WORKING WITH THE
SOUTH AUSTRALIAN GOVERNMENT
Value for money in procurement

Value for money (VFM) is one of the 4 key principles of the SA Government Procurement Framework. Public authorities seek to achieve value for money in their procurements by finding the optimum balance between **whole-of-life cost** and **quality**.

WHAT DOES WHOLE-OF-LIFE MEAN?

Goods: the number of years the goods will be operational and fit-for-purpose.

Services: the full contract term.

WHAT DOES WHOLE-OF-LIFE COST MEAN?

Whole-of-life cost (WLC) is the combined estimated costs of a procurement from acquisition to decommissioning.

WLC = Acquisition Costs + Operating Costs + Maintenance and Support Costs + Disposal Costs − Income/ revenue

WLC may differ from the value of a contract.

Contract value only includes the value committed, expenditure incurred and potential future expenditure. It commonly does not include WLC costs such as maintenance, support or disposal.

When considering WLC the government does not include:

- depreciation
- existing FTE
- capital charge
- previous establishment costs (for services)
- outcome-independent costs (e.g. corporate overheads).

See overleaf for examples of WLC elements.

WHAT DOES QUALITY MEAN?

Quality means the degree to which a solution fulfils requirements considering the agency's needs and reasonable expectations of the market. When considering quality the government looks for:

- fitness-for-purpose, safety and durability
- legal and regulatory compliance
- form, functionality and market comparability
- presence of skills, absence of faults and defects

The quality component of VFM in any procurement should be clearly established in the specification and evaluation plan for suppliers to respond to.

INCREASING THE VFM OF AN OFFER

Suppliers can boost the VFM of their response to a procurement opportunity in a number of ways, including the following.

- **Value-adds** are enhancements, additional features or other inclusions to an outcome or output offered by a supplier to obtain a competitive edge by creating additional value. Value-adds contribute to VFM by reducing costs without any compromise in quality or product features, or by assuring operational efficiency to enable better quality at no additional cost.
- **Discounts** are applied at the time of payment resulting in a lower price. A discount may be off an entire price, or off an outstanding amount. Discounts contribute to VFM by reducing costs without any compromise in quality or product features.
- **Rebates** are amounts or value credited back to an agency by a supplier upon the agency meeting a conditions laid out in a contract (e.g. minimum purchase volume). Rebates can contribute to VFM by reducing costs without any compromise in quality or product features. Rebates should be:
  - a refund, return or credit on an amount paid
  - for the agency that made the initial payment
  - clearly conditional and quantifiable.

  Rebates can apply to collective purchase volumes by multiple agencies.

PROBITY OF VALUE-ADDS, REBATES, AND DISCOUNTS

Value-adds, rebates, and discounts should be quantifiable and linked to the supplier's offer by being:

- measurable
- achievable
- time-specific
- practical
- relevant to the agency
- relevant to the contract

Transparency: Value-adds, rebates, and discounts should be disclosed up-front and publicly.

Inappropriate incentives and benefits: Sponsorships, donations, gifts, inducements, cross-subsidies, and/or funding for agencies should be carefully considered to avoid any real or implied influence.

Contractual security: Value-adds, rebates, and discounts should be defined in contracts.

FURTHER INFORMATION

www.buying4.sa.gov.au

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EXAMPLES OF WHOLE-OF-LIFE COST ELEMENTS

Suppliers can consider how the following elements contribute to the whole-of-life cost component of the value for money their offer represents.

Acquisition costs

- Unit price
- Licences, permits
- Demand planning
- Training, personnel
- Delivery charges
- Installation
- Commissioning
- Consultants, experts
- Legal costs
- Internal transition costs associated with changing from incumbent supplier

Maintenance costs

- Consumables
- Insurance, taxes
- Management fees
- Safety and security
- Statutory compliance
- Quality management
- Reporting
- Ordering, payments
- Training, personnel, specialist labour, tools
- Servicing, inspections
- Downtime costs
- Spare/replacement parts

Operation costs

- Labour
- Reviews
- Upgrades
- Demand management, distribution, logistics
- Security, health and safety
- Materials
- Travel, fuel
- Energy supply and consumption
- Water
- Transaction costs
- Cost of change (e.g. switching materials)

Disposal costs

- Safe disposal, demolition, destruction
- Decommissioning
- Data migration
- Archiving
- Safety and security
- Statutory compliance
- Labour and personnel
- Auctioneer/agent fees
- Ongoing liabilities
- Asset residual valuation
- Transition out
- Reinstatement of land or buildings for alternative use