of purchasing authorities.

## Inflation and Price Fluctuations



**Figure 1: CPI, Goods, and Services Inflation to April 25 (ONS)**

Figure 1 outlines the rate of price increases for the Consumer Price Index (CPI), Goods, and Services over the 12 months to April 2025. The CPI rate rose to 3.5% in the 12 months to April 2025, up from 2.6% in the 12 months to March 2025.

This increase was attributed to an increase in household bills, alongside rising employment costs for businesses. Rising costs are expected to continue to impact businesses and consumers throughout 2025. It is anticipated that the CPI will increase to 3.7% in the third quarter of 2025.

Higher costs associated with the persistently high rate of service inflation continue to put financial strain on businesses. Although goods inflation has risen, it is rising at a slower rate than for services. Service inflation rose to 5.4% in the 12 months to April 2025, in comparison to 1.7% for goods over the same period. The rate of price increases for services is expected to continue to exceed the rate for goods, as businesses face higher employment costs associated with employer's national insurance contributions and rising wages.

Suppliers must continue to navigate rising costs related to the service-based aspects of supply chains including labour, transport, and logistics. Increasing service costs may result in higher goods prices, as suppliers try to offset rising costs through raising their own prices.

### **Interest Rates**

On May 8th 2025, the BoE reduced the interest rate to 4.25%. The decision to cut the rate was attributed to the slowing rate of inflation in the 12 months to March 2025, despite the rate remaining above the target rate of 2%.

In the previous update, Scotland Excel highlighted that there was cautious optimism that the interest rate would fall throughout 2025. The International Monetary Fund has forecasted two more interest rate reductions by the end of 2025. However, there is some uncertainty around the rate at which the interest rate will be reduced, following the rise in inflation to 3.5% in the 12 months to April 2025.

The BoE has confirmed that they will take a gradual and cautious approach to reducing the interest rate, as rising global trade tensions create an uncertain outlook for the global economy. A gradual reduction in the interest rate will provide some relief to businesses by lowering the cost of trading and encouraging economic activity.

### **Business Outlook**

Rising service costs and high interest rates will continue to put pressure on business activity in 2025. Business confidence is low, as firms are braced for the effects of rising employment costs and amid global market uncertainty.

Although business confidence is low, there has been a decline in assignment notifications from suppliers on Scotland Excel frameworks in 2025. Scotland Excel has robust supplier management processes in place and will continue to monitor developments to the factors impacting supplier sustainability.

Scotland Excel will continue to work with suppliers to minimise disruption to service delivery and ensure that members have timely access to goods and services at the best available value through frameworks.



# Global Market Security

The security of global markets relies on the resilience of supply chains which are exposed to vulnerabilities at a local, national, and international level.

## **International Trade Tariffs**

An initial series of trade tariffs levied by the United States (US) government on countries including Canada, China, Mexico, and Venezuela have led to global trade conflict. Tariffs are taxes paid on imported goods, which must be paid by those importing the goods. Trade tariffs give a price advantage to goods produced in the tax giving region, and disincentive international trade.

On April 2nd 2025, the US announced a 10% tariff on the import of all goods to the US that took effect from April 5th 2025. This tax directly affects the export of goods from the UK to the US. Retaliatory tariffs on imports from the US have been announced globally, including by the European Union.

On April 10th 2025, the US announced a 90-day negotiation period that would temporarily suspend the implementation of trade tariffs. If no resolution is met within the 90-day period, US president Donald Trump has confirmed that the proposed tariffs will be put in place.

The initial and retaliatory tariffs imposed have shocked international trade and raised concerns of an impending global recession. The rising tension, particularly between the US and China, has contributed to great economic uncertainty with markets trending downturns in anticipation of a potential trade war. On April 3rd 2025, US stock markets recorded the steepest decline in value since the start of the Covid-19 pandemic in 2020 – shedding around \$2.5 trillion in value in a single day.

On May 12th 2025, the US and China announced a 115% reduction of tariffs that would last for 90 days, alongside the suspension or cancellation of some tariffs. This announcement represents a significant de-escalation in tensions between the two countries. The US had previously imposed tariffs of 145% on the import of Chinese goods, whilst US imported goods were subject to tariffs of up to 125% in China. The temporary reduction in tariffs between the countries may boost trade in the short-term, however there remains uncertainty around the long-term outlook globally.

