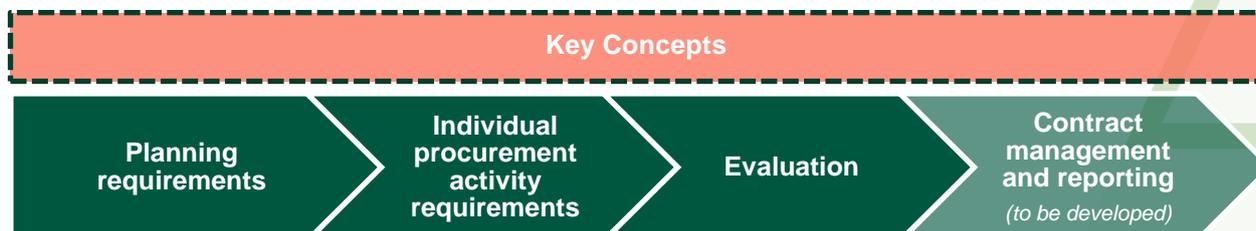


# Victoria's Social Procurement Framework – Buyer Guidance

## Guide to key concepts



### Purpose of this guide

The purpose of this guide is to explain key concepts in Victoria's Social Procurement Framework (SPF).

These concepts are referred to, and drawn on, throughout the suite of guidance materials that support the SPF. This guide should therefore be used as a reference document to help understand the practical information contained in the suite of guidance materials.

### Using this guide

This guide is issued by the Department of Treasury and Finance to provide further information to support departments and agencies in implementing the SPF.

The approaches detailed in the guide are **not prescriptive** and are provided for reference only. The guide complements the existing legislative and policy framework applicable to Victorian Government procurement.

To the extent of any inconsistencies, the Supply Policies issued by the Victorian Government Purchasing Board under the *Financial Management Act 1994* (Vic), Supply Policies issued by Health Purchasing Victoria under the *Health Services Act 1998* (Vic) and the Ministerial Directions for Public Construction Procurement in Victoria issued under the *Project Development and Construction Management Act 1994* (Vic) take precedence over this guide.

This guide is current as at 1 September 2018. The suite of SPF guidance materials will be periodically reviewed and updated to reflect user feedback and any changes to the legislative and policy landscape.

	This guide explains key concepts in the SPF and should be used as a reference document.
	The Victorian Government is committed to social procurement.
	The SPF applies to all individual procurement activities undertaken by, or on behalf of, the Victorian Government.
	The SPF advances important social and sustainable procurement objectives, with corresponding outcomes.
	The SPF adopts a scalable approach based on the value of individual procurement activities.
	All suppliers can deliver social and sustainable outcomes when doing business with Government.
	Requirements established by the SPF apply in addition to any requirements that apply to an individual procurement activity under the broader legislative and policy framework applicable to Victorian Government procurement.

# Contents of this guide

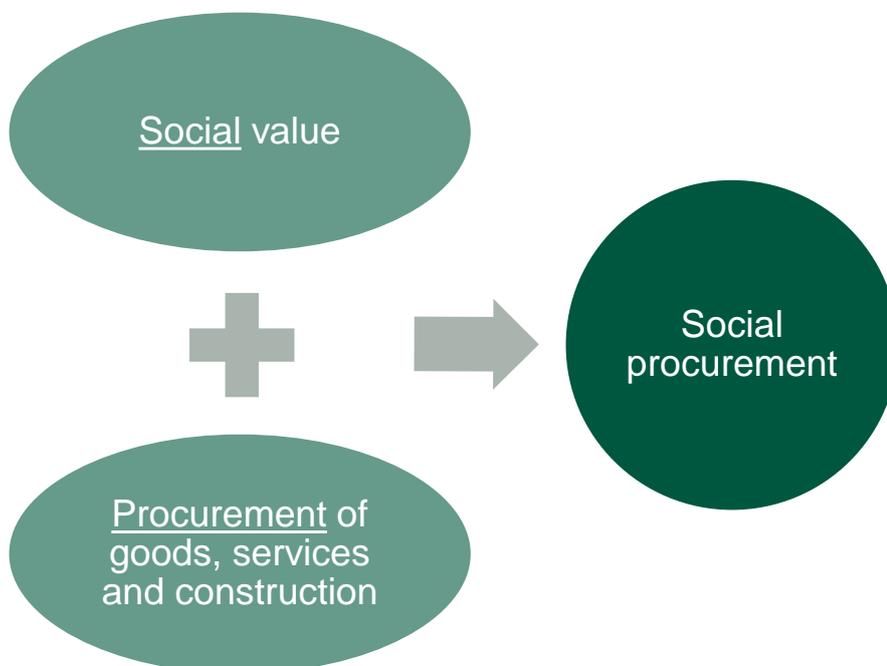
This guide contains the following sections:

