How to Assess Value for Money

In undertaking Tasmanian Government procurement activity

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Contact:

Department of Treasury and Finance
Procurement and Property Branch
GPO Box 147
HOBART TAS 7001

Telephone: (03) 6166 4229
Email: purchasing@treasury.tas.gov.au
Website: www.purchasing.tas.gov.au

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Introduction

Government agencies are required to undertake purchasing processes in a manner that is consistent with the following four principles, contained in the Treasurer's Instructions 1101 and 1201:

- value for money purchasing outcomes;
- ensuring that the purchasing process is impartial, open and encourages competitive offers;
- conducting purchasing activities ethically and in accordance with a code of conduct; and
- enhancing opportunities for local business by ensuring that local businesses that wish to do business with Government are given the opportunity to do so.

This publication has been developed to assist Tasmanian Government agencies in understanding and applying the principle of achieving value for money purchasing outcomes.

What is 'value for money'?

Value for money is described in the Treasurer's Instructions 1101 and 1201 as "achieving the desired outcome at the best possible price". However, the reference to price does not mean that agencies are required to accept the lowest possible price.

In practice, in order to get the best possible value for money in relation to any particular procurement, agencies need to weigh up the costs and benefits of each proposal submitted. This means factors beyond just price need to be taken into consideration. Relevant factors will vary from one procurement to another depending on the desired outcome, however, these may include such matters as[1]:

- supplier experience and performance history;
- flexibility (including innovation and adaptability over the lifecycle of the procurement);
- the contribution to the achievement of government policy objectives (such as climate change, industry development and employment creation etc);
- fitness for purpose;
- maintenance and running costs over the lifetime of the product or the life of the infrastructure;
- the capacity of the supplier (eg managerial and technical abilities);
- the advantages of buying from/engaging local and regional suppliers;
- quality assurance;
- the relative risk of each proposal; and
- whole-of-life costs (including disposal).

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[1] List compiled from Treasurer's Instructions 1101 and 1201; and *Commonwealth Procurement Rules – Achieving Value for Money*, Commonwealth of Australia (2012) Department of Finance and Deregulation (Financial Management Group) p15.

Whole-of-life costs

Even when looking at cost, this should encompass more than simply the up–front purchase price. "Whole–of–life" costs generally include relevant expenditure over the life of the product, service or construction and may factor in potential disposal value, where this is relevant.

Identifying relevant value for money considerations

While the process of identifying the appropriate value for money considerations can appear daunting, it is generally something that most people do regularly, when buying items for themselves.

> ***Example***: Bob wants to buy a new motor vehicle for his wife, Mary. In order to ensure they get value for money they identified that they want a small vehicle that will not be too expensive to buy or run but they also want a safe vehicle because Mary is expecting a baby. A good potential re-sale value is also important to them. They live in a small country town so they would like to be able to have the vehicle serviced locally rather than taking it to a big dealer in the city, so Mary is not without transport for an extended period of time. In making these decisions, Bob and Mary have set some parameters around what factors are relevant to them to ensure they get what they have decided is value for money from their purchase – ie low up–front cost, low cost of maintenance, ability to have maintenance done locally, safety and good re–sale potential. They then prioritise these in order from lowest to highest importance.

The same process is used when an agency is purchasing items, services or building works ie determine what is important to the agency in relation to the specific procurement (including the furtherance of Government policy considerations), and then rank these factors in order of importance. In this way, the specification and the evaluation criteria can be developed to ensure that these matters are encompassed.

Linking 'value for money' to the procurement planning process

The concept of value for money needs to be considered at the beginning of a procurement. The relevant factors for any particular procurement will then play an important part in the development of the specification and evaluation criteria.

How are 'value for money' considerations taken into account in the development of the specification and the evaluation criteria

The specification is a document that describes the essential requirements of the goods, services being purchased or the construction required. The purpose of the specification is to communicate the buyer's requirements to potential suppliers and to guide supplier responses.

As can be seen from the example above, understanding the factors that are relevant to a particular value for money assessment is important for then determining what the essential requirements of any purchase, commission or engagement will be. Those essential requirements will then form part of the specification.

