

Scottish Publicly Funded Sectors

Procurement Benefits Reporting Guidance

- Central Government
- Non Departmental Public Bodies
- National Health Service
- Universities & Colleges
- Local Authorities
- Fire Service
- Police Service

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Section 1 – Background & Introduction

Good public procurement makes the best use of public money to deliver quality, value for money goods, works and services that benefit Scottish citizens, the organisations that are publicly funded, their stakeholders and the Scottish economy as a whole.

In January 2010, the Public Procurement Reform Board endorsed the second phase of the Public Procurement Reform Programme - 'Transforming Procurement: Accelerating Delivery'. The refreshed strategy places emphasis on accelerating the pace of change and the delivery of benefits, and embedding initiatives into 'business as usual'. At its heart is the concept of value for money in procurement being an informed balance between cost, quality and sustainability.

The refreshed strategy focuses on four key priorities.

- Delivering and demonstrating real cash savings across the public sector.
- Maximising efficiency and collaboration.
- Improving access to public sector contracts particularly for SMEs.
- Embedding sustainable procurement at the heart of the reform agenda.

Underpinning these priorities are seven strategic objectives - the Seven C's – one of which is 'Capturing Savings and Benefits'.

Accurate reporting of savings will be increasingly beneficial as there is a growing requirement to fully understand the significant part to be played by procurement in supporting the delivery of services at a time when resources are clearly constrained.

The following guidance is intended to help procurement teams identify savings and benefits from procurement activity and help ensure that they are reported in a consistent manner across the sectors.

All organisations should seek to implement this guidance for all savings reported after the date of this publication. It will be expected that this guidance is fully in place for all savings being reported after March 2013.

There are several different ways that savings from procurement can be obtained, those that are felt to be the most appropriate for reporting are set out in Section 2 of this document.

This document has been jointly developed by senior representatives from the sectoral Centres of Procurement Expertise covering the NHS, Central Government, Non-Departmental Public Bodies, Universities & Colleges, Local Authorities, Police and Fire across Scotland.

Section 2 – Reporting

Reporting Responsibility

Recording and reporting procurement benefits is generally the responsibility of the procurement function, or in smaller organisations, whoever has lead responsibility for procurement/finance decisions.

The judgement of the reporting organisation's procurement lead must determine what should be reported. It is their responsibility to ensure that savings and benefits are calculated on a realistic and prudent basis and are correct and justifiable should the figure ever be subjected to audit. Organisations should consider what assurance they require from their internal audit service about the fair and accurate reporting of procurement savings.

Efficiency gains made through the use of all contracts should be assessed and claimed, however, Centres of Expertise (CoE) will calculate the savings generated by specific collaborative contracts and frameworks which they manage or facilitate on behalf of their members. These savings should be validated with the CoE's member organisations based on whatever process is in place in each sector.

How to report savings

Reporting organisations must record their savings on the Scottish Procurement Information Hub.

Some Central Government organisations, NDBPs and colleges do not have access to the Hub – these organisations would normally report their savings to their Centre of Expertise if these savings are material. Relevant Centres of Expertise will advise such organisations of the appropriate approach.

The profile data input page asks the following questions:

- **What is the collaborative cash saving achieved through procurement in the reporting period?**
- **What is the collaborative non-cash saving achieved through procurement in the reporting period?**
- **What is the local cash saving achieved through procurement in the reporting period?**
- **What is the local non-cash saving achieved through procurement in the reporting period?**

Where 'collaborative' refers to savings generated from nationally or sectorally led contracts – also known as Category A and Category B contracts – which are let and managed by Centres of Expertise.

Where 'local' refers to savings generated from all locally driven procurement activity. This should include savings from all contracts which aren't managed by a Scottish Centre of Expertise – e.g.:

- *all locally let (Category C) contracts;*
- *all local collaborative (C1) contracts;*
- *any savings derived from the use of 'other' contracts, such as the UK Government Procurement Service;*

- *additional savings derived from a locally run mini-competition of any UK or CoE managed contract.*

For some sectors, Centres of Expertise will complete the collaborative savings entry onto the Hub on behalf of their member organisations. In those sectors organisations are required to complete the local savings figures only.

In other sectors the Centres of Expertise will instead provide collaborative savings data to their member organisations, who are then required to complete all collaborative and local savings

Centres of Expertise will make it completely clear to their member organisations which of the above approaches apply to them.

