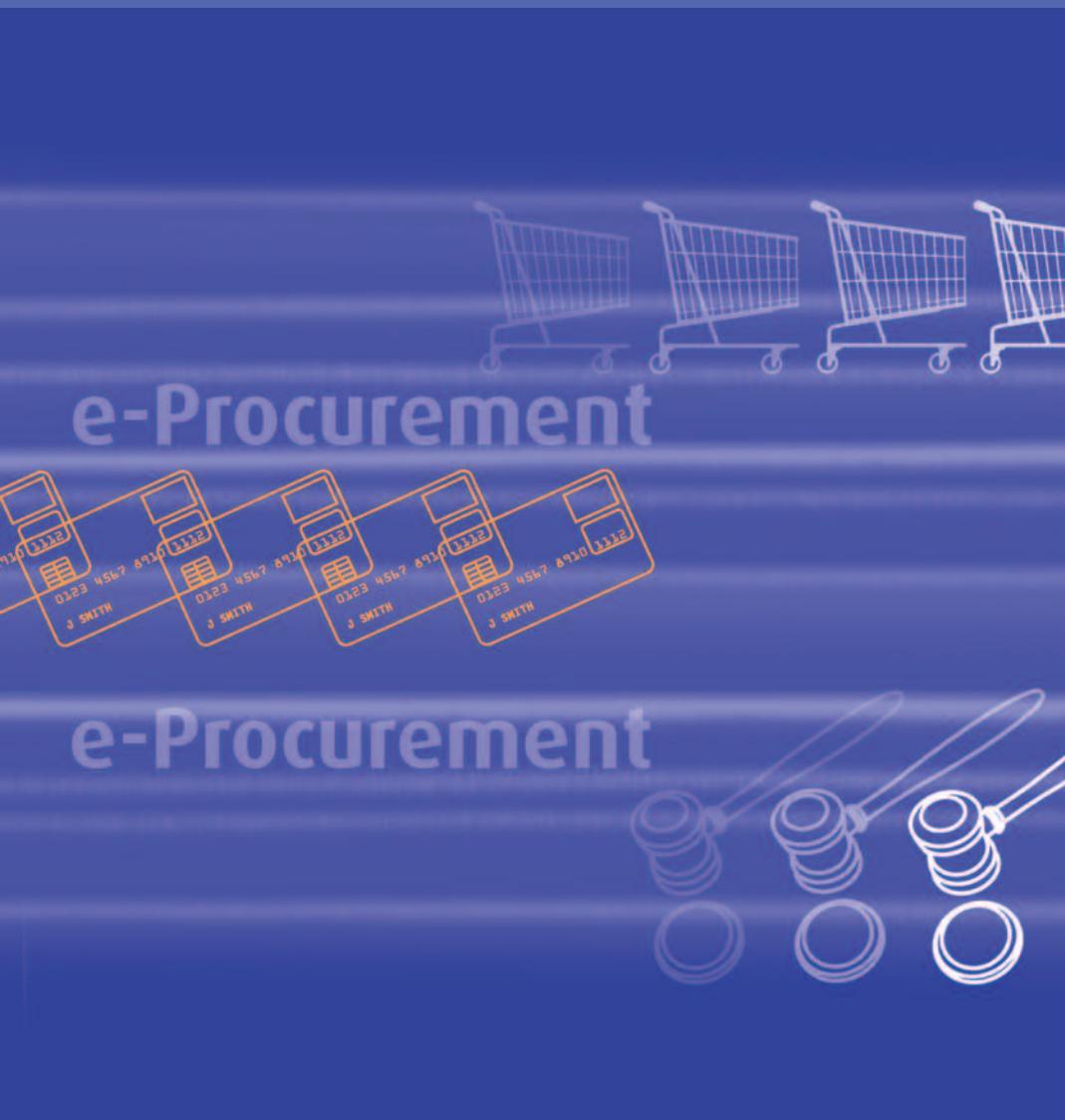# local e-gov
National Projects

National e-Procurement Project
Delivering e-Procurement

Desktop Guide to e-Procurement
Part 6: How to create a Business Case for e-Procurement

e-Procurement

e-Procurement

Supported by **Office of the Deputy Prime Minister**

1. Introduction

Background

The National e-Procurement Project (NePP) is working to support and enable Councils to meet their e-Government targets and to gain the benefits available from e-procurement. As part of this work, the NePP has developed entry-level guidance notes for use by Councils as they work to implement e-procurement. These 'How to' guidance notes are designed to cover the basic steps that Councils need to take to implement e-procurement. The notes can be found at www.idea.gov.uk/knowledge/eprocurement and cover the following topics:

- Part 1: Overarching Guide to e-Procurement
- Part 2: Purchase Cards
- Part 3: e-Auctions
- Part 4: e-Tendering
- Part 5: e-Marketplace
- Part 6: e-Procurement Business Case
- Part 7: Spend Analysis
- Part 8: Selling to the Council
- Part 9: e-Procurement Guide to Suppliers.

Structure

The purpose of this guidance note is to assist Councils to develop their business case for the implementation of e-procurement. The aim of this guide is to explain the purpose of developing a business case, and to provide practical advice on what to consider in the provision of a quality submission. The structure of the document is as follows.

Section 2 – The rationale for a business case
- Why are business cases necessary?
- What are the key challenges and how do I deal with them?
- What is my checklist?

Section 3 – Creating the business case for e-procurement
- What should a business case contain?
- How do I prepare a business case?

