Higher Education Procurement Association

UK Universities Purchasing Consortia

Procurement Benefits Reporting Guidance
Financial Year 2019/20 onwards

March 2019

Contents

Section 1 – Background & Introduction

This document updates the August 2018 version of the Higher Education Procurement Association (HEPA) Benefits Reporting Methodology and brings it in line with the growing scope of activities HE procurement teams are involved in. It includes changes in legislation mandating the use of electronic tendering, The previous version of this document was amended to reflect the changes in reporting requirements in England i.e. removing references to the EMM (Efficiency Measurement Model) and introducing the PVS (Procurement Values Survey)

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 that could enable consistent reporting to be undertaken within HEIs, across all UK level institutions, and provide the key source data for reporting of spend into each nations' report tools.

Accurate consistent reporting of savings is increasingly beneficial across the HE sector as it seeks to demonstrate the clear value that is being obtained from professional procurement activity.

There are several 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. As the influence of procurement in the sector increases, there is a trend towards reporting 'Delivered' savings that have a direct impact on the bottom line.

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 details of this should be outlined in your institutional Consortia Benefits Statement.

Saving and benefits should be calculated on a realistic and prudent basis evidenced with a clear audit trail to support decisions and assumptions. Savings calculated by anyone outside the central procurement function should be validated by procurement team to ensure accuracy. 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.

This document shall be reviewed by the HEPA Board, or an empowered subgroup of it, every circa 3 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

Procurement teams should strive to report benefits for all agreements used. Most commonly, these benefits will be reported under BT1- Direct Price Based Savings or BT2 – Price Versus Market Savings. However, this document sets out a number of potential areas for efficiencies which can be legitimately reported.

The UPCs should ensure that collaborative savings are reported in good time, usually via the Consortia Benefits Statement, to allow annual reporting of savings to be made by institutions.

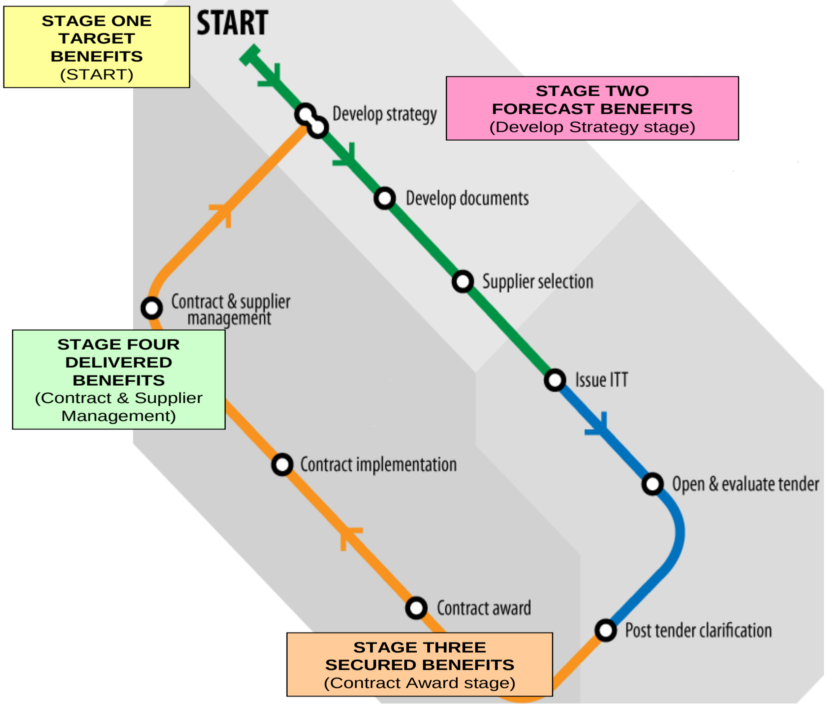
Benefits Tracking in Procurement

In line with the HEPA Procurement Journey, as shown in the diagram below, 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 key to ensure that the contract actually delivers the anticipated savings and benefits. These **Delivered** savings are the most important savings as they are based on actual, bottom line savings that have impacted on an organisation. Recording Delivered savings requires agreement with stakeholders on how the savings will be realised and close monitoring of actual expenditure. It requires procurement teams to be involved in managing contracts post tender award.



