NEW ZEALAND
GOVERNMENT PROCUREMENT

UNCLASSIFIED

Standard reporting methodologies

All-of-Government contracts

MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT
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Contents

Introduction

Purpose

The purpose of this document is to outline standard reporting methodologies used for savings and forecasting when going to market to procure All-of-Government (AoG) contracts, and in reporting on AoG contracts back to agencies and Cabinet.

About All-of-Government contracts

AoG contracts have been established to take the hassle out of procuring common goods and services, so government agencies can focus on achieving strategically important business outcomes.

They harness the collective purchasing power of government by establishing single supply agreements for the supply of selected common goods and services.

The feasibility and benefits of any AoG contract are investigated by New Zealand Government Procurement, part of the Ministry of Business, Innovation and Employment (MBIE).

Contract reporting

As the programme has matured we have continued to review each AoG contract's reporting methodology to make sure we deliver robust, reliable savings reports to agencies.

Agency satisfaction surveys have shown that agencies want regular, accurate and easy-to-understand reports about the value of AoG contracts. This streamlined reporting methodology has been implemented to better reflect the value of AoG contracts.

NZGP wants to ensure:

- that new approaches to market include *clear definitions* around expectations of AoG Suppliers, when it comes to reporting data that will be used for spend, savings, and **Administration Fee** analysis
- that the data captured and Supplier reporting is useful, valid and comparable, so reported savings can be both transparent and supported
- that participating agencies get a more accurate picture of their spend, and savings, so they can make better informed procurement decisions
- that we have as much commercially appropriate information as possible, to create fit for purpose AoG contracts, enabling more innovative category management
- consistency and comparability of reporting while not introducing undue stress on Suppliers.

Terminology

Defined terms are contained in Appendix 1.

For the purpose of understanding the methodology that follows, defined terms are marked throughout the document **as such** in the first instance, and then Capitalised ongoing.

Savings methodology

Overview

Part of NZGP's role in reporting to Cabinet is to identify the savings attributable to **Participating Agency** as a result of AoG contracts. We apply different savings methodologies for products and services.

We want Eligible Agencies to be familiar with, and understand, the rationale behind these savings methodologies and to ensure Participating Agencies continue to get full value under all AoG contracts.

This methodology describes how NZGP *captures data* and *reports savings* to meet its reporting requirements ensuring:

- consistent and relevant data capture from Suppliers
- savings can be calculated and reported more consistently to Participating Agencies.

We will use the data to drive further efficiencies (not necessarily price-related) in the relevant categories.

AoG Negotiated Price

As a result of NZGP's to-market processes, prospective **Suppliers** will provide an AoG price. For example, given the AoG contract will be bigger than the size of one eligible agency, Suppliers will identify what improved pricing (among other benefits negotiated) could be obtained as a result of such economies of scale. This will eventually be negotiated and contracted by NZGP to become the AoG Negotiated Price.

Given the size of New Zealand Government spend, there may come a time when the AoG Negotiated Price becomes the benchmark or best market price. An opportunity saving would still exist, i.e. the saving based on the price the industry may revert back to (should the AoG contract expire and not continue).

AoG Negotiated Price is common to both products and services.

Savings methodology for products

The basis for the savings methodology for **Product(s)** is the calculation of the price difference between what an individual Participating Agency could realistically expect to negotiate and pay to a **Supplier** (the **Baseline Market Price**) and the benefits of an aggregated AoG contract price for the same item.

Baseline Market Price

In order to calculate the savings associated with having a **product-based** AoG contract, NZGP must first determine the baseline price of products or **Product Groups**. For example, if we didn't have an AoG contract, what would be our best alternative price for that particular product or product group?

Suppliers typically determine a Baseline Market Price for individual Eligible Agencies according to customer risk, estimated annual purchasing and market competition.

When establishing a new AoG category or a review of an existing AoG category, we will ascertain Baseline Market Prices for each product group as part of their market analysis process.

Baseline Market Prices are ascertained from a number of sources that may include an RFI process, a review of existing contracted rates, general experience and knowledge in the market and discussions with Suppliers. Baseline Market Prices are comparable between Suppliers for the same products or product groups and *rationale and assumptions made to establish the Baseline Market Prices are clearly documented* as part of the market analysis process.

