

Guideline: Value for Money Criteria

1. What is VFM for the City of Boroondara?

Value for money ('VFM') is an overarching principle governing procurement that allows the best possible outcomes to be achieved for the City of Boroondara and its community.

VFM underpins Council procurement. It is the achievement of a desired procurement outcome at the best possible price - not necessarily the lowest price - based on a balanced judgement of financial and non-financial factors relevant to the procurement. It supports the concept that better outcomes can be achieved when resources are used more efficiently and are procured in a more competitive market.

VFM takes into account the total cost of procurement from planning to disposal and everything in between. This is commonly known as total cost of ownership.

It is important to note that compliance with the specification is more important than obtaining the lowest price, particularly taking into account end user requirements, quality standards, sustainability, life cycle costing, and service benchmarks.

An assessment of the best VFM outcome for any procurement activity should consider:

- All relevant whole of life cycle costs (for goods) and whole of contract life costs (for services) including transaction costs associated with acquisition, delivery, distribution, as well as other costs such as, but not limited to, holding costs, consumables, deployment, maintenance and disposal.
- The technical merits of the goods or services being offered in terms of compliance with specifications, contractual terms and conditions and any relevant methods of assuring quality.
- Financial viability and capacity to supply without risk of default (competency of the prospective suppliers in terms of managerial and technical capabilities and compliance history).
- A strong element of competition in the allocation of orders or the awarding of contracts. This is achieved by obtaining a sufficient number of competitive quotations wherever practicable.
- Social and environmental impacts and support for local industry or employment.
- Meeting the needs of our community.

2. When to implement VFM?

Council is committed to achieving VFM in all procurement activities. It is therefore a key driver in any procurement engagement. VFM needs to be considered at the front end of the procurement process during spend analysis, category identification, complexity assessment and supply market analysis. This identifies the key VFM drivers that give context to subsequent stages of procurement.

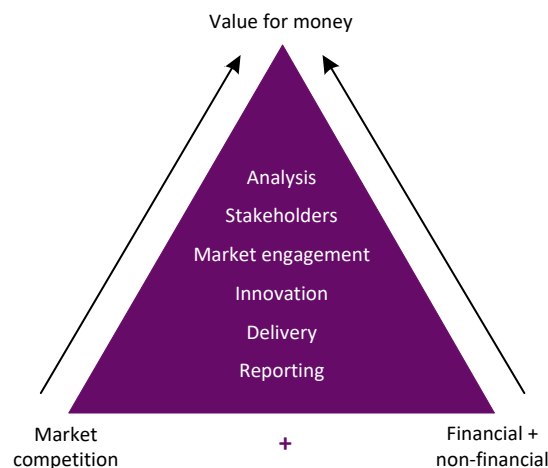
Considering VFM during the market analysis stage can identify opportunities to leverage competition and market dynamics, promote productivity and take advantage of innovations in the market.

It is also worth considering VFM at later stages of the procurement process, such as contract management to drive continuous improvement during the contract period.

3. Applying and measuring VFM

There is no universal formula for measuring VFM in procurement. VFM takes into account the entire mix of quality, costs and resources, as well as fitness for purpose, timelines and risk. Financial and non-financial factors are both critical elements for measuring VFM.

The following figure shows VFM drivers aligned against key elements of the procurement process.



Council officers will identify and measure relevant VFM drivers as shown in the VFM driver's checklist below.

Procurement process elements for Planning

VFM drivers for Planning

- Have procurement decisions been made in an accountable and transparent manner?
- Is the procurement aligned with the business strategy of the organisation?
- Has the business unit considered the capacity for this procurement to achieve better results, using the same resources?
- Is the procurement process maximising competition in the market?
- Have the financial and non-financial outcomes been defined?
- Has the performance history of each prospective supplier been considered?

Procurement process elements for Financial and non-financial

VFM drivers for Financial and TCO

- Does the procurement have the flexibility to adapt to possible change over the life of goods/service?
- What are the financial considerations of direct/indirect benefits of the procurement?
- Is the good/service procured fit for purpose?
- Are the whole of life costs commensurate with budgeting and long-term financial goals?
- Are the transaction costs associated with acquisition, use/holding, maintenance and transaction/re use/recycle costs related to disposal been considered and deemed appropriate?

VFM drivers for Non-financial factors

- Does the procurement seek to achieve/advance Council policy objectives?
- Are the stakeholders involved satisfied?
- Has the procurement had a positive effect on community/client participation?
- Has there been a flow on effect on innovation in the market place?
- Have resources been used efficiently so as to maximise customer service levels, minimise lead times, and optimise inventory levels?
- To what extent has the procurement addressed environmental sustainability?