Spikes Cavell provide regular training sessions on entering BPI information to the Hub. More information can be found at: <https://procurementnetwork.spikescavell.net/Home.aspx>

When to report savings

As part of benefits tracking good practice, **Secured** savings should ideally be reported each quarter over the course of a financial year. To be included in the quarterly scorecard, quarterly savings must be reported within 8 weeks of the close of each financial quarter.

At the close of the financial year, the final annual validated **Delivered** savings figure must be provided within the timescales as set out by the Public Procurement Reform Board members for their respective sectors and in line with the appropriate year-ends.

Centres of Expertise will ensure that collaborative savings are reported in good time to allow reporting organisations to meet these deadlines.

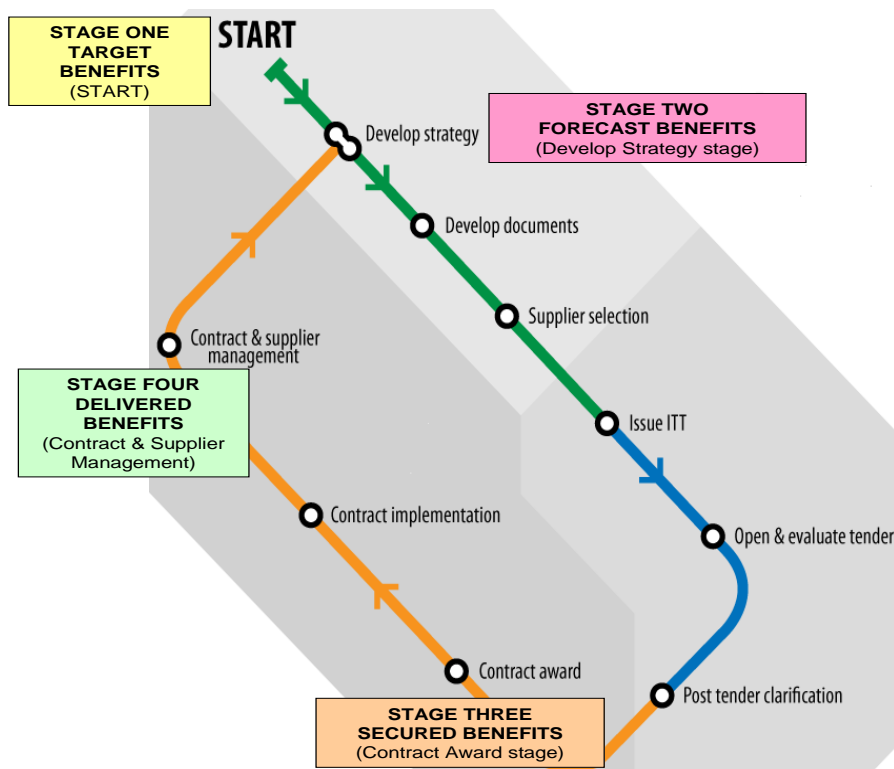
Benefits Tracking in Procurement

At the very start of the procurement process there may be a **Target** that applies to the project – this will be applicable normally only in the higher value tenders where detailed market analysis has taken place / is possible. This may be imposed (a department may have to maintain the same levels of service with a 5% drop in budget), or aspirational (aiming to achieve a 2% improvement on the current delivery cost).

As the procurement proceeds, market research and strategy development will give a more realistic overview of what savings and benefits may be achievable, enabling the tender process to begin with a fairly robust **Forecast** of the expected benefits.

When tenders are considered the decision to award a contract is based on a value judgement that indicates that the agreed contract will deliver certain benefits – once the contract is awarded, those benefits/savings are **Secured** – that is, the contract will deliver them if it is used and performs as expected.

During the lifetime of the contract it is a key to ensure that the contract actually delivers the anticipated savings and benefits. This **Delivered** savings are the most important savings as they are based on actual, bottom line savings that have impacted on an organisation so even if there are challenges to recording the savings before this stage, it is essential that this saving is recorded.



Efficiency Reporting

The formal Efficient Government Reporting scheme is no longer in place, however organisations receiving public funding still have an obligation to report on the efficiency deliverables which they have achieved.

The Scottish Government is adopting a light touch approach. It will not require each portfolio or each public body to submit separate efficiency plans and will not undertake quarterly assessments or publish Outturn Reports.

