

Scotland Excel Joint Committee

To: Joint Committee

On: 12 June 2015

Report by Director

Update on Rebate Development Activity

1. Introduction

The inclusion of volume rebate clauses within Scotland Excel framework agreements has been utilised to varying degrees to date. In order to have a greater understanding of the impact of this, a review project was initiated as part of the broader transformation activity currently being undertaken across the organisation. Specifically, the project remit was to review the effectiveness of the current rebates position, and to assess the opportunity to use this process as a method of funding some of the additional activity that Scotland Excel may undertake as part of the business development process.

2. Background

A detailed analysis was carried out across the contract portfolio as at Jan 2015 to ascertain:

- How widely rebates are applied across contracts
- The benefits currently being attracted via rebates
- Where there is any potential to increase the benefits attracted through contract development activity

The analysis has shown that there are rebates built into the conditions of 17 current contracts of which 8 are attracting rebate payments consistently. These rebates can be broadly categorised as either for “sole supply” (Council specific) or “spend threshold” (calculated on aggregated Council spend to maximise collaborative opportunities). These can be further sub-divided into specific requirements and has resulted in some fragmentation in the application of rebates across the organisation.

A detailed investigation of the rebate figures over the last 2 financial years has confirmed that rebates of over £1.2m have been accrued and paid in each year. The rebate mechanism used is variable across contracts, suppliers and Councils; as an example, some sole supply rebates are applied as “discount at source” based on direct agreements between suppliers and councils. Given the direct nature of these relationships and agreements, it has been difficult for Scotland Excel to gain a detailed understanding of what is effectively a dynamic situation, and the investigation has therefore been time consuming and complex. However, calculations show that in 2013/14 there was no discrepancy between the rebates earned by Councils and those subsequently paid.

A notable finding is that greater Council benefits were earned through those contracts assessed by Scotland Excel as requiring the highest level of management through our contract management process. This level of detailed management has allowed Scotland Excel to support Councils in developing informed spend patterns that allow them to maximise the financial rebate benefit available to them.

3. Opportunity development

The project has identified a number of opportunities and it is proposed that Scotland Excel pursue these fully in order to increase the potential benefits of applying rebates through our contract portfolio.

- A review of the current rebate development process to build in the required controls from early in the strategy development stage and maximise the potential benefits to contract users throughout the life of the contract.
- Ensure that review of rebates is an integral part of contract governance within the organisation through the creation of additional gateway requirements for both contract development and management.
- Determine the best application of rebates and assess where source discounts are currently being applied and are likely to provide better benefits for Councils moving forward. Similarly, identify those contracts where little value will be added and remove these from the scope of this project.
- It has been identified that additional benefits may be attracted where guidance can be provided to Councils to support them in maximising the cost savings opportunities offered by contracts on an ongoing basis - through partnership working to analyse and influence spend through Councils' own figures. In order for this to be fully applied, Scotland Excel would propose adopting the process entirely on behalf of Councils.
- Given that any increase in management activity is likely to produce a similar increase in rebate income for Councils, it is anticipated that this would provide an additional income stream that could be shared with Councils and used to support the provision of additional services by Scotland Excel from the next financial year.

4. Dependencies

In order to implement the new processes outlined in this paper, Council engagement and involvement would be initiated via Commercial UIG's, Contract Teams and the Scotland Excel Account Managers and any roll out would be done in line with Council's own requirements. There may be initial concerns from Stakeholders in terms of their current "sole supply" and other direct arrangements. As such, it would be the intention at the outset to engage with our stakeholders effectively to ensure that a clear understanding of the business case for change, and the benefits that could be delivered.

Supplier engagement would be carried out at contract management level, and further resources would be required to support this in the short and medium term.

Current resources will be able to meet some of the opportunities identified and it is anticipated that the requirements of the Council engagement, process review and governance areas will be met as part of our "business as usual" approach. The development of the rebates application process, supplier engagement and the direct Council support activity it is believed would require additional resource.

Further development activity will continue through the remainder of the financial year with a view to developing a proposal in conjunction with, and with the agreement of, our key stakeholders for implementation from April 2016.

5. Recommendations

Members of the Joint Committee are requested to note the progress made to date and support the plans described to further develop the opportunity assessment for the volume rebate inclusion within a wider range of contracts.