Section 4– Checklist

Section 5– Where can I get further information?

The document contains a number of terms that may be unfamiliar to Councils. The following table, therefore, provides a glossary of terms.

Table 1 – Glossary of terms

Term	Definition
Benefits realisation	The actions taken to identify where benefits should come from, assessing whether benefits are being achieved and taking steps to ensure that cashable and non-cashable benefits are achieved. Further information on benefits realisation can be found at www.idea.gov.uk/knowledge/eprocurement
Business case	A business case is the document used to obtain management commitment and approval for investment in business change, such as e-procurement, which changes the way that suppliers are selected and goods and services are purchased. The business case provides a framework for planning and management of this change and ongoing identification of risks. The viability of the project will be judged on the contents of the business case.
Cashable benefits	Cashable benefits result in a reduction in expenditure. For example, less money will be spent with suppliers but the volume or quality of goods or service will remain the same, or fewer staff will be required to deliver the same level of service.
Corporate contracts	A formal agreement with a supplier that is used by all departments and services in the Council for the purchase of particular goods or services. This agreement will be either a: • Tendered contract – with agreed terms and conditions, set pricing structures for specified goods or services. This agreement will have a set period of validity before re-tendering is required. • Framework Agreement (in compliance with EU Procurement Directives) – where terms and conditions have been agreed, but a number of suppliers have been appointed to provide a range of goods or services. The selection of an individual supplier for specific goods or services will then be subject to a mini-competition through a quotations process before agreeing which supplier will be used.
Corporate processes and systems	A common way of purchasing goods and services across the Council, using the same system to purchase goods and services.
e-Auction	An e-auction is the means by which suppliers can place bids for a contract via the internet.
e-Marketplace	This is an internet based facility that enables trade between one or more purchasing organisations and a variety of suppliers.
e-Procurement	A range of technologies that allows procurement processes such as the issue and receipt of tender documents, the issue of purchase orders and the receipt of invoices to occur electronically.

Term	Definition
e-Purchasing	This is the automation of the activities involved in purchasing goods or services, such as the approval of a purchase requisition, raising a purchase order, matching orders to invoices.
e-Tendering	e-Tendering comprises: • undertaking the tasks of advertising the requirement for goods or services, registering suppliers, and issuing and receiving tender documents via the internet, • automating the evaluation of responses to a tender.
Market testing	This process involves exploring suppliers, goods and services available in the marketplace that could potentially meet your organisations business needs. The process may involve understanding and evaluating new products and gauging typical prices. Market testing can be particularly useful to: • Inform a business case: providing indicative costs for investing in new technologies or making initial 'make or purchase' decisions. • Inform a specification prior to letting a contract. • Provide a benchmark to evaluate the costs of goods or services already provided to your organisation. This information may identify the need to challenge existing pricing or to potentially re-tender the contract.
Management summary	Also referred to as an Executive Summary or Executive Proposal, this is a succinct and persuasive summary of what investment is required and why.
Non-cashable benefits	Non-cashable benefits are those that free-up staff from a task (because it is automated or eliminated) but the time saved for each staff member is not large enough to result in a reduction in the number of staff required. Other non-cashable benefits include better management information, a more robust audit trail and increased compliance with regulations.
Options appraisal	An evaluation of the choices available to the Council to achieve the objectives of the proposed investment. For example, the Council would have the choice of developing in-house systems or purchasing software from a company.
Process analysis	An analysis of how goods and services are purchased, such as: • How is a purchase order raised and approved? • How are invoices matched to orders and approved for payment? • How are invoices paid?
Process compliance	The extent to which the preferred way of working is used. For example, what percentage of purchase orders are raised in the purchase ordering system?
Process efficiencies	A reduction in the cost of a process or the time taken to complete a process (e.g. processing a purchase order) as a result of automating the process.

Term	Definition
Purchase cards or p-cards	Purchase cards or p-cards, are charge cards that can be controlled effectively at both a transaction value, and spend type level.
Service provider	A company that offers products and services that are relevant to e-procurement. For example, a company that offers an e-tendering software package and implementation support.
Strategic analysis	Strategic analysis means that the proposed investment is placed in the context of the objectives of the Council and the business needs of the departments.
Spend analysis	An analysis of data held in the purchasing or accounts payable systems that enables councils to obtain information such as: • What goods and services are bought by the council? • Who purchases the goods and services? • How many suppliers does the council purchase from?
Stakeholder	An officer or external party that is affected by the e-procurement project and who can influence its success. Examples of stakeholders are officers involved in the purchase of goods and services, and suppliers.

2. The rationale for the business case

Why are business cases necessary?

The business case is used to obtain management commitment and approval for investment in business change, such as e-procurement, which changes the way in which suppliers are selected and goods and services are purchased. It provides a framework for planning and management of this change. The viability of the project will be judged against the contents of the business case.

Projects or investments of any kind should always be supported by an appropriate analysis of the need or rationale for that service or facility. It will rarely be appropriate to simply replace what already exists due to changes in circumstance, demand or supply. Usually, a thorough review of service requirements and service delivery is necessary.

