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**National e-Procurement Project
Support for Authorities**

E-PROCUREMENT REVIEW

Thanet District Council

March 2005

Revision History

<i>Version number</i>	<i>Revision date</i>	<i>By whom</i>	<i>Summary of changes</i>
0.1	April 2005	James Johnston	First draft

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Supporting documentation (provided by the consultant)

<i>Document title</i>	<i>Date of issue</i>	<i>Approved by</i>
Questionnaire	March	James Johnston
Scorecard	March	James Johnston

Supporting documentation (provided by the Authority)

<i>Document title</i>	<i>Date of issue</i>	<i>Author</i>
Procurement Strategy	2004	
Management Overview of Procurement	2002/03	Stuart Bradburn (Audit)
Management Overview of Procurement action plan	2005	Stuart Bradburn (Audit)
Draft Procurement Code of Practice	2005	

1. Background

1.1 Background to NePP involvement

The National e-Procurement Project (NePP) has engaged consultants so as to be able to offer support to a number of councils with e-procurement. This work is funded by the ODPM.

The consultants have been made available to undertake a brief on-site review and report back to the authority on its progress with e-procurement, identifying next steps and further support likely to be required. The report is shared with the NePP for national data-gathering purposes. The findings are confidential, and will not be shared with the ODPM other than at non-attributed summary level.

The authority has entered into the arrangement voluntarily. The ready co-operation of the authority in this review is gratefully acknowledged. The review participants are listed in Appendix A.

1.2 Local context

Thanet District Council is a small Authority in North-East Kent consisting of three main towns, Margate, Ramsgate and Broadstairs. The population is 126,000 and has an urban area that is the second largest in Kent. The area constitutes twenty-six miles of coastline and 10,300 hectares of land. The district has suffered over recent times through the economic strains placed upon key components such as tourism, coal mining and agriculture.

The council recently received a 'Weak' assessment in its CPA.

1.3 Procurement context, or 'Where is the council now?'

Thanet District Council has a decentralised method of procurement. The council is progressing methods to harmonise the procurement over the whole council rather than by individual departments. This is evident with items such as IT, being purchased by specialist buyers and a small purchasing unit for goods, consumables, stationery, cleaning products and some corporate contracts. Collaboration is seen as a cornerstone of the council's procurement activities and is participating in Kent Connect, Kent Buying Consortium and the Regional Centre of Excellence contracts.

Currently about £34.0 m is being spent on goods, works and services culminating in over 8000 orders on the Cedar FMS and more on discrete departmental systems such as those in housing. However a fair proportion of the expenditure is conducted under existing contracts which leaves the spend able to be influenced at a much lower figure than the total amount spent of £34m.

The Council has implemented the National Procurement Standards (NPS) and has in place a member procurement champion, a procurement strategy and a responsible officer on the management committee.

Karen Paton, Office Services & Purchasing Manager has organised this consultancy programme with the NePP.

2. Summary Assessment

The following assessment has been compiled following the telephone interview and a one-day visit. These findings are based upon interviews with a limited number of key managers seen during the day. (see appendix A).

2.1 Main findings and conclusions

It is clear from our consultancy day findings that TDC are approaching e-Procurement in a structured and methodical way by upgrading the Cedar financial system, to include a web based e-procurement module, as the main component part for the procurement deliverables. This is an effective solution given the investment already made by TDC.

However we feel that e-Procurement should be seen much more in the round to encompass the broader aspects of technological best practice procurement. To enable this to take place several issues need to be addressed.

TDC has instigated a supplier spend analysis to be undertaken by Spikes Cavell as part of a collaborative tender with other Kent Councils. This will form the foundation of the data necessary to measure performance improvements in the Gershon efficiency review. It is essential that the base data is established so that improvements, numbers of transactions, quantity of suppliers and aggregation of spend in the next fiscal year can be measured. There will be several other benefits to be derived from this work not least is identification of SME's for inclusion and community sustainability projects. Other areas of this part of the program will help to identify maverick spend and contracts that can be aggregated to enable a reduction in the number of suppliers currently used. This will be a key pointer for collaborative projects that the council is actively pursuing. This detailed spend analysis is therefore a firm stake in the ground from which all future efficiency and cost savings can be tracked, significantly improving the processes required for meeting the Gershon and IEG targets.

TDC is benefiting from several past events, firstly the investment in IT infrastructure such as document image processing and secondly the general awareness of staff to the yield that better procurement can deliver. This is obviously at a cultural level rather than at a low level responsiveness.

