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Procurement Better Practice Handbook

Organisation and People

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1. Background

The accreditation framework for public authorities with a procurement authority of \$1.1 million or greater, as issued by the State Procurement Board, is based on five high level performance categories against which a public authority's procurement capacity and capability is assessed. These categories are:

1. Leadership and Strategy.
2. Organisation and People.
3. Governance and Performance Management.
4. Processes and Systems.
5. Relationships – Internal and External.

For each of these categories, procurement principles have been defined that describe high performing procurement operations.

This Better Practice Guide has been developed for the category *Organisation and People* to highlight better practices.

This category *Organisation and People* includes the following principles:

1. An appropriate organisational structure (centralised, decentralised or centre led) is in place to maximise procurement effectiveness and efficiency.
2. Specific responsibilities are assigned for key market sectors (category management) where appropriate.
3. The public authority has people with sufficient procurement capability and skills (including procurement planning, market research, negotiation, contract management, project management and risk management) to ensure effective performance for the public authority's complexity and expenditure.
4. There is a clear workforce strategy (including effective people management and development processes) in place for resourcing the procurement function.
5. There is a process in place for ensuring that all staff with the authority to approve procurements, possess the appropriate capability and skills.

The organisational framework within which procurement operates can have a profound effect on its effectiveness. No procurement operation can be effective unless it has high quality professionals who are continually updating their knowledge and skills and who can promote procurement within their public authority.

2. Introduction

Procurement is a business process in which economies of scale are important value drivers. Variety reduction and volume aggregation are sometimes presented as key procurement strategies, and these strategies may best be enabled by central leadership of the procurement function. So is centralisation of procurement the most appropriate organisational structure for procurement?

Contemporary perspectives on procurement separate the strategising for procurement from the actual operation of procurement and day to day purchasing processes. Policy, leadership and strategy are best established centrally, as they need to be aligned to the public authority's goals and business priorities. However, many public authorities have an ethos of decentralising decision making closest to the location where those decisions have their consequence.

Consequently, a hybrid approach to organising procurement is common, with central leadership and decentralised operations. Each public authority needs to determine whether centralisation, a centre-led solution, or a decentralised solution is most appropriate given a range of factors. The factors to be considered include the degree of variety in the spend portfolio, the diversity of the public authority's business activities, the culture of the public authority and need for control.

Whatever the organisational form of the procurement function, each public authority needs sufficient numbers of staff devoted to the procurement process, whether full-time or part-time, and those staff need appropriate capability to deal with the challenge of managing the procurement process.

This category addresses the specification of capability, the investment in capacity and the deployment of resources for both sourcing and contract management. The contemporary perspective of procurement is that success increasingly requires blending people, process and technology. Recruiting, developing and retaining capable people is one of the hardest challenges of all.

Each principle will now be discussed to highlight better practice.

3. Principle 2.1

Principle 2.1 states:

An appropriate organisational structure (centralised, decentralised or centre led) is in place to maximise procurement effectiveness and efficiency.

This principle requires public authorities to ensure that the organisational structure for procurement should be:

- appropriate to the public authority's procurement activities and objectives;
- clearly documented, including reporting lines and roles and responsibilities of procurement personnel; and
- clearly understood by internal stakeholders.

If a decentralised model is applied, the public authority should be able to demonstrate a consistent application of policy and procedures across the organisation.

Types of outputs that relate to this principle include:

- organisation chart;
- job and person specification/s; and
- reviews of procurement organisational structures and the rationale for the existing structure.

Better practice for all Public Authorities [\$1.1m] or greater

All public authorities will have:

- reviewed their spend portfolio and considered the risk/opportunity presented;
- defined 'value for money' in terms of efficiency, effectiveness and economy¹;
- made an explicit choice regarding the scale and character of capability needed to manage the spend portfolio;
- created decision-making mechanisms (such as an Accredited Procurement Unit or equivalent) to allow senior managers to consider procurement decisions;
- identified the position/s in their organisational structure that will be responsible for the procurement process in the public authority;
- incorporated procurement related capabilities and defined activities related to the procurement process for relevant staff in job and person specifications; and
- ensured that staff development and performance review processes address relevant procurement capabilities, including sourcing and contract management.

