MAKING THE MOST OF OUR RESOURCES: FRAMEWORK & GUIDANCE

1. Introduction

1.1 The Welsh Assembly Government is committed to maximising value for money in order to deliver better quality public services in Wales. Making the Connections sets out the Government's vision, seeking to maximise efficiency gains through more effective co-operation and co-ordination between agencies across the whole of the Welsh public sector.

1.2 Making the Connections identified the achievement of value for money gains as one of four principles for better services. The others being: citizens at the centre; equality & social justice; and, working together as the Welsh Public Service. The Assembly Government has set a target of achieving £600 million of value for money improvements across the Welsh public service by 2010, with at least half of the improvements being reached by 2008.

1.3 The achievement of this target is dependent upon the Assembly Government and the public bodies it funds delivering value for money improvements. This draft note gives public bodies further information on the Assembly Government's approach to securing value for money improvements and the arrangements for defining, securing, monitoring and validating the gains. The guidance is being issued now in draft form to enable bodies to start planning their work, however, we will look to develop the guidance and views and suggestions on this are invited.

2. Context

2.1 The aim of targeting value for money improvements is to free up resources for use in delivering further improvements in public services. It is not about public spending cuts that result in reductions in public services.

2.2 In most cases, Assembly directly funded bodies will retain the resources they realise through value for money improvements and will be responsible for re-directing them to help improve the services they deliver.

2.3 Value for money gains will consist of both:

(i) reductions in the costs of inputs and overheads by, for example, streamlining support functions and improving procurement;

(ii) improvements in the outputs by, for example, making better use of the time, skills and expertise of staff, using IT to transform the delivery of services, improving business processes and, improving the quality of what's procured.

3. Definition

3.1 The following definition is used in defining value for money gains:

Cash releasing

- same outputs for reduced inputs (money, people, assets etc);
- same outputs for reduced prices (procurement, labour costs etc);

Non-cash releasing

- additional outputs (extra service, productivity, etc) for same inputs.

4. Value for Money targets

4.1 The £600 million Welsh public sector target relates to both cash releasing and non-cash releasing value for money gains of which at least half are expected to release cash savings for alternative uses. In considering gains that contribute to the £600 million target, the following should be noted:

- Cash releasing savings must be recurrent. Together with non-cash releasing savings they should build up to £300 million a year by 2008 and £600 million a year by 2010;
- Gains should be expressed in gross terms, but details of any investments made to secure gains should also be included in plans and reporting returns;
- Appendix 1 provides indicative value for money targets, arrived at from an analysis of Assembly funding.
- Appendix 1 provides indicative value for money targets, arrived at from an analysis of Assembly funding.
- For guidance on handing VAT and adjusting for inflation see Appendix 3

4.2 Public bodies funded directly by the Assembly Government will need to set value for money targets in line with the national target and publish these in their respective business planning documents together with details of how the targets are to be achieved.

4.3 For key sectors (National Health Service, post-16 education & training (excluding higher education) Higher Education), value for money sector plans are required. The preparation of these will be co-ordinated by lead organisations (see para 6.10). Planning at the sector level has the potential to realise enhanced opportunities for co-operation and co-ordination. Individual plans are required for each local authority and executive ASPB (as a feature of WPI improvement plans).

4.4 To achieve the £600 million target, key sectors executive ASPBs and each local authority should proceed on the basis that they will need to identify

at least 1 per cent recurrent value for money gains (of the total funding provided by the Assembly) in each of the five years starting in 2005-06.

4.5 Within the overarching £600 million target is a distinct target for procurement savings: £120 million of value for money improvements through better procurement by 2008, with the possibility of more by 2010. This equates to all bodies securing 3 per cent savings on their annual procurement budgets.

5. Sources of Value for Money Gains

5.1 The main areas where value for money gains are likely to arise are set out below:

- Procurement - a number of sector-specific organisations already exist to facilitate collaborative procurement. Also, the Welsh Procurement Initiative is able to provide support and expert guidance to the whole of the Welsh public service. The Assembly Government will strengthen the procurement infrastructure further in the near future (see section 11). While it is for individual organisations and sectors to develop their value for money priorities, in many instances improving procurement is likely to provide the greatest potential for early gains. In particular, organisations should actively consider whether value for money gains could be made through:
    - greater use of collaborative procurement;
    - greater use of outsourcing;
    - use of the Welsh Purchasing Card;
    - Gateway Reviews for large or novel procurements;
    - undergoing procurement fitness checks;
    - use of the National Procurement Web-site;
- Support services – standardising, simplifying and sharing processes;
- Collaboration - on service delivery systems;
- Reshaping services – including service reconfigurations (eg Wanless), reducing burdens, rationalising estate and other excess capacity;
- Better use of staff - including productivity gains, better attendance;
- Other – ideas which emerge through the process.

