



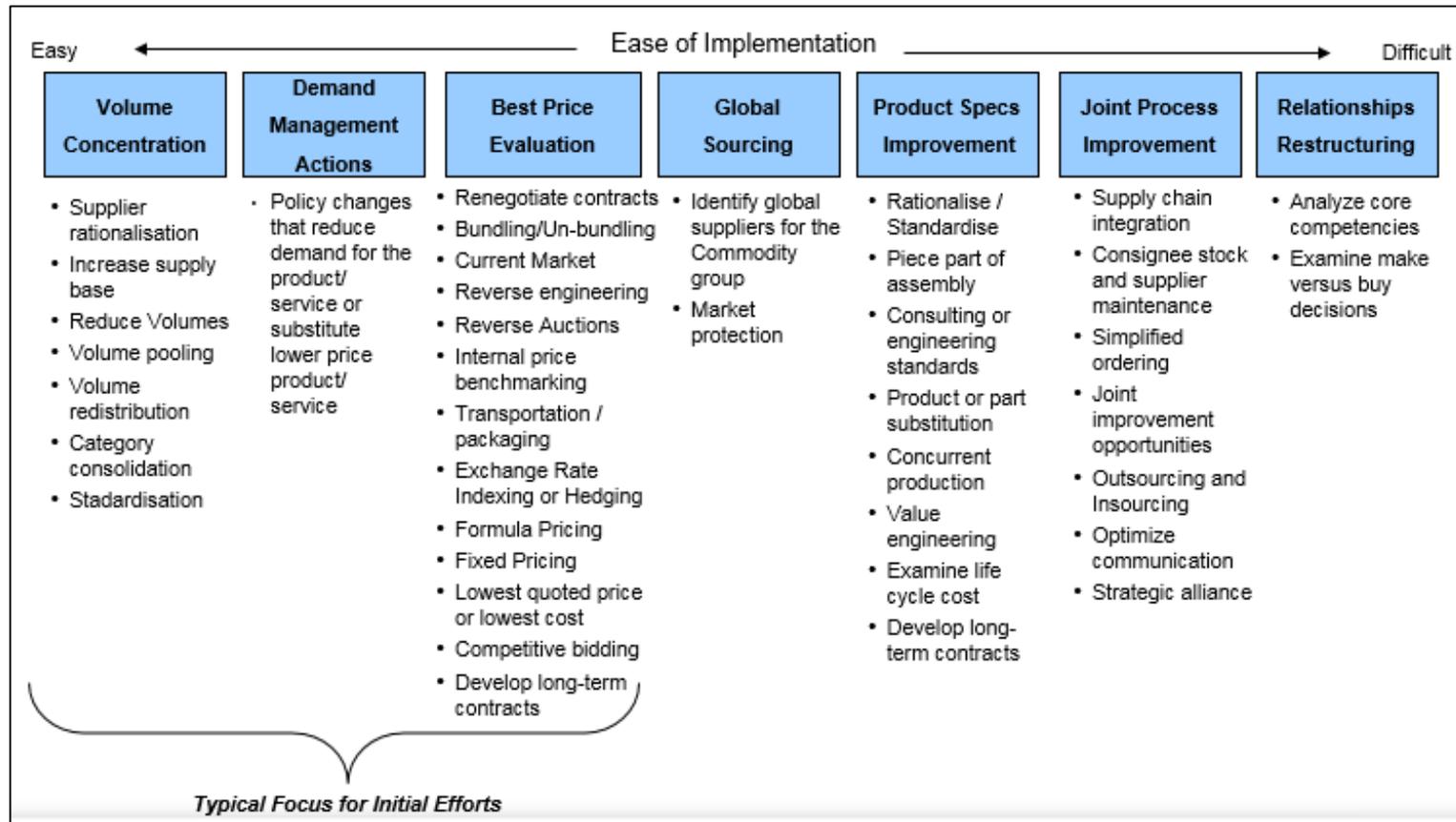
national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Quick Reference Guide to Reduce Procurement Spend in the Health, Education and Travel Sectors

QUICK REFERENCE GUIDE TO ACHIEVE SAVINGS IN THE HEALTH, EDUCATION AND TRAVEL SECTORS

Based on the Quick Reference Guide to Reduce Procurement Spend, the table below indicates specific areas that Departments can consider when planning their savings strategy. Below is a schematic of the techniques that show quick wins or easy to adopt approaches to the more difficult approaches. Users should be able to identify per product which interventions are required and using the diagram below determine a plan for the timing of the actions.



QUICK REFERENCE GUIDE TO ACHIEVE SAVINGS IN THE HEALTH, EDUCATION AND TRAVEL SECTORS

This Guide covers the following Categories:

HEALTH SECTOR

- Medical Equipment
- Medical Waste Management
- Hospital Food Services
- Hospital Cleaning
- Hospital Laundry & Linen

EDUCATION SECTOR

- Learner, Teacher Support Material (LTSM)

TRAVEL SECTOR

- Domestic Air
- Domestic Accommodation
- Domestic Car Rental
- Online Travel Booking
- National Travel Policy Framework

No.	Tactic	Description	Questions	Examples
Techniques for Best Price Evaluation				
1	Renegotiate contracts	Renegotiate price with existing suppliers. Value/supply chain analysis and Purchase Price Cost Analysis are useful tools for challenging individual cost elements	Can the current contracts be renegotiated with regards to price and contract terms?	<p>MEDICAL WASTE MANAGEMENT: Renegotiate prices with the few Medical Waste suppliers who are currently servicing all the 9 Provincial Departments of Health- focusing on the scope of work and prices charged per kilogram of waste generated and transported.</p> <p>TRAVEL SERVICES</p> <ul style="list-style-type: none"> • National Treasury have negotiated upfront discounted airfare rates with the two full service carriers (BA and SAA) on behalf of government; • Institutions may compare the rates with low cost carriers and book the most cost effective flights; • Institutions may enter into agreements with car rental companies; • Institutions may enter into agreements with accommodation establishments to achieve rates below the Treasury maximum allowable rates (NT Instruction 04 of 2017/2018)

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No.	Tactic	Description	Questions	Examples
2	Bundling and category consolidation	Grouping commodities or de-constructing categories so that maximum price advantage is achieved	What benefits can be achieved by regrouping and contracting current non-contracted items?	<p><i>MEDICAL, LAUNDRY AND KITCHEN EQUIPMENT</i></p> <ul style="list-style-type: none"> • When contracting for Medical Equipment, the Department of Health should contract for a complete service on their health equipment products e.g. contract for the supply, pre-installation, installation, delivery, commissioning, training and maintenance and where possible include disposal. • Departments of Health should consider making use of existing Transversal Contracts related to Medical Equipment.
3	Current Market	Lock into traditional old suppliers could potentially lock the buyer into unfavourable escalating costs.	Can we explore potential new suppliers?	<p><i>MEDICAL, LAUNDRY AND KITCHEN EQUIPMENT</i></p> <p>Due to the lack of granular historical spend data (price and quantities) on specific commodities, the current market prices can be used to benchmark prices for the next procurement cycle, the usage of published data from specific research bodies will assist in price benchmarking prices for medical related items and equipment.</p>
4	Internal price benchmarking	In some cases commodity comparisons can be made against in-sourcing.	What is the cost of internal supply/ manufacturing vs external supply?	<p><i>HOSPITAL FOOD SERVICES AND CLEANING SERVICES</i></p> <p>The Department of Health is currently using a hybrid model of insourcing and outsourcing on food services and cleaning service. Consideration should be given to comparing the costs benefits of both models using insourced labour versus outsourced labour. Further consideration to be given whether cleaning</p>

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				<p>materials and food items should be included in the service or whether the department should procure these consumables separately.</p> <p>TRAVEL SERVICES Most of Government's travel requirements are managed on a traditional method, where travel management companies (TMC) book travel request on behalf of government travellers. Departments may consider requesting their TMCs to switch to online travel booking which can reduce travel agency fees as much as 40%.</p>
5	Packaging	Re-arrange the relationship for the supplier to change the packaging materials used or the mode of transport	<ul style="list-style-type: none"> • What benefits can be achieved by reviewing the current manner of transportation? • Can benefits be obtained by requesting the supplier to use standard packaging material rather than fancy consumer centric materials? 	<p>HOSPITAL LINEN AND PATIENT CLOTHING The Department of Health should consider standardising the branding of all bed linen and patient clothing using the same standard. This way linen and patient clothing can be moved and distributed to where it is needed.</p>
6	Exchange Rate Indexing or Hedging	Method of ensuring that prices are protected in the event of volatile currency fluctuations.	<ul style="list-style-type: none"> • Can we (should we) protect ourselves against exchange rate fluctuations? • If so by whom? Us or the Supplier? 	<p>MEDICAL EQUIPMENT</p> <ul style="list-style-type: none"> • Departments of Health may consider setting aside a basket of common currencies for foreign purchases such as medical equipment, for use when the currency markets are not favourable.

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			<ul style="list-style-type: none"> Can we enter into forward cover agreements with suppliers to hold the rate at date of procurement? 	<ul style="list-style-type: none"> Department of Health may consider requesting medical equipment suppliers to ensure that they carry exchange rate cover to ensure price stability.
7	Competitive bidding	Suppliers are invited to formally tender for the business	<ul style="list-style-type: none"> Can we increase the use of competitive bidding? 	<p>LEARNER, TEACHER SUPPORT MATERIAL (LTSM)</p> <p>The budget to supply LTSM to some 12 million learners and 450 thousand educators across 9 provinces amounts to R4.9 billion for 2018 academic year.</p> <p>The strategic sourcing strategy to be employed will be a hybrid model of centralised and decentralised approaches.</p> <ul style="list-style-type: none"> The cost saving opportunities identified are at least R700 million per annum; Distribution costs can be reduced from the current 30% to between 13% and 18% through the new Transversal Contract for LTSM due in July 2017. Price reductions through central led Transversal Contracts.
8	Develop long-term contracts	May provide security of supply for buyer and preferential treatment in short supply situations. Supplier is secured the business for competitive pricing	<ul style="list-style-type: none"> Can we enter into a longer term contract with the suppliers to reduce the cost of the item? 	<p>LEARNER, TEACHER SUPPORT MATERIAL (LTSM)</p> <p>Long-term LTSM contracts to be facilitated by National Treasury and implemented within DBE and PEDs is to ensure that the procurement of LTSM results in the achievement of universal coverage, whilst maintaining the desired educational quality standards.</p>

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Techniques for Volume Concentration				
9	Volume pooling	Pulling together the volume of business on offer through supplier rationalisation or consolidation of group wide expenditure can leverage lower prices	Can we work together with other regions or districts or Departments to bring volumes?	<p>HOSPITAL LINEN & LAUNDRY, CLEANING AND FOOD SERVICES Provincial departments should commit to specific quantities of linen and laundry to ensure economies of scale.</p> <p>Bulk buying of all the cleaning chemicals and hospital non-perishable food items will ensure economies of scales within the province.</p>
7	Standardisation and rationalisation	Is a tailored/customised product/service necessary? Standardisation opens up competition	Can we create a common standard for the product or service?	<p>MEDICAL EQUIPMENT 241 item specifications of the dental, electro-medical and ophthalmology equipment have been standardised to be advertised on a national Transversal tender including accessories thereof.</p> <p>TRAVEL ONLINE SOLUTION Treasury to implement a solution for travel fulfilment for all national departments include:</p> <ol style="list-style-type: none"> 1. The implementation of the a defined and consistent workflow; and 2. The implementation of technology. <p>The proposed solution is a vehicle to implement policy compliance, cost containment and cost avoidance.</p> <p>TRAVEL POLICY The National Travel Policy Framework published by National Treasury should be adopted and</p>

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				implemented by institutions. This Policy Framework creates the minimum norms and standards for travellers embarking on official business trips both national and international.
Techniques for Product Specification Improvement				
8	Examine life cycle cost	By examining all the costs associated with purchasing and using the product / service, opportunities for redesign may become apparent. E.g. excessive maintenance and repair costs may signal a need for improved quality standards.	Have considered all costs – lifespan, maintenance, repairs, service, consumables, disposal	<p>HEALTH Department of Health should invest in systems that will monitor the life-span of the equipment, alert the users for service intervals and record patient incident rate for the department to make informed decisions.</p> <p>EDUCATION The LTSM strategy developed by National Treasury, examined the total lifecycle and cost of ownership throughout the lifespan of LTSM i.e books. The strategy considered 15% top-ups for textbooks; 6% CPI for inflationary annual escalations in price; LTSM will be provided to approximately 12.7 million learners while reducing the budget by at least R700 million per annum through the new Transversal Contracts for LTSM</p>