In addition:

- there will be clarity regarding demarcation of responsibility between full time participants in the procurement process and stakeholders, in terms of 'who does what' with respect to the following segments of the spend portfolio:
 - low value, low risk transactions;
 - high value, high risk transactions; and
 - capital expenditure.
- stakeholders will be able to describe this demarcation of roles and responsibilities correctly and without prompting;
- senior procurement executive will be graded at a level of seniority that reflects the role and contribution of the procurement process to the public authority;
- the size of the team will reflect the role and contribution of the full time procurement team to the public authority;
- deployment of any procurement resources will be congruent with the role and contribution of the full time procurement team; in particular, if the culture of the

¹ Economy in this context means how cost-effective the outcome is, calculated in terms of the ratio of tangible benefits realised and the cost of realising those benefits

public authority is primarily decentralised, there will be a reasoned choice of how to organise full time procurement resources without sacrificing potential economies of scale; and

- there will be a schedule of contracts that need to be managed and a list of officers designated as the manager/s of each of those contracts.

Better practice for a medium sized Public Authority [\$4.4m] or greater

In addition, public authorities with delegated authority levels in excess of \$4.4m will have developed strategies for securing the:

- efficiency of the procurement process in their public authority by managing low value, low risk transactions so that processes minimise the transaction cost by using appropriate mechanisms for order and invoice processing; and
- effectiveness of the procurement process in their public authority by reviewing the spend portfolio and developing appropriate proactive procurement strategies, with clear accountabilities for implementing those strategies.

In addition, there will be a managerial body in place to exercise oversight on procurement matters in the public authority, such as an Accredited Procurement Unit or equivalent. This body will:

- engage senior managers in reviewing the quality of procurement management in the public authority;
- review the effectiveness of the procurement process periodically to assess if the current organisational form is still appropriate; and
- consider the resourcing of the procurement process in the public authority if there are very large projects with a significant procurement component planned for the foreseeable future.

Better practice for a large Public Authority [\$11m]

In addition, public authorities with delegated authority levels in excess of \$11m will:

- measure the ratio of the cost of the full time procurement resource as a percentage of the value of spend influenced, and benchmark this against good practice comparators; and
- consider the appropriateness of a centre-led organisational design with leadership and execution of procurement strategies undertaken within divisions or business units.

In addition, there may be a review of the use of contract labour or partial outsourcing of key projects when appropriate, for example, for projects with a limited time horizon or where the level of expertise within government does not match the challenge of the project.

4. Principle 2.2

Principle 2.2 states:

Specific responsibilities are assigned for key market sectors (category management) where appropriate.

This principle requires public authorities to ensure that:

- roles and responsibilities for key market sectors should be clearly documented and understood by internal stakeholders; and
- different categories of spend should be identified and segmented, and where appropriate responsibility for significant category spends allocated to a named officer, or group of staff.

Types of outputs that relate to this principle include:

- organisation chart;
- job and person specification/s;
- contract/category management plans;
- spend analysis on the external spend, allowing segmentation of the spend into defined categories which are then allocated to defined category managers;
- opportunity analysis upon the total spend, identifying uncontracted spend or opportunities for variety reduction, supply base reduction and/or aggregation; and
- procurement policies and procedures related to the management of different market sectors.

Better practice for all Public Authorities [\$1.1m] or greater

All public authorities will have processes in place to ensure that the:

- spend portfolio is profiled using an expenditure review or spend analysis tool with the key categories identified;
- key categories are analysed to understand the:
 - number of separate purchasers of that category across the public authority;
 - value of spend on that category; and
 - distribution of subject matter expertise in that category within the public authority.

If the aggregate number of transactions for the category across the public authority is significant, (for example, more than ten purchase orders per week), then the spend may need a strategy to simplify the purchasing method, such as the use of purchase cards or standing orders, or similar mechanisms to reduce the clerical effort involved.

If the number of suppliers for the category across the public authority is significant, (for example, there are more than five suppliers of solutions meeting the same need who are all used independently, i.e. not on a panel or other formal procurement arrangement), then the spend may benefit from a strategy to co-ordinate the procurements, such as a period contract or panel arrangement.

If the value of the spend on the category across the public authority is between \$22,000 and \$220,000 in a single year, then the authority should consider:

- a co-ordinated approach to developing a single acquisition plan for the category (rather than a series of un-coordinated acquisition plans);
- clarifying who is responsible for co-ordinating procurement for that category to ensure there is a common approach to:
 - consulting with relevant stakeholders;
 - acquisition planning for the category;
 - sourcing and tendering; and
 - contract management.