- **Section 1** explains what social procurement is and why the Victorian Government is committed to social procurement
- **Section 2** explains concepts related to the SPF objectives and outcomes
- **Section 3** explains concepts related to the scope of the SPF
- **Section 4** explains concepts related to determining the value of individual procurement activities
- **Section 5** explains concepts related to the approaches to social procurement

# Section 1 – Introduction to Social Procurement

## Defining Social Procurement

Social procurement is when organisations use their buying power to generate social value above and beyond the value of the goods, services or construction being procured.



In the Victorian Government context:

- **Social value** means the benefits that accrue to all Victorians when the social and sustainable outcomes in the SPF are achieved. These outcomes are outlined in Section 2 of this guide.
- **Procurement** refers to all business processes associated with sourcing activity to obtain goods, services and construction. It spans the whole life cycle from identifying needs to the end of a service contract or the end of the useful life and subsequent disposal of an asset. It also includes the organisational and governance frameworks that underpin the procurement function.<sup>1</sup>
- **Construction** includes 'Works' and 'Construction Services' as defined in the Ministerial Directions for Public Construction Procurement in Victoria.<sup>2</sup>

The above definition of social procurement can apply to organisations in the public, private and not-for-profit sectors and to all levels of government. However, in the context of the SPF (and the suite of guidance materials that support it), social procurement refers only to Victorian Government procurement. The scope of the SPF is outlined in Section 3 of this guide.

## Commitment to social procurement

Collectively, the decisions that organisations make throughout the procurement process have a significant impact on the economy, the environment and the community. These decisions include what organisations buy, who they buy from, what standards they set for their suppliers, how they manage their supply chains, and what outcomes they seek to achieve.

<sup>1</sup> Procurement does not include stored management and logistics, which are part of the wider subject of supply chain management.

<sup>2</sup> The Ministerial Directions for Public Construction Procurement in Victoria are available online at [www.dtf.vic.gov.au/public-construction-policy-and-resources/ministerial-directions-and-instructions-public-construction-procurement](http://www.dtf.vic.gov.au/public-construction-policy-and-resources/ministerial-directions-and-instructions-public-construction-procurement).

Victorian Government procurement is one of the largest drivers in the Victorian economy. Value for money underpins Government 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. The Victorian Government recognises environmental, social and economic factors as a core component of value for money.

There is a growing national and international focus on the strategic use of the procurement function to deliver social, economic and environmental outcomes. Although social procurement is not new, it is increasingly recognised as an important tool for governments to:

- leverage their purchasing power to achieve broader public policy objectives;
- increase opportunities and expand markets for 'social benefit suppliers' (defined in Section 5 of this guide);
- influence mainstream suppliers (i.e. suppliers that are not social benefit suppliers) to prioritise social value creation; and
- diversify supply chains to, among other things, drive competition, promote innovation and provide all suppliers with a full and fair opportunity to compete.

The SPF is designed to embed social procurement throughout the procurement process and implement a consistent and streamlined approach to achieving social and sustainable outcomes through procurement. It achieves this by establishing:

- the SPF objectives and outcomes (outlined in Section 2 of this guide);
- mandatory planning requirements and individual procurement activity requirements; and
- mandatory measurement and reporting requirements.

The SPF provides the authorising environment and sets a clear expectation to make social procurement business-as-usual.

## Section 2 – SPF objectives and outcomes

### Social procurement objectives and outcomes

Table 1 of the SPF (excerpted below) outlines the Victorian Government’s **social procurement objectives** and corresponding **social outcomes**.

In total, there are seven social procurement objectives, which align with important Government work in relation to Aboriginal businesses and social enterprises, Victorian Aboriginal people and Victorians with disability, gender equality and the prevention of family violence, industrial relations and secure employment, and socio-economic disadvantage.