The agreement of trade arrangements between the US and trading partners is expected to bring some stability to global markets. However, the 10% baseline tariff announced by the US is expected to remain in place in most cases, which will affect global commodity and service pricing.

### **US-UK Economic Prosperity Deal**

On May 8th 2025, the UK and US Governments announced the US-UK Economic Prosperity Deal (EPD). Although a formal agreement has not yet been published, the EPD aims to grow trade, remove barriers to business in both regions, and establish a strong economic partnership between the US and UK.

Although trade agreements will provide relief in some commodity areas, the 10% baseline tariff put in place by the US Government will remain in place, impacting the trade of most other goods and services. The rising costs felt globally will impact supply chain pricing and sustainability, weaken the global economy, and reduce the demand for goods and services in international markets.

Table 1 summarises the key trading changes announced in the US-UK EPD in the context of the relevant category areas of Scotland Excel's portfolio of frameworks.

Scotland Excel Category Area	Impacted Commodities	US-UK Trade Agreement
Construction, Transport, and Environment	<ul style="list-style-type: none"> <li>• Steel</li> <li>• Aluminium</li> <li>• Vehicles</li> </ul>	<ul style="list-style-type: none"> <li>• Removal of the 25% tariff rate on UK Steel and Aluminium exports to the US.</li> <li>• Reduction of tariff on British cars from 27.5% to 10% for the first 100,000 vehicles exported to the US each year, with the vehicle parts required for these cars to receive special trade treatment.</li> </ul>
Food	<ul style="list-style-type: none"> <li>• Beef</li> <li>• Ethanol</li> </ul>	<ul style="list-style-type: none"> <li>• Removal of 20% tariff on beef by UK Government, giving US farmers access to UK market.</li> <li>• UK farmers given access to tariff-free quota of 13,000 metric tonnes of beef.</li> <li>• Removal of UK tariff on ethanol for US businesses, which is used in alcohol production.</li> <li>• No compromise on UK food standards and security, as imported goods must comply with UK sanitary and phytosanitary standards.</li> </ul>
Digital	<ul style="list-style-type: none"> <li>• Digital Goods</li> </ul>	<ul style="list-style-type: none"> <li>• Commitment to negotiating a digital trade deal that enables easier access to US market for UK firms.</li> </ul>

**Table 1: The Impacts of the US-UK EPD to Public Procurement**

The effects of tariffs to goods made available to members through Scotland Excel's portfolio of frameworks will vary. Whilst the trade of some commodities will be directly impacted, the effects of trade tariffs and global market uncertainty are most likely to affect public sector supply chains indirectly, through factors including rising global inflation, and slowing trade and investments. The short and long-term impacts of the proposed tariffs will become clearer as negotiations progress, and businesses adjust trading strategies in response to the evolving market landscape.

Scotland Excel will continue to monitor the implementation and effects of tariffs and trade arrangements as they occur, with a particular focus on those impacting the portfolio of frameworks.



# The Labour Market

The efficient, sustainable, and socially responsible delivery of goods and services relies on the availability and cost of employment for suppliers.



## National Insurance Contributions

From April 6th 2025, the rate at which businesses are taxed for National Insurance Contributions (NICs) increased to 15%, up from 13.8% last year. In addition, the threshold at which National Insurance is activated has been reduced from £9,100 to £5,000. These changes will drive up the cost of employing staff for businesses and are creating financial sustainability concerns across all sectors.

A survey by the Fraser of Allander Institute highlighted that 78% of businesses are facing higher payroll costs as a result of the NIC increase. To adapt to the higher costs:

- 49% of businesses have adjusted pricing strategies or passed costs on to customers.
- 47% of businesses have reduced hiring and employment plans.

The impact of this tax to suppliers will become evident over the coming months as businesses adjust their pricing and output strategies in response to the higher costs. Suppliers face complex decisions relating to pricing, productivity, employment, and financial sustainability. The rising cost of employment is expected drive up prices throughout public sector supply chains, particularly impacting suppliers with many employees or high staffing costs, such as in the delivery of services.

Scotland Excel will continue to engage with suppliers to mitigate the effects of increased costs to members, whilst ensuring fair and ethical working conditions throughout supply chains.