If the value of the spend on the category across the public authority is significant, (for example, the spend on the category across the public authority in a single year exceeds \$220,000, then:

- the spend requires an acquisition plan;
- there should be a co-ordinated approach to developing a single acquisition plan for the category (rather than a series of un-coordinated acquisition plans);
- there should be clarity regarding who is responsible for co-ordinating procurement for that category to ensure there is a common approach to:
 - consulting with relevant stakeholders;
 - acquisition planning for the category;
 - sourcing and tendering;
 - contract management; and
- if the public authority does not have appropriate subject matter expertise in that category, then the public authority should consider seeking expertise from an external source to advise on best practice for that category.

In addition, if there is an Accredited Procurement Unit (APU), the APU (or an equivalent body) should monitor who is responsible for key spends, even if there is currently no co-ordinated procurement solution, and ensure that there is:

- an opportunity analysis of the benefits that might be delivered for different categories;
- a program for reviewing these opportunities, linked to the public authority's strategic plan and business priorities; and
- sufficient capacity and commercial capability in the public authority, to assign responsibility for realisation of each category opportunity, to designated officer/s.

Better practice for a medium sized Public Authority [\$4.4m]

In addition, public authorities with procurement authority levels of \$4.4m or greater will ensure that the spend portfolio is profiled using an expenditure review or spend analysis tool, (and the key categories identified), and those categories are analysed to understand the:

- number of separate stakeholders for that category across the public authority;
- complexity of that category, both internally and externally, using a matrix based approach, such as Supply Positioning;
- sub-categories within the overall category;
- potential benefits from combining categories currently acquired under separate agreements to create opportunities for aggregation under a consolidated procurement arrangement;
- risks/opportunities in the supply market for the category; and
- relative priority of that category based on the risk/opportunity in the category.

Public authorities with procurement authority levels of \$4.4m or greater should review their current capability to undertake the following key tasks:

- defining the procurement needs for the category;
- reviewing the range of solutions currently in use to fulfil the same need;
- reviewing the supply market for the category;
- developing an appropriate procurement strategy;
- evaluating offers to secure value for money; and
- managing any contracts to realise the potential benefits.

If the capability needed exists within the public authority, the subject matter expert/s should be:

- designated as stakeholders for subsequent acquisition planning;
- consulted regarding their role and subsequent participation in acquisition planning;
- considered, if appropriate, as potential category managers for that category; and
- developed in their appreciation of the procurement process (if they are located outside the full time procurement team).

If the capability needed does not exist within the public authority, the authority should consider acquiring that expertise to support acquisition planning or accessing a procurement arrangement negotiated by another entity.

Better practice for a large Public Authority [\$11m]

In addition, public authorities with a procurement authority level of \$11m will:

- utilise a systematic and logical rationale to underpin the definition of categories, for example, using UNSPSC or a similar classification taxonomy;
- have a reasoned basis to deploy full time procurement resources considering the:
 - range of categories purchased across the public authority;
 - number of staff needed to manage both the sourcing or tendering and subsequent contract management of the category;
 - nature of any subject matter expertise within specific categories within the procurement team; and
 - relative priority of projects within the spend portfolio.

If category management is adopted as an organisational design for procurement of specific categories then:

- category managers (whether or not working full time within the procurement process) will have job and person specifications that reflect their role;
- the demarcation between end-users who raise purchase orders for the category, or who interact with the suppliers on an operational basis, and the category manager will be:
 - clearly defined;
 - communicated;
 - understood;
- there will be clarity in respect of contract management for who resolves:
 - incidents that are one-off, non-recurring operational problems, (that can be resolved locally by operational staff);
 - issues that are recurring, systemic problems, (that need category manager intervention); and
- there will be category management plans to ensure that acquisition planning takes place in the context of an overarching category plan.

5. Principle 2.3

Principle 2.3 states:

The public authority has people with sufficient procurement capability and skills (including procurement planning, market research, negotiation, contract management, project management and risk management) to ensure effective performance for the public authority's complexity and expenditure.

This principle requires public authorities to ensure that:

- the resourcing of the procurement function is appropriate for the public authority; and
- procurement personnel possess an appropriate mix of formal qualifications, experience and training in procurement and related fields for the nature and extent of the public authority's procurement activities.