Social procurement objectives	Outcomes sought
Opportunities for Victorian Aboriginal people	<ul style="list-style-type: none"> <li>• Purchasing from Victorian Aboriginal businesses</li> <li>• Employment of Victorian Aboriginal people by suppliers to the Victorian Government</li> </ul>
Opportunities for Victorians with disability	<ul style="list-style-type: none"> <li>• Purchasing from Victorian social enterprises and Australian Disability Enterprises</li> <li>• Employment of Victorians with disability by suppliers to the Victorian Government</li> </ul>
Women’s equality and safety	<ul style="list-style-type: none"> <li>• Adoption of family violence leave by Victorian Government suppliers</li> <li>• Gender equality within Victorian Government suppliers</li> </ul>
Opportunities for disadvantaged Victorians	<ul style="list-style-type: none"> <li>• Purchasing from Victorian social enterprises</li> <li>• Job readiness and employment for:               <ul style="list-style-type: none"> <li>○ long-term unemployed people</li> <li>○ disengaged youth</li> <li>○ single parents</li> <li>○ migrants and refugees</li> <li>○ workers in transition</li> </ul> </li> </ul>
Supporting safe and fair workplaces	<ul style="list-style-type: none"> <li>• Purchasing from suppliers that comply with industrial relations laws and promote secure employment</li> </ul>
Sustainable Victorian social enterprise and Aboriginal business sectors	<ul style="list-style-type: none"> <li>• Purchasing from Victorian social enterprises and Aboriginal businesses</li> </ul>
Sustainable Victorian regions	<ul style="list-style-type: none"> <li>• Job readiness and employment for people in regions with entrenched disadvantage</li> </ul>

For all social outcomes that relate to job-readiness and employment, it is recommended that the focus be on responding to demonstrated employer/industry workforce needs and providing pathways to employment that are likely to be sustained over time.

## Sustainable procurement objectives and outcomes

Table 2 of the SPF (excerpted below) outlines the Victorian Government's **sustainable procurement objectives** and corresponding **sustainable outcomes**. In this context, 'sustainable' refers to environmental sustainability.

In total, there are three sustainable procurement objectives, which align with important work being undertaken by the Victorian Government in relation to promoting environmental sustainability in the use of resources and addressing climate change.

Sustainable procurement objectives	Outcomes sought
Environmentally sustainable outputs	<ul style="list-style-type: none"> <li>Project-specific requirements to use sustainable resources and to manage waste and pollution</li> <li>Use of recycled content in construction</li> </ul>
Environmentally sustainable business practices	<ul style="list-style-type: none"> <li>Adoption of sustainable business practices by suppliers to the Victorian Government</li> </ul>
Implementation of the Climate Change Policy Objectives	<ul style="list-style-type: none"> <li>Project-specific requirements to minimise greenhouse gas emissions</li> <li>Procurement of outputs that are resilient against the impacts of climate change</li> </ul>

## Social procurement commitments

A **social procurement commitment** is a commitment made by a supplier to deliver a social or sustainable outcome through an individual procurement activity. The Victorian Government considers that all suppliers can deliver one or more of these outcomes when doing business with Government.<sup>3</sup>

The outcomes that Government is seeking to achieve in an individual procurement activity will be identified in expressions of interest and invitations to supply.<sup>4</sup> Suppliers will have an opportunity to make social procurement commitments and explain how they will comply with, report on and verify compliance with these commitments. When the preferred supplier has been selected, social procurement commitments will form part of the contract between Government and the supplier.

## Compliance with social procurement commitments

Compliance arrangements will be identified in invitations to supply and form part of the contract between Government and the preferred supplier.

Where a supplier is experiencing difficulties meeting their social procurement commitments, it is expected that this will be reported by the supplier to the contract manager<sup>5</sup> and that both parties will seek to manage the issue to achieve a reasonable compliance outcome.

<sup>3</sup> The approaches to social procurement are outlined in Section 5 of this guide.

<sup>4</sup> In this context: (a) an 'expression of interest' is used to identify suppliers interested in, and capable of, delivering goods, services or construction required by Government. Potential suppliers are asked to provide information on their capability and capacity to do the work. It is usually the first stage of a multi-stage procurement process (VGPB Glossary). This is also referred to as a request for information (RFI); (b) an 'invitation to supply' is a process of inviting offers to supply goods, services or construction. This process covers both the request for quotation and request for tender process. The 'request for quotation' is a written process of inviting offers to supply goods, services or construction involving simple documentation and a limited number of potential suppliers, whereas a 'request for tender' is an invitation to supply or a request for offer against a set of clearly defined and specified requirements and invitees are advised of all requirements involved including the conditions of participation and proposed contract conditions.

