



Agency Board Meeting 26 July 2022

Board Report Number: SEPA 33/22

Procurement Update July 2022

Summary:	<p>In December 2021, the Sustainable Procurement Manager gave an update to the SEPA Board covering:</p> <ul style="list-style-type: none"> - progress against the Procurement Operating Plan and; - the role procurement played in the cyber-attack response and recovery. <p>At that time, Board members expressed an interest in better understanding the role of SEPA's contracts and suppliers. This paper now presents that information.</p>
Risks:	<p>The Procurement Team are working closely with contract managers around the organisation to manage supply chain risks. Those risks are not specifically the subject of this paper.</p>
Resource and Staffing Implications:	<p>No imminent implications. Additional specialist resourcing may be required if the current trend of an increasing number of construction and civil engineering contracts continues.</p>
Equalities:	<p>No impact.</p>
Environmental and Carbon Impact:	<p>Our actions to reduce environmental impacts of our contracts are described in the paper below.</p>
Purpose and audience of the report:	<p>Agency Board are asked to:</p> <ul style="list-style-type: none"> - Note the progress made against the Procurement Operating Plan 2021-24. - Note the significant procurement pipeline for the remainder of 2022/23 and 2023/24. <p>Agency Board, Scottish Government and Public</p>
Report Author:	<p>David Morgan, Sustainable Procurement Manager AMT Sponsor: Stuart McGregor, Chief Officer, Finance</p>
Appendices:	<p>Appendix A: Procurement Operating Plan 2021-24 Appendix B: Key Aims 2021-24</p>

1. Introduction and background

- 1.1 In December 2021, the Sustainable Procurement Manager gave an update to the SEPA Board covering:
- progress against the Procurement Operating Plan and;
 - the role procurement played in the cyber-attack response and recovery.
- 1.2 At that time, Board members expressed their interest in better understanding the role of SEPA's contracts and suppliers. This information is now presented here.

Procurement Resourcing Changes

- 1.3 The current Sustainable Procurement Manager was recently successful in being appointed as Senior Manager (Hydrometry) in the Hydrology and Flooding Function. This will therefore be his last report to the SEPA Board on Procurement. Future resourcing arrangements are currently being established with the Head of Finance for a transition date of 29th August 2022.

Progress against the Procurement Operating Plan 2021-24

- 1.4 A copy of the Procurement Operating Plan 2021-24 is shown in Appendix A for ease of reference.
- 1.5 The Procurement Operating Plan establishes the strategic aspirations for procurement and contract management at SEPA. It also serves as our "Procurement Strategy" for the purpose of the Procurement Reform Act 2014.
- 1.6 The 2021-24 iteration was drafted following the cyber-attack on our organisation. It articulates our ongoing drive to be more commercial, flexible, responsive, and innovative; to do a better job at a lower cost and become a world class Environment Protection Agency (EPA).
- 1.7 The maturity of procurement and contract management practice at SEPA has dramatically improved over the last three years; but there are still further improvements we can make. The key aims outlined below focus on how our procurement and contract management can support delivery of the ambitious aims of the organisation. Achieving value for money is seen as the bare minimum.

Aim 1: Supporting the development of a regenerative organisation

- 1.8 Significant collaborative working has been undertaken between the Procurement Team and the Regenerative SEPA Coordinators. Input into the Regenerative SEPA Goal and Routemap is expected to ensure that delivery timescales are ambitious but realistic.
- 1.9 Although we are not yet measuring our supply chain environmental impacts, we have identified our highest impact contracts and are prioritising action accordingly. Areas including construction, outsourced sampling, fleet, equipment and consumables have received particular focus. Procurement exercises for our largest and longest contracts, irrespective of their position in the prioritisation, have included Regenerative SEPA requirements. Our whole supply chain will need to contribute if we are to achieve our 2030 goal.
- 1.10 Work is now underway to ensure we are in a position to capture the impacts of our action. This will enable us to effectively report on change and understand progress towards our 2030 goal.