Types of outputs that relate to this principle include:

- organisation chart;
- job and person specification/s;
- training plans;
- training attendance records; and
- documents on relevant existing staff qualifications.

Better practice for all Public Authorities [\$1.1m] or greater

All public authorities will:

- profile the spend portfolio through an expenditure review or spend analysis, in order to understand the risk/opportunity in the spend portfolio;
- review the categories to identify potential sources of risk, such as:
 - if supply/performance was interrupted, what the impact on the public authority's operations or services would be;
 - if goods or services were supplied but were of poor quality, then this may impact on the public authority's operations or services, and
 - sourcing from markets that are complex, distorted and/or lack competition may impact in the public authority's operations or services.
- identify opportunities which may be presented by categories that:
 - are currently (relatively) uncoordinated and where benefits could be realised from better management, for example, efficiency improvements, reductions in total cost, or overall effectiveness improvements;
 - have significant expenditure and may generate potential benefits from variety reduction, volume aggregation and/or supply base consolidation;
 - impact directly on the public authority's strategic goals and business priorities and where improvements may translate directly into better outcomes.

All public authorities will review the capacity and capability needed to manage the procurement process for their spend portfolio, considering each segment of the spend portfolio separately; for example, each public authority will have some acquisitions that are:

- low in value and low in risk;
- low in value and high in risk;
- high in value and low in risk; and
- high in value and high in risk.

There will be two dimensions that need to be considered:

- the capacity of the public authority; and
- the capability of the public authority.

In terms of capacity, the public authority should consider the aggregate value of third party non-pay expenditure, excluding grants, but including capital spend and foreseeable non-recurring projects. As a general rule, best practice in the private sector is that the 'cost' of managing procurement is approximately 0.9% of the value of the spend managed. Therefore, a public authority with a spend of \$50m might consider \$0.5m invested in managing the end-to-end procurement process to be very lean.

The public sector typically invests more in the procurement process because of the need for higher standards of probity, the need for a more sophisticated governance framework and the greater complexity of most public sector procurement.

The capacity challenge needs to address the end-to-end procurement process, not only tendering or raising purchase orders. This includes:

- defining the procurement need for the category;
- reviewing the range of solutions currently in use to fulfil the same need;
- reviewing the supply market for this category;
- developing an appropriate procurement strategy;
- evaluating offers to secure value for money; and
- managing any contracts to realise the potential benefits.

In terms of capability, the public authority should consider the complexity of the key categories within the spend portfolio and match the capability needed to the challenge in the spend portfolio. For example, the challenge of managing 'business as usual' for all parts of the spend portfolio is quite different to the challenge of re-engineering the procurement process to release value from revised organisation and/or management arrangements.

In general, an immature procurement operation will require greater capability to develop, than a mature and stable procurement operation, irrespective of the character of the spend portfolio. For example, re-engineering low value, low risk transactions can require a combination of changing people, changing process and changing technology to release sustainable benefits. This needs more capability than is required to issue a tender.

Similarly, if the public authority does not have subject matter expertise in high-risk categories, the potential consequences of failure are obviously magnified, compared with the impact of failure for low risk categories.

Good practice is to:

- reconcile the public authority's strategies and business objectives with the public authority's spend portfolio;
- identify the role and contribution of the procurement process to the realisation of the public authority strategies to create a procurement strategy document;

- identify the risk/opportunity in the spend portfolio through an expenditure review or spend analysis, filtered through a matrix-based approach like Supply Positioning;
- define the capabilities needed to manage the risk and opportunity in the spend portfolio;
- review the degree of change needed to realise potential benefits:
 - business as usual;
 - incremental change;
 - radical change.
- review the capabilities that already exist within the public authority through a skills gap analysis;
- generate a draft list of capabilities needed and not already present in the public authority;
- consider how best to deploy that resource:
 - within a centralised team;
 - decentralised; or
 - centrally coordinated but located in divisions or business units;
- develop a draft organisational design and, new job and person specifications for any roles with more than 50% procurement content;
- update any roles with part time participation in the procurement process and/or > 25% procurement duties;
- invest in a budget for development of staff who participate in the procurement process;
- support staff in attending short courses or other interventions designed to develop capability; and
- ensure that staff performance reviews consider procurement capability amongst other duties, especially for contract managers.

