Higher Education Procurement Association

UK Universities Purchasing Consortia

Procurement Benefits Reporting Guidance 2016/17 Onwards

January 2017

Contents

Section 1 – Background & Introduction

This document updates the UK University Purchasing Consortia (UKUPC) Benefits Reporting Methodology of 2014 and after consultation and dialogue, also forms the 2016 Higher Education Procurement Association (HEPA) Benefits Reporting Methodology. It covers reporting of spend from the beginning of the 2016/17 academic year.

This document was developed to enable a single methodology to be utilised by both University Purchasing Consortia (UPC) and Higher Education institutions across the UK which could enable consistent reporting to be undertaken within HEIs, across all UK level institutions, and also provide the key source data for reporting of spend into each nations report tools.

Accurate consistent reporting of savings will be increasingly beneficial across the HE sector as it seeks to demonstrate the clear value that is being obtained from professional procurement activity. The basis of this methodology was the UK HE sector's EMM methodology which then formed the basis for a cross (all publicly funded sectors) sector benefits reporting methodology in Scotland, it has been robustly debated and thoroughly tried and tested during its development and further revised through wider UK HE consultation through HEPA (on behalf of institutions) in 2016 to form this fully up to date guidance.

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 3 of this document.

The calculation of benefits for those obtained through purely local procurement activities are the responsibility of leaders of institutional procurement teams. The calculation of benefits from the use of collaborative agreements is generally the responsibility of the lead University Purchasing Consortium (UPC) and members of the National Working Parties (NWP). Clarity on who reports what aspect of benefit into national reporting tools will be provided in guidance materials for these tools.

Those involved should 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. It is recommended that savings data and relevant calculations are stored in a central repository within each institution. The defined benefits levels for collaborative agreements should be recorded by the lead UPC in the shared Hunter tool to enable the automatic calculation of savings for all UKUPC members utilising the agreements. These savings should be validated with the UPC member organisations based on the relevant process that is in place within each region.

The process for incorporation of the relevant benefits data into each nation's reporting tools (EMM etc.), will be set out in the user guidance for each reporting tool. A conversion from the codes previously used for EMM reporting is contained in Annex 1.

This document shall be reviewed by the HEPA Board, or an empowered subgroup of it, every circa 2 years to ensure that it still takes account of the relevant benefits reporting needs of the sector and any other reporting needs from changes in regulations.

Section 2 – Reporting

How to report savings

Ideally benefits at both BT1 and BT2 levels should be reported for all agreements. The UPCs should ensure that collaborative savings are reported in good time to allow annual reporting of savings to be made by institutions.

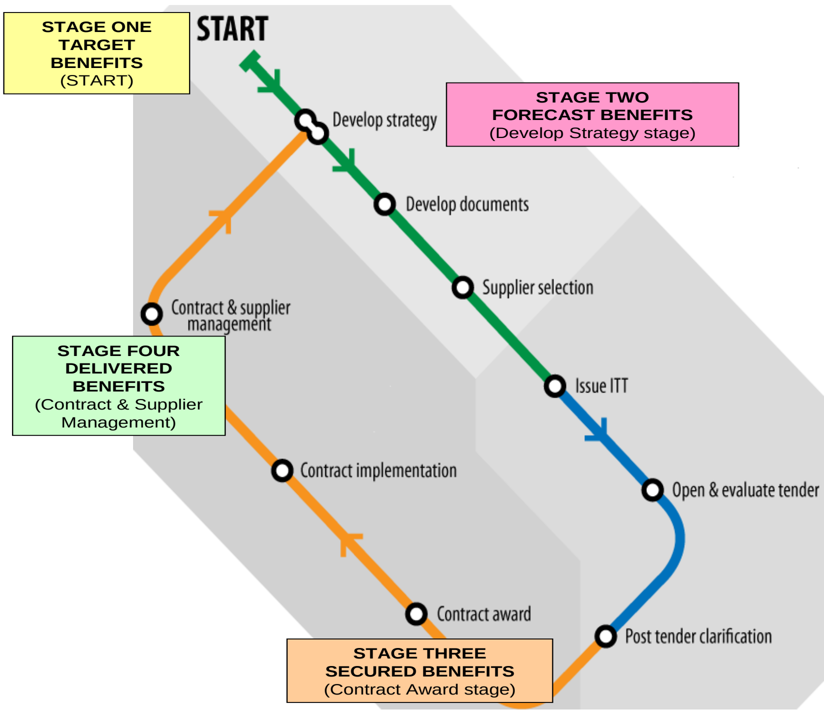
Benefits Tracking in Procurement

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.



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 producing member benefit statements.

A more detailed breakdown of guidance on the reporting of each of these savings types is contained in section 4.

