



**Government  
of South Australia**

State Procurement  
Board

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**Value for Money in Procurement Guideline**

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## Overview

This guideline provides information and practical advice to procurement practitioners from public authorities on how to determine and apply Value for Money in a South Australian Government context.

This guideline applies to all public authorities as defined in the State Procurement Act 2004 (Act).

## Background

### Legislative context

Section 3 of the Act states that the Object of the Act is to advance government priorities and objectives, including the following key principles:

- obtaining value in the expenditure of public money
- providing for ethical and fair treatment of participants
- ensuring probity, accountability and transparency in procurement operations (emphasis added).

### Value for Money in the Procurement Policy Framework

The State Procurement Board's (Board) Procurement Policy framework is designed to ensure that public authorities achieve procurement outcomes which reflect the requirements of the Act.

The Board's Procurement Policy framework articulates two important principles:

- The achievement of value for money is driven through the procurement process, from acquisition initiation to contract completion.
- Recognition that *lowest price* does not always represent the best outcome.

### Value in a South Australian Government context

The concept of Value in the delivery of public services is being developed by the Government in a number of areas. The *Reforming Democracy: Deciding, Designing and Delivering Together* policy includes the key initiative of *deliberative democracy projects* where non-government organisations or business work with government and the community to consider different policy issues.

This concept is also reflected in the requirement that any proposal submitted to Cabinet must include a "Public Value Account (or scorecard)." The objective is to assist public authorities and ministers to succinctly outline key aspects of proposals for Cabinet consideration and to define the Public Value of proposals. This is intended to improve the capacity of the South Australian Government to implement proposals that deliver Public Value outcomes. To deliver such a Public Value outcome, the following three, "Strategic Triangle", requirements must be met:

- Public Value - the Public Value outcomes that the proposal aims to achieve (and for whom) must be defined.

- Legitimacy and Support – this refers to the coalition of stakeholders whose support is necessary to deliver the outcomes. Both the stakeholders that authorise an activity and those that are affected by it need to be engaged.
- Operational capability – the required capacity to deliver the required outcomes must be available and operational resources mobilised to implement proposals and achieve the desired Public Value outcomes.

These concepts need to be articulated in the context of the Procurement Policy Framework.

### The application of Public Value in SA Government Procurement

The application of Public Value concepts affects both procurement practitioners and procurement processes. Public Value needs to be incorporated into procurement processes applied by procurement practitioners.

Procurement practitioners need to search out opportunities to create Public Value. This means being proactive in initiating and promoting ideas rather than waiting to be told what to procure. A key element in this approach is the opportunity for procurement to become more embedded into the strategic planning of the public authority, and the procurement function to be recognised as a strategic function for a public authority.

Although both of these areas are important, this guideline focuses on how the concept of Public Value is addressed for procurement processes in the context of the Procurement Policy Framework.

## General Principles

The Act requires that value is obtained in the expenditure of public money and therefore the concept of Value for Money remains a core concept for determining the success of a procurement.

Value for Money needs to be assessed in the context of advancing government priorities and objectives. It is therefore compatible with the concept of Public Value being applied across Government.

Value for Money is to be considered in each of the key procurement stages:

- a) acquisition planning
- b) supplier selection
- c) contract management.

Value for Money is defined and measured in terms of the outcomes (procurement objectives) defined and delivered for the procurement. In this context, Value for Money is defined as *the optimal use of taxpayer resources to achieve the intended procurement objectives*.

The first criterion for determining whether value for money has been achieved is whether the procurement is effective. That is, the procurement objectives are used as a basis for measuring the intended results against the actual results achieved for the expenditure – “spending wisely”.

Optimal use is assessed using two criteria:

- Economy: utilising the cheapest resources on a total cost of ownership basis to achieve the required procurement objectives – “spending less”.
- Efficiency: using the least amount of resources to achieve the required outcome – “spending well”.

These criteria have to be assessed in combination as there is often a trade-off between economy and efficiency. For example, a more experienced resource is usually more expensive (less economical), but can get the task completed more quickly (more efficient) for the same or better quality.

## Application

The application of this concept of Value for Money is to be considered in each stage of procurement. Outlined in this section are those aspects of each stage that are relevant to the Public Value aspects of the procurement process.

Full details of each stage in the procurement process are described in the following Board documents:

- Acquisition Planning Policy
- Supplier Selection Policy
- Contract Management Policy.

Note that the rigour with which this concept is applied will vary depending upon the scale and complexity of procurement. For example, although the principles apply equally, it is expected that the process will be less onerous for procurements that fall under the Simple Procurement Guideline.

## Acquisition Planning

### Definition of Procurement Objectives

The definition of Value for Money is driven by the delivery of procurement objectives, therefore this is the most important stage of the process. Procurement does not occur in a vacuum and it is expected that procurement practitioners understand the Public Value objectives of their public authority and how they can be embedded in the procurement process. These values could include:

- Social procurement outcomes  
This refers to the intentional generation of social value through procurement processes that can occur through direct or indirect approaches:
  - direct – through, for example, purchasing from not-for-profit entities or businesses owned by designated groups
  - indirect – through, for example, including social clauses such as employment targets for designated groups in contracts with regular businesses.
- Environmental and/or Sustainable procurement outcomes  
This refers to the environmental and social objectives that a public authority may require to be incorporated into the procurement process, including the development of appropriate specifications and the evaluation of suppliers against these requirements. The

objective is to require the procurement process demonstrate value for money whilst minimising long-term damage to the environment.