To enable a seamless e-Procurement solution based around the Cedar FMS upgrade consideration should be given to how the e-module will relate to the outside world. Therefore a review needs to be undertaken as to the benefits of accessing a marketplace and the associated costs of having access to these hosted services. Access to a marketplace is a preferred priority outcome. There exists at least one departmental ordering system, which should be interfaced to the FMS rather than run independently. Sometimes this is complex so early planning is necessary

To fully reap the benefits TDC needs to approach procurement in a much more strategic role to assist the departments to achieve best practice rather than doing it for them.

We believe that a pilot study of Purchase Cards should also be employed to deliver a reduction in the processing costs of low value transactions. The recognised efficiency savings reduces the collective process to pay time of an order from 46 minutes down to 12 mins. This is a significant improvement. The introduction of p-Cards will offer the council a strong alternative to issuing low value payments. Conventional wisdom states that 20% of a councils transactions will be for less than £50, this rises to 50% at a value of less than £500. The Audit Commission quotes the cost of processing from order to payment to be between £50-70. The same criteria with a p-Card reduces the cost down to less than £15.

To enable e-procurement to function effectively new Financial Regulations and Standing Orders will need to be implemented. The existing model will not function with the proposed new systems and must be updated as soon as possible. At the same time consideration should be given as to the exact requirements for processing low value transactions where the processing costs can outweigh the input by three fold. Is it more expedient to allocate low cost items to sundries and then re-allocate globally or indeed to spend £20 claiming back £3 worth of VAT? These areas will need to be discussed with members to allay any concerns that may arise.

To enable an end-to-end solution consideration needs to be given as to how the TDC suppliers interact with the council as the TDC central e-Procurement system has to interact with the outside world. Therefore work will need to be done to bring the suppliers up to speed with the councils stated goals. This will require a supplier adoption programme to be fully focussed. The basis of the effort will be derived from supplier spend analysis. This exercise will also highlight any issues with local sustainability within the local SME environment.

There are two other areas that also need to be given further consideration. These have distinct operational and performance benefits but are now becoming near essential since the instigation of the Freedom of Information act 2005. There are many cases in the last few weeks of existing suppliers and potential contract bidders requesting data about tenders and KPI's on existing contracts. Whilst these KPI's may exist they will inevitably be paper based and difficult to assemble. The efficiency is important but so is the audit and accountability process. Therefore we believe that e-Tendering and e-Contract Management is given careful consideration. Increased use of a central contracts database and management process can significantly help in this process.

Finally the most important part of the deliverables of e-Procurement is the improvement to the Management Information that it provides. The information resides, albeit on paper in the organisation currently, but it is inaccessible or people do not utilise it. This means that managers are either unaware of problems or excesses, or do not have the resources to comprehend the potential improvements, both cashable and non-cashable.

These observations and recommendations are, of course, dependent on the internal resources that can be made available. Failure to provide the right level of resource will lead to indifference at best, or failure at worst, to deliver the anticipated improvements. To this end interim support will be required, parts of which could well be provided as a collaborative venture.

3. Review findings in detail

These findings are based on interviews with the limited number of informants seen in the time available (see Appendix A).

<i>Area explored</i>	<i>Findings / Resolution</i>
Procurement and e-procurement Strategy	<p>There is a procurement strategy that was fully approved and adopted on 10th March 2005, which refers to e-procurement, and the steps that Thanet DC have taken to include the new processes.</p> <p>There also exists a Draft Procurement Code of Practice, which is very comprehensive. However it may need amending if TDC progresses to e-tendering and RFQ's as it still assumes that the responses are in paper format, which in the future, for lower cost items, may not be the case.</p>
Governance arrangements	<p>In accordance with the National Procurement Strategy (NPS) the correct governance has been implemented. There is an officer champion for procurement who sits on the corporate management team and a member who holds the procurement portfolio.</p>
Use of IEG monies	<p>Officer responsible for IEG allocation</p> <p>Roz Edridge</p>
	<p>IEG monies allocation for e-Procurement</p> <p>The e-Procurement funds are not specifically allocated, but the IEG had stated that funds were available for e-procurement.</p>
Notes on the use of e-procurement solutions	<p>e-Tendering</p> <p>TDC should promote the use of this service more through its own organisation and other partners such as the Kent Connect and the Regional Centre of Excellence. It will come to feature high on the audit and governance agenda. The efficiency gains for a council of TDC's size can be at least one FTE albeit made up of arms and legs. This is without including advertising, printing, paper and post costs.</p> <p>With the recent introduction of the Freedom of Information act It has become apparent that potential suppliers of future tendered projects are using the FOI as a vehicle to gather information. This is for a multitude of reasons. TDC in keeping with most other councils rely upon manual systems, which are not easily employed to provide the required information. The introduction of formal e-Systems is therefore almost a necessity.</p>

