

Benchmarking Cost Savings & Cost Avoidance

NASPO BENCHMARKING WORKGROUP

Research Brief
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Table of Contents

- Introduction..... 1
- Background and Previous Work..... 2
- Definitions and the Importance of Benchmarking 4
- Models and Methodologies 7
 - Cost Avoidance Model - Tier One 9
 - Mid-Range Model - Tier Two 15
 - Illinois Model - Tier Three 33

Introduction

“So they [the Government] go on in strange paradox, decided only to be undecided, resolved to be irresolute, adamant for drift, solid for fluidity, all-powerful to be impotent.”¹

Cost savings and providing for cost reduction opportunities, or “cost avoidance,” are not new concepts. Private industry has developed these terms into an accounting science that impacts the bottom line and profit and loss statements. Whole theories of management have been fostered from them and opinions and definitions are as varied as industry itself. For some time, the private sector has been conducting cost analysis and cost savings/cost avoidance benchmarking activities and using the results to establish best practices. While there are many similarities between public and private procurement best practices and sourcing techniques, attempts to find commonality and benchmarks for cost savings and cost avoidance have been somewhat alien to the public sector.

However, as more and more emphasis is being placed upon public purchasing officials to demonstrate their public value and develop best practices that in some form mirror private enterprises, government purchasing has been called upon to document their performance in terms of savings.

This paper is an attempt to provide tools to NASPO members to assist them in documenting and validating actual savings and estimated, projected, and potential savings. Additionally, as the final component to the NASPO Benchmarking initiative, this paper is intended to establish a framework for providing internal definitions, models for data capture, and methodologies for validation. Hopefully, over time, this framework will lead to the development of best practices in cost savings/cost avoidance that can become one of the many standards in gauging performance across state procurement operations.

¹ Sir Winston Churchill, *Hansard*, November 12, 1936

Background and Previous Work

“Benchmarking - Comparing information of one entity to like information of another entity for the purpose of identifying best practices and the sharing of information.”

NASPO initiated this effort in early 2005 in an attempt to measure and compare the performance of state procurement entities. This was accomplished by establishing a common set of metrics that could be used by all states to assess their own performance as well as provide state-by-state comparisons. Four broad performance categories were identified:

- Efficiency of the procurement process
- Technical and system development
- Professional development
- Cost savings/avoidance

An on-line survey was developed and distributed to NASPO members in June 2006, with a total of 30 states responding. The first three performance categories were addressed fairly comprehensively by the 2006 survey, but the fourth category – cost savings/avoidance was not fully developed until now. NASPO President Shealy convened a task force for the purpose of determining whether or not it is possible to establish a common set of metrics for capturing cost savings/avoidance activities in state procurement. To that end the task force is presenting three models, ranging from the complex to the rudimentary for discussion.

The purpose of this document is to provide a tool for discussion of the definitions used, the three models, reporting metrics, benchmark data elements, and attendant assumptions and constraints.

Recently, our colleagues at the Government Accounting Standards Board (GASB) issued Concepts Statement No. 4 *Elements of Financial Statements* (June, 2007), defining the basic elements of state and local government financial statements with a view to form a conceptual framework that provides a foundation to the development of government accounting and financial reporting standards.

Similarly, in March of 2006, the Center for Advanced Procurement and Supply Research (CAPS) issued a Critical Issues Report authored by Bryan Ashenbaum that attempted to provide "...proper categorizations (definitions) of the various types of cost reduction and their application to the company's operating budgets and profit and loss measures. Generally, speaking, cost reductions come in two different categories: cost savings and cost avoidance." The report admits that neither of these types of cost reductions has universally accepted definitions or methods by which it is tracked and applied to a business enterprise's financials. The definitions presented in the CAPS paper are geared primarily towards private industry P&L and do not necessarily apply to the governmental environment at the state level.

The Benchmarking Task Force recognized the need to have the cost reduction categories defined for NASPO members in their operating atmosphere. The first step to ensure accurate benchmarking is to make certain the data that is being requested is classified accurately for all submissions. If interpretations of cost reduction types are varied, the data collected will be suspect and of little value.

The task force also recognized the differing administrative structures that exist across the NASPO membership and a one-size-fits-all approach to the data collection effort for benchmarking purposes was not practical or utilizable.

Therefore, this paper is an attempt to provide NASPO members with a starting point to adopt a state government-level set of definitions for cost savings and cost avoidance, three models for calculating cost savings and cost avoidance, and reporting methodologies.

Definitions and the Importance of Benchmarking

“Your questions imply that a definition of the word ‘planet’ is useful scientifically. That is a view not shared by many professional planetary scientists. The astrophysics of planetary bodies is so rich and complex that defining ‘planet’ has never been an issue under discussion among professionals. So, some of your questions read to me like the old phrase ‘When did you stop beating your wife?’”²

While the definition of a planet is not of critical interest to NASPO members, the definitions of cost savings and cost avoidance for purposes of benchmarking are important. If the benchmarking endeavor is to be successful, those reporting must know what it is they are reporting. This section establishes the definitions for the basic cost saving/avoidance categories.

There are as many definitions for cost savings and cost avoidance as there are business school professors who espouse a particular business philosophy. In order to provide credibility to the benchmarking effort the members of NASPO must agree on the definitions. Every profession and diverse organization has, over time, evolved its own semantics, vernacular and associated definitions that have become accepted within that profession or organization. By adopting a particular definition of cost savings and cost avoidance for a singular purpose (in this case, NASPO benchmarking), it is more fundamentally important to have concurrence *on the definition* than the definition itself, provided the definition is materially and substantially accurate and sound.

Nothing in this paper is intended to require or imply that NASPO member states must adopt the following definitions for their internal business practices, but rather, for the purposes of NASPO benchmarking activities, there is a common understanding of what information to provide when surveyed.

² Shortly after the Prague vote on whether or not Pluto should be removed as a planet, Robert Roy Britte (Senior Science writer for Space.com) posed a series of questions about the new definition of a “planet” and its merits and shortcomings to several astronomers, among them Geoff Marcy at the University of California, Berkeley. Marcy and his colleagues have found more planets beyond our solar system than any other team. Mr. Marcy replied with the referenced quote.

However, the adoption of the definitions in and of itself may assist NASPO members in developing their own best practices and add credence to those best practices when scrutinized by outside parties, e.g. internal and external auditors, consultants, financial managers, etc.

With an appreciation of the diversity and scope of authority of the member states, the Benchmarking Workgroup acknowledges that not all members perform all responsibilities in the same manner nor do all member states have the ability, either in resources or statutory right, to engage in the opportunities to engender all the cost savings or cost avoidance categories presented. That being said, the following categories represent a modest, albeit generally accepted, menu of cost savings and cost avoidance categories that may easily be used by NASPO for benchmarking purposes.

Cost Savings

- Reduced Baseline Appropriation – A reduction in available resources³ based on legislative actions or targeted cuts in certain areas.
- Reduction from Budgeted Spend – A reduction in the projected/budgeted resources (e.g. staff time, materials, and equipment) used for an activity or business process, as a result of a Savings Project.
- Volume Reductions – Reducing the amount of a good or service used. Savings captured in this category include projects that intentionally seek volume reductions through direct action (e.g., demand management).
- Refunds/Credits/Rebates – Payments made to the state by vendors as a result of a Savings Project.
- New Revenue – New streams of revenue instituted by the state.
- Enhanced Reimbursement – Improvements in the accuracy or completeness of a business process that generates a higher rate of recovery of funds from external organizations. This activity may be generally associated with business process re-engineering and is an element of the most complex cost savings model, “Tier Three.”

Cost Avoidance

- Cost Avoidance – A cost reduction opportunity that results from an intentional action, negotiation, or intervention.
 - Procurement Cost Avoidance – A cost reduction opportunity that is generated from the competitive bidding process.
 - Negotiated Cost Avoidance – An avoided cost as a result of the issuance of Best and Final Offers, Sole-Source negotiations, or post-procurement/post-award negotiations.

