

## Value for Money in Procurement Guideline

### Purpose

“Achieving value for money” is a key principle of the *South Australian Government Procurement Framework* (‘Procurement Framework’). This should be driven through each stage of the procurement process, from acquisition planning through to sourcing and contract management. The purpose of this Guideline is to provide practical advice to public authority staff on how to achieve better value for money outcomes through each stage of the procurement and contract management process.

**Please note:** This Guideline assumes the reader has a basic understanding of the procurement and contract management process set out in the *Procurement Framework*. It aims to build on existing knowledge of the process and does not provide a detailed description of how to undertake a procurement.<sup>1</sup>

### What is ‘Value for Money’?

Schedule 1 of the *Procurement Governance Policy* defines Value for Money (VFM) as:

*“the achievement of a desired procurement outcome at the best possible price, based on a balanced judgement of financial and non-financial factors relevant to the procurement.”*

The *Procurement Governance Policy* identifies that VFM is achieved in procurement by finding the optimum balance between whole-of-life cost and quality.<sup>2</sup>

In addition to the value for money considerations above, public authorities are required to consider the economic benefit of the procurement to the South Australian economy.

### How to achieve VFM in procurement

There is no exact formula for achieving VFM in procurement.<sup>3</sup> It is important that public authorities identify and understand:

1. the applicable cost elements that contribute to the whole-of-life cost of a good/service;<sup>4</sup> and
2. the important qualitative (non-financial) factors (such as supplier capability and capacity, experience and economic contribution<sup>5</sup>) that will contribute to the achievement of the desired procurement outcome.

<sup>1</sup> Refer to the *Procurement Governance Policy*, *Procurement Planning Policy*, *Sourcing Policy* and *Contract Management Policy* for further details on the South Australian Government’s procurement and contract management requirements.

<sup>2</sup> Refer to the *Procurement Governance Policy* for further details on the government’s position on value for money in procurement.

<sup>3</sup> ‘[Achieving value for money – goods and services procurement guide](#)’, State of Victoria 2018.

<sup>4</sup> Refer to the *Whole-of-life Costing Guideline* for further details on applicable cost elements and how to calculate whole-of-life costs.

<sup>5</sup> For more guidance on economic contribution, refer to the South Australian Industry Participation Policy

## Value for Money in Procurement Guideline

The sections below provide an overview of how public authority staff can identify and address each of these key factors throughout the procurement and contract management process.

### Consider VFM in planning

VFM outcomes will often look different for every good and service. They will likely be affected by factors including the identified need, market readiness, availability of supply, product/service complexity and risk. The information sourced through the needs identification, review of estimated whole-of-life cost, market analysis and risk assessment will assist in understanding what outcomes are possible and how likely they are to be achieved. This information should then be used to guide the specification development, sourcing strategy and contract management plan.

### Identifying the need

The *Procurement Planning Policy* identifies that the first step in any procurement is to identify a client, community or business need. This may be a new or recurring need that should be linked to the public authority's strategic objectives and results from consultation with key stakeholders (including impacted communities, clients and other key stakeholders –internal and external to government, including end-users).

During the needs identification stage, it is important to start thinking about, and discussing with key stakeholders, the potential cost elements and qualitative factors that could have an impact on the procurement outcome. Introducing these factors into discussions early will help to determine whether it is worth proceeding with a procurement process. It can also help key stakeholders to understand why certain costing structures and qualitative features will be incorporated into the specification and evaluation plan.

### Estimating the value of the procurement

Whole-of-life costing (WLC) is the government's preferred methodology for identifying and calculating the total costs and expenses associated with the purchase of goods or services. WLC includes all initial and future costs related to the life cycle of the goods or services being procured.

It is important that public authorities consider the estimated WLC of a procurement as part of the planning stage.<sup>6</sup> WLC can also be used later in the sourcing stage to benchmark the WLC of suppliers' quotes/offers.

### Supply market analysis (engaging with suppliers)

The purpose of conducting a supply market analysis is to:

- identify the current level of capability and performance in the market

<sup>6</sup> Refer to the *Whole-of-Life Costing Guideline* for details on how to calculate whole-of-life costs.

## Value for Money in Procurement Guideline

- determine the degree of influence the public authority has within the supply market to drive the identified procurement objectives
- understand the supply market's willingness to deliver on the procurement objectives.