### **Changes for International Workers in Care**

In May 2025, the UK Government announced plans to end overseas recruitment for social care workers. These plans will impact the availability of labour for social care providers, particularly those with existing staffing shortages and who rely on the recruitment of international workers. The plans have been condemned as damaging to the Scottish Social Care Sector by Scottish Care, who highlighted a disproportionate impact to rural and island communities in which internationally recruited workers make up over 25% of the workforce.

From April 2025, the minimum salary requirement for international workers coming into the United Kingdom on sponsorship certificates was raised from £11.90 per hour to £12.82 per hour. This new requirement impacts social care providers in Scotland, where the Scottish Government's Social Care Pay Uplift is £12.60 per hour. The increase in wage rate creates higher costs for businesses who employ staff on sponsorship certificates.

Rising costs and barriers related to the recruitment and employment of skilled care workers will put additional pressure on the delivery of care services in Scotland.

### **Strikes**

Care staff at Enable Scotland will take industrial action in dispute over pay, marking the first national care strike in Scotland in over 10 years. Trade union UNISON, who represent around 600 workers at Enable Scotland, has confirmed that the industrial action will take place over 5 days, commencing on May 29th 2025.

Strike action is arranged to take place in local authority areas including East Renfrewshire, Aberdeenshire, Moray, Ayrshire, Edinburgh, and Glasgow. UNISON has stated that life and limb cover has been agreed with Enable Scotland to protect the provision of care and ensure a minimum level of service will be delivered whilst the strikes take place.

Scotland Excel will continue to monitor the impacts of industrial action across its portfolio of frameworks, and work with suppliers to understand the impacts of strike action on service delivery.



### **Scotland Excel Suppliers**

Commodity Type	Range	Average
Goods	15% - 16%	15%
Works	25% - 54%	40%
Services	24% - 80%	53%
Social Care Services	75%	75%

**Table 2: Staffing Costs of Council Expenditure**

The effects of rising costs of employment will impact suppliers across Scotland Excel's portfolio of frameworks. Table 2 shows the estimated labour costs as an approximate percentage of annual spend for suppliers providing Goods, Works, Services, and Social Care Services.

These estimates were calculated using tenderer price driver templates that are available for some Scotland Excel frameworks. Collation of data and the level of information available varies across contracts, the analysis represents an estimated cost of labour for each commodity type. An exact calculation of the increase would require the employment and bill data of all suppliers providing goods and services to local government.

The effects of the rising costs of employment will vary across public sector supply chains. Although higher costs of employment will impact all businesses, the extent and type of impact will vary depending on organisational cost structures. The staffing costs of service-based suppliers are higher than that of works and goods-based businesses. The rising employment costs will have a proportionately higher impact to service-based suppliers, such as those delivering social care, security, and waste services.

Although the staffing costs are comparatively lower for goods-based suppliers, these businesses will feel the effects of rising employment costs. Goods suppliers are also exposed to uncertainties such as the potential impacts of tariffs, and commodity price rises which vary across Scotland Excel's portfolio of frameworks.

As businesses adjust operations to accommodate higher costs and remain financially sustainable, the quantity and quality of Goods, Works, and Services may be subject to disruption. In the case of suppliers citing rising employment costs in price variation requests, Scotland Excel will continue to take an evidence-based approach to effectively and appropriately respond.

Across the national social care portfolio, Scotland Excel intends to apply a consistent approach to fee setting for 2025/26 and apply appropriate uplifts in relation to cost pressures faced. This includes uplifts to reflect cost pressures as a result of changes to employer's NICs. This is tempered by introducing considerations on efficiencies and applying this to fee uplift processes for contracts and services where this is appropriate to do so. Scotland Excel will continue to work with both providers and members to support the sustainability of suppliers whilst ensuring the commercial viability of frameworks.

# Policy and Funding

Funding and policy objectives set out by both the United Kingdom and Scottish government influence the purchasing power and priorities of the public sector.

## **Local Government Funding Landscape**

### **Employer's National Insurance Contributions**

A major driver of financial pressure for both suppliers and public sector organisations is the increase in Employer's NICs announced in the UK Government budget, taking effect from April 2025. The impacts of this tax increase to suppliers are explored in more detail in The Labour Market update.

The funding allocated by the UK Government to support public sector employers did not fully cover the additional costs related to the tax increase for devolved nations. The funding, allocated through the Barnett formula, left significant funding gaps for devolved nations who have proportionately larger public sectors per person than England.

