

EAST AYRSHIRE COUNCIL

POLICY & RESOURCES COMMITTEE – 30th MAY, 2006

ePS PROJECT- SCOPE & READINESS ASSESSMENT

Report by Depute Chief Executive/ Executive Director of Corporate Support

1. PURPOSE OF REPORT

- 1.1 To appraise Committee of the outcome of the eProcurement Scotl@nd (ePS) Scope and Readiness Assessment and thereafter to seek authority to proceed with an implementation programme of the ePS system across the Council.

2. BACKGROUND

- 2.1 Members will recall that at the meeting of the Policy & Resources Committee on 31st May 2005 formal approval was given to undertake a Scope and Readiness Assessment to be carried out in conjunction with consultants Cap Gemini and the Scottish Executive as a prerequisite for the potential future implementation of an electronic purchasing system and participation in the [eProcurementScotl@nd](#) (ePS) project, the co ordination of the Scope and Readiness Assessment being remitted to the Depute Chief Executive/Executive Director of Corporate Support.
- 2.2 The Scope and Readiness Assessment's principal purpose was to produce a report which would establish areas for potential procurement efficiency throughout the Council by means of utilisation of modern procurement methods and thereby furthering implementation of the Councils Corporate Procurement Strategy whilst at the same time advancing the procurement objectives identified within the Council's Best Value and Community Planning Audit Improvement Plan. Within these parameters, the report was required to identify areas of integration in respect of electronic procurement, projected costings, recommendations for progress and related timescales.
- 2.3 The Scope & Readiness Assessment (S&RA) was undertaken during the months of March and April 2006 by engaging the Scottish Executive eProcurement Project Team and their Consultants Cap Gemini.
- 2.4 Information related to the content of the S&RA was collated by means of interview sessions, analysis of available spend data and workshop sessions with numerous Council Officers representing all departments and services. The process has generated some options for pilot areas to demonstrate the efficiency of an electronic purchasing system on a small scale whilst at the same time identifying resource implications, future opportunities and also integration considerations in terms of a technical

assessment. East Ayrshire Council's IT and Finance Services sections were fully engaged in the S&RA. IT worked closely with Cap Gemini to complete a full technical assessment related to the Council's current IT status which identified areas for consideration in the integration, implementation and future roll out of the system. Financial Services were engaged in respect of discussing payment options, the integration of the proposed front end purchasing system, the financial ledger process and systems.

3. SPEND ANALYSIS FINDINGS

3.1 A high level review was carried out using invoice data extracted from SAP for financial year 2004-2005 with a view to building a picture of supplier expenditure as well as ascertaining the volume of individual purchase transactions across the Council. This process also helped to identify a relevant scope for the project and identified potential areas for initial implementation. The current configuration of the Council's finance system is such that it does not capture detailed purchasing data and can only identify who the Council paid money to, but not what for. However, it was still possible to identify the following relevant financial information for the purposes of the S&RA:-

- East Ayrshire Council spent £96m with external suppliers in financial year 2004-2005;
- This spend resulted in the processing of over 150 000 individual invoices;
- The Council uses approximately 6500 individual suppliers for the provision of goods, services and works;
- 80% of the total expenditure of £96m is covered by just 315 Suppliers;
- At an individual commodity level, the Council's top expenditures are in respect of care provision, contractors, financial services, IT and professional services;
- Of the 150 000 invoices processed annually the greatest number processed on a commodity by commodity basis are in respect of care provision, catering, education contractors, stationery and telecoms. (stationery accounts for 7500 invoices alone, telecoms generates 4500);
- The Council currently spends £1000 or less per annum with approximately 4000 of the total number of Council suppliers.

3.2 The identification of these issues therefore confirms that the Council's existing processes involve a huge administrative task as the entire purchase to pay process is carried out manually. In comparative terms with other local authorities, the number of invoices processed is high but is reflective of the large supply base. On a positive note, the analysis does

identify that, should the Council proceed with the ePS implementation, the adoption onto the system of a relatively small number of existing suppliers will cover a substantial proportion of current transactions and expenditure.

