



POLICY AND RESOURCES SCRUTINY COMMITTEE – 20TH JANUARY 2009

SUBJECT: VALUE FOR MONEY (VFM) SAVINGS

REPORT BY: DIRECTOR OF CORPORATE SERVICES

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to advise Policy and Resources Scrutiny Committee of the value for money savings achievements made by Procurement Services and the mechanism utilised in order to calculate and record the savings.

2. LINKS TO STRATEGY

- 2.1 Procurement is a discipline, which impacts many of the corporate strategies due to the diverse association with each directorate.
- 2.2 The report links with the aims and objectives of the Authority in terms of:
- Procurement Strategy 2008 - 2012
 - Continuous improvement
 - Standing Orders for Contracts and Financial Regulations

3. BACKGROUND

- 3.1 The Welsh Assembly Government published the 'Making the Connections: Delivering Better Services for Wales' report in October 2004. One of the main aims of the report is to maximise value for money in order to delivery better quality services over the next five years.
- 3.2 The report recommended acquiring better value for money from organisations expenditure. However, this does not mean accepting the lowest price. We should look at added value in relation to cost / quality matrices and whole life costings to secure the widest possible benefits for the Authority.
- 3.3 The assembly government expected all public bodies to review the possible benefits of collaboration wherever it could improve public services and subject to value for money.
- 3.4 The report highlighted the need to achieve efficiencies through the application of the most up to date processes and technologies.

4. TARGETS

- 4.1 As part of a five-year programme of change, a target figure of £600 million of value for money improvements across the entire public sector in Wales. It was anticipated that this should be achieved by 2010 through more efficient ways of working, cost reductions and service improvements.

- 4.2 This is around 5% of the current total investment in public services in Wales. In broad terms, it means every public sector organisation becoming around 1% more efficient year on year and producing 3% value for money savings through procurement during the next five years.
- 4.3 The report encouraged the Authority to adopt a 1% value for money target for each of the next five years. The Authority was expected to deliver at least half the value for money improvements by 2008.
- 4.4 Procurement Services commenced measuring value for money / savings in conjunction with the 'Making the Connections' report and the available 'Value Measurement Systems' in 2004.

5. MEASUREMENT OF TARGETS

- 5.1 Value Wales (formerly The Welsh Procurement Initiative (WPI)) produced a Value Measurement System in conjunction with Heriot-Watt University and the Chartered Institute of Purchasing and Supply. The system has been devised as a common approach to simplify the recording of savings in a way that is practicable and acceptable to all public sector organisations in Wales, as well as being tangible, auditable and verifiable. The systems have been adopted by Procurement Services as the tool to identify savings.
- 5.2 The guiding principles of the measurement systems are that any savings achieved have to be justifiable; attributed to staff's involvement; only recorded once or during the life of a particular contract and most importantly, that they belong to the organization so that they can be re-invested into front line services.
- 5.3 The Value measurement system has been divided into the following 3 categories:

Category A - Reduction In Price / Savings Against Budget

- Difference between initial quote and final price – (through tendering /re-quoting).
- The amount by which the last price paid for the same item is reduced thus releasing cash from the relative budget.
- The amount saved by prompt / early payment discounts.

Category B - Cost Avoidance

- The amount by which a supplier's price increase request is reduced, aiming towards a zero increase.
- Where a price increase to be applied from a specific date has been delayed for an extended time due to discussions / negotiations.

Category C - Added Value / Process changes

- Services which were direct costs to the organization, that have now been included as part of the contract.
- Savings 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.
- Benefits of changes to procedures and working practices by the introduction of consolidated invoicing and purchasing cards, which reduce staff time.
- Moving from a single bulk delivery to a desktop delivery service.
- Procurement influence that result in savings against budget, enabling additional projects to commence earlier, obtain extra funds or funds to be used elsewhere.

6. ACHIEVEMENTS FINANCIAL YEAR 07/08 AND 08/09

- 6.1 Between 1 April 2007 to 31 March 2008, Procurement Services have awarded contracts / projects for a total value of £14,012,227 which have resulted in savings of £1,485,004.00 this equates to a saving of 10.60% (appendix a). * **Please note we are currently verifying the Home to School/College Transport calculation on page two of appendix A.**
- 6.2 Between 1 April 2008 to 30 November 2008 Procurement Services have awarded contracts / projects for a total value of £20,745,802 which have resulted in savings of £1,052,528.01 this equates to a saving of 5.07% (appendix b).
- 6.3 The savings have been calculated using all 3 categories of measurement, with individual contracts / projects allocated the relevant method of measurement.
- 6.4 Within the savings spreadsheet (appendix a & b), Category A has been split into two areas, cost reduction and savings against budget. The savings against budget category illustrates savings recorded for one off procurement processes.

7. FUTURE MEASUREMENT OF EFFICIENCY

- 7.1 Measurement of efficiency can be a challenging task. Some benefits may not be obvious in financial terms, nevertheless they do have a worth and, as such, a financial value should be attributed to that worth and included within our efficiency gains. We will continue to utilise the Value Wales guidance to determine how efficiency savings will be calculated.
- 7.2 Procurement Services is currently evaluating the merit of utilising the Value Wales electronic based Benefits Reporting Module, with the intention of rolling out across the organisation, thus allowing us to capture a true picture of efficiency within the Authority.

8. PERSONNEL IMPLICATIONS

- 8.1 There are no personnel implications.

9. RECOMMENDATIONS

- 9.1 It is recommended that the Policy and Resources Scrutiny Committee note the value for money savings achievements made by Procurement Services and the mechanism utilised in order to calculate and record the savings.
- 9.2 Procurement Services further evaluate the Value Wales electronic based Benefits Reporting Module, with the intention of rolling out across the organisation, thus allowing us to capture a true picture of efficiency within the Authority.
- 9.3 If the electronic based Benefits Reporting Module is feasible then training is provided to all staff that undertakes the procurement function within the organisation.

Author: Ian Evans – Contracts Manager, Procurement Services
Tel: 01443 863157

Consultation: Members of the Corporate Procurement Group
Stacey Rees - Principal Procurement Officer, Procurement Services
David Hatchley - Procurement Officer, Procurement Services