

**EAST AYRSHIRE COUNCIL**  
**POLICY AND RESOURCES COMMITTEE**

31<sup>st</sup> May 2005

**ELECTRONIC PURCHASING**

**Report by Depute Chief Executive / Executive Director of Corporate Support**

**1. PURPOSE OF REPORT**

- 1.1 To advise Members of progress made on the implementation of an Electronic Purchasing System across all twelve Authorities Buying Consortium (**abc**) member Councils, and to seek approval for **abc** to conduct a "Scope and Readiness Assessment" (S&RA) as a pre-requisite to the Council deciding on a timescale for future participation in the project.

**2. BACKGROUND**

- 2.1 The Scottish Executive has approved funding of £2m to allow the **abc** member Councils to implement the Cap-Gemini Ernst & Young (CGEY) supplied "eProcurementScotl@nd" (ePS) Electronic Purchasing System. It is proposed that this funding is matched by an additional £1m to £1.5m from **abc** balances.
- 2.2 Renfrewshire Council is the lead Council in respect of the proposed project, and it's Chief Executive chairs a Project Steering Group tasked with assisting the project consultants Cap-Gemini Ernst & Young (CGEY) in the implementation of the system across those **abc** Councils have chosen to participate in the project. The Project Steering Group comprises the Director of **abc**, representatives from CGEY, the Scottish Executive and some existing public sector users, and senior officers from each of the 12 **abc** member Councils.
- 2.3 At its 18<sup>th</sup> December 2003 meeting, Policy and Resources Committee agreed to commission a study of the Council's procurement practices with a view to identifying the scope for cost savings through the re-engineering of current processes, and remitted to officers to consult with Glasgow City Council on the potential for a collaborative arrangement in the further development of SAP in the area of electronic purchasing.
- 2.4 Thereafter, at its 25 November 2004 meeting, Policy and Resources Committee formally adopted a Corporate Procurement Strategy and remitted to the Depute Chief Executive/Executive Director of Corporate Support the task of co-ordination of the implementation of the Strategy.
- 2.5 The Strategy's principal purpose was to set out a clear strategical framework for all future procurement activity and development within the Council. Within that framework, an identified major priority for further action was the future

implementation of a programme for e-tendering, e-purchasing, e-invoicing and e-payment or in other words the implementation of an electronic procurement system.

### **3. abc ELECTRONIC PURCHASING SYSTEM**

- 3.1** CGEY has produced a 'High Level Business Case', supported by a series of individual Council Business Cases in regard to the implementation of the ePS system. These documents contain broad estimates of the likely implementation costs within each Council, together with assessments of possible 'quick win' savings, anticipated longer-term saving opportunities, anticipated central project management costs, and Council specific resource requirements and other costs associated with local implementations.
- 3.2** Based upon the aforementioned High Level and Council Business Cases, the Scottish Executive and Renfrewshire Council as lead Authority are now inviting each **abc** member Council to invite **abc/CGEY** to undertake a "Scope and Readiness Assessment" (S&RA), the pre-requisite of which is an agreement in principle to adopt the system, and to consequently intimate its intention in respect of timescale for implementation of the ePS system.
- 3.3** The S&RA which is provided to **abc** member Councils on a no-fee basis is intended to identify local issues in respect of infrastructure, business processes, likely timescale anticipated cost in respect of local implementation of the ePS system.
- 3.4** To date, three of the twelve **abc** member Councils have committed to implement the ePS system, and a further three Councils have commissioned **abc/CGEY** to undertake an S&RA.
- 3.5** The Scottish Executive is projecting significant benefits for the public sector in respect of future cost savings and improved ease of transaction arising from the adoption of the ePS system. The **abc/CGEY** Business Cases indicate that savings averaging approximately £ 800,000pa to each Council may be achievable. In addition, the Business Cases anticipate the potential for greater internal efficiencies at a local level in respect of business processes, and improved interaction between the Council and its suppliers.
- 3.6** In announcing the Modernising Government and Efficient Government initiatives, the Scottish Executive has stated that it expects a very significant proportion of its projected public sector efficiency savings will be derived as a direct result of electronic procurement and collaborative procurement across the sector. In this respect the Scottish Executive has placed great emphasis on the adoption of the ePS system, and has indicated that those Councils / Agencies not adopting the system will, in the future, be expected to demonstrate comparable savings as a result of their own systems and processes.
- ### **4. PARTICIPATION WITH GLASGOW CITY COUNCIL ON ADOPTION / DEVELOPMENT OF SAP**

- 4.1 Glasgow City Council has now indicated its willingness to adopt the **abc**/CGEY ePS system in preference to developing SAP to provide electronic purchasing functionality. Hence participation between East Ayrshire and Glasgow City Councils in respect of developing SAP is now no longer an option.
- 4.2 The Scottish Executive has indicated that financial assistance to Councils for the implementation of electronic purchasing will only be available if Councils elect to adopt the **abc**/CGEY model. Furthermore, **abc**/CGEY has stated that they will not support the integration of local electronic purchasing systems with the centralised ePS system.