Section 32 of the Public Services Reform (Scotland) Act 2010 requires public bodies identified within the Act, to publish a self standing statement of the steps it has taken in the previous financial year to improve efficiency, effectiveness and economy in the exercise of it's functions.¹

Within the template for efficient government reporting, organisations are asked to report a specific figure which show how much procurement efficiencies contributed to your overall delivery of savings. The guidance provided in this "Procurement Benefits Reporting Guidance" is consistent with the efficient government template. **Organisations should enter the total BPI Savings (Collaborative and Local) figure into the efficiency report.**

The Public Procurement Reform Board expects that savings should be reported every year, as soon as possible after the close of the financial years, and in time to allow joined-up reporting on a sectoral basis.

¹ SFC, COSLA and Scottish Government Health Finance Directorate operate a co-ordinating role across specific sectors in drawing efficiency reports together.

Section 3 – Savings / Benefits Methodologies

Below is a list of the relevant savings / benefit types that can be reported in relation to procurement activity. Against each type of saving / benefit is how the saving / benefit should be categorised when reporting into the Scottish Government Information Hub.

A more detailed breakdown of guidance on the reporting of each of these savings types is contained in Annex 1.

Savings / Benefit Type (BT)	Reportable as:
BT1 - Direct Price Based Savings	BPI 1A - Cash
BT2 - Price Versus Market Savings	BPI 1B – See BT2 narrative below
BT3 - Process Savings from Use of Collaborative Arrangements	BPI 1B – Non-Cash
BT4 - Introduction of Electronic Trading – Purchase to Pay P2P process	BPI 1B – Non-Cash
BT5 - Introduction of Electronic Tendering – Electronic Issue, Receipt and/or Adjudication of Tenders (Organisation’s own tendering activity)	Either BPI 1A or 1B depending on benefits realised.
BT6 - Demand Management	BPI 1A –Cash
BT7 - Active Price management	BPI 1A – Cash
BT8 - Make v Buy / Outsourcing	Either BPI 1A or 1B depending on benefits realised.
BT9 - Cost Removal	BPI 1A – Cash
BT10 - Added Value	Either BPI 1A or 1B depending on benefits realised.
BT11 - Risk Reduction	BPI 1B – Non-Cash
BT12 - Payment / Title Terms Based Savings	BPI 1A – Cash
BT13 - Process Re-Engineering	Either BPI 1A or 1B depending on benefits realised.

Annex 1 – Detailed Guidance on Reporting of Savings / Benefits

Benefit Type (BT)	Reportable as:
<p><u>BT1 - Direct Price Based Savings</u></p> <p>The baseline for reporting of price based savings (actually delivered) should be whichever is appropriate for a given scenario:</p> <ul style="list-style-type: none"> ➤ For new contracts that replace pre-existing supply agreements – the saving should be versus previous price paid (Delivered) at the end of the previous contract(s) period. For collaborative agreements where there is no pre-existing collaborative agreement to benchmark against (i.e. where it was mainly local organisational contracts in place previously), a common sector, or if it is applicable, cross sector (in cases where there is cross sector commonality in previous prices paid) base line would be agreed by the category / tender User Intelligence Group against which the resulting new contract price would be compared. ➤ This saving would be reported as a saving each year during the contract duration. In retendering the baseline switches to the price of what was the previous (i.e. so if the new price is same as the old price, then no savings would then be reported). ➤ For contracts that are for something that has not been bought before / an ad hoc requirement – the benchmark would be the average price of the top 5 acceptable compliant (or all the bidders if there are less than 5) highest ranked bids. This is unlikely to apply to CoE savings as they will most likely be tendering for categories which have been previously bought and therefore will have pre-existing baseline data. It will often apply however to purchases made by end-user organisations. ➤ Where a market is highly volatile, and the real market movement is significant, the User Intelligence Group, or similar independent person / body in the case of agreements run by end-user organisation, may apply a corrective adjustment to the benchmark, either way. There should be an audit trail to show the evidence supporting any such judgement. 	<p>BPI 1A - Cash</p>
<p><u>BT2 - Price Versus Market Savings</u></p> <p>As professional procurement reaches new levels of maturity, the challenge will often be to maintain low pricing rather than obtain additional savings over and above those achieved in the previous contract. Organisations / CoEs may therefore choose to report savings against market pricing instead of, or in addition to, the savings achieved against previous baseline prices (i.e. the savings described at BT1 above).</p> <p>The purpose of BT2 savings is to identify the savings that would be lost if the procurement had not been conducted by the organisation/CoE. The</p>	<p>BPI 1B – See narrative opposite</p>