The business case should clearly set out the criteria for decision making. The criteria will include demonstrating:

- How the investment will support the objectives of the Council,
- How the investment will meet the business needs of a service or department,
- That options, such as, the different software packages, have been considered,
- The affordability of the investment (ie funding can be made available),
- an outline of the expected resource requirements in terms of staff to deliver the project, ongoing costs for training, development, equipment, upgrades etc
- That the investment offers value for money (ie the project is a good use of available funds).
- Identification of risks associated with the project and how they can be mitigated

The business case should be supported by a strategic analysis of the relationship between the investment (in this case e-procurement) and the Council's overall objectives (as defined in the Council's Procurement Strategy and Corporate Plan). These objectives define the priorities for the Council. Strategic analysis means that the proposed investment is placed in the context of the objectives of the Council and the business needs of the departments.

As a Council you need to ask yourself 'why do we need to invest in e-procurement to successfully move forward?" The answer to this question should outline the contribution that this investment can (or could) make to the priorities of the Council. For example, the Council may have an objective of maximising the resources available for frontline services, such as social care, highways maintenance or housing repairs. By reducing expenditure on goods and services, e-procurement can release funds for frontline services.

Importantly, the business case will provide a focus for working towards achieving the e-government targets, such as the target of 100% electronic delivery of government services by December 2005. Failure to meet the e-government targets will impact on a Council's CPA rating. The business case will assist in identifying the cashable and non-cashable benefits and savings that could be made by meeting the e-government targets. Cashable benefits result in a reduction in expenditure. For example, less money will be spent with suppliers but the volume or quality of goods or service will remain the same, or fewer staff will be required to deliver the same level of service. Non-cashable benefits are those that free-up staff from a task (because it is automated or eliminated) but the time saved for each staff member is not large enough to result in a reduction in the number of staff required. Other non-cashable benefits include better management information, a more robust audit trail and increased compliance with regulations.

The strategic analysis should be undertaken in conjunction with an options appraisal and market testing process. An options appraisal is an evaluation of the choices available to the Council to achieve the objectives of the proposed investment. For example, the Council would have the choice of developing in-house systems or purchasing software from a company.

Early market testing will help to indicate the level of interest in the proposed investment in e-procurement from companies that are able to provide an appropriate option such as a software package, and their capacity and willingness to work with the Council. The market testing will also help to identify potential service providers and give you an idea of the approximate level of investment required for the implementation of e-procurement, which can be incorporated into the business case.

What should be the objectives of a business case?

The key objectives of a business case should encompass the following:

- To confirm the purpose of the project and what it will achieve.
- To set out the benefits of good procurement practice and e-procurement.
- To demonstrate a sound commercial basis for adopting the project. This means that there is a balance between cashable benefits and costs that are acceptable to the Council.
- To define the key performance indicators that will be used to monitor the achievement of expected benefits.
- To provide a baseline against which desired benefits can be measured.
- To illustrate how the business needs of departments (e.g. for services from external companies) and the Council's priorities will be supported by the project.
- To demonstrate that the preferred project option meets the business needs of departments and the Council's priorities strategic objectives in terms of delivering the required outputs at an affordable cost. These outputs will be the expected results from the project, such as meeting government targets and delivering the cashable and non-cashable benefits.
- To clarify the risks associated with implementing e-procurement and business change. This assessment should also clarify how these risks can be managed and mitigated.
- To confirm the resources that will be required to implement the business case recommendation. These resources should include the cost of technology (software and hardware), consultancy, project management and internal resources that will need to be involved through the implementation process.

In addition to meeting these objectives, the business case must clarify key issues to maximise the success of the project. The business case should re-inforce the point that in order to realise the potential benefits that re-procurement may offer, the project will require senior management purchase-in, commitment and leadership. Through this commitment, the project must have sufficient resources to undertake all of the tasks identified, and active support from managers throughout the organisation to adapt to and embed new procurement practices. In agreeing to this business case, Senior Management must understand that they are also agreeing to these commitments.

Maximising success: achieving commitment to the business case

e-Procurement will require a significant level of change, such as those described below. Achieving the cashable and non-cashable benefits expected from e-procurement requires the commitment of stakeholders to the principles of good procurement practice such as working with fewer suppliers, aggregating the purchase of goods and services across the Council and automation of the tasks to select suppliers and to purchase goods and services.
e-Procurement will involve change in the way that goods and services are purchased. More focus will be placed on using corporate contracts, and adopting the same process and system for purchasing goods and services. A corporate contract is a formal agreement with a supplier that is used by all departments and services in the Council for the purchase of particular goods or services. This agreement will be either a tendered contract, with agreed terms and conditions, set pricing structures for specified goods or services and a set period of validity before re-tendering is required; or it will be a framework Agreement (in compliance with EU Procurement Directives), where terms and conditions have been agreed, but a number of suppliers have been appointed to provide a range of goods or services. The selection of an individual supplier for specific goods or services will then be subject to a mini-competition through a quotations process before agreeing which supplier will be used.

The use of corporate contracts and common processes and systems will enable the Council to secure more competitive contracts with suppliers as they will be supplying particular goods and services to all departments that require those goods or services e.g. one contract for all computer supplies. In addition, the way in which orders are raised (e.g. authorisation levels) will be common across all departments and all departments will use the same system for raising purchase orders. These changes are introduced so that the Council gets the best prices for the goods and services that it purchases and so that the system for purchasing goods and services is efficient.

