

**REPORT TO: POLICY COMMITTEE ON 5<sup>TH</sup> MARCH 2008**

**SUBJECT: PROCUREMENT**

**BY: CHIEF FINANCIAL OFFICER**

**1. REASON FOR REPORT**

- 1.1 To present proposals for the future system development of the procurement process (e-procurement) and to seek approval for the Council's membership of Scotland Excel.
- 1.2 This report is submitted to Committee in terms of section A(36) of the Council's Administrative Scheme relating to procurement.

**2. RECOMMENDATIONS**

- 2.1 **The Committee approve the development of the e-procurement system.**
- 2.2 **The Committee approve Moray Council's membership of Scotland Excel.**

**3. BACKGROUND**

- 3.1 The Moray Procurement Initiative refers to the work that is being undertaken to review, co-ordinate and update the procurement processes for the Council. These processes have, until relatively recently, been left to the discretion of departments and governed by the Council's Financial regulations and relevant legislative requirements
- 3.2 Achievements to date include:
  - a. Staffing questionnaire – to identify staff involved in the process
  - b. Review and amendment of Financial Regulations (relating to procurement)
  - c. Development of a Council Procurement Policy and Strategy
  - d. Development and introduction of Procurement Procedures – giving guidance for departments on the various regulations and processes to be followed
  - e. Introduction of a Contract Register – to record existing and new contract information
  - f. Supplier open days (three to date)
  - g. Adoption of the publictender.co.uk website as the preferred mechanism for contract advertisements
  - h. Adoption of the constructionline.co.uk website and service for the pre-qualification of construction industry contractors and consultants
  - i. Review of Council Approved Lists
  - j. Re-design and implementation of the Procurement module within the Financial Management system - to introduce electronic ordering and authorisation

- k. Amendment to authorisation for procurement and introduction of the Supported Tender Process for non authorised officers
- l. Introduction of procurement training strategy and programme for “Procurement Authorisers”
- m. Procurement Update to Suppliers
- n. Adoption of the national Suppliers Charter and introduction of Suppliers Council Code of Conduct
- o. Training for Members

3.3 A major influence on the future delivery of procurement is the 2006 publication by the Scottish Executive - “Review of Public Procurement in Scotland” (McClelland Report). A copy of this report is available in the Member’s Library.

A Public Procurement Reform Board (PPRB) currently chaired by the Cabinet Secretary, John Swinney, has been created to coordinate the implementation of the McClelland recommendations (over 80).

3.4 The work undertaken by the Procurement Team has gone some way to address concerns highlighted in that report which were identified as being relevant to Moray:

- Non compliance with legislation and internal regulations
- Production of guidance material
- Lack of contract information
- Advertising of opportunities
- Pre-qualification of suppliers
- Supplier relationships

However, more work is needed to fully benefit from the national procurement focus, indeed, Moray’s involvement in the work that is currently underway is dependant on the projects outlined in this report.

#### **4. E-PROCUREMENT**

4.1 The need for an e-procurement system has long been recognised by the Council, indeed the current Purchase Order Processing module of the Financial Management System has already been developed to deliver “internal” electronic ordering. Further work is now required to implement the additional functionality that will:

- link our system to an external electronic market place – to provide secure and appropriately tailored access to suppliers
- allow for a more streamlined process for processing orders – more user friendly
- introduce a cross department “best practice” method for the ordering of certain goods and services
- give users access to electronic catalogues – reducing order processing times

- control and reduce maverick “off contract” spend – realising economies of scale by focusing common spend on single suppliers
- allow for two way communication with suppliers – managing relationships and improving service delivery
- introduce an electronic mechanism to search for quotes – for smaller value purchases
- allow for e-invoicing - reducing the volume of paper, processed and stored
- collect more meaningful purchase management information – essential for directing the future spend
- enable a commodity by commodity review of purchasing arrangements
- identify and enable corporate collaborative arrangements

4.2 Section 10 of the McClelland report also covers the need for public organisations to adopt an e-procurement system –

*“A system of this type offers internal efficiencies in terms of resources and skills. It also offers improved disciplines and a uniform interface to suppliers. In addition it helps address and resolve the key concern of procurement information reporting both at the individual unit level and for the overall public sector.”*

4.3 The national eProcurement [Scotl@nd](#) Service (ePS) – a partnership arrangement between the Scottish Government and CAP Gemini Ernst & Young, have developed their own transactional purchasing system (PECOS) and indeed, the McClelland report recommends the adoption of this system by all public organisations. However, the report also recognises the investment involved in systems already in place and allows for their use until *“replacement is cost justified”*.