Evaluation criteria are the standards that are used to assess how well an offer meets a buyer's requirements. They provide a mechanism for comparing offers by assessing the relative worth of different offers. Generally, the evaluation criteria will address such matters as –

- compliance with contractual terms and conditions;

- the capability of the supplier to fulfil the requirement, including technical and management competence, financial viability, relevant skills, experience and availability of key personnel;
- any mandatory evaluation criteria – such as those required by the Local Benefits Test as set out in the publication *Tasmanian Industry Impact and Participation Policy and Guides*; and
- any other relevant/identified value for money considerations.

If, to ensure value for money, your agency considers that, say, the life–time maintenance costs are a relevant consideration, then the specification should detail the maintenance requirements. Further, the evaluation criteria need to seek information on maintenance costs from the suppliers.

The criteria should also be weighted to ensure that the matters that are considered most important are given a higher ranking. Using the example above, Bob and Mary both want a small vehicle that does not cost too much. However, they may consider that the safety aspect of the vehicle is more important than both cost and the vehicle size. If so, safety is of a higher ranking in their consideration of the vehicles available.

If the value for money factors are not given appropriate consideration at the planning stage of the procurement, there is a very real risk that the specification and evaluation criteria will not enable these important matters to be taken into account in the evaluation of proposals.

Linking 'value for money' and 'enhancing opportunities for local business' in the procurement planning process

The Treasurer's Instructions 1101 and 1201 require agencies to ensure that local businesses that wish to do business with Government are given the opportunity to do so.

As noted above, value for money may include factors such as consideration of the advantages of buying from, or engaging local and regional suppliers and/or an offer's contribution to the achievement of government policy objectives that support local and regional business.
Government agencies are strongly encouraged to consider the value for money benefits of buying from local and/or regional suppliers and the advancement of the Government's policies in relation to local and regional development in their procurement activities.

In this regard, clearly there are benefits that a local supplier has over suppliers from outside the region or area in which work is to be undertaken or a product is to be used. For example, a local supplier may be able to deliver goods quicker than non–local suppliers and if the delivery time is a relevant factor for your procurement then this needs to be included in your value for money assessment. Other potential advantages of buying from or engaging local or regional suppliers are:

- timeliness of local backup and services;
- the availability of, and access to, spare parts;
- lower travel and out-of-pocket expenses; and
- the potential for creating strategic partnerships and cooperative product development.

In addition, Government policy requires Government entities to take into account, in the evaluation processes, information on the impact on local small and medium enterprises, should that supplier be awarded the contract. This is assessed by way of a mandatory evaluation criterion in all procurements with a value of $50 000[2] or more.

Agencies also need to ensure that any specification prepared does not disadvantage local suppliers.

As part of the planning process[3], Government entities are required to:

- disaggregate substantial procurement opportunities unless the benefits of aggregation clearly outweigh any disadvantages to the local suppliers/local economy; and
- assess the impact of the procurement on local suppliers to ensure that local suppliers are given every opportunity to participate and be successful in relation to the procurement. For procurements with a value of more than $50 000, a formal assessment must be conducted and approved prior to the procurement commencing.

In addition, a report summarising industry consultation undertaken in the planning stage of high value procurements is required to be approved prior to commencing any procurement process. Further information on this requirement is available from the Treasurer's Instructions 1116 and 1218.

Note: Any procurements that are impacted by free trade agreements or international cooperative arrangements (refer to Instructions 1102 and 1202) must comply with the requirements of those agreements/arrangements.

Assessing 'value for money'

Provided the planning for any particular procurement has identified the appropriate value for money considerations and these have been built into the procurement through the development of the specification and appropriate evaluation criteria, identification of the supplier who provides the best value for money will then flow from the evaluation process.

> ***Example***: Back to Bob... He and Mary have looked at a number of vehicles and have narrowed it down to two. One vehicle is small and considerably cheaper than the other but will provide a high return on re–sale. The other is quite a bit larger but has a much higher safety rating. The maintenance costs of the more expensive vehicle are expected to be lower as a result of better engineering and also a fixed cap maintenance charge on the vehicle over the first five years however, it must be serviced by a dealer in the city. Because Bob and his wife had decided what was important to them prior to going out to the market and which factors were the most important, they are now able to balance all these matters to make a decision on which vehicle provides them with the best value.

[2] Treasurer's Instructions 1119 and 1225. Refer also to *Tasmanian Industry Impact and Participation Policy and Guides.*

[3] Treasurer's Instructions 1119 and 1225