Better VFM outcomes can be achieved when public authorities actively improve their knowledge of, and appropriate engagement with, the supply market – particularly the local supply market. Ongoing market awareness and constructive relationships with suppliers will assist public authorities to remain informed about goods or services with improved value outcomes and will better inform the needs identification stage.

### *Specification Development*

The specification is integral for identifying and communicating to key stakeholders what is important to the public authority. The risk of suppliers misunderstanding the public authority's requirements, or providing a poor response based on unfounded assumptions, greatly increases if the specification does not clearly articulate the need or procurement objectives.

Greater value is achieved when all stakeholders, particularly the supply market, understand the cost elements and qualitative factors that are important to the public authority. This gives the supply market a better opportunity to submit a quote/offer that addresses those key requirements and allows the public authority to make a more informed VFM assessment.

The *Procurement Planning Policy* highlights the importance of the specification describing the “identified need” as an outcome rather than a specific good or service. Outcome-based procurement seeks innovation from the supply market by focusing on the desired procurement outcomes rather than defining how the outcome should be achieved. Using outcome-based specifications, allows suppliers to propose innovative solutions that may otherwise be excluded from a conventional tender process.<sup>7</sup>

Specifications should avoid the use of proprietary standards, and specify the requirements in such a way as to maximise the opportunity for competitive offers from a variety of suppliers and especially not to preclude appropriate local suppliers.

### *Developing the sourcing strategy*

When choosing the most suitable way to approach the market, public authorities should ensure the selected market approach supports opportunity for maximising the value of government spend for South Australians. The *Procurement Planning Policy* details the minimum requirements for developing a sourcing strategy; which, in line with the broader *Procurement Framework*, seeks to add additional value to the state

<sup>7</sup> [‘Using an outcome-based procurement approach’](#), State of Queensland (Department of Housing and Public Works) 2019. Refer to the *‘Developing a Specification Guideline’* for further information on outcome-based specifications.

## Value for Money in Procurement Guideline

by increasing the opportunity for South Australian based suppliers to compete for government contracts.

In 2019, the South Australian Productivity Commission ('SAPC') reported that:

*“The use of public competitive processes in [South Australian government] procurement is low relative to the European Union’s standard (24% in goods and services procurement) and the use of single supplier tenders are not well monitored. [Direct or limited] processes have been the subject of complaints by business and the apparent lack of competitive tension raises the question of whether value for money for the state has been optimised.”*

In response to the [SAPC’s Stage 2 Inquiry into Government Procurement](#), the *Procurement Planning Policy* identifies acceptable standards for the use of single supplier tender (otherwise referred to as ‘direct market approach’) and provides a list of clear and verifiable reasons to limit the market approach. Although public authority Chief Executives have the authority to approve direct and limited market approaches, public authorities are strongly encouraged to take an open market approach, wherever possible.

An open market approach helps to optimise value for money by:

- increasing the public authority’s knowledge and understanding of the supply market
- providing greater insight into the capability and scale of the market
- giving the supply market greater visibility over what the government is buying, thereby giving them the opportunity to adapt their business models to meet the need
- enabling suppliers to offer innovative solutions that the public authority may not be aware of
- creating positive competitive tension in the supply market, which in turn encourages suppliers to offer maximum value
- providing a mechanism for the public authority to give suppliers constructive feedback on the strengths and weaknesses of an offer so they can improve the quality of future offers.

Carefully considered evaluation criteria and multi-stage processes can be used to filter market responses where there is potential for an overwhelming number of offers from the supply market.

### *Evaluation planning*

The use of specifications and evaluation criteria within the tender process is an important avenue for defining the public authority’s requirements and priority objectives. This involves translating the identified procurement objectives into

## Value for Money in Procurement Guideline

specifications and developing evaluation criteria to assess how a supplier might achieve those objectives.

Evaluation criteria and methodology must be determined (and approved) prior to approaching the market.<sup>8</sup> A public authority's determination of the appropriate criteria (including whether they are mandatory and the appropriate weightings to be applied) should be guided by the identified objectives and the public authority's specific needs. The chosen evaluation methodology will depend upon the level of risk and the public authority's approach to the VFM evaluation. The *Evaluation Planning Guideline* provides further details on how to select a suitable evaluation methodology and gives examples of three key ways a public authority can assess VFM through an evaluation process.