Better practice for a medium sized Public Authority [\$4.4m] or greater

In addition, for public authorities with procurement authority levels of \$4.4m or greater:

- there should be several officers with full time procurement duties;
- there should be an organisational chart showing the deployment and reporting lines for the procurement resource;
- the grading of each officer with a full time procurement role should be commensurate with the character of the spend portfolio;
- the scale of the full time procurement role/s should be commensurate with the character of the spend portfolio and the role envisaged for the full time procurement team;
- each officer with a full time procurement role should have an appropriate job specification detailing their role in terms of:
 - policy generation, and/or
 - governance enforcement, and/or
 - acquisition planning, and/or
 - consultation and advice.

- each job and person specification will have congruent underpinning capabilities that directly relate to the duties of the post;
- for the senior procurement role, and other roles graded at ASO7 or above, the essential educational requirements will reference a university degree in a relevant business subject, for example, business, law, procurement and/or supply chain management;
- for the senior procurement role, and other roles graded at ASO7 or above, the desirable educational requirements (at least) will reference a relevant qualification in procurement, or supply chain management;
- the underpinning capabilities will include a balanced mix of essential and desirable experience, knowledge and capability, relevant to the position, featuring, amongst other capabilities:
 - leadership capabilities;
 - change management capabilities;
 - analytical capabilities;
 - decision making capabilities;
 - facilitation skills;
 - negotiation capabilities;
 - influencing skills; and
 - consultative skills.

In terms of capability development, the public authority will:

- periodically profile the capability of staff who participate in the procurement process, assessing their current strengths and development needs, using the job and person specification as the benchmark;
- support staff in building capability through investing in staff development, including:
 - mentoring and coaching;
 - buddying;
 - secondments;
 - internal and external training events;
 - funding a training and development budget especially in relation to the acquisition of appropriate qualifications such as becoming a Member of the Chartered Institute of Purchasing and Supply, or equivalent; and
- for each full time participant in the procurement process, keep records of:
 - existing educational attainment;
 - relevant professional qualifications;
 - any relevant short courses attended; and
 - any planned development interventions.

Better practice for a large Public Authority [\$11m]

In addition, public authorities with a procurement authority level of \$11m in respect of staff within the procurement function:

- there will be an officer within the procurement unit designated with specific responsibility for reviewing and developing capability in procurement for the full time procurement staffing resource;
- staff members who are full time participants in the procurement process will each have a personal development plan designed to support them in meeting their current role and any subsequent career development;
- personal development plans will be reviewed at least annually; and
- there will be a budget for staff development.

In respect of staff outside the procurement function:

- the capability of staff who participate in the procurement process on a part time basis will be reviewed at least every three years; and
- there will be a periodic, formal review of the capacity and capability of the public authority to manage its spend portfolio, especially if there is a change to the responsibility of the public authority, such as machinery of government changes.

6. Principle 2.4

Principle 2.4 states:

There is a clear workforce strategy (including effective people management and development processes) in place for resourcing the procurement function.

This principle requires public authorities to:

- have an appropriate workforce strategy for procurement that includes an assessment of the staffing complement/skills mix required for the public authority;
- ensure that the procurement team is operating within clearly understood human resources policies, procedures and guidelines;
- align formal job descriptions to the actual roles and responsibilities executed by procurement personnel;
- have procedures in place to ensure that procurement personnel receive appropriate training and have an appropriate development plan to ensure they remain competent to perform their role;
- ensure personnel involved in procurement have an adequate performance management plan; and
- ensure that recruitment processes and procedures are effective in filling vacancies within acceptable time frames.

Types of outputs that relate to this principle include:

- organisation chart including identified vacant positions;
- list of existing vacancies and length of vacancies over previous 12 months;

- plan for filling vacancies;
- job and person specification/s;
- training plans;
- training attendance records; and
- succession plans.

Better practice for all Public Authorities [\$1.1m] or greater

All public authorities will have managerial oversight of the procurement function in their public authority to ensure that:

- the procurement team is operating within the public authority's human resources policies, procedures and guidelines;
- senior managers are aware of the workload impacting on the procurement process in terms of both sourcing and contract management;
- staffing levels of the full time procurement team (if there is one) have been determined on the base load of 'business as usual' workload, and are consistent with the role and contribution of the procurement function to the public authority;
- senior managers are aware of the utilisation levels of staff working in full time and part time procurement roles;
- senior managers have visibility of the 'pipeline' of work based on reviews of the following information sources;
 - the public authority's contract register tracking the timing of renewals of recurring contractual arrangements;
 - the capital program tracking the schedule of procurement projects funded from capital funds;
 - the base load of 'business as usual' projects;
- the information sources above are used to determine whether the existing compliment of staff is appropriate for the foreseeable pipeline of work; and
- if there is a foreseeable peak in workload, in excess of the capacity of the existing resourcing, there is a plan to ensure that acquisitions are made in accordance with relevant governance provisions and that secure appropriate outcomes in terms of achieving value for money; this may include rescheduling projects, or securing additional resources.