<p>methodology for reporting savings against market prices must stand up to scrutiny and must ensure that it is well designed and draws on evidence rather than conjecture. The basic principle to be followed however is that simple list pricing/catalogue pricing available to the general public, should not normally be used. The baseline pricing for comparison should be the price that a customer would have been charged had the competitive tender exercise not been conducted by the procurement authority/CoE.</p> <p>Some sectors may require to report on both BT1 and BT2 basis, this should be done as parallel reporting rather than reporting it accumulatively (which could lead to confusion) – i.e. it should be remembered that where BT1 and BT2 savings are being reported for an agreement, that the figures are not added together as that could lead to double counting (of the BT1 element). BT1 and BT2, <u>unlike all other</u> Benefit Types (BTx), are alternative methodologies, they are based on different baselines, not savings to be added together.</p> <p>So for example, when a saving has been achieved against the previous price of £1m pa and that equates to a saving of £2m versus market price, a saving could be reported as a saving of £1m at BT1 and £2m at BT2. In practical terms, if no saving has been achieved at BT1, only BT2 will likely be reported</p> <p>Each sector is to determine whether they will deem BT2 to be considered as cash or non-cash saving. When cross-sectoral savings are being reported at BT2 level, to avoid confusion over cash or non-cash interpretation, the cash and non-cash descriptors should not be used, it should simply be reported as a “saving” (and if it is required to define the basis, it should be simply reported as “against the agreed BT2 benefits calculation methodology”.</p>	
<p><u>BT3 - Process Savings from Use of Collaborative Arrangements</u></p> <p>The most common type of non-price saving is that derived from use of collaborative agreements. This 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.</p> <p>The saving should be claimed based on the following methodology:</p> <ul style="list-style-type: none"> ➤ Claim £3,000 (based on avoidance of consuming approx. 75 hours of middle range management time / cost of employment within buying organisation) per collaborative agreement, where annual expenditure is over £3,000 up to £10,000 or a one-off purchase up to £25,000, in the year that it is set up or the year the organisation takes up an existing contract. ➤ Claim £6,000 per collaborative agreement where annual expenditure is over £10,000 or a one-off purchase over £25,000, in the year that it is set up or the year the organisation takes up an existing contract. <p>The savings should be claimed in the year that the new collaborative</p>	<p>BPI 1B – Non-Cash</p>

arrangement is first used.

An organisation could find that in year 1 it takes up an existing contract which only has one year left to run. It can claim a £ cost avoidance efficiency in that year. In year 2 the contract is re-tendered. The organisation can then again, claim another £6000 cost avoidance efficiency for that tender exercise.

For highly complex or innovative contracts, a higher efficiency of £12,500 may be claimed, it should be noted that this level of saving will be very rare and its application would normally be specifically agreed with the end-user organisation before it is applied.

BT4 - Introduction of Electronic Trading – Purchase to Pay P2P process

Research from organisations that have adopted e-procurement processes have estimated that the process efficiency costs are in the region of £28 per transaction compared to a traditional paper-based purchase-to-pay process and £9 compared to on-line ordering and paying with a procurement card. If an organisation has had an (CoE or Scottish Government) ePS baseline exercise carried out, then you should use the difference between your original transaction cost and the ePS transaction cost as your process efficiency figure instead of £28.

Reporting should be based on the additional number of transactions falling into each category compared to the baseline (which will normally be the previous year but could also be a defined moment in time, several years previously).

Where an organisation's systems do not offer a complete electronic purchase to pay system (which is reflected in the £28 figure), the elements which comprise the organisation's e-procurement system can be calculated from the following:

Electronic ordering / purchase	£14
Electronic goods received acceptance	£ 3
Electronic invoice processing	£6
Electronic payment authorisation	£ 3
Electronic payment transfer	£ 2
TOTAL	£28

So, for example, a typical procurement card transaction whereby the goods are purchased electronically and are paid through settling the month end account with the card provider would attract an efficiency of £16 over more traditional purchasing and payment methods (£14+£2). Where systems enable electronic ordering, payment authorisation and payment transfer but the goods received and invoicing processes are still paper based, the reported efficiencies will be £19 per transaction (£14+£3+£2). Where an organisation has different system mixes depending upon commodity types an estimate of the division of transaction numbers between these systems will have to be made.

It should be noted that most organisations will by the implementation of this

BPI 1B –
Non-Cash

methodology, have already have such systems in place and so reporting of such savings will not be relevant to them.