The [South Australian Industry Participation Policy](#) (SAIPP) is also an important driver for maximising the economic benefit to the State from the expenditure of public funds. The [SAIPP](#) identifies a minimum mandatory weighting to be applied to the industry participation component of the evaluation criteria.

It is important that public authorities are familiar with the SAIPP objectives and requirements in order to comply with the government policy and achieve greater VFM outcomes. This can include, but is not limited to:

- Increased economic benefit to South Australian regional / small / Aboriginal business and supply chains
- Increased economic benefit to South Australia through increased employment opportunities for South Australians - targeted area / cohort
- Increase economic benefit to South Australia through increased training opportunities for South Australians - targeted area / cohort
- Increased economic benefit to South Australia through investment and capital expenditure that builds the capacity of the South Australian economy
- Increased economic benefit to South Australia through expanded economic development, including economic participation for disadvantaged and socially excluded groups.

### Risk Assessment

Good risk management processes, applied throughout the lifecycle of a procurement, are critical for successful delivery of VFM outcomes.<sup>9</sup> Public authorities are required to conduct a risk assessment during the planning stage to ensure the risks associated with the procurement of goods or services are identified, assessed and effectively managed. Effective risk management ensures unexpected or undesirable outcomes

<sup>8</sup> In accordance with the *Procurement Planning Policy*

<sup>9</sup> ['Risk Management: Construction Procurement Guidelines'](#), New Zealand Government Procurement 2019.

## Value for Money in Procurement Guideline

are minimised whilst achieving the objectives of the procurement. Additionally, it can identify opportunities to promote innovative solutions.

Ultimately, effective risk management in procurement supports the public authority in receiving the required goods or services on time at the best possible quality, therefore ensuring business continuity, strong financial performance and value for all stakeholders (clients/end-users, suppliers, and the public authority).

Where procurement risk is well managed, project outcomes and objectives are more likely to be achieved and the impact of a potentially catastrophic event can be minimised or avoided altogether.

The effort directed to the risk assessment should be commensurate with the scale, scope and complexity of the procurement to get the greatest value out of it.

### Achieving VFM through sourcing

#### *Approach to market*

Public authorities are required to adopt the Procurement Services SA's *standard market approach documents* for all goods and services procurements. The standard documentation should be tailored to respond to the identified procurement objectives and only ask for the minimum details required to fairly evaluate a quote/offer. Both the public authority and supply market benefit from tailored response forms.

Response forms that ask questions directly related to the identified objectives and approved evaluation criteria, allow suppliers to focus on the key areas that are important to the public authority. This in turn reduces the time and cost involved in tendering for government contracts and increases the quality of the quotes/offers received. It also makes it much easier for the evaluation team to find the key information required to make an informed VFM assessment.

Before approaching the market, public authorities should also review the proposed *Standard Goods and Services Agreement* or *Standard Not for Profit Funded Services Agreement* (whichever is relevant) to ensure the agreement meets the requirements of the procurement objectives. The standard terms and conditions of the government's standard agreements must not be amended or removed without first consulting with the Crown Solicitor's Office or Procurement Services SA<sup>10</sup>. However, additional performance standards can be included as part of the goods/service specification or funded services description. These can be used to make supplier commitments binding within the contract.

Additional performance measures (such as set targets or key performance indicators (KPIs)) should be included in the proposed contract before approaching the market to

<sup>10</sup> In accordance with the *Sourcing Policy*



## Value for Money in Procurement Guideline

give the supply market a chance to respond to and address those performance measures, as required.

### *Evaluation and Supplier Selection*

During an evaluation of supplier quotes/offers, the evaluation team should consider the extent to which each supplier's response achieves the optimum combination of WLC and qualitative factors (including economic contribution<sup>11</sup>). The process for determining this will be detailed in the approved evaluation methodology. The resulting Purchase Recommendation should then detail how the VFM was achieved through the evaluation process.

It is important the Purchase Recommendation or post-sourcing reviews also identifies the lessons learnt throughout the sourcing process –particularly where the process was not successful in achieving VFM. This will provide valuable insight for future procurement processes and in turn may help to improve the public authority's future sourcing strategies and VFM outcomes.