Aim 2: Supporting the development of a Phase 2 EPA

- 1.11 Following a period of significant change, the Procurement Team are now delivering a dramatically improved service to the organisation. Although sourcing remains an essential part of the team's role, we are playing a much more hands on role in contract mobilisation, management, and exit.
- 1.12 Approaches to sourcing have drawn on best practice elsewhere and are now delivering improved value for money. Internal stakeholders who can support the management of supply chain risks are being proportionately and proactively involved in sourcing processes, including: Corporate Legal, Data Protection Officer, Equalities and Human Rights Lead, Health and Safety, and Cyber Security.
- 1.13 The average scale and duration of contracts has drastically increased, but only where it's been appropriate, and has always included flexibility for change. Commercial terms have been reviewed to ensure they encourage effective competition.
- 1.14 Progress on Procurement and Contract Management Learning and Development has been more limited. However, a plan has now been drafted and the first sessions are due to run in late July. Specialist sessions on more complex areas of contract management will commence later in 2022. Additionally, practical sessions on key stages in the requisitioning process are expected to significantly decrease common errors made by requisitioners and approvers – helping SEPA to effectively manage our financial risk.
- 1.15 All progress on Self Service for contract managers was lost in the cyber-attack but is now being re-built and improved. This is expected to be completed by the end of 2022/23 and will then go through a period of continuous improvement.

Aim 3: Effectively managing risk and seeking opportunities with our supply chain

- 1.16 As for most organisations, SEPA is currently facing compounding external supply chain risks. Some of the most significant risks include:
- Ongoing impact of COVID – high levels of absence, last minute cancellations.
 - Conflict in Ukraine – impacts of sanctions, supply chain disruption.
 - High inflation – suppliers committed to fixed prices are vulnerable to losses. Contracts require appropriate mechanisms to manage risks for SEPA and our suppliers.
 - Continued shortages of integrated circuits – impacting availability of electronics and electronic components.
 - International distribution and logistics disruption – due primarily to driver shortages and increasing fuel costs.
 - Workforce changes – high levels of vacancies are impacting capacity for both tendering and delivery.
- 1.17 Many of these risks are expected to continue through 2022/23 and beyond. Ongoing management of the risks, particularly in critical parts of our supply chain, is essential. Contract Managers, with support from the Procurement Team, have sought to understand and mitigate where possible the significant risks facing our supply chains. Briefings have been held with AMT, SLT and key contract managers to ensure there is an understanding of the severity of the risks.

Aim 4: Sector planning and supply chain management

1.18 This Aim has not been prioritised for action during 2021/22 and therefore limited progress has been made. It is expected that the Procurement Team will be in a position to take forward this Aim in late 2022/23. It will be a focus during 2023/24.

1. 2021-22 High Level Spend Analysis

2.1 The spend data used for the analysis in this report contains all transactions between 1st April 2021 and 31st March 2022. This will not align with financial analysis included in the SEPA Annual Accounts (based on when the goods/services were delivered) but is the data set required by Scottish Government for the Procurement Annual Report.

2.2 Because of payment issues in Q4 2020/21, as SEPAs ERP system was rebuilt following the cyber-attack, spend from this period was delayed into Q1 2021/22. Consequently, some but not all of the figures below include payments for services delivered in Q4 2020/21.

- Total supplies and services spend £22m
- Total number of suppliers 594
- Top 10 suppliers make up £9.4m total spend (43%)
- Top 54 suppliers make up 80% of total spend
- Bottom 424 suppliers make up £1m of total spend (5%)
- Less than £1k was spent with 210 suppliers

2. 2021-22 Supplier Summary

2.1 Top 11 suppliers make up ~£10m annual spend.

Supplier Name	2021/22 Spend
Insight Direct UK Limited	£2,382,799
Softcat	£1,476,427
Vodafone (multiple suppliers)	£1,424,362
Hennessy IT Consulting Limited	£1,293,483
CBRE Managed Services Ltd	£726,542
Xylem Analytics UK Ltd	£575,417
JBA Consulting	£567,620
BT Global Services	£511,026
Meteorological Office	£478,490
UK Health Security Agency - CRCE (Glasgow)	£468,583
Kisters AG	£458,908

2.2 **Insight Direct UK Limited (IS)** – are the top ranked supplier on the Health Trust Europe IT Solutions Framework Agreement. They have supported multiple elements of the cyber response and recovery, including through the use of appropriate subcontractors. Services have included:

- Resourcing for cloud architects and software developers
- Cyber security consultancy
- Provision of laptops and associated hardware
- Provision of network storage

- 2.3 Although continued use of the Framework for key IS contracts is anticipated moving forward, it is not expected Insight Direct UK Limited will remain SEPA's highest spend supplier in 2022/23.
- 2.4 **Softcat (IS)** – are the current Scottish Government Framework supplier for Software Value Added Reseller (SVAR) services. The majority of our major IS licences, including Microsoft, are awarded via this arrangement to make use of economies of scale across the Scottish public sector. The Framework has also been used to establish contracts to support the implementation of new software following the cyber-attack, these are temporary arrangements which have supplemented our in-house resource and enabled timelier rollout of new software solutions. The Procurement Team continue to work with IS to increase the proportion of major licences awarded via the SVAR Framework. The spend with Softcat is therefore expected to increase in 2022/23.
- 2.5 **Vodafone (multiple suppliers) (IS)** – are our current suppliers for four major contracts:
- Mobile telephony
 - Fixed telephony
 - Internet of Things Narrowband Implementation – Optimisation of our data feeds from remote monitoring.
 - Call Centre Solution – The existing solution utilised by the SEPA Contact Centre (SCC) did not effectively enable hybrid working, it was also impacted by the cyber-attack on our organisation. Investment was therefore made in a new solution, Vodafone Storm, which is used across the blue light services in Scotland. The change has dramatically increased resilience and enabled hybrid working.
- 2.6 Additionally, with the continuation of home working across much of the organisation, and an expectation for future hybrid working, significant investments were made in mobile phone handsets for SEPA staff.
- During 2022/23 the current mobile and fixed telephony contracts will be replaced with a Unified Communications contract. This is expected to deliver significant efficiencies and better enable hybrid working. The award of this contract is currently with SG for approval.
- 2.7 **Hennessy IT Consulting Limited (Finance/HR)** – support for our Agresso ERP system. Spend is unusually high in 2022/23 as they secured the contract to rebuild the system following the cyber-attack. They have also recently been successful in securing the contract to provide the ongoing support and development of the system for up to five years (3+1+1).
- 2.8 **CBRE Managed Services Ltd (Workspaces)** – are the current suppliers of our Estates Maintenance contract. This contract covers preventative and reactive maintenance, it also enables SEPA to commission CBRE to undertake minor works through the award of task orders. In 2021/22 CBRE have undertaken catch up maintenance at many of SEPA's office locations. Additionally, following a market assessment, CBRE were commissioned by task order to undertake capital works at ASB to improve air handling.
- 2.9 **Xylem Analytics UK Ltd (Chemistry)** – primarily a supplier on the capital programme, Xylem provide essential laboratory and field equipment. They are the top ranked supplier on appropriate Environment Agency Framework Agreements which SEPA utilises to ensure value for money and preferable terms.
- 2.10 **JBA Consulting (Hydrology)** – provide professional services to our Hydrology and Flooding Function across a number of contracts. Spend is so significant in 2021/22 as JBA secured the National Pluvial Mapping Contract, a capital project which is due to complete in 2023/24.

- 2.11 **BT Global Services (Hydrology)** – are the supplier responsible for delivery of the Flood Warning Dissemination (FWD) System. They have also been successful in securing the contract for the Future Flood and Incident Messaging Service (FFIMS) which was awarded in March 2022. Both contracts rely on a key subcontractor – HTK Limited. The recent procurement process for FFIMS secured savings and aims to ensure the service is fit for purpose into the future.
- 2.12 **Meteorological Office (Hydrology)** – provide the Scottish Flood Forecasting Service (SFFS) via a Memorandum of Understanding (MOU) with SEPA. This MOU was reviewed in 2021/22 to ensure its scope remained fit for purpose. Some elements of the MOU were removed from scope and a saving achieved. The Meteorological Office also supply SEPA with data sets under licence which accounts for a small proportion of the overall spend.
- 2.13 **UK Health Security Agency CRCE (Energy)** – currently supply SEPA with key services which support our work on Radioactive Substances. The Environmental Radioactivity Monitoring Programme is due to go out to tender shortly and UKHSA are the incumbent supplier. The contract spend is ~£500k and is expected to increase following the current procurement exercise due to inflation of key cost drivers including fuel and laboratory consumables.
- 2.14 **Kisters AG (Hydrology)** – currently supply SEPA with two critical Hydrology and Flooding systems: WISKI (Water Information System Kisters) and SODA (Simultaneous Online Data Acquisition). Additionally, a new branch of the Kisters company is now supplying SEPA with hydrometry equipment following their successful appointment to two key SEPA Framework agreements.