The Scottish Government proposed that the increase will cost between £520 to £550 million in 2025/26 for public sector employers, with around £240 million of this cost attributed to local government by COSLA. The Scottish Government has allocated £144 million of funding to support councils with the direct costs associated with NICs, leaving an unfunded gap of £96 million which councils must close.

Whilst the allocated funding contributes to the direct costs of NIC increases for councils, the funding does not extend to support councils with the increased cost of contracted goods and services associated with the NIC increases. As councils face significant complexities in balancing budgets each year, this additional cost puts long-term pressure on council sustainability.

### **Council Income Generation**

Following a Scottish Government implemented council tax freeze in 2024/25, local authorities had unrestricted control over council tax income generation, which saw rate increases ranging from 6% to 15.6% for 2025/26. The high rate of council tax increases emphasises the financial sustainability challenges faced by councils in Scotland.

The Scottish Government recently closed a consultation relating to Local Authority General Power of Competence. A General Power of Competence is a statutory power that would enable local authorities to take actions previously not carried out by public bodies, a function available to English and Northern Irish councils. Should the outcomes of the consultation lead to a bill being developed, General Power of Competence for local authorities may lead to income generation opportunities for councils.

### **Insourcing Public Services**

In their 2024 manifesto, the UK Labour Government committed to implementing a New Deal for Working People, which commits to reviewing the quality, value for money and workforce investment of outsourced public contracts. The pledge also commits to expanding the use of insourcing across the public sector – this would involve transferring previously outsourced services back under the direct control of public bodies.

Insourcing can provide local government and public bodies with more control over their functions. A widespread shift towards this model would require significant investment including the recruitment or transfer of personnel to the public sector, alongside investment in systems and IT infrastructure. Scotland Excel will monitor developments in this area and ensure that frameworks and services are well positioned to continue to deliver the goods and services that meet the needs of members.

### **Community Wealth Building (Scotland) Bill**

The Scottish Government has introduced a Bill that would require councils to produce Community Wealth Building (CWB) action plans. The Bill is currently at Stage 1 and is open for receiving views until Friday 23rd May 2025. Scotland Excel will monitor the progress of the Bill closely, and engage with the Scottish Government, Parliament, and local authorities throughout the progression of the bill.

Public procurement is recognised within the bill as a mechanism of generating, circulating, and retaining wealth in communities. CWB considerations are embedded within Scotland Excel's portfolio of frameworks. In 2023/24, local authority members delivered over £1,500,000 community benefits to charities and communities through Scotland Excel frameworks. Scotland Excel will continue support members to identify opportunities to leverage procurement spend to support local economies and enhance good practice to deliver further benefits for their communities.

### **Climate Change Duties - Draft Statutory Guidance for Public Bodies**

The Scottish Government opened a consultation for views on Climate Change Duties - Draft Statutory Guidance for Public Bodies. The guidance provides guidance for public bodies in contributing to the delivery of the Scottish National Adaptation Plan, reducing emissions, and operating sustainably.

Scotland Excel is drafting a response for submission to the consultation and will monitor the effects of outcomes to the demands of members and public sector procurement.



### **Adult Social Care Policy Changes**

The National Care Service Interim Advisory Board has now been established and will meet for the first time in May. The board will provide advice and suggest where improvements can be made to social care, social work and community health services. Further details can be found [here](#). The interim board is expected to run for 6 to 9 months, while a recruitment process is undertaken to determine the full board.

Previously referred to the National Care Service (Scotland) Bill, the [Care Reform \(Scotland\) Bill](#) is at Stage 3 in the Scottish Parliament. The bill includes provision for a new reserved procurement process for third sector social care providers. Proposed amendments being considered at stage 3 include a new requirement on Scottish Ministers to publish guidance on continuous improvement in the arrangements for fair work in social care and to regulate for a common standard of fair work indicators to be monitored and reporting against by contracting authorities. Contracting authorities would be required to collect qualitative data through effective voice channels.

Other proposed amendments with potentially significant implications for procurement include the provision of ethical procurement regulations, the establishment of a care finance regulator and a requirement for a timetable for the phased expansion of public provision and not for profit delivery of social care services.

