

## **Report to the Cabinet**

**Report reference: C/059/2005-06**

**Date of meeting: 10 October**



**Epping Forest  
District Council**

**Portfolio: ICT and Corporate Support Services**

**Subject: e-Procurement Strategy**

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### **Recommendations/Decisions Required:**

- (1) That the proposed recommendations made by the National e-Procurement Project (NePP) are adopted to form the Council's e-Procurement action plan;**
- (2) That the proposed use and funding of the Essex e-Market Place (EMP) ICT solution be agreed;**
- (3) That the proposed EMP subscription cost of £17,500 be put forward in the CSB bid for 2006/7;**
- (4) That proposed post of Procurement Analyst at a cost of £35,130 be put forward in the CSB bid for 2006/7 (Subject to job evaluation and Procurement Agency for Essex guidance);**
- (5) That the ICT and Support Services Portfolio Holder is nominated as the Council's Member Procurement Champion; and**
- (6) To note the development of a formal Corporate Procurement Strategy assisted by the Procurement Agency for Essex (PAE).**

### **Views of the ICT and E Government Scrutiny Panel:**

- (1) The Panel are suggesting the addition of the words 'where they provide best value' to the end of recommendation (1) above;**
- (2) The Panel's view was that it is premature to consider the appointment of a Procurement Analyst at this time. This was on the basis of:**
  - (i) The benefits of entering into the EMP were as yet unknown and should be implemented to ascertain areas in which further analysis might be required;**
  - (ii) From a review by officers, it was considered that the large number of 'procurements' through the system would be of low value in terms of the council's overall turnover but high volume and staff time intensive.**

**The Panel are therefore suggesting that this appointment be deferred at this time but that it be considered again for the 2007/08 budget (after EMP implementation).**

## **Introduction**

E-Procurement, in its simplest form, is the bringing together of buyers and sellers online using the Internet with broadband connection to exchange information and conduct transactions. It provides a common and optimised environment to reduce purchasing costs for the buyers (the Council), while at the same time benefiting the sellers in terms of shared common services.

In effect e-Procurement is an IT solution that enables procurement activities, including sourcing, ordering, commissioning, receipting and making payments for the whole spectrum of an authority's procurement activities.

This report sets out the Council's current status with regard to e-Procurement and puts forward a new corporate e-procurement action plan.

## **Local position**

### **Staff Resource**

The Council disbanded its procurement section in the 1980's and replaced it with a distributed approach. This decision placed the responsibility of procurement on all Council departments. This was part of an efficiency drive as it reduced corporate staffing costs and allowed far greater control of procurement in each individual department. It should be noted that in the 1980's procurement was a wholly manual task. As a result of this decentralisation the Council no longer has a corporate view of procurement and has lost the specialist staffing that managed the process.

### **Use of Information Technology**

The Council as part of its Implementing E-Government (IEG) strategy has identified the importance of an effective and efficient procurement system. A procurement system covers the whole range of IT systems that together allow the Council to manage and control its procurement activity. These include finance, creditor and purchase ordering systems. The Council has made significant improvements to these three core systems over the past twelve months by way of upgrades to the core financial systems (Cedar e-Financials) and the implementation of a purchase order processing system (POPS). POPS has effectively replaced the classic paper order pad with an electronic version.

### **National Position**

Central Government through the Office of the Deputy Prime Minister (ODPM) published, in October 2003, the National Procurement Strategy for Local Government. This strategy sets out the following main e-procurement objectives as part of the "doing business electronically" theme:

- to achieve efficiencies in the procure-to-pay cycle including reduction in cycle time and reduction in transaction costs. This will free resources that can be directed into front line public services.
- to use e-Marketplaces to assist councils to access framework agreements and contracts.

#### **By 2005**

- Every council should have implemented an appropriate e-Procurement solution as part of its e-Government programme.
- For low value purchases, every council should be making appropriate use of a procurement card, the Government Procurement Card (GPC) or a suitable electronic alternative.

#### **By 2006**

- Every council should be using an appropriate e-Marketplace

Central Government are monitoring progress by means of BVPI 157 which includes e-Procurement as one of the transaction types that should be carried out electronically by 2005. Take up of National e-Procurement Project deliverables are being measured through the Implementing Electronic Government (IEG) process.