<sup>5</sup> The 'contract manager' is the person nominated in the contract as responsible for managing the day-to-day matters of the contract.

A supplier's failure to undertake all reasonable measures to achieve compliance with its social procurement commitments may be determined by the department or agency to constitute a material breach of contract.

Non-compliance with social procurement commitments will be considered in any assessment or review of the supplier's eligibility to participate in future Government procurement activities.

## Key focus areas

The social and sustainable outcomes in the SPF may also be categorised according to **key focus areas**. There are three key focus areas:

- **Supplier attributes** – some social outcomes focus on the attributes of the supplier, namely whether it is a 'social benefit supplier' (defined in Section 5 of this guide).
- **Social or sustainable business practices** – some social and sustainable outcomes focus on the supplier's business practices, such as the adoption of family violence leave or environmentally sustainable business practices.
- **Social or sustainable outputs** – some social and sustainable outcomes focus on outputs of the supplier's business or outputs of the individual procurement activity, such as the employment provided to Victorians with disability or reduction of waste and pollution.

This categorisation is particularly useful in relation to the sourcing phase of the procurement process lifecycle.<sup>6</sup> Each key focus area recognises the different social and sustainable outcomes that can be delivered and should help government buyers understand how social and sustainable outcomes can be incorporated into invitations to supply and subsequent contracts between Government and the preferred supplier(s).

There is some overlap between the three key focus areas, as some social and sustainable outcomes can be framed as focusing on either business practices or outputs. For example, if the social outcome of 'employment of Victorians with disability by suppliers to the Victorian Government' were prioritised in an invitation to supply, suppliers may be asked to:

- demonstrate inclusive employment practices in relation to Victorians with disability (i.e. a focus on business practices); and/or
- set performance standards or targets for employment outcomes for Victorians with disability, such as the number of labour hours to be performed (i.e. a focus on outputs).

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<sup>6</sup> See SPF *Guide to individual procurement activity requirements*.

## Section 3 – Scope of the SPF

### Scope of the SPF

The SPF is a ‘whole of government’ procurement policy that embodies the Victorian Government’s commitment to social procurement.

The SPF applies to the procurement of all goods, services and construction undertaken by, or on behalf of, Victorian Government departments and agencies from 1 September 2018.

Note that:

- **departments and agencies** means all entities that are subject to the Standing Directions of the Minister for Finance 2016;<sup>7</sup>
- the SPF applies where Government provides any level of procurement funding to an individual procurement activity undertaken by, or on behalf of, a department or agency (i.e. irrespective of whether the activity is entirely or partially funded by Government procurement funding). This means that the SPF *does not* apply where:
  - an individual procurement activity is not undertaken by, or on behalf of, a department or agency; or
  - an individual procurement activity is undertaken by, or on behalf of, a department or agency, but Government’s financial contribution to the activity is limited to grants funding or other forms of financial assistance; and
- the SPF applies to public-private partnerships (PPPs),<sup>8</sup> alliance contracts<sup>9</sup> and market-led proposals<sup>10</sup> where Government provides procurement funding or undertakes procurement activities in relation to the activity without making a financial contribution. Government encourages participants to apply the SPF to the entire activity, even if the activity is not funded or is only partially funded by Government procurement funding.

Victorian public bodies that are not subject to the Standing Directions of the Minister for Finance 2016 are encouraged to apply the SPF to their procurement activities.

The mandatory requirements established by the SPF apply to both departments and agencies and to government buyers. In the SPF context, **government buyer** means the individual(s) responsible for planning, sourcing and/or approving the goods, services or construction being procured by, or on behalf of, a department or agency. This definition is intentionally broad and includes end users, project control boards and financial delegates.

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<sup>7</sup> The Standing Directions of the Minister for Finance 2016 are mandatory for all Agencies – that is, ‘departments’ and ‘public bodies’, as defined in the *Financial Management Act 1994* (Vic) – except for some specified classes of Agencies that are excluded by Direction 1.2 of the Standing Directions. To determine whether your agency is subject to the Standing Directions, see the fact sheet available online at [www.dtf.vic.gov.au/financial-management-government/standing-directions-minister-finance-2016](http://www.dtf.vic.gov.au/financial-management-government/standing-directions-minister-finance-2016).