For existing categories (including those not undergoing a review, and those that have already been established as part of a 'going to market' initiative) Baseline Market Prices will be provided by Suppliers and refreshed on a regular basis (regularity is dependent on category, but *no less than* annually).

As Baseline Market Prices are refreshed, we monitor the impact on Gross Savings calculated. If the Baseline Market Prices start to creep much closer to the AoG Negotiated Prices, we may need to review the AoG Negotiated Prices.

Example calculations for product-based contracts

For product-based contracts, once we know the Baseline Market Prices and have the AoG Negotiated Prices, we can calculate the savings.

Gross Savings

The **Gross Savings** is the dollar value of savings achieved as a result of negotiating an AoG price. For example:

Gross Savings	= Baseline Market Price *less* AoG Negotiated Price
	= $150 per product - $100 per product
	= **$50**

Effectively, Gross Savings is a discount off what a Participating Agency would have paid if it did not negotiate an AoG contract price.

Put another way, the **Gross Savings Rate** (or Gross Discount) is a reduction in the purchase from $150 to $100. It is calculated as follows:

Gross Savings Rate	= (Gross Savings / Baseline Market Price) x 100
	= ($50 / $150) x 100
	= 0.33333 x 100
	= **33.3%**

Net Savings

The Net Savings are the dollar value of savings achieved *after* deducting the Administration Fee. Using the example above and setting the Administration Fee at 1.5% of the AoG Negotiated Price (in this case $100):

Net Savings	= Gross Savings - Administration Fee
	= $50 - $1.50
	= **$48.50**

Similarly, in this example the **Net Savings** (or Net Discount) would be the reduction from $150 (Baseline Market Price) to $101.50 (AoG Negotiated Price + Administration Fee) – calculated thus:

Net Savings Rate	= (Net Savings / Baseline Market Price) x 100
	= ($48.50 / $150) x 100
	= 0.323333 x 100
	= **32.3%**

Savings methodology for services

The basis for the savings methodology for Service(s) is the calculation of the price difference between what an individual Participating Agency was paying to a **Supplier** for the services before joining the AoG contract (the Pre-AoG Agency Price) and the benefits of an aggregated AoG contract price for the same service.

Pre-AoG Agency Price

In order to calculate the savings (both nominal and the Savings Discount Rate) associated with having a **service-based** AoG contract, NZGP must first determine the Pre-AoG Agency Prices for each Agency and service or service groups.

When establishing a new AoG category or a review of an existing AoG category, we will ascertain Pre-AoG Agency Prices for each service group on a per Agency basis as part of their market analysis process.

For existing categories (including those not undergoing a review, and those that have already been established as part of a 'going to market' initiative) Pre-AoG Agency Prices will be provided by the individual Participating Agency on sign-up to the AoG contract. The resulting savings rate will be applied to the specific Participating Agency for the duration of the AoG contract.

For service based AoG contracts, NZGP calculates the AoG savings percentage when the Eligible Agency becomes a Participating Agency based on the specific Pre-AoG Agency Price. This agreed savings percentage is applied to the specific Participating Agency for the duration of the AoG contract.

For new Participating Agencies that are unable to provide their Pre-AoG Agency Price to us, the savings percentage will be determined based on the weighted average 'actual savings' of all existing Participating Agencies belonging to the new Participating Agency's Agency Size group.

Weighted average calculation example					
Large Participating Agencies	**PA A**	**PA B**	**PA C**	**PA D**	**TOTAL**
Annual spend	$10,000	$12,000	$14,000	$14,000	$50,000
PA's AoG Savings as %	8%	10%	12%	15%	
Annual AoG savings in NZ$	$800	$1,200	$1,680	$2,100	$5,780
Weighted average savings rate for large Participating Agencies ($5,780/$50,000*100)					**11.56%**

The average AoG savings rate per Agency Size will be refreshed quarterly to keep it accurate and relevant as additional agencies join the AoG contract.

Parameters used to calculate savings

Hard savings

The methodology undertakes to provide a broad view of only the hard savings associated with AoG product or service spend. Outcomes arising from this methodology will be reported on according to product (e.g. laptops, desktops, monitors) or service groups (e.g. Law Clerk, Solicitor, Senior Solicitor).