6. Value for Money Planning

6.1 The Welsh Assembly Government and public bodies directly funded by the Assembly should have value for money targets of at least 1 per cent per annum and within this, set a discrete target for procurement savings. Such targets should be consistent with the targets set by the Assembly.

6.2 Arrangements for planning, monitoring, reporting and validating value for money gains, will be integrated with performance planning arrangements.

6.3 As appropriate, plans will draw information from existing efficiency/improvement plans, procurement and estate strategies and change plans.

6.4 Local government - the Wales Programme for Improvement (WPI) provides the framework for taking forward the Making the Connections agenda across local government in Wales. New guidance is being developed currently to reflect this. Authorities have a duty to secure continuous improvement in the way in which they exercise their functions having regard to a combination of economy, efficiency and effectiveness and, are required to publish an annual performance (Improvement) Plan.

6.5 Authorities' Improvement Plans will in the future need to reflect value for money targets and the other requirements of this guidance. It is important for value for money proposals to be consistently reported, monitored and verified across the sector.

6.6 In addition to individual local authority improvement plans, the Welsh Local Government Association will set out proposals for developing priority areas for collaboration and the expected benefits from these. Actual benefits would subsequently be reported through relevant local authorities' Improvement Plans.

6.7 For National Health Service, Higher Education and post-16 education & training (excluding higher education) value for money sector plans are required.

6.8 NHS - the financial pressures and environment under which the service in Wales has operated has led to it taking steps to work more collaboratively, in advance of the Making the Connections initiative. Value for money savings for front line services have resulted from national initiatives involving the greater use of shared services, better procurement and other modernisation developments involving the improved use of Information technology, capital investment and a number of improved patient service initiatives.

6.9 The NHS objective will be to continue to build on these initiatives by using existing board and project structures. Enhanced management and monitoring arrangements will be introduced to ensure the delivery of the savings targets required under Making the Connections.

6.10 Plans are also required for the executive Assembly Sponsored Public Bodies (ASPBs). Under the requirements of their Management Statements, executive ASPBs are required to prepare "annual efficiency plans" and to seek approval for these from the Minister. Such plans should, from now on, be prepared following the guidance in this note. The exception to this, is where an announcement has been made that an ASPB will merge with the Assembly. Value for money gains resulting from such mergers are more appropriately reflected in the Assembly's own change plan and value for money plan. Gains arising before the merger should however be reported separately, for example, from improved procurement.

6.11 The preparation of value for money sector plans will be co-ordinated by lead organisations as follows:

- National Health Service
  Contact: (Martin Solis; Tel: 029 20 825846
  e-mail: martin.sollis@wales.gsi.gov)

- Higher Education: Higher Education Funding Council Wales
  Contact: (Richard Hirst; Tel: 029 2076 1861
  e-mail: richard.hirst@hefcw.ac.uk

- Post-16 education & training (excluding higher education): ELWA
  Contact: David Brown Tel: 029 2068 2308
  e-mail: David.Brown@elwa.org.uk

6.12 Plans: what they should include

6.12.1. Overview

- a short summary of recent achievements/position statement: examples of successful collaboration projects; achievement of value for money savings etc;
- value for money targets of at least 1 per cent per annum and within this, a discrete target for procurement;
- the cash value of annual value for money savings to be achieved (shown as current value) for each of the five years 2005-06 to 2009-10
- details of any specific investments being made to release savings;

- a breakdown of the annual savings into cash releasing (can be recycled) and non-cash releasing savings (productivity gains);
- an outline programme of projects (these will fall into two categories: early priorities and development ideas) that will deliver the value for money savings under the themes: smarter procurement; streamlining support functions; shaping public services; and making better use of staff time, skills and expertise.

6.12.2 Project Details

For priority projects, those that will bring about gains in the first half of the programme, the following information should also be provided:

- brief details of the activity that will lead to the value for money gains;
- a trajectory of value for money gains (both cash releasing and other) for each project together with baselines and, as appropriate, key milestones;
- the type of efficiency gain – see section on definition above;
- an assessment of the risk in delivering the value for money gains (see Appendix 2);
- details of any specific investments being made to release savings;
- brief details of monitoring, quality and validation arrangements;
- data sources and baseline information;

6.13. High level information about value for money proposals is being collected currently from bodies by sponsor divisions in the Assembly to help inform the Making the Connections: Action Plan – due for publication at the end of May 2005. Value for money plans prepared following the issue of this guidance will help inform updates of the Making the Connections: Action Plan and will be used to monitor progress against the £600 million target. Plans should be prepared annually according to sector planning arrangements. In most cases this means that first plans should be prepared by June 2005. Where plans need to be submitted to the Assembly for approval, the sponsor will initially make arrangements for the plan to be considered by a technical group. Following this, comments will be fed back to allow plans to be finalised and submitted to appropriate Ministers for either information or approval, depending on the governance arrangements that exist for that sector.

