CHALLENGES AND METHODS FOR COST ANALYSIS IN PUBLIC PROCUREMENT

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PUBLIC PROCUREMENT IN SWEDEN

• Outsourcing of operations is popular among Swedish public service providers

• One of the countries in the EU with the highest number of reported procurement projects per capita
THE STOCKHOLM PUBLIC TRANSPORT ADMINISTRATION

• Largest buyer of public transportation in Sweden (1.3 Billion Euro annually)
• In a UITP* study ranked as one of the best public transport systems 2nd only to Singapore
• Outsourcing since the early 90’s
• Today relying solely on suppliers

*UITP = International Association of Public Transport
IMPORTANT TRENDS WITH STRATEGIC IMPACT

• Digitalization of customer services and internal processes
• Stockholm is growing quickly
• Costs are increasing at a higher rate than the population
COST ANALYSIS IS AN IMPORTANT PART OF A PROCUREMENT PROJECT

- Definitely for financial prognosis purposes
- To make sure that bids are not:
  - overly expensive
  - underfinanced
- Cost analysis comes with a number of challenges
THE COST AWARENESS CHALLENGE

- Initially cost awareness is high based on information acquired when performing the operations in-house
- Over time cost awareness deteriorates
  - the natural turnover of staff
  - recruitment of more procurement-oriented competence rather than operational skills
- Increasingly difficult to maintain the costs awareness needed to chase cost efficiency improvements
THE OPERATIONAL DISTANCE CHALLENGE

- At first requirements tend to be detailed
- Over time requirements become more functional
  - Provide suppliers with freedom to offer the best solution
  - Creates a larger distance between the buyer and the actual operations
- Benchmarking might help but, the Stockholm PTA, has few similar operations to compare with

Detailed requirement
- Trains shall be cleaned twice a day using a cleaning machine

Functional requirement
- Trains shall be clean (as experienced by passengers)
THE COST ACCOUNTING CHALLENGE

- Re-organizations leading to new cost accounting structures
- Movement of responsibilities and costs between different contracts
- New ERP systems
- Changes to the way of performing financial control
EXAMPLES OF METHODS IN COST ANALYSIS

• Find out if the price is right by doing a shadow price calculation

• Examples of main cost components when providing commuter train services
  • Drivers and other on-board staff
  • Maintenance of vehicles
  • Electricity and infrastructure fees
DRIVERS, SUPPORT STAFF ON TRAINS AND CUSTOMER SUPPORT AND SALES STAFF IN STATIONS

- Costs for drivers and on-board resources are complicated to calculate.
- Train driver efficiency can be as low as 40%.
- Scheduling of resources is an area where much digitalization is taking place.
- Compensation levels affected by the behavior of the public buyers.
BRIDGING THE INFORMATION GAP

• Implement multiple ways of acquiring cost information from ongoing contracts
  • The main flow is generated by processing invoices
  • Implement additional structured flows of financial or cost related information from the suppliers
• Improve the dialogue with other buyers to collect benchmarks and other cost related information
• Engage in discussion with the suppliers in order to understand how different cost areas are developing
CONCLUSIONS

- Maintaining cost awareness can become increasingly difficult over time
- However, it can be regained or even increased through a lot of hard work
- Examples of methods to explore:
  - Develop and maintain competence and methods for shadow price calculation
  - Engage in close dialogue with both suppliers and other buyers
  - Develop the processes and tools needed to collect and store detailed financial data

Improved skills in cost analysis is likely to increase the overall financial performance of public procurement
QUESTIONS?