In addition, where there are full time procurement staff, there will be:

- a strategy for the procurement function that includes an assessment of the staffing complement/skills mix required for the public authority;
- formal job descriptions for full time procurement staff that are aligned to their roles and responsibilities;
- periodic reviews of performance and capability;
- a budget for training and development; and
- personal development plans for each full time procurement team member.

Better practice for a medium sized Public Authority [\$4.4m] or greater

In addition, public authorities with procurement authority levels of \$4.4m or greater, will have a senior procurement executive who:

- monitors the workload of the procurement function based on the known 'pipeline' of procurement projects, profiling forthcoming projects in terms of the:
 - timing of the project;
 - complexity of the project;
 - likely needs of the project in terms of procurement capability;
 - likely needs of the project in terms of staff-days required; and
 - ability of the existing resource to support each project within the project's required timeline.
- manages the scheduling of projects to ensure the projects in the pipeline are supported without compromising the project timescales, the achievement of value for money outcomes, or relevant procurement governance;
- develops and maintains a workforce strategy for procurement, that includes the end to end procurement process, including:
 - transactional procurement;
 - sourcing and tendering;
 - contract management;
- identifies the need for supplementary resources and initiates a business case to recruit additional resources, if the resourcing level is inadequate for the foreseeable pipeline of work.

In terms of staff development, there will be:

- formal job and person specifications that are reviewed periodically to ensure alignment to the actual duties of each position;
- routine managerial reviews of full time procurement personnel to assess their capability and appropriate development interventions commissioned to ensure staff capability is aligned to the needs of the position;
- an appropriate personal development plan for each full time procurement staff member including support in achieving accredited qualifications relevant to their role, as well as attending non-accredited short courses;
- a roster of relevant training courses circulated periodically to allow staff to nominate their own attendance at training courses, (as well as targeted interventions identified and recorded on each staff member's personal development plan);
- records kept of the attendance by staff at relevant procurement training courses and other staff development interventions;
- guidance issued to other managers on the capabilities needed by contract managers, and a range of relevant staff development interventions that will contribute to increasing the capability of contract managers; and
- timely replacement of staff vacancies to minimise the impact on the procurement service to the public authority.

Better practice for a large Public Authority [\$11m]

In addition, public authorities with a procurement authority level of \$11m will have within the procurement team staff responsible for procurement capability across the public authority who will:

- define the capability needed by the public authority to manage the opportunity and risk in the spend portfolio;
- undertake an operational 'triage' service to allocate incoming projects to the most appropriate procurement team member;
- develop and maintain the public authority's procurement workforce plan;
- ensure that there is a library of appropriate job and person specifications, with congruent supporting capabilities;
- develop and maintain a succession plan within the public authority, to ensure that there is a robust structure that can survive the departure of individual staff members and provide continuity of performance;
- develop and maintain a suite of interventions to develop procurement capability, other than attendance at externally provided short courses, for example:
 - 'buddying' with identified subject matter experts;
 - mentoring and coaching;
 - secondments and rotations to centres of excellence within or outside the public authority;
 - online learning resources;
 - written materials such as books, articles and relevant journals.
- develop and promote standardised induction training for new recruits to the public authority detailing an overview of procurement governance and where and how to seek advice on the procurement process;
- monitor churn rates of procurement staff and review the public authority's recruitment and retention strategies, in conjunction with the human resources function; and
- consider including a graduate position on the procurement structure and sponsoring the post holder to pursue appropriate accredited professional training and/or education.

7. Principle 2.5

Principle 2.5 states:

There is a process in place for ensuring that all staff with the authority to approve procurement activity, possess the appropriate capability and skills.

This principle requires public authorities to:

- clearly identify key personnel involved in approving procurement transactions;

- ensure these key personnel receive adequate training when taking up this role for the first time;
- clearly document procurement roles, responsibilities and measurable objectives in the relevant job descriptions; and
- ensure appropriate experience and training in procurement and related fields to fulfil the responsibilities required by their roles.