7. Measuring Value for Money Gains

7.1 Our assumed baseline for measurement is 31 March 2005. However, as there may be circumstances where there are technical problems with data sets, provision will need to be made for this.

7.2 Gains resulting from changes introduced in 2004-2005 can contribute towards targets, provided that a clear audit trail is available and that gains materialise throughout the 5-year programme period.

7.3 To contribute to the cumulative value for money target, gains should be recurring. Where this is not the case, gains can still be counted, but only against the year in which they occur. They cannot be counted in the cumulative total for future years.

7.4 Capital receipts resulting from the disposal of assets and, for example, used to reduce borrowing or attain interest payments can contribute towards value for money gains provided that the level and quality of a service is maintained.

7.5 Contracts with private suppliers requiring improvements in productivity can be quantified and therefore can be included in value for money gains.

The following gains should be excluded:

- retrospective savings – those that have been accounted for in previous periods;
- short term cash savings arising from switching between capital to revenue expenditure;
- deferring expenditure commitments to future years would not count as a value for money saving;
- budgetary savings arising from increasing fees and charges that already exist;
- interest savings from debt repayment.

7.6 For procurement, a value for money measurement tool has been devised and discussed with auditors. You are strongly advised to adopt this tool as a means of evidencing savings. A copy of the tool is attached at Appendix 2.

7.7 The measurement of the value of additional outputs (non-cash releasing gains) will vary depending on circumstances and you will need to agree these for planning and reporting purposes. We will consider providing further guidance on this aspect, and will involve the Wales Audit Office directly in the completion of any further advice. Initial and interim discussions with your auditors may be helpful both in developing understanding of the problems and issues that might be faced, and also in feeding into the preparation of the guidance.

7.8 Care should be taken not to double-count efficiencies, especially where joint venture and partnership arrangements exist. In such circumstances we suggest that each partner calculate the gain to their organisation. The project leader for a multi-partner project is best placed to ensure that no double counting of benefits occurs.

8. Monitoring arrangements

8.1 Monitoring arrangements. Returns will be required annually to fit in with existing performance monitoring arrangements and business cycles and will be co-ordinated by sector co-ordinators, cleared by auditors.

8.2 Plans should be seen as “live” documents. As such they will need to be reviewed and revised during the programme period. As part of monitoring arrangements, plans should be refreshed annually. The aim is to integrate this work into existing business planning arrangements where it is feasible to do so.

9. Quality control

9.1 All public bodies are responsible for their own quality control arrangements and these will be subject to scrutiny. It is essential that identified value for money gains are transparent and verifiable. We will consider developing further guidance for specialist areas as appropriate.

9.2 We are in discussion with the Audit Commission and National Audit Office (Wales Audit Office from April 2005) about their potential role in validating value for money gains and we will provide further advice on this aspect. Initial and interim discussions with your auditors may be helpful both in developing understanding of the problems and issues that might be faced, and also in feeding into the preparation of the guidance.

10. Milestones

March/April 2005 – outline sector and ASPB value for money proposals submitted to Making the Connections Unit via Assembly sponsors;

May 2005 – proposals discussed, Making the Connections: Action Plan prepared;

End May 2005 – Public Services Board considers Making the Connections: Action Plan, Plan published;

June 2005 - Value for Money plans submitted/copied to Assembly Sponsors.

11. Assembly Support

11.1 The need for specialist support from change agents to help implement certain aspects of the value for money programme is recognised, especially in relation to procurement and transactional services. During 2005, the Welsh Assembly Government will look to build on the success of the Welsh Procurement Initiative, through the establishment of Value Wales, a Welsh procurement and support services office. In doing this it will look to involve partners to ensure that it provides appropriate support for value for money programmes.

11.2 Further support is available through Public Services Management Wales, which will assist the public service in developing the skills and expertise of staff; and the Welsh Local Government Association's, Excellence Wales.

12. Contact points

Making the Connections Team (making the most of our resources)
Contact: Richard Clarke
Tel: 029 20 823301
e-mail: richard.clarke@wales.gsi.gov.uk

Welsh Procurement Initiative Team
Contact: Paul Skellon
Tel: 01792 313060
e-mail: paul.skellon@wales.gsi.gov.uk

Public Service Management Wales
Temp. Contact: Mary Hughes
Tel: 029 20 645418
e-mail: psmw@wales.gsi.gov.uk

For contacts in the Higher & post-16 education & training (excluding higher education) sectors and the National Health Service, please see paragraph 6.10 above.