4. ANALYSIS OF POTENTIAL BENEFITS

4.1 The S&RA has identified a range of benefits which would be available to the Council through the use of the e-Procurement Scotl@nd Service. Examples of such potential benefits and their impact on the Council are:-

- Process efficiency savings leading to a reduction in overall processing time which reduces the timescale from requisition to receipt together with reductions in supplier costs which can lead to the availability of additional discounts with individual suppliers.
- The collection of management information related to spend, facilitating greater future control of spend combined with enhanced contract compliance.
- The facilitation of enhanced external collaboration vis-à-vis particular commodities with other public sector bodies as recommended in the McClelland report.
- The implementation of efficient and less manually intensive processes would allow time release savings to be achieved with a consequential potential reallocation of resources in front line service areas.
- Utilisation of an e-procurement tool would facilitate much enhanced categorisation of purchases, as opposed simply as to how much is paid to individual suppliers. The availability of this type of information would allow both future sourcing and contracting activity to be exercised with a greater degree of certainty and accuracy.
- After adoption on to the system, local suppliers and SME's would have the opportunity to trade with any member organisation without any major additional resource requirements on their part.
- The implementation of alternative payment options (e.g. embedded purchase cards or consolidated invoicing) could dramatically reduce invoice volumes and related transaction costs in respect of individual commodities.
- From an Audit perspective, the implementation of the system would bring enhanced transparency to the purchasing process and also provide clear and concise management data.

4.2 Notwithstanding the issues identified in the preceding paragraph, the adoption of the eProcurement Scotl@nd service would be a positive step towards meeting a number of the recommendations contained within the

recently published McLelland Review of Public Procurement in Scotland and would allow the Council to demonstrate future attainment of any 'e targets' which may be required of Local Authorities as a result of the recommendations.

5. THE McCLELLAND REVIEW

- 5.1 Since the Council's Corporate Procurement Strategy was formulated in November 2004, the Scottish Executive initiated a review of Public Sector Procurement in Scotland to be carried out by John McClelland. The report and accompanying recommendations were issued by the Executive on 14 March 2006. The review's terms of reference were to consider:-
- The current structure and organisation of procurement activity;
 - The current skills and capability deployed on procurement;
 - Current practices and procedures;
 - Existing performance indicators and targets applied to procurement activity;
 - Ways to achieve efficiency improvements through greater collaboration;
 - Whether e-procurement techniques such as e-procurement Scotland and purchasing cards were being fully and effectively utilised;
 - Whether there was scope for the Gateway process to be further deployed across the public sector, to ensure that proper project management arrangements were in place for major procurement decisions; and
 - What lessons could be drawn from experience elsewhere.
- 5.2 The principal findings and recommendations of the McClelland Report and the Scottish Executive's response thereto which can be addressed by the implementation of an electronic procurement tool and in particular the eProcurement Scotl@nd service are that:-
- (a) Public sector organisations need to improve their procurement business processes:
 - (b) Minimum reporting requirements and Key Performance Indicators for procurement should be agreed and used in all organisations.
 - (c) Performance benchmarking for procurement must be developed.
 - (d) Techniques such as the use of procurement cards and payment on receipt should be widened rapidly and innovative techniques for procurement pursued.
 - (e) eProcurement Scotl@nd should be adopted as the standard for all of the public sector in Scotland.
- 5.3 Implementation of the eProcurement Scotl@nd Service and the electronic purchasing tool related would allow East Ayrshire Council to begin to meet the recommendations of the McClelland Review in a proactive manner before national Key Performance Indicators and e-procurement targets are formalised by the Scottish Executive. Integration with other Council systems would facilitate the collection and analysis of data related to procurement and thus allow enhanced decision making in respect of sourcing and spend

and also allow ease of reporting on such performance indicators in the longer term.

- 5.4 The recommendations of the McClelland report create a range of significant procurement implications right across the public sector. Initially, Councils are to be required to complete a self assessment of current procurement status to ascertain exact information on an authority by authority basis. Thereafter, under the guidance of the newly formed Procurement Reform Board, it is intended to develop issues such as the creation of procurement centres of excellence and the promotion of enhanced collaborative procurement at a national, sectoral and local level. Accordingly, it is intended that further reports on the wider implications of the McClelland Report will be brought to committee in due course.

6. FINANCIAL IMPLICATIONS

6.1 Project Cost Profile

The Scottish Executive have confirmed that an initial contribution of £0.100M would be made to the Council upon conclusion of the ePS Customer Agreement, a further amount of £0.066M would be due to the Council on successful completion of stage 1 implementation. The following table summarises the projected costs associated with the implementation of the project over the initial 7 years.

