# **Value for money: Goods and services guide**

Find out what value for money is and how to achieve it when procuring goods and services.

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## Value for money guidance framework

Guidance on value for money includes:

* Value for money guide (this guide), the head guide for value for money, covers the requirement for agencies to demonstrate value for money, what value for money is, how to achieve it, total cost of ownership, and risk.
* [Evaluate and select offers guide](https://www.buyingfor.vic.gov.au/evaluation-negotiation-and-selection-goods-and-services-procurement-guide-0) covers evaluation methods, how to plan evaluation, evaluate offers, select offers, and transition to contract management. It includes how to evaluate broader government objectives.
* The [Negotiate offers guide](https://www.buyingfor.vic.gov.au/negotiate-goods-and-services-guide-0) links to the Evaluate and select offers guide, detailing this important function in the offer selection process.
* [Goods and services procurement-related policies fact sheet](https://www.buyingfor.vic.gov.au/goods-and-services-procurement-related-policies-fact-sheet) lists the procurement-related policies, when they apply, and how to implement them to achieve broader government objectives.
* [Contract management guide](https://www.buyingfor.vic.gov.au/contract-management-goods-and-services-procurement-guide-0) covers how to assess achievement of value for money through the contract management phase.

## Requirement for Agencies

Value for money is the foundational principle of the goods and services procurement policies. It applies to all procurement activities, regardless of complexity or value.

Accountable Officers must ensure that their Agency is able to demonstrate that any financial commitment, obligation, or expenditure delivers value for money for the Agency and/or the State ([*Standing Directions 2018*](https://www.dtf.vic.gov.au/financial-management-government/standing-directions-2018-under-financial-management-act-1994) Direction 4.2.1.1.e).

To demonstrate value for money, plan and follow a process to approach the market, evaluate and select offers, and measure achievement through the contract management phase. Keep records throughout the process.

## What is value for money?

Value for money in government procurement is the optimal combination of financial and non-financial factors through the lifecycle of the goods and services procured. This includes fitness for purpose, supplier capability, broader government objectives, total cost of ownership, timeliness, and risk.

**Fitness for purpose** (meeting the Agency’s needs) includes performance, quality, quantity, availability, useful life, sustainability, and innovation.

**Supplier capability** includes expertise, experience, capacity, supply chain, commercial viability, and lawful and ethical behaviour.

**Broader government objectives** includes application of [Procurement-related policies](https://www.buyingfor.vic.gov.au/goods-and-services-procurement-related-policies-fact-sheet) to achieve economic, social, environmental and ethical objectives.

**Total cost of ownership** is all costs borne by an Agency over the lifecycle of the goods and services being procured (whether buying or leasing).

**Timeliness** of supply may significantly impact the optimal combination of factors. Late or early delivery may reduce value for money. Urgency may compromise other value for money factors.

**Risk is** the impact of uncertainty on value for money.

Value for money factors are sensitive to the context of a procurement in both the Agency and the market. Changes in the context (such as the Agency’s need, risk, the market or supply chain) during the procurement lifecycle may affect the optimal mix of factors for value for money. For example, urgently procuring a good or service may impact risk, broader government objectives and cost.

## How is value for money achieved?

Apply the mandatory policy requirements both at the strategic level in an Agency’s procurement function and at the procurement activity level. Every requirement in the goods and services policies is important to achieving value for money, directly or indirectly.

**Governance:** Develop the Agency’s procurement governance framework (structure, roles and processes) and operationalise it through strategic planning.

Start planning a procurement activity by drawing on strategic planning such as the forward procurement activity plan, the relevant category plan, the supplier engagement plan, and any early market engagement.

**Complexity and capability assessment:** Ensure that capability matches complexity when planning and conducting both sourcing and contract management. Adopt a proportionate approach for the complexity of each procurement category or activity to achieve value for money.

**Market analysis and review:** Analyse the market and review the Agency’s needs to inform an appropriate market approach to achieve value for money. Engage the market early.

**Market approach:** Seek open, non-discriminatory competition with innovation.

Encourage suppliers to participate, including small to medium size enterprises and social benefit suppliers, including by:

* making requirements clear;
* being responsive to questions;
* considering the cost of making an offer relative to the value and profitability of the opportunity; and
* clearly communicate how offers will be evaluated.

Leverage collaborative arrangements (including state purchase contracts) to achieve value for money. Seek effective competition when procuring from pre-qualified supplier arrangements (registers) and panel arrangements. Assess value for money when procuring from a register or a panel (do not rely on the value for money assessment for forming a panel).