Agency size

Participating Agencies are grouped according to Agency size. These parameters simplify the data fields to useful groups, while retaining some data granularity, but without expending unnecessary resources in an attempt to gain exact and perfectly granular data. As a result, savings reports will provide a more representative estimate of the savings made by Participating Agencies than previous methodologies e.g. the average small-sized Participating Agency could expect to gain an average of x% savings in the laptop product group.

To better reflect the price discounts being achieved in the market, NZGP has tiered each **Eligible Agency** using Agency size as the parameter.

For example, the IT Hardware category may determine its Agency size to be based on number of employees and the Motor Vehicles category may determine its Agency size to be based on size of fleet.

Whichever Agency size parameter NZGP determines to be relevant, once stated, is fixed.

Indicative savings only

The savings methodology gives indicative savings only. It has been constructed as the best AoG level solution possible, recognising the inability to ensure 100% accuracy given the variations within both the Participating Agencies and the products covered by the AoG contracts. It's not a requirement (nor achievable) for us to report at a granular level, i.e. the specific savings an individual Participating Agency makes under an AoG contract for a specific product or service, at a specific point in time.

If a Participating Agency requires a more granular level of savings reporting it will need to provide us with suitable data so that we can undertake more detailed analysis as required (using the applicable AoG category's savings calculator).

Product or service groups

NZGP determines the product or service groups used to gather data for each category.

For example, product groups in the IT Hardware category might be laptops, desktops, monitors, tablets, thin client and accessories; product groups in the Office Supplies category may be key office supplies, cleaning and hygiene products, educational supplies etc.

Product groups should also include products of similar value, to avoid skewed data – for example, if coffee and a coffee machine were in the same product group, the coffee machine is likely to be of a higher value, so would skew the data.

Exemptions and anomalies

Not all products or services will attract a discount or savings – for example, airport taxes on an airline ticket would not be discounted by the travel provider. The distinction is important, because it has a bearing on savings that can be attributed to AoG contracts, specific Participating Agency spend and the internal costs of managing an AoG contract.

For simplicity, individual products or services will be grouped according to similar product or service type and value. Some product or service groups will have negotiated savings associated with them and others may not. Where the product or service group does not attract a saving (Zero Savings Spend), a distinction will be made as to whether it is a non-core product or a tax (or similar) product.

NZGP recognises Suppliers will have little or no influence over tax-related product subcategories therefore, tax-related product groups will be Administration Fee Exempt.

Zero Savings Spend

Some products or services do not attract a saving (Zero Savings Spend) – in other words, their Baseline Market Price (or the Pre-AoG Agency Prices) is the same as the AoG Negotiated Price.

Some examples include:

- Taxes (e.g. Road User Charges, ACC levies, Airport taxes)
- One-off purchases
- Customised products, and agreed *non-core* or *off-catalogue* items which may be purchased from the Supplier and for which the Supplier will not provide a discounted price.

Administration Fee exemptions

When determining the product groups, we separate out Zero Saving Spend to relevant sub-sets – for example, separating out taxes. Tax Spend will never attract a discount and is not something a Supplier can influence therefore, in addition to being a Zero Saving Spend, it will also be Administration Fee exempt. By contrast, we may be able to influence the presence of other Zero Saving Spend over time.

Few product groups should be Administration Fee exempt.

Non-reported savings

In a few categories there may be savings from spend that is no longer reported. Therefore, this saving does not show up in spend data even though it is effectively a saving. While it is likely to be accounted for in the value proposition, we determine whether or not to account for this *saving* in reporting. It is not a requirement for this savings methodology. Other non-reported savings examples include:

- the cost of tendering
- pricing certainty
- standard terms and conditions
- legal savings
- consolidated invoicing
- enhanced reporting
- ease of process/transitioning
- the ability to escalate issues for resolution.

Gross Savings

Large Participating Agencies may find their Gross Savings are lower than the savings achieved by smaller Participating Agencies. Some agencies, particularly large Participating Agencies, can already get competitive Baseline Market Prices (this may be due to their size/volume of spend; because they are already sophisticated in their procurement activities; or because the supplier perceives them as a strategic or desirable customer), so the AoG Negotiated Price offers them a lower percentage saving than many of their smaller Participating Agency counterparts. The reverse may also be true.