At the end of the tender evaluation, all suppliers are given the opportunity to receive constructive feedback on their quotes/offers. Public authorities are strongly encouraged to use those opportunities to highlight the strengths of a supplier's quote/offer and identify the WLC and qualitative factors that could be improved to make the supplier's offer or business more competitive. The intention of the tender debrief is to help suppliers improve the quality of future responses and create greater competition in the supply market.

### *Contract Negotiation*

In situations where a specific VFM objective cannot be achieved through the selected market approach, additional value outcomes may be negotiated with the preferred supplier/s. During negotiations, public authority staff are encouraged to discuss how the supply arrangement can move to provision of more VFM outcomes over time — for example negotiating for suppliers to employ an agreed number of trainees or apprentices across the life of the contract.

It is preferable that VFM targets and KPIs are established and agreed to by both parties during the contract negotiations/development and prior to commencement of delivery under the contract. Any unforeseen improvements to financial and/or non-financial performance which occur during the term of the contract may need to be formally agreed to under relevant contract conditions.

Negotiating additional non-financial requirements may require a combination of incentives that will realign financial savings with the qualitative outcomes. For example, negotiating a fixed price contract with the waste industry, where the supplier

<sup>11</sup> For more guidance on economic contribution, refer to the South Australian Industry Participation Policy

## Value for Money in Procurement Guideline

is paid a fixed price regardless of changing waste volumes, provides an incentive for the supplier to reduce waste volumes, as this will result in higher profits.

### Contract Management

#### *Performance monitoring*

Effective contract management and performance monitoring is integral to ensure the supplier meets the agreed VFM commitments – whether that be achieving cost savings or other qualitative objectives. It can also enable additional VFM outcomes that could not be achieved through the sourcing process, as it provides further opportunity to innovate and improve contract performance.

The benchmark for performance will vary depending on the identified need and specific objectives of the procurement. In order to achieve VFM through contract management, key WLC and qualitative considerations should be built into set targets, KPIs and contract reporting requirements. Priority considerations should also be discussed in regular meetings with suppliers.

Effective Contract Management is also important to ensure the quality of the goods or services remain adequate and there are no adverse or unintended impacts on contract outcomes, including changes to cost or specification. This may involve, for example, feedback from clients/end-users, regular inspections, and other contract and performance management mechanisms identified in the Contract Management Plan.

Both parties should understand and actions and process that will occur is the supplier does not meet the contract outcomes and minimum performance requirements.

#### *Effective buyer-supplier relationship*

Establishment of a good buyer-supplier relationship can facilitate VFM improvements during the term of the contract and assists in correction of shortcomings before the relationship is adversely affected. With a good buyer-supplier relationship in place, the supplier is more likely to actively approach the public authority's contract manager to inform them about any new innovative/value-add products or company value-add initiatives. Suppliers will also be more likely to seek out opportunities to work with the public authority to increase the value achieved through the contract for both parties.

#### *Measuring and reporting*

Contract reporting should specifically demonstrate the value achieved by procuring the selected good/service and contracting the engaged supplier. Examples include reduced WLC through effective demand management, improved quality products with reduced energy consumption, or improved economic outcomes through targeted employment and apprenticeships.

Reporting and measurement should be considered from an early stage in the procurement, as the specific reporting requirements will be informed by the identified



## Value for Money in Procurement Guideline

need and procurement objectives. It is recommended that reporting requirements be built into specifications and contract terms and conditions, and are aligned to specific performance indicators. This will ensure that information is available to measure the value achieved through the procurement.

### *Contract review*

At the end of the contract, performance of the procurement objectives, including the achievement of VFM throughout the contract term, should be included as part of the overall contract review process. The information gathered as part of the contract review will assist in identifying areas for improvement and will form the basis for the decision as to whether the contract should be renewed or extended.

Before deciding if a contract should be renewed or extended it is important to:

- review performance against the agreed KPIs
- determine whether the desired procurement objectives have been met
- find out whether the public authority's priority objectives have changed
- carry out analysis to assess whether the public authority's value as a customer has changed or whether the market structure has changed
- document findings and lessons learned, as this information can be used in the planning stage for future procurement processes.