<sup>8</sup> PPPs are long-term contracts between the public and private sectors where the Victorian Government (or direct users) pays the private sector to deliver infrastructure and related services on behalf of, or in support of, the Victorian Government’s broader service responsibilities. PPPs typically make the private sector parties who build infrastructure responsible for its condition and operation on a whole-of-life basis (VGPB, *Glossary*).

<sup>9</sup> Alliance contracting is a method of procuring, and sometimes managing, major capital assets where the Victorian Government works collaboratively with private sector parties to deliver the project. Under an alliance contract, parties work as an integrated, collaborative team to deal with key project delivery matters (Victorian Government, Department of Treasury and Finance).

<sup>10</sup> Market-led proposals, also known as unsolicited proposals, are proposals made by the private sector to the Victorian Government to build infrastructure and/or provide services. They originate within the private sector and involve proponents developing a project or service specification and then approaching Government for approval and support of the proposal (Victorian Government, Department of Treasury and Finance, *Market-led Proposals Guideline*, November 2017). Market-led proposals are often entirely funded by the private sector.

## Broader legislative and policy context

The SPF and the suite of guidance materials that support it (including this guide) supplement, and do not replace, the broader legislative and policy framework that applies to Victorian Government procurement (outlined in the table below). Therefore, requirements established by the SPF apply in addition to any requirements that apply to an individual procurement activity under the broader framework.

It is for the Accountable Officer of the relevant department or agency to decide how to implement the SPF. To the extent of any inconsistencies, the Supply Policies issued by the Victorian Government Purchasing Board under the *Financial Management Act 1994* (Vic), Supply Policies issued by Health Purchasing Victoria under the *Health Services Act 1998* (Vic) and the Ministerial Directions for Public Construction Procurement in Victoria issued under the *Project Development and Construction Management Act 1994* (Vic) take precedence over this guide.

	Goods and services	Construction
<b>Legislation</b>	<ul style="list-style-type: none"> <li><i>Financial Management Act 1994</i> (Vic) (FMA)</li> <li><i>Health Services Act 1998</i> (Vic) (HSA)</li> </ul>	<ul style="list-style-type: none"> <li><i>Project Development and Construction Management Act 1994</i> (Vic)</li> </ul>
<b>Applicable Ministerial Directions / subordinate legislation</b>	<ul style="list-style-type: none"> <li>VGPB Supply Policies are subordinate legislation to the FMA</li> <li>HPV Supply Policies are subordinate legislation to the HSA</li> </ul>	<ul style="list-style-type: none"> <li>Ministerial Directions for Public Construction Procurement in Victoria (effective 1 July 2018)</li> </ul>
<b>Oversight</b>	<ul style="list-style-type: none"> <li>Victorian Government Purchasing Board (VGPB)</li> <li>Health Purchasing Victoria</li> </ul>	<ul style="list-style-type: none"> <li>Public Construction Procurement Committee</li> </ul>
<b>Policy framework (and applicable entities)</b>	<p><i>Applicable for VGPB Mandated Entities</i></p> <ul style="list-style-type: none"> <li>The five VGPB Supply Policies cover end-to-end procurement activity from identifying needs, planning, and market research through to contract management</li> <li>All procurement activity is required to meet VGPB procurement principles of value for money, accountability, probity and scalability</li> <li>The VGPB Supply Policies</li> <li>Each of the Supply Policies is supported by non-mandated good practice, guides, tools and templates</li> </ul> <p><i>Applicable for public hospitals and health services</i></p> <ul style="list-style-type: none"> <li>HPV Supply Policies</li> </ul>	<p><i>Applicable for departments and agencies subject to the Standing Directions of the Minister for Finance 2016:</i></p> <ul style="list-style-type: none"> <li>Ministerial Directions for Public Construction Procurement in Victoria (mandatory);</li> <li>Instructions for Public Construction Procurement in Victoria (mandatory); and</li> <li>Guidance for Public Construction Procurement in Victoria (non-mandatory)</li> </ul>