## The Way Forward

To assist the Council in its efforts to modernise its ageing procurement practices the Council has undertaken a number of specific studies. The first was undertaken by the Procurement Agency for Essex (PAE). The Council is a member of the PAE and has engaged in a number of successful contracts (HR recruitment and ICT software) that have been negotiated by the PAE in the past 18 months. The study used the Council's financial data for the year 2003/4 and was assisted by all Senior Managers by way of a workshop session. The main findings of the workshop session were;

### Summary of Workshop Findings

- People recognise that procurement has multiple stakeholders and that its outcomes make an impact on both costs and the quality of services – a concept that must be sold and re-enforced across the Council and reflected in the make-up of future project teams undertaking procurement exercises
- There are clear concerns about the shortage of appropriate knowledge and skill levels needed to address the procurement agenda
- Procurement still has an image problem, reflected in the fact that no one present was keen to become the 'procurement champion'
- Most people enjoyed the workshop and welcomed the opportunity to participate and share views and ideas with colleagues
- Access to both statistical and performance data is considered essential in the drive for best value for money
- A Procurement Strategy is seen as important, but it has to be firmly linked into the Council's corporate/business plans
- Some people found it difficult to reconcile the various policy strands and initiatives such as the National Procurement Strategy, the Gershon Efficiency Review, and e-Government targets

The second study was undertaken by the National e-Procurement Project (NePP) and funded by the ODPM. This study used the outputs from the above workshop and looked in more detail at the actual procurement requirements of Epping Forest District Council and its current spend profile.

The report puts forward 11 key recommendations that are summarised below;

<b>Table 1 – NePP Recommendations</b>	
<b>ID</b>	<b>Recommendation 1</b>
<b>1</b>	It is recommended that once the recommendations in this report are agreed, they are incorporated into the new strategy as an e-Procurement Action Plan.
<b>ID</b>	<b>Recommendation 2</b>

2	It is recommended that work is undertaken to establish the necessary 'hooks' (skills, jobs, focus on specific sectors, ethnic diversity etc) in revised Corporate Plan and Community Strategy documents, in order to be able to allude to these in the Procurement Strategy and develop mechanisms to encourage local suppliers as appropriate.
<b>ID</b>	<b>Recommendation 3</b>
3	It is recommended that, to comply with the requirements of the NPS, the member with the ICT and Support Services portfolio is approached to pick up this responsibility.
<b>ID</b>	<b>Recommendation 4</b>
4	It is recommended that the council identifies the optimum number and value of transactions that should be dealt with under each contract standing order category and, once the purchase-to-pay (POP) system is fully operational, take advantage of the improved control and management information this systems will bring to raise the levels and enable streamlining of processes.
<b>ID</b>	<b>Recommendation 5</b>
5.1	It is recommended that the council establish the cost and attractiveness of add-on software from Cedar to bring in a user-friendly interface and features such as Favourites Lists and RFQ.
5.2	That it investigates the option to acquire these features via the Essex e-Marketplace.
5.3	That the latter option must include the cost of integrating the e-marketplace workflow with the FMS to achieve end-to-end e-procurement.
<b>ID</b>	<b>Recommendation 6</b>
6	It is recommended that the council should investigate 3 <sup>rd</sup> party e-tender services such as BIP's "My Tender" service for higher value and OJEU tenders and the option to pass this work to a specialist contract management shared resource such as the Essex Procurement Agency.
<b>ID</b>	<b>Recommendation 7</b>
7	It is recommended that work be undertaken to confirm which suppliers are already on the Essex Marketplace, establish the potential level of savings available by adopting this approach and put forward the business case as appropriate.
<b>ID</b>	<b>Recommendation 8</b>
8	It is recommended that once the systems are in place and have been proven easy to use, their adoption is made mandatory across the council.
<b>ID</b>	<b>Recommendation 9</b>
9	It is recommended that PCards be considered as soon as possible for a pilot scheme, tapping into other Essex Councils' experience, and then rolled out as soon as confidence has been gained and integrated with the POP system if appropriate.
<b>ID</b>	<b>Recommendation 10</b>
10.1	It is recommended that an external strategic procurement manager and a procurement officer are brought in immediately on an interim basis.
10.2	That a business process re-engineering consultant is brought in to lead service unit staff to map their own existing processes and work on designing the electronic processes that will take advantage of the new systems.
10.3	That Heads of Service are accountable for achieving specified service improvements by utilising a benefits realisation framework
10.4	That the Internal Audit function is involved at an early stage of the benefits realisation process, ensuring the right balance between reducing process and improving quality and control and using the function's independence to assist in overcoming any barriers.
<b>ID</b>	<b>Recommendation 11</b>
11	it is recommended that member involvement and training is undertaken to 'oil the wheels'.

