

# Procurement-Who Does it Well?

February 26th, 2015; Sutton Place Hotel, Edmonton Alberta

## Overview

Canadian governments (federal, provincial, municipal and agencies) collectively procure billions each year. Efficient and effective procurement is critical to the proper functioning of government operations and to a modern economy.

Which organizations have mastered their procurement processes; balancing efficiency and effectiveness with the necessary controls and oversight? This professional development-session considered this challenge from many perspectives; procurement professionals, public servants (who need to purchase goods and services), the financial manager, system providers, and the taxpayer who ultimately pays for the purchase. This was a joint presentation by FMI and PwC Canada - a global leader in supply chain and procurement.

## Your Hosts

### FMI Edmonton Chapter ([www.fmi.ca/chapters/edmonton](http://www.fmi.ca/chapters/edmonton))

Serving public sector financial officers, administrators and managers with financial responsibilities, the Financial Management Institute of Canada (FMI) provides this forum, offering its members excellent services and programs in all areas of government financial management. One of 14 coast-to-coast chapters, the FMI Edmonton Chapter provides an opportunity for networking and professional exchange within the financial community, and for professional development within a local context.

### PwC Canada ([www.pwc.com/ca/en](http://www.pwc.com/ca/en))

PwC is the world's largest professional services organization. Drawing on the knowledge and skills of more than 180,000 people in 158 countries, PwC builds relationships by providing services based on quality and integrity. PwC provides industry-focused assurance, consulting and tax services for public, private and government clients in all markets. In Canada PwC has more than 5,700 partners and staff, and offices in 25 locations.

PwC's Procurement and Supply Chain expertise is built on our team of industry and functional specialists who bring hands-on experience working across all industries including public sector. PwC supports clients in all aspects of the procurement and supply chain excellence including strategic function expertise, operating model and organization design, talent management, process development and improvement and technology enablement of the procurement and supply chain function.

## *To Our Panelists, Thank You!*

*All of our panelists have volunteered to present their experience, skills and knowledge for this event. The following notes were compiled and edited by the Edmonton FMI Chapter. Although the notes have been reviewed by the respective speakers, any errors are entirely those of the editor.*

# The Program

## Context for this Event

### Government is Big Business

Each month, Canadian Governments (federal, provincial, municipal, et al) spend more than \$110 billion. On a consolidated basis, the province of Alberta purchased over \$3.1 billion in materials and supplies for the fiscal year ending March 2014. Governments need goods and services to provide the services expected within a modern economy. These purchases can range from pencils, sophisticated healthcare equipment, jet fighters and consulting or construction services. Governments are not alone in this challenge; private industry also needs to ask how best to procure goods and services to build pipelines, extract resources and keep our retail customers coming back. Public administration or private sector, the question remains—who does procurement well?

### Alberta Government

Provincial government procurement is accomplished directly through Government of Alberta departments or by agencies, boards and commissions operating within a particular ministry. By way of a case study, the ministry of Health purchased \$4.9 billion while the department of Health's total purchases were \$116 million for the fiscal year ending March 31, 2014 [Health's Annual Report: Schedule 3, pages 63 and 91 respectively]. The lion share of the ministry's procurement activities were accomplished by Alberta Health Services and their own procurement processes. Government departments are authorized to purchase goods under \$10,000 and their services. Service Alberta's Procurement Services purchases goods over \$10,000 on behalf of departments. Alberta Infrastructure and Alberta Transportation procures construction and construction-related services, tenders for property management services, consulting services, and leased space.

### City of Edmonton

The City of Edmonton uses a variety of competitive bidding processes to acquire a wide range of goods, services and construction needed to support the effective operation of the municipality. The city's procurement processes follow best practices for public sector procurement - and are in accordance with the Agreement on Internal Trade, Annex 502. 4 (AIT), and the New West Partnership Trade Agreement (NWPTA). The Alberta Purchasing Connection (APC) is the official online source of City of Edmonton procurement opportunities for all suppliers and contractors: Alberta Purchasing Connection Construction opportunities, are posted on the Edmonton Construction Association's COOLNet: The Edmonton Construction Association.

### *Value to our FMI Members*

*Public servants will leave the presentation with a better awareness of the challenges and common solutions available to improve how procurement is done in public sector organizations. This training session will be of interest to procurement professionals, financial managers and anyone who needs to buy goods or services.*

### *Did You Know (DYK)?*

*Look for some additional material and context in the 'Did You Know' boxes. This content is provided to you by the Edmonton FMI Chapter to complement the material and notes from the panelists.*

## Michelle Gronning, PwC



# Michelle

Gronning, Director, PwC Operations Consulting and Western Canada Procurement and Supply Chain Leader. Michelle is a

Director in PwC's National Procurement and Supply Chain practice and is based out of the Edmonton office. She has over 17 years of broad-ranging experience across both industry and consulting with a specialized focus on supporting organizations transform their procurement and supply chain functions. She has led multiple large scale procurement and supply chain transformation programs and has acted as the chair of senior executive steering teams and councils overseeing the programs. Her procurement and supply chain efficiency as well as effectiveness reviews and program implementations cover all aspects required for effective transformation – from

strategy to process and technology.

To date Michelle's programs have identified and delivered on savings in excess of \$1B in tangible bottom line results. In addition to the cost savings, Michelle drives the critical culture change required to not only deliver the benefits but sustain results. Michelle supports clients in all industries and has a number of public sector clients in Western Canada.

## Crib Notes for the Future of Procurement

PwC is a world leader in procurement and supply chain management and as part of this role has a chance to see both leading practice and opportunities for improvement across procurement and supply chain functions in public and private sector. Highlights of this knowledge include the following observations from PwC's world-wide practice.

The procurement and supply chain functions of all organizations continue to evolve from a tactically-focused cost reduction function to a strategic enabling process. They do so by looking across all dimensions of strategy, process and infrastructure as the following diagram illustrates.



Areas of particular strategic focus are procurement excellence, strategic spend management, complex procurement and post-contract award management. Procurement excellence is focused on maximizing the efficiency and effectiveness of procurement operations while minimizing risk. Strategic spend management is about defining requirements through the eye of the business stakeholder and then maximizing value from the supply markets and suppliers. Complex procurement continues to be of increasing concern as technology rapidly advances and the function needs to support the procurement of large-scale, business critical services, systems and increasingly complex capital contracts. And lastly, on an ongoing basis, managing supplier performance and risk while maximizing the value delivered over the life of the contract is a key focus through post contract award management.

Today, across Canada, all levels of public sector are reviewing their procurement functions to determine how they can better support delivering transparent and responsible procurement while increasing the strategic nature of the function.

Key guiding principles for these public sector bodies are securing better value for taxpayer dollars, improving accountability and transparency, adopting leading practices and enabling them with the requisite technology to sustain value delivered. At the federal and provincial level the common challenge continues to be that a government-wide, cross ministry, strategic approach to Procurement does not exist, thereby inhibiting collaboration and strategic demand planning and ultimately impacting overall value delivery.

Another common issue faced by all public sector organizations is the effective introduction of leading practice procurement techniques, such as category management principles or complex procurement techniques, where skill sets are not available to enable these techniques while maintaining compliance with requisite legislation. All of these issues are underpinned by a growing need to mature the technology supporting strategic procurement and supply chain functions and in doing so having a solid business case that demonstrates a tangible return on investment.

## Presentation—Michelle

Michelle used compare and contrast to introduce and speak to the concepts of procurement. The examples used were from outside of Canada; the first such comparison was the University of California and the Government of the Cayman Islands.

The University of California's P200 Strategic Procurement Program is targeting to deliver \$200M in savings by the year 2017; as of 2014, savings to date have been \$128M. Structurally, there are 10 campuses in the State of California that have pooled their efforts to best use limited budget. The success of this effort is the result of all of the value drivers coming together:

- **People**, established a centre of excellence. Within this centre a lead for various initiatives and projects and then representatives from all 10 campuses working with the lead.
- **Process**, applied leading practice techniques (more on these techniques later in this presentation).
- **Technology**, eProcurement and in particular Sciquest ([www.sciquest.com](http://www.sciquest.com)) to perform analysis to identify where savings and value would arise.

### University of California P200 Strategic Procurement Program

#### Overview

Development of a collaborative system-wide approach to building a sustainable and integrated procurement framework. Using competitive contracts, innovative supply chain strategies and robust reporting to drive savings and reduce sub-optimal purchasing contracts and practices.

#### Savings

**\$200M by 2017**

#### Keys to Success

- Procurement Operating Model including redesign and incorporation of new technologies, practices and procedures
- Spend Analytics to provide campus and system wide access to consistent and actionable procurement information
- Customer focused benefits realization with continuous improvement, responsiveness to market changes and supplier management

(<http://workingsmarter.universityofcalifornia.edu/projects/p200-strategic-procurement/overview>)

## Presentation—Michelle, continued

In contrast was the relatively complex procurement (goods, services and ongoing maintenance) of the Government of the Grand Cayman's purchase of Closed Circuit Television System (CCTV, audit report available: [www.gov.ky](http://www.gov.ky)). To start, the wrong tools and methods were used in this procurement activity with the result of significant cost escalations of 75% over the original estimate. Key failures were listed as:

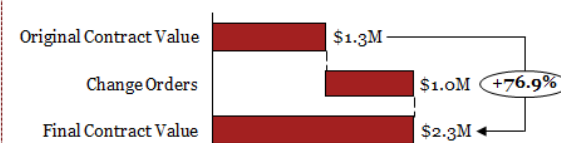
- **People**, not having the right stakeholders involved from the outset of the project and those who were involved lack the right or sufficient expertise for this complex project.
- **Process 1 of 2**, the auditor general of the Cayman's identified a *"weak" business case made by the government for the project that did not identify recurring maintenance and operation costs for the system.*
- **Process 2 of 2**, the Caymans did not have the correct procurement technique to purchase an asset for which the buyer does not have experience or knowledge.
- **Contract**, the contract structures were poorly defined and did not deliver on the anticipated outcome.

### Government of Cayman Islands CCTV Contract

#### Overview

Complex procurement of a CCTV system to support the development of a National CCTV program including supply, installation and maintenance, in an effort to reduce fear of crime, promote safety and monitor traffic conditions.

#### Cost Escalations



#### Key Challenges

- Weak business case with poorly defined costs without a Total Cost of Ownership perspective (e.g. ongoing operating costs)
- Contract split to avoid tendering processes (e.g. \$147k split three ways to avoid 50k tendering threshold)
- Complex procurement activity requiring specialist knowledge with inadequate stakeholder engagement

## DYK? RFP, RFI, RFQ - Are Used Why?

The terms used in the procurement process vary across organizations. Be sure to check with your procurement experts for the specific definitions used in your organization. Here are some definitions from the Government of Canada Supply Manual (edited):

**Request for Proposal (RFP)** is a form of bid solicitation used when the bidder selection is based on best value rather than on price alone. A RFP should be used when suppliers are invited to propose a solution to a problem, requirement or objective, and the selection of the contractor is based on the effectiveness of the proposed solution.

**Request for Information (RFI) or Letter of Interest (LOI)** is used when detailed information and feedback are required from suppliers. Such requests might outline a potential requirement and request suppliers to describe their ability to satisfy the requirement and to provide ideas and suggestions on how the eventual solicitation might be structured. Responses are used to assist in finalizing plans for future procurement activities.

**Request for Quotation (RFQ)** is used to solicit bids for commercial goods and/or services with low value from one or more suppliers. The contract requirement must be well defined such that bids may be evaluated and compared on the basis of price and delivery. A RFQ may not contain all of the contract terms and conditions.

**Standing offer (SO)** an offer from a supplier that allows the purchase goods and/or services when requested, during a specific period of time, through the use of a call-up process which incorporates the conditions and pricing of the standing offer. A standing offer is not a contract. A separate contract is formed each time a call-up for the provision of goods and/or services is made against a standing offer.



## Insights and Trends: Local and Afar

Insights and trends seen both within Canada and in peer countries (specifically the United Kingdom and New Zealand) confirmed that public sector procurement tends to be more complex and difficult than private sector procurement, for example:

- Political level including potential intervention or non-business imperatives such as public sentiment.
- Media and citizen scrutiny; sometimes this scrutiny has underlying political over-tones.
- Government reorganizations and changes in Minister and executives.