<b>Social Procurement Framework application</b>	<ul style="list-style-type: none"> <li>• Applies to all departments and agencies subject to Standing Directions of the Minister for Finance 2016 issued under the FMA</li> <li>• Applies to all individual procurement activities</li> </ul>	<ul style="list-style-type: none"> <li>• Applies to all departments and agencies subject to Standing Directions of the Minister for Finance 2016 issued under the FMA</li> <li>• Applies to all individual procurement activities</li> </ul>
<b>Other relevant Victorian Government procurement policies</b>	<ul style="list-style-type: none"> <li>• Local Jobs First – Victorian Industry Participation Policy (VIPP) – projects valued at or above \$1 million in regional Victoria or \$3 million in metro Melbourne or state-wide</li> </ul>	<ul style="list-style-type: none"> <li>• Local Jobs First – Victorian Industry Participation Policy (VIPP) – projects valued at or above \$1 million in regional Victoria or \$3 million in metro Melbourne or state-wide</li> <li>• Local Jobs First – Major Projects Skills Guarantee (MPSG) – projects valued at or above \$20 million</li> </ul>

### Application to aggregated purchasing arrangements

A substantial proportion of Government procurement is undertaken under state purchase contracts (SPCs), sole entity purchase contracts (SEPC) and pre-qualification registers, including registers established under the Ministerial Directions for Public Construction in Victoria.

Existing SPCs, SEPCs and registers provide some opportunities for departments and agencies to pursue social and sustainable procurement objectives. Lead departments are currently exploring, and will continue to explore, opportunities to incorporate SPF objectives and outcomes into aggregated purchasing arrangements.

Any request to be exempted from using a mandated SPC made by a participating party on SPF grounds will be considered in accordance with the existing process outlined in the VGPB Market Analysis and Review Policy available online at [www.procurement.vic.gov.au/Buyers/Policies-Guides-and-Tools/Market-Analysis-and-Review-Policy](http://www.procurement.vic.gov.au/Buyers/Policies-Guides-and-Tools/Market-Analysis-and-Review-Policy).

### Related policies and developments

The SPF is consistent with, and supplements, other Government procurement policies and reflects broader developments in relation to procurement best practice. The most relevant policies and developments are summarised below.

#### Supplier Code of Conduct

The Victorian Government Purchasing Board’s Supplier Code of Conduct reflects the Victorian Government’s commitment to ethical, sustainable and socially responsible procurement. It outlines minimum ethical standards in behaviour that suppliers will aspire to meet when conducting business with, or on behalf of, the Victorian Government.

The Supplier Code of Conduct applies to all contracts, agreements and purchase orders from 1 July 2017, and requires suppliers to acknowledge minimum ethical standards of behaviour in the areas of:

- integrity, ethics and conduct;
- conflict of interest, gifts, benefits and hospitality;
- corporate governance;
- labour and human rights;
- health and safety; and

- environmental management.

For large contracts and agreements, suppliers are required to sign a commitment letter acknowledging Government's minimum expectations and confirming that they will aspire to meet those expectations. The commitment letter is incorporated into the invitation to supply documentation and forms a compulsory part of a supplier's submission. The requirement to sign and incorporate a commitment letter does not apply to low value, intermittent purchase orders because Government has amended the applicable terms and conditions to reflect the suppliers' acknowledgement of, and commitment to, the Supplier Code of Conduct.

Further information on the Supplier Code of Conduct is available online at [www.procurement.vic.gov.au/Suppliers/Supplier-Code-of-Conduct](http://www.procurement.vic.gov.au/Suppliers/Supplier-Code-of-Conduct).

### **Local Jobs First**

*Local Jobs First* supports Victorian businesses and workers by ensuring that small to medium enterprises (SMEs) are given a full and fair opportunity to compete for both large and small government contracts and helping to create job opportunities including for apprentices, trainees and engineering cadets. The policy comprises:

- Local Jobs First – Victorian Industry Participation Policy (VIPPP), which provides opportunities for local suppliers to compete for work on all types of government projects, helping to create and sustain opportunities for Victorian businesses and workers.
- Local Jobs First – Major Projects Skills Guarantee (MPSG), which provides opportunities to Victorian apprentices, trainees and cadets to work on high value construction projects to grow the next generation of skilled workers in Victoria.

Further information on Local Jobs First is available online at [www.localjobsfirst.vic.gov.au](http://www.localjobsfirst.vic.gov.au).

### **ISO 20400 – Sustainable Procurement**

International Organization for Standardization (ISO) is an independent, non-governmental international organisation with a membership of 161 national standards bodies. Through its members, ISO brings together experts to share knowledge and develop voluntary, consensus-based, market relevant International Standards that support innovation and provide solutions to global challenges.