## 5. CURRENT STATUS OF **abc** ELECTRONIC PURCHASING SYSTEM

- 5.1 To date, six of the twelve **abc** Councils have either agreed to implement, or agreed to undertake an S&RA in preparation for implementing, the ePS system. Within the last 12 months, £ 136m of orders have been placed by the 20 Scottish public sector organisations which currently operate the system. It should be noted however that this figure represents <10% of the potential purchasing spend of these organisations.
- 5.2 **abc** / CGEY have stated that they would expect any Council wishing to commit to a S&RA will be required, as a pre-requisite, to indicate that they are “fairly committed” to implementing the system.
- 5.3 The Council would be expected to contract for a minimum 3 year period. This represents the time remaining in the current Scottish Executive 7 Year contract with CGEY, after which the current contract would be renegotiated.
- 5.4 Whilst the costs associated with implementing and running the system are detailed in Section 6.2, nevertheless it should be noted that within these estimates **abc** / CGEY have made no allowance for the costs associated with re-engineering current processes, staff training, systems implementation, systems administration or integration of the ePS system with other back office systems including the Council’s financial management system.
- 5.5 In respect of systems integration, **abc** / CGEY advise that integration with the Council’s back office systems will be costed according to a matrix defined within the Scottish Executive / CGEY contract, with associated costs ranging from £ 25k to £ 125k per interface excluding 3<sup>rd</sup> Party costs. The way in which the Council currently purchases goods and services will require to be fundamentally reviewed and re-engineered prior to implementing ePS.
- 5.6 **abc** / CGEY indicate that, given experience gained from other implementations of the system, the Council would require to dedicate a Project Team of a minimum 2.5 FTE staff during the implementation phase, with an additional requirement for 1 FTE staff remaining in a permanent systems administration role.
- 5.7 Again from the experience of those organisations that have already implemented the system indicates that very limited benefits can be expected from reduced cost of supplies and services arising from suppliers adoption of the system. Consequently **abc**/CGEY now advise that savings from adoption of the system will

be as a consequence of reduced “maverick” spend and reduced internal costs arising from more efficient transactional processing.

## 6. FINANCIAL IMPLICATIONS

- 6.1** Within the High Level and Council Business Cases, **abc** and CGEY have indicated that savings averaging approximately £ 800,000pa to the Council may be achievable.
- 6.2** Whilst the precise costs and benefits associated with implementing and running the system over the initial three year period, which is the remaining term of the current SE / CGEY contract, will only be known once **abc**/CGEY have completed an S&RA exercise, nevertheless from preliminary discussions with **abc**/CGEY these are estimated as follows ;

	Year 1	Year 2	Year 3	Total
Joining Fee & Subscription	£ 158,716	£ 73,762	£ 73,762	£ 306,240
CGEY Consultancy	£ 80,000			£ 80,000
Staff Training	£ 25,000			£ 25,000
Project Team	£ 87,500	£ 87,500	£ 87,500	£ 262,500
Systems Admin	£ 30,000	£ 30,000	£ 30,000	£ 90,000
Systems Integration	£ 25,000			£ 25,000
Equipment	£ 25,000			£ 25,000
Total	£ 431,216	£ 191,262	£ 191,262	£ 813,740
Contribution	- (£ 167,000)	£ 0	£ 0	- (£ 167,000)
Net System Cost (Savings Required to Break Even)	£ 264,216	£ 191,262	£ 191,262	£ 646,740
Advised Savings	£ 0	£ 800,000	£ 800,000	£ 1,600,000
<b>Net Cost to the Council</b>	<b>£ 264,216</b>	<b>- (£ 608,738)</b>	<b>- (£ 608,738)</b>	<b>- (£ 953,260)</b>

## 7. LEGAL AND POLICY IMPLICATIONS

None.

## 8. RECOMMENDATIONS

It is recommended that Committee ;

- 8.1** Authorises the Depute Chief Executive / Executive Director of Corporate Support to request **abc**/CGEY to undertake, without prejudice or further commitment, a Scope and Readiness Assessment (S&RA) within 2005/06.

- 8.2** Notes that a Report advising Members of the results of the S&RA, including projected costings, and recommending on a timescale for future participation in the project will be presented to a future meeting of the Committee.
- 8.3** Otherwise note the contents of the report.

**Elizabeth Morton**  
**Depute Chief Executive / Executive Director of Corporate Support**

3<sup>rd</sup> May 2005

**LIST OF BACKGROUND PAPERS**

Nil.

For further information on this Report, please contact  
Malcolm Roulston, Head of Information Technology (Tel : 01563 576809)

3<sup>rd</sup> May 2005