Making the Connections: Making the Most of our Resources **Appendix 1**

Assembly Expenditure* for 2005-2006 Split by Major Expenditure Group (Table based on Draft Budget ratified 20/10/04)

Making the Connections identified the achievement of value for money gains as one of the four principles for better public services. The others being: citizens at the centre; equality & social justice; and, working together as the Welsh Public Service.

This appendix provides guidance on how the £600 million value for money improvements identified in Making the Connections relates to Ministerial portfolio areas and the various public service sectors in Wales.

In considering the appendix the following points need to be considered:

i) The aim of targeting value for money improvements is to free up resources for the front line & drive further improvements in public services. Bodies will retain the resources they realise & use them by re-directing them to help improve the services they deliver.

ii) The indicative value for money figures have been arrived at from an analysis of Assembly budgets at this time. Revisions to future years' budgets will therefore have a consequential knock on effect to the value for money figures.

iii) To achieve the £600 million value for money improvements identified in Making the Connections, all Welsh Assembly Government funded public bodies should proceed on the basis that they will need to identify at least 1 per cent recurrent value for money gains in each of the five years starting in 2005-2006.

MEG	Total	Pro rata 2010 target by MEG	Pro rata 2008 target by MEG	Five year annual equivalent by MEG
Health & Social Services (1)	4,725	236	118	47
Local Government (2)	4,478	224	112	45
Social Justice & Regeneration (1)	202	10	5	2
Environment, Planning & Countryside(1)	221	11	6	2
Economic Development & Transport(1)	942	47	24	9
Education & Lifelong Learning(1)	1,074	54	27	11
Culture, Welsh Language & Sport	117	6	3	1
Central Administration (3)	237	12	6	2
		600	**300**	**120**

(1) MEG expenditure adjusted to take account of Local Government expenditure - see (2)
(2) Includes funding for Local Government that is included in other MEGS
(Health & Social Services: £180; Social Justice & Regeneration: £247; Environment, Planning & Countryside: £70; Economic Development & Transport £205; Education & LL Learning: £259; Other Assembly Services: £7
(3) Includes the running costs of the 3 merged ASPBs: WDA; WTB and ELWa

*Assembly's Departmental Expenditure Limit

Appendix 2

Value for Money Gains: Risk Assessment and Management

1. The National Audit Office, in a recent report (*Managing Risks to Improve Public Services*, 2004), reported that public sector bodies are "under pressure to make more efficient use of resources which will require them to embrace even more the principles of good resource management and budgeting, while at the same time requiring in some cases a radical rethinking of how services are delivered."

2. Key to success in developing value for money improvements is the need to exploit new opportunities, but in doing so there is a need to identify corresponding risks and to put in place arrangements for managing those risks.

3. If public sector bodies can identify clearly the risks they run, then they have the scope potentially to exploit opportunities to the full. Taking well managed risks (often in partnership with others in the delivery network) can lead to new or better services that in turn create scope for reduced costs.

4. Risk management in its simplest form is about limiting the chance of something going wrong and therefore maximising the opportunity of achieving objectives. It is not about being risk averse, but rather being able to make well-judged decisions based on a full understanding of the consequences. Risk management is simply part of good management.

5. When considering proposals for value for money improvements the following points should be considered:

- are aims and objectives clear?
- what events & actions might prevent proposals from succeeding?
- what is the likelihood of things going wrong?
- What would be the consequences of things going wrong?
- what should be done to manage and reduce the risk?

6. Consideration of the questions above should lead to risk management processes being developed. Risk assessments from these processes should be included in value for money plans, together with brief details of the actions planned to manage such risks.

7. Further information, advice and guidance on risk management is available at: www.risk-support.gov.uk

Alternatively, contact:

Contact: Martin Veale
Tel: 029 20 823208
e-mail: martin.veale@wales.gsi.gov

APPENDIX 3

WELSH PUBLIC SECTOR

Value Measurement System

Acknowledgements:

The Welsh Procurement Initiative would like to express thanks to the Heriot-Watt University and Chartered Institute of Purchasing & Supply for the utilisation of their Value Measurement System for the purpose of producing this document.

BACKGROUND

1. The Welsh Assembly Government's publication "Making the Connections" emphasises the need to make the most of public sector resources in order to deliver better public services in Wales. A Framework and Guidance Note has been published that provides details of the Welsh Assembly Government's approach to securing value for money improvements and the arrangements for defining, securing, monitoring and validating the gains. The Framework strongly advises the use of the Value Measurement System for procurement set out here.

