

Procurement Efficiency Savings Measurement and Tracking

A note on Cashable Budgeted Savings

Efficiency savings will only be actually realised when there is an actual reduction in the budget. There will be scope for budget reduction in respect to Revenue Budgets. However, efficiency savings in relation to capital, Housing Revenue Account (HRA) and grant funding budgets will result in an opportunity to “buy more” for the funding and not necessarily a budget reduction opportunity.

Cash Releasing Benefits

Type 1: Recurring Procurement Projects

Baseline Price (BP) x Forecast Volume (FV) – New Price (NP) x Forecast Volume = Saving

Example: Purchase of light bulbs

$£1$ (BP of a light bulb) x 1,000 (FV) x $£0.90$ (NP) x 1,000 (FV) = $£100$ (saving)

In the event that the forecast volume cannot be quantified or is not known then an alternative calculation method can be used in respect to annualised total spend.

(Baseline Price (BP) – New Price (NP)) / Baseline Price x 100 = % saving multiplied by Annual Total Spend

Example: Purchase of light bulbs with annual spend of £50,000, Baseline Price of £1 & New Price of £0.90.

$(£1 - £0.90) / £1 \times 100 = 10\%$ saving multiplied by $£50,000 = £5,000$ (saving)

Type 2: One-Off or new Procurement Projects (or where no baseline exists)

With regard to one off procurement projects which are non-recurring then benchmarking of unit cost prices is not an option.

For one-off projects or where no baseline exists then cash releasing savings shall be calculated using:

Estimated Budget – Actual Tender Price = Actual Cashable Saving.

Example: Purchase of ICT software with estimated budget of £50,000 and Actual Tender Award Price of £40,000.

$£50,000 - £40,000 = £10,000$ Saving.

This efficiency methodology can only be **recognised when the following conditions below are met:**

- External evidence supports that the price paid is below normal market price
- The Service Commissioner agrees to sign off stating that the goods, services or works obtained is below what the customer would normally have paid for the contract.
- There is confidence that the estimated budget has been calculated in a robust and accurate manner and this can be demonstrated.

Type 3: Negotiated Savings on existing contracts

If the Council has an existing contract in place, but through a negotiation process better rates are obtained resulting in the Council paying less than they were contractually obliged to pay then the savings calculations in the Type 1 examples can be utilised.

Type 4: Outsourcing or Insourcing of a Service

With respect to outsourcing or insourcing of a previous service or process that results in verifiable net cost reductions to the Council. All costs of transition have to be included in the baseline to arrive at the saving.

Type 5: Volume based discounts and retrospective rebates

In some contracts the supplier will have agreed to volume based discounts or annual retrospective rebates based on spend throughput. In this scenario then cash releasing savings shall be calculated using:

% Volume of rebate or discount offered multiplied by the Value of Total Annual Spend or Value of individual transaction

Example: XYZ Supplier has agreed to pay an additional retrospective rebate of 1% of actual annual spend in the event that the contracted annual spend exceeds £75,000. In this example annual spend was £100,000.

$$1\% \times £100,000 = £1,000 \text{ (saving)}$$

Non-Cashable Savings -Cost Avoidance

Type 1: Demand Management. (Eliminating spend)

The most common ways being used to deliver Demand Management are:-

- **Reduce Consumption.** An obvious though seldom asked question: “Do we really need this?” Good examples are forbidding buying new office furniture when surplus office furniture is already available and the reduction of travel by deployment of video conferencing.
- **Improvement of Specification** Using stationery as an example rather than buy a leading branded ballpoint pen will a generic pen do the job just as well. Challenging the specification in these ways will reduce the cost to serve.

A typical calculation of a Demand Management Savings is Calculated as (Price x old volume) – (Price x new volume = saving

Type 2: Avoid Inflation / Market price Increases

This is defined as a negotiated price that is NOT lower than price previously paid but avoids a general price increase e.g. countering the effects of inflation or general price increases

A typical Cost Avoidance example would be the amount by which a supplier's price increase request is reduced For example a supplier requests a 5% price increase, which is challenged. This increase may

either not be allowed or reduced to a lower percentage increase. In both cases the potential cost increase should be calculated and recorded as a cost avoidance non cash releasing saving.

Cost avoidance refers to reductions that cause future spending to fall, but *not* below the level of current spending.

Example: ABC Supplier of vehicle tyres has requested a mid-contract price increase of 5% due to the price of oil increasing manufacturing costs. Following a negotiation process with the buyer the supplier agrees to a 3% price increase. The total contract value for tyres is £100,000.

Cost Avoidance = 2% x £100,000 = £2,000 (non-cash releasing saving)

Type 3: Process improvement efficiencies (Collaborative Tender Arrangements)

A typical Cost Avoidance example would be from use of Collaborative Arrangements. This process saving is designed to reflect the avoidance of having to do a full tender exercise at the time of the renewal of an existing arrangement or the creation of a new one.

These types of savings should be claimed in the year that the new collaborative arrangement is first used. These are notional calculated costs only

Claim £3,000 of non-cash releasing saving per collaborative agreement for contract value up to £25,000 (Welsh Government / Value Wales)

Claim £6,000 of non-cash releasing saving per collaborative agreement for contract value over £25,000 up to OJEU Threshold (Welsh Government / Value Wales)

Claim £45,000 of non-cash releasing saving per collaborative agreement for contract values over the OJEU Threshold

(CIPS - Supply Management (August 2013) carried out by CEBR (Centre for Economic & Business Research)

Reporting, Time Periods & Frequency

Annualised Savings are calculated taking a full 12 month effect of the saving from the date in which the saving can be enabled regardless of any cross over between financial years. If an annualised saving was enabled for implementation from 1st September 2017, the in-year eligible saving will be calculated from 1st September 2017 until 31st March 2018. Carry over Savings are calculated using the remainder of the savings enabled for implementation from the previous financial year where the full 12 month effect had not yet been realised. Therefore the remainder of the savings will be attributable to the following financial year i.e. using the example above a 5 month carry over savings will be recognised and contribute towards the in year savings guarantee and forecast for 2018-2019

Reporting and Monitoring of Procurement Efficiency Savings

The reporting and monitoring of procurement efficiency savings will be reported to the following:

- Joint Management Procurement Board
- DCC & FCC Finance Officers
- DCC Budget Board
- CROSP Scrutiny Group (FCC) every 6 months
- Performance Scrutiny Group (DCC) every 12 months

In the event that savings calculations cannot be quantified for individual projects then this will be escalated by the Procurement Business Partner to the Joint Management Procurement Board in the first instance for a resolution.