Types of outputs that relate to this principle include:

- lists of procurement delegations;
- organisation chart including identified procurement delegates;
- job and person specification/s;
- training plans; and
- training attendance records.

All public authorities will:

- have a schedule of staff holding authorities related to the procurement process;
- ensure staff with procurement authority receive induction training within 90 days of assuming those responsibilities;
- ensure that training should not only address the governance provisions, but also the choices that a manager with procurement authority may have to make, such as evaluating requests for the use of direct negotiation rather than competitive procurement processes (due to lack of competition in the supply market or urgency in the acquisition); and
- ensure refresher training is arranged at least every 36 months.

In addition, for staff with more than 50% of the duties related to the procurement process recruitment and selection processes should consider the experience, knowledge, and capabilities needed by the post holder to fulfil the responsibilities required by their roles.

Glossary of Terms

APU

Accredited Procurement Unit – (also known as a Procurement Governance Committee) is a committee comprising nominated senior officers that oversee the purchase of goods and services within a prescribed delegation. It is the role of the APU to support principal officers in procurement decision-making.

Capability

Capability describes an individual's ability to perform tasks or activities effectively. There are a number of distinctive capabilities that public sector officers working with suppliers need to possess, sometimes labelled as 'commercial awareness': the capability to secure value for money in spending taxpayer's money. Value for money is some composite of the benefits that are acquired as a ratio of the cost of acquiring those benefits.

Capacity

Capacity describes a public authority's ability to execute specific strategies. For example, if a public authority has four thousand suppliers, and 5% of those suppliers are critical to achieving the public authority's strategies and business priorities, the public authority will need sufficient number of capable contract managers to manage those 200 suppliers. When there is sufficient number of capable managers, the public authority may have the capacity to sustain that capability in the longer term.

Category

Category is a term applied to a distinct grouping of goods or services that are relatively homogeneous. Stationery is a broad category, and within that category there are sub-categories such as writing implements. Professional services is an example of a services category, displaying commonalities between sub-categories such as consultancy services and audit services, and possibly sharing common suppliers.

Category Management

The term category management can be used in two ways: as a description of the procurement process, or as a basis for organising procurement resources. As a description of the procurement process, category management involves applying the end-to-end procurement process to a specific range of goods or services. This involves all the pre-award processes such as spend analysis and demand management, sourcing or tendering and contract negotiation, as well as the post-award processes such as contract management.

As a basis for structuring procurement resources category management usually involves defining the need, sourcing the market, negotiating the contract and the

contract management after the award. In order to 'scale the role' so that different categories represent approximately equal challenge, three key factors are considered: the value of spend in each sub-category, the diversity of the sub-categories and the challenge in the supply markets.

Category Management Plan

For significant categories, public authorities need to create both an Acquisition Plan and a Contract Management Plan. For both of these documents to be consistent and aligned, they need a common root of strategy, and this is the category management plan. The Acquisition Plan requires analysis of (amongst other content) the background and description of the need, the procurement objectives, estimated cost, stakeholder analysis and analysis of linkages with other projects. Similarly, the Contract Management Plan outlines the objectives and outcomes of the contract and how the contract should be managed, and (amongst other content) identifies the strategic objectives of the contract and the key success factors.

Both these documents require clarity about the overall goals for the category, and so the source of the acquisition plan and the contract management plan should be a shared suite of common objectives for the category. End-to-end category management is achieved when the acquisition plan and the contract management plan are aligned and consistent.

Opportunity Analysis

Opportunity analysis is the periodic review of expenditure with a view to identifying potential opportunities to release value through changes to the way the goods and services spend is specified, procured, consumed or managed. Typically, public authorities might conduct an annual review of the spend portfolio, including known future projects, and classify the spends based on a number of dimensions. Typical dimensions are 'scale of benefit' and 'ease of realisation', though other dimensions may be employed. Spends that present a greater opportunity to add value may warrant prioritisation in terms of focusing scarce resources, such as time and people. Opportunity analysis helps guide the public authority on how and where to focus effort, and can help with scheduling priorities and resource allocation.

Procurement

Procurement can be a process, a department or a job role. Every public authority manages the procurement process whether or not they have dedicated procurement practitioners. In the context of this category of principles, procurement refers to the end-to-end process (not only the tendering phase) that begins with defining the need through to contract management and close out of the supplier, as well as the disposal of the goods.