<i>Area explored</i>	<i>Findings / Resolution</i>
	<p>e-Marketplace</p> <p>Currently the Financial management system Cedar has been upgraded to include the e-procurement modules. The new system being suggested replicates the majority of the functionality that a marketplace delivers. The key difference being that the FMS tends to prefer own catalogues or punch-out to supplier hosted catalogues. The first means that the cost of maintaining a corporate Catalogue for TDC may become too time consuming to be truly effective. The second approach relies upon mainly dealing with catalogues that are owned by large suppliers.</p> <p>The e-Gov priority outcome infers that an authority of TDC size should have access to a marketplace which in this context is the hosted catalogue element.</p> <p>To accommodate a greater scope TDC should purchase a licence to access a marketplace range of catalogues. This will give a uniform application front-end for all catalogue suppliers orders.</p> <p>Typically IDeA, Elcom, @Ukplc, Lloyds BVP and OGC Zanzibar will be suitable providers. All should have connectivity to Cedar FMS.</p>
	<p>Own hosted catalogues</p> <p>Realistically this option is unsuitable for a district the size of TDC other than for very specific items.</p>
	<p>Supplier catalogues</p> <p>The supplier, in a similar fashion to Kent County services hosts these. The down side is that for occasional users the look and feel may be different for each supplier thereby causing confusion. A better solution is to use the new e-procurement module to access the suppliers catalogue through a marketplace therefore ensuring a standard look and feel with more consistent interfacing to the FMS.</p>
	<p>e-Auctions</p> <p>The minimum cost of running an auction is in the region of £4000 consequently they are better used as a collaborative tool with other authorities (Kent Connect) thereby reducing the overall cost overhead.</p>
	<p>Electronic order generation</p> <p>The upgraded Cedar FMS and its workflow systems will handle this and the work is in hand to complete this before the project commences. Consideration needs to be given as to how other systems such as Rams (housing) will integrate to the overall scheme of events.</p>
	<p>Electronic transmission of orders</p> <p>Work needs to be started now so that the TDC suppliers are aware of what the future holds. Starting early will avoid suppliers becoming cautious and defensive. A supplier adoption programme should be instigated.</p>
	<p>e-Invoicing</p> <p>TDC should be commended in the way that they intend to address the receipt of invoices. Adopting a centralised scanning system for all invoices is at least 2 years ahead of most councils of TDC size. This will have a significant effect on the efficiency ratings.</p>

<i>Area explored</i>	<i>Findings / Resolution</i>
	<p>Workflow for orders</p> <p>Work will need to take place to within the supplier adoption programme to ensure that the current suppliers understand the reasons for receiving electronic orders. This will be through the adoption of the FMS or Marketplace or via emails. Any supplier doing business with government will need to adopt this method of ordering.</p> <p>Most orders are currently manually printed and posted/faxed/telephoned to suppliers. Electronic transmission will bring huge efficiency gains to the ordering process for the majority of users so should be extended to as many suppliers as possible. As discussed on the day, the following points need to be carefully managed in order to make the implementation run smoothly.</p> <ul style="list-style-type: none"> ● Communication to suppliers is key, letters should be sent to all suppliers notifying them of the changes and asking for their inclusion in the emails ● Sample PO emails should be sent to all suppliers to check both functional (i.e. does it contain the information they need and can it be easily understood) and technical (i.e. can their email systems render the html content of the email) ● It is important to ensure issue monitoring and robust backup processes are in place, (emails can always fail for some reason)
	<p>Workflow for invoices</p> <p>This will be managed through the Cedar upgrade and the centralised invoice scanning system being employed.</p>
	<p>e-Payments</p> <p>TDC currently achieve a creditable 65% of payments via BACS/CHAPPS. This ideally should be raised to 80% in 2006/7 and with support from p-Cards and self-invoicing should raise the current 30 days payment targets to nearer 99%.</p>
	<p>p-Cards</p> <p>p-Cards are not currently in use but a pilot should be considered. As mentioned on the visit, the choice of where to roll p-Cards out to, should be done as part of a detailed supplier spend analysis, looking at levels of spend and volumes of transactions. P-Cards can be used to great benefit in a number of areas, primarily:</p> <ul style="list-style-type: none"> ● Where the number of transactions are high with a supplier. Using p-Cards in these areas significantly reduces the number of invoices to be processed therefore saving resource time ● Where the value of the order/invoice is small. ● Where the convenience of having a payment card will benefit the users and also reduce invoice processing requirements e.g. long distance one off purchases or people working in the field or staying overnight. <p>Whichever p-Card solution is chosen, what must be implemented properly is the back end interface to the financials system and the ability to easily validate and approve bank statements. Use of Merchant Category Codes by suppliers is also key in order to obtain the level of categorisation required for accurate spend analysis.</p> <p>There are several methods to implement p-Cards that may mean alternative ways of handling the data to further reduce costs.</p>