ISO 20400 – Sustainable Procurement was published on 24 April 2017 and is the first international guidance standard on 'sustainable procurement'.<sup>11</sup> It is relevant to any organisation, regardless of their sector, size or location, as well as any stakeholder involved in or impacted by procurement decisions and processes. ISO 20400 does not contain requirements for suppliers and is not a tool to assess the sustainability performance of suppliers. It does not replace legislation, policy and ethical frameworks that regulate procurement activities, but provides a basis for an effective integration of (environmental, social and economic) sustainability concerns into the procurement process and supply chains.

ISO 20400 defines the principles of sustainable procurement (e.g. accountability, transparency, ethical behaviour, and full and fair opportunity) and focusses on seven core subjects of sustainable procurement, namely:

- organisational governance;
- human rights;
- labour practices;

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<sup>11</sup> ISO 20400 defines 'sustainable procurement' to mean 'procurement that has the most positive environmental, social and economic impacts possible over the entire life cycle and that strives to minimise adverse impacts. Sustainable procurement is a powerful instrument when an organisation considers sustainability requirements and its own contribution to sustainable development'. It incorporates many aspects of BS 8903, a British Standard for sustainable procurement published in 2010. However, this new ISO standard adopts the terminology and principles of ISO 206000, the International Standard for social responsibility.

- the environment;
- fair operating practices;
- consumer issues; and
- community involvement and development.

### ***Infrastructure Sustainability (IS) rating scheme***

The Infrastructure Sustainability Council of Australia (ISCA) takes a holistic approach to sustainability to ensure that the planning, design, construction and operation of an infrastructure asset helps to deliver positive outcomes for society.

ISCA first piloted the IS rating scheme in 2011. It has been widely adopted and infrastructure projects and assets worth more than \$80 billion in capital value have used the IS rating scheme, resulting in over 120 rating registrations.

The latest iteration of the Infrastructure Sustainability (IS) rating scheme – IS version 2.0 (ISv2.0) – was released on 7 June 2018 and is available to IS Accredited Professionals. The IS rating scheme helps infrastructure projects and assets embed practical sustainability actions that contribute to achieving the United Nation’s Sustainable Development Goals (SDGs).

## Section 4 – Determining the value of individual procurement activities

### Defining an individual procurement activity

As noted in Section 3 of this guide, the SPF applies where Government provides any level of procurement funding to an individual procurement activity undertaken by, or on behalf of, a department or agency.

In most cases, an **individual procurement activity** will involve one contract between Government and the preferred supplier. Whether the preferred supplier, in performing the contract, unbundles or subcontracts components of the activity, is irrelevant.

Some individual procurement activities involve multiple, discrete packages of work. In these circumstances:

- Government enters more than one contract with preferred suppliers to deliver the packages of work; and
- the individual procurement activity is defined to include all packages of work (i.e. each package of work is not characterised as its own individual procurement activity). Therefore, the value of the individual procurement activity is the combined value of all packages of work.

Whether any supplier, in performing its package(s) of work, unbundles or subcontracts components of the activity is irrelevant.

This distinction between individual procurement activities that involve one contract and those that involve multiple, discrete packages of work is important for determining which individual procurement activity requirements apply to the activity.<sup>12</sup>

### Purpose of determining the value of an individual procurement activity

The purpose of determining the value of an individual procurement activity is to identify which requirements apply to the activity, rather than working out whether the SPF is applicable or not.

Unlike other Government procurement policies, such as VIPP and MPSG, which apply to procurement activities that meet a minimum value threshold set by Government, the SPF applies irrespective of the value of the individual procurement activity. As noted in Section 3 of this guide, the SPF applies to the procurement of all goods, services and construction undertaken by, or on behalf of, departments and agencies from 1 September 2018.

In other words, the SPF requirements are relevant to everything from small purchases of catering services to 'high value high risk' infrastructure projects. To accommodate such a wide range of activities, the SPF adopts a scalable approach to setting individual procurement activity requirements. That is, the Government's minimum expectations escalate to remain proportionate to the value of the individual procurement activity and the opportunity to deliver social and sustainable outcomes.<sup>13</sup>

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<sup>12</sup> Individual procurement activity requirements are explored in more detail in the SPF *Guide to individual procurement activity requirements* and the SPF *Guide to planning requirements*.

<sup>13</sup> The scalable approach of the SPF is explained in more detail in Section 2 of the SPF *Guide to individual procurement activity requirements*.

## Methodology for determining the value of an individual procurement activity

The **value** of an individual procurement activity is determined according to the total budget allocated over the life of the activity.