Supplier reporting

Suppliers are expected to provide reporting and data in a suitable format so that NZGP can have consistency across similar data sets, and in determining where savings are applicable.

It is not NZGP's intention to make reporting, and the requirement for data, onerous on Suppliers however, we are seeking a consistent approach for a greater degree of validity in our reporting to stakeholders.

Contracted reporting requirements

Information about the savings methodology and reporting requirements are to be contained in any going-to-market initiatives. Suppliers will be contractually required to comply with reporting requirements and confirm their acceptance of reporting requirements in their **RFx** responses.

Reporting data

We determine the minimum amount of data required from Suppliers to provide high level reporting against more detailed or transactional data within a product or service group and tailor any reporting templates to accommodate the relevant product or service groups.

The AoG Negotiated Price is separate from the Administration Fee. Any reporting provided by Suppliers needs to clearly (and separately) identify the Baseline Market Prices, AoG Negotiated Prices and the Administration Fee.

Suppliers will need to provide Baseline Market Prices and AoG Negotiated Prices at a **Product Groups** level in their reporting to NZGP. Suppliers can provide data in various ways (e.g. in New Zealand Dollars, or a percentage discount), as long as NZGP can calculate the remaining data fields and data in the fields are not bundled (i.e. do not include Administration Fee in the AoG Negotiated Prices).

Over time, the Baseline Market Prices may change, so the Suppliers will need to refresh the Baseline Market Prices on a regular basis. The frequency will depend on the category however, it is recommended refreshments occur *no less than* annually, although for many categories a quarterly refresh would be more appropriate.

Data audits

We negotiate (contractually) the audit of Supplier data on an annual basis to ensure the provided data is appropriate. At the very least, we will ensure existing Suppliers certify that the data provided to date, is accurate.

Forecasting Methodology

Overview

Part of NZGP's role in reporting to Cabinet is to identify, in a broad sense, the whole of life savings attributable to Participating Agencies as a result of AoG contracts. To do this, we needs to be able to forecast future spend and savings for the life of the contract. This methodology describes how we forecast future spend to meet reporting requirements.

The basis for the Forecasting Methodology is the latest Participating Agency consumption data (rolling last 12 months) and the consideration of material industry, supplier, agency and contract trends.

The AoG Forecasting Methodology applies to established and new AoG contracts. For AoG contracts in development, the agency-based forecast parameters (i.e. spend, participation) will be less accurate than for established contracts. This is due to the less reliable data available to NZGP at the start of each AoG contract.

NB: The *Savings* Methodology is the same regardless of the maturity of the AoG contract.

Forecasting parameters

We review and update all forecasting parameters on a quarterly basis, in line with AoG's quarterly reporting process. Reconciliations to the *actual* spend data (last four quarters) is advisable quarterly to detect data input errors and validate accuracy.

Eligible Agencies' requirements

We assess an Eligible Agency's requirement for the AoG contract and its likely joining quarter, i.e. when the Eligible Agency is likely to sign a Letter of Accession for the contract, in one of two ways.

1. Eligible Agency **has no requirement** for the products and services available under the AoG contract and will therefore not join e.g. the Eligible Agency does not have a motor vehicle fleet, agency uses DIA's Desktop as a Service contract and does not purchase IT hardware.

   If an agency has no requirement for the AoG contract then the system will forecast Zero Spend for the agency every quarter until the contract expires.

2. Eligible Agency **has a requirement** for the products and services available under the AoG contract.

   We determine an 'estimated transition date' e.g. the Eligible Agency is likely to join in Qx20XX when their existing contract expires. If there is no estimated transition the Eligible Agencies' spend will be excluded from forecasting.

   The system will include the Eligible Agency's *planned* spend in the spend forecast for the quarter *following* the estimated transition date along with the Eligible Agency's size.

   We determine the Agency Sizing parameter (e.g. Motor Vehicle fleet size, printer fleet size, FTEs, number of marketing campaigns, etc.) relevant to the AoG contract to accurately forecast their spend.

Participating Agencies' planned spend

We populate, review and update Participating Agencies' planned spend for the next rolling 12 months as per the below methodology.

Existing AoG contracts

For Participating Agencies (PAs)

The *planned* annual spend is *based* on the PA's *actual* spend (i.e. In-Scope Spend, Zero Savings Spend, and Administration Fee Exempt Spend) for the last four contract quarters.