³ GASB has defined a “resources” as “an item with a present capacity to provide service.”

BENCHMARKING COST SAVINGS & COST AVOIDANCE

- In-Contract Cost Avoidance – A cost reduction opportunity produced as a result of the intervention of a purchasing official in responding to contractor requests for increases in prices, market fluctuations, indices' upward alterations, etc.
- Rate Reductions – Obtaining lower rates or prices for goods, services, and construction purchased by a State.

The adoption of cost reduction and cost avoidance definitions and categories to be used for the NASPO benchmarking initiative are of paramount importance when members submit survey results. In order to develop commonality and advance best practices, uniformity in these areas is essential to ensure the benchmarking initiative can grow and mature and thereby provide members with useful, accurate, and meaningful data.

Models and Methodologies

“If it can't be measured, it can't be managed”

Models are just that, archetypes of techniques to collect and normalize data that can be used in a universal and comparative manner. The data collected through the NASPO benchmarking project must be standardized in one or more ways. The Benchmarking Workgroup explored several avenues of calculating and collecting cost savings/cost avoidance data. The models are presented as tiers to facilitate ease of reporting and benchmarking.

A plausible and possible survey for cost savings and cost avoidance may ask which member states used which tier or used a hybrid or internal mechanism for capturing the data. With an eye towards developing best practices this would enable NASPO to have insight into what is the most useful and accurate representation of the cost reduction categories and standards being used by members. Survey responses of cost savings and/or cost avoidance could then be placed into a tiered-related category. Member states have the options of using one or a combination of the three tiers, e.g. using Tier One for day-to-day procurement activities and Tier Three for special projects; or perhaps an amalgam of model is being used by a state that would, in fact, be a practical fourth tier or become/replace one of the three proposed tiers.

The first Tier represents a cost avoidance model that is bifurcated by either “*Procurement Cost Avoidance*” or “*In-Contract Cost Avoidance*.” The model is predicated on two simple assumptions. First, the competitive public procurement process conducted by public purchasing professionals is an intentional action that results in lower costs for goods, services and construction than would otherwise be obtained by the state absent such competition. Second, the art of negotiation and/or the professional education of public purchasing professionals in such areas as the use of accepted indices (for instance such as the Producer’s Price Index (PPI), Consumer Price Index (CPI), etc.) may result in in-contract cost containment.

The calculations used in Tier One are basic mathematical calculations that, in the screen print, are hard-coded (protected) in an Excel® spreadsheet that is available from the State of Utah. The spreadsheet is used by the purchasing agents and is downloaded into a database for reporting purposes. The cost avoidance for both categories is combined and represents an immediate snapshot in time. While not presented in this paper, the reported cost

avoidance could be migrated into a cost savings category if accurate spend data was available for predetermined chronological periods, i.e. cost avoidance occurs at a moment in time and cost savings occurs over a period of time.

The Tier Two model is a mid-range application of the more sophisticated Tier Three model and represents a cost savings data collection and reporting mechanism as opposed to the cost avoidance approach found in Tier One.

The last model, referred to as the “*Illinois*” model (Tier Three), is the most comprehensive and academic model placing strong emphasis on validation and accounting. Keeping in mind the definitions stated in previous sections of this paper, the Illinois model requires fiscally sound accounting practices, attention to detail, and provides a mechanism to strictly identify *cost savings*. The cost savings calculated, validated and, perhaps, audited are generally consider “hard” savings.

The Illinois model was developed by the Illinois Central Management Services (CMS) in partnership with Deloitte and Touche Consulting, LLP to support their Efficiency Initiative and related Savings Projects.

The Benchmarking Workgroup appreciates the valuable insight and counsel provided by Marcia Armstrong, C.P.A. of the State of Illinois for providing this model and a detailed explanation of its applications and implementation.

Cost Avoidance Model – Tier One

While the Cost Avoidance Model may be the first of the three tiers of reporting cost reductions as a result of the activities of state government purchasing officials, it may be one of the most common opportunities to generate savings. This model has been adopted by the State of Utah as a mechanism to demonstrate, in part, the public value of the actions of the personnel within the State Division of Purchasing and General Services. It recognizes immediate savings through competitive solicitations on singular procurements that result in contracts or purchase orders or cost reduction opportunities on state cooperative or term contracts.

The Cost Avoidance Model also provides a method to capture *potential* savings or savings opportunities as a result of the intentional actions, negotiations, or interventions of purchasing agents. This model, when used in the latter circumstances, i.e. “in-contract” cost avoidance represents a snapshot in time of the potential savings that may be realized. Simply put, even though the purchasing professional has reduced the cost of an individual unit price or hourly rate there is no guarantee that an organization, after the cost reduction has been negotiated, will not purchase more units or hours of service, thereby eliminating any cost savings. The key to this model is the opportunity for NASPO members to record cost reduction opportunities by either: providing for lower costs to enable using entities to supply additional resources; provide enhanced services (lower costs in one category of service may allow for additional funding of another under-funded service); and/or, get “more bang for the buck” in the acquisition of additional units of goods or lower construction costs.

This model also provides for the simple documentation of the value of the open and competitive bidding process used by public purchasing organizations. This documentation, referred to as “Procurement Cost Avoidance,” is less dependent on data collection and is relatively easy to audit from already-maintained public records. This model is manageable with limited resources and sophistication if the assumptions it is reliant upon are static and generally accepted and agreed upon. If actual cost savings are required, hard savings could be calculated provided historical spend data is available.

Procurement Cost Avoidance Methodology

Procurement cost avoidance represents the public value in the actions of the members of the government purchasing organization. That is, without the commencement of the procurement process, as prescribed by statute and rules, government entities would pay more for goods, services and construction. In order to simplify and standardize the reporting of procurement cost avoidance, rudimentary mathematical calculations are performed. It is critical for audit and validation that consistency of the components included in the reporting of cost avoidance and the calculations be maintained. It is also critical that assumptions and constraints are also consistent. To that end, the following assumptions are made:

- Procurement cost avoidance can only be obtained by fostering effective broad-based competition;
- The average price of bids/proposals received in response to a solicitation represents the then-current market price or “baseline”;
- The lowest responsive and responsible bidder or acceptable offeror price represents the “actual” cost; and
- The difference between the baseline and the actual cost is the amount of cost avoidance to be reported.

By adopting the definition that procurement cost avoidance is a direct result of the actions of the individuals responsible for ensuring that the best value for the expenditure of public funds is achieved, the government purchasing organization can successfully demonstrate its efforts in meeting financial goals.

Cost Avoidance Instructions

1. Informal Quotes and Competitive Sealed Bidding

Single Award/Single Line Item

A. One-Time Purchase

Step 1. Calculate the average (mean) of all of the bids received and enter the amount into the form where indicated “Average \$ of All Bids”.

Step 2. Enter the awarded amount into the form where indicated “Awarded \$ Amount”. The amount of cost avoidance for the procurement that will be reported is automatically calculated. If performing the calculation manually, subtract the awarded amount from the average and the result will be the amount of cost avoidance.

Step 3. Enter any comments in the “Comments” field.

Step 4. Submit the report by pressing the “Submit” button at the bottom of the form.

B. Term Contract

Step 1. (If the solicitation required bidders to complete this activity as part of the bid submission, proceed to Step 2.) Multiply the unit price submitted by each responsive and responsible bidder by the actual or estimated number of units to be purchased under the contract for the term of the contract, including any renewal options, to obtain a bid total for the life of the contract.

Step 2. Calculate the average of all bid totals (based upon the life of the contract) and enter the amount on the form where indicated “Average \$ of All Bids”.

Step 3. Enter the awarded bid total (based upon the life of the contract) where indicated “Awarded \$ Amount”. The amount of cost avoidance for the procurement that will be reported is automatically calculated. If performing the calculation manually, subtract the awarded amount from the average and the result will be the amount of cost avoidance.

Step 4. Enter any comments in the “Comment” field.