## Insights 1: Customer-focused—beyond compliance

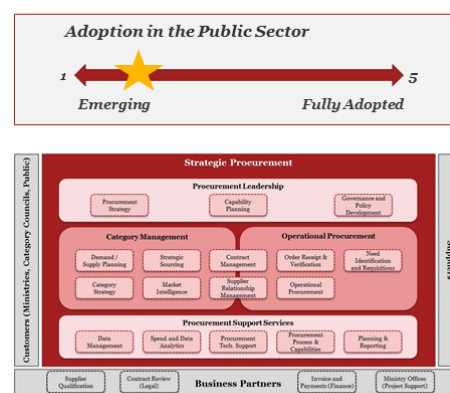
- Taking a customer rather than a strictly compliance focused view: understanding the end stakeholder who is being procured for and their respective business objectives. This includes balancing risk and compliance so that the focus is on value and risk/compliance is how we naturally do the work.

### ***Insight 1: Customer-focused procurement processes driving value beyond policy compliance***

***A procurement function that is focused on driving value first while also mitigating risk through...***

- Embedding in the organizational strategy: how procurement supports business imperatives.
- Operational versus procurement roles: there are many concurrent operational reviews going on across Canada with limited success in the implementation of the results of these reviews. Low success is typically due to poor senior stakeholder buy-in as to the merits and value of change.

- Designing customer centric organization models
- Embedding Procurement into strategic business planning exercises
- Clearly delineating operational vs. procurement roles
- Measuring value delivered and client satisfaction



## Guide to measuring procurement savings & benefits

Published by the New Zealand government, input was provided from many Commonwealth countries include the Ontario Government. The guide starts and defines value in a very balanced way which includes measuring and reporting on savings, benefits, price, etc.

The guide also emphasizes efficiency and effectiveness of the procurement process, elements which are often de-emphasized in the public sector. The value perspective continues throughout the lifecycle of the goods, service or asset—not just at the initial procurement phase.

This guide is available directly from the New Zealand government.



### Guide to measuring procurement savings & benefits

[www.business.govt.nz/procurement/pdf-library/agencies/](http://www.business.govt.nz/procurement/pdf-library/agencies/)

## Insights 2: Innovative Ways to Procure

- It is important to recognize that creative methods are needed based on what is being purchased. For example, services need to use alternative methods from that of common goods, barriers include:
  - Lack of expertise on the part of the public sector organization for what is being purchased.
  - Sift through and separate marketing from reality to arrive at truth and value.
  - Innovation is more likely to occur in Crown Agencies and requires a partnership with legal services.

### *DYK: Innovation in Procurement*

- **Qualifications Based Procurement:** Qualifications-Based Selection is used for the selection of architectural and engineering services for public construction projects (source, [www.wikipedia.org](http://www.wikipedia.org)).
  - It is a competitive contract procurement process whereby consulting firms submit qualifications to a procuring entity (owner) who evaluates and selects the most qualified firm, and then negotiates the project scope of work, schedule, budget, and consultant fee.
  - Crucially, under a QBS procurement, the cost of the work (price) is not considered when making the initial selection of the best or most appropriate provider of the professional services required. Fees for services will be negotiated, however, following selection and before contracting.
- **Best value procurement** looks at factors other than just price, such as quality and expertise, when selecting vendors or contractors. In a best value system, a contractor or vendor is selected through a process of researching the vendors or contractors prior to a detailed project plan is made (source, [www.wikipedia.org](http://www.wikipedia.org)).
  - Typically values are assigned to factors such as price, past performance, schedule, and vision. These values are tabulated for each potential vendor or contractor and one will come out on top.
  - This system is beneficial because it needs less decision making, prepares for the future, and minimizes risk. This system has been implemented by some governments, such as that of the United Kingdom.
  - One of the most important aspects of best value procurement is looking at past performance. If a client is looking to build a five million dollar building, it is important to see if potential vendors have completed projects on such a scope. This will prevent selecting vendors solely based on a low bid.
- **Joint Solution Procurement** is a multi-stage procurement process comprised of two major parts (adapted from Solutions BC Shared Services, available [www.gov.bc.ca](http://www.gov.bc.ca)).
  - The first part is the Request For Proposal process is designed to qualify and short-list Proponents primarily on their capacity, capability and commitment to be a Partner with the Ministry in the Project.
  - The second part involves three distinct phases: a Joint Solution Definition Phase, a Due Diligence & Negotiation Phase and a Contract Negotiation Phase - culminating in a long term Final Contract.
  - The mechanism to achieve the Project's Objectives is expected to reflect "best-in-class" solution that will optimize the service delivery outcomes. The form of deal structure will depend on the results of the Joint Solution Definition Phase.
  - The process should result in two Preferred Proponents being identified and invited to enter into the Joint Solution Definition Phase with the Province. The Ministry will work closely with the Preferred Proponents, through the Joint Solution Definition Phase to determine how to best meet the Ministry's Objectives for the Project. A Final Contract resulting from the JSP process is expected to range between five to ten years in duration.

## Insights 3: A Life-Cycle Approach

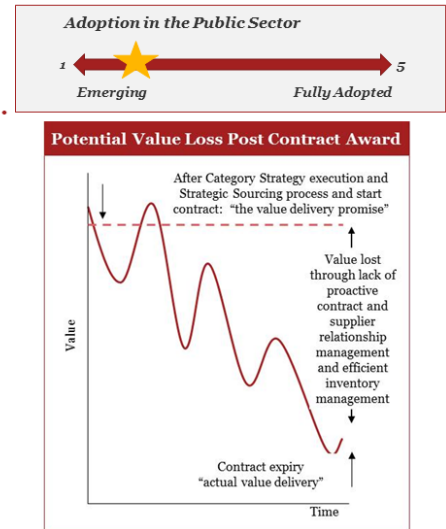
This is a focus on what has been purchased after it clears the loading dock or the consultants have gone to their next project. In other words, the importance of not losing the value after the hard work of a good procurement process. Although called a trend, it is not done well either in the public or private sector. The resulting contracts focus on achieving the desired outcomes over time.

It is key that the procurement and finance functions play a role in this even though the ultimate responsibility rests with the relevant business or line area. This procurement/finance role includes the consistent measurement against an organizational framework and measurement against similar or like agreements (e.g. consistent governance, value measures, reporting, data aggregation, etc.).

### **Insight 3: Maintaining value throughout the contract lifecycle**

**Reduce value leakage by managing the contract throughout the lifecycle through...**

- Considering outcomes based contract structures
- Understanding where risks arise and assigning proper ownership in the contract
- Performing active contract management leveraging strong issues management and project controls throughout the lifecycle
- Completing ongoing market analysis for market events that can / will impact commercial structures



## Inverting the DNA of Commercial Activities

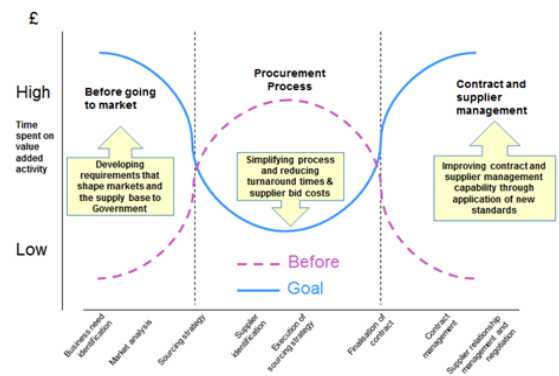
Described by the commercial reform and central government program from the United Kingdom, the model is shown below. The

dotted line is the traditional procurement method. There is a lot of time spent in the procurement process with little time spent upfront or after the purchase is made. The inverted DNA sees most of the time in the upfront requirements definition/planning and the back end contract management with the least amount of time on procurement itself.

### **Beyond Canada: Inverting the DNA of commercial activities**

**Increasing the focus on requirements development and contract and supplier management...**

- Less focus on procurement process compliance and more on obtaining solutions to business needs/issues
- Reduced risk through new standards in contract and supplier management
- Leverage supplier knowledge and innovation to solve business problems



This is predicated on efficient procurement across People, Process and Technology; the right

techniques are used for the respective item being purchased. This concept model is relatively recent and something to monitor over time.

[http://www.eelga.gov.uk/documents/conferences/2014/16%20oct%2014/sam\\_rowbury\\_ppt.pdf](http://www.eelga.gov.uk/documents/conferences/2014/16%20oct%2014/sam_rowbury_ppt.pdf)



## Insights 4: Technologies

While technology is central to good procurement has become a truism, successful implementations are more prevalent in the Crown or Agency sector. Within Government, adoption of more advanced technologies tends to be currently in the business case or selection stage—rather than in the implementation stage. Success of implementations is based on having good people and good processes.



## G-Cloud and Digital Market Place

In the United Kingdom, the G-Cloud offers an online catalog for cloud based software, platform and information as a service. This stemmed from a government mandate to move away from the traditional IT hosted solutions to cloud based offerings.

The online market place simplifies online procurement for both the government consumer and the supplies. It provides transparency relative to what and where services can be purchased. For suppliers, they have an opportunity to assess demand for potential services. Because of pre-qualifications, this information is more rigorous for both sides of the procurement equation.

The primary benefit of this new offering has been so far in reducing the cycle time in procuring cloud-based technologies. The next challenge is extending this offer beyond information technology to other government needed goods and services.

## eProcurement Tool Assessment

According to Forrester ([www.forrester.com](http://www.forrester.com)), out of eleven contenders, the three current market leaders are Coupa, Basware and Ariba. The benefit of these tools include:

### ***Beyond Canada: The “G-Cloud” and digital marketplace***

#### ***Established to simplify procurement of IT services and solutions...***

- Allows organizations access to pre-established framework agreements reducing procurement cycle time, improving spend under management
- Increased transparency in procurement process for upcoming tenders
- G-Cloud framework has involved over 15,000 suppliers, 16,000 services with over £314 Million in spend to date

### **Key Benefits**

#### **Enabling Transparent and Responsible Procurement**

- Organizations are taking advantage of technology platforms and involving business groups outside of procurement, promoting transparency and accountability into broader procurement decisions
- Ariba's integration with SAP ERP platforms continues to yield significant gains in **transparency and automation of data and reporting across multiple systems**

#### **Enhancing the User Experience to Support Strategic Procurement Functions**

- Enabling procurement processes with advanced technology has been shown to increase adoption and compliance and sustain value delivered
- Coupa has been recognized by Forrester for its “**user interface, broad functionality and flexible configuration**”, receiving top scores for its modern technology platform that supports rapid development of new capabilities and easy integration with suppliers, while continuing to pride itself in providing high customer value

#### **Enforcing Compliance**

- To ensure that fair processes are leading to better value for taxpayer dollars, technology can embed compliance automation and minimize procurement risk to the organization
- Basware Connectivity service validates all passing invoices against defined matching criteria and flags exceptions. Some organizations choose to embed a **5 way match** in order to provide a complete audit trail

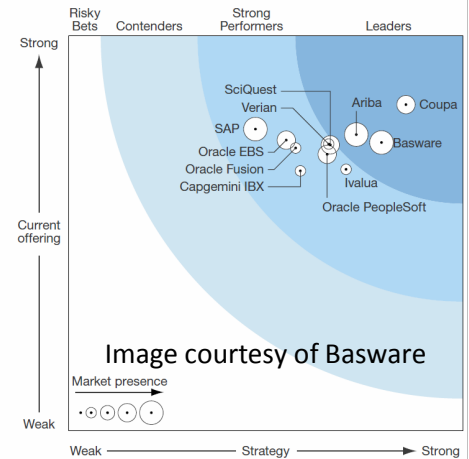
## eProcurement Tool Assessment

All three current of the top providers do a good job of data automation of what is being procured across multiple systems and processes resulting in multiple ways to buy. User interfaces are simple to use resulting in quick adoption within an organization. Nevertheless, the tools are also good at enforcing compliance within an organization.

### DYK: Top Three Vendors

- Coupa ([www.coupa.com](http://www.coupa.com)) has a suite of financial applications including: procurement, invoicing, expenses, sourcing, inventory, supplies, storefront and analytics. Coupa is cloud-based and built on Amazon Web Services infrastructure, and it has Amazon-like features (adapted from Wikipedia.com).
- Basware ([www.basware.com](http://www.basware.com)) a Finnish software company selling enterprise software for financial processes, purchase to pay and financial management (adapted from Wikipedia.com).
- Ariba ([www.ariba.com](http://www.ariba.com)) was acquired by SAP in 2012, The platform provides sellers with the ability to manage catalogs, bids, purchases and invoices and it provides buyers with the ability to search for suppliers, negotiate savings, procure goods and services and track spend. Unlike consumer marketplaces, however, Ariba has additional features to help with RFQs, RFPs, RFOs, compliance and other business concerns (adapted from [www.techtarget.com](http://www.techtarget.com)).

