

*Strategy for the Implementation of
eProcurement in the Irish Public Sector*

Executive Summary of Strategy Report

19th October 2001



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PRICEWATERHOUSECOOPERS 



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SOLICITORS

**Purchasing
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1. Background

As a member state of the European Community, Ireland is delivering on its commitment to the eEurope Action Plan through a number of national initiatives, including those related to the creation of a favourable environment for the development of e-commerce. One such initiative implemented by the Dept. of Finance is to explore, develop, and deliver, through pilot project(s), an appropriate eProcurement solution, which could eventually be rolled out to embrace the whole of the public service.

The first phase of this project involved the production of a strategy report containing recommendations on the introduction of a solution that best suits public service business practice. A consortium led by PricewaterhouseCoopers including Philip Lee Solicitors and Purchasing Solutions were commissioned to undertake this strategic exercise as the first stage of a three phase assignment.

The eProcurement strategy was developed through extensive consultation with a wide range of stakeholders. A number of pilot agencies were selected to participate in the review and these were chosen to reflect, as far as possible, the different sectors, the geographical spread, and the range of procurement practices within the public sector. Whilst the initial scope of the initiative excludes the commercial state bodies, the recommendations in this report can accommodate their inclusion at a later date.

If this important initiative is to be successful it is essential that those involved at all levels recognise and fully understand its strategic significance. Successful implementation will require top management commitment to ensure that procurement remains a priority and is seen as a critical element in achieving overall service delivery objectives. The strategic importance of procurement and eProcurement as well as the implementation of this initiative, must be acknowledged and incorporated in the ongoing management of public sector organisations.

2. Objectives to be Achieved

A set of objectives to guide the development of the e-procurement strategy were defined and agreed by all stakeholders following a process of consultation with sector representatives. These objectives are set out in summary below:

- To improve service levels to buyers, suppliers and users involved in public sector procurement.
- To develop a more integrated approach to procurement across public sector agencies and sectors.
- To minimise the transaction costs associated with procurement through standardisation, streamlining and automation of the procurement processes within, and where appropriate across agencies and sectors.
- To maximise value for money for Irish Public Sector expenditure by enhancing the buying power of the public sector.
- To promote competition among suppliers while maintaining reliable sources of supply.
- To optimise inventory levels through the adoption of efficient procurement practices.
- To make effective use of human resources in the procurement process.
- To promote the use of eCommerce in the wider economy.
- To improve the auditability of public procurement expenditures.

- To be progressive in the adoption of procurement related Information and Communication Technologies (ICT).

3. Targets

In order to achieve the agreed objectives for the strategy, a set of targets have been proposed. These include both financial and non-financial measures and they relate to levels of performance to be achieved by the end of 2007. The key targets are outlined below.

- Reduction in the unit cost of supplies & services purchased amounting to 2.5% of total expenditure¹
- Reduction of 5% in the average procurement transaction cost for supplies & services.¹
- Reduction in the unit cost of capital works purchases amounting to 0.5% of total expenditure²
- Reduction in transaction costs for capital works purchases amounting to 0.25% of total expenditure²
- 90% of tender competitions (above EU threshold) to be carried out electronically
- 80% of payments to be carried out electronically
- 10% of all expenditure on supplies and services supported by electronic catalogue and ordering facilities

4. Benefits

The economic benefits of e-procurement arise primarily from reducing 'off contract' spending, leveraging buying power and reducing transaction costs. Given the current state of maturity of procurement in the public sector and a projected spend of approximately **EUR 8.8bn** in 2001, the scale of the opportunity to effect savings presented by e-procurement is significant. If the measures recommended in this report are implemented in full and the financial targets outlined are met, the potential savings to be generated through adoption of the e-procurement strategy amount to a cumulative total of **EUR414m** for the years 2002 to 2007 with additional savings of **EUR177m** per annum thereafter. This represents a saving of approximately **2%** of on the total expenditure of EUR8.8bn.

5. Key Recommendations for Change

The analysis carried out indicated that fundamental changes are required in the public sector procurement environment if the benefits of eProcurement are to be realised. The key changes are grouped into a number of areas as follows:

- New procurement framework and practices
- New organisational arrangements
- eProcurement technology framework
- The legal and economic environment

In total the report contains 45 key recommendations and these are summarised in the sections below.

¹ Total expenditure on supplies, services and the 'repairs & maintenance' element of capital works purchases

² Total expenditure on capital works excluding the 'repairs & maintenance' element

New Procurement Framework & Practices

A new procurement management framework should be introduced in the public sector. This should involve the development of procurement strategies for different categories of spend based on the objectives, targets and priorities of the organisations. Categories may be defined at agency, sub-sector, sector or national level depending on factors such as the commonality of usage and the size of the spend. The categories at any one of these levels should be considered as a group or 'portfolio', and an overall portfolio strategy should be developed which takes account of the strategic importance and overall spend of each category in the group.

Procurement should be aggregated to the highest appropriate level and sectors should identify opportunities for increasing the level of contracted procurement. Available contracting approaches (e.g.: framework agreements, prime contracting, combining different tendering requirements), should be used where they increase flexibility and facilitate competition. Structured approaches incorporating appropriate measures and targets should be adopted to the management of procurement performance and supplier performance. To facilitate this, a national supplier register should be established.

A standard approach should be used in the development of procurement policies, processes and documentation. In particular a national standard classification scheme for categories and items should be adopted. The development and publication of procurement policies and guidelines should be undertaken nationally.

New Organisational Arrangements

It is envisaged that a number of new entities should be established at national, sectoral and agency level to support the proposed vision for public sector procurement. The structures proposed should take account of existing procurement units and bodies and should avoid areas of potential overlap and duplication.