### **VAT Grouping in Care**

The UK Government published a policy [paper](#) relating to the use of Value Added Tax (VAT) grouping within the care industry. VAT groupings allow multiple legal entities under common control to be treated as a single taxable entity. The paper came in response to a growing use of VAT grouping structures by state-regulated care providers to recover VAT on welfare supply costs that would otherwise be exempt. The VAT grouping structures are now considered as a form of tax avoidance by HMRC.

HMRC has stated that it will use its powers available to protect VAT revenue going forward, which may include refusal of VAT group registrations applications. HMRC has encouraged affected care providers using the VAT grouping structures to review their accounting practices and seek professional advice.

Whilst the initial paper sets out HMRC's approach to VAT grouping in the care industry, similar policies may affect grouping structures in other industries in the future.



## **Children's Social Care Policy Changes**

### **Secure Care**

#### **National Contingency Resource**

A new National Contingency Resource has created additional capacity within Scotland's Secure Care service provision. Announced by the Minister for Children, Young People and The Promise on 26 March 2025, Rossie Young People's Trust have now extended their secure care service provision from 18 to 22 beds.

This is in response to capacity difficulties experienced by care providers, which are limiting the availability and choice of secure care services for children in Scotland. Scotland Excel's Children & Families team have worked with Rossie Young People's Trust to vary the contract for Secure Care to include this new capacity as part of national contracts from April 28th 2025.

#### **Reimagining Secure Care**

The Children and Young People's Centre for Justice published their Reimagining Secure Care report on September 27th 2024. The report provides a wide range of potential developments for secure care services in the future – many of which are a move away from the current system and approach.

The Scottish Government are expected to publish a ministerial response to the report before the end of June 2025. Outcomes from the response report will form key considerations for the future of secure care services contracts, and Scotland Excel will monitor developments arising from the response.

#### **The Promise Bill**

The Scottish Government is expected to introduce a Promise Bill to parliament before the summer recess this year. Whilst the details of what the Bill will cover are not presently known, the Bill is expected to implement the legislative changes required to ensure that Scotland makes progress towards keeping The Promise by 2030.

The introduction of the Bill represents a key development in the delivery of The Promise and for the future of children's services. Scotland Excel will monitor the impacts of the Bill to commissioned services, and continue to support the delivery of The Promise through its children's social care frameworks.

#### **Future of Foster Care Consultation Analysis**

The Scottish Government ran a public consultation from October 2024 on the *Future of Foster Care*. The consultation sought views on a vision for the future of fostering in Scotland, all aspects of fostering, and future work in relation to fostering. The Scottish Government is expected to publish an independent analysis of the consultation responses received in Spring 2025.

Scotland Excel submitted a response to the consultation, the outcomes of which will impact local authorities, Independent Fostering Agencies, and Scotland Excel in relation to Scotland Excel's Fostering and Continuing Care Services framework. The framework enables local authorities to purchase fostering placements from independent, not for profit organisations as a supplement to their internal provision, in accordance with national legislation and policy.

## **Housing**

### **The Scottish Housing Emergency**

In May 2024, the Scottish Government declared a National Housing Emergency. 12 months on, the sector continues to face significant challenges in the supply, delivery, and demand for homes. The housing landscape for councils and housing associations is complex, who face pressures relating to homelessness, vacant properties, the demand for short-term accommodation, and delivering net-zero objectives. The construction and delivery of homes is constrained the availability of land, the pace of procurement, rising construction prices, and the availability of skilled workers.

The Scottish Government has set the target of delivering 110,000 affordable homes by 2032, under the Affordable Housing Supply Programme (AHSP). To meet this objective, the pace of delivery must increase – to around 10,700 homes each year. However, last year, the rate of completions for the AHSP slowed by 18% from the previous year.

Significant and consistent investment is required to transform the Scottish Housing Emergency. Annual financial settlements limit the ability of the housing sector to plan and invest in the infrastructure required to deliver long-term objectives. For 2025/26, the funding allocated by the Scottish Government to the AHSP decreased by 3% in real-terms from 2023/24, but increased by 26% from the prior year. With building costs forecasted to increase by 17%, and tender prices forecasted to increase by 15% over the next 5 years, the sector is under pressure to transform the housing emergency and deliver Scottish Government objectives.