Recognising that e-procurement will involve significant business change and ensuring commitment to the business case from key stakeholders is vital to the success of the e-procurement project. Commitment can be achieved by following the following key principles:

- Sponsorship – Ensuring that the business case is sponsored by a member of the senior management team is vital to ensure that the implementation of e-procurement is seen as important and that necessary support from the Council can be provided. The business case sponsor should be actively involved in the e-procurement project, wanting to be kept aware of progress on completion of the business case.
- Aligning the e-procurement project with the priorities of the Council. The sponsor will work with and encourage the Council's senior management team to understand the benefits and value of e-procurement for the Council and how e-procurement will support the Council's priorities.
- Ensure that staff understand why e-procurement is being considered. Throughout the preparation of the business case, it is vital that the information that is gathered (such as the current approach to purchasing goods and services) and recommendations (such as the implementation of purchase cards) are shared with staff that will be affected by e-procurement. Regular workshops and update meetings to explain the progress of the business case should be held with staff that will be affected by e-procurement.

The information collected will be obtained by undertaking both a spend analysis[1]
and a process analysis.

Spend analysis is an analysis of data held in the purchasing or accounts payable system that enables Councils to obtain information such as:

- What goods and services are bought by the Council – and the value and volume of individual transactions?
- Who purchases the goods and services?
- How many suppliers does the Council purchase from

Process analysis is an analysis of how goods and services are purchased:

- How is a purchase order raised and approved?
- How are invoices matched to orders and approved for payment?
- How are invoices paid?
- Who is involved in the processes and what is the cost to the Council of the existing purchase to pay processes?

In undertaking process analysis, it is essential to map the processes that people actually follow when they raise orders rather than the approved processes, the simplest processes, or the ones that you think they follow. If you do not do this, you may end up with confusion further down the line when what appears to be a simple change is meeting with great resistance, and it becomes clear that each department has in fact developed their own, very different, method of purchasing over the years.

3. Creating the business case for e-procurement

Introduction

This section provides more detailed guidance on the information required to develop a business case for e-procurement. To help structure the section, the following key headings of a business case have been used. The headings are in the order that they are typically found in a business case.

Part A - Management summary.

Part B - Context – the way in which goods and services are currently purchased

Part C - What is e-procurement?

Part D - Why should the Council adopt e-procurement?

Part E - Options appraisal: an evaluation of the options available to the Council to implement e-procurement.

Part F - Recommendations - how should e-procurement be implemented?

Part G - The project plan

Part H – Business Case Approval.

Part A – Management summary

The management summary is a succinct and persuasive summary of what investment is required and why. The management summary will include the following sections:

Introduction - outlining the purpose of the business case and covering the following:

- Context - what are the key characteristics of the Council's current approach to procurement, i.e. the way in which goods and services are bought
- What is e-procurement?– summarise what e-procurement is and how it will improve:
- The way in which suppliers are selected. e-Procurement can automate the way in which suppliers are selected through e-procurement technologies such as e-auctions, e-tendering and e-marketplaces; and
- The efficiency and control of the process for purchasing goods and services, such as e-purchasing and purchase cards.
- Why is e-procurement a key initiative in local and central government – refer to the Gershon review, spending review 2004, and the new e-procurement priority outcomes for 2005/06.

Summary of key findings and recommendations:

- How should e-procurement be implemented? Which e-procurement technologies are relevant to meeting the objectives of the Council and the business needs of departments?
- How would e-procurement deliver savings and benefits to the Council? What level of savings can the Council expect to achieve? This analysis should focus on both cashable and non-cashable benefits.
- What would be the costs of implementing e-procurement, and over what timescale?
- What are the costs and cashable benefits over the next 5 years? Will the cashable benefits from the investment exceed the costs?

Part B – Context (the way in which goods and services are currently purchased)

This part contains an assessment of the way in which goods and services are currently purchased. This part typically includes:

- The strengths and weakness of the way in which goods and services are currently purchased. For example, a strength would be that orders are automatically matched to invoices, thereby reducing paperwork for employees and reducing the incident of errors and a weakness would be that the majority of payments to suppliers are made by cheque.

- The strengths and weaknesses of the way in which suppliers are selected. For example, a strength would be that suppliers are selected by a centralised team and a weakness would be selection of suppliers by individual departments, which leads to many contracts with different suppliers where one contract could be set at a more competitive price.
- Information on the number of suppliers that the Council trades with and the percentage of invoices that are for low values (e.g. less than £100). This information indicates the opportunities to:

  - Reduce the number of suppliers, to both achieve more competitive prices (more busi ness with fewer suppliers) and to reduce the number of purchase transactions, such as invoices
  - Aggregate the requirement for particular goods or services across the Council, so that contracts are based upon for the Council's total expenditure on the goods or services
  - Implement purchase cards, a low cost solution which can be used to: significantly reduce the number of invoices received for low value high volume purchases; and provide a flexible solution for ad hoc low volume purchases, such as downloading specialist software from the internet.

Part C - What is e-procurement?

e-Procurement is defined as a range of technologies that automate the selection of suppliers and the purchase of goods and services. The following are examples of e-procurement technologies:

- An e-auction is the means by which suppliers can place bids for a contract via the internet. Hence, it automates the stage in the selection of a supplier where the supplier submits their best and final offer. This means that the Council can affectively hold several rounds of price negotiation with suppliers in a short period of time.

- e-Tendering enables the Council to undertake the tasks of advertising the requirement for goods or services, registering suppliers and issuing and receiving tender documents via the internet. This saves the Council time and overhead costs in comparison to a manual tender process.

- An e-marketplace is an internet based facility that enables trade between one or more purchasing organisations, i.e. Councils and a variety of suppliers. It therefore enables the Council to take advantage of prices that reflect the combined expenditure of several Councils or other public sector bodies.