Area explored	Findings / Resolution
	<p>Contracts management tools</p> <p>This is the natural follow on from e-Tendering (see above). A Contracts Register exists and should be the basis of applying contract management tools. However the draft documentation provided suggests that this should be for contracts of £50,000 and above. This misses the opportunity of being able to co-terminate contracts of a lesser level so that they can be aggregated either with TDC or with partners to achieve greater scale.</p> <p>Selling to the council guide</p> <p>This is currently being updated.</p> <p>Supplier portal</p> <p>This should be a regional activity through Kent Connect, or the SECoE.</p> <p>Management information</p> <p>One key feature of implementing e-Procurement will be the wealth of data that can be garnered to assist the procurement function.</p> <p>Specialist software in use by departments</p> <p>The housing Department currently use Rams for processing their own requirements and placing orders.</p>
Robustness of e-procurement plans	<p>From the discussions during the consultancy day we believe that there is a credible e-Procurement platform being proposed. However a partial implementation of only some of the proposals will significantly impede any progress. The proposals will assist in the measurement of the Gershon 2 ½ % efficiency targets. Key to the success of the proposed plans is the intelligent use of technology.</p>
Resources available to procurement	<p>It is reasonable to forecast that there will be sufficient internal resources available with the skill sets to deliver the proposed IT plans. However this may not be the case for all aspects of the recommendations notably supplier adoption, accreditation and the application of p-Cards. Therefore it will probably be necessary to purchase external support from suppliers or consultants to ensure that the proposals are delivered in a timely efficient manner.</p>
Regional collaboration, attitudes and opportunities	<p>The TDC has some experience in piloting through collaboration projects. Sometimes smaller groups can act more quickly and these are not necessarily only with neighbours. The ODPM has set up Regional Centres of Excellence and they should be a helpful source of collaborative projects. Kent Connect can be a useful source for collaboration, as in the Spikes Cavell supplier analysis project, as could an East Kent group to acquire low cost marketplace and SME connectivity.</p>
Barriers	<p>The council's own assessment is that the main barriers to e-procurement progress at TDC are:</p> <ol style="list-style-type: none"> 1) Restrictions on the resources that small authorities have available 2) Implementing and interfacing the "e" Cedar upgrade 3) Fully understanding the methodology, solutions and wider offerings of e-Procurement 4) Managing the change

<i>Area explored</i>	<i>Findings / Resolution</i>
Scope for improvement	<p>There is recognisable scope for improvement however the current proposals will progress this significantly. The Gershon Review has stated that the 2 ½% efficiency improvement is split in such a way that at least 1 ¼% has to be a cash saving, the remainder being efficiency. The current position at TDC is that currently these savings will be difficult to identify, as the MIS is not readily available. The implementation proposals will go a long way to preparing this data and will be responsible for helping the council achieve its cash and efficiency goals.</p> <p>Examples of collaborative cash savings can be seen in the Essex CC and Districts implementation of a marketplace which achieved annual savings of just under 10% from its inception.</p>

4. Recommended outcomes and actions

<i>ID</i>	<i>Recommendation 1</i>			
1	Review the options for Cedar upgrade access to marketplace catalogues			
1.1	Investigate the options provided by marketplace suppliers			
1.2	Recommend strategy			
1.3	Prepare business case including ROI			
T	Timescale 1 st qtr 05/06			
Efficiency potential		High	Medium	Low
Cashable savings		x		
Non-cashable savings		x		

<i>ID</i>	<i>Recommendation 2</i>			
2	Following the supplier and spend analysis currently being progressed			
2.1	Investigate patterns of expenditure, aggregation of contracts, low level and maverick spend			
2.2	Identify local SME's and impact analysis on local community sustainability			
2.3	Use knowledge of spend profile to pinpoint specific areas suitable for p-Cards			
T	Timescale End 2 nd qtr 05/06			
Efficiency potential		High	Medium	Low
Cashable savings		x		
Non-cashable savings				x