3. Areas for Focus

Overall Themes

- 3.1 Cloud hosting and Computing – like many organisations, SEPA is going through a period of transformation which will take many of our IT services into the cloud. This will result in very significant changes to our contract portfolio as licencing models change. Additionally, we require support for the transformation from specialist suppliers.
- 3.2 **Construction and Civil Engineering** – there is an increasing expectation on SEPA to undertake construction and civil engineering projects. Procurement and contract management in this area is complex and requires professional training/qualifications to achieve industry standards. Consideration must be given as to how this is resourced moving forward if the expectation continues.

Categories/Services

- 3.3 **IS** – as we move over to a cloud-first environment our licencing models are changing and our procurement pipeline accordingly. Some licences, which have historically relied on Non-Competitive Actions, will no longer be able to as we moved from perpetual to Software as a Services (SaaS). Appropriate Framework Agreements will need to be investigated to ensure value for money is achieved.
- 3.4 **Laboratories** – work has progressed well to move all major laboratory consumable purchasing over onto public sector framework agreements. This reduces price volatility and improves commercial terms. However, further work is still required as work in the laboratories continues to ramp up following the easing of COVID restrictions and a return to workplaces.

- 3.5 **Hydrometry** – we are in the process of moving the majority of hydrometry purchasing over onto SEPA Framework Agreements. This work is progressing well, but additional Frameworks are required for steelworks and rain gauges. This work is expected to conclude in 2022/23
- 3.6 **WEF** – anticipated growth in the WEF programme over the coming years will likely require a change to the Procurement approach. Consideration will need to be given as to whether the establishment of Framework Agreements is now appropriate.
- 3.7 **Fleet (Cars, Vans and Boats)** – SEPA's spend each year in this area is significant and our decisions around future contracting will have an impact on our ability to hit both our Regenerative SEPA targets and goal. Options are currently being assessed before the arrangement of new hires, leases and purchases.

4. Procurement Pipeline

- 4.1 A "Procurement Pipeline" for the coming 12+ months is shown in Appendix B. This shows a substantial workload for the Procurement Team and key parts of the organisation.

5. Recommendations

- 5.1 The Board is asked to:
- Note the progress made against the Procurement Operating Plan 2021-24.
 - Note the significant procurement pipeline for the remainder of 2022/23 and 2023/24.

Author: David Morgan, Sustainable Procurement Manager
AMT Sponsor: Stuart McGregor, Chief Officer, Finance

19 July 2022

Appendix A – Procurement Operating Plan 2021-24

The aim of this document is to provide high-level information on SEPA's procurement objectives. It outlines planned transformational changes to the way we approach procurement and contract management. This document also serves as our Procurement Strategy as required by the Procurement Reform (Scotland) Act 2014.

Background

SEPA exists to protect and improve the environment in ways that, as far as possible, also help create health and well-being benefits and sustainable economic growth. SEPA is redefining what it does to become a Phase Two Environment Protection Agency (EPA) and meet the global challenge of living within planetary constraints. SEPA will work in collaboration, bringing the right people together to deliver innovative solutions for the people of Scotland.

In 2019 we published a Procurement Operating Plan which sought to deliver five key aims:

1. Improving governance and processes.
2. Focusing on key contracts and prioritising associated support.
3. Improving the sustainability of our contracts.
4. Fostering a more commercial culture.
5. Supporting the organisation through improvement.

Despite significant disruption from coronavirus, and latterly a sophisticated cyber-attack, all key aims were met. The aims and objectives in this Operating Plan look to build on the work undertaken in 2019-21.

Summary

This Operating Plan is part of SEPA's ongoing drive to be more commercial, flexible, responsive, and innovative; to do a better job at a lower cost and become a world class EPA. The maturity of procurement and contract management practice at SEPA has dramatically improved; but there are still further improvements we can make.