Savings levels have been calculated as follows:

Electronic ordering: Based on saving half hour of manually finding pricing versus being available in catalogue immediately (assuming ave salary of £30k plus on-costs)

Goods Receipt: Based on the electronic process taking 2 minutes with one person versus 10 minutes manual checking dialogue involving 2 people

Electronic invoice processing: Based on Accounts Payable (AP) person's time plus end-user dept person time with throughput of 10k invoices / year.

Electronic payment authorisation: Based on manual match checking of paper documents – estimated to be similar in cost to AP person's time impact.

Electronic payment transfer: total cost of writing out cheque and postage avoided.

BT5 - Introduction of Electronic Tendering – Electronic Issue, Receipt and/or Adjudication of Tenders (Organisation's own tendering activity)

There are 5 efficiencies associated the e-tendering process

- advertising,
- issue of documentation,
- secure communications
- secure receipt of tenders
- secure evaluation of tenders

This category relates to the physical 'paper' process of managing a tender exercise ie the advertising, handling the distribution and subsequent receipt of documentation. This category does not consider the detailed assessment work required to evaluate pre-qualification questionnaires and tender submissions.

The nature of e-tendering is that there are a number of stages in the e-procurement process and the estimated value to be claimed within an organisation will depend on which have been implemented. Therefore, a series of efficiency values are provided and organisations will need to identify which are applicable to them, add them together to obtain the unit efficiency value attributable to their tenders. Where a new stage is introduced during the year, it is possible that some tenders will attract one efficiency value and the later ones a higher value. Within the model, these should be reported as two separate efficiencies (one for each unit efficiency value) within a project dealing with the use of e-tendering.

The savings / benefits should be claimed in the year the tender exercise is completed.

Note: This group of efficiencies should be claimed for each tender managed using the e-tendering system for a maximum of 4 years at which time its use would be deemed to be 'custom and practice'.

Saving based on using reasonable estimates of average likely costs, including advertising, consumables and staff time as appropriate.

Claim per tender:

<p>➤ up to a maximum of £650</p>	<p>If requirement is advertised electronically in OJEU and / or through Procurement Contracts Scotland (PCS) / other similar solution rather than in local press. The savings reported should be equal to previous actual advertising costs, up to the maximum.</p>	<p>BPI 1A – Cash</p>
<p>➤ £400 ➤ £600 ➤ £800</p>	<p>If tender documentation is downloaded from PCS / other similar solution rather than photocopied, bound, checked and posted out in hard copy</p> <p>Up to 10 participating suppliers Between 10 and 19 participating suppliers Over 20 participating suppliers</p>	
<p>➤ £150</p>	<p>If secure communication with tenderers via PCS / other similar solution is used for pre-submission correspondence</p>	<p>BPI 1B – Non-Cash</p>
<p>➤ £300 ➤ £450 ➤ £600</p>	<p>If an e-tendering package used for the secure electronic receipt of tender submissions</p> <p>Up to 10 participating suppliers Between 10 and 19 participating suppliers Over 20 participating suppliers</p>	
<p>➤ £300 ➤ £450 ➤ £600</p>	<p>If an e-evaluation package used for the secure electronic evaluation of submissions (assumed 3-5 evaluators)</p> <p>Up to 10 participating suppliers Between 10 and 19 participating suppliers Over 20 participating suppliers</p>	