It should be noted that with the Council's successful outsourcing of the Leisure Centre Management function, recommendation 9 will not be adopted. The use of Purchase Cards (PCards) was only viable if the high volume of transactions created by the Leisure Centre Management function was retained in-house.

The consultant from the NePP made it clear that the Council does not currently have sufficient human resource to undertake all the recommendation being put forward. Therefore the Council will need to make a fundamental decision to invest in more specialist staff resource if it is to move forward all aspects of this approach to procurement and achieve the very demanding Central Government targets.

However, due to the pressure on Officers to start addressing some of these issues work on recommendations 5 and 7 have already started. The Head of Finance and the Head of ICT have now evaluated the Essex e-Market Place (EMP) e-procurement solution.

### **Essex Market Place (EMP)**

EMP is an "easy to use" web based e-procurement solution that is hosted externally to the Council. EMP is accessed over the internet by Council Officers and can exchange all necessary financial data with the Council's in-house financial management system. A separate technology paper on EMP is available on request. EMP is part of the IDeA market place e-procurement solution that was created from the NePP. EMP is a customised version for Essex Local Authorities.

The main benefits of using the EMP solution are summarised below:

#### **Council Benefits**

##### **Provides a tool for general management**

Problems arise from a lack of management information that leads up to the purchase of goods and services. This leaves authorities vulnerable to a failure of standing orders and EC procurement regulations.

EMP offers up-to-the-minute, real time reports on individual officers, cost centres, service areas or services. All catalogue items are categorised so that purchases are reported as soon as an order is placed. This ensures efficient and accountable spending.

##### **Helps meet specific central and local government policies**

Each authority is required to prepare an annual Implementing Electronic Government (IEG) return, stating how it proposes to meet the 2005 deadline.

Procurement is an essential part of implementing e-government, and must therefore be addressed within the given time frame. EMP will contribute to an authority's performance against the Best Value Performance Indicator 157 (BVPI 157), to measure an authority's progress towards the deadline. BVPI 157 is seen as one of the 38 critical BVPI indicators for the Council.

### **Assists with comprehensive performance assessment**

The Council will again be subject to a Comprehensive Performance Assessment (CPA) and EMP will inevitably assist the Council in its overall assessment.

### **Supports the Byatt report on procurement**

The Byatt report's recommendations for an incremental approach to e-procurement and for creating centres of excellence are integral to the EMP solution.

A simple, direct approach will create an environment in which the Council can begin to use EMP merely by having a user name and password assigned to an officer with internet access.

### **Offers continuous improvement on performance targets**

It is impossible within any service area for the Council to carry out a fundamental performance review, while ignoring the implications of procurement.

As the Council expands and cascades the use of EMP throughout the services, and as county, regional and national framework agreements increase, the Council will be able to enjoy the benefits of continuous improvement in purchasing.

### **Provides overall benefits**

As demands on the Council increase and resources do not, the Council should welcome a solution, which yields fairly large benefits for a fairly small subscription.

As competing suppliers grasp the benefits of e-procurement, in-house service providers must keep up with the current practice in the private sector. EMP helps this to happen.

It is also vital to maintain standards of open 'interoperability', as partnership agreements increase in the private and public sectors. EMP adopts standard commodity coding, such as the United Nations UNSPSC, and works with central government to ensure that schemes for data transfer, allow maximum interoperability.

In total 8 other Essex Local Authorities including Essex County Council currently use this product. All current users of the product claim a dramatic change to the way procurement activity is now managed within their authority, as well as reducing their overall cost of the procurement process. However, Officers have not been able to identify any reductions in staffing levels within these authorities as a result of implementing this solution.

It should be noted that one of the main efficiency of e-procurement is that it reduces officer time in the procurement lifecycle and this released time can then be refocused on the delivery of the frontline service.

### **Implementation Costs**

The Head of Finance and the Head of ICT agree that the EMP solution would enable the Council to quickly achieve some of the Central Government targets set out earlier

in this report and more importantly allow the Council to participate in the regional e-catalogues and e-contracts that have been negotiated by other Essex Authorities.

Being part of the EMP also allows the Council access to procurement specialists to assist in the introduction of the EMP solution. This will in part reduce the Council's need to recruit procurement staff in order to move forward with the EMP implementation.

The following table highlights the costs of implementing EMP. The first year subscription costs are discounted by £8000 (IDeA incentive - sign up must be achieved by 31 October 2005) and would be covered by the Council's existing IEG budget. The Implementation and training costs would also be eligible for funding from the existing IEG budget. However, the ongoing full subscription costs would introduce a CSB growth of £17,500 in 2006/7.