An option document has been prepared by the author of this report, which considers these points and in particular the cost comparisons between the COA and PECOS systems.

	COA Solutions	PECOS
Implementation	£128,950	£282,230
Implementation staffing	£ 22,000	£ 22,000
Annual support & maintenance	£ 53,626	£ 72,542

- 4.4 A number of Councils have already indicated their intention to develop and implement e-procurement systems linked to their existing Financial Management systems. This is inevitable given the savings that can be achieved. Whilst there is no doubt that it would be beneficial if all public organisations were on the same system, the technology employed by these systems allows for the links to be achieved regardless of the system used.

## 5 **SCOTLAND EXCEL**

- 5.1 Section 11 of the McClelland Report covers the categorisation of commodities into A (National - across all public organisations) B (Sectoral – Police, Fire, Health, Universities, Local Authorities) and C (Local) and the need for Centres of Expertise to co-ordinate Category A & B contracts for each area. Category A commodities are listed on **APPENDIX 1**  
Category B commodities are listed on **APPENDIX 2**
- 5.2 Ministerial approval has been given for three year funding for a National Procurement Centre of Expertise (NPCoE). Working from within the Scottish Procurement Directorate, this organisation is now fully operational and has commenced work on some of the category A commodities, including Stationery and Office Supplies (paper and IT consumables).
- 5.3 Following the approval of a bid endorsed by COSLA and SOLACE to the National Shared Services Board, start up funding was awarded to establish Scotland Excel as the Centre of Expertise for the local authority sector.
- 5.4 The detailed Scotland Excel business case has been published, and a copy is available within the Members Sharepoint site and Library. This document outlines the responsibilities of the organisation and its relationship with its members. It also highlights the potential savings from Category B contracts. Estimates currently stand at just below £35 million across the whole sector but this cannot be guaranteed and will depend on a number of factors:
- Ability of its members to avail themselves of Category B contracts – as they may have existing arrangements in place that could potentially stretch for at least 3 years.
  - Geographic considerations
  - Assumptions on the amount of cash savings that will be forthcoming
- 5.5 In addition to the expected cash savings, there are some non-cash savings that should also be evident from membership of Scotland Excel as Moray Council will no longer need to enter into the sometimes lengthy process of formal tender arrangements as this will be done for us. At this stage it is difficult to quantify such savings but initial research has identified 42 commodities (included in the next wave of Category B contracts to be awarded) that are not covered by existing contracts within Moray. The work involved in tendering for this number of goods or services is substantial.

- 5.6 John Swinney, Cabinet Secretary (also the Chair of the Public Procurement Reform Board) has recently outlined the Government's approach to the subject and has endorsed the findings of the McClelland report and work carried out thus far. In a speech to the National Procurement Conference in October 2007 he said:

*"I want to send a clear message to everyone involved in the sector that we want to proceed in the spirit of true collaboration. Individuals or organisations that prefer not to collaborate on contracts, on e-procurement, on best practice and policy will have to be able to provide the strongest possible justification on objective business grounds."*

He also stressed the need for a forward thinking approach to procurement:

*"It is vitally important that public procurement is both open to innovation and able to encourage innovation in business, helping to increase productivity, competitiveness and therefore to support sustainable economic growth."*