- e-Purchasing is the automation of the activities involved in purchasing goods or services, for example, the approval of a purchase requisition, raising a purchase order, matching orders to invoices and payment.

- Purchase cards are charge cards that can be controlled effectively at both a transaction value, and spend type (goods and services purchased) level. They can be used to significantly reduce the volume of low value invoices, saving the Council time. Furthermore, they can be used for ad hoc, low volume purchases from specialist providers, reducing the need to create a new supplier/trade creditor on the corporate purchasing system.

Part D - Why should the Council adopt e-procurement?

This part should set out the internal and external reasons why the Council should adopt e-procurement.

Internal reasons will focus on how e-procurement will enable the Council to meet its priorities and the business needs of the Council's departments. For example, the Council may have an objective of spending more of its budget on frontline services (such as, social care or housing services)

e-Procurement can support this objective by reducing expenditure on goods and services with the money saved being re-directed to frontline services. Departments typically deliver their services through a mix of their own employees and purchased services. e-Procurement enables departments to select suppliers in a way that involves less time and cost, for example, through e-tendering or through an e-marketplace.

External reasons are the government's targets for e-procurement and efficiency. These are

- The essential implementation of e-Government targets:
  - Mandatory outcomes (December 2005):
    (R9) Councils must adopt appropriate e-procurement solutions to include, as a minimum 100% of purchases must include paperless ordering, invoicing, and payment.
  - Good outcomes (December 2005):
    (G7) There must be regional co-operation on e-procurement between local Councils (such as a number of Councils working together to purchase goods through an e-auction).
  - Excellent outcomes (December 2005)
    (E7) Councils should have targets for efficiency savings by December 2005, including the percentage of undisputed invoices paid in 30 days (BVPI 8).
  - Excellent outcomes (December 2006)
    (E5) Councils should have access to a virtual e-procurement marketplace;
    (E6) Councils should include Small and Medium Enterprises (SMEs) in their e-procurement programme. The advantages of e-procurement must be promoted to local suppliers, in order to retain economic development benefits within local community.

Failure to meet these targets will impact on the Council's CPA rating[2]

- Treasury Spending Review (SR04) and Gershon
  - The Treasury has targeted £6.45bn of savings from Local Government. By 2007/8, a total of £825m must be saved on procurement (including construction procurement). Further savings of £90m have been identified from the deployment of staff for the delivery of services, and £79m on Council transactions, are not specific to e-procurement, but its implementation could help to deliver these savings. Of the quoted savings, 50% are expected to be cashable.

Part E - Evaluation of the options available to the Council to implement e-procurement

As described under Part C above, there are a range of e-procurement technologies available to a Council. In addition, the Council will have choice within each of these technology categories. For example, an e-purchasing system could be bought as part of a finance system or it could be a specialist software package which supports purchasing only.

The steps in the evaluation of options are:
- Step 1 – Identify the options that are appropriate for the Council
- Step 2 – Define the evaluation criteria
- Step 3 – Undertake an options appraisal.

Step 1 – Identify appropriate options

To fast track the identification of options, we would recommend that the Council consider using the NePP diagnostic tool on the internet. This is a questionnaire that assists councils to determine the most appropriate solution for them. The tool can be found at www.nepp.org.uk. In addition, the table overleaf identifies the different options that should be considered and the questions that could be applied to evaluate their appropriateness.

The Council should also consider using a soft market test process through meetings with other authorities and an analysis of suppliers, their solutions and indicative implementation costs. This soft market test will then help clearly define the options, and enable the evaluation process to be robust and well informed.

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[2] *Further information on IEG targets can be found in the ODPM paper "Defining e-Government outcomes for 2005 to support the delivery of priority services & national strategy transformation agenda for local Councils in England - Version 1.0" (www.localegov.gov.uk).*

Step 2 – Define the evaluation criteria

A critical stage in the preparation of the business case is the evaluation of the chosen e-procurement technology options that are relevant to the objectives of the Council and the business needs of its departments.

The first stage of the evaluation of options is to agree the evaluation criteria that will be used to score the e-procurement technologies and choices. These criteria should be discussed and agreed with the sponsor prior to undertaking the evaluation of options, to ensure that the sponsor is comfortable with the basis for the evaluation of options

Step 3 - Undertake an option appraisal

Undertaking an option appraisal involves:

- Selecting the e-procurement technologies that meet the objectives of the Council and the business needs of the departments. This will involve identifying the choices available to the Council for each relevant technology.

- Estimating the likely costs and cashable / non-cashable benefits for each relevant e-procurement technology and each of the options of each technology that is available to the Council. Cost estimates for each of the different options are typically based on the views of the Council's staff involved in the e-procurement project, external advisors (contractors or consultants), and information gathered from potential service providers through market testing. An example cost analysis is included at Appendix 2. Examples of the cashable and non-cashable benefits are:
  - Reduction in the cost of the process for selecting suppliers and purchasing goods and services as a consequence of automating this process through e-procurement technologies such as e-tendering;
  - Reduction in the cost of goods and services as a consequence of re-letting a contract;
  - Improved control over expenditure as a result of restrictions included in the e-procurement technologies (e.g. spend limits, which can be put on purchase cards) and through management information (for example, through providing transparent information on who has raised a purchase order and for how much?).

- Risk assessment of each option. The Council should assess the risks associated with each option and consider how these risks could be managed. Key risks may be identified with, for example, complex technologies, a long implementation period or a solution that creates financial barriers to suppliers.