<p><u>BT6 - Demand Management</u></p> <p>Demand Management is a legitimate and widely-recognised best practice to deliver cashable savings. It is applicable where internal demand and consumption can be influenced to reduce costs. Although it requires strong buy-in and implementation from stakeholders it can either be led by procurement staff or other senior officers, such as finance directors, heads of corporate services or chief executives, especially during periods of significant budget pressures. Because of the wide range of players involved in the decision-making to deliver savings, recognition should be given to the support of other stakeholders when procurement communities record and report this type of saving. It should be noted however that a saving should not be claimed where service is reduced in a way that has a negative impact on services the public receives or reduces quality below a level that is genuinely required.</p> <p>For any saving to be claimed in this area, it must be demonstrated that:</p> <ul style="list-style-type: none"> • The same business requirements and appropriate quality standards 	<p>BPI 1A – Cash</p>
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<p>are still being met; or</p> <ul style="list-style-type: none"> Any reduction of service is of low priority activity and that this reduction has been explicitly reported and approved within normal business activity / governance arrangements. <p>Examples of Demand Management include:</p> <ul style="list-style-type: none"> Management Consultancy – challenging the actual need and making better use of lower cost alternatives such as internal staff. Strategic decision at senior level to set a target to reduce expenditure by a stated %. Travel – make better use of technology and lower cost options, i.e. increase use of videoconferencing, reducing first class and taxi travel. Utilities – Reduce consumption through technology and implementation of best practice. Office Equipment – rigorously manage supply to meet needs taking account of reducing numbers of users. Exploiting technology, e.g. reducing printers by using networked multi-function devices. <p>At a generic level the types of activities that can be carried out are:</p> <ul style="list-style-type: none"> Improving costs awareness Totally eliminating the need Reducing the quantity of items ordered Improving budget management, e.g. discourage use by increasing the approval level required Optimising the order quantity Simplifying the portfolio complexity Centralising the ordering process <p>The solutions are likely to cover a wide range of activities from quite simple decisions to innovative.</p> <p>In relation to length of time a demand management saving can be claimed this should be restricted to the period of each Scottish Government Strategic Spending Review using the actual spend in the final year as the new baseline for the subsequent SSR period.</p>	
<p>BT7 - Active Price management - applying awareness of price trends to either achieve net savings, or “price avoidance” to minimise or eliminate increased costs. Reduction in a justified price increase request, through demonstrable procurement activity. Justification through material / component price increase invoices; labour indices; market indices etc.</p> <p>Where the price increase is unjustified (in evidence terms) any savings must be shown against the market price not the new price increase request. Reduction in price below existing price should be recorded as benefit under ‘renegotiation of product / service price’</p>	<p>Either BPI 1A or 1B depending on benefits realised.</p>
<p>BT8 - Make v Buy / Outsourcing - Transfer of internal production or service to / from external suppliers. The same business requirements and quality standards are still met.</p>	<p>Either BPI 1A or 1B depending</p>

	on benefits realised.
<u>BT9 - Cost Removal</u> - An alternative solution that resulted in no purchase being made (e.g. reciprocity, sponsorship).	BPI 1A – Cash
<u>BT10 - Added Value</u> may include, for instance, services that previously were direct costs to the organisation and are now included in the price of the contract. The saving would be the previous direct costs.	Either BPI 1A or 1B depending on benefits realised.
<u>BT11 - Risk Reduction</u> - this is where, for example, changes to payment terms, such as staged payments or retentions, will result in a reduction in both cost and risk. This type of efficiency is likely to be a one-off and should not, therefore, be extended over the life of the purchase.	BPI 1B – Non-Cash
<p><u>BT12 - Payment / Title Terms Based Savings</u> – potentially including</p> <ul style="list-style-type: none"> • Early payment discount • Extended payment terms – interest savings from holding public money longer - however, this may not always be appropriate, please see note below. • Payment with order reduced /deferred, calculated on pro rata basis - Where an otherwise pre-payment or staged payment has been delayed, report a value that is equivalent to the interest that could have been earned had the amount of the delayed payment been invested. • Retention of final payment until satisfactory acceptance, calculated on pro rata basis – interest on cash based saving. • Staged payments, calculated on pro rata basis - balance of the contract sum x interest on the remaining period of staged payment, pro rata • Re-negotiated and Delayed Payment Terms: • Title and risk with supplier until final acceptance, savings based on the value of insurance premiums, security, double handling, off-loading costs, interest etc <p><u>Note</u> that these savings may not be achievable for all public bodies due to the governance arrangements in place. Note also that it may not be appropriate or acceptable to obtain certain types of these payment term savings from some categories of suppliers (e.g. very long payment terms from SMEs etc.) as it may contradict government policy.</p>	BPI 1A – Cash
<u>BT13 - Process Re-Engineering</u> - Process re-engineering can be defined as benefits from changes to procedures and working practices having a direct impact on organisational costs while often improving services to end-users. Efficiencies here are most likely to generate non-cashable rather than cashable benefits i.e. staff released to do other work; however, if the impact was great enough, there may be scope for a reduction in the number of staff.	Either BPI 1A or 1B depending on benefits realised.

<p>Process re-engineering efficiencies should be assessed and reported at the end of the financial year and reported as a single, factual, entry rather than trying to extrapolate into the future years.</p> <p>To calculate non-cash savings, organisations should use the Process Cost per Transaction baseline as a comparator to the new process cost transaction.</p>	
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