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) This is a legal requirement and removed as a reportable benefit	Either Cash or Non-Cash depending on benefits realised.
BT6 - Demand Management. Renamed as Contract Management (Non-Cashable)	Non-Cash
BT7 - Active Price management. Renamed as Contract Management (Cashable)	Cash
BT8 - Make v Buy / Outsourcing	Either Cash or Non-Cash depending on benefits realised.
BT9 - Cost Removal Removed and incorporated in BT10	Cash
BT10 - Added Value and Cost Removal. BT9 incorporated.	Either Cash or Non-Cash depending on benefits realised.
BT11 - Risk Reduction	Non-Cash
BT12 - Payment / Title Terms Based Savings This category is removed as a standalone measure. Savings to be recorded as BT1	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 should be whichever is appropriate for a given scenario:

➢ For contracts that replace 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.

➢ For contracts where no existing agreement is in place – 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 that have been previously bought and therefore will have pre-existing baseline data. It will often apply however to purchases made by end-user organisations. Considered judgement should be applied when using benchmark data. Abnormally high or low bids should be removed. Where a market is highly volatile, and the real market movement is significant, the National Working Party 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.

➢ For construction projects where a prior independent cost estimate such as pre-tender estimate has been developed by a Quantity Surveyor, then this estimate may be used in place of comparative bids as the base point for reporting.

➢ The above savings would be reported as a saving each year during the contract duration.

➢ Please note that BT12 previously used to record early payment discounts has been removed. These savings should be reported under BT1 instead.</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 (either independently assessed or competitively quoted, not based on list pricing) instead of, or in addition to, the savings achieved against previous baseline prices (i.e. the savings described at BT1 above).</td><td>Non-Cash</td></tr>
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The purpose would be to identify the savings that would be lost if the procurement had not been conducted by the organisation/University Purchasing Consortia (UPC) or other contracting authority. The basic principle to be followed however is that simple list pricing/catalogue pricing should not 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/UPC. ***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 annual expenditure is below the level for regulated procurements but above £25,000 total contract value or £6,250 per year for a recurrent purchase (in line with the level defined locally for advertising on Contracts Finder). 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 (currently PCR or PRA thresholds). 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. ➢ 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 from the previous year. This should be reported for a maximum of 3 years from implementation of the system. 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

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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.

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<tr><td>BT5 - Introduction of Electronic Tendering – Electronic Issue, Receipt and/or Adjudication of Tenders (Organisation's own tendering activity) This is a legal requirement and removed as a reportable benefit</td><td></td></tr>
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<u>BT6 - Contract Management (Non-Cashable)</u>

Contract Management is a widely-recognised best practice that aims to maximise value from procurement activity and deliver benefits during the life of the contract. These savings can be either cashable or non-cashable.

BT6 should be used to record non-cashable savings. BT7 is a new measure to record cashable savings from ongoing Contract Management. These changes reflect a growing trend in the sector for procurement departments to record delivered savings as defined in section 2 of this document.

To include risk reduction and reduction of risk from supplier failure It should be noted that a saving is not 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

Examples of Non-cashable Contract Management benefits include:

- Risk reduction
- Reduction in risk of supplier failure
- Productivity/operational effectiveness such as introduction of an improved service with no additional cost
- Performance improvement from managing KPIs

</td><td>Non-cash</td></tr>
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<u>BT7 - Contract Management (Cashable)</u>

As mentioned in BT6 above, to reflect the involvement of a growing number of procurement teams in delivering benefits during the life of a contract, BT 7 has

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been renamed and redefined. This measure should be used where procurement have delivered cash savings from Contract Management activities. For example, where procurement have applied awareness of price trends to either, achieve net savings, or “price avoidance” to minimise or eliminate increased costs.	
<u>BT8 - Make v Buy / Outsourcing</u> - 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.
<u>BT9 - Cost Removal</u> - Removed and integrated with BT10	Cash
<u>BT10 - Added Value and Cost Removal</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. Or, where demand has been challenged and a decision to not purchase has been made or an alternative lower cost solution has been agreed. For example, Procurement involved in a Value Engineering exercise as part of a construction contract which is not covered in BT1. BT10 should also be used to highlight where value for students has been achieved. This will likely be a narrative field.	Either Cash or Non-Cash 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. It could also cover benefits achieved from currency hedging etc. Appropriate title and risk arrangements. 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
<u>BT12 - Payment / Title Terms Based Savings</u> Removed and moved to BT11 (non-cash) and BT1(cash)	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. 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. Not to be duplicated with Contract Management savings BT6 and BT7.	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.) in particular of single-use plastics • Recycling and/or reuse of products • Enhanced Reputation and/or marketing opportunities • Community Benefits delivery • Social, equality and / or environmental improvements • Carbon reduction • Public and Community Engagement • Local Growth and Regeneration	Will normally be described in narrative