VFM drivers for Quality of procurement

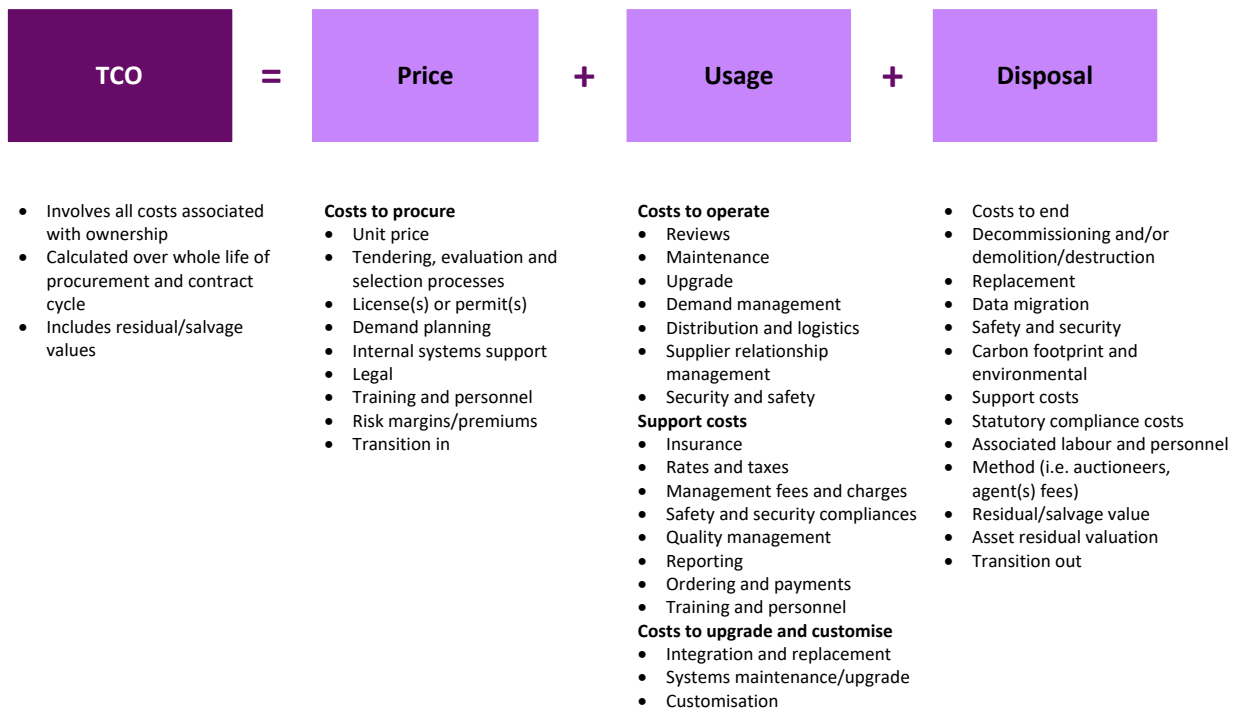
- Is there an adequate level of quality of service?
- Is there an adequate level of support?

VFM drivers for Contract management and delivery

- Is there opportunity for the evaluation of contract options?
- Has the 'optimum' balance between cost and non-cost factors been achieved?
- How has 'value' been described in contract?

4. Total cost of ownership

Calculating the total cost of ownership ('TCO') includes a 'whole of lifecycle' analysis. It estimates the accumulated costs of acquiring, operating, maintaining and disposing or decommissioning procured goods or services, including revenue from disposal. The following figure illustrates the important elements to include in a TCO analysis.



Council officers should:

- Apply a standard three to five year contract timeframe, including options to extend; and
- Identify cost increases arising from Consumer Price Index and Carbon Pricing Mechanism adjustments.

5. Scope of application

There are a number of ways (or metrics) to analyse cash flow to calculate TCO. For example, net present value, return on investment, and internal rate of return. These metrics are most applicable to procurement activities assessed as high risk/high value/high complexity, and also require specialist capability.

For most procurement activities assessed as transactional or of a low risk/low value nature, Council officers can apply a standard TCO framework as set out above.

6. Competition and market development/innovation

Competition and contestability are important drivers in achieving VFM. However, participation in a procurement exercise is a cost to suppliers and is particularly significant for SMEs. The cost of unsuccessful bids by an SME can be a major disincentive to participation. These costs should be considered when selecting a market engagement strategy. Letting the market know that VFM is an important consideration, alerts suppliers to the fact that they can include product and service enhancements and innovation when submitting a bid.

7. Non-financial factors

Non-financial aspects of VFM can be more difficult to measure. However, these indicators can be used to predict the overall value of the procurement. Non-financial factors are best measured on a case by case basis. Variables include stakeholder satisfaction, community/client participation and outcomes outside of the intended procurement objectives.

Examples of benefits that can arise from procurement include:

- enhancing market competition;
- job creation;
- economic and social benefits of procuring from Victorian SMEs, and not for profit organisations;
- reducing carbon footprint; and
- encouraging innovation and productivity in a particular industry sector.

During the evaluation process for any procurement activity, Council may apply the weightings set out below in relation to sustainable procurement principles:

- Local benefits - up to 10%;
- Social impact – up to 10%; and
- Environmental sustainability – up to 10%.

Refer to the Sustainable Procurement and Procurement Evaluation and Negotiation guidelines for further information.

Measuring non-financial factors

There are multiple methodologies for measuring non- financial factors including welfare economics and equity economics, etc. which have particular relevance to procurement of strategic importance or where there is significance/social impact.

However, for the majority of goods and service where the procurement is of a transactional and low risk nature, a simple approach using KPIs is recommended.

Using KPIs

Council officers will determine a range of performance objectives relevant to the procurement as shown in the non-financial performance indicators checklist below.

- Innovation
- Quality
- Risk mitigation
- Victorian SME/NGO participation
- Supplier ethics
- Enhancing competition
- Environmental practices
- Intellectual transfer of knowledge
- Market development/productivity
- Economic development/productivity
- Social Procurement.