2. The Welsh Assembly Government promotes the integration of the principles of Sustainable Development into the Procurement process. Published guidance including 'Food for Thought' and 'Buy Now, Don't Pay Later' relating to Sustainable Development is available at www.Buy4Wales.co.uk and can be found under the 'Useful Resources' section.

3. The review of procurement carried out in 2000 that resulted in the publication of *'Better Value Wales*' identified that no standard procurement performance measurement system existed across the public sector in Wales. This resulted in the recommendation that the National Assembly for Wales, through the Welsh Procurement Initiative, establish an agreed methodology for measuring and reporting value for money savings and added value benefits.

4. The review identified a number of different performance measurement systems currently in place. Whilst these different systems adequately record the savings achievements of respective procurement departments, a standardised approach is desirable to ensure a common understanding and consistent approach throughout Wales.

5. A key task for the Welsh Procurement Initiative Team has been to establish a common definition of value for money savings, together with an agreed methodology for measuring and reporting value for money savings and added value benefits that is tangible, auditable and verifiable.

6. Procurement professionals are always expected to seek best value for money. This however is not necessarily achieved through cost reduction alone. Organisations are increasingly requiring demonstration of the value added by procurement. As a guiding principle, savings achieved and claimed have to be justifiable, attributable to procurement involvement and only recorded once or during the life of a particular contract.

What is a saving?

7. 'Savings' is an emotive subject. This can result from differences in interpretation, whether monies are capital or revenue, whether savings are one-off or recurring, and even whose savings they are.

8. It is evident that there are differing definitions of what constitutes a saving. It is proposed to adopt the definition as specified by The Chartered Institute of Purchasing & Supply:

"A benefit that increases or sustains the organisation's financial standing. Outcomes are only savings if they are realised and are quantifiable, for instance an outcome that leads to greater market share, increased profitability, improved cash-flow, reductions in organisational costs or something that the organisation's customer perceives as a real value proposition would be a saving".

The System

9. This document is a simplified version of the original system of value measurement recording.

10. Other performance measurement systems utilised by some within the public sector have been reviewed and considered. Following extensive consultation, the following system is recommended, which is based on the '*Value Measurement Guidance Notes*' as produced by Heriot-Watt University in conjunction with the Chartered Institute of Purchasing & Supply.

11. It is acknowledged that Buyers can achieve value for money savings through many potential categories of savings measurement, including;

- cost reduction
- price avoidance
- risk avoidance
- opportunity costs
- inclusion of additional services
- added value

12. For the purpose of this measurement system however, it is proposed that, for simplicity, only three categories be listed. The categories are:

- cost reduction
- cost avoidance
- process improvement/added value

VALUE MEASUREMENT GUIDANCE NOTES

1. Introduction

1.1 The primary role of Procurement is to contribute to the financial well-being of the organisation by obtaining value for money through active Procurement involvement in all areas of the supply chain. The aim for the purchaser will be to minimise costs and maximise value added benefits for the end users.

2. Objectives

2.1 This guidance document identifies areas of potential savings for evaluation and recording, in a standardised format, for future intra and inter sector analysis.

2.2 A savings checklist and a simple evaluation pro-forma have been developed for recording savings and no attempt has been made to devise complex value measurement formulae. A practical, common sense approach has been used.

2.3 The recording of savings and value added benefits will allow purchasers to assess their performance, ensuring that they are adding value to the processes they are involved in and, hopefully, also assist in raising the profile of the Procurement function.

3. Checklist and Savings Categories

3.1 The checklist identifies 3 broad categories of savings:

A Reduction in Price

B Price Avoidance

C Added Value/Process Changes/Savings Against Budget

3.2 There will inevitably be duplication as the boundaries of each category cannot be tightly defined, however analysis by product or service will identify opportunities for potential savings in one or more categories.

No saving should be recorded more than once.

3.3 The checklist for each of the categories below is not intended to be exhaustive, but should be used as a basis for measuring savings and added value benefits. The examples set out in the guidance notes are intended to ensure that two or more purchasers, recording savings for the same item, arrive at the same answer. There will often be occasions when it will be

difficult to quantify the value added by the purchaser, but an attempt should be made to assess the positive impact of Procurement involvement. This will not be a precise calculation and will be recorded as a perceived benefit of saving. There will be occasions when calculation is not possible due to lack of information or the onerous task of compiling such information. In such cases, the purchaser should attempt to estimate the value of an improvement resulting from their efforts by recording details in the comment box. The guidance notes attempt to address any questions that may arise, but again this will not be exhaustive and can be added to.

4. Inflation

4.1 The effects of price inflation/deflation should be taken into account when calculating value for money gains in order to compare prices on a like for like basis. For example, in the case of some IT commodities prices are by and large falling year-on-year whereas the opposite is true for many other commodities. Where there is an appropriate index for the particular procurement this should be used, otherwise the HM Treasury GDP deflator should be used.