- Identification of the resource requirements for each option and the financial, technology and staffing resources required to successfully implement each option. In undertaking this analysis, the Council may consider it appropriate to consider external resources, such as time and investment by suppliers.

- Identifying the preferred e-procurement technologies and choices of options. This is known as the preferred option. Typically, the Council will select the preferred option on the basis of:
  - The option that provides the best "trade off" between costs and benefits;
  - Confidence the Council has in the service provider to support both the implementation of the e-procurement technology but also to provide support when the technology is "live";
  - The views of officers who will use the e-procurement technology with regard to factors such as ease of use.

The following table summarises the options and evaluation critieria applicable to the range of e-procurement technologies. A council will build a business case around one technology or possibly a selection of technologies. Therefore the appropriate sections should be extracted from the table and included in the business case.

Element	Tool	Options and evaluation criteria
Sourcing	e-eAuction	When choosing an e-auction provider there are a number of different options to consider: • A managed e-auction – the service provider will execute the whole e-auction process. • A supported e-auction – the Council decides on the overall e-auction strategy and the provider manages the preparation and running of the e-auction. • Self service e-auction – the Council manages all elements of the e-auction, with the exception of the technology and technical support from the service provider. Evaluation criteria will include: • The experience of the e-auction provider in local government. • The cost of the service provided.
	e-Tendering	The options for an e-tendering system are: • A software package versus in-house system (ie system developed by the Council's own staff) • A system bought by the Council or rented through "hosting". This means that the software is maintained by a service provider and the Council pays for use of the system. The system can be hosted on the Council's site or off-site. Evaluation criteria will include: • The capability of the Council's IT team. • The potential for collaboration with other Councils • How quickly the system is expected to be available for use • The cost and cost effectiveness of the different options. • How secure is the system? • Is it easy for suppliers to use particularly smaller local companies • Is there a cost for tenderers?
	e-Marketplace	There are a number of existing national and local e-marketplaces for the Council to consider, as well as the option of creating a new marketplace with other Councils or public sector bodies. Councils may join more than one marketplace for different goods or services. Evaluation criteria will include: • How will the e-marketplace integrate with the Council's finance system? • How will use of the e-marketplace be controlled? • What is the scope of the marketplace in terms of goods and services that can be purchased: does it cover the Council's requirements? • How much does it cost to join the different e-marketplaces? • Is there a cost for suppliers?

	Tool	
Purchasing	**e-Purchasing**	The options for an e-purchasing system are: • To purchase an e-purchasing system that is part of the Council's existing finance system. • To replace the financial management system, selecting one with an e-purchasing system. • To purchase a specialist e-purchasing system Evaluation criteria will include: • What are the requirements to integrate the e-purchasing system with the Council's finance system • How do the systems differ in functionality, such as commitment accounting (the ability to automatically maintain details of orders for which an invoice has not been received)? • Is it easy to access management information: for example, spend analysis? • Do the systems have the ability to interface the e-purchasing system to the Council's e-marketplace, e-tendering or purchase cards systems
	p-Cards	The options are the Government Purchase Card (GPC) and purchase cards available from other card providers, including banks and other financial institutions. Evaluation criteria may include: • What software is required to support the reconciliation of purchase card transactions with the purchase card statement of expenditure, and to record purchase card transactions in the Council's finance system. • How many suppliers are able to use purchase cards for the goods and services that the Council wishes to purchase? • Does the purchasing card provider enable full process transparency for audit purposes?

Part F - Recommendations - how should e-procurement be implemented?

This part of the business case should summarise the recommendations with regard to:

- The preferred option;
- How much the preferred option will cost (the funding requirement) and how the funding will be provided? Examples include, general Council funds, savings generated from the first implementation of the e-procurement technologies which then funds further stages of implementation;
- How the e-procurement technologies will be implemented.

Secondly, this part of the business case should describe what the Council expects to achieve from the recommended e-procurement technologies. Examples are:

- To establish an e-auction facility for the Council, in collaboration with other local Councils in the region, to allow multiple suppliers in different geographic regions to place and modify bids simultaneously. The first e-auction to be implemented by July 2005.
- To use e-auctions for all commodity based contracts with the regional partnership by December 2006, covering: paper, utilities, printer consumables, etc.
- To establish an electronic facility that will enable the full tendering process to take place over the internet by July 2005.
- To notify 20-30 suppliers in various geographic locations of an opportunity to provide goods or services to the Council and allow them to express an interest, download an application form and respond using electronic methods only by July 2005.
- To establish a fully operational electronic procurement solution combining e-auctions, p-cards and e-purchasing by December 2005.
- To reduce the number of invoices with a value under £100 from 45,000 to 5,000 by December 2005.
- To reduce the number of suppliers used by the Council from 12,000 to 3,000 by March 2006.
- To deliver a system and process to monitor expenditure on goods and services by department, by supplier, at a unit price level, by December 2006.

Thirdly, this part of the business case should describe how achievement of the expected benefits will be monitored. At a general level, the following key performance indicators (KPIs) should be considered for any e-procurement project. The project should identify the current level of performance against each KPI (e.g. how many hours are involved in all stages of a tender?) and monitor the level of performance once the e-procurement technology has been implemented. This will enable the Council to establish whether the expected benefits are being achieved. Examples of expected benefits and KPIs are:

- Time Savings – reduction in time spend to tender;
- Advertising Cost Savings – reduction in advertising costs;
- Overhead Cost Savings – reduction in total overhead costs;
- Process Compliance – percentage of tenders that go through the e-tendering system.