Figure 4 Forrester Wave™: eProcurement, Q2 '14



## Insight 5: Collaborative Procurement

Collaboration between organizations is alive and well across Canada with varying degrees of success. Here at home, the Alberta Purchasing Connect ([www.purchasingconnection.ca](http://www.purchasingconnection.ca)) is one such example. The example at the beginning with the University of California is another. Three factors reduce the full-value of collaborative procurement initiative being realized:

1. A good cost-benefit analysis, what is in it for the organizations? Because the initial effort for these endeavors is quite high, the end-state benefits need to be clearly articulated, measured and realized.
2. If you build it, will the come? Good governance, change management, education and cheer-leading is required to ensure good adoption of a collaborative program.
3. Good technology for good collaboration. Underlying technology that is easy to use, stable, robust, compliant, flexible and constantly upgraded is needed to underpin a collaborative effort. To sustain the change management, technology is beyond simple operations. Good and trusted analytics are needed to demonstrate the initial and ongoing value of a collaborative procurement process.

Process / Spend Type			
	Generic	Centralize and consolidate requirements across the government	Use generic high volume model and provider
	Unique	Retain function locally	Create centers of excellence with few specialist provider
		Low Volume - Leverage	High Volume - Leverage
		Volume Type	

## New Zealand—All Government Contracts Program

New Zealand has a central procurement agency. In May 2014 there were 400 cooperating government organizations purchasing IT Hardware. As a result, the adoption for this program has been successful. Unfortunately implementation is more difficult in the complex spending area such as for the procurement of services or unique and complex goods and services (e.g. if one had to buy a CCTV for an island nation).

The program is sustained through a contract surcharge of 1.5%. Thus contracts must be at least 98.5% less than the street value to be competitive. As well, for large purchases this surcharge can quickly add up. Nevertheless, this is one method to ensure the lifecycle of the procurement organization is sustained beyond the initial roll out.

### *Using a common sense approach across organizations...*

- Centrally led activities, reducing duplicative efforts and extending benefits across organizations
- Focusing on commonly used goods and services e.g. fleet, office supplies, printing services, IT hardware
- Clear guidance on who is 'obliged' vs. 'encouraged' to participate in All-of-Government contracts



## Closing Thoughts & Questions

- Procurement professionals seek to mitigate risk and ensure compliance. This will require a shift to being business focused.
- Public Servant need to Procure need to engage procurement earlier and as a partner.
- Senior Administrator needs to see Procurement as a strategic partner and not simply an administration function.

The good news/bad news is that Canada and Alberta is not alone in our challenges as compared to peer countries. Nevertheless seeing procurement from a more holistic perspective will result in a more modern procurement function. High value procurement comes from an integrated and collaborative People using good Process and current Technology.

Q. How do financial managers and procurement professionals keep the procurement process lean while working in an environment that includes the political stakeholders who may have other ideas or priorities?

A. While procurement is not rocket science, it does require returning to basic facts and data. Fact based discussion can overcome stakeholder bias. Also, it is important to be a good change agent so as to understand the needs of the political stakeholder.



**Bill** Moulton is currently leading Service Alberta's 'Procurement Modernization Project'. Working collaboratively with the 11 procurement offices across the GoA, the Procurement Modernization Project is the implementation of 12 recommendations from the GoA Procurement Results-Based Budgeting review which was completed December, 2013.

The primary focus of these Results-Based Budgeting recommendations is to create a more consistent, efficient and effective procurement approach across the organization while producing savings by contracting some services which are commonly required across the GoA in a strategic manner.

Bill has worked in various procurement roles with the GoA since 2000. From 1980 – 2000 Bill worked in a variety of supply management roles at the University of Alberta. Over his career, he has gained considerable experience contracting for a wide range of goods, services and construction.

## Presentation—Bill

The government of Alberta buys about \$5 billion a year with some notable exclusions such as P3 purchases. The procurement model used by the province is a mixture of centralized and decentralized. Goods are centralized with the Ministry of Service Alberta with the exception of low value goods which are de-centralized. Low value goods tends to be the pens, paper, office supplies, consumables and things of that ilk. Construction is primarily centralized through Ministries of Infrastructure and Transportation. This include both large construction projects (highways, schools, hospitals) and smaller value projects such as office renovations. Finally services are de-centralized to the Ministries.

	5-Yr. Average	Primary Authority & Accountability
<b>Goods</b>	\$0.58 billion	Service Alberta <i>(low value goods delegated to ministries)</i>
<b>Services</b>	\$1.80 billion	Ministries responsible for their own service requirements
<b>Construction</b>	\$2.75 billion	Infrastructure and Transportation <i>(primarily)</i>

The above provides context to the government's Enterprise Procurement Strategy. Initiated in 2013 via results based budgeting legislation when 700 program areas were evaluated and reviewed for effectiveness and efficiency, including procurement. This was the first time in recent memory of a pan-government review which resulted in 12-13 recommendations including:

Finding	Recommendation
More joint procurement, either within the broader Alberta public sector or in partnership with other provinces, would result in savings.	Expand procurement collaboration with other provinces and the broader Alberta public sector, including non-medical procurement collaboration with Alberta Health Services.

Page 8, Results-based Budgeting, Report to Albertans, December 2014; available: <http://www.finance.alberta.ca/business/budget/results-based-budgeting/2014-1203-Results-based-Budgeting-Report-to-Albertans.pdf> (accessed 2015-03-01).



## Enterprise Procurement Strategy

Beyond the results based budgeting findings, the current Service Alberta Minister Mandate letter to develop an enterprise procurement strategy. Procurement modernization is thus being thrust into prominence from a number of forces. There are four supporting streams:

### Stream 1, Governance

Currently composed of 11 participating ministries. The steering committee has director and executive director membership. The group has over-sight to implement the recommendation of results based budgeting as well as other opportunities.

The second bullet was more of a surprise for procurement professionals. Unfortunately without some sole source contracts, the government would likely come to grinding halt. As well, is there a sole source problem? Depending upon the year evaluated, according to Agreement on Internal Trade's (AIT) statistics, 3-5% of overall AIT spend is sole sourced based on a legitimate exceptions, documented and then reported to the AIT secretariat for reporting and governance purposes. This information is available in the public domain.

A balance was necessary which was the result a Treasury Board directive which lowered sole sources for services from \$75,000 to \$10,000 and \$50,000 to \$100,000 for construction. A government procurement exception is necessary and authorized by the Deputy Minister. Most exceptions will require public disclosure particularly in context to a procurement accountability framework. Finally the directive required the establishment of a contract review committee in each Ministry.

#### 1. Creation of a Governance Body

- Implementation of Results-Based Budgeting recommendations
- TB Directive: Procurement and Sole-sourcing (implementation)

#### 2. Strategic Sourcing

- IT Contingent Labour
- Business Travel Management
- Management Consulting Services

#### 3. Joint/Collaborative Procurements

- Light Vehicles (BC and SK)
- P-Card Program (AHS and AMSC)

#### 4. Procurement Automation

### *DYK?: Agreement on Internal Trade*

The (Canadian) Agreement on Internal Trade (AIT) is an intergovernmental trade agreement signed by Canadian First Ministers that came into force in 1995. Its purpose is to reduce and eliminate, to the extent possible, barriers to the free movement of persons, goods, services, and investment within Canada and to establish an open, efficient, and stable domestic market. Signatories to the Agreement Canada and all provinces and territories with the exception of Nunavut which has observer status. (*Adapted from: <http://www.ait-aci.ca>, 2015-03-01*). General exceptions to AIT include (edited):

1. (a) where an unforeseeable situation of urgency exists;
2. (b) where goods or consulting services regarding matters of a confidential or privileged nature are to be purchased;
3. (c) where a contract is financed, in whole or in part, by an international cooperation organization;
4. (d) where construction material transportation costs or technical considerations impose geographic limits on the available supply base;
5. (e) where compliance would interfere with security or order or to protect human, animal or plant life or health; and
6. (f) in the absence of a receipt of any bids in response to a call for tenders made in accordance with this Annex..

## Stream 2, Strategic Sourcing

The government has already saved millions through strategic sourcing of specific goods (e.g. computers, fleet vehicles and wireless services). The central activities of strategic sourcing include:

- Aggregating enterprise requirements.
- Limited standardization of the requirements.
- Conducting an open competition that includes an exclusivity clause for the winning bid(s).
- Volume commitment to the vendor..

The next step is to apply the same concepts to services that are commonly required across the government. The start was IT contingent labour, next business travel and then management consulting.

## Stream 3, Collaboration

Two initiatives are underway, the first is with British Columbia and Saskatchewan which has increased by a factor of 4 or so the number of vehicles purchased. P-Cards are being extended to agencies such as Alberta Health Services and the Alberta Municipal Services Corporation.

## Stream 4, Automation

The Alberta Purchasing Connection is the electronic tendering application for the government of Alberta. Automation is being introduced and used for surplus disposal. There are gaps in the procurement lifecycle that can be filled with technology.

We are watching with interest the province of British Columbia which is replacing their BC-Bid application with an end to end e-procurement solution which would tie to the enterprise resource planning system. It is quite possible that the province may partner with our neighbors to the west.

Q. Can you expand on what Service Alberta is doing with IT-Contingent labour?

A. Alberta spends about \$40 million on contingent labour with about three-quarters on IT activities. A number of other Ministries are looking at the contract in place which focused on two objectives: time and price. The first was to reduce the time to engage a resource. It was not uncommon that we would be losing contractors because it was taking so long to get an approval and contract. The second objective was associated with ensure that the best price was being negotiated with the contractor. Because this is a more arms length contract, we are able to contain our costs more effectively.

Q. What is considered a sole source on procurement, is 3 quotes a sufficiently competitive process?

A. At least a limited competition is required, at least 2 quotes.

Q. Central procurement often benefits central agencies but costs more to the respective ministry, will that be the case with business travel?

A. The implementation of a travel program will be a collaborative process. Almost always, central purchasing saves some money and typically it saves lots of money.

### 1. Creation of a Governance Body

- Implementation of Results-Based Budgeting recommendations
- TB Directive: Procurement and Sole-sourcing (implementation)

### 2. Strategic Sourcing

- IT Contingent Labour
- Business Travel Management
- Management Consulting Services

### 3. Joint/Collaborative Procurements

- Light Vehicles (BC and SK)
- P-Card Program (AHS and AMSC)

### 4. Procurement Automation

## Dan Lajeunesse, City of Edmonton



**Dan** Lajeunesse is the Manager of the Corporate Procurement and Supply Services Branch for the City of Edmonton. In this role, Mr. Lajeunesse is responsible for providing leadership to the city's Procurement and Supply Chain Management functions that support all city departments and the Edmonton Police Service.

This includes managing the city's centralized procurement responsible for an more than \$1 Billion in tendering, contracting and purchasing for a wide range of goods, services and construction. In addition, Mr. Lajeunesse is accountable for a significant warehousing & distribution operation that supports the day to day operations of city departments and business services including mail distribution, the city's digital print centre and a wide range of hired equipment services.

Prior to joining the city, Dan worked in progressively responsible positions in sales, operations and purchasing in the private and not-for-profit sectors.

Dan obtained his Supply Chain Management Professional designation in 1998 and a Masters of Business Administration degree through the University of Alberta in 2005.

## Presentation—Dan

While formerly a part of the finance function, the City of Edmonton's current organizational model for procurement is one of a share service. In this role, procurement buys 'soups to nuts' (or from zoo animals to police helicopters). This creates the challenge of developing deep specialized commodity knowledge (a best practice for procurement) while also managing the corporate procurement policies for the city.

The departments within the City of Edmonton have limited authority to procure with the corporate procurement function working closely with all departments to service their needs.

- Annual spend >\$1 Billion
- Corporate Procurement City's tendering authority
  - Centralized procurement, Procurement policy
  - All categories Goods, Services and Construction
  - All City Departments and Edmonton Police Service
- Departmental purchasing authority limited to:
  - Low value (under \$10,000 spend)
  - Releases off standing offer agreements
  - Limited ability for sole source purchasing

Q. How do financial managers and procurement professionals keep the procurement process lean while working in an environment that includes the political stakeholders who may have other ideas or priorities?

A. (Dan's response to the previous asked question) It is important to be truthful with the political layer and let them know the costs and risks with a decision - even if at the moment it would seem to run contrary to job security. At the same time, procurement professionals must balance compliance with also pushing back against an audit recommendation that would over burden the process to cover every contingency.

## Vision 2020 Modernization

The modernization of procurement is part of a larger the larger vision of how to modernize a municipal government. Corporate Procurement is thus looking at purchasing as a support function for this larger endeavor. As part of this vision is a focus on our two clients, the end-user Department and the corporation proper. With the latter, the corporate functions (including finance) are have access to information and experiences which we can in turn share and add value to our Department clients. Thus while we may be bringing something new to a department, we may have done that activity numerous times for our other clients. In other words, 2020 is about understanding our client's business drivers and challenges and adding the most value in helping them achieve these ends.