5. Value Added Tax (VAT)

5.1 Where applicable, VAT should be considered in all value for money calculations when reporting savings and shown separately.

GUIDANCE FOR COMPLETING REPORTS

The checklist for each category is provided below and sets out examples of the type of savings that purchasers may have made. It also attempts to demonstrate how savings may be calculated and recorded. This is not intended to be a time consuming activity and it is appreciated that some saving/value added figures may not be recorded due to the onerous task of collating information and establishing an appropriate value. In such cases the comments box should be used. The savings and classification 'prompt' points for each category appear in Appendix A of this guidance note.

Savings and Classification Codes

This simple coding system has been devised to assist in identifying savings within each category. This will simplify any future data collection for analysis. It will also provide a common measurement identifier for future discussion on the relevance or development of a specific measurement.

A - Reduction in Price (Cash Releasing Savings)
i.e. price/cost savings, prompt/early payment discounts.

The following examples have been given to demonstrate the meaning of reduction in price:

1. The amount by which the last price paid for the same item is reduced thus releasing cash from the relative budget.

2. Price will be the initial price given in tenders, quotations, etc. Price savings may be achieved through clarification from suppliers resulting in price reduction from the original price quoted/tendered. Savings should not be claimed when comparing the lowest price quoted/tendered to the highest submitted by competing suppliers, nor should they be claimed where a supplier has made an error or misunderstood the original request. As the buying decision is made up of many factors, i.e. quality, compatibility, etc., only the final price agreed from the selected suppliers can be considered as the saving, e.g. initial quoted/tendered price of £2,000 results in a negotiated reduction to £1,500 resulting in a price saving of £500 (25%)

3. Savings should be recorded for each year of the contract life based on the initial price. The base line for value measurement for any re-tendered contract is the commencement date of the new contract term for the first year. Subsequent savings for years 2, 3, etc., should be classified under cost avoidance (base-line changes downwards from year 1 and becomes new base-line). Purchasers should not record savings against the highest and lowest tender or any other tender/quote from competing suppliers as the buying decision is made up of many factors and other submissions may not have satisfied all the criteria and therefore this would not necessarily have been an equitable comparison.

4. Where there is no fixed price, savings will be recorded as estimated savings based on any reductions/discounts negotiated and can be recorded as actual on completion of a contract year. E.g. with an estimated expenditure of £23,000 per annum, you negotiate a reduction from starting prices (i.e. "Trade" prices) of 15%, which equates to a saving of £3,450. The actual year-end spend is £25,000 resulting in a total saving of £3,750.

5. Savings should not be claimed where Trade discounts are automatically given, irrespective of who orders within the organisation, e.g. Stationery and Building suppliers offer a minimum discount to the public sector with no prior negotiation. Where additional discounts over and above the standard are negotiated then the difference can be claimed.

Appendix A provides a detailed breakdown of options that can be applied to savings in this category.

B - Cost Avoidance

1. The amount by which a supplier's price increase request is reduced aiming towards a zero increase. E.g. a supplier requests a price increase of 5% which is challenged by the buyer. 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 saving.

2. Where a price increase to be applied from a specific date has been agreed following discussions/negotiations with the supplier, and the date has been extended for a period of time, the delay in implementing the price increase, thus avoiding a cost implication should be calculated and recorded as a saving.

Appendix B provides a detailed breakdown of options that can be applied to savings in this category.

C - Added Value / Process Changes

1. Added Value e.g:

- services which were previously direct costs involved to the organisation that have now been included as part of the contract;
- savings may be identified over the life cycle of equipment or goods when compared to lease/hire versus buy;
- use of standard documentation which is a saving of time

2. Process Changes e.g:

- perceived benefits of changes to procedures and working practices by the introduction of consolidated invoicing and purchasing cards which reduces staff time;
- moving from a single bulk delivery to a desk top delivery service.

3. Savings Against Budget e.g:

- Procurement influence that result in savings against budget enabling additional projects to commence earlier and/or obtain extra features.

APPENDIX A

SAVINGS CLASSIFICATION CODES

Category A – Reduction in Price

- The amount by which the last price paid for the same item is reduced.
- Import Duty Remission/VAT reduction or exemption.
- Difference between initial quote and final price (i.e. through informal/spot buying negotiation and through formal tendering/re-quoting and post tender clarification/negotiation resulting in a reduced price).
- Inclusion of additional items/services - (warranty period/consumables/training etc.).
- Revision of specification - (removing unnecessary services/item, prior & subsequent to quote/tender).
- Volume/Bulk buying discounts or rebates.
- Price Management – (pro-active price management, using awareness of market price trends).
- Early payment discount.
- Alternative product/service/supplier sourced.

