

For discussion on
12 April 2012

**Legislative Council Panel
on Information Technology and Broadcasting**

Review on the Pilot e-Procurement Programme

Purpose

This paper briefs Members on the progress made on the pilot e-Procurement programme, the findings of the review conducted on the pilot programme, and our proposal on the wider rollout of e-Procurement in Government.

Background

2. In January 2007, the Finance Committee approved a funding of HK\$49.2 million for the implementation of the pilot e-Procurement programme in three departments, namely, Office of the Government Chief Information Officer, Immigration Department and Environmental Protection Department to deal with low-value purchases of goods and non-construction services not exceeding HK\$1.43 million¹, the purchase authority of which has been delegated to bureaux/departments (B/Ds).

3. With the e-Procurement system, a department which would like to make a low-value procurement would be able to source from the system a long list of potential suppliers. The department can then invite at least two to five suppliers depending on the value of purchase² to offer quotations and the internal approval procedures would be done electronically. Subject to clearance, the department can then receive the offers from suppliers electronically through the system or by fax/post. All exchanges would be recorded electronically, while suppliers are given the flexibility to submit their offers by fax/post which would also be captured into the system. The system would allow senior officers to review the process every now and then. So far,

¹ In February 2009, the previous \$1.3 million threshold for low-value purchase was revised to \$1.43 million in the relevant Government's Stores and Procurement Regulations.

² At least two suppliers for value of purchase not exceeding \$50,000 and at least five suppliers for value of purchase over \$50,000 and not exceeding \$1.43 million.

the system involves 6,000 suppliers covering 120 types of low-value purchases. The Office of the Government Chief Information Officer is in charge of updating the suppliers list in consultation with the three pilot departments.

4. Four e-Procurement initiatives were implemented incrementally under the pilot programme –

- (a) *Procurement Portal* – we launched a Government procurement website in the first half of 2008 to serve as the gateway for the three pilot departments to share/exchange procurement related information internally and externally with suppliers.
- (b) *Internal Workflow System* – it was rolled out progressively to the pilot departments from September 2009 to February 2011 to streamline and automate the entire procurement process from initiating a requisition, confirming availability of funds, placing a purchase order, confirming delivery and acceptance, to providing updated payment information to the Government’s financial system.
- (c) *E-Sourcing* – a web-based solution launched in March 2010 to support the pilot departments to prepare and issue the invitation of quotations/proposals and for suppliers to submit their responses online.
- (d) *E-Catalogue* – we provided a web-based facility to the pilot departments in March 2010 to identify potential suppliers for a required product or service and to prepare the shopping list.

5. Apart from the implementation of the above four e-Procurement initiatives, we conducted a series of stakeholder engagement programmes including seminars and workshops for users of the pilot departments and their suppliers to facilitate the transformation to an electronic mode.

6. As of the end of March 2012, the system involved around 3,500 internal users of the pilot departments and 6,000 suppliers. Around 41,000 purchase orders with a total value of about HK\$1.9 billion have been placed through the system.

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7. The rollout of the e-Procurement system was fully completed in February 2011. We conducted a review six months after the full rollout to

consolidate the lessons learnt, examine the impact on stakeholders, assess the responses from suppliers and measure the actual cost and benefits. The review findings confirmed that e-Procurement is viable and the anticipated benefits were achieved to different degrees in the pilot implementation.

8. In the review, we have verified the actual costs and magnitude of benefits against the key tangible and intangible benefit parameters as set out in the FCai paper FCR(2006-07)38 based on data and statistics captured from the e-Procurement system, and opinions/suggestions gathered from government internal users and suppliers through surveys and focus groups. The tangible and intangible benefits of the pilot e-Procurement programme were confirmed below –

To the Government

- (a) Improved efficiency and effectiveness - eliminated the lead time for dispatching paper-based files from one location to another, hence the ordering cycle time for contract items and non-contract items was reduced by a few days to one week per case, i.e. 75% for contract items and 38% for non-contract items;
- (b) Improved quality and accessibility of procurement information;
- (c) Reduced human errors and enhance traceability - information relevant to the procurement cycle from requisition to certification of receipt and authorisation information was readily available for retrieval and hence improved traceability;
- (d) Reduced paper consumption and storage space - paper consumption was reduced by about 69% or about 352 reams A4-equivalence paper for the three pilot departments per year;
- (e) Expanded supplier base as the three departments can share and access supplier information from the central database – expanded from around 4,000 to 6,000 suppliers and thus provided more choices to pilot departments;
- (f) Promoted green procurement by sharing green procurement information amongst the three departments - green procurement information including green procurement guidelines and specifications is shared through the procurement portal. The

programme has also attracted 145 suppliers which are supplying green products to join;

- (g) Reduced transaction cost – annual notional savings of HK\$2.36 million for the three pilot departments; and
- (h) Reduced purchase price through consolidating and aggregating purchases across departments - there were savings but not significant as the Government has already established a number of bulk purchase contracts.

To the Suppliers

- (a) Communicated with the Government more effectively and efficiently – 83% suppliers (which responded to the survey) agreed with that;
- (b) Expanded their business opportunities with the Government – 89% suppliers agreed with that;
- (c) Reduced the turnaround time for business transactions – 80% suppliers agreed with that; and
- (d) Encouraged migration to the electronic means of doing business – 86% suppliers agreed with that.

9. The feedback from suppliers is very positive with over 80% of survey respondents agreed that the system is useful, user-friendly and they were satisfied with the support services provided to them. Around 90% of suppliers responded that they did not require additional resources, including new Internet connection, to support the use of the e-Procurement system.

E-invoicing

10. E-invoice was not in the original scope of the e-Procurement programme approved by the Finance Committee. To maximise the benefits of e-Procurement, we conducted a study in 2011 to examine the feasibility of implementing e-invoicing and the readiness of suppliers making reference to the successful implementations of other governments and the private sector. The study confirmed the benefits in streamlining the processes, including printing and mailing from the suppliers side, as well as handling and verification against paper invoices on the Government side. Moreover, e-invoices help reduce

paper consumption as invoice information is transmitted electronically. We will develop e-invoice as an add-on to the e-Procurement system with a view to shortening the invoice delivery time and further speeding up the procure-to-pay process.

Government's Plan on Wider Rollout of e-Procurement

11. The review of the pilot e-Procurement programme has established a business case for wider rollout of e-Procurement in Government. To reap the early benefits of e-Procurement, we will require all B/Ds to make use of the e-Procurement system to conduct purchase of IT products and services through existing bulk purchase contracts, which accounts for about 10% of all low-value purchases not exceeding \$1.43 million in Government. With suitable enhancement to the system, acquisition and installation of hardware and software, and conducting training to users, we expect that the necessary system functions can be made available for use by all B/Ds by the end of 2013.

12. For those B/Ds that have indicated that they are more ready to roll out the full functions of e-Procurement, we will extend the full system functionality to them starting from 2013. We target to have at least 30 B/Ds to join e-Procurement for all their low-value purchases in the coming five years.

13. To achieve economy of scale, the wider rollout of e-Procurement will be in the form of a shared service riding on the Government cloud platform, which will support other shared services such as collaborative working and electronic record keeping. We will further seek Members' support on the proposed Government cloud platform in May before seeking financial approval for the proposed Government cloud platform from the Finance Committee in June.

Advice Sought

14. Members are invited to note the findings of the pilot e-Procurement programme review and our plans on wider rollout of e-Procurement in Government.

**Office of the Government Chief Information Officer
Commerce and Economic Development Bureau
April 2012**