- Equity outcomes

This refers to the perceived fairness of spending. Circumstances may occur where specific communities or organisations justifiably receive differing levels of resourcing to the general population in order to achieve specific procurement objectives; for example, the delivery of additional health or social services in underprivileged areas to improve overall health standards.

In addition to agency specific outcomes, there will also be:

- mandated requirements such as the South Australian Industry Participation Policy
- functional outcomes linked to the particular good / service being sourced; this would include any mandated threshold quality / specification requirements
- compliance outcomes linked to government policies and contract management requirements
- risk factors that need to be considered.

The foundation of an acquisition plan is a clear statement of the procurement objectives and how they are aligned to the public authority's public value strategy and values and the government's priorities.

It is essential that the appropriate balance is maintained when developing the definition of the procurement objectives. In an outcomes based approach there is a risk that conscious or unconscious bias could be introduced to the detriment of the achievement of value for money.

### Market Analysis

To ensure that the intended outcomes can be planned for, it is essential that an appropriate market analysis is carried out for significant procurements. This is required to ensure that procurement practitioners can demonstrate they have identified the pool of local, national and international suppliers with the capability and capacity to deliver the required outcomes before the formal sourcing process begins. This process could also influence the required outcomes of the procurement by including the need for a national supplier, for example, to develop a local facility or include a small, local supplier in their response. Where appropriate, strategic relationships can be developed with the relevant pools of providers to build long-term mutually beneficial relationships.

The outputs of this process may be a refined definition of the procurement objectives and the market approach that will be used for the procurement.

## **Supplier Selection**

### Evaluation Criteria

- The evaluation criteria need to be aligned with the procurement objectives defined in the Acquisition Plan and provide an objective basis for assessment.
- Objective measures for economy (on a total cost of ownership basis), efficiency and effectiveness can be defined and included in the evaluation criteria.

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## Evaluation Team

- In addition to procurement professionals, the selected evaluation team needs to provide a broad perspective on the procurement and include, as far as possible, key stakeholders.

## **Contract Management**

The Contract Management Plan needs to include regular performance reporting by the contract manager against the:

- statement of the procurement objectives as defined in the Acquisition Plan; a procurement that does not deliver the intended outcomes within the required period cannot be judged to have been effective or delivered Value for Money
- economy and efficiency demonstrated in the delivery of goods and services. Note that a procurement can be effective and yet not deliver Value of Money because the service delivery was compromised by factors such as significant cost overruns and/or disruptions to delivery.

The output should be a balanced scorecard of supplier performance that considers each of the criteria used to define value for money: effectiveness, economy and efficiency.

## **Further Information**

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## **Related Policies and Guidelines**

Procurement Policy Framework  
Acquisition Planning Policy  
Supplier Selection Policy  
Contract Management Policy  
Simple Procurement Policy

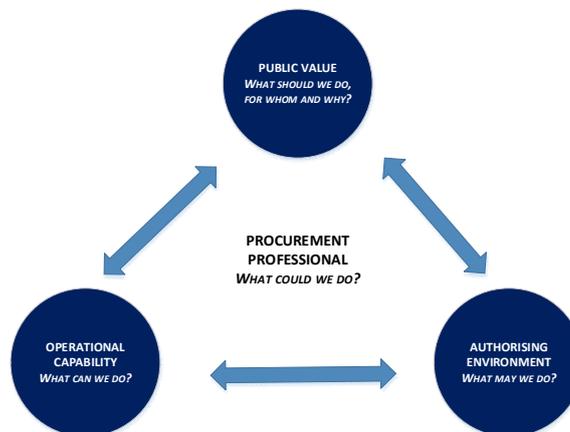
## **Responsibilities**

Principal officers are responsible for ensuring this policy is implemented and monitored within their respective public authority.

The Board is responsible for ensuring this policy is promulgated and reviewed as required.

## Appendix A: Definitions

1. **Procurement Objectives:** the measurable delivery of the intended outcomes or benefits defined for that procurement.
2. **Public Value:** the value provided by a public authority / procurement to the residents of South Australia.
3. **Public Value Outcomes:** the concept of public value is intended to get public managers thinking about what is most valuable in the service that they deliver and to consider how effective management can make the delivery of that service the best that it can be. Consequently public value outcomes can be defined as:
  - improving government performance itself as an asset to society; and /or
  - delivery of specific benefits directly to persons or groups.
4. **Strategic Triangle:** This is a framework developed by Professor Mark Moore (Creating Public Value: Strategic Management in Government. Harvard University Press, 1995) that demonstrates that public value is created when a strategy or action has public legitimacy, it is supported by the authorities that must authorise the strategy or action and the public authority has the operational capacity to implement the strategy or action effectively. These components must work together to deliver the required outcomes. This framework is illustrated below:



5. **Value:** the benefit provided by the delivery of goods or services.
6. **Value for Money:** the optimal use of taxpayer resources to achieve the intended outcomes.