

EAST AYRSHIRE COUNCIL

SPECIAL POLICY AND RESOURCES COMMITTEE – 18 DECEMBER 2003

ELECTRONIC PURCHASING SYSTEM

Joint Report by Depute Chief Executive / Director of Corporate Resources, Director of Homes and Technical Services and Director of Finance

1. PURPOSE OF REPORT

- 1.1 To advise Members of progress made on a proposed collaborative project to implement an Electronic Purchasing System across all twelve Authorities Buying Consortium (**abc**) member Councils, and to make appropriate recommendations in respect of 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 There are a number of conditions attached to the Scottish Executive funding contribution, the significant ones of which are summarised as ;
- A minimum of 8 Councils connect to the system within an agreed timescale.
 - Transaction capability to be live within all participating Councils by December 2004.
 - Take-on of at least the current **abc** suppliers and their procurement catalogues.
- 2.3 Renfrewshire Council is the lead Council in respect of the proposed project, and it's Chief Executive chairs a Project Steering Group initially tasked with assisting CGEY to develop a business case for adoption of the system, and thereafter implementing the system across those Councils who elect 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.
- 2.4 At its 12th June 2003 meeting, Policy and Resources Committee agreed to remit appropriate officers to continue to hold discussions with Renfrewshire Council/CGEY/**abc** in respect of the proposals for the implementation of ePS, and to report back to the Committee in due course, by which time outstanding issues such as projected costs, deliverables, licence considerations, vendor sign-up and future systems administration / support would have been clarified thereby enabling

the Committee to make an informed decision on the desirability of longer-term participation in the project.

- 2.5 CGEY have produced a 'High Level Business Case', supported by a series of individual 'Council Business Cases' These documents contain estimates of the likely costs associated with the implementation of ePS 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 costs in respect of local implementation.
- 2.6 Based upon the aforementioned High Level and Council Business Cases, Renfrewshire Council are now inviting each **abc** member Council to intimate its intention in respect of future participation in the proposed ePS project.

3. ASSESSMENT OF CGEY'S BUSINESS CASE

- 3.1 Within these Business Cases, CGEY have anticipated both 'quick win' savings and longer term savings being made through 'better buying' initiatives. However, in the case of East Ayrshire Council, a significant proportion of the 'quick win' savings are already being achieved through existing medium to long term "framework agreements" with suppliers. These "framework agreements" are based upon fixed-term contracts covering different time periods and terminating on different dates, with no correlation to similar arrangements within other Councils.

Hence whilst there may be long term savings to be made from all 12 Councils tendering for these services *en-masse*, it is unlikely that significant savings could be achieved in the short term given the existing staggered contract terms currently in place. The Council would want to determine if any of the projected savings could be achieved through **abc** but independent of the proposed ePS system.

- 3.2 CGEY's estimated local implementation costs are based upon the Renfrewshire Council model of centralised procurement which does not readily map onto EAC's current devolved process. Hence it can be assumed that either the EAC procurement function would require a significant degree of 'business re-engineering' at a consequently additional cost, or the local implementation of a devolved ePS system would imply greater complexity with increased requirement for training and consequently higher cost.
- 3.3 CGEY's estimated cost for systems integration is based upon the cost of interfacing the ePS system to the EAC SAP Ledger. No allowance has been made for integration with other back-office systems. This limited initial interface would have the advantage of providing a degree of corporate commitment accounting. Other interfaces to individual back office systems could be developed at a later date at additional cost.
- 3.4 CGEY's cost model makes no allowance for local infrastructure costs such as new PC's which may be required to replace current manual processes, and data networking costs relating to requirements for increased data network bandwidth between EAC offices and the main connection to the Internet. Whilst the extent of these requirements would have to be assessed as part of a future 'Scope and

Readiness Assessment', nevertheless appropriate contingency in this respect has not been made by CGEY.

- 3.5** As CGEY's estimated savings are, to a significant extent, based upon "bulk buying" by all participating Councils, individual Councils, may in order to realise savings, be locked into purchasing goods and services which may not precisely meet their business requirements

4. CONCLUSIONS

- 4.1** The Council's new SAP finance system, has in-built Electronic Purchasing functionality which could be licenced for implementation across the Council. However, CGEY will not permit the SAP ePS module to be interfaced to the CGEY ePS system to facilitate direct access to supplier catalogues held by **abc**.
- 4.2** In order to ensure successful implementation of the CGEY ePS system, the Council would be required to commit at least 3 staff resources for a minimum of 12 months in order to manage the local implementation and to liaise with CGEY and **abc**.
- 4.3** Early benefits are based upon "Quick Wins" which may not be achievable given the timing of existing corporate contracts and framework agreements and the projected long term benefits would require time to be carefully assessed having regard to existing contract arrangements and projected payback periods.
- 4.4** Of the twelve **abc** Councils, two have formally signed-up to implement the CGEY ePS system and another three are likely to formally sign-up by end-January. Six Councils have formally declined to participate further in the proposed project.
- 4.5** Glasgow City Council as one of those Councils formally declining to participate further in the project have intimated their intention to implement the SAP Financial Management system and to examine the feasibility of using SAP to deliver electronic procurement within their Authority.

5. PROPOSED ACTION

- 5.1** Council officers will always have regard to cost savings to be achieved through more efficient purchasing arrangements. It is considered many of the savings opportunities put forward by CGEY are potentially achievable and this requires to be considered further with **abc**.
- 5.2** It is proposed that further work should be undertaken in this area to determine whether there is any scope to realise the level of savings being promoted from adopting best practice in procurement.
- 5.3** Having ensured that best practice is adopted, it would then be appropriate to evaluate the benefits of implementing the CGEY ePS system across the Council, by which time the system will have been "bedded in" within other Councils and the benefits will have been proven.

- 5.4** It is acknowledged that this strategy may not fit with the current Renfrewshire Council / **abc** plan for roll-out of the ePS system, but it would ensure that the interests of this Council are not compromised by being locked into a timetable dictated by external factors.

6. FINANCIAL IMPLICATIONS

- 6.1** Accounting for Scottish Executive and **abc** “external” funding contributions, nevertheless the Council would face a minimum of £ 206,885 of additional cost in the 1st Year of implementation of the proposed ePS system.
- 6.2** It is anticipated that this cost is likely to increase once the Council’s IT infrastructure has been necessarily strengthened, and business processes have been re-engineered to meet the requirements of the ePS system. CGEY believe savings averaging approximately £800,000 per annum may be achieved over a five year period, however, these are only projected to be realised in the later stages of the operation. It will be noted that this figure is subject to the reservations expressed within section 4 of the report re achievability of these savings.

7. LEGAL AND POLICY IMPLICATIONS

None.

8. RECOMMENDATIONS

It is recommended that;

- 8.1** A study be commissioned of the Council’s procurement practices to identify the scope for further cost savings from the re-engineering of current processes .
- 8.2** Authority be granted for 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 procurement.
- 8.3** The Chief Executive be remitted to notify Renfrewshire Council that East Ayrshire Council has decided not to participate further in the proposed project at this time.

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11 December 2003

LIST OF BACKGROUND PAPERS

Minutes of ePS Steering Group Meetings
Related correspondence from Renfrewshire Council, Cap-Gemini Ernst & Young and
abc.

For further information on this Report, please contact
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