Cost	Year 1 - £M	Year 2 - £M	Year 3 - £M	Year 4 to 7 - £M	Total - £M
Joining Fee – eProcurement Scotl@and	0.087	-	-	-	0.087
Annual System Rental	0.076	0.063	0.055	0.198	0.392
Implementation Support	0.050	-	-	-	0.050
Staff Training	0.040	-	-	-	0.040
Project Management/System Support	0.160	0.160	0.160	0.160	0.640
Integration with Council Systems	0.080	0.040	0.020	0.020	0.160
Hardware/Equipment	0.040	0.010	0.010	0.010	0.070
Total Projected Costs	0.533	0.273	0.245	0.388	1.439
Less:					
Contribution from Scottish Executive	(0.166)	-	-	-	(0.166)
Net Cost of Project	0.367	0.273	0.245	0.388	1.273
Funded by:					
Contribution from Departmental Reserves	(0.367)	(0.173)	(0.072)	0.612	0.000
Efficiency Target Required	0.000	0.100	0.173	1.000	1.273

It is anticipated that temporary project staff in years 1-3, required to support the implementation process within the Procurement section, can be provided by way of secondment from within the Council, thereby avoiding any additional financial resource allocation related to staff costs for this period.

6.2 Time Releasing Savings

The Scottish Executive has identified an indicative cost of £10 per transaction in respect of the process from order placement to invoice payment. Based on current transaction levels the potential value of time releasing savings from a reduction in transaction volumes is shown in the following table. It is anticipated that these could be utilised by Services to realign the focus of efficiency targets from back office to front office functions.

	Est.' Volumes	Cost/Savings - £M
Existing Cost of Process	150,000	1.500
Reduction Target:		
1%	1,500	0.015
3%	4,500	0.045
5%	7,500	0.075
10%	15,000	0.150
20%	30,000	0.300

6.3 Cash Releasing Savings

The analysis of spend carried out as part of the Scope & Readiness Report identified that external expenditure with suppliers was approximately £96.000M for financial year 2004/05. It is anticipated that utilisation of e-procurement should result in savings through: 1) improved efficiency of processes 2) stricter control of off contract expenditure 3) robust monitoring and analysis of spend by commodity and supplier.

The following table summarises indicative cash releasing savings that could be delivered if overall expenditure can be reduced through a combination of the improvements identified:

	Cost - £'M
Existing External Supplier Spend:-	96.000
Reduction Target:	
½%	0.480
1%	0.960
1 ½%	1.440
2%	1.920
3%	2.880
5%	4.800

6.4 Timing and Recognition of Savings

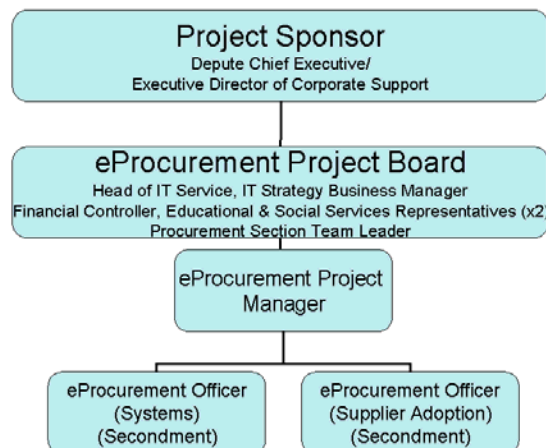
Whilst it is not possible to quantify directly savings that would arise from the introduction of an e-procurement approach it is evident from paragraph 6.2 and 6.3 that a marginal reduction in manual processing linked to greater control of off contract spend could release significant savings in excess of the annual implementation costs. It is however recognised that anticipated set up costs will exceed savings in the initial years of operation, a position which has been evidenced in other projects where authorities have reached and moved beyond breakeven at or around year 3 or 4, with recurring savings thereafter. It would therefore be necessary to support the introduction of the system from reserves on a spend to save basis, with a proportion of future year efficiencies being returned to balances as appropriate.