Part G - The project plan

This part of the business case should outline the Council's intended approach to the selection of the service provider and implementation of the e-procurement project. The key elements to include are:

- **Timescales** – This needs to outline what the timescales and priorities for the implementation of e-procurement are. A simple chart should be used to illustrate the proposed project plan.
- **Procurement Approach** – The Council should confirm its approach to select the provider to implement e-procurement with the Council. This stage should consider, for example, collaborative procurement with other authorities or whether an OJEU procurement process should be followed.

- Output Specification – This involves a brief description of what the Council expects the e-procurement technology to do. For example, the output specification for an e-tendering system would include the ability to:
  - Advertise the requirement for goods and services on the Council's e-procurement website;
  - Allow tenderers to register electronically for Council business
  - Issue tender documents electronically in a secure environment
  - Receive tender responses electronically in a secure environment
- Solution selection – The Council should ensure that it allows appropriate time to complete the procurement process and finalise contracts with the preferred supplier.
- Implementation – This will identify at a high-level the activities required to implement the e-procurement technologies. It will also state who will undertake the activities and how long they will take. Examples of activities are selection of an e-purchasing system, implementation of the selected system and training.
- Monitoring – This will describe the proposed method for continuous evaluation of the project. This will include the definition of the KPIs, collection of baseline information and defining who is accountable for the benefits expected from the project. A useful addition within this section would be a contingency plan to address any failures to delivering the service on time.
- Risks – This will be a definition of the factors that have the potential to affect the implementation time, the implementation cost or the quality of the implementation. Examples of risks are the availability of the Council's staff and the maturity of the e-procurement technology. For example, there is less experience of e-auctions than of e-purchasing. Suitable plans for addressing these risks should also be outlined.
- Resources - define the resources required to implement e-procurement.

Part H – Business Case Approval

Following the completion of the business case, the Council must ensure that the business case is formally approved by the Senior Management Team. This approval should be supported a clear commitment to the implications of the business case, in terms of resources and risks, to ensure that the anticipated benefits are realised.

4. Checklist

The following checklist summaries the tasks described in Section 3 of this guidance note.

Checklist	✔
Has an assessment of how the Council currently purchases goods and services been carried out?	
Have you defined what is meant by e-procurement?	
Have you explained why the Council should adopt e-procurement?	
Have you evaluated the options available to the Council?	
Are your recommendations clear – • Does the business case clearly state the e-procurement technologies and options that the council should implement? • Does the business case define the benefits that the e-procurement technologies are expected to deliver? • Does the business case recommend how achievement of the expected benefits will be monitored? • Does the business case identify potential risks and assess ways of managing or averting them?	
Is there a clear project plan for the selection of the chosen service provider and implementation of the e-procurement technologies?	

5. Where can I get further information?

Specific guidance notes addressing the issues surrounding e-procurement tools and techniques are available by referring to the other "How to…" guides published by the National e-Procurement Project, available on: www.nepp.org.uk, along with further guidance on developing a business case.

More detailed information regarding business planning and guidance to assist with the development of these documents is available by visiting the following sites:

- http://www.ogc.gov.uk/sdtoolkit/reference/ogc_library/procurement/the_business opportunity.pdf

- http://www.4ps.co.uk/

- www.idea.gov.uk/knowledge/eprocurement

Appendix 1 – Business Case Content

Strategic Sourcing

Current Concerns	Why change?	How to realise benefits?
Multiple suppliers for the same goods and services supplying different departments across the Council	To reduce prices through using fewer suppliers and improved supplier relationships. To improve bargaining power with suppliers.	Spend and supplier analysis project: • Analyse current spend by expenditure type. • Match expenditure type, volumes and values to suppliers. • Consolidate spend. • Create corporate contract. • Use e-tendering to manage the tender creation, distribution and evaluation process. • Collaborate with an e-auction. • Adopt an e-marketplace solution.
High process costs associated with tendering.	To improve process efficiency, particularly as more emphasis is placed on corporate selection of suppliers and contracts across most expenditure categories. To use technology to support and streamline the tendering process (ie by automating the activities involved).	e-Tendering project • Identify whether the tendering system could be bought with another Council, or will be bought locally only. • Promote and explain the e-tendering approach to suppliers. • Select and implement the solution: develop the tendering process with departmental and corporate purchasers, and internal audit. • Develop a specification for the goods / services to be tendered, advertise the pre-qualification questionnaire (PQQ) and the invitation to tender (ITT) on web through the e-tendering system, automate e-mails to specific suppliers to notify of PQQ / ITT. • Receive responses by upload to the e-tendering system. • Automate components of the evaluation process. • Log all manual evaluation components in the system.
Service staff and managers spend significant amount of time market testing different suppliers before selecting a preferred supplier. Time is therefore diverted away from their core role.	To reduce departmental time used to select suppliers. To ensure the selection of suppliers is made centrally. To remove supplier selection decision making from departments and use automated supplier selection, where possible.	e-Purchasing system • Ensure leadership by Chief Executive or Director of Resources / Finance. • Revise procurement policies • Ensure use of electronic catalogues and expenditure coding (by type eg agency staff) within the e-purchasing system. • Implement e-requisitioning (electronic purchase requisition). • System selects the supplier, based on corporate contracts. This should link to the spend and supplier analysis project.
Poor quality information relating to: suppliers, spend, delivery speed and unit pricing.	To improve supplier selection decisions and to be more proactive at managing suppliers / contracts. Information to be captured electronically, in one database and in a structured form.	• e-Purchasing system – use of expenditure type coding and, where appropriate, electronic catalogues. Ensure all orders are captured on the system. • p-Cards – use analysis from pCard statements to assess utilisation and suppliers. • e-Marketplace – run reports from the system. However, it is unlikely that a complete analysis of spend will be possible, as many transactions cannot be processed through the marketplace.