### **Support for Members**

Addressing the challenges faced by the housing sector will require a long-term and cross-sectoral approach. COSLA and ALACHO have proposed initial medium to long-term actions to respond to Scotland's housing challenges across 7 themes. The implementation of these actions may result in changes to how councils work with housing developers. Scotland Excel will continue to monitor developments in this area and respond where appropriate.

Public procurement will continue to play a key role in the delivery and maintenance of housing stock that meets the needs of the Scottish public. Scotland Excel's New Build Residential Construction framework provides members with a route to procure a range of services in support of the delivery of affordable housing including mixed tenure properties, sheltered housing, and student accommodation.

Frameworks within Scotland Excel's Construction portfolio can support councils and associate members in the delivery of new build housing, maintenance of existing housing stock, and in the procurement of professional services required to plan for and deliver housing strategies. A list of frameworks within Scotland Excel's Construction portfolio can be found [here](#).



# Environmental Change

Global, national, and local supply chains are vulnerable to factors including the effects of climate change, extreme weather events, and air-borne viruses.

## **Avian Bird Flu**

Scotland was declared as an Avian Influenza Prevention Zone in January 2025. Prevention zones require bird keepers to maintain strict biosecurity measures to help prevent the spread of the virus. Localised protection and surveillance measures have been implemented to contain the two outbreaks of bird flu that have been confirmed in Scotland so far in 2025.

A significant outbreak of bird flu could cause significant disruption to the availability and price of poultry and farmed products in the UK. Scotland Excel will continue to monitor reported outbreaks and take appropriate supply chain management measures if required. Geographical sub lots are applied within frameworks across Scotland Excel's food portfolio to ensure the continued delivery of service for members, whilst also mitigating the likelihood of widespread geographical disruption caused by localised outbreaks.

## **Climate Change Adaptation**

International and public sector supply chains are vulnerable to environmental disruption caused by extreme weather and changing environmental patterns. The World Economic Forum Global Risks Report 2025 highlights that the top 4 global risks over the next 10 years are environmental, when ranked by severity. These risks are *extreme weather events, biodiversity loss and ecosystem collapse, critical change to Earth systems, and natural resource shortages*.

Changing weather patterns and weather events impact the availability, accessibility, quality, and price of goods and services. The frequency and severity of extreme weather events in Scotland has risen - including recent wildfires, storms, and flooding in Angus in 2023. March 2025 was the hottest recorded March in Europe, with many countries experiencing the driest conditions for the period too. Simultaneously, some countries recorded the wettest March in almost 50 years. The effects of the extreme weather conditions experienced in Spring may affect crop yields later in the year.

Scotland Excel's Market Development team has been established to ensure robust processes are in place to monitor and identify the changing needs of members. Scotland Excel will continue to monitor how climate related developments will impact the needs of local authorities and associate members going forward.

# Technological Change

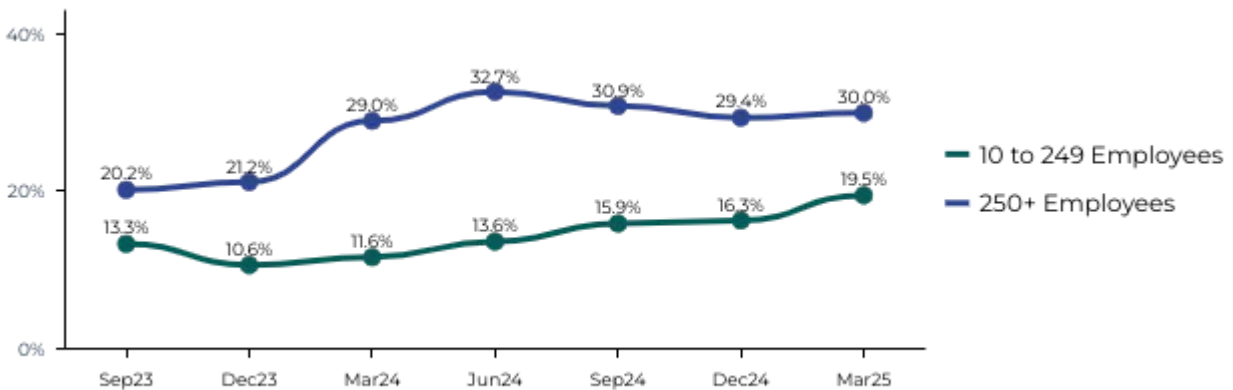
Technology is transforming the ways in which goods are being produced and services are being delivered by suppliers.