7. IT IMPLEMENTATION CONSIDERATIONS

- 7.1 In general to enable the Council to use the system as its corporate e-Purchasing tool, staff only need access to a networked PC with Internet access enabled. There are however, two areas which require further discussion and investigation. Both areas will undoubtedly have a financial impact on the Council but at this stage, any such impact cannot be fully quantified. In the meantime however best estimate costs have been included for the purpose of completeness of this report.
- 7.2 The two issues relate to, firstly, ensuring that all users who require access to the system have the necessary PC and network capacity to do so. Secondly, to ensure that information entered into the e-Purchasing system can be updated or transferred electronically to the other Council systems without the need to re-key the information.
- 7.3 In order to address these issues, the following actions will be carried out:-
- Establish precisely which users will require access to PECOS and carry out an audit of the desktop and networking facilities currently in use and detail the requirements to enable the ICT gaps to be resolved;
 - Further discussions will require to be arranged between IT Services and CapGemini to ensure that an agreed solution can be implemented to meet the needs of integrating PECOS with existing Council systems such as SAP, SEEMIS, CIMS (Onsite Services), Libraries, SWIFT (Social Work), Orchard/Servitor (housing repairs) and for future planned applications such as the Corporate Asset Management System.
 - On completion of the above actions, define the costs associated with each action.

8. RESOURCE AND PROJECT MANAGEMENT ISSUES

- 8.1 Following a PRINCE2 Project Management methodology, a Project Sponsor and Project Board have been established with the Depute Chief Executive/ Executive Director of Corporate Support as Project Sponsor. The Project Board is further constituted with the Head of Information Technology, the IT Strategy Business Manager, the Financial Controller and the Procurement Team Leader. It is intended that the composition of the Project Board be completed with a further two members representing the Department of Educational and Social Services. The function of the Project Board will be to consider Options Appraisal in respect of the project and to ensure that key decisions are taken and implemented in a timely manner.
- 8.2 A Project Manager, a Procurement Officer (ePS), has been appointed and has been in position since late December 2005. The Project Manager will be responsible for ensuring that timescales and deadlines are met in respect of implementation and that the Project Board are kept apprised of progress and developments throughout the project. It is proposed that two further project staff be appointed as eProcurement Officers. It is anticipated that these posts can be filled by way of temporary secondment of existing staff from within the Council and as such additional financial resource provision related to staffing costs will not be required at this stage.



- 8.3 A number of options have been reviewed as candidates for Stage 1 to establish processes and test system implementation. The areas suggested for a Stage 1 pilot (3-4 months in duration) are for Corporate Support service units to purchase the following commodities through ePS:
- Stationery
 - Computer Consumables
 - Bottled Water
 - Office Supplies
 - Corporate Print

- 8.4 It is envisaged that Stage 1 be completed by the end of December 2006 with the progress of the project being reported to Committee in due course. Thereafter, following a Stage 1 review, it is envisaged that ePS would be implemented with additional commodities across departments and service units in a controlled and progressive manner over the subsequent 2-3 year period.

9. POLICY, LEGAL AND COMMUNITY PLAN IMPLICATIONS

- 9.1 The recommendations contained within this report are consistent with the terms of the Council's Corporate Procurement Policy which was adopted in November 2004. In addition, the application of modern procurement/purchasing arrangements has been identified as one of the high level strategic areas for improvement in the Council's Draft Improvement Plan which was agreed by the 24 January 2006 meeting of the Special Policy and Resources Committee.
- 9.2 There are no direct legal implications arising from this report.
- 9.3 The aims and objectives of the ePS project are consistent with the principles of the East Ayrshire Community Plan particularly in securing continuous improvement and Best Value across the Council as a whole.

10. RECOMMENDATIONS

It is recommended that committee:-

- (i) approves East Ayrshire's participation in and implementation of the eProcurement Scotl@nd service within the parameters as identified within this report;
- (ii) remits to the Depute Chief Executive/Executive Director of Corporate Support to make all necessary arrangements to facilitate the implementation of ePS within the identified timescale; and
- (iii) otherwise, notes the content of this report

Elizabeth Morton
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17th May, 2006

LIST OF BACKGROUND PAPERS

- (1) Review of Public Procurement in Scotland Report & Recommendations, John F. McClelland CBE
- (2) eProcurement Scotl@nd Scope and Readiness Assessment for East Ayrshire Council April 2006
- (3) Electronic Purchasing Report to Policy & Resources Committee of 31st May, 2005

Members wishing further information should contact David Mitchell, Head of Administrative and Legal Services on Extension 6061.

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