- **Developing a clear vision for 2020 that answers the following:**
  - What is procurement's value proposition?
  - What procurement operating model and skills sets would best enable the City to achieve its goals?
- **Builds on four strategic focus areas:**
  - Creating value for the City
  - Delivering Service Excellence
  - Enhancing Strategic Relationships (internal/external)
  - Engaged Employees



This modernization takes time because of the challenges of people, process and technology. For example, the city is a highly unionized environment with many long service employees. Thus a 35+ year employee may know their business well but it is difficult for them to adapt to changes in process, technology or even a client focused culture.

## Four Strategic Focus Areas

1. **Creating Value for the City:** not just adding value, but creating net-new value.
2. **Deliver Service Excellence:** process improvements, automation, training and employees. The corporate functions compete for resources against more sexy service offerings.
3. **Enhancing Strategic Relationships:** the time and energy to build critical relationships up, down, in and outside of one's own office.
4. **Engaging Employees:** although a cliché, our most important resource. Listening to build better people, processes and technologies.

### *DYK?: Canada's Supply Manual*

The government of Canada's Supply Manual is available online? Its purpose is to: *The Supply Manual, contains policies and procedures, as well as references to acts and directives, for the procurement of goods, services and construction. The Manual is intended primarily for the use of Public Works and Government Services Canada (PWGSC) contracting officers acting in PWGSC's capacity as a common services provider, to conduct procurements on behalf of other organizations.* <https://buyandsell.gc.ca/policy-and-guidelines/supply-manual>



## Procurement Policy/Governance

One of the modernization efforts is to update our policies. This includes developing guidance documents where every possible scenario that may be encountered. Our regulatory accountabilities to our internal and external trade agreements need to be managed to ensure that what might seem like a good decision at a very local/department level may in turn place the city at risk at a larger inter-provincial or international level.

The governance framework is currently informal. Other governance structures, such as the budget, are much more formal and with the organization having much more experience with these activities. The working idea is to create a structure, one level below that of the senior leadership, to provide both oversight but also evangelization on the procurement function. Thus this group would keep the procurement functions both on track and suitably resourced.

Tying the above together is creating better management of information and knowledge through handbooks and training is the final component to better governance.

- Updated Procurement policies
  - Clarifies the oversight role and authority of corporate procurement
  - Ensures alignment of City delegation of authority to Trade Agreements
- Corporate procurement governance framework
  - Governance ultimately rests with City Manager/ Corporate Leadership Team
  - Key spend categories (e.g. Construction, Fleet) would benefit from senior management governance
- Procurement handbook & training
  - Clear guidelines for clients and procurement staff to follow
  - Clear roles and responsibilities



## People and Structure

Revisiting the current operational model and the possible model to be selected may in fact be borrowed from the current finance model. In finance there are high volume transactional activities (journals, payments, etc.) and there are client relationship activities which are low volume but often much higher in value and complex (analytics).

We are exploring what is the best way to organize our procurement structures that speeds up the 'in and out' activities while also developing strong team support client relationship procurement professionals. Moving to this model takes time however because of the impact on job descriptions, skill sets, etc.

Another focus is on the Category Management function. Thus bringing up to an enterprise level of like categories procurement rather than having this done at a unit or local level. This in turn can create expertise, lower costs through economies of scale and efficiencies. One area where this is being applied is in the construction realm.

Key focus is organizing around routine vs. strategic work

- Procurement Service Centre
  - Streamline and automate routine transactions
  - Balance workload to increase productivity with same staff complement
- Move to a "trusted advisor" approach
  - Deep business knowledge coupled with strategic skill sets
  - Assign work based on best skill set vs. portfolio or client assignments
- Develop & expand Category Management
  - Build on a strong strategic sourcing foundation at COE
  - Requires a corporate governance framework
- Employee engagement and talent development



### DYK?: Category Management

*Category Management is a strategic approach which organises procurement resources to focus on specific areas of spends. This enables category managers to focus their time and conduct in depth market analysis to fully leverage their procurement decisions on behalf of the whole organisation. The results can be significantly greater than traditional transactional based purchasing methods. (Chartered Instituted of Procurement and Supply)*

## Business Process Improvements

Moving legal and tendering documents to use plain language and structuring documents so that the city becomes a customer of choice—even if this sometimes involves taking on more risk than the city previously has done.

This dialogue must be balanced against protecting the interests of the city first and foremost. So while the Corporate Procurement function is open it also recognizes that it is sometimes dealing with very powerful and effective industry lobby groups.

New tool introduction reduces the number of disqualified bids as a result of administrative non-compliance. Doing so may very likely save costs as it allows the city to focus on technical qualifications versus whether a bid was sealed properly or there was a misspelling in one section of the document. Technology focuses on the entire procure to pay cycle including better communication, collaboration, automation and better targeting content to specific consumers of information.

The supplier performance management system will allow for the rating of performance rating of design consultants and construction contractors. A formal performance process rating will allow for future decision making; thus on a future tender, a percentage of a rating would be on a specific contractor's past performance. Previously bad performers could not be systematically weeded out. This technology is being implemented in coordination with the city's legal department because of the risks associated with identifying or outing poor-performers.

The city's open data program also supports procurement by having all contract information listed in this resource. This can extend to ensuring that local businesses are aware of the opportunities of selling to the city. There is an underlying tension between local businesses and meeting trade agreement fairness. To this point, globalization is here to stay.

Cooperative procurement can also drive other agendas such as economic development. Thus the construction of the city's new office tower netted an additional \$500 million of development in the area. As well, the city participates with the province and other governments to ensure it is getting the best price for the best product or service.

Q. Does the City of Edmonton cooperate with other governments and does it cooperate enough?

A. The city allows for piggy-backing provisions that allow other government entities to make use of an existing agreement. The legal opinions allows for such piggy backing. Unfortunately such efforts take time and effort which can take away from day to day operations.

Q. How well does the City of Edmonton manage the procurement process after the contract has been signed?

A. The operating area typically manage contracts after the procurement process except for the larger corporate purchases. At this point most of this involvement

- Modernizing contract documents (in consultation with Industry)
  - Goal is to be a customer of choice while maximizing value and managing risks
- Update Procurement templates
  - For All procurement types (tender/rfp, etc.)
- Pilot and introduce new tools in the procurement toolbox:
  - Non-contract A (negotiated) RFP now widely used
  - Best value procurement
  - Etc.
- Technology/automation is key
  - Electronic Plans distribution (2014)
  - Supplier Performance Management system
  - eBidding
  - eProcurement & ePayables
  - Contract Management
  - Data & spend analytics
  - Open Data & ties to Open City
  - Other tools:
    - Bid Evaluation software
    - Google sites for internal communication/collaboration
    - Coolnet enhancements
- Supporting local businesses – inherent tension
- Globalization is here
- Procurement involvement in more and more spend categories
  - Utilities, Leases, land development, etc.
- Cooperative procurements
- Preparing for CETA and other trade agreements

## Did You Know?

*6.9 A good vendor performance program helps to protect Crown interests and provides transparency on what the government's expectations are. Vendors are also entitled to know the rules of engagement. ...*

*6.12 The key piece in any framework (for vendor performance) is a comprehensive policy. Public Works and Government Services Canada (PWGSC) – Acquisitions Branch has had a vendor performance policy in place since 1996. However, roles and responsibilities are perceived to be unclear and there are concerns about legal consequences. This contributes to corrective measures for non-performance being infrequently applied. (Procurement Practices Review 2009-2010 - Chapter 6: A Management Approach to Vendor Performance)*

## Moderate Panel - Implementing a Contract Review Committee

A Government of Alberta Treasury Board directive requires that all departments have in place a contract review committee 'to support the procurement accountability framework'. This framework in turn will: 'support consistent goods and services procurement practices, including those in respect of Construction, across all departments, that reflect best practices and foster accountability, fairness, effectiveness, and efficiency'.

Although panel is made up of provincial government members, contract review processes are not new to the public service. This moderate panel is composed of the following individuals:

- Jean McClellan (Moderator), PwC Canada
- Bill Moulton, Executive Director, Service Alberta— Procurement Modernization Project'
- Darrell Dancause, Senior Financial Officer, Alberta Innovation and Advanced Education
- Chris Mochulski, Director of Corporate Engagement and Enterprise Risk Management , Alberta Treasury Board and Finance.



**Darrell** Dancause is the Senior Financial Officer and Executive Director for Corporate Services, Alberta Innovation and Advanced Education. Darrell has over 14 years of experience within the Government of Alberta in the areas of finance and administration. Prior to working with the Alberta Government Darrell worked in various positions in the retail and consulting sectors.

Darrell has a B.Comm degree from the University of Alberta and a Certified Management Accountant designation.



**Chris** Mochulski is the Director of Corporate Engagement and Enterprise Risk Management for the Government of Alberta and reports to the Provincial Controller, Darwin Bozek. In this capacity provides risk reporting to the Controller and Deputy Ministers and co-ordinates the risk efforts amongst all government departments with a focus on business, audit, financial, IT, and human resource risk. Chris' perspective and contribution to this panel will be from a risk management, Treasury Board and corporate controller perspective. Chris obtained his Bachelor of Arts and Commerce from the University of Alberta and is a Chartered Accountant.

Chris' background in risk management was honed with 15 years of experience at Alberta Investment Management Corporation where he was the Chief Compliance Officer and Lead Internal Auditor in addition to being the organization's inaugural Controller.

## Lessons Learned on Contract Review Committee (CRC) & Full Panel Discussion

*Please note, opening comments were provided by the panelists and the discussion noted below includes the discussion when Michelle joined the panel. Responses to questions have been generally attributed to the panel rather than to individual panelists.*

In implementing a CRC, the panel noted that rushing/cutting corners will always come back to haunt the committee and its decisions over time. As a result, it is important to take the time to get the panel right the first time.

A CRC is not just to satisfy new compliance requirements. It's also intended to provide a vehicle to challenge the process. The process includes both the procurement process but also the business decisions that have gone on so that when a contract or grant arrives at the committee it has been well considered in the context of the best use of taxpayer dollars.

Chris reflected on his time while working at Alberta Investment Management Corporate or AIMCO. He felt that AIMCO felt spent too much time on due diligence and not enough adjusting to the changing environment (of their incorporation). While in the role of Controller at AIMCO, he realized they had no procurement professionals on the team so filled that void by hiring 2 experts. With that expertise were able to recover \$15 - \$20 million in fees for some past services.

In the government of Alberta there is a need to take an Enterprise Risk Management approach. Focus on contracts and what is in them for potential areas that might be problematic in the future.

Q. What do you do when you don't have the expertise and resources are tight?

A. Tap into peers and one's own network (*editor's note, networking at FMI events is a good way to develop that inter-governmental network*). When in doubt, evaluate the exit clauses in contracts.

Q. What is the role of the CRC after a contract expires to evaluate whether it provided value for money?

A. It is not the mandate of the CRC to do this evaluation, it is the program area that needs to do that evaluation of value for money. At AIMCO the Legal Services unit - expected a Balanced Score Card of the contract results. This scorecard was developed by the Controller's office and not by the CRC.

Q. Is the CRC a one way street for information flow, where is the loop to evaluate its decision? Should not due diligence be built in at the front end because relying on the program area may not be good enough.

A. The panel acknowledge the value of a feed back loop but it was still their opinion that contract evaluation was up to the program area to ensure contract objectives are being met.

One panelist suggested having a team that only does contract reviews. When you rely on business areas to monitor deliverables it becomes hard to do. Just one other thing added to the list. Need role clarity and oversight.

The AIMCO experience was that there was a silo mentality. Because everyone was a buyer, the organization had to add some bureaucracy but this effort resulted in significant subsequent savings.

Q. How should a collaborative procurement process be governed?

A. There must have a good business case with a cost/benefit analysis and the overarching procurement organization needs to be strong in the ask for those things.



## Lessons Learned on Contract Review Committee (CRC) & Full Panel Discussion

*Please note, opening comments were provided by the panelists and the discussion noted below includes the discussion when Michelle joined the panel. Responses to questions have been generally attributed to the panel rather than to individual panelists.*

Q. How does the private sector vendors perceive the government procurement process?

A. A Service Alberta survey resulted in a wide range of reactions. To this survey there were some sour grapes, over 50% appreciate the transparency and some vendors felt that provincial procurement was corrupt but transparently corrupt. This identified the need for good and more accountability reporting.

