SERVICE PRIORITY REVIEW

BACKGROUND PAPER

PROCUREMENT OF GOODS AND SERVICES
This background paper was authored by the Service Priority Review secretariat in consultation with, and to inform the work of, the Service Priority Review Panel. Every effort has been taken to ensure accuracy, currency and reliability of the content. The paper is not intended to be a comprehensive overview of the subject nor does it represent the position of the Western Australian Government. Changes in circumstances after the time of publication may impact the quality of the information.

The following background papers are published in full on the Department of the Premier and Cabinet website: [www.dpc.wa.gov.au](http://www.dpc.wa.gov.au)

1. Agency capability reviews
2. Best practice regulation
3. Overview of the budget process
4. Counterproductive rules and processes
5. Digital transformation
6. Engaging with the community
7. Functional leadership
8. Government boards and committees
9. Government trading enterprises
10. Leader performance management and accountability
11. One sector workforce
12. Privacy and information sharing
13. Procurement of goods and services
14. Public sector employment framework
15. Role of the centre
16. Service design and delivery
17. Successful implementation of reform
18. Whole-of-government targets
Introduction

Given the size of the procurement budget, attempts to review and improve processes, harness efficiencies and achieve social outcomes are not new.

Other reviews being undertaken currently by the State Government will also address procurement. For example, parallel to the Service Priority Review (the review), the Sustainable Health Review will look at health procurement to ensure that it is being undertaken in the most effective manner possible.\(^1\) The Special Inquiry into Government Programs and Projects will review 26 major contracts undertaken between 2008 and 2016 (the term of the previous Government) and make recommendations to improve future processes around major government projects. This includes a specific requirement to review procurement processes around projects which have had a significant impact on the State’s current financial position.\(^2\)

Both of these bodies of work focus on particular aspects of procurement within their own terms of reference. There will, however, be commonality in areas such as process efficiency, value for money, transparency and risk assessment. To ensure that the recommendations made by the review do not preclude the findings of the other reviews, this background paper focuses on:

- current government procurement operations
- information and communications technology (ICT) procurement
- procurement of community or human services

Specifically, this background paper does not cover the procurement of works. As noted above, major works are covered in the Special Inquiry. It is anticipated, however, that general findings and recommendations may also be transferable to the procurement of works by a range of agencies across the sector.

Government procurement in Western Australia

The Government Procurement directorate sits within the Department of Finance (DoF) and helps agencies to procure within the framework of procurement policy established by the State Supply Commission\(^3\).

---


\(^3\) The \textit{State Supply Commission Act 1991} established the State Supply Commission in order to regulate government procurement of goods and services, primarily through the creation of supply policy. It was merged with the Department of Treasury and Finance (now the Department of Finance) in 2009.
Specifically, Government Procurement:

- facilitates tender processes for goods and services on behalf of the public sector
- establishes and manages whole-of-government common use arrangements (CUAs)
- assists agencies to buy community services in accordance with the Government’s delivering community services in partnership policy
- provides technical solutions, like TendersWA, which assist with transparent tendering
- provides policy and practice support and training to the sector
- has about 230 FTE, including corporate overheads.

**Common use arrangements**

CUAs are whole-of-government standing offers for the provision of specific products and services commonly used within government. CUAs streamline the purchasing process, minimise risk through prequalification of suppliers and standard terms and conditions, and leverage whole-of-government buying power. Most CUAs are mandatory in the metropolitan area but not necessarily in regions and, in some cases, separate contracts exist for use in specific regional areas.

CUAs are regularly evaluated to ensure they continue to provide value to government. Recent evaluations have resulted in decisions to discontinue some CUAs due to a decline in the demand for these goods and services.

Looking for ways to extract greater value from CUAs, the DoF wrote to CUA contractors in 2016-17 and asked them to reassess their prices in light of the current economic climate. The response was positive and many CUA contractors lowered prices, increased discounts or did not take up allowable annual price increases. The department will shortly begin a review of all CUAs to identify further opportunities to reduce prices. DoF is also implementing category management of CUAs to enable greater strategic focus on specific categories of spend.

**Support for agency procurement**

DoF’s staff out-posting model, which entailed 95 staff being embedded across 23 agencies, was adopted during reform over the period 2003-08. For agencies with no out-posted staff, Government Procurement offered a centralised service (29 FTE).

In 2015, Government Procurement, through the agency expenditure review process, created a transformation agenda to deliver efficiencies and drive better value for government.

Key results from this process included:

- staged implementation of changes to procurement policy thresholds, which increased agency autonomy in procuring goods and services from $50,000 up to the value of $250,000 (introduced in May 2016) in order to focus on high-risk and high-value procurement
- overhaul of the out-posting model with 34.2 FTE (including budget) transferred to agencies, and the remaining FTE transferred back to the DoF to provide a central support function for higher-risk, higher-value procurement
• an overall reduction of 27 FTE, resulting in savings of $2.7 million per year
• streamlining and integrating procurement processes and removing elements of duplication.

To support the increase in procurement threshold to $250,000, Government Procurement developed tools and resources, and provided agencies with ongoing access to education and training along with a single point of contact to improve their ability to procure services for the community.

The 2015 reforms have resulted in greater agency autonomy in procurement, but with support available when required. Agencies also benefit from having a single point of contact for all their procurement requirements, regardless of whether these are for ICT or non-ICT goods and services, or community services. The reforms also created strategic project support services within Government Procurement, which provides specialised support for complex and high risk projects. Services are delivered through temporary co-location of staff at an agency under a cost-recovery model.

The following case study demonstrates how DoF works with agencies to deliver better outcomes, both in terms of cost savings and positive ‘knock-on effects’ in relation to other portfolios.

<table>
<thead>
<tr>
<th>Case Study – Court Security and Custodial Services Re-tender Project</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ISSUE</strong></td>
</tr>
<tr>
<td>In 2011, the Department of Corrective Services awarded a contract for the provision of court security and custodial services to Serco Australia following a competitive open tender process. The five-year contract contained two extension options. In 2015, the extension options were not exercised and a project began to re-tender the services.</td>
</tr>
<tr>
<td><strong>ACTION</strong></td>
</tr>
<tr>
<td>A multi-agency steering committee was established to oversee the re-tender project, with support from a multi-disciplined project team in the Department of Corrective Services. The steering committee oversaw analysis activities that informed a service delivery model and procurement strategy. The Department of Finance provided high-level advice and placed an officer in the project team to help develop procurement documentation, facilitate interactive tendering and the evaluation process, and support contract negotiations. This assistance was critical to the success of the project.</td>
</tr>
<tr>
<td><strong>OUTCOME</strong></td>
</tr>
<tr>
<td>The strategic procurement approach resulted in a new contract awarded to Broadspectrum (Australia) to provide an expanded range of services that will be delivered at $37 million less than the former contract – an 18 per cent saving over forward estimates. The contract has resulted in improved court and custodial coverage in regional WA. Another benefit is that regional police officers who had previously been working in court and custodial services have been able to return to frontline duties.</td>
</tr>
</tbody>
</table>

Procurement of community services

In the 2011-12 budget there was a shift from funding organisations in the not-for-profit (NFP) community services sector through grants to purchasing services using an outcomes-based procurement model. This strategy sought to enable community sector organisations
to be sustainable and ensure continuity of services to the most disadvantaged in the community.

The reforms were driven by an injection of $604 million to address historically underