Cost Improvement Programme (CIP) Long Definition

Savings can be made in a number of ways:

1. Cost Avoidance - deciding not to buy something or not to accept an increase in cost. If, for example, the price of a drug is due to increase in the future at the inflation rate, e.g. RPI, and we negotiated hard with the supplier to keep last year's price, we would make a saving by doing Cost Avoidance.

2. Cost Reduction – where we are currently incurring spending at a particular rate and this reduces, we have cost reduction. An example is where we employ agency to cover a vacant post, the cost is often significantly greater than a substantive employee – will often result in an overspend against a budget. When we replace the agency person with a substantive colleague we have Cost Reduction, which should then return spending to budgeted levels.

So when can we count this as a CIP? Clearly both of the above are important and we need to do both to control our spending and keep within budgets. However, we can only count the above into a CIP when, as a result of the saving, we have an impact on the budget. Since the CIP target was calculated when budgets were set, we need to translate a saving into a budget reduction. To illustrate with an example:

	Budget WTE	Actual WTE	Budget £	Actual £	Variance
Starting/baseline position	**5.00**	**6.00**	**100,000**	**120,000**	**20,000 adv**
Saving 1		(1.00)		(20,000)	(20,000)
Saving 2	(1.00)	(1.00)	**(20,000)**	(20,000)	0
Revised position	**4.00**	**4.00**	**80,000**	**80,000**	**0**

In the above, we have a budget overspend because there is one WTE too many when compared to the budget. This is driving a spending of £120k and an overspend vs budget of £20k.

- Saving 1 is Cost Reduction but not a CIP because it only results in a reduction in an existing overspend/cost pressure. If we reduced the budget, the overspend would remain.

- Saving 2 is also cost reduction but because this additional saving now means we can reduce the budget i.e. there is no overspend, we can count as a CIP and budget vs actual remains in balance.

So what about income CIPs? These work broadly in the same way. If we can increase an income target (budget) because new income allows us to do better than the baseline target/budget, it can be counted as a CIP.

The challenge is how we create cost reduction (or income generation) by being more efficient. This is achieved through a combination of the following change:

1. Reducing the price of something compared to the previous year.
2. Replacing something with a lower cost alternative.
3. Increasing productivity i.e. seeing more patients in a clinic or using a product for longer

So the key to something being counted as a CIP means it must result in reduction of budget (expenditure) or increase in budget (income).

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