## **Artificial Intelligence in Supply Chains**

Scotland Excel is monitoring the use of Artificial Intelligence (AI) in procurement and supply chains to enhance the delivery of goods and services. Whilst it is recognised that the use of AI in supply chains can bring efficiencies, its implementation requires careful consideration of factors including security and legal concerns, the effects on labour, skills gaps, and costs. Scotland Excel will continue to monitor and adhere to international, national, and local guidance relating to the use of AI in the public sector and procurement.

The following sections will set out trends identified within the latest weighted estimates from the Business Insights and Conditions Survey, carried out by the Office of National Statistics, and consider their implication for public sector procurement and supply chains. The survey explores the use of AI technologies including robotics, machine learning, autonomous vehicles, and text generation in business.

### **Rising Adoption for SMEs**



**Figure 2: Percentage of Businesses Using AI By Size (ONS)**

The survey highlights a rise in the use of AI for businesses in Scotland for both SMEs and businesses with over 250 employees. Although the proportion of larger organisations using AI is higher than for SMEs, the proportion of SMEs using AI is growing. From the same period in 2024, the use of AI solutions for SMEs has risen by 5.9 percentage points, whilst the growth for larger businesses is slower at 1.0 percentage point.

This higher growth rate for SMEs is reflective of AI solutions becoming more accessible and available for businesses. This may also be reflective of greater acceptance of the potential benefits and efficiencies that AI can bring to supply chains. As the adoption of AI continues to grow and formal policies are put in place, the effects of adoption to productivity and innovation for supply chains will become clear.



### **Adoption by Industry**

Industry	% of Businesses using AI	Number of Businesses Surveyed
Information and communication	61%	60
Prof, scientific, technical activities	32%	144
Accommodation and food services	26%	104
Admin and support services	23%	129
Wholesale, retail, repair of vehicles	23%	257
Manufacturing	21%	184
Transport and storage	16%	60
Construction	16%	91
Arts, entertainment and recreation	14%	35

**Table 3: AI Adoption by Industry (ONS)**

Table 3 sets out the percentage of businesses applying AI solutions in their operations, categorised by industry. The findings highlight the prevalence of AI in Information and Communication activity. The use of AI solutions in industries most associated with supply chain logistics – including construction, transport and storage, manufacturing, and vehicle maintenance – is comparatively lower than in other industries.

This gap may be attributed to the comparative ease and lower cost of AI software implementation in comparison to hardware and physical infrastructure. Whilst AI can support in making processes more efficient, there are consequences to its implementation that must be considered - including security, regulatory compliance, alongside potentially unintended consequences impacting staff, the environment, and transparency.

### **Routes to Market**

Of the surveyed organisations, 32.5% of businesses procured external or ready-to-use software, 19.4% outsourced solutions from external providers, whilst 19.1% of businesses developed their solution in-house. The availability of options for businesses in adopting AI highlights the significant growth of technological expertise relating to AI.

### **Software as a Medical Device**

Software, including AI, plays an essential role in health and social care. In the UK, many software products are regulated as medical devices, or as in vitro diagnostic medical devices. Existing regulation is being adapted in recognition that Software as Medical Devices and Artificial Intelligence as Medical Devices have significantly increased in market share and complexity and there is a requirement to bring UK regulations in line with international standards.

Scotland Excel has been contributing to a Short Life Working Group led by COSLA to support the development of guidance to assist local government in understanding the change in regulations and its potential impacts. The guidance is anticipated to be published in the summer of 2025.

## Further Information

A full register of the frameworks made available by Scotland Excel can be accessed [here](#). For details specific to any of Scotland Excel's frameworks, please contact us at: [contactus@scotland-excel.org.uk](mailto:contactus@scotland-excel.org.uk).

Previous Supply Chain Intelligence updates can be accessed on the [Scotland Excel members' area](#).



## Get in Touch

Contact us to find out more about our services and how we can help your organisation:

Phone: 0141 488 8230

Email: [contactus@scotland-excel.org.uk](mailto:contactus@scotland-excel.org.uk)

Website: [www.scotland-excel.org.uk](http://www.scotland-excel.org.uk)