The system automatically updates each PA's *planned* spend with each PA's *actual* spend each quarter.

For Eligible Agencies (EAs)

The *planned* spend is set to the *average* of the *actual* spend (for the past four quarters) of all PAs in the EAs specific Agency Size band. We can overwrite the estimated spend manually if more accurate information (that is materially different) is known.

The system automatically calculates the actual average spend of all PAs in each Agency Size band, and populates the *average* for all EAs in the *same band.*

Note: a manual overwrite by us will replace the automated update until the EA becomes a PA.

New AoG contracts (up to 24 months into its contract term)

No Participating Agencies yet (before and around contract commencement)

The *planned* spend is based on the AoG category's agency spend analysis for most Eligible Agencies. We may contact key agencies to obtain spend and target joining dates.

Participating Agencies

The *planned* spend is based on the PA's *actual* spend (i.e. In-Scope Spend, Zero Savings Spend and Administration Fee Exempt Spend) for the last four contract quarters.

If the PA has not had four full quarters spend then the *actual* spend will be extrapolated to full four quarters.

Second generation contract

Participating Agencies' spend against the initial AoG contract can be used for second generation contracts, if the new AoG contract is sufficiently similar to make this a suitable approach.

Eligible Agencies

The planned spend is calculated in the same manner as for existing contracts with reference to the relevant PA rates.

Material adjustments

We will make material adjustments to the forecast data based on our knowledge of industry, contract, supplier, and agency trends. The adjustments are fully documented for full auditability.

Materiality: an initial 'rule of thumb' for the applied materiality threshold is +5% of total invoiced expenditure for the period. However, consideration needs to be given to:

- products or agencies that may become relevant or lose relevance during the forecast time horizon
- heightened forecast risk – generally areas of rapid change or superior savings rates (e.g. certain agencies may buy products that generate better savings rates).

Forecasting Risks to Consider

- **Structural shifts in demand** – e.g. the shift to thin client monitors away from standalone desktops.
- **Volatility** – through highly discretionary expenditure.
- **Seasonality** – how even is quarterly demand over a year (e.g. electricity prices in winter vs summer, beer, ice cream, rural services).
- **Timing shifts in demand**.
- **Baseline Market Price** – particularly if this is moving at a differential rate to the AoG Negotiated Price (e.g. External Legal Services).
- **Political Risk** – the level of demand related to the electoral cycle; and/or unusual fiscal decisions

Appendix 1: Defined terms

Administration Fee

We charge a fee to Participating Agencies for the establishment and management of AoG contracts on behalf of Participating Agencies. The Administration Fee is charged as a percentage of the Total Invoiced Expenditure excluding expenditure which is Administration Fee Exempt. The Administration Fee is collected from Participating Agencies by the Supplier at point of invoicing for products provided. We then invoice the Supplier and the Supplier remits the Administration Fee quarterly to us.

Administration Fee Exempt

Spend which does not attract the Administration Fee charge and is a sub-set of Zero Saving Spend (but not all Zero Saving Spend will be Administration Fee Exempt).

Admin Fee Example	
Total Invoiced Spend	$126,500
Administration Fee Exempt Spent	$25,000
Applicable Administration Fee Rate	1.5%
Administrative Fee = (Invoiced Spend - Administration Fee Exempt Spend) x Administration Fee Rate	
= ($126,500 - $25,000) x 1.5%	
= $101,500 x 1.5%	
= $1,522	

Agency Size

Agency Size is based on a parameter applicable to the relevant AoG contract. Example parameters are shown below.

Agency Size	..By Employee Numbers	…By MFD Fleet Numbers (Print)	…By Spend (Rental Vehicles)
Extra-large	5,000+	N/a	$100k+
Large	1,001-5,000	251+	$50k-100k
Medium	201-1,000	101-250	$10k-50k
Small	101-500	11-100	$0-10k
Extra-small	1-100	0-10	N/a

AoG Negotiated Price

The price for a Product or range of products (**product group**) as negotiated by us with the Supplier. The AoG Negotiated Price is available to all Participating Agencies. Note this price does not include GST. The AoG Negotiated Price does not include the Administration Fee except in the case of the External Legal Services and Advertising and Design Services AoG contracts where it is included in the rates.