Current Concerns	**Why change?**	**How to realise benefits?**
Large volume of low value (<£100) orders generated by service departments and Finance for goods and services.	To reduce purchasing administration costs. To improve BVPI8 performance. To reduce the volume of transactions being administered.	**Purchasing Card project:** • Analyse the type of low value spend to consider appropriateness for pCards. • Identify suppliers and confirm ability to take pCards. • Design pCard process to track transactions. • Agree card users, merchant category controls, transaction limit and monthly spend limits. • Select card supplier and software. • Integrate solution with the Financial Management System. • Implement a pilot. • Build corporate roll-out.
High level of maverick spend with non-approved suppliers	To reduce the total cost of purchases and improve supplier relationship and contract management.	**e-Purchasing system** • Ensure leadership by Chief Executive, Director of Resources / Finance • Revise policy. • Ensure use of e-catalogues and commodity coding within e-purchasing system. • Implement e-requisitioning. • System selects the supplier, based on corporate contracts. This should link to the strategic sourcing project.
Supplier invoices rejected through incorrect coding / non-compliance with procurement policy eg no purchase order raised.	To use fewer suppliers and improve control. To improve the speed, accuracy and adminis-tration of invoices. To focus control on orders, ensuring automat-ed budget code and balance matching. To reduce purchasing administration costs.	**e-Purchasing system** Process will be as follows: • Requisition input on the system; • Budget code and balance checked for validity and authenticates the user. • Requisition is approved by workflow, on-line by the cost centre manager. • Invoices are matched to order and GRN: no re-coding or authorisation required.
Council receives a high volume of invoices. These are manually distributed for authorisation, checked to orders and goods receipt, returned to Finance and input manually for payment.	To improve BVPI8 performance. To automate the process.	**e-Invoicing and workflow solution** • Option 1 - Receive invoices by XML: analyse invoice volumes to identify high volume suppliers; Contact suppliers and discuss the potential for submitting invoices electronically; implement e-Invoicing system. • Option 2 – implement DIP system to scan invoices and use workflow for approval. • Option 3 – remove the invoice approval process, by ensuring orders are captured on the system along with GRN. Use automated matching.
High percentage of payments by cheque, remittance notes issued by post	To reduce process costs in Finance. To automate the purchase process.	**e-Payments project:** • Use BACS to pay suppliers directly into their bank account. • Issue remittances by e-mail, fax or XML.

Purchasing

Appendix 2 – Example financial analysis for an e-Purchasing Project

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Corporate project costs						
Project management	-£50,000	-£50,000	-£50,000	£0	£0	£
Strategic sourcing project	-£60,000	-£60,000	-£60,000	-£15,000	£0	£0
Data cleansing and supplier data collation	-£35,000	-£15,000	-£15,000	£0	£0	£0
e-Purchasing software license	-£172,000	£0	£0	£0	£0	£0
Software maintenance	-£38,000	-£38,000	-£38,000	-£38,000	-£38,000	-£38,000
Hardware	-£50,000	-£25,000	£0	£0	£0	£0
Technical development and integration	-£50,000	-£50,000	£0	£0	£0	£0
Implementation consultancy	-£125,000	-£100,000	£0	£0	£0	£0
Training and change management	-£75,000	-£75,000	-£50,000	£0	£0	£0
	-£510,000	**-£288,000**	**-£88,000**	**-£38,000**	**-£38,000**	**-£38,000**
Quantified process benefits						
Corporate Resources (Finance)	£0	£28,200	£109,200	£109,200	£109,200	£109,200
Highways and Transport	£0	£33,500	£134,000	£134,000	£134,000	£134,000
Social Services	£0	£18,500	£74,000	£74,000	£74,000	£74,000
Education	£0	£11,700	£47,000	£47,000	£47,000	£47,000
	£0	**£91,900**	**£364,200**	**£364,200**	**£364,200**	**£364,200**
Quantified sourcing benefits (max 2.8%)	**£0**	**£114,333**	**£228,667**	**£686,000**	**£2,058,000**	**£4,116,000**
Net (Cost) / Benefit	-£510,000	-£81,767	£504,867	£1,012,200	£2,384,200	£4,442,200
Discount factor at 3.5%	1	0.96618357	0.9335107	0.90194271	0.87144223	0.84197317
PV (cost)/benefit	-£510,000	-£79,002	£471,298	£912,946	£2,077,693	£3,740,213
Cumulative Net Present Value	**-£510,000**	**-£589,002**	**-£117,703**	**£795,243**	**£2,872,936**	**£6,613,149**

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Further sources of e-Procurement Best Practice Guidelines

• OGC e-Procurement guidelines for the public sector - www.ogc.gov.uk

• Buy IT Best Practice Group e-Procurement guidelines - www.buyitnet.org

e-Government National Projects aim to ensure that all councils have access to key electronic services and building blocks, without having to build them from scratch. The 22 National Projects have developed products and services, by authorities, for local authorities. National Projects are the heart of local e-Government and are designed to help local councils to improve services, increase efficiency and to help create sustainable communities.

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www. localegovnp.org.uk