The key aims outlined below focus on how our procurement and contract management can support delivery of the ambitious aims of the organisation. They represent a procurement and contract management function that is looking to influence decision making and find innovative solutions to the major challenges facing SEPA, the Scottish Public Sector and our Regulated Businesses. Achieving value for money is seen as the bare minimum.

The Operating Plan has been aligned with the Scottish National Performance Framework and the Scottish Government Public Procurement Priorities 2021-22.

Key Aims 2021-24

Aim 1: Supporting the development of a regenerative organisation

SEPA has set the ambitious goal of becoming a “Regenerative Organisation” before 2030. A regenerative approach means that we aim to repair the environment through our work. By doing this at the same time as aggressively targeting our impacts, there comes a point where the positive effects of regenerative action outweigh the negative effects of our residual impacts. At this point, we can call ourselves a Regenerative Organisation. We also have an interim target of net-zero direct greenhouse gas emissions by 2025.

Both targets are strongly influenced by what we buy and who we buy from. Decisions we make now on our longer contracts and capital procurement will influence our ability to achieve both targets and therefore action must be quick and decisive. Supply chain emissions, waste, materials, and water use, which form key parts of the 2030 goal, are currently hard to measure and significant effort will be required to define what success looks like in a practical sense.

We will deliver this through:

- Assessing the impact of our procured goods, works and services.
- Supporting effective decision making to drive down direct GHG emissions.
- Reducing supply chain GHG emissions, water use, waste and materials use by:
 - working with our suppliers to understand their impacts;
 - joint action planning;
 - more robust procurement processes.
- Improving governance for capital procurement.
- Working with relevant Central Purchasing Bodies (e.g., Scottish Government, Crown Commercial Service, Scotland Excel, etc.) to influence Framework Agreements so they remain fit for purpose in a Regenerative SEPA.
- Avoiding compromise with other key objectives including Fair Work First and contracting with Supported Businesses.

Success will look like:

- All new contracts which have an impact on direct emissions will have Regenerative SEPA targets which align with our goal.
- A clear action plan is in place to take us to Net Zero direct GHG emissions by 2025. Opportunities for immediate action are not overlooked.
- A procurement roadmap is approved which supports the achievement of our 2030 Regenerative SEPA Goal.
- Our high impact contracts will contain a requirement for suppliers to work with us towards our Regenerative SEPA Goal.

Aim 2: Supporting the development of a Phase 2 Environment Protection Agency (EPA)

Our organisation is going through a period of significant change – refocusing resources to become a Phase 2 EPA and deliver One Planet Prosperity (1PP).

To become a Phase 2 EPA, we will need support from others. Much of this will be collaborative working with partners; but an equally significant proportion will be contractual relationships with our suppliers. Commercial skills, which enable us to get the best from our supply chain, will be required in a great number of roles across SEPA. It won't be most people's "day job" but it will be an essential and important part of their role and will enable them to have an impact beyond their own work.

We will deliver this through:

- Supporting effective and timely recovery from the cyber-attack.
- Ensuring the support our Procurement Team offer is well informed, agile, and dynamic.
- Evaluating, managing, and mitigating procurement and supply chain risk.
- Driving innovation in the pursuit of One Planet Prosperity.
- Delivering innovative contracting approaches.
- Developing key commercial skills across the organisation through:
 - Further development of our training on "Discover" and other corporate learning platforms.
 - Making the most of Microsoft 365 (Teams) – Running short "masterclass" style sessions for relevant colleagues will help to build the knowledge and skills required to be effective contract and supplier relationship managers.
 - Coaching relevant colleagues to deliver robust contract management. Supporting our staff through coaching will ensure they experience practical learning.
- Delivering effective and efficient self-service.
- Feeding into the new JE Scheme and System at the appropriate time to ensure commercial skills are recognised as an important part of people's roles.
- Rightsizing the procurement function depending on the developing role of the team.

Success will look like:

- Procurement is considered as an option early in decision making.
- The Procurement Team are actively involved in key decision making across the organisation.
- Our staff have the commercial skills to be confident in their management of our suppliers.
- An increase in the £15k threshold for involving our procurement team in tendering exercises is feasible as competency across the organisation increases.

