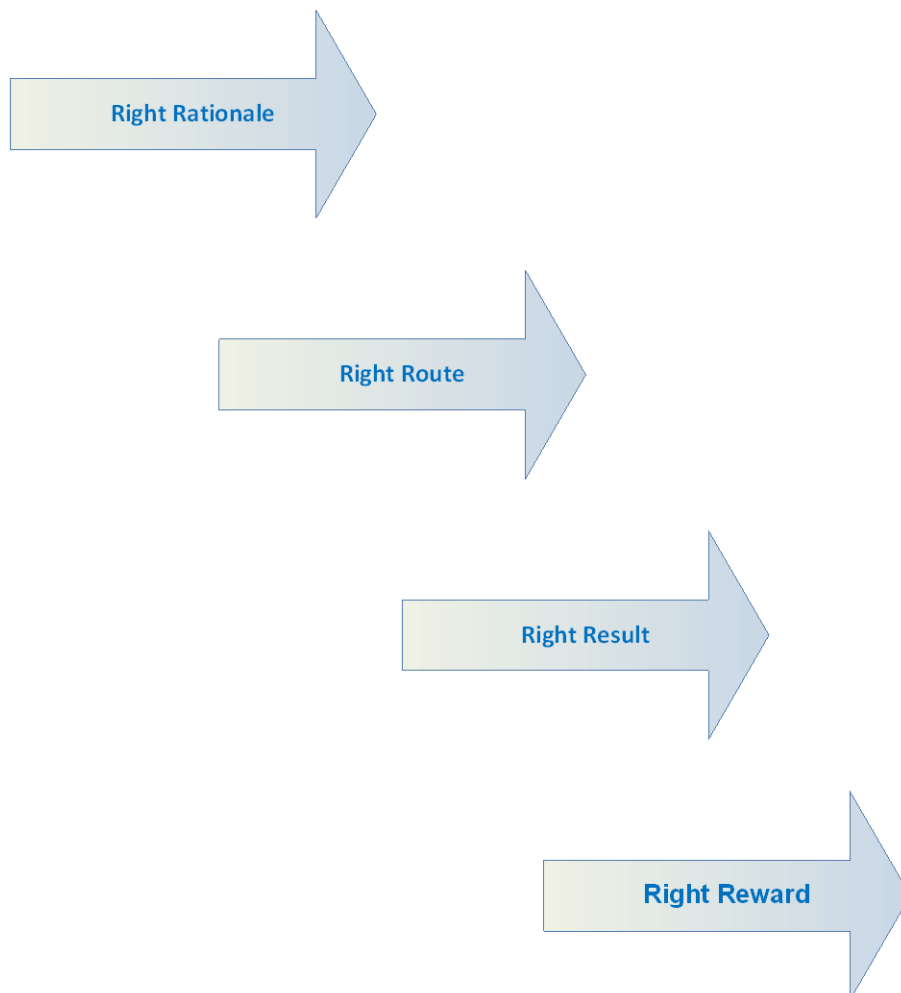


	<p><b>MORAY COUNCIL</b> <b>PROCUREMENT SAVINGS STRATEGY</b> <b>2017</b></p>
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## PROCUREMENT SAVINGS TARGET STRATEGY

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### 1. BACKGROUND

Since the restructure of procurement by the Council in 2010, the procurement team has had a generic savings target included in its annual action plan.

As reflected in the table below it has become increasingly difficult to maintain the level of savings achieved in 2013/14 and there is a downturn in returns on the procurement process. This is due in part to the nature of the recurring requirements being tendered, in some cases for the third time, but also down to the difficult market conditions and the variation of need throughout the organisation.

Table 1

Year	Target £000	Savings achieved (cat 1 & 2 see table 2) £000
2010/11		1.011
2011/12	0.675	1.307
2012/13	1.000	1.738
2013/14	1.200	1.778
2014/15	1.200	1.358
2015/16	1.000	1.293
2016/2017	1.000	1.009

No direct savings target is currently applied to each tender process. A review of the result of the process is carried out by the Lead Officer and Accountancy staff to determine what, if anything, can be taken as a budget saving. This review process is captured in an impact statement which outlines the cash and non-cash benefits to the council and categorises any potential saving (see table 2 below). By recording this information on the contract register the procurement section can report annually on the estimated savings based on the annual

spend anticipated for live contracts. This data is checked by accountancy and compared with the actual spend recording in the Financial Management System.