<i>ID</i>	<i>RECOMMENDATION 3</i>			
3	Investigate use of Purchase cards			
3.1	Investigate OGC's GPC or Visa alternatives			
3.2	Use Supplier/spend analysis to define low value spends and high value transactions			
3.3	Develop supplier relationship methodology and supplier adoption strategy			
3.4	Select appropriate business dept/sectors for pilot study and rollout successful plan			
T	Timescale feasibility study End 2 nd qtr 05/06			
Efficiency potential		High	Medium	Low
Cashable savings				x
Non-cashable savings		x		

ID		Recommendation 4		
4	Supplier adoption programme			
4.1	Identify suppliers as local, sub-regional, national and SME's			
4.2	Prioritise key suppliers by transaction scale and essential services			
4.3	Form working group with the TDC Economic Development Dept, Business link, Chambers of Commerce and Learning Direct etc			
4.4	Develop programme to encourage supplier acceptance of e-procurement objectives			
T	Timescale 3rd qtr 05/06			
Efficiency potential		High	Medium	Low
Cashable savings				x
Non-cashable savings		x		

ID		Recommendation 5		
5	Review financial regulations and standing orders			
5.1	Align regulations with e-Procurement process changes			
5.2	Prepare change management programme			
5.3	Complete first phase of training (managers) before implementation starts			
T	Timescale 2 nd qtr 05/06			
Efficiency potential		High	Medium	Low
Cashable savings				x
Non-cashable savings				x

ID		Recommendation 6		
6	Tendering & Contract management system			
6.1	Feasibility study and investigate potential solutions inc Cedar module			
6.2	Enhance contract register to embrace smaller capital items			
6.3	Prepare training and change management programme			
6.3	Develop supplier relationship methodology			
T	Timescale feasibility study 3 rd qtr 05/06			
Efficiency potential		High	Medium	Low
Cashable savings			x	
Non-cashable savings		x		

APPENDIX A List of participants

Thanet District Council

Jennifer Seeley, *Strategic Director (Finance)*

Karen Paton, *Office Services & Purchasing Manager*

Linda Taylor, *Business Services Officer*

Ginny Bax, *Principal Accountant*

Jeff Wallbank, *Corporate IT Manager*

John Meredith, *Principal Ops Officer*

Rob Howard, *Audit & Performance Manager*

Roz Edridge, *E-Business Manager*

Paul Verrall, *Parks Manager*

Mark Seed, *Head of Street Scene*

NePP

James Johnston, *Evaluate Group e-Procurement Consultant*

APPENDIX B Sources of further guidance and support

<p>National Procurement Strategy</p>	<p>The National Procurement Strategy for Local Government sets out the national strategy and targets for all Local Authority procurement, including some guidance on the use of e-procurement:</p> <p>http://www.odpm.gov.uk/stellent/groups/odpm_localgov/documents/divisionhomepage/029685.hcsp</p>
<p>e-Government Priority Outcomes</p>	<p>The ODPM's 'Priority Outcomes' paper defines the expectations and timetable for all the e-Government outcomes, including the e-procurement outcomes:</p> <p>http://www.odpm.gov.uk/pns/pnattach/20040112/1.doc</p> <p>A supplementary guidance paper has been produced by the IDeA.</p> <p>http://www.idea.gov.uk/transformation/Priority_outcomes_notes.rtf</p> <p>Further details on e-procurement outcomes can be found here:</p> <p>http://www.ticon.biz/assets/targets4.pdf</p>
<p>NePP</p>	<p>The National e-Procurement Project (NePP) has published comprehensive guidance on e-procurement. This is disseminated via the <i>IDeA Knowledge</i> website</p> <p>www.idea.gov.uk/knowledge/eprocurement</p> <p>The NEPP will also be running regional workshops in early 2005, the content of which will be informed by e-procurement reviews such as this one. Details can be found on the NePP website:</p> <p>www.nepp.org.uk</p>
<p>IDeA</p>	<p>The local government Improvement and Development Agency (IDeA) has set up two ODPM-funded units to support councils with e-government generally (including e-procurement) through to March 2006.</p> <p>The e-government Strategic Support Unit (SSU) is available to support all councils with advice, guidance and best practice examples. The unit may be contacted via e-gov@idea.gov.uk or by telephoning: 020 7296 6194</p> <p>The e-government Implementation Support Unit (ISU) provides on-site e-government support to a small number of councils nominated for assistance by the ODPM. If your council is one of these, then the ISU support can assist in taking forward the e-procurement actions identified in this review.</p> <p>http://www.idea.gov.uk/transformation/?id=newunits</p>