Engage the market through invitation, evaluation, negotiation, and selection processes to select the offer that represents potential value for money.

**Contract management and disclosure:** Manage contracts to ensure that contracted suppliers deliver the agreed outcomes, and that the Agency meets its obligations. Assess achievement of value for money throughout this phase.

Establish effective relationships with contracted suppliers, with emphasis on more complex contracts. Empathise, collaborate, and build trust to foster ongoing innovation and win-win outcomes.

Disclose contracts to provide transparency and foster public trust. This in turn may to encourage future supplier participation.

**Procurement-related policies:** Apply these policies as required to achieve value for money by delivering broader government objectives. Delivering these objectives may have a legacy that outlasts the life of the goods and services procured.

## What is total cost of ownership?

Total cost of ownership is all costs borne by an Agency over the lifecycle of the goods and services, from initiating a procurement activity to consumption or disposal of goods and cessation of services. It is more than the offered price or actual costs of a contract, and costs may be incurred beyond the contract term.

Use total cost of ownership throughout the lifecycle, including in market approach to evaluate and select offers, and in contract management to assess value for money.

For low complexity procurement, total cost of ownership may be simple to determine, with a focus on the price of the good or service. The costs of sourcing may be similar for all offers, and it may not be necessary to estimate those costs to evaluate value for money.

For a complex procurement, total cost of ownership may include:

* Sourcing process – staffing and expert resources for planning, tendering, evaluation, approvals, testing, and trials.
* Establishing a new supplier or transitioning in a supplier, and systems integration.
* Purchasing – unit price, price increase/decrease mechanisms in contract, leasing costs, invoice processing costs and fees, licence fees, permits, customs duties, transportation, foreign exchange exposure, broader government objectives, compliance with regulations, insurance, and taxes.
* Usage – operating, maintaining, replacing, upgrading, contract management, supplier relationship management, demand management, asset management, information management, logistics (warehousing and distribution), organisation changes, internal systems support, development of processes and manuals, training, facilities, risk treatments, safety, security, reviews, and reporting.
* Disposal – decommissioning, circularity, recycling, repurposing, valuation fees, auctioneer fees, regulatory fees, transition out, and data migration.

Cost may be offset by revenues, for example, from disposal or royalties.

Calculate the value of all cash flows throughout the lifecycle of the goods and services (in today’s dollar value), for comparing offers if appropriate. For example:

* there is significant spend over a long lifecycle; and
* offers vary in terms of when costs are incurred (evenly spread through the life of the goods/services, majority upfront or majority towards the end of the contract).

## Risk

Manage risk in procurement as part of the Agency’s risk management framework. Risk is managed in Victorian Government Agencies using *AS/NZS ISO 31000:2018 Risk Management – Principles and Guidelines*.

Risk management in procurement starts with an Agency’s governance framework and strategic planning, and continues throughout the procurement lifecycle. Manage risk throughout a procurement activity, including when:

* planning a procurement activity;
* evaluating risk in offers;
* creating a contract; and
* managing a contract (such as performance management, contract reviews, variations, options to extend, closure and transition).

Risk in procurement may include probity, capability, capacity, scope creep, technical, legal or commercial, contractual, financial (budgets, pricing mechanisms), economic, social, environmental, supplier and supply chain, regulatory, ethical or reputational risk.

Conflict of interest for buyers and suppliers is a key risk to value for money. Treat this risk using process safeguards and diligent management throughout the procurement lifecycle.

The impact of risk may be to increase cost and/or reduce value, thereby decreasing value for money. The impact of risk increases with the criticality of the goods and services to the Agency and with increased specialisation in the market.

## Using this guide

This guide accompanies the [goods and services supply policies](https://buyingfor.vic.gov.au/goods-services-supply-policies). There are 5 supply policies:

* Governance policy
* Complexity and capability assessment policy
* Market analysis and review policy
* Market approach policy
* Contract management and disclosure policy

This guide supports the [Governance policy](https://buyingfor.vic.gov.au/governance-goods-and-services-policy-and-guides).

## Tools and support

The following tool supports this guide:

[Value for money evaluation toolkit: Simple procurement](https://www.buyingfor.vic.gov.au/value-money-evaluation-toolkit-simple-procurement)

Access a document version of this guide and tools in the [Toolkit and library](https://www.buyingfor.vic.gov.au/toolkit-and-library).

For more information value for money in procurement, please contact the [goods and services policy team](https://www.buyingfor.vic.gov.au/contact).

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