The National Policy Unit (NPU), which should be set up at the commencement of implementation, should be responsible for the development and coordination of national procurement and e-procurement policy. It should also be responsible for approval of sector level initiatives and support of associated budget requests.

A number of other bodies, as outlined below, should be established on a temporary basis for a period of at least twelve months, after which they should be subject to a review in order to determine their longer term position in the overall procurement structure.

The National Operations Unit (NOU) should incorporate representation from the sectors and have responsibility for the implementation of national e-procurement strategies and policies developed by the National Policy Unit. It should also be responsible for the approval of sector level initiatives in conjunction with the NPU.

Sector Procurement Units (SPU) should be established to develop and implement individual sector procurement strategies and initiatives. In addition, dedicated procurement functions should be set up where appropriate. Multi disciplinary sourcing teams with sector representation should be used as required to develop procurement strategies for individual categories of spend.

The National Procurement Advisory Body should ensure an integrated approach to e-procurement across the public sector. Its role should be to facilitate consultation between the NPU, the NOU and the sectors in the development of national procurement policy and strategy. It has a role in incorporating the views of other stakeholders such as suppliers.

A National Procurement Managers Forum, operating mainly through workshops and conferences, should provide an opportunity for procurement managers to share information and provide input to national initiatives.

In addition, change management and training plans should be developed to support the implementation of the new organisational structures.

eProcurement Technology Framework

A technology framework should be put in place to provide public sector buyers, suppliers and the general public with secure access to an integrated range of procurement systems and services, using Internet technology.

Building on the www.etenders.gov.ie initiative, a national procurement website should be provided as a gateway for users to access to procurement opportunities, related services and information.

It is envisaged that a national electronic tender management facility would be provided to support the secure transmission of tender documents between buyers and bidders. The facility would support the whole tendering process from tender document preparation through tender award to contract management for supplies, services and works.

Another feature is the provision of catalogue based ordering systems at sector and agency level. Such catalogues would provide public sector buyers with internet based facilities to search and order from on-line catalogues of goods and services available under contracts agreed with suppliers.

Packaged solutions should be used where appropriate in preference to custom developed applications.

An eProcurement Standards Working Group should be established at national level as part of the NOU, to maintain all technology standards associated with e-procurement.

National standards should be developed for procurement management information to support the implementation of the new procurement management framework.

eProcurement solutions should where economically beneficial be provided on a managed service basis.

The electronic payment facilities and security infrastructure developed as part of the Public Services Broker should be used.

Legal & Economic Environment

The Irish Government should ensure that the proposed amendments to the EU procurement directives are adopted as early as possible following approval. In addition it should make submissions to the EU Commission in relation to the adoption of private sector practices in the public sector where appropriate. The Government should consider giving support to proposed amendments relating to the use of reverse auctions and efforts should be made to accelerate the development of standards associated with the Electronic Signatures Directive. As national and sectoral procurement strategies are put in place, it is important that new procurement practices should discourage anti-competitive practices and aim to maximise competition in the market place.

The impact of e-procurement on the economic environment must also be considered. The public sector should have an understanding of the profile and e-commerce readiness of the supply market so that the potential impact of any proposed strategies can be assessed. Suppliers should also be kept informed of developments in policies, practices and processes.

6. Funding

It is proposed that funding for the implementation of the national initiatives contained in the eProcurement strategy be provided in two tranches covering the periods 2002 – 2004, and 2005 – 2007. Based solely on the projected financial benefits and using a rate of return of 20%, up to **EUR43m** could be invested evenly over the first period. A review would be carried out at the end of this period to determine the size of the second tranche and as a minimum the same amount could be required in the second period. Inclusion of non-financial benefits may justify a higher level of investment but these would need to be assessed in detail to determine the potential savings arising from them. Estimates of the funding required for sectoral initiatives will only be possible once the sector level strategies have been developed.

It is proposed that the Government should provide up to 100% of the capital and operating funding in the initial period. Alternative sources of funding such as Public Private Partnership (PPP) could be considered for future projects in this programme.

7. Treatment of Savings

Savings that arise from improved procurement practices and eProcurement should be available for use in augmenting or improving front-line services within the agencies concerned, subject to Government accounting rules and the right of Government to reduce any allocation in changing budgetary circumstances. The savings must be clearly identifiable and shown to genuinely improve value for money in the provision of services.

8. The Way Forward

In order to implement the recommendations in the report, a range of projects has been identified in the following key areas:

- Procurement Framework & Practices
(*e.g.: cost baselines, national classification scheme, national policies, sector strategies*)
- Organisational Development
(*e.g.: establishment of new bodies, development of training & change management plans*)
- eProcurement Technology Framework Development
(*e.g.: supplier register, content management, national website, e-tender facility*)
- Pilot Projects
(*e.g.: tender management, electronic ordering, sector pilot projects*)

The suggested timeframe indicates that many of the national level projects are expected to be completed by mid 2003. The delivery of this work programme is dependent on the relationship between these projects as well as the current status of other Government initiatives such as Reach, BASIS and the Strategic Management Initiative.

In order to achieve the milestones in the implementation programme, a number of immediate actions are required. The first of these is to establish the National Policy Unit on a permanent basis. The National Operations Unit and the National Procurement Advisory Body should then be set up on a temporary basis for at least 12 months. In conjunction with this, the identified pilot projects should also be initiated.

While the potential benefits to be derived from the successful implementation of the initiatives and recommendations are significant, the implementation will present a number of key challenges such as: cooperating across traditional organisational boundaries, measuring benefits, developing procurement competencies and achieving senior management support. These will need to be addressed if the targeted benefits are to be realised.