Q. Of the 22 ministries in the Government of Alberta why are there only 11 Procurement Governance bodies?

A. The 11 ministries were part of the response to results based budgeting. The committee primarily went with ministries that have full-time procurement resource staff. Nevertheless, the committee is doing a lot of work through the Senior Finance Officers Council and additional ministries are always welcome.

Q. Auditors seem to always want to add more bureaucracy to processes presumably so they can find more fault of why the organization is not following ever more rules and regulations, what can be done?

A. Auditors have a role to play but they do need to be respectfully pushed back against. Corporate procurement areas (e.g. Service Alberta) can lead the procurement process but does not have enough power to push back on its own. Corporate procurement areas need to have support from lead departments.

Q. Like other areas, procurement can become a victim of its own success. That is, it frees up savings which in turn are re-allocated for other priorities instead of being re-invested in additional savings. How can procurement sustain ongoing investment of at least a portion of its realized savings?

A. This is a tough issue and corporate areas do need to be strong in asking for a portion of the savings for reinvestment.

Q. What level and type of individual should be on the Contract Review Committee?

A. Bill Moulton should be on every CRC in the government of Alberta (editors note, this was said and included with tongue firmly in the cheek). Finance and legal resource are both very important.

Q. Should there be a standard Terms of Reference for all CRCs across an organization such as the government of Alberta?

A. There are lots of best practice examples that can be used as templates.

Q. Are there any last words of wisdom?

A. There is a need to attract retain talent with contract management and procurement expertise. Access legal, finance and other experts is needed for procurement activities. This includes bringing information technology experts to support the procurement process and to sit on CRC committee.

## Moderator and FMI Host

# Jean

McClellan has been with PwC Canada since 1995 and is a Partner in the Consulting practice. Jean leads the public sector Practice for Alberta and the Education Practice for Western Canada where she works with multidisciplinary teams to solve complex issues for clients. In the past, Jean held various leadership positions within PwC such as the People and Change lead for Western Canada, the Valuation, Forensics and Disputes Lead for Manitoba and the Performance Improvement lead for Manitoba. Jean is currently focused solely on the public sector, but has served public and private companies in the energy, agriculture, service, manufacturing and financial services sectors over her career.



For close to a decade, Jean has practiced in the areas of program and change management, financial and operational effectiveness and service transformation. Prior to that, Jean's practice areas included valuation and fairness opinions, litigation support services, insurance claim services, economic and financial analysis, and corporate transaction support. She has been involved with numerous engagements undertaken for the purposes of litigation, arbitration and regulatory purposes.

In addition to having a Bachelor of Commerce (Hons) degree and a Masters of Accounting degree from the University of Manitoba, Jean also holds her Chartered Accounting designation, her Chartered Business Valuators designation, her Certified Public Accountant (USA) designation and her Prosci Change Management Certification. She has been recognized with the Early Achievement Award from the Institute of Chartered Accountants of Manitoba and is a past Chair of the Manitoba Chambers of Commerce.



# Peter

Neuschaefer has a Business Diploma from NAIT and just recently retired from his career with the City of Edmonton after 42 and a half years of service. Peter is the local FMI Chapter President and has been actively involved in FMI in the Vice-President role for the last 3 years. In addition to his duties with FMI Peter is also actively involved in various charitable organizations in Edmonton.

Peter will provide greetings from the Edmonton Chapter Board (including Jeanette Stead, pictured with Peter above). Greetings will include the benefits of being a FMI member, our upcoming programming year and FMI national events coming up.

Peter Neuschaefer with Shannon

## Congratulations Shannon Cadrin!

Shannon Cadrin name was drawn at the FMI-Edmonton Chapter's Jan 22nd, Colours Event. Shannon wins a trip to attend the FMI Public Sector Management Workshop in Victoria British Columbia, May 24-26, 2015.



## Procurement, Who Does it Well? – February 26, 2015, Edmonton Alberta

Left to Right: Darrell Dancause (Alberta Innovation and Advanced Education), Dan Lajeunesse (City of Edmonton), Bill Moulton (Service Alberta), Chris Mochulski (Alberta Treasury Board and

2015-03-01



Jean McClellan and Balraj Sangha

## Golfing, Who Wants to Go!!! ?

Balraj Sangha from Service Alberta won two spots to the '2015 Servus Spirit of Caring Golf Classic' on June 11, 2015 - a \$450 value!

In support of the Good Samaritan Society, PwC is a long time sponsor of this event and is pleased to offer two of its foursome spots at the beautiful Quarry Golf Club. This golf event includes lunch, golf, a BBQ lunch, cocktail reception and dinner.

For more details (or to buy your tickets, just in case you don't win) visit: <https://www.gss.org/events/fundraisers/2015-servus-spirit-of-caring-golf-classic>

## Other Production Credits

- Sound, treasurer, registrar: Neil Palesh
- Time keeper and event scribe: Jeanette Stead
- Registration table and microphone-roamer: Vijay Gangwani
- Program notes editor, event project manager and event marketing: Frank Potter

## *DYK: The Government of Canada's Procurement Best Practices*

Extracted and modified from: <https://buyandsell.gc.ca/policy-and-guidelines/supply-manual/section/1#section-1.10.10>

1. **Ensure Integrity:** Contracting officers must ensure the integrity of the procurement process. If there is any doubt, the contracting officer should consider suspending the procurement process
2. **Get Involved Early:** Conduct a needs identification and requirement definition, procurement strategy development, and drafting of solicitation documents before a requisition is started.
3. **Consult with Peers:** A peer's experience and referring to previous files can also be instructive, particularly for estimating things like business volume under a new contract.
4. **Liaise with the Client:** Keep clients informed and involved to understand departmental needs as well as specific technical requirements.
5. **Use Specialists:** Seek advice from legal services, policy advisors, Access to Information and Privacy officers, quality control officers, cost analysts and risk management advisors.
6. **Communicate Effectively:** Clear in communications, e.g. written instructions for bid solicitation.
7. **Maintain Confidentiality:** Treat all information of a confidential or personal nature, including bid information, in a secure and confidential manner. This ensures the integrity of the contracting process, and protects the interests of suppliers and clients.
8. **Obtain Confirmation:** Obtain written confirmation of significant information, agreements and discussions, such as confirmation of an unusually low price, or extension of a bid validity period by the bidder.
9. **Select the Appropriate Contracting Method:** Depending on which commodity is being procured, the appropriate contracting method may be a standing offer, a supply arrangement, a government-wide or multi-departmental contract, or a normal contract. Some commodities are available via mandatory standing offers, and these must be used unless there is a valid reason to deviate.
10. **Commodity Knowledge:** Develop an understanding of a commodity's industry, the market conditions, and the pertinent factors of each commodity, which then affects the choices. Clients should also use their understanding of the commodity when defining their technical requirements and scope. Keep informed about such things as the proposed contractor's performance history, financial situation and practices, before recommending a contract award. It also means keeping up to date with a contractor during the performance of a contract.
11. **Life Cycle Management of Assets Life Cycle Management of Assets (LCMA):** is an integrated approach to materiel management that looks at the process as a complete system rather than separate activities. Procurement and disposal are a part of this process.
12. **Maintain Records:** Keep files up to date for reasons of good management, access to information requests as well as for audit purposes. Current files should be kept up to date for anyone who may have to consult the file or assume responsibility for it at a later date.
13. **Use Standard Documents:** For every solicitation process, whether for competitive or non-competitive requirements, use standard procurement templates and clauses.





# Guide to measuring procurement savings & benefits



## Acknowledgement and thanks – development of this Guide

This guide is part of a Government initiative to help suppliers better engage with government and support good procurement practice. It has been developed under the New Zealand Government Procurement Reform Programme after consultation and discussion with the following stakeholders:

- **Procurement Development Technical Advisory Group:** Input and guidance were received from an advisory group comprising senior procurement advisers from government agencies: the Ministry of Foreign Affairs and Trade, the Ministry of Social Development, the Auckland District Health Board, the Ministry of Agriculture and Forestry, the Ministry of Justice, Inland Revenue Department and Public Trust.
- **Specialist adviser:** Specialist advice was provided by Ron Stuart.

First Published June 2010

Government Procurement Development Group | Ministry of Economic Development  
PO Box 1473 | Wellington 6140 | New Zealand | [www.med.govt.nz](http://www.med.govt.nz) | [www.procurement.govt.nz](http://www.procurement.govt.nz)

Crown  
Copyright



This work is licensed under the Creative Commons Attribution-NonCommercial-Share Alike 3.0 New Zealand License. In essence you are free to copy, distribute and adapt the work non-commercially, as long as you attribute the work to the Crown and abide by the other licence terms. To view a copy of this licence, visit <http://www.creativecommons.org.nz>. Please note that no departmental or governmental emblem, logo or Coat of Arms may be used in any way that infringes any provision of the Flags, Emblems, and Names Protection Act 1981. Attribution to the Crown should be in written form and not by reproduction of any such emblem, logo or Coat of Arms.

## Contents page

<b>Introduction .....</b>	<b>4</b>
What does this guide cover? .....	4
When should we use it?.....	4
Types of procurement.....	5
<b>Sources and impacts of savings and benefits .....</b>	<b>5</b>
Sources of savings and benefits .....	5
Impacts of savings and benefits.....	6
<b>The savings &amp; benefit measurement process .....</b>	<b>7</b>
Before you start .....	7
<b>Step 1: Define the scope of the procurement activity.....</b>	<b>8</b>
<b>Step 2: Define the comparison units.....</b>	<b>9</b>
<b>Step 3: Baseline the current costs .....</b>	<b>10</b>
<b>Step 4: Predict the future costs.....</b>	<b>10</b>
<b>Step 5: Compare: what are the savings and other benefits? .....</b>	<b>11</b>
<b>Appendix One.....</b>	<b>14</b>
<b>Appendix Two.....</b>	<b>16</b>
<b>Appendix Three .....</b>	<b>18</b>

# Introduction

Procurement activities can lead to significant savings and a number of other benefits. Some can be quantified (such as saving money) while others are more intangible (such as improved service delivery).

## What does this guide cover?

This guide aims to help government agencies to identify, measure and report on the savings and benefits of procurement activities. It:

- Describes typical procurement savings and benefits
- Outlines the factors you need to consider when measuring savings and benefits
- Provides a five-step process you can use to measure your procurement savings and benefits.

## When should we use it?

The five-step process is particularly suited to measuring the savings and benefits of tactical procurement activities with a lower risk and lower expenditure. It may also be appropriate to use this methodology for more complex and high value procurements.

It also responds to the need for a consistent approach across all government agencies, particularly in all-of-government contracts. By using the process, agencies will be able collectively to quantify and track their contracts' financial savings and wider benefits.

If your agency chooses to use another measurement process for highly strategic and/or complex procurements, you should make sure that the terms you use are consistent with those in this guide.

## Where did the measurement approach come from?

The five-step measurement process is based on an extensive review of those used in other countries, including the United Kingdom (including Northern Ireland, Scotland, the Office of Government Commerce UK, the Environment Agency UK and the London Centre of Excellence); Australia (including Victoria, Western Australia and the National Association of State Procurement Officials); and Canada (OntarioBuys).

It's also based on a review of processes used in New Zealand's state sector, and was developed in consultation with District Health Boards New Zealand, the Office of the Auditor-General and the Treasury.



### What is 'procurement'?

Procurement is the process of buying products and services. It covers everything from identifying a need to developing a business case, selecting a supplier and managing the product or service until either the contracted service has been delivered or the product has reached the end of its useful life (or has been disposed of). Procurement often involves inviting suppliers to bid for work.

## Types of procurement

Savings and benefits typically result from three broad types of procurement:

- **Renewal** – where the term of a contract (or agreement) has ended and it's renewed through a procurement activity.  
  
A renewal activity often has a strong historic baseline that you can use to compare and quantify the savings/benefits the activity creates. However, any specification changes should be identified and considered in the comparison. For example, in a property maintenance contract the buildings involved might have changed, or a contract for new vehicles might have different safety specifications from the original.
- **New** – for procuring products/services for the first time, outsourcing existing services or undertaking a one-off procurement activity. New procurement also requires an appropriate baseline for comparison, such as the budget in the original business case (as long as it's realistic).
- **Renegotiation or improvement of terms** – an interaction with an existing supplier that results in savings to the business without a formal procurement process. The savings/benefits might be simple to quantify, such as those that result from reduced delivery costs, or bulk ordering that leads to supplier discounts or rebates.

How you go about measuring the savings/benefits of a particular procurement activity will be influenced by the type of procurement you use.