Savings / Benefit Type (BT)	**Reportable as:**
BT1 - Direct Price Based Savings	Cash
BT2 - Price Versus Market Savings	Non-Cash
BT3 - Process Savings from Use of Collaborative Arrangements	Non-Cash
BT4 - Introduction of Electronic Trading – Purchase to Pay P2P process	Non-Cash
BT5 - Introduction of Electronic Tendering – Electronic Issue, Receipt and/or Adjudication of Tenders (Organisation's own tendering activity)	Either Cash or Non-Cash depending on benefits realised.
BT6 - Demand Management	Cash
BT7 - Active Price management	Cash
BT8 - Make v Buy / Outsourcing	Either Cash or Non-Cash depending on benefits realised.
BT9 - Cost Removal	Cash
BT10 - Added Value	Either Cash or Non-Cash depending on benefits realised.
BT11 - Risk Reduction	Non-Cash
BT12 - Payment / Title Terms Based Savings	Cash
BT13 - Process Re-Engineering	Either Cash or Non-Cash depending on benefits realised.
BT14 – Sustainability Based Benefits	Will normally be described in narrative

Section 4 - Benefits Reporting – Detailed Guidance on Reporting of Savings / Benefits

<table>
<tr><th>Benefit Type (BT)</th><th>Reportable as:</th></tr>
<tr><td><u>BT1 - Direct Price Based Savings</u>

The baseline for reporting of price based savings (actually delivered) should be whichever is appropriate for a given scenario:

➢ 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 working party 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 less likely to apply to UPC 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.

➢ For major construction projects, alternatively, where detailed, independent cost estimates have been developed by an independent Quantity Surveyor, then these estimates may be used as the base point for reporting the ultimate benefits achieved for this type of procurement.

➢ Where a market is highly volatile, and the real market movement is significant, the NWP 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.</td><td>Cash</td></tr>
<tr><td><u>BT2 - Price Versus Market Savings</u>

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 / UPC 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).

The purpose would be to identify the savings that would be lost if the procurement had not been conducted by the organisation/UPC. The 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 should not normally be used. The baseline pricing for</td><td>Non-Cash</td></tr>
</table>

comparison should be the price that a customer would have been charged had the competitive tender exercise not been conducted by the procurement authority/RC. ***Note that BT2 benefits are an alternative / parallel way of reporting the benefits against the same purchase as BT1, they should never be added together, they are simply a dual reporting method using two different base-line scenarios.***	
<u>BT3 - Process Savings from Use of Collaborative Arrangements</u> 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. The saving should be claimed based on the following methodology: ➢ Claim £3,000 per collaborative agreement, where institutional expenditure is below the level for regulated procurements but above the level defined locally for following a competitive process. To be reported only in the year that it is set up or the year the institution takes up use for the first time an existing framework agreement. ➢ Claim £6,000 per collaborative agreement where annual institutional expenditure is over the level for regulated procurement. To be reported only in the year that it is set up or the year the institution takes up use for the first time an existing framework agreement. 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 relevant institutions before it is applied.	Non-Cash
<u>BT4 - Introduction of Electronic Trading – Purchase to Pay P2P process</u> Research from organisations that have adopted e-procurement processes have estimated that the process efficiency costs are in the region of £26 per transaction compared to a traditional paper-based purchase-to-pay process. Reporting should be based on the <u>additional</u> 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, up to a maximum of 3 years earlier). Where an organisation's systems do not offer a complete electronic purchase to pay system (which is reflected in the £26 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	Non-Cash

Electronic invoice processing	£6
Electronic payment authorisation	£ 3
TOTAL	**£26**

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

<u>Savings levels have been calculated as follows:</u>
Electronic ordering: Based on saving half an hour of manually finding pricing versus being available in catalogue immediately (assuming average 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.

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

Note that where electronic tendering is mandatory either under EU or local jurisdiction legislation for the relevant procurement activity, then no benefits can be claimed / reported.

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 i.e. 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.

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Note: This group of efficiencies should be claimed for each tender managed using the e-tendering system for a maximum of 3 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:

<table>
<tr><td>➢ up to a maximum of £650</td><td>If requirement is advertised electronically in OJEU and / or through a tender portal / other similar solution rather than in local press. The savings reported should be equal to previous actual advertising costs, up to the maximum.</td></tr>
<tr><td>

➢ £400
➢ £600
➢ £800</td><td>If tender documentation is downloaded from a tender portal / other similar solution rather than photocopied, bound, checked and posted out in hard copy

Up to 10 participating suppliers
Between 10 and 19 participating suppliers
Over 20 participating suppliers</td></tr>
<tr><td>➢ £150</td><td>If secure communication with tenderers via tender portal / other similar solution is used for pre-submission correspondence</td></tr>
<tr><td>

➢ £300
➢ £450
➢ £600</td><td>If an e-tendering package used for the secure electronic receipt of tender submissions

Up to 10 participating suppliers
Between 10 and 19 participating suppliers
Over 20 participating suppliers</td></tr>
<tr><td>

➢ £300
➢ £450
➢ £600</td><td>If an e-evaluation package used for the secure electronic evaluation of submissions (assumed 3-5 evaluators)

Up to 10 participating suppliers
Between 10 and 19 participating suppliers
Over 20 participating suppliers</td></tr>
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<td>Cash & Non-Cash</td>
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<u>BT6 - Demand Management</u>

Demand Management is a legitimate and widely-recognised best practice to deliver cashable savings. It is applicable where internal demand, consumption and / or specification 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 is 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.