Spend Analysis

Spend analysis is the systematic review of the public authority's spend with a view to identifying opportunities for improvement. For example, many public authorities may

be able to list total annual spend by supplier from the vendor file, but may find it harder to list spend by type of acquisition.

A list of spend by supplier including the total value of spend, the number of transactions and the highest and lowest value transactions can reveal opportunities to release value. As an example, it may be that there are uncontracted suppliers with whom the public authority transacts significant values. This may present an opportunity to negotiate improved terms. It may be that there are multiple transactions with the same supplier. This may present an opportunity to consolidate the number of orders and/or the number of invoices, securing benefits for both parties.

A list of spend by type of spend may be harder to obtain. Expenditure codes in the chart of accounts may be defined at a high level. For example, the classification 'consultants and contractors' may often be used loosely, meaning that the total spend in this spend type (or category) contains data which requires cleansing to be used reliably. But this category is likely to be one that spans multiple public authorities, and represents an opportunity to make savings from demand management, renegotiation of terms, better contract management, or all three.

Spend Portfolio

The spend portfolio is the expenditure profile of a public authority - the total third party or non-pay spend of a public authority with suppliers of goods and services. In some cases, the key suppliers of services by value may be other public sector entities, such as other government departments. But there will also be many hundreds if not thousands of suppliers with whom the public authority spends money across multiple types of spend (or categories).

Key dimensions of the spend portfolio are the total value of spend, the degree of concentration and the number of low value suppliers. The degree of concentration may highlight the proportion of total spend represented by the top ten suppliers, or the top ten spend types (or categories). This may highlight where the opportunity lies to extract value. The number of low value suppliers may highlight the degree of control of lower value transactions. For example, if 50% of all public authority suppliers receive less than \$10,000 a year, it may highlight that there is an opportunity to consolidate some spends. Of course, some of these suppliers may be in regional areas, and as long as the spend allocation is the consequence of deliberate choice, then the public authority will be in control of its spend. Many public authorities find that there is an opportunity in the spend portfolio to address both higher value spends and lower value spends using spend analysis to identify the opportunities.

Stakeholders

Stakeholders are people who are involved in, or impacted by choices that are made during the procurement process. Within public authorities, stakeholders will include end users as well as decision-makers who review proposed acquisition plans, or officers who manage contracts. Suppliers will have sales managers or account

managers who are responsible for client relationships, as well as accounts payable staff and staff involved in service delivery.

Supply Positioning

Supply positioning is a matrix which segments the spend portfolio by risk and opportunity. It allows the public authority to develop procurement strategies for different acquisitions based on a repeatable and consistent methodology.

UNSPSC

United Nations Standard Products and Services Code (UNSPSC) is a scheme that classifies and identifies commodities. It supports a strategic sourcing process and gives a uniform means of capturing spend data. Classifying goods and services with a common coding system facilitates commerce between buyers and sellers and is necessary for ecommerce (refer www.unspsc.org).

Variety Reduction/Specification Standardisation

The process of reducing the number of solutions in use to meet substantially the same need. Standardisation implies the adoption of a single solution, but there may be operational reasons why a number of solutions may be used, instead of just one.

Workforce Strategy

Most public authorities have four broad groups of staff working in the procurement process; senior managers who participate in the Accredited Procurement Unit or equivalent body overseeing the procurement process and providing leadership, full time procurement staff (if there are any), part-time procurement staff who work as contract managers, or who develop acquisition plans or contract management plans, and staff who have procurement authority and implement procurement governance.

Every public authority faces a challenge in terms of recruiting and retaining staff, but there is an Australia-wide shortage of capable full-time procurement people. Procurement staff are relatively mobile, and they can easily move to other public bodies, or indeed to the private sector. While many public authorities will have a workforce plan, it is particularly important that there is a workforce plan for staff working in the procurement process.

This might take the form of a statement of how many staff are needed (capacity) and also what are the underpinning capabilities needed in those staff. How will that capability be acquired and developed? There should be a plan to recruit appropriately capable staff to key roles and also to ensure that the development needs of staff are addressed through periodic training, coaching or guidance. Succession planning may be appropriate for more senior full time procurement roles so that the departure of a key manager does lead to an interruption to the organisational development of the procurement function within the public authority.