APPENDIX B

Category B – Cost Avoidance

- Price increase (linked to relevant indices) that can be avoided through negotiation.
- Where suppliers' proposed price increase has been delayed and/or restricted.
- Awareness of the market place and conditions that prevail price increases.
- Supplier sponsorship (donation of funds) and income generation initiatives.

Appendix C

Category C – Added Value

- Provision of special design drawings within initial proposal.
- Saving for including additional services not usually part of the Contract (i.e. removal of packaging, site cleaning, acceptance testing, commissioning etc.).
- Use of standard documentation/systems and purchasing advice - (i.e. time saving).
- Modification/Re-specification prior to tendering – removing unnecessary services/items.
- Lease/Hire/Financing alternatives sought – (saving achieved through product life cycle costs.)
- Alternative solution that resulted in no purchase being made –(i.e. reciprocity, sponsorship).
- Inclusion of additional items/services – (free goods, warranty period, consumables, training etc.)

Process Changes

- Setting up call-off agreements/contracts where fragmented purchasing is currently taking place.
- Simplify procedures for low value orders (introduction of consolidated invoicing and procurement cards).
- Introduction of electronic trading.
- Improved service levels due to resource re-structuring- (use of central contracts, single source, and distribution methods).
- Introducing and encouraging new suppliers, thereby increasing competition in the market place.

Savings Against Budget

- Enabling additional projects to commence earlier and/or obtain additional equipment/supplies/features as a result of procurement influence.

SAVINGS MEAUREMENT REPORT – 1 Year + Contracts

Project/Contract:

User Department:
User Contact:

Purchasing Contact:

Contract Period:
Value p.a.:
Total Value:

No. Years:
Estimate/Actual*
Estimate/Actual*

** Delete as appropriate*

Enter appropriate Savings Category as detailed in supporting guidance note

Saving Category	Initial Costs	Final Costs	% Saving	Year 1 Saving	Year 2 Saving	Year 3 Saving	Year 4 + Saving	Total Saving
			Totals					

Overall Saving:	Contract Total	£ Estimate	£ Actual
Cost Reduction	£	£	£
Cost Avoidance	£	£	£
Process Improvement	£	£	£

Explanation of how saving was calculated and detail of any other VFM Purchasing achieved and any other comments:

Completed by: **Date:**

Department/Section:

SAVINGS MEASUREMENT REPORT SUMMARY

Project/Contract:

User Department:	**Purchasing Contact:**
User Contact:	

Contract Period:	**No. Years:**
Value p.a.:	**Estimate/Actual***
Total Value:	**Estimate/Actual***

** Delete as appropriate*

Enter appropriate Savings Category as detailed in supporting guidance note

Saving Category	Initial Costs	Final Costs	% Saving	Year 1 Saving	Year 2 Saving	Year 3 Saving	Year 4 + Saving	Total Saving
			Totals					

Overall Saving:	**Contract Total**	**£ Estimate**	**£ Actual**
Cost Reduction	£	£	£
Cost Avoidance	£	£	£
Process Improvement	£	£	£

Explanation of how saving was calculated and detail of any other VFM Purchasing achieved and any other comments:

Completed by: **Date:**

Department/Section:

SAVINGS MEASUREMENT REPORT - Example 1

Project/Contract: Supply of Fruit and Vegetables

User Department: Catering and Residences **Purchasing Contact:** Pauline Pineapple
User Contact: PSS

Contract Period: Jun '01- May '03 or 2005 **No. Years:** 2 (+2)
Value p.a.: £100,000 **Estimate***
Total Value: max. £400,000 **Estimate***

**** Delete as appropriate***

Enter appropriate Savings Category as detailed in supporting guidance note

Saving Category	Initial Costs	Final Costs	% Saving	Year 1 Saving	Year 2 Saving	Year 3 Saving	Year 4 + Saving	Total Saving
A	£100,000	£95,000	5%	£5,000	£5,000	£5,000	£5,000	£20,000
A	£95,000	£92,150	3%	£2,850	£2,850	£2,850	£2,850	£11,400
			Totals	£7,850	£7,850	£7,850	£7,850	£31,400

Overall Saving:	Total	£ Estimate	£ Actual
Cost Reduction	£31,400	£31,400	£
Cost Avoidance	£	£	£
Process Improvement	£	£	£

Explanation of how saving was calculated and detail of any other VFM Purchasing achieved and any other comments:

Tender price using estimated quantities = contract value of £100,000. PTN achieves a 5% discount from these prices with a further 3% for early payment terms of 14 days from date of invoice.