For any saving to be claimed in this area, it must be demonstrated that:

</td>
<td>Cash</td>
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• The same business requirements and appropriate quality standards are still being met; or • 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. Examples of Demand Management include: • 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. • Reduce consumption of electricity or other resources through technology and / or 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. At a generic level the types of activities that can be carried out are: • 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 The solutions are likely to cover a wide range of activities from quite simple decisions to innovative. In relation to length of time a demand management saving can be claimed this should be restricted to 4 years using the actual spend in the final year as the new baseline for the subsequent period.	
<u>BT7 - Active Price management</u> - 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. 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' Or *Where permitted, where a saving is achieved from post tender negotiation to obtain a lower price than that initially offered through the first round of a bidding / tender process (or other cost factor). The saving should be the difference between the price that would otherwise have been the accepted price from the first round bids / position versus the actual final cost (need not be from the same supplier).*	Either Cash or Non-Cash depending on benefits realised.

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.	Either Cash or Non-Cash depending on benefits realised.
BT9 - Cost Removal - An alternative solution that resulted in no purchase being made (e.g. reciprocity, sponsorship).	Cash
BT10 - Added Value 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 Cash or Non-Cash depending on benefits realised.
BT11 - Risk Reduction - 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. It could also cover benefits achieved from currency hedging etc. This type of efficiency is likely to be a one-off and should not, therefore, be extended over the life of the purchase.	Non-Cash
BT12 - Payment / Title Terms Based Savings – potentially including • Early payment discount • 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 rota • 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 Note 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.	Cash
BT13 - Process Re-Engineering - 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. 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. To calculate non-cash savings, organisations should use the Process Cost per Transaction baseline as a comparator to the new process cost transaction.	Either Cash or Non-Cash depending on benefits realised.

<u>BT14 – Sustainability Based Benefits</u> Sustainability benefits where costs are not normally relevant can be reported but will normally be described in narrative including but not limited to the following areas: • Reduction in waste – packaging and / or further use of residue from processes etc. • Reduction in consumption - use of raw materials (consumables, utilities etc.) • Recycling and/or reuse of products • Enhanced Reputation and/or marketing opportunities • Community Benefits delivery • Social, equality and / or environmental improvements	Will normally be described in narrative

Annex 1 - Conversion from previous EMM definitions

Original EMM Benefit Type		New Type
P1	Difference between 'original price' (as defined in the foregoing) or 'budget price' and 'new price' (from quotation/tender)	BT1
P2	Difference between successful bid and next highest acceptable bid; only if there is no price history, or no other established reference point.	BT1
P3	VAT or Import Duty reduction; linked to price reduction or separate negotiation with Customs & Excise.	BT7
P4	Post-tender negotiation where it is permitted, resulting in a lower price than the original acceptable bid.	BT7
P5	Specification revision resulting in lower costs; only where the original project, or historical budget reflected a higher, more costly, specification.	BT6
P6	Aggregation of demand leading to volume discounts; only where budgets reflect historically different practice that did not attract such discounts.	BT6
P7	Price management; applying awareness of price trends to either achieve net savings, or 'price avoidance' to minimise or eliminate increased costs.	BT7
P8	Early payment discount	BT12
P9	Difference between successful bid and another comparable bid e.g. another public sector consortium agreement	BT2
P10	Not specified	n/a
A1	Provision of special design drawings within initial proposal	BT10
A2	Inclusion of additional services not usually part of the contract (i.e. removal of packaging, site cleaning, acceptance testing, commissioning etc.)	BT10
A3	Use of standard documentation/systems and purchasing advice (i.e. time saving)	BT3
A4	Modification/Re-specification prior to tendering (e.g. removing unnecessary services/items)	BT6
A5	Lease/Hire/Financing alternatives sought (saving achieved through product life cycle costs)	BT12
A6	An alternative solution that resulted in no purchase being made (e.g. reciprocity, sponsorship).	BT9
A7	Other	BT7
A8	Not specified	n/a
R1	Payment with order reduced/deferred, calculated on pro rata basis: [delivery lead time x interest on advance payment]	BT12
R2	Retention of final payment until satisfactory acceptance, calculated on pro rata basis [(installation period + period of non-acceptance) x interest on retention sum]	BT12

R3	Staged payments, calculated on pro rata basis [balance of the contract sum x interest on the remaining period of staged payment, pro rata]	BT12
R4	Title and risk with supplier until final acceptance, based on the value of insurance premiums, security, double handling, off-loading costs, etc.	BT12
R5	Liquidated damages i.e. costs recovered for non-performance etc.	BT11
R6	Reduce risk of losing stage payments should the supplier default on contract	BT11
S1-7	Sustainability Benefits	BT14