Baseline Market Price

The best price available for a specific product or product Group that would be offered to any Participating Agency, if it were not a party to the AoG (i.e. if that Participating Agency went out to source such products independently). Note this price does not include GST.

Eligible Agency

Any New Zealand Public Service, State Service, State Sector or Public Sector agency and any agency that has been deemed eligible through the agency eligibility test approved by Cabinet.

Gross Savings

The dollar value of savings achieved (or discount received), calculated as the difference between the Baseline Market Price and the AoG Negotiated Price. It may also be represented as a percentage saving (**Gross Savings rate**). Gross Savings are exclusive of Administration Fee – that is, they do not have the Administration Fee subtracted from them.

Gross Savings calculation	
Baseline Market Price	$460.00
AoG Negotiated Price	$395.00
Difference = Gross Savings	$65.00
Gross Savings rate (i.e. %)	= (Gross Savings / Baseline Market Price) x 100 = ($65.00 / $460.00) x 100 = 0.14130435 x 100 = 14.13%

In-Scope Spend

Spend associated with purchases that attract Gross Savings. It is calculated using number of units purchased, multiplied by the AoG Negotiated Price.

Letter of Accession

Signed by Eligible Agencies to confirm agreement to the MoU. By signing the LoA eligible agencies join the contract as a participating agency.

Net Savings

The dollar value of savings achieved, calculated as Gross Savings less the Administration Fee. It may also be represented as a percentage saving (**Net Savings Rate**). Net Savings are inclusive of Administration Fee, that is, the Administration Fee has been subtracted from them.

Net Savings Example	
Baseline Market Price	$460.00
AoG Negotiated Price	$395.00
Gross Savings	$65.00
Administration Fee	1.5%
Net Savings	= Gross Savings – Administration Fee = $65.00 - (1.5% x $395.00) = $65.00 - ($5.93) = $59.08
Net Savings Rate (i.e. %)	= (Net Savings / Baseline Market Price) x 100 = ($59.08 / $460.00) x 100 = 0.14130435 x 100 = 14.13%

NZGP

New Zealand Government Procurement is part of the Ministry of Business, Innovation and Employment and is responsible for shaping procurement excellence within the New Zealand government, this includes managing AoG procurement.

Participating Agency

An Eligible Agency that has signed a Memorandum of Understanding with NZGP to join at least one AoG contract.

Pre-AoG Agency Price

The price an individual agency paid for the Services prior to joining the AoG contract.

Product(s)

Items or goods available to be purchased from a Supplier by a Participating Agency through an AoG contract.

Product Groups

Similar products of similar value grouped together for the purpose of simplifying the savings calculations.

RFx

RFx is a generic acronym used to cover an assortment of tender types such as Request for Proposal (RFP) and Request for Quote (RFQ).

Service(s)

Intangible products (such as expertise in accounting, banking, cleaning, consultancy, education, or insurance), available to be purchased from a Supplier by a Participating Agency through an AoG contract.

Supplier

A provider of products that is a party to an AoG contract. AoG contracts for Services, refer to them as **Providers**.

Total Invoiced Spend

The total of in-scope Spend (attracts Gross Savings) and Zero Savings Spend (does not attract Gross Savings), plus the Administration Fee.

Participating Agency Purchases One Each Of Products A, B, & C	Baseline Market Price	Negotiated AoG Price	Gross Savings	Administration Fee 1.5% Of Spend	Invoice
Product Group A (Core Product, Negotiated Discount)	\$150.00	\$120.00	\$30.00	\$1.80	\$121.80
Product Group B (Off-Catalogue, Non-Core, Custom Product) = Zero Savings Spend	\$100.00	\$100.00	\$0	\$1.50	\$101.50
Product Group C (Tax Passed On By Supplier) = Zero Savings Spend, That's also Admin Fee Exempt Spend	\$3.50	\$3.50	\$0	\$0	\$3.50
Total Spend By Participating Agency			= \$120 + \$100 + \$3.50 = \$223.50		
Total Amount Invoiced To Participating Agency			= (\$120 +\$1.80) + (\$100 +\$1.50) + (\$3.50 + \$0) = \$226.80		

Zero Savings Spend

Spend for which Gross Savings is zero.