Step 5. Submit the report by pressing the “Submit” button at the bottom of the form.

Single Award/Multiple Line Items

A. One-time Purchase

Step 1. Add all to-be-awarded line items for each individual responsive and responsible bid received in response to the solicitation to obtain an individual bidder bid total.

Step 2. Calculate the average of all bid totals and enter the amount into the form where indicated “Average \$ of All Bids”.

Step 3. Enter the awarded bid total amount into the form where indicated “Awarded \$ Amount”. The amount of cost avoidance for the procurement that will be reported is automatically calculated. If performing the calculation manually, subtract the awarded bid total amount from the average and the result will be the amount of cost avoidance.

Step 4. Enter any comments in the “Comment” field.

Step 5. Submit the report by pressing the “Submit” button at the bottom of the form.

B. Term Contract

Step 1. (If the solicitation required bidders to complete this activity as part of the bid submission, proceed to Step 3.) For each individual responsive and responsible bid received in response to the solicitation, multiply all to-be-awarded line items by the actual or estimated number of units to be purchased under the contract for the entire term of the contract, including renewals, to obtain line item totals.

Step 2. Add all line item totals calculated in Step 1 for each bid to obtain a bid total for each bid.

Step 3. Calculate the average of all bid totals (based upon the full life of the contract) and enter the amount on the form where indicated “Average \$ of All Bids”.

Step 4. Enter the awarded bid total (based upon the full life of the contract) where indicated “Awarded \$ Amount”. The amount of cost avoidance for the procurement that will be reported is automatically calculated. If performing the calculation manually, subtract the awarded bid total amount from the average and the result will be the amount of cost avoidance.

Step 5. Enter any comments in the “Comment” field.

Step 6. Submit the report by pressing the “Submit” button at the bottom of the form.

Multiple Awards/Single Line Item

A. One-Time Purchase

Step 1. Calculate the average of all of the bids received and enter the amount into the form where indicated “Average \$ of All Bids”.

Step 2. Enter the lowest awarded amount into the form where indicated “Awarded \$ Amount”. The amount of cost avoidance for the procurement that will be reported is automatically calculated. If performing the calculation manually, subtract the lowest awarded amount from the average and the result will be the amount of cost avoidance.

Step 3. Enter any comments in the “Comments” field.

Step 4. Submit the report by pressing the “Submit” button at the bottom of the form.

B. Term Contract

Step 1. (If the solicitation required bidders to complete this activity as part of the bid submission, proceed to Step 2.) Multiply the unit price bid submitted by each responsive and responsible bidder by the actual or estimated number of units to be purchased under the contract for the term of the contract, including any renewal options, to obtain a bid total for the life of the contract.

Step 2. Calculate the average of all bid totals (based upon the life of the contract and enter the amount on the form where indicated “Average \$ of All Bids”).

Step 3. Enter the lowest awarded total bid (based upon the life of the contract) where indicated “Awarded \$ Amount”. The amount of cost avoidance that will be reported is automatically calculated. If performing the calculation manually, subtract the lowest awarded bid total from the average and the result will be the amount of cost avoidance.

Step 4. Enter any comments in the “Comments” field.

Step 5. Submit the report by pressing the “Submit” button at the bottom of the form.

Multiple Awards/Multiple Line Items

A. One-time Purchase

Step 1. Calculate the total of each individual line item for all responsive and responsible bids received to create a line item total.

Step 2. Calculate the average of each of the line item totals and enter the amount into the form where indicated “Average \$ of All Bids”. If a bidder did not submit a bid for a particular line item do not include that bid when calculating the average.

Step 3. Enter the awarded line item amount into the form where indicated “Awarded \$ Amount”. The amount of the cost avoidance that will be reported is automatically calculated. If performing the calculation manually, subtract the awarded line item amount from the average for that line item and the result will be the amount of cost avoidance.

Step 4. Enter the respective line item number, “Line Item 1, “Line Item 2”, etc., into the “Comments” field.

Step 5. Submit the report by pressing the “Submit” button at the bottom of the form.

Step 6. Repeat the process for each line item. Use the same bid number for each submission. Adjust the entry made in Step 4 according to the line item being submitted.

B. Term Contract

Step 1. (If the solicitation required bidders to complete this activity as part of the bid submission, proceed to Step 3.) For each individual responsive and responsible bid received in response to the solicitation multiply each to-be-awarded line item by the actual or estimated number of units to be purchased under the contract for the entire term of the contract, including renewals, to obtain line item totals.

Step 2. Add all the line item totals calculated in Step 1 for each bid to obtain an overall line item total.

Step 3. Calculate the average of each line item total (based upon the life of the contract) and enter the amount on the form where indicated “Average \$ of All Bids”.

Step 4. Enter the awarded line item total (based upon the life of the contract) where indicated “Awarded \$ Amount”. The amount of the cost avoidance that will be reported is automatically calculated. If performing the calculation manually, subtract the awarded line item amount from the average for that line item and the result will be the amount of cost avoidance.

Step 5. Enter the respective line item number, “Line Item 1, “Line Item 2”, etc, into the comments field.

Step 6. Submit the report by pressing the “Submit” button at the bottom of the form.

Step 7. Repeat the process for each line item. Use the same bid number for each submission. Adjust the entry made in Step 4 according to the line item being submitted.

2. Competitive Sealed Proposals (RFP Procurement)

As applicable, the steps outlined for each award type conducted under Quotes and Competitive Sealed Bidding may be used. In general, however, the basic process is to take the awarded suppliers cost from the average of all the acceptable suppliers responses. If the awarded cost is higher do not report.

Cost Avoidance Worksheet

The following illustration is a screen print of an automated protected calculation worksheet that, in the electronic version, provides for entry field helps, FAQs, and required fields to minimize the number of actions required to capture the data and ensure that individual reporting is standardized. The spreadsheet can be easily made available to any one and can be unprotected to permit customization.

BENCHMARKING COST SAVINGS & COST AVOIDANCE

Procurement Cost Avoidance Worksheet										TD TOTAL	
Cost avoidance is a cost reduction that results from a spend that is lower than the spend would have otherwise been if the cost avoidance action had not been undertaken.										\$0.00	
Procurement Cost Avoidance Instructions			Procurement Cost Avoidance Methodology				Procurement Cost Savings				
Record	Date	Agent	Type	Solicitation or Contract #	Description	Commodity Code	Average	Award	Cost Avoidance Amount	%	Comments
1									\$0.00	#DIV/0!	
2									\$0.00	#DIV/0!	
3									\$0.00	#DIV/0!	
4									\$0.00	#DIV/0!	
5									\$0.00	#DIV/0!	
6									\$0.00	#DIV/0!	
7									\$0.00	#DIV/0!	
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50									\$0.00	#DIV/0!	

Mid-Range Model – Tier Two

The Tier Two Model allows for the data capture, documentation and validation of cost savings generated by the purchasing organization. Unlike the previous model, Tier Two provides for the documentation and validation of *cost savings*. It provides for some of the audit and qualification required of Tier Three but is less complex. Tier Two applies the same definitions as are found in the Tier Three Model and similar reporting categories and requirements are present.

Procurement Initiative Savings Validation – Approach

The purpose of this section is to explain the approach for measuring and validating Procurement Initiative savings. Specifically, this section provides:

- A statement of the objectives of the effort;
- A description of the overall approach;
- Definition of roles and responsibilities;
- A template for summarizing project savings and results;
- Instructions for completing the project savings template;
- Guidance on savings models, documentation, accounting treatment, and other key concepts; and
- A glossary of common terms and concepts.

Objectives

The overriding objectives are to:

- Measure financial and non-financial benefits realized by the result of the Procurement Initiatives implemented;
- Document and support the savings measurements with evidence, establishing whenever possible a clear link to official records of actual financial transactions (e.g. expenditure reports, vendor invoices, payments, etc.);
- Conclude the analysis of savings by producing final calculations for that financial period; and
- Produce good faith projections of savings based on information currently available.

Overall Approach

The main tasks, prioritization of effort, team structure, and roles and responsibilities are described below.

Main Tasks

1. Start-up and Design. Establish the approach and standards for completing the procurement savings validation effort. This includes planning the effort, mobilizing resources, designing validation guidelines and templates, and establishing project management procedures.
2. Data Collection. Activities included in this task include:
 - For each Procurement Initiative, developing sound and reasonable models (i.e. formulas) for calculating actual financial benefits realized. The goal is to build or refine previous models that will produce actual *measurements* of benefits by using records of activity for the periods analyzed.

- Gathering data, supporting evidence, and source documentation for input to the financial models. Ideally, data used in calculations will be directly traceable to the State’s official financial records (e.g. agency financial reports, expenditure report by object code, vendor contracts and payments, payroll records, etc.).
 - Evaluating methods used by other organizations to identify leading practices for savings validation efforts.
3. Data Summarization. Design, build and populate a data repository to support summary reporting requirements.
 4. Document Library Maintenance. Develop and implement procedures for the submission, indexing, and retention of documents.
 5. Review and Analysis. Resolve issues that may have arisen regarding financial models or evidence; review, finalize and approve benefit calculations.
 6. Reporting. Finalize validation reports and documentation; respond to inquiries; organize and summarize the results of the individual savings validations into an overall report.

Guidance on Key Concepts

Evidence / Traceability

Whenever possible, savings calculations will be supported by information available from official and verifiable sources. For example, “actuals” from the following types of sources would be used:

- Financial Reports
- Contract / Payment Records
- Payroll System

The goal is to establish a traceable link from official records of actual financial transactions/results to project savings.

For some savings projects, the link between activities and financial records may not be directly aligned with one of the above sources, may be obscured by unrelated activities, or may be clouded by high transaction volumes. In these cases, it may be necessary to use a formula to calculate expenditure levels. One method of doing this is to use an activity level that can be measured and multiply it by an average cost rate to calculate expenditure. For example, a reduction from 20 FTEs to 17 FTEs would result in the calculation of three multiplied by average FTE cost to estimate savings in labor cost.

Financial Presentation

The Financial Benefits will be presented on a cash basis and also, if significant timing differences exist, on an accrual basis. Expenditures for capital assets will be noted as such, but will generally be treated as an outflow of funds in the year of acquisition, rather than being amortized over the life of the asset, for purposes of calculating benefits.

Benefit Categories

Savings Benefits

1. Cost Avoidance. Opportunity for reduction in a future investment or expenditure resulting from decisions made through the initiative. Although these savings may not have an impact based on a cash-flow or appropriation basis, these are quantitative and need to be highlighted.
2. Reduced Baseline Appropriation. Reduction in available resources based on across-the-board General Assembly or Legislative actions.
3. Reduction from Budgeted Spend. A reduction in the projected/budgeted resources (e.g. staff time, materials, equipment) used for an activity or business process, as a result of a Savings Project.
4. Rate Reductions. Obtaining lower rates or prices for goods or services purchased by the State.
5. Volume Reductions. Reducing the amount of a good or service used. Savings captured in this category will include projects that intentionally sought volume reductions through direct action (e.g. demand management).

Revenue Benefits

1. Rebates. Payments made to the State by vendors as a result of a Savings Project.
2. New Revenue. New streams of revenue instituted by the State.
3. Increased Fees. An increase in the charge per unit for a government service or function.
4. Enhanced Reimbursement. Improvements in the accuracy or completeness of a business process that generates a higher rate of recovery of funds from external organizations.

The table below describes example savings projects and how they map to the preceding categories:

Savings Categories	Method	Description	Example
Cost Avoidance	Reduction in future investment or expenditure	Savings from anticipated increased expenditures through opportunities driven from direct procurement management and decisions, even though the increase may not have been appropriated or budgeted directly.	Creating a program to allow for advance bulk energy purchases at a procured and negotiated rate in an effort to offset rate inflation occurring naturally through the course of the winter.
Reduced Baseline Appropriation	Reduction in available funds	Baseline spending reductions defined by General Assembly or Legislature.	Across the board budget cuts.
Reduction in Budgeted Spend	Reduce Headcount	Impact on external, total cost areas outside of the category itself.	Early retirement programs, permanently reduced funded vacant positions.
	Reduce Activity Levels	Prevent or discontinue budgeted expenditures/activities.	Cancelled project.
Rate Reduction	Unit Price Reduction	A saving is realized by getting a better rate per unit.	Negotiate a better labor rate for temporary staff.
	Reduced “Off-contract” Spend	Improve price paid or overall leverage by shifting off-contract spend to preferred suppliers/contracts.	Ensure agencies are using preferred contractors.
Volume Reduction	Reduction in Quantity Purchased	Reduction in total spend through reduced quantity purchased (relative to forecast).	Denied purchase requests, other demand managements techniques.

Revenue Category	Method	Description	Example
Rebates	Rebates	Cash reimbursements made by supplier, typically based on achieving certain spend thresholds.	Receiving a check for 2% of spend in Office Supplies.
New Revenue	New Revenue Streams	Finding new sources of revenue.	Corporate sponsorships.
Increased Fees	Fee Adjustments	Increasing fees for a government service.	Adjustments to user fees.
Enhanced Reimbursement	Reimbursement Process Improvements	Improving the accuracy / completeness of a reimbursement process.	When appropriate, billing private insurers for healthcare services paid for by Medicaid.

The savings categories identified above are intended to be a **mutually exclusive** and **complete** list of the types of benefits realized. Establishing a set of mutually exclusive categories provides an easily understood structure, enables comparison across projects, and promotes reporting accuracy.

“Cost Avoidance” is a type of benefit resulting from the prevention of a likely, but non-budgeted expenditure in the current or a future period. Examples include:

- For a business process with an expanding work load, implementation of automated procedures that allow the organization to avoid the creation of additional positions; and
- Adopting practices to extend the life of a class of assets, resulting in a reduction in the rate of replacement.

Savings Benefits

General Formula: Savings Benefit = Baseline – Current Spend

Savings Benefit Categories	Calculation	Evidence
Cost Avoidance	<p>Measure the reduction from a projected (unbudgeted) level of spending had the action or decision not taken place.</p> <p>Baseline is the projected level of expenditure in the current year, Spend is the actual expenditure in the current year:</p> <p>Baseline = E^P Spend = E^A</p> <p>Savings Benefit = $E^P - E^A$</p>	<ul style="list-style-type: none"> • Inflationary indexes • Benchmarking data • Detail Object Code expenditure reports • Budget documents • Vendor payments • HR/Payroll system reports
Reduced Baseline Appropriation	<p>Measure reductions in appropriated baseline funding.</p> <p>Baseline is the original baseline appropriation for the current year, Spend is the actual appropriation for the current year:</p> <p>Baseline = A^0 Spend = A^1</p> <p>Savings Benefit = $A^0 - A^1$</p>	<ul style="list-style-type: none"> • Budget and Appropriation documents
Reduction of Budgeted Spend	<p>Measure the reduction from a projected (budgeted) level of spending.</p> <p>Baseline is the projected level of expenditure in the current year, Spend is the actual expenditure in the current year:</p> <p>Baseline = E^P Spend = E^A (typically 0)</p> <p>Savings Benefit = $E^P - E^A$</p>	<ul style="list-style-type: none"> • Detail Object Code expenditure reports • Budget documents • Vendor payments • HR/Payroll system reports

Savings Benefit Categories	Calculation	Evidence
Rate Reductions	<p>Measure the financial impact of reduced prices using current activity levels.</p> <p>Baseline is the original price times current activity level, Spend is the current price times current activity level:</p> $\text{Baseline} = P^0 * V^1$ $\text{Spend} = P^1 * V^1$ $\text{Savings Benefit} = (P^0 * V^1) - (P^1 * V^1)$	<ul style="list-style-type: none"> • Vendor contracts • Purchase orders • Vendor invoices • Vendor payments
Volume Reductions	<p>Measure the financial impact of reduced volume using original prices.</p> <p>Baseline is the original volume times original price, Spend is the current volume times original price:</p> $\text{Baseline} = V^0 * P^0$ $\text{Spend} = V^1 * P^0$ $\text{Savings Benefit} = (V^0 * P^0) - (V^1 * P^0)$	<ul style="list-style-type: none"> • Vendor contracts • Purchase orders • Vendor invoices • Vendor payments

Revenue Benefits

General Formula: Revenue Benefit = Current Revenue – Baseline

Revenue Benefit Categories	Calculation	Evidence
Rebates	<p>Sum of rebates received.</p> <p>Baseline would be 0, Revenue would be the sum of rebates received for activity in the fiscal year:</p> $\text{Revenue} = R^1$ $\text{Baseline} = 0$ $\text{Revenue Benefit} = R^1 - 0$	<ul style="list-style-type: none"> • Payments received
New Revenues	<p>Sum of receipts for new revenue streams.</p> <p>Baseline would be 0, Revenue would be the sum of the new revenues received for activity in the fiscal year:</p> $\text{Revenue} = R^1$ $\text{Baseline} = 0$ $\text{Revenue Benefit} = R^1 - 0$	<ul style="list-style-type: none"> • Payments received

Revenue Benefit Categories	Calculation	Evidence
Increased Fees	<p>Measure the financial impact of increased fees using current activity levels.</p> <p>Revenue is the current fee times the current activity level, Baseline is the original fee times the current activity level:</p> $\text{Revenue} = F^1 * V^1$ $\text{Baseline} = F^0 * V^1$ $\text{Revenue Benefit} = (F^1 * V^1) - (F^0 * V^1)$	<ul style="list-style-type: none"> • Fee schedules • Transaction records • Activity logs • Payments received
Enhanced Reimbursement	<p>Measure reimbursements that were obtained as a result of Savings Project.</p> <p>Revenue is the current activity level times the current rate of recovery, Baseline is the current activity level times the original recovery rate:</p> $\text{Revenue} = R^1 * V^1$ $\text{Baseline} = R^0 * V^1$ $\text{Revenue Benefit} = (R^1 * V^1) - (R^0 * V^1)$	<ul style="list-style-type: none"> • Payments received

Explanation of Variables:

A⁰ = Original appropriated funding

A¹ = Final actual appropriated funding

E^P = Projected level of Expenditure/Spending for the current year **before** the Savings Project

E^A = Actual Expenditure/Spending level experienced **after** Savings Project

P⁰ = Rate/Unit Price paid **before** Savings Project

P¹ = Rate/Unit Price paid **after** Savings Project

V⁰ = Volume/Activity level experienced **before** Savings Project

V¹ = Volume/Activity level experienced **after** Savings Project

R⁰ = Revenue/Rebates/Reimbursement Recovery Rates received **before** the Savings Project

R¹ = Revenue/Rebates/Reimbursements Recovery Rates received **after** or as a result of the Savings Project

F⁰ = Fee/Charge per unit received **before** Savings Project

F¹ = Fee/Charge per unit received **after** Savings Project

Baseline

Benefits will generally be calculated by finding the difference between an actual expense or revenue amount and its “baseline.” The “baseline” for a benefit category for a given project will typically be:

- The same expense/revenue amount from a previous financial period, or
- The amount that would reasonably have been expected to occur in the current period if the savings project had not occurred

For more detailed information, please refer to the previous sections.

One-time vs. Recurring Benefits

Key points regarding “One-time” benefits:

- “One-time” benefits occur only once and are not expected to be realized on a recurring basis;
- Examples are the recovery of an overpayment, savings in the acquisition of new software, and rebates for expenditure already incurred. Such benefits will typically only be captured in one time period in one financial year; and
- Obligated expenditures deferred to a future period are not one-time savings.

Key points regarding “Recurring” benefits:

- Benefits that are expected to be realized on an ongoing basis; and
- Once all of the actions are complete to realize these benefits, they are expected to continue to impact the organization for the foreseeable future.

Investment Cost Categories

Investment costs are incremental expenditures made for the purpose of initiating or implementing a savings project.

Amounts included as investment costs should be strictly incremental, meaning only those expenses that would not have occurred, or money that would not have been spent, if the savings project had not been initiated.

Examples of investment costs include purchasing equipment, contracting with consultants, or creating a staff position for a specific savings project or initiative.

It is important to quantify these costs to support a complete and reasonable assessment of each of the savings projects individually and of the overall effort in general. Determination of the net benefit of a savings project/initiative will include investment costs.

The categorization for investment costs is provided below:

- **Incremental Staff Time.** Incremental compensation expense (wages and benefits) paid to state employees. Redeployment of existing staff is not an incremental expenditure and therefore would not be counted as an investment cost.
- **Materials and Supplies.** Materials and supplies used in a Savings Project.
- **Capital Investments.** Capital investment (e.g. acquisition of computer software or hardware) made for a specific Savings Project.
- **Vendor Payments.** Fees and expenses paid to vendors for assistance with a Savings Project.
- **Revenue Reductions.** Decreases in revenue resulting from a Savings Project (e.g. reduced Federal funding).

Illinois Efficiency Initiative

For purposes of discussion, the following is an 80,000 foot level overview of the Illinois Efficiency Initiative that will precede the Illinois Model for calculating, documenting, and validating cost savings. Readers should note that two exciting components of this model are the ability to utilize it for singular cost savings initiatives with member state's governmental organizations, e.g. a cost savings initiative to outsource or reduce the cost of print services, fleet services, employee health care costs or even office supply contracts. Secondly, NASPO member states may at some point in the future, or even currently, be faced with challenges from elected officials to streamline government, reduce costs, operate like a business, etc.. The Illinois Model provides the framework for member states to tackle head on the challenges with the tools necessary to satisfy many of the toughest critics.

Efficiency Initiative Savings Validation – Approach

The purpose of this section is to explain to NASPO members CMS's approach for measuring and validating Efficiency Initiative savings. Specifically, this section provides:

- A statement of the objectives of this effort;
- A description of the overall approach;
- Definition of roles and responsibilities;
- A template for summarizing project savings and results;
- Instructions for completing the project savings template;
- Guidance on savings models, documentation, accounting treatment, and other key concepts; and
- A glossary of common terms and concepts.

Objectives

The overriding objectives of the Savings Validation effort (SaV) are to:

- Measure financial and non-financial benefits realized by the State as a result of the Efficiency Initiatives implemented;
- Document and support the savings measurements with evidence, establishing whenever possible a clear link to official records of actual financial transactions (e.g. expenditure reports, vendor invoices, payments, etc.);
- Conclude the analysis of FY04 savings by producing final calculations for that financial period; and
- Produce good faith projections of FY05 savings based on information currently available (FY05 activity and financial records are not yet complete).

Overall Approach

The project's main tasks, prioritization of effort, team structure, and roles and responsibilities are described below:

Main Tasks

1. Start-up and Design. Establish the approach and standards for completing the savings validation effort. This includes planning the effort, mobilizing resources, designing validation guidelines and templates, and establishing project management procedures.

2. Data Collection. Activities included in this task include:
 - For each Efficiency Initiative and related Savings Project, developing sound and reasonable models (i.e. formulas) for calculating actual financial benefits realized. The goal is to build or refine previous models that will produce actual measurements of benefits by using records of activity for the periods analyzed. Note: Savings estimate models already developed during the Efficiency Initiative effort can and should be used to expedite the development of the savings measurement models, but need to be modified as appropriate to use “actuals” as inputs to calculations.
 - Gathering data, supporting evidence, and source documentation, for input to the financial models. Ideally, data used in calculations will be directly traceable to the State’s official financial records (e.g. agency financial reports, the Comptroller’s website, expenditure report by object code, vendor contracts and payments, payroll records, etc.).
 - Evaluating methods used by other organizations to identify leading practices for savings validation efforts.
3. Data Summarization. Design, build and populate a data repository to support summary reporting requirements.
4. Document Library Maintenance. Develop and implement procedures for the submission, indexing and retention of SaV documents.
5. Review and Analysis. Resolve issues that may have arisen regarding financial models or evidence; and review, finalize and approve benefit calculations.
6. Reporting. Finalize validation reports and documentation; respond to inquiries; and organize and summarize the results of the individual savings validations into an overall report.

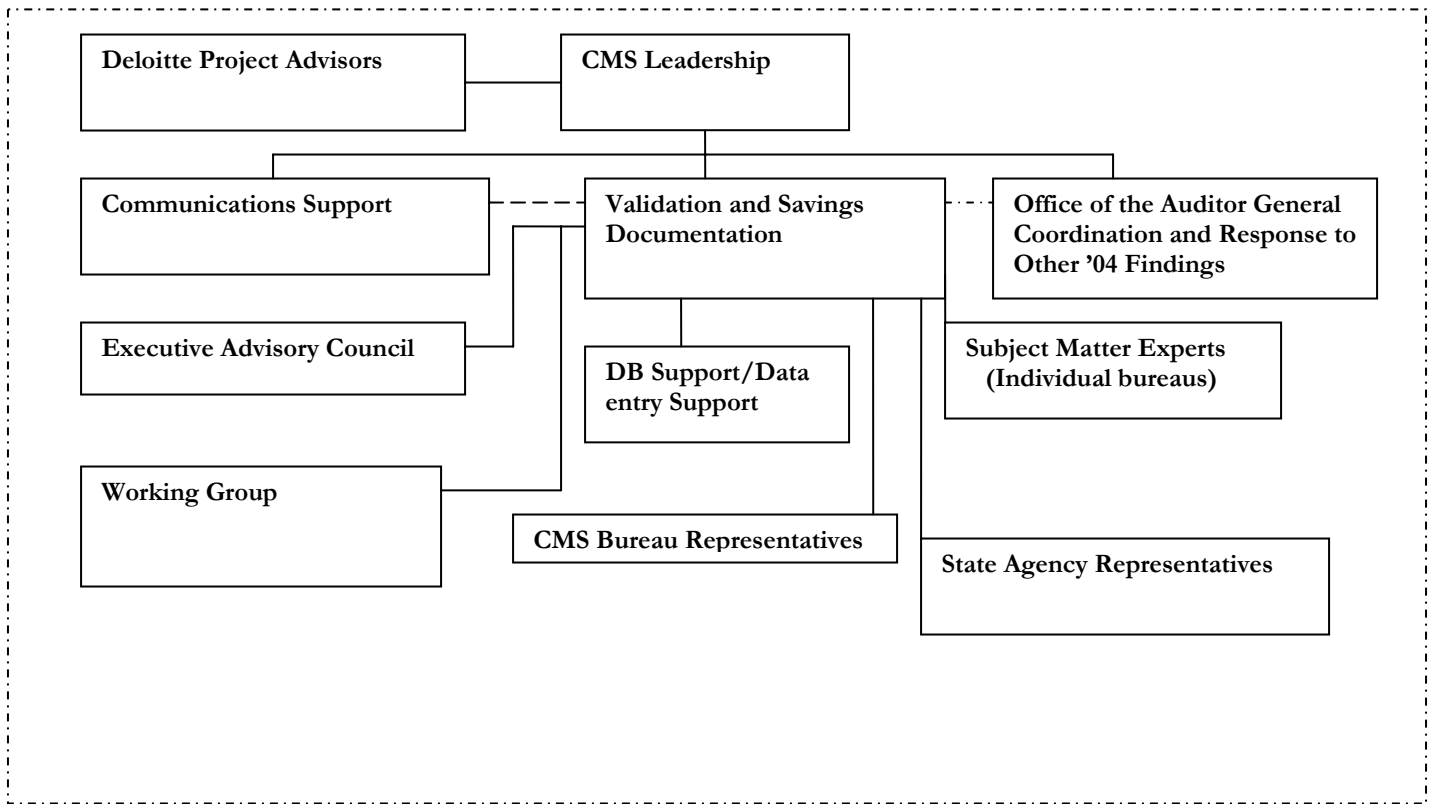
Prioritization

The work of the SaV team will be prioritized based on the anticipated size and complexity of the savings projects. The team will focus on projects that are:

- Large: Projects with anticipated benefits > \$ 5 million.
- Complex: Projects with more complicated financial models (based on number of agencies impacted, federal funding, single vs. multiple year savings, availability of supporting data, technical complexity, availability of benchmarks, number of stakeholders, etc.).

SaV Project Organization Chart

The structure and reporting relationships of the SaV Project Team are illustrated in the chart below:



Roles and Responsibilities

The following roles and responsibilities have been defined for the SaV Project Team:

Role	Responsibilities
Subject Matter Experts	Gather and submit existing Efficiency Initiative and Savings Project materials. Develop savings measurement models. Gather savings model data (evidence). Review savings models and evidence with project leaders/advisors. Calculate savings. Complete Savings Project Report templates. Support development of Validation Report as needed.
Working Council	Formulate ideas, strategies and savings methodologies. Develop glossary of terms. Develop backup documentation. Identification of savings. Data analysis and peer review. Procedures and policies. Support OAG compliance efforts. Compile Savings Templates and develop Validation Report.
Executive Advisory Council	Review charter. Discuss overarching issues. Coordinate agency and external stakeholder issues.
CMS Leadership	Provide project direction and vision. Address resource issues. Evaluate validation, analysis and reporting options. Define final approach based on input from team members and advisors.
Project Advisors (Deloitte)	Provide guidance and consultation for savings model development. Review savings models / evidence / calculations.
Project Management	Establish project plan and approach. Implement document management procedures. Track progress and issues. Provide status reports to leadership.
Communications Support	Inventory past Efficiency Initiative communications. Develop communications plan based on key milestones. Work with SaV Project and CMS leadership to frame and track future communications. Review draft Validation Report and offer communication strategies.
OAG Coordination	Serve as primary liaison for interaction with the OAG. Manage CMS communications, documentation, and response to OAG findings.

Guidance on Key Concepts

Financial Periods

It is important to document the financial periods for comparative and reporting purposes. For example:

Three historical financial periods were considered in the initial Illinois effort:

- Fiscal Year 2003 (July 1, 2002 – June 30, 2003)
- Fiscal Year 2004 (July 1, 2003 – June 30, 2004)
- Fiscal Year 2005 (July 1, 2004 – June 30, 2005)

Evidence / Traceability

Whenever possible, savings calculations will be supported by information available from official and verifiable sources. For example, “actuals” from the following types of sources would be used:

- State Financial Reports
- Comptroller Website (e.g. report expenditure by Object Code)
- State Contract / Payment Records
- State Payroll System

The goal is to establish a traceable link from official records of actual financial transactions/results to project savings.

For some savings projects, the link between activities and financial records may not be directly aligned with one of the above sources, may be obscured by unrelated activities, or may be clouded by high transaction volumes. In these cases, it may be necessary to use a formula to calculate expenditure levels. One method of doing this is to use an activity level that can be measured and multiply it by an average cost rate to calculate expenditure. For example, a reduction from 20 FTEs to 17 FTEs would result in the calculation of three multiplied by average FTE cost to estimate savings in labor cost.

Financial Presentation

The Financial Benefits of each Savings Project will be presented on a cash basis and also, if significant timing differences exist, on an accrual basis. Expenditures for capital assets will be noted as such, but will generally be treated as an outflow of funds in the year of acquisition, rather than being amortized over the life of the asset, for purposes of calculating benefits.

Benefit Categories

Savings Benefits

1. Reduced Baseline Appropriation. Reduction in available resources based on across-the-board General Assembly or Legislative actions.
2. Reduction from Budgeted Spend. A reduction in the projected/budgeted resources (e.g. staff time, materials, equipment) used for an activity or business process, as a result of a Savings Project.
3. Rate Reductions. Obtaining lower rates or prices for goods or services purchased by the State.

4. Volume Reductions. Reducing the amount of a good or service used. Savings captured in this category will include projects that intentionally sought volume reductions through direct action (e.g. demand management).

Revenue Benefits

1. Rebates. Payments made to the State by vendors as a result of a Savings Project.
2. New Revenue. New streams of revenue instituted by the State.
3. Increased Fees. An increase in the charge per unit for a government service or function.
4. Enhanced Reimbursement. Improvements in the accuracy or completeness of a business process that generates a higher rate of recovery of funds from external organizations.

The table below describes example savings projects and how they map to the above categories:

Savings Categories	Method	Description	Example
Reduced Baseline Appropriation	Reduction in available funds	Baseline spending reductions defined by General Assembly or Legislature.	Across the board budget cuts.
Reduction in Budgeted Spend	Reduce Headcount	Impact on external, total cost areas outside of the category itself.	Early retirement programs, permanently reduced funded vacant positions.
	Reduce Activity Levels	Prevent or discontinue budgeted expenditures/activities.	Cancelled project.
Rate Reduction	Unit Price Reduction	A saving is realized by getting a better rate per unit.	Negotiate a better labor rate for temporary staff.
	Reduced “Off-contract” Spend	Improve price paid or overall leverage by shifting off-contract spend to preferred suppliers/contracts.	Ensure agencies are using preferred contractors.
Volume Reduction	Reduction in Quantity Purchased	Reduction in total spend through reduced quantity purchased (relative to forecast).	Denied purchase requests, other demand managements techniques.

Revenue Category	Method	Description	Example
Rebates	Rebates	Cash reimbursements made by supplier, typically based on achieving certain spend thresholds.	Receiving a check for 2% of spend in Office Supplies.
New Revenue	New Revenue Streams	Finding new sources of revenue.	Corporate sponsorships.
Increased Fees	Fee Adjustments	Increasing fees for a government service.	Adjustments to user fees.
Enhanced Reimbursement	Reimbursement Process Improvements	Improving the accuracy / completeness of a reimbursement process.	When appropriate, billing private insurers for healthcare services paid for by Medicaid.

The savings categories identified above are intended to be a mutually exclusive and complete list of the types of benefits realized. Establishing a set of mutually exclusive categories provides an easily understood structure, enables comparison across projects, and promotes reporting accuracy.

Savings Benefits

General Formula: Savings Benefit = Baseline – Current Spend

Savings Benefit Categories	Calculation	Evidence
Reduced Baseline Appropriation	Measure reductions in appropriated baseline funding. Baseline is the original baseline appropriation for the current year, Spend is the actual appropriation for the current year: Baseline = A0 Spend = A1 Savings Benefit = A0 – A1	Budget and Appropriation documents
Reduction of Budgeted Spend	Measure the reduction from a projected (budgeted) level of spending. Baseline is the projected level of expenditure in the current year, Spend is the actual expenditure in the current year: Baseline = EP Spend = EA (typically 0) Savings Benefit = EP – EA	Detail Object Code expenditure reports Budget documents Vendor payments HR/Payroll system reports
Rate Reductions	Measure the financial impact of reduced prices using current activity levels. Baseline is the original price times current activity level, Spend is the current price times current activity level: Baseline = P0 * V1 Spend = P1 * V1 Savings Benefit = (P0 * V1) – (P1 * V1)	Vendor contracts Purchase orders Vendor invoices Vendor payments
Volume Reductions	Measure the financial impact of reduced volume using original prices. Baseline is the original volume times original price, Spend is the current volume times original price: Baseline = V0 * P0 Spend = V1 * P0 Savings Benefit = (V0 * P0) – (V1 * P0)	Vendor contracts Purchase orders Vendor invoices Vendor payments

Revenue Benefits

General Formula: $Revenue\ Benefit = Current\ Revenue - Baseline$

Revenue Benefit Categories	Calculation	Evidence
Rebates	Sum of rebates received. Baseline would be 0, Revenue would be the sum of rebates received for activity in the fiscal year: Revenue = R1 Baseline = 0 Revenue Benefit = R1 - 0	Payments received
New Revenues	Sum of receipts for new revenue streams. Baseline would be 0, Revenue would be the sum of the new revenues received for activity in the fiscal year: Revenue = R1 Baseline = 0 Revenue Benefit = R1 - 0	Payments received
Increased Fees	Measure the financial impact of increased fees using current activity levels. Revenue is the current fee times the current activity level, Baseline is the original fee times the current activity level: Revenue = F1 * V1 Baseline = F0 * V1 Revenue Benefit = (F1 * V1) - (F0 * V1)	Fee schedules Transaction records Activity logs Payments received
Enhanced Reimbursement	Measure reimbursements that were obtained as a result of Savings Project. Revenue is the current activity level times the current rate of recovery, Baseline is the current activity level times the original recovery rate: Revenue = R1 * V1 Baseline = R0 * V1 Revenue Benefit = (R1 * V1) - (R0 * V1)	Payments received

Explanation of Variables:

A0 = Original appropriated funding

A1 = Final actual appropriated funding

EP = Projected level of Expenditure/Spending for the current year that was budgeted before the Savings Project

EA = Actual Expenditure/Spending level experienced after Savings Project (typically zero)

P0 = Rate/Unit Price paid before Savings Project

P1 = Rate/Unit Price paid after Savings Project

V0 = Volume/Activity level experienced before Savings Project

V1 = Volume/Activity level experienced after Savings Project

R0 = Revenue/Rebates/Reimbursement Recovery Rates received before the Savings Project

R1 = Revenue/Rebates/Reimbursements Recovery Rates received after or as a result of the Savings Project

F0 = Fee/Charge per unit received before Savings Project

F1 = Fee/Charge per unit received after Savings Project

Baseline

Benefits will generally be calculated by finding the difference between an actual expense or revenue amount and its “baseline.” The “baseline” for a benefit category for a given project will typically be:

- The same expense/revenue amount from a previous financial period; or
- The amount that would reasonably have been expected to occur in the current period if the savings project had not occurred.

For more detailed information, please refer to the previous sections.

One-time vs. Recurring Benefits

Key points regarding “One-time” benefits:

- “One-time” benefits occur only once and are not expected to be realized on a recurring basis.
- Examples are the recovery of an overpayment, savings in the acquisition of new software, and rebates for expenditure already incurred. Such benefits will typically only be captured in one time period in one financial year.
- Obligated expenditures deferred to a future period are not one-time savings.

Key points regarding “Recurring” benefits:

- “Recurring” benefits that are expected to be realized on an ongoing basis.
- Once all of the actions are complete to realize these benefits, they are expected to continue to impact the organization for the foreseeable future.

As an example, on the Savings Project template example, there is a column to record recurring benefits in FY05. In this column, the portion of the Savings or Revenue Benefit in FY05 that is recurring from FY04 is entered. For example, for a given benefit category, if all of the FY05 benefit was recurring from FY04, then the FY05 “Benefit” and “Recurring Benefit” numbers would be equal. If a \$500,000 Benefit occurred in FY04 and again in FY05, and an additional Benefit of \$250,000 was obtained in FY05, then the FY05 Benefit would be \$750,000 and the Recurring Benefit would be \$500,000.

Investment Cost Categories

Investment costs are incremental expenditures made for the purpose of initiating or implementing a savings project.

Amounts included as investment costs should be strictly incremental, meaning only those expenses that would not have occurred, or money that would not have been spent, if the savings project had not been initiated. Examples of investment costs include purchasing equipment, contracting with consultants, or creating a staff position for a specific savings project or initiative.

It is important to quantify these costs to support a complete and reasonable assessment of each of the savings projects individually and of the overall effort in general. Determination of the net benefit of a savings project/initiative will include investment costs.