- 5.7 It is essential that, to gain maximum benefits from both the national and sectoral Centre of Expertise, the Council should participate in the national procurement process as soon as possible. Both organisations are inviting councils to take part in the decisions that lead to a procurement strategy for each commodity. This is essential as all aspects of the resultant contract has to be taken into consideration, including geographical location, how the service is to be delivered, the timing of service delivery and impact on current suppliers. The outcome for each commodity will have to be assessed by Service Managers and the Procurement Team to make sure that the contract meets the needs of Moray and provides value for money.
- 5.8 Initial research shows that 156 different commodities are categorised as Category A and B (national and sectoral) and less than 17% of these are provided by local suppliers to the Moray Council. This suggests that local suppliers can currently only provide a limited solution to the services and goods that we require and therefore make up a small percentage of our supplier base. The Procurement Team has recognised the need to keep all local suppliers up to date with national developments and regular updates are being issued via the Council's website and directly via email to existing Council suppliers.
- 5.9 If the national and sectoral Centres of Expertise were not in existence, procurement arrangements for Moray Council would still have to change. To demonstrate Best Value it is essential that the Council establishes methods to group similar expenditure into single contracts, indeed legislation dictates that the this approach is taken. To protect the Council's position a corporate approach would have to be taken and contracts tendered for all common supplies. For Category B commodities membership of Scotland Excel will provide the support and procurement arrangements to ensure Best Value.

## 6. **MEASURING SUCCESS**

- 6.1 To ensure that the national initiatives are providing the expected benefits, the Scottish Procurement Directorate has been developing Key Performance Indicators that all public organisations will be expected to report on. These will cover:
- identification of savings – cash and non cash
  - collaborative contract involvement
  - off contract spend
  - e-procurement maturity levels
  - procurement training
- 6.2 It is more straightforward to measure savings in those areas where a base line is already established. For example, where an existing contract already exists, with cost and quality information, comparisons with any resultant national or sectoral contract will be easy, e.g Fleet Services – light vehicles. It will be more difficult to measure savings made where no contract exists as expenditure is ad-hoc and individual prices are not consistent.
- 6.3 Should the Council decide to join Scotland Excel, the Procurement Team would also want to ensure that the Council is receiving value for money and will undertake a consultation exercise with those Council Officers involved in the various contract discussions. This will cover procurement strategy, process and resultant contract arrangements. In addition the benefits for Moray will be scored and evaluated before any decision is taken regarding the future direction for that commodity.
- 6.4 In addition to measuring the success of any national or sectoral project, the procurement Team will be monitoring the progress made in relation to the Council's own strategic targets that were introduced last year. An annual report will be produced to give Members an overview of all the results – national KPI's, Scotland Excel performance and the Council's performance against its own targets. This will enable Members to consider the continuing investment in procurement. The first annual report will be provided for the year ending 31 March 2008.

## 7. **SUMMARY OF IMPLICATIONS**

### (a) **Corporate Development Plan/Community Plan/Service Improvement Plan**

Sound governance at strategic, financial and operational levels  
 Sound management of resources  
 Competitiveness, trading and discharge of authority functions

Section 4.2 of the F & ICT Service Improvement Plan covers Corporate Procurement

**(b) Policy and Legal**

The action taken by the Cabinet Secretary to chair the Public Procurement Reform Board sends a strong signal that efficiency savings from procurement continues to be a major theme for the Government.

**(c) Resources (Financial, Risks, Staffing and Property)**

To date annual costs have been increased by £100,000 through establishing the procurement team. The additional costs for the projects outlined in this report will add to this:

E-procurement Implementation costs including temporary staff cover £150,950

Annual support and maintenance £53,626

The cost of membership of Scotland Excel is:

2008/9	2009/10	2010/11
£64,337	£66,054	£67,731

Adoption of both the e-procurement system and membership of Scotland Excel will assist the Council in achieving procurement efficiencies.

**(d) Consultations**

Scotland Excel have consulted with Directors of Finance and SOLACE. Discussions regarding the Council's potential membership have taken place with CMT/SMT.

**8. CONCLUSION**

- 8.1 The need to modernise the processing of orders and payments is described in this report and investment in an eprocurement system will resolve the transactional aspects of this modernisation. The report also describes the benefits to the Council of taking part in the national arrangements that are being put in place for category A and B commodities. The Council will only be able to influence the national category B contracts through membership of Scotland Excel and it is recommended that the Council should agree to join Scotland Excel and review the benefits of continued membership on an annual basis.**

ITEM:

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Background Papers:  
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