Completed by: **Pauline Pineapple** Date: **10 August 2001**

Department/Section: PSS

SAVINGS MEASUREMENT REPORT - Example 2

Project/Contract: Office Furniture Installation

User Department:	Finance	**Purchasing Contact:**	Mr P Purchase
User Contact:	Mr Moneybags		
Contract Period:	January 2004 only	**No. Years:**	one - off project
Value p.a.:	£60,000	**/Actual***	
Total Value:	£60,000	**/Actual***	

** Delete as appropriate*

Enter appropriate Savings Category as detailed in supporting guidance note

Saving Category	Initial Costs	Final Costs	% Saving	Year 1 Saving	Year 2 Saving	Year 3 Saving	Year 4 + Saving	Total Saving
B	£0	£0		£400	£0	£0	£0	£400
			Totals	£400				£400

Overall Saving:	Total	£ Estimate	£ Actual
Cost Reduction	£	£	£
Cost Avoidance	£400	£400	£400
Process Improvement	£	£	£

Explanation of how saving was calculated and detail of any other VFM Purchasing achieved and any other comments:

Cost of Mr P Purchase's time to produce a detailed configuration and layout plan calculated @ 8 hours x £50 per hour = saving of £400.

Completed by: Mr P Purchase **Date:** 14 February 2004

Department/Section: PSS

SAVINGS MEASUREMENT REPORT - Example 3

Project/Contract: Purchase of Laboratory Equipment

User Department:	Mechanical & Chemical Engineering	**Purchasing Contact:**	Ms R E Cycling
User Contact:	Dr Deadlygas		
Contract Period:	December 2003	**No. Years:**	one-off only
Value p.a.:	£20,000	**Estimate /Actual***	
Total Value:	£2,000		

**** Delete as appropriate***

Enter appropriate Savings Category as detailed in supporting guidance note

Saving Category	Initial Costs	Final Costs	% Saving	Year 1 Saving	Year 2 Saving	Year 3 Saving	Year 4 + Saving	Total Saving
B	£20,000	£2,000	80%	£18,000				£18,000
			Totals	£18,000				£18,000

Overall Saving:	Total	£ Estimate	£ Actual
Cost Reduction	£	£	£
Cost Avoidance	£18,000	£	£18,000
Process Improvement	£	£	£

Explanation of how saving was calculated and detail of any other VFM Purchasing achieved and any other comments:

Usable equipment was taken from another department and upgraded to meet the needs of the new users at the total cost of £2,000. Outright purchase of new equipment would have been £20,000.

Completed by: Ms R E Cycling **Date:** 24 December 2003

Department/Section: PSS

SAVINGS MEASUREMENT REPORT - Example 4

Project/Contract: Computer Hardware and Software Installation

User Department:	Organisation Wide	**Purchasing Contact:**	Donna T Wright
User Contact:	various		
Contract Period:	Oct '04 - Sept '05	**No. Years:**	One - off
Value p.a.:	£300,000	**Actual ***	
Total Value:	£300,000	**Actual ***	

**** Delete as appropriate***

Enter appropriate Savings Category as detailed in supporting guidance note

Saving Category	Initial Costs	Final Costs	% Saving	Year 1 Saving	Year 2 Saving	Year 3 Saving	Year 4 + Saving	Total Saving
C	£300,000	£300,000	n/a	£1,730				£1,730
C	£300,000	£300,000	n/a	£1,038				£1,038
			Totals	£2,768				£2,768

Overall Saving:	**Total**	**£ Estimate**	**£ Actual**
Cost Reduction	£	£	£
Cost Avoidance	£	£	£
Process Improvement	£	£	£

Explanation of how saving was calculated and detail of any other VFM Purchasing achieved and any other comments:

50% payment requested on order with lead-time of 4 weeks with other 50% payment requested on delivery. Installation takes a further 6 weeks.

Negotiated no payment in advance, with a period of 6 weeks before acceptance. Position improved by 10 weeks for 1st 50% and 6 weeks for remainder.
Calculation: 50% = £150,000 at 6% = £9,000 pa divided by 52 wks x 10 weeks = £1,730.
£9,000 pa divided by 52 wks x 6 wks = £1,038

Completed by: Donna T Wright **Date:** 1 December 2004

Department/Section: PSS

SAVINGS RECORD FORM 200 / 200

Month: _____ **Year:** _____ **Name:** _____ **Department:** _____

				C/F										
						Department / Division Actual Savings								
Supplier	Produce /Service	Savings Code	Initial Cost	Final Cost	Savings (£) %	Dept A	Dept B	Dept C	Dept D	Dept E	Dept F	Dept G	Dept H	C/F &Comment
														O/NO:
														O/NO:
														O/NO:
														O/NO:
														O/NO:
														O/NO:
														O/NO:
														O/NO:
Totals (£)														