The **total budget** is the amount of procurement funding that the department or agency has internally allocated to the procurement activity. The total budget is therefore not determined by reference to the amount detailed in the State's Budget papers, although in some instances it may be an equivalent amount. This is because the appropriation funding allocated to an activity in the State's Budget papers:

- is often aggregated and may include many different individual procurement activities; or
- may include funding that is not procurement funding.

In determining the life of the individual procurement activity, any options to renew or extend a contract should be ignored.

For example, if the procurement funding internally allocated by an agency to an individual procurement activity is \$400,000 per annum over three years (with an option to extend the contract for one year), then the value of the activity is \$1.2 million.

Where there is no specific budget allocated to the individual procurement activity, then the value of the activity is determined according to the anticipated contract value when the government buyer approaches the market. This may be the case for low value, intermittent procurement activities where the department or agency has allocated a pooled annual budget from which individual procurement activities are funded.

For example, a \$600 purchase order for catering services may be funded from a pooled 'operational' budget of \$25,000 allocated to catering by the department or agency – here, the value of the individual procurement activity is \$600.

## Section 5 – approaches to social procurement

### Direct versus indirect approaches

For practical purposes, social procurement may be grouped into two broad approaches. These approaches are differentiated according to who Government is contracting with and the way in which the Government is delivering a social or sustainable outcome.

- The **direct approach** to social procurement is where a department or agency purchases goods, services or construction from a ‘social benefit supplier’ (defined below). By purchasing from social benefit suppliers, Government is directly delivering social and/or sustainable outcomes.
- The **indirect approach** to social procurement is where a department or agency purchases goods, services or construction from a ‘mainstream supplier’ (i.e. a supplier that is not a social benefit supplier) and the Government uses invitations to supply and clauses in contracts to deliver social and/or sustainable outcomes. By purchasing from mainstream suppliers, and imposing requirements on those suppliers to deliver social and/or sustainable outcomes, Government is indirectly delivering social and/or sustainable outcomes. This approach includes scenarios where a department or agency requires a mainstream supplier to involve social benefit suppliers through the supply chain (e.g. by way of subcontracting).

Both approaches create opportunities to deliver social and sustainable outcomes, which means that all suppliers can deliver one or more of these outcomes when doing business with Government.

Social procurement opportunity analyses undertaken by departments, agencies and government buyers should actively consider both direct and indirect approaches to social procurement. The preferable approach will depend on several factors, including:

- the circumstances of an individual procurement activity, such as the value of the activity, the goods, services, or construction being procured, and the social and/or sustainable outcomes being sought;
- the extent to which ‘social benefit suppliers’ (defined below) participate in the market, as well as their current capabilities and capacities;
- the applicability of social procurement sourcing tactics outlined in Table 5 of the SPF; and
- the assessment of value for money, taking into account:
  - the total benefits and costs over the life of the goods, services or construction being procured;
  - environmental, social and economic factors; and
  - any risk related to the procurement.

The two approaches described above are not mutually exclusive. Government buyers may, for example:

- decide to unbundle an individual procurement activity and use both direct and indirect approaches; or
- use invitations to supply and contract clauses to deliver social and/or sustainable outcomes when purchasing goods, services or construction from social benefit suppliers.

## Social benefit suppliers

**Social benefit supplier** means a supplier that:

- operates and has business premises in Victoria; and
- meets one or more of the following criteria:
  - it is certified by Social Traders to be a social enterprise or is an enterprise listed on the Map for Impact (the Victorian Social Enterprise Mapping Project);<sup>14</sup>
  - it provides ‘supported employment services’ as defined in section 7 of the *Disability Services Act 1986* (Cth);
  - it is verified by Supply Nation, Kinaway and/or Small Business Victoria (in consultation with Kinaway) to meet the definition of ‘Victorian Aboriginal business’ in the Social Procurement Framework.

The Victorian Government continues to explore opportunities to engage social procurement partners to identify and verify other types of social benefit suppliers.

Suppliers that are not social benefit suppliers are referred to as ‘mainstream suppliers’ throughout the suite of SPF guidance materials. As noted in Section 2 of this guide, the Victorian Government considers that all suppliers can deliver one or more of these outcomes when doing business with Government.

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<sup>14</sup> Map for Impact is an online map accessible at [mapforimpact.com.au/](http://mapforimpact.com.au/).

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