Table 2 – EMP Implementation Costs		
Project Event	2005/6 – IEG grant matching budget	2006/7 – CSB growth
Annual Subscription Fee	£9,500 (discounted)	£17,500 (full charge)
Implementation Costs	£15,000	
Staff training Costs	£12,000	
Totals	£36,500	£17,500

### **Additional Staff resources**

It is clear from recommendation 10 that the Council would not be able to move forward all procurement objectives without significant additional staffing resource to support the process. However, with the Council currently considering a new Senior Management structure coupled with the introduction of a Corporate Customer Contact Centre it is felt that the Council should, at this point, only appoint a Procurement Analyst to assist the e-procurement champions in developing and implementing a corporate procurement strategy and supporting the e-market place that would result from the introduction of the EMP solution. This new post would report to the Head of ICT and would be the Council's representative on the PAE and assist all service areas in implementing the Council's new approach to procurement.

Due to the specialist nature of this proposed new job it is recommend that the Head of ICT seeks guidance from the Director of the PAE in producing the person specification and job description for this new post. It is also proposed that the Director of the PAE is a member of the interview panel and assists in the short-listing process during the recruitment phase. The proposed budgetary estimate for this post is based on advice from the PAE but will be subject to the Council's normal job evaluation process.

The reasons for not taking up the option to recruit a procurement manager and process re-engineering consultant at this point are two fold, firstly it is not clear in the current structure where procurement would currently be placed and secondly if Members were minded to introduce EMP much of the work (recommendations 3, 4, 5, 7, 8 and 10.2) required to move the Council forward would be achieved by using EMP staff resources as part of its subscription benefits.



Therefore it is recommended that the Council initially implements the EMP solution making full use of the procurement expertise within the IDeA and assisted by the appointment of a Procurement Analyst.

Consideration for a strategic procurement manager and business process re-engineering consultant will form part of the EMP project review that will follow the full implementation of EMP across the Authority.

### **Corporate Procurement Strategy**

E-Procurement is one strand of an Authority's overall Procurement strategy. The Council does not currently have a documented procurement strategy and this was found to be a weakness during the last CPA inspection. In order to resolve this lack of formal documented evidence the Council is using the services of the PAE to develop this document. This will address the issues raised in recommendation 2 of the NePP report. This will also assist in raising the profile of procurement with our partners and suppliers.

The Corporate Procurement Strategy will address the 5 following issues

- The link between the Council's priorities and procurement
- The principles that underpin the Council's procurement activity
- The Council's current procurement arrangements
- The objectives for developing procurement within the Council
- The introduction of a 3 year medium term action plan to support the objectives

The strategy will take account of the recommendations made by the Byatt report "Delivering better Services for Citizens", the issues raised by the National Procurement Strategy for Local Government and the Gershon Review "Releasing resources to the front line". It is planned for this strategy to be presented to Members in December 2005.

### **Option for Action**

That the Council implements the proposed recommendations to address its ageing procurement practices and makes best use of an established e-Procurement solution to enable the release of resources to the direct delivery of services.

The Council could choose not to address these procurement issues and continue with its current practices, but this would lead to further inefficiencies in the way the Council procures goods and services and would be completely out of line with Essex Authorities and the National Procurement Strategy for Local Government.

### **Statement in Support of Recommended Action**

The Council is clear of its obligations to achieve its E-Government targets and objectives, deliver on its efficiency statements and achieve a high rating in the Comprehensive Performance Assessment. All of these initiatives come from Central Government and are seeking out best practice in all that a Council does. Although procurement may seem boring to most its management does actually have a high impact on how successful a Council is on delivering cost effective services. The recommendation to implement EMP will be the catalyst for change in the way procurement is managed and will make transparent the procurement costs of goods

and services throughout the Council. This transparency will allow for more aggressive and cost effective procurement strategies to be developed in the future.

**Consultation Undertaken:**

Management Board, Senior Management Team, Procurement Agency for Essex and the National e-Procurement Project

**Budget Provision:** EMP implementation costs £36,500 – IEG Grant Matching Budget. CSB Growth bid of £52,630 from 2006/7

**Personnel:** Nil

**Land:** Nil

**Community Plan/BVPP Reference:** None

**Relevant Statutory Powers:** None

**Background Papers:** NePP e-Procurement Review (attached), National Procurement Strategy for Local Government

**Environmental/Human Rights Act/Crime and Disorder Act Implications:** None

**Key Decision Reference:** None