The categorization for investment costs is provided below:

- **Incremental Staff Time.** Incremental compensation expense (wages and benefits) paid to state employees. Redeployment of existing staff is not an incremental expenditure and therefore would not be counted as an investment cost.
- **Materials and Supplies.** Materials and supplies used in a Savings Project.
- **Capital Investments.** Capital investment (e.g. acquisition of computer software or hardware) made for a specific Savings Project.
- **Vendor Payments.** Fees and expenses paid to vendors for assistance with a Savings Project.
- **Revenue Reductions.** Decreases in revenue resulting from a Savings Project (e.g. reduced Federal funding).

Bureaus/Divisions

Each Efficiency Initiative Area (e.g. IT/Telecom) and Savings Project (e.g. Hardware Maintenance Contract) is “owned” by one of the following CMS Bureaus or Divisions:

Bureau / Division	Description
Audit	Audit Services
BCCS	Bureau of Communication and Computer Services
BoB	Bureau of Benefits
BoPM	Bureau of Property Management
BOSSAP	Bureau of Strategic Sourcing and Procurement
DoV	Division of Vehicles
Legal	Legal Services
PIO	Public Information Office

Bureaus hold ultimate responsibility for documenting, calculating and validating savings for each Initiative Area and Savings Project they own.

Illinois Model – Tier Three

Initiative and Project Summary

Item	Description
Initiative Name	
Bureau	
Project Name	
Project Overview	<ul style="list-style-type: none"> Description of project
How Savings Were Achieved	<ul style="list-style-type: none"> Explanation of how savings were achieved
Project Start Date	
Project Completion Date	

If Applicable:

Item	Description
Changes in Contract Terms	
Other Project Highlights	
Comments / Notes	

Financial Benefits

Please use the table below to summarize the savings for this project, by fiscal year and benefit category:

Cash Basis Presentation

Savings Benefits	FY04			FY05			Recurring Benefit*
	Baseline	– Spend	= Benefit	Baseline	– Spend	= Benefit	
Reduced Baseline Appropriation (e.g. Across-the-board cuts)							
Budgeted Spend Reductions (e.g. Early retirement programs)							
Rate Reductions (e.g. Renegotiated pricing)							
Volume Reductions (e.g. Reduced consumption of materials)							
Total Savings Benefits							

Revenue Benefits	FY04			FY05			Recurring Benefit*
	Revenue	– Baseline	= Benefit	Revenue	– Baseline	= Benefit	

BENCHMARKING COST SAVINGS & COST AVOIDANCE

Rebates (e.g. Vendor payments to agencies)							
New Revenues (e.g. Introduction of new fees)							
Fee Increases (e.g. Higher fees for services)							
Enhanced Reimbursement (e.g. Payments from private insurers)							
Total Revenue Benefits							

'Other' Savings Categories	FY04			FY05			Recurring Benefit*
	Baseline	- Spend	= Benefit	Baseline	- Spend	= Benefit	
Cost avoidance							
Other – Please Describe							
Other Categories Total							

* Recurring Benefit is the portion of the FY05 Benefit that is recurring from FY04.

Methodology and Data Sources

Describe the approach, financial models, and formulas (Methodology) used to determine the Baseline and Spend /Revenue figures (Components) for each fiscal year. Reference the evidence (Data Sources) used as inputs to these calculations. Please refer to the Validation Approach document for direction on the type of source documentation needed to support the validation effort.

Savings Category: *Enter Name of Savings Category Here*

Fiscal Year	Component	Methodology <i>Please clearly indicate where "actuals" vs. estimates or extrapolations were used in the financial model / calculations</i>	Data Sources <i>Please describe source documents and cite by Name/ID if possible</i>
FY04	Baseline		
	Spend		
FY05	Baseline		
	Spend		

Revenue Category: *Enter Name of Revenue Category Here*

Fiscal Year	Component	Methodology <i>Please clearly indicate where "actuals" vs. estimates or extrapolations were used in the financial model / calculations</i>	Data Sources <i>Please describe source documents and cite by Name/ID if possible</i>
FY04	Baseline		
	Revenue		
FY05	Baseline		
	Revenue		

Add additional tables as necessary to account for each Benefit Category

Revenue Category: *Enter Name of Revenue Category Here*

Fiscal Year	Component	Methodology	Data Sources
		<i>Please clearly indicate where “actuals” vs. estimates or extrapolations were used in the financial model / calculations</i>	<i>Please describe source documents and cite by Name/ID if possible</i>
FY04	Baseline		
	Revenue		
FY05	Baseline		
	Revenue		

Add additional tables as necessary to account for each Benefit Category

Incremental Costs of the Savings Project

Calculate and record the incremental costs of executing the Savings Project:

COST COMPONENT	FY03	FY04	FY05
Incremental staff time			
Materials and supplies			
Capital Investments			
Vendor Payments: <i>Add Vendor Name</i>			
Vendor Payments: <i>Add Vendor Name</i>			
Revenue Reductions			
<i>Add lines as necessary</i>			

OTHER COSTS NOT QUANTIFIED	Description

Data Sources and Methodology: Describe the approach, financial models, and formulas (Methodology) used to determine the Cost Component figures for each fiscal year. Reference the evidence (Data Sources) used as inputs to these calculations. Please refer to the Validation Approach document for direction on the type of source documentation needed to support the validation effort.

Cost Component	Methodology	Data Sources
	<i>Please clearly indicate where “actuals” vs. estimates or extrapolations were used in the financial model / calculations</i>	<i>Please describe source documents and cite by Name/ID if possible</i>
<i>Enter Cost Component Name</i>		
<i>Add lines as necessary</i>		

Partnering Cost Analysis: Partnering costs provide additional detail to Consultancy and Vendor costs line items in the table above.

VENDOR NAME	Duration	Role	KEY DELIVERABLES

Qualitative Benefits

Describe intangible benefits achieved by the Savings Project:

BENEFITS	DESCRIPTION (examples below)	OUTCOME	SOURCE ID #
<i>Improved Service Quality</i>	<ul style="list-style-type: none"> • Increased customer accessibility and responsiveness • Enhanced overall customer focus (internal and external customers) • Greater accuracy and consistency in service delivery • Reduced/eliminated errors • Shortened customer service cycle times • A defined set of policies and procedures followed by agencies, resulting in service consistency and better quality • Ability to leverage specialist skills and increase skill levels, resulting in better quality and customer service 		
<i>Improved Technology Leverage</i>	<ul style="list-style-type: none"> • Easier coordination of technology initiatives and implementation of new technology • Enhanced IT integration • Increased automation of key processes through better technology • Greater flexibility to adapt to changing technology environment 		
<i>Improved Decision Making</i>	<ul style="list-style-type: none"> • Improved decision making through easy access to accurate information • Increased value through segregating non-core processes and shifting focus in agencies to core, more value-added activities, such as agency program efforts 		
<i>Improved Management of Business Process</i>	<ul style="list-style-type: none"> • Decreased non-compliance risk • Flexibility to adapt to changing business requirements • Greater span of control • Increased focus and control of financial processes • Efficient integration of divisions or departments that shift from one agency to another • Optimal blend of in-sourced and outsourced processes ensuring increased process efficiency 		
<i>Improved Data Quality and Accessibility</i>	<ul style="list-style-type: none"> • Enhanced data quality, reliability, and integrity • Improved ability to leverage common information • Improved comparability, consistency, timeliness, and accuracy of financial information through greater control and standardization • Better access to information 		

Data Sources and Methodology: Describe and reference the approach(es) used in identifying the benefits described above.

Future Benefits

BENEFITS	DESCRIPTION	PROJECTED OUTCOME	SOURCE DESCRIPTION AND ID #

Data Sources and Methodology: Describe and reference the approach(es) used in identifying the benefits described above:

Stakeholder Impact

DESCRIPTION OF STAKEHOLDERS' CONSIDERATIONS:

ID	Stakeholder Group	Concerns	Level (L,M,H)	Addressing the concern
1		•	H	•
2		•	H	•

Contact Information

Persons involved in developing this summary:

Name	Location/Contact Information	Description of Role developing this document