Table 2

Category	Description	Issues
1	Anticipated cash saving Budget not adjusted	Budget too diverse Budget not identified Historic spend over budget
2	Anticipated cash saving Budget adjusted	Budget adjusting in line with Impact statement
3	No baseline Savings cannot be established	Data not available at commodity level Baseline is historic (infrequent purchase) Contract will be reviewed (annual anniversary) with contracted supplier to establish savings
4	No savings anticipated	Contract has resulted in no savings or indeed an increase
Non cash	Further categorisation of non-cash benefits	

It is proposed that the generic savings target is abandoned in favour of a more detailed and directly targeted approach to procurement savings.

## 2. STRATEGY

In order to consider a more targeted approach different kinds of procurement activity undertaken by the Council must be distinguished from each other. There are five types of procurement requirements identified:

**Potential requirement** – an “as and when” need e.g. heavy vehicles, capital construction projects. These tend to be procured from framework arrangements where contracts are put in place without a known commitment to the supplier. Budgets are subject to fluctuation.

**Combined requirement** – where the overall spend is “bundled” together in an overarching budget (e.g. property repair and maintenance) and individual tender requirements are not subject to a specific budget.

**Known requirement Quantity** – a recurring goods requirement year on year which can be measured by the volume of need e.g. stationery.

**Known requirement Quality** – a recurring service requirement year on year which can be measured by the level of service required e.g. homecare.

**Non-recurring** – a one off purchase of either goods or services with a defined estimated budget e.g. consultant review.

### **SAVINGS STRATEGIES BY TYPE**

It will not be possible to apply the same approach to each of the above type of requirement and so the following strategies have been developed with Accountancy, who will support the determination of target and results. At the start of each procurement project the type of contract and the method of potential savings will be agreed with Lead Officer. At implementation stage the impact statement which will record the final result will also be agreed by Lead Officer, Procurement and Accountancy.

**Potential requirement** – the impact statement for any such framework should identify any savings based on a like for like historical purchase and market research, taking into account the commodity. It is highly unlikely that any budget savings will be realised for this category of procurement.

**Combined requirement** – projects under this heading can be procured by either an existing framework or subject to an individual tender process. A notional baseline (historic level of spend or proportion of bucket budget) for each procurement will be established and savings taken accordingly.

**Known requirement Quantity** – shopping basket comparison to previous spend and volume – budget saving applied to result taking into account unit cost savings and assuming constant volume of demand.

**Known requirement Quality** – typically volumes will vary across time with this category of procurement – budget saving applied to result taking into account unit cost savings and assuming constant volume of demand. Variations in volume will be dealt with by the service, either by adjusting against demand in other services (particularly where these are related) or by reporting budget pressures.

**Non recurring** – estimated budget compared to tender result

It should be noted that although the majority of savings are achieved through price reductions this is not always possible and so other avenues should be explored such as:

- Price stability (no increase through the life of the contract);
- Efficiency of process (electronic order and payment, aggregation of orders);

- Delivery schedules (reducing the number of deliveries);
- Reduction in council staffing resources to administer or manage the contract;
- Other added value (reducing the quality, reducing the service level, community benefits).

These should also be taken in account for all categories of spend.

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### 3. PROCUREMENT PROCESS

For each procurement project, a procurement strategy (PR08) is developed by the service and procurement team to consider options and outline the specification for the requirement. This is a four stage gateway process that will follow the resultant contract through to completion and exit and it is in this document that savings will also be considered. The approach to savings by volume and added value should follow the gateway process.

At stage one a **target** should be set based on the appropriate definition which would challenge the service to attempt to reduce costs. The primary aim would be to achieve true efficiency savings ie no reduction in quality / quantity but a reduced unit cost. If this is not achievable, lead officers will be asked if it would be reasonable to amend the specification to achieve savings in that way.

The agreed savings target would then convert to a **forecast** based on the specification.

Once advertised and awarded the savings become **secured** and noted on the Impact Statement and contract register. Contract spend should be checked at least annually for any increase or decrease in value against estimations and action taken accordingly – (committee report, budget adjustments etc)

At exit a review of the contract performance should be undertaken to measure the **delivered** level of savings to ensure that the results matched initial expectation.

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### 4. 2017 TARGET

The target for all appropriate procurements (Combined, Known Quantity, Known Quality) for 2017 will be **3%**. If, at contract award stage, this is not expected to be achieved, the reasons why should be included in the impact statement and contract award report to Head of Service. It is recognised that this target will not always be achievable, but the challenge process is seen as a valuable tool to contain costs where possible.