Aim 3: Effectively managing risk and seeking opportunities with our supply chain

A myriad of factors have impacted the performance of our supply chain over the past two years: COVID-19, cyber-attacks, materials shortages, natural disaster, logistics issues, energy prices, inflation, the list goes on. Shortages and disruption have highlighted potential vulnerabilities and the need for a greater focus on resilience. The critical nature of our services mean that every effort must be taken to avoid service disruption or interruption.

We will deliver this through:

- Working with our suppliers to understand the risks and opportunities as they see them.

- Working with our suppliers to ensure effective contingency plans are in place for key risks.
- Assessing our supplier's preparedness for the materialisation of developing risks such as cyber security and climate change.
- Playing an active role in developing key markets where there is limited competition and/or resilience.
- Working with the Scottish Supplier Development Programme to reduce barriers to small and medium sized enterprises (SMEs) seeking to enter our supply chain.

Success will look like:

- Resilience and risk will be actively managed in our supply chain – reducing the likelihood and impact of future service disruption.
- Our supply chain will be fit for a Phase 2 EPA.

Aim 4: Sector planning and supply chain management

SEPA's Sector Planning approach to regulation has a strong focus on considering the wider impacts of regulated businesses, including their supply chains. Outsourcing environmental impact by paying others to undertake the most damaging elements of your work doesn't necessarily reduce the overall impact of your operations. Utilising the supply chain management knowledge and capabilities across SEPA will enable us to regulate more effectively go Beyond Compliance.

We will deliver this through:

- Identifying those sectors where the supply chain impacts are most significant.
- Working with the relevant sector leads and sponsors to support the effective articulation of supply chain risks and opportunities in the Sector Plan.
- Supporting our regulatory colleagues to understand the supply chain impacts of our regulated businesses.

Success will look like:

- Plans for those sectors with the most significant supply chain impacts will effectively consider those impacts.
- Regulatory colleagues responsible for the delivery of the sector plans will feel well equipped to support and advise regulated businesses on reducing their supply chain impacts.

Appendix B - Procurement Pipeline (Over £100k excl. VAT)

As at 18/07/2022 – Excluding WEF Programme 2023/24

Contract Title	Value	Current Status	Expected Commencement
Stack Emissions Monitoring Framework	£0.6m	Pre-award	Aug 2022
Unified Communications	£1.4m	Pre-award	Aug 2022
Offsite Storage and Document Management	£0.15m	Pre-award	July 2022
Gateside Wier (WEF – RIBA Stage 5 works)	£0.16m	Pre-award	July 2022
Media Monitoring	£0.11m	Specification Drafting	Sept 2022
Psychometric Testing and Assessment Centres	£0.3m	Specification Drafting	Sept 2022
Laboratory Gases	£0.2m	Not yet started	Oct 2022
Environmental Radioactivity Monitoring	£2.9m	Pre-procurement	Nov 2022
Next Generation Telemetry	£1.5m	Pre-procurement	Nov 2022
Formal Analysis (Chemistry)	£0.16m	Specification Drafting	Nov 2022
Routine and Business Continuity Analysis (Chemistry)	£0.24m	Specification Drafting	Nov 2022
M365 Support	£0.6m	Specification Drafting	Dec 2022
Personal Protective Equipment	£0.4m	Specification Drafting	Dec 2022
Design and Photography Framework	£0.4m	Not yet started	Dec 2022
Cloud and Hosting Services	£0.8m	Not yet started	Dec 2022
Security Operations Centre	£1m TBC	Specification Drafting	TBC
Rain Gauges Framework	£0.3m	Specification Drafting	Jan 2023
Small Boat	£0.2m	Specification Drafting	Jan 2023
Costal Mapping and Modelling	£0.2m	Specification Drafting	Jan 2023
Steelwork Framework	£0.5m	Specification Drafting	Feb 2023
Door Entry System	£0.3m	Not yet started	Late 2023
Cleaning and Waste Management	£2.6m	Not yet started	Jan 2024
Estate Maintenance	£2.0m	Not yet started	Jan 2024
Estates Professional Services	£0.3m	Not yet started	Feb 2024