### Is there a minimum contract/savings value for reporting?

You should define the minimum contract or savings level for your agency's reporting purposes. That said, you should still maintain a log of low-value procurements so they can be combined in a regular consolidated report of lower-value savings. This Quick-Guide aligns with:

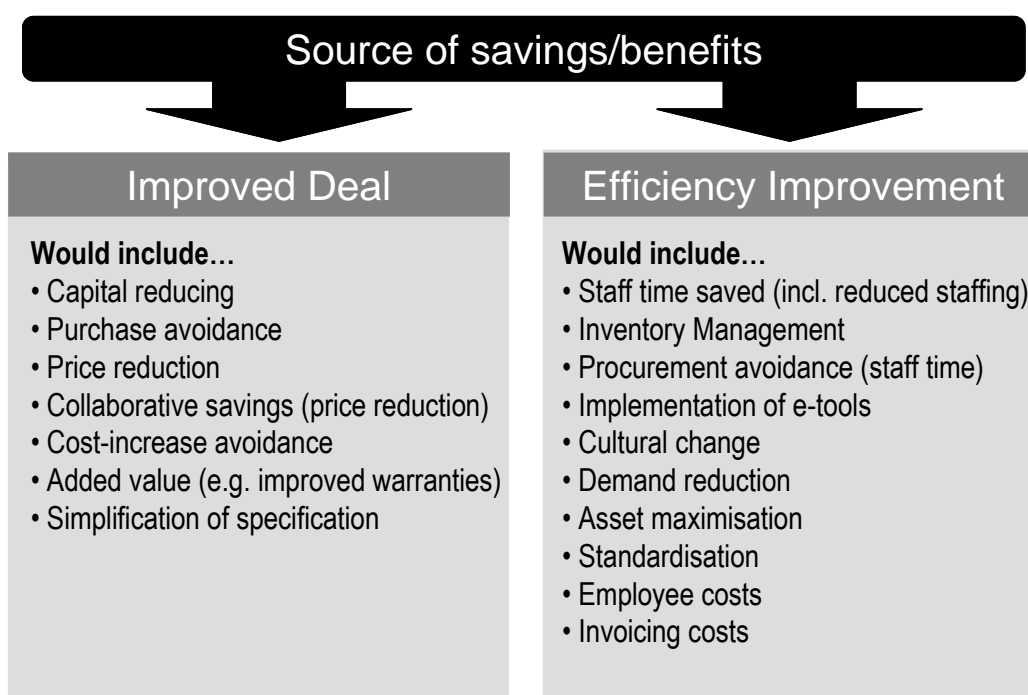
## Sources and impacts of savings and benefits

When measuring the savings/benefits of a procurement activity, it's important to differentiate between their **sources** and their **impacts**.

### Sources of savings and benefits

The savings/benefits that result from a procurement activity are generally the result of an improved deal, efficiency improvements, or a combination of the two.

Here are some examples of the savings/benefits that can result from these two sources. Appendix One has more detail about each example.



It's important to differentiate between the savings/benefits that result from improved deals and those resulting from efficiency improvements.



#### Counting unrelated savings and benefits

Be careful not to claim savings/benefits that have no 'cause and effect' relationship with your procurement activity. For example, a reduction in travel expenditure could derive entirely from a video-conferencing procurement activity, or be partly the result of a redistribution of staffing across offices, which happened at about the same time. In the latter case, only the savings/benefits from the video-conferencing would count.

## Impacts of savings and benefits

The impacts of savings/benefits have two main types:

- **Budgetary benefits** (also referred to as 'cashable', 'tangible' or 'hard' benefits), such as price reductions: these generate cash or a budget surplus that you could choose to reallocate.
- **Non-budgetary benefits** (also referred to as 'non-cashable', 'intangible' or 'soft' benefits), such as cost increases avoided: these represent a procurement benefit but don't release cash or budget for reallocation.

While budgetary savings can be redistributed within or across agencies, non-budgetary savings/benefits are less realisable.



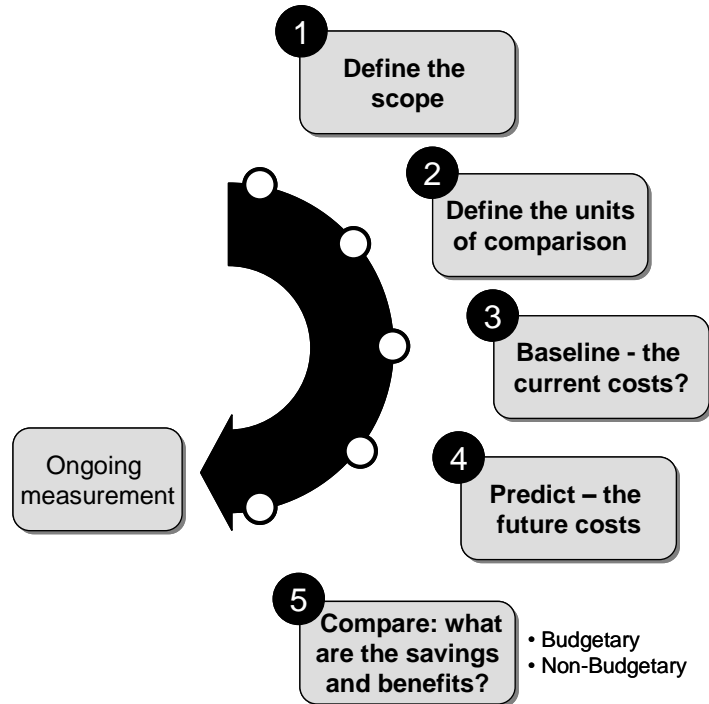
It's important to differentiate between 'budgetary' and 'non-budgetary' savings/benefits.

It's also important to differentiate how the savings/benefits have been derived: from good procurement practice, or from changes in business practice that the new product/service has enabled.



# The savings & benefit measurement process

The five-step measurement process is simple, robust and auditable. Here's how it works:



## What are we trying to achieve?

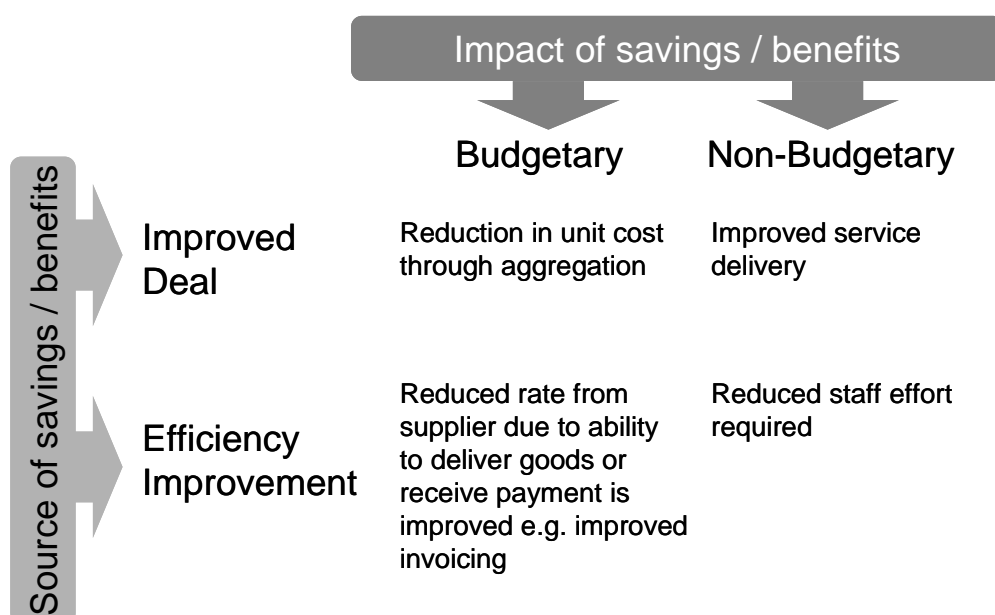
At its simplest level, the savings/benefits from a procurement activity can be calculated as:

$$\text{Baseline spend} - \text{Spend after procurement} = \text{Savings/Benefits}$$

(Volume x Price)      (Volume x Price)

## Before you start

Before you start using the measurement process, you need to determine whether the savings/benefits from your procurement activity are budgetary or non-budgetary.



### Things to consider

- If you identify savings through modelling (i.e. by sampling only) rather than tracking all your expenditure, make sure you use representative data. Include all variations of the product/service, and the way it's used, within your sample.
- If you receive retrospective rebates/refunds through aggregation (e.g. when you combine an order with other agencies and the greater volume results in a discounted unit price), record the savings by the lead buyer and allocate them to the agencies based on their predicted spend.

## Step 1: Define the scope of the procurement activity

Step 1 involves defining the scope of the procurement activity and the related savings/benefits that you're measuring.

### Remember to:

- Collate any sub-categories or divisions of the savings/benefits categories into 'baskets' of related items
- Include any cost component that could be influenced by the product/service selection i.e. if additional services are involved, it's essential to ensure that their cost doesn't offset any agreed cost reductions
- Beware of 'leakage' – that is, spend that should be within the contract's scope but has been defined as a 'special purchase' and therefore excluded from the scope. This can lead to lower potential savings as a result of not using aggregated contracts, or through reduced asset standardisation.

## Step 1 in action...

### Case study

Agencies XYZ and ABC currently source temporary call-centre staff on an ad-hoc and fragmented way from a variety of providers. They believe that a co-ordinated strategy, across the agencies and using a panel of two providers, could produce benefits through volume discounts, standardised requirements and an agreement by the providers to only provide candidates who are already trained and familiar with the environment.

### Defining the scope

This procurement activity involves sourcing temporary call-centre staff through two suppliers instead of a multitude of companies. The contract is let for three years.

The hourly cost includes recruitment/management agency fees and is gross of income tax and ACC contributions.



### Assumptions

Remember to document any assumptions at this stage. They could include, for example, assumptions about transaction costs, labour costs, inflation, fuel and foreign exchange.

## Step 2: Define the comparison units

Calculating the savings/benefits of your procurement activity involves comparing its current (baseline) and predicted costs. It's important to define these costs (units of comparison) clearly, so you can compare 'apples with apples'.

Your baseline costs could include one or more of:

- The outline business case
- The total cost of ownership
- The cost per employee
- The cost per unit area (e.g. per square metre)
- The final contract price
- The first price from the successful bidder
- The allocated budget
- The previous cost
- The previous cost of a representative basket of items
- The final negotiated cost with the supplier
- The average of the bids received.

Appendix Two discusses these measures in more detail, including the pros and cons of using each.

## Step 2 in action...

### Case study: defining the comparison units

Because the temps' experience and skills are key cost drivers, the agencies decide to:

- use the cost per hour for a person meeting their experience/skill requirements (trainee/intermediate/senior) as the unit for comparing procurement costs and calculating the savings
- compare candidate quality by measuring the average training time for each candidate. This is currently captured through each call centre's roster system, with a candidate only considered trained when call monitoring qualifies them to be. Until temps are cleared as 'trained', they are allocated a fewer number of calls each day than are fully trained staff. This affects customer service in each call centre.

## Step 3: Baseline the current costs

Using the units of comparison from Step 3, it's time to quantify the current situation. As this will have a major influence on the result, it's a critically important step.

### Remember to:

- Split your capital and operational costs when assessing your baseline spend
- Start collecting information about the 'non-budgetary' benefits, which you'll need in Step 5. This could include, for example, anecdotal or factual information about staff productivity or time to service under the old and current arrangements.

### Step 3 in action...

#### Case study: baselining the current costs

The agencies' call centre staff purchases totalled \$252,450 in the previous financial year. The hourly rate ranged from \$25 to \$40, with an average of \$33 per hour.

The current average training time is half a day per temp. Training is done by staff members, which creates a service 'hole' that doesn't get filled until half-way through the day.



#### Identify all major costs

It's important to consider all the major costs associated with the product/service you're sourcing. Go beyond the initial cost of purchase to include the associated servicing, delivery and disposal costs. Where appropriate, undertake a detailed analysis of the total cost of ownership. See Appendix Two for more information.

## Step 4: Predict the future costs

This step involves using the units in Step 3 to determine the revised spend under the new or proposed procurement arrangement.

### Remember to:

- Consider any changes under the new arrangement, such as:
  - New components or categories
  - Higher or lower service levels
  - Different consumption levels (any change in consumption shouldn't be included in the savings)
  - A different product/service (costs should be for the 'same' product/service)
- Consider which costs are capital and which are operational
- Keep collecting information about the 'non-budgetary' benefits, which you'll need in Step 5
- Adjust for inflation if appropriate. If a contractual term is longer than a year, you could use CPI or another relevant index adjustment to calculate the out-years, offset by any inflationary price increases agreed during the contract's term. If the contract simply specifies adjustments aligned to CPI, the inflationary distortion is zero
- Factor in products/services that are supplied at no charge and used in the normal course of business, such as those used for evaluation or trial, or provided through a supplier's

promotional activity. The budgetary savings are the equivalent value of the item(s) being substituted.

## Step 4 in action...

### Case study: quantifying the predicted costs

The new contract arrangement reduces the average hourly rate to \$30 because:

- The agencies will use common job descriptions and bands to source staff
- A co-ordinated approach to sourcing call centre staff can be maintained
- The fees will be transparent and consistent.

Under this new arrangement, the average training time per temp is expected to take no longer than an hour.



### Factoring in inflation

If the cost of a product/service is based on previous year's purchases, it might be appropriate to inflate the total cost to the current year.

If the cost is based on a quote valid for the current year, costs don't need to be inflated.

Note that it might be appropriate to inflate spend in future years, such as when prices have not been indexed and fluctuations are likely.

## Step 5: Compare: what are the savings and other benefits?

Step 5 involves calculating the predicted savings by considering the 'before and after' difference in spend, and evaluating the other benefits of the procurement activity.



### Excluding volume changes from savings reporting?

It is important to ensure at this stage that you are comparing the same volume of units being procured even if there will be a change between the baseline and predicted activity. Changes in volume should be recorded but not attributed to the procurement activity itself.

At its simplest, the savings from a procurement activity can be calculated as:

Current baseline spend	(volume x unit cost)
- Predicted spend following procurement	(volume x unit cost)
<hr/>	
<b>= REALISED SAVINGS</b>	

### Your analysis should include:

- An analysis of budgetary savings:
  - Operational expenditure savings
  - Capital expenditure savings (and associated capital interest savings)
  - A clear differentiation between savings resulting from an improved deal and those resulting from efficiency improvements



- An analysis of non-budgetary savings resulting from:
  - An improved deal
  - Efficiency improvements delivered through the new arrangement

#### Remember to consider:

- Whether the new arrangement includes any new components or categories
- Whether the new arrangement has higher or lower service levels
- Any supplier-imposed volume commitments that could limit your potential savings (for example, if your auditor has quoted a discounted rate if you commit to a specific number of audits)
- The savings timeframe. This measurement process assumes that savings will be identified and reported upfront for the entire life of a contract, agreement or procurement activity. If your procurement activity creates a saving that's not associated with any term, a full-year (12-month) effect should be reported unless otherwise agreed
- Currency fluctuations if a product/service has been negotiated in a foreign currency. Any fluctuations will be a treasury gain/loss, not a procurement benefit/increase
- The 'time value of money'. If you're comparing current and predicted costs/savings over multiple years, and depending on the expenditure amount, your finance team might require you to define each year's cash flows in terms of their 'present value', using what's known as Present Value analysis. If you're unsure, talk to your finance team.

#### Calculating capital interest savings

To determine your capital interest savings, identify the difference between spend on capital at baseline and after your procurement activity.

Simply multiply the capital savings or increase by the capital charge rate (your finance team will know what this is). For example, if the difference in capital paid is a reduction of \$50,000, the capital interest savings would be \$3,750 using 7.5% as interest.

## Step 5 in action...

#### Case study: calculating the budgetary savings

For the current year, the agencies predict they will need 38,250 person hours of call centre staff (approximately 20 staff for a calendar year).

	Baseline Spend	Predicted Spend
Hourly rate	33	30
No. of person hours	38,250	38,250
Total	\$1,262,250	\$1,147,500

So the **predicted budgetary savings** are \$115,000 for the current year and \$345,000 for the life of the three-year contract.

The activity has also resulted in **non-budgetary savings and wider benefits**:

- By reducing the contracted providers to two, the agencies have been able to reduce the number of invoices from 1020 to 24, which has saved processing time for the accounts team.
- The predicted reduction in training time (from half a day to one hour) will:
  - Enable the call centre to cover staff absences easily
  - Free up the agencies' training capacity without increasing the number of trainers required.

## Ongoing measurement

The savings from a procurement activity are generally predictive if you're using a baseline of historic practices, pricing and volumes – and for some agencies, that's enough to report the forecast savings. However, it's also good practice to report on the savings achieved throughout the contract and at its closure.

### Reporting on savings during the contract

Wherever possible, track the 'actual' delivered savings throughout the contract, taking into account any price variances. You should also consider variations in volume (up or down), but exclude them when calculating your procurement savings.

Using this information, you can benchmark and compare service improvements or time efficiencies within your organisation and with other agencies. This should link to ongoing performance and relationship management in conjunction with relevant supplier information.

### Reporting on savings at contract end

Reporting on procurement savings at the end of a contract will help your agency to learn from previous practice.

# Appendix One

## Examples of improved deals could include...

**Capital reducing** – where the capital requirement (against budget, business case or forecast) is reduced. The tangible benefit is the difference between the original, agreed budget/forecast and the final cost. It might also be relevant to claim a benefit for eliminating capital equipment lease costs.

### Example – Capital reducing

Agency AB needs to buy a new machine. The multidisciplinary project team undertakes some initial market research and generates an outline business case with a budget of \$550,000. Following a successful tendering exercise, the best-value bid of \$475,000 is selected. The capital reduction is therefore  $\$550,000 - \$475,000 = \$75,000$ .

**Purchase avoidance** – where an intended purchase is cancelled or avoided (fully or partially), for example because the existing equipment still functions adequately or a simpler product meets minimum specifications. The benefit is the difference between the allocated budget and the final price.

**Price reduction** – the result of a reduction in the price of a product/service that meets the minimum criteria. The (tangible) benefit is the difference between the initial paid price and the new agreed price, multiplied by the volume (actual or predicted).

**Collaborative savings (price reduction)** – achieved when the price of a specific product/service reduces owing to a 'bulk purchase' order (when multiple agencies combine their orders). The saving is the difference between the initial paid price and the new agreed price, multiplied by the volume (actual or predicted).

**Cost increase avoidance** – where a price increase or above-budget initial tender is reduced so that it's closer to budget, or a cost increase (including the retail price index or above) is reduced or negated. The difference between the agreed and offered prices is the cost increase avoided. If the agreed price goes below the offered price, there is a price-reduction saving in addition to the cost increase avoidance. Note cost increase avoidance is not a tangible cash-releasing benefit.

**Added value** (e.g. better terms on warranties/guarantees) – where an improvement in terms leads to a more-for-less or more-for-the-same situation. For example, a warranty might be included for the same price as that for which the product alone was historically purchased. This is only a tangible cash-releasing benefit if it can be demonstrated that the warranty or maintenance was being paid for previously.

### Example – Added value

Agency ABC is buying servers and paying \$400 per server annually for support contracts. Following the procurement activity the supplier agrees to maintain the pricing and include a three-year on-site service support contract. Agency ABC can claim an added-value benefit of \$400 per server per annum for any new servers it purchases. If the supplier also agrees to honour the 'free of charge' support on all existing servers, Agency ABC can claim an added-value benefit of \$400 per number server per annum.

**Specification simplification** – where the required simplification is made easier to understand or the quantity procured/required is reduced. In some cases this falls into one of the benefit types discussed above, for example a price reduction or purchase avoidance.

## Examples of efficiency improvements could include...

---

**Staff time saved** – where improvements in process/policy result in improved productivity (reduced staff time). You can claim budgetary savings for the pro-rata reduction in staff time (the value of staff time based on full costs and overheads, or 1.5 x staff members' salaries). Non-budgetary savings would result where you reallocated staff resources to another task or project within your agency.

---

**Inventory management** – where improvements in inventory management lead to less inventory held. You can claim a one-time cashable saving for the current contracted value of reduced inventory.

---

**Procurement-effort avoidance** – where the use of an existing collaborative contract/agreement means you don't need to undertake your own procurement activity. You can claim a cashable saving for the pro-rata reduction in staff time (the value of staff time based on full costs and overheads, or 1.5 x staff members' salaries).

---

**e-tool implementation** – an initiative that simplifies the supply chain and generates efficiencies through, for example, reduced staff time or savings (perhaps as a rebate) from the supplier.

---

**Cultural change** – where a procurement activity leads to a 'step' cultural change, which in turn delivers a benefit. For example, it might be possible to link new telecommuting technology to increased productivity or improved employee retention. This type of benefit might not be quantifiable or might contribute to one or more of the other efficiencies.

---

**Demand reduction** – where a procurement activity reduces the demand for a particular product/service. For example, new video-conferencing technology negates the need for travel, fleet and other expenses. If you can demonstrate that there's no detrimental impact on productivity or service, the difference between the cost of the original and new demand levels (e.g. flights) is a tangible saving.

---

**Asset maximisation** – an initiative that leads to the optimisation of an asset. For example, 'pooling' vehicle fleets and enhancing staff schedules reduces the requirement for vehicles. If you can demonstrate that there's no detrimental impact on productivity or service, the difference between the cost of the original and new asset requirements is a tangible saving.

---

**Standardisation** – an initiative that results in a product standardisation and associated benefits, which could then lead to a reduction in demand or unit price, or any number of other savings. For example, standardisation to a single mobile phone model could generate a price reduction from the supplier, reduced support costs, increased productivity, asset maximisation, etc. The value of each benefit can be quantified (as both tangible and intangible savings) and reported.

---

**Reduced invoicing costs** – if a procurement activity leads to a quantifiable reduction in, or consolidation of, invoices, you might be able to claim the associated reduction in invoice processing costs.

---

## Appendix Two

When undertaking a formal procurement activity, the RFX's pricing schedule should define the baseline costs and volumes that make up tangible (cash-releasing) benefits. However, it might not be possible to define the more subtle (and potentially considerable) intangible benefits.

A physical (or a comprehensive desk-based) walk-through of the supply chain is a successful way of identifying the existing costs of a particular product/service.

The table below provides a structure you can use to define your units of measurement for both the baseline and the spend (actual or predicted) following the procurement activity. Its considerations include relevance, validity, attribution clarity, accuracy, comparability, consistency, timeliness and cost.

### The pros and cons of potential baseline units

Predicted baseline	Pros	Cons
<b>Outline business case</b>	<ul style="list-style-type: none"> <li>• Tests and affirms the affordability of the project and option selected</li> <li>• The stage at which approval for the project to proceed is given</li> <li>• Budget identified and funding allocated on basis of business case projections</li> </ul>	<ul style="list-style-type: none"> <li>• Based on best information available; could be inaccurate</li> <li>• Market not yet tested</li> <li>• Market conditions changing between business case and going to tender could lessen the business case's accuracy</li> <li>• Refinements to the scope of requirements and tenderers' input might alter</li> </ul>
<b>Total cost of ownership (TCO)</b>	<ul style="list-style-type: none"> <li>• Most comprehensive method for generating a baseline of underlying costs</li> <li>• Difference between a before and after TCO represents a 'real' saving</li> <li>• Note: You need to ensure that you model any variation in the specifications between baseline and solution</li> </ul>	<ul style="list-style-type: none"> <li>• The multitude of factors involved in creating a true TCO might make it prohibitive (in this case, use simple models to determine TCO)</li> <li>• Supplier-side costs might be difficult to understand</li> </ul>
<b>Cost per employee</b>	<ul style="list-style-type: none"> <li>• Caters for fluctuations in staff numbers</li> <li>• Simple concept to understand and communicate</li> <li>• Allows for easy benchmarking across organisations and sectors</li> </ul>	<ul style="list-style-type: none"> <li>• Depends upon budgets reflecting fluctuations in staff numbers (to maintain same savings methodology)</li> <li>• Must have a very clear definition of the scope of the product/service that's being considered per employee</li> <li>• Might not be appropriate for some products/services</li> </ul>
<b>Cost per unit area (e.g. \$/square metre)</b>	<ul style="list-style-type: none"> <li>• Caters for fluctuations in and variety of organisation sizes</li> <li>• Simple concept to understand and communicate</li> <li>• Enables easier benchmarking across organisations and sectors</li> </ul>	<ul style="list-style-type: none"> <li>• Might not be appropriate for some products/services e.g. price of a widget</li> <li>• The many facets of 'cost' need to be defined</li> </ul>
<b>Final contract price</b>	<ul style="list-style-type: none"> <li>• Easily definable</li> <li>• Caters for specification changes during activity</li> </ul>	<ul style="list-style-type: none"> <li>• Doesn't consider budget allocation</li> <li>• Specification/Contract leading to this</li> </ul>



<b>First price from successful bidder</b>	<ul style="list-style-type: none"> <li>• Easily definable</li> </ul>	<ul style="list-style-type: none"> <li>• Doesn't consider budget allocation</li> <li>• Doesn't cater for specification changes through procurement activity</li> </ul>
<b>Allocated budget</b>	<ul style="list-style-type: none"> <li>• Tests and affirms the affordability of the project and option selected</li> <li>• Stage at which approval for the project to proceed is given</li> </ul>	<ul style="list-style-type: none"> <li>• Costs are based on best information available, which could be inaccurate</li> <li>• Market not yet tested</li> <li>• Market conditions changing between business case and going to tender could lessen the accuracy</li> <li>• Refinements to the scope of the requirement and tenderers input may alter</li> </ul>
<b>Previous cost</b>	<ul style="list-style-type: none"> <li>• Relatively easy measure to identify</li> <li>• Simple concept to understand and communicate</li> </ul>	<ul style="list-style-type: none"> <li>• Doesn't cater for specification changes</li> <li>• Lack of transparency on total cost, won't identify 'intangible' savings</li> <li>• You need to consider external influences such as RPI (retail price index), foreign exchange, demand change owing to staff, etc</li> </ul>
<b>Previous cost (representative basket of items)</b>	<ul style="list-style-type: none"> <li>• Easy measure to identify</li> <li>• Simple concept to understand and communicate</li> </ul>	<ul style="list-style-type: none"> <li>• Relevance of basket</li> <li>• Lack of transparency on total cost, won't identify 'intangible' savings</li> <li>• You need to consider external influences such as RPI, foreign exchange, demand change owing to staff, etc</li> <li>• Risk of price fluctuations on non-basket items</li> </ul>
<b>(Final) Negotiated cost with supplier</b>	<ul style="list-style-type: none"> <li>• Easily definable</li> <li>• Caters for specification changes during activity</li> </ul>	<ul style="list-style-type: none"> <li>• Doesn't consider budget allocation specifications/contract leading to this</li> </ul>
<b>Average of bids received</b>	<ul style="list-style-type: none"> <li>• Easily definable</li> <li>• Useful when it's difficult to establish previous cost or where the specification is very different under new contract</li> </ul>	<ul style="list-style-type: none"> <li>• Relies on bids received</li> </ul>

## Appendix Three

### Scenario: Agency AE is letting a contract for the provision of Product X for a three-year term.

#### Scope

This procurement activity involves sourcing 100 units of Product X for a three-year term. Each year the products need to be serviced at a cost to the agency. The purchase and servicing are paid for from operating (revenue) budget.

Prices should be indexed to current economic conditions using the consumer price index (CPI), which is assumed to be 2.5%.

#### Comparison unit

For this category, the comparison unit is the cost per unit of Product x.

#### Baseline

In the previous year, Agency AE sourced 100 units at a cost of \$5000 per unit. There was also a servicing cost of \$100 per unit per year.

#### Spend (actual or predicted) following procurement

Agency AE expects to need 100 units a year for the next three years. It's been able to negotiate an improved deal from an alternative supplier, for \$4800 per unit and a servicing charge of \$90 per unit.

#### Calculations of budgetary savings

	Baseline Cost Range	Predicted Spend following Procurement
Unit cost	\$5000	\$4800
Number of units sought	100	100
Servicing costs, p.a.	\$100	\$90
Total spend, year one	\$510,000	\$489,000
Total spend, year two	\$510,000	\$489,000
Total spend, year three	\$510,000	\$489,000
Total spend in three years	\$1,530,000	\$1,467,000

Baseline spend	\$1,530,000
Spend following procurement	- \$1,467,000
<b>POTENTIAL SAVINGS</b>	<b>\$63,000</b>

The **predicted budgetary savings** are \$63,000 in the three-year period.

## Scenario: Agency GH reviews how it sources temporary staff

Agency GH currently procures temporary administrative staff in an ad-hoc and fragmented way from a variety of providers. It believes that a co-ordinated procurement strategy using a single agency could produce savings through volume discounts and having a standard set of requirements.

### Scope

This procurement activity involves sourcing temporary administrative staff through one supplier instead of the previous fragmented approach. The contract is let for three years.

The hourly cost is to include recruitment/management agency fees and to be gross of income tax and ACC contributions.

### Comparison unit

Because the skill sets of the staff being hired are the key cost driver, the cost per hour for a person meeting the skill requirements is used as the comparison unit for comparing the procurement costs and calculating the savings.

### Baseline

The agency's temporary administrative staff purchases totalled \$252,450 in the previous financial year. The hourly rate ranged from \$25 to \$40, with an average of \$33 per hour.

### Spend (actual or predicted) following procurement

Through the new contract arrangement, the average hourly rate will be reduced to \$30 because:

- The agency will use standardised job descriptions and bands to source temporary administrative staff
- A co-ordinated approach to sourcing of administrative staff can be maintained
- The fees will be transparent and consistent.

### Calculating the budgetary savings

For the current year, the agency predicts that it will require 38,250 person hours of administrative staff (approximately 20 staff for a calendar year).

	Baseline Spend	Predicted Spend following Procurement
Hourly rate	33	30
No. of person hours	38,250	38,250
Total	\$1,262,250	\$1,147,500

The **predicted budgetary savings** are \$115,000 for the current year and \$345,000 for the life of the contract.

### Calculating non-budgetary savings

By sourcing temporary administrative staff through one contractor, Agency GH can reduce the number of invoices submitted from 1020 to 12, which saves processing time for the accounts team.



Crown  
Commercial  
Service

# Commercial Reform in Central Government

Sam Rowbury, Director of Policy Delivery  
Crown Commercial Service

16 October 2014



# Why Commercial Matters

**Circa £230bn spend p.a. on goods and services across the public sector**

**Circa £40bn spend p.a. on goods and services in Central Government**

**Better commercial practices saved the Government £5.4bn (2013/14)**



## Imperatives

**Saving money**

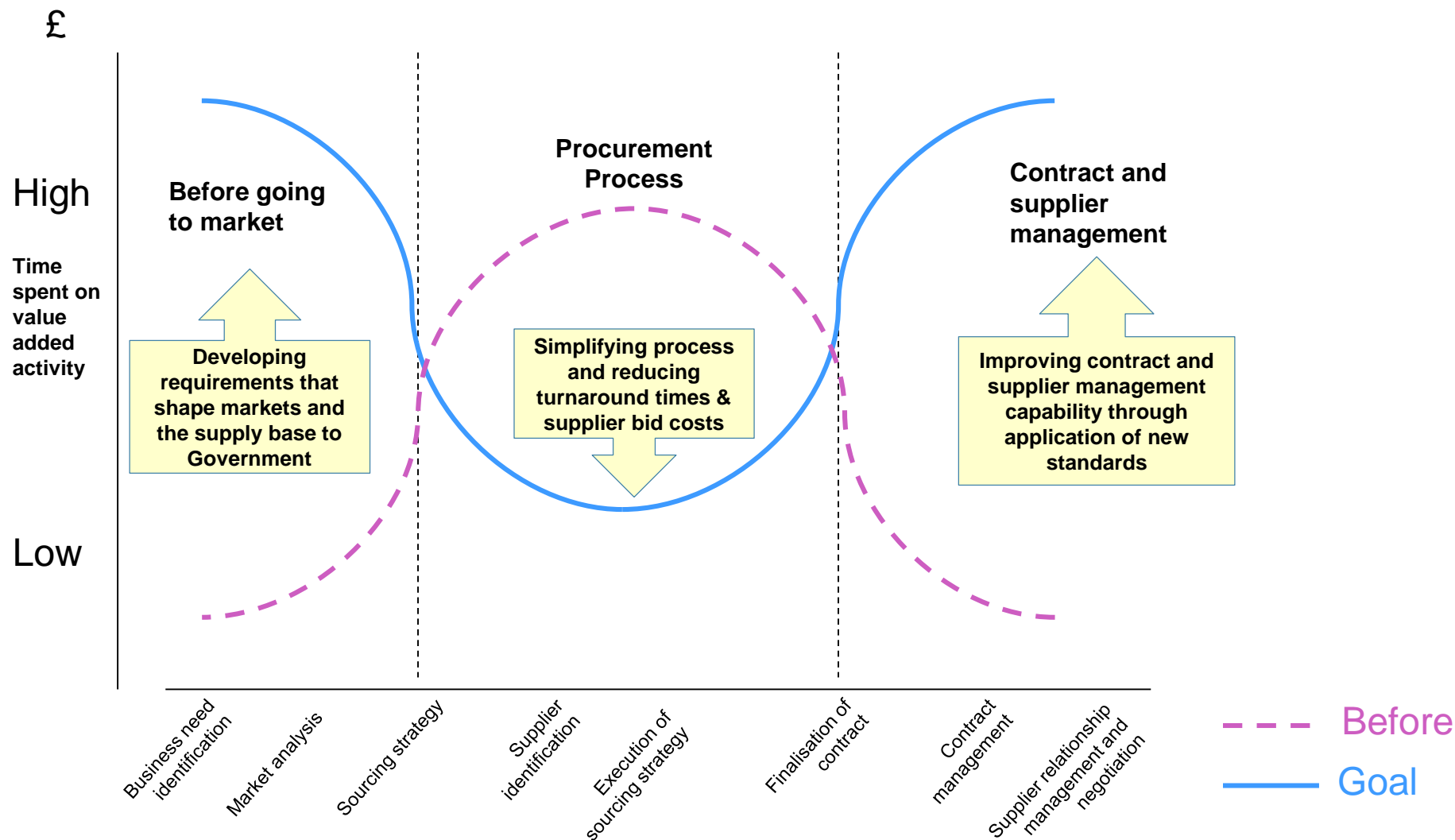
**Supporting economic growth**

**Enabling innovation and new delivery models**





# New DNA for commercial activities





# We expect our suppliers.....

To **embrace competition**

To be **innovative** through proposals for how we can improve services

To deliver **savings** for taxpayers

To provide opportunities to **SMEs** in the supply chain

To **deliver** what we are asking for as an intelligent client

To deal effectively with CCS as **one customer** - the Crown

To make a **reasonable** but not excessive profit

To demonstrate high levels of **corporate responsibility**

To be **transparent** through open book accounting



# Policy Delivery – SMEs

Levelling the playing field for small companies, charities and voluntary organisations to be in the best possible position to compete for government contracts



**SME CROWN REP** - Stephen Allott – ‘voice of SMEs’

**OPPORTUNITY** - Make it easier to find opportunities to do business with Government: Contracts Finder refresh

**REFORM** - Negotiating and implementing simpler, more flexible EU public procurement. Lord Young Reforms.

**COMMITMENT** - Supporting the achievement of the 25% aspiration

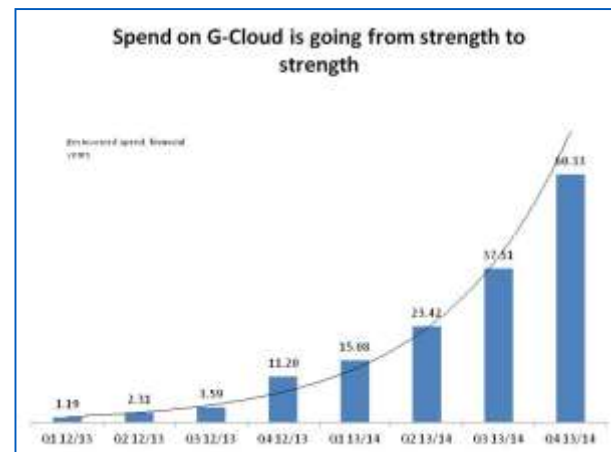
**COMMUNICATION** - SMEs given new channels of communication including Mystery Shopper, SME Panel, Crown Rep



# Illustration of Impact



Picture source: Kable / GDS



Spend via G-cloud is growing exponentially

The market is being opened up to SMEs



# Building Commercial Expertise Across Government

## Civil Service Capabilities Plan - Priority Skills Area



### Attracting Expertise

**Commercial recruitment hub**

**Developing commercial Fast Stream scheme**

**Fast Track apprenticeship programme**



### Developing Expertise

**Developing a culture of confidence and judgment**

**Interchange with industry**

**Skills assessment tool and further L&D opportunities**



### Retaining Expertise

**Active career path management**

**Designing a commercial talent programme**

**Non-monetary rewards**



# Commissioning Academy

**“A **must attend**’ programme for all commissioning leaders.”**

**Francis Maude Minister for the Cabinet Office**

- Development programme for people responsible for delivering transformation of public services
- Combination of input from experts and practical, peer-led learning
- Focus on commissioning for outcomes and across organisational boundaries
- Gives knowledge, networks and confidence to do things differently - emphasis on ‘hearts and minds’ rather than process and rules training
- Terrific feedback from participants – supporting them in delivering real change

**Enrolment: [servicedesk@cabinet-office.gsi.gov.uk](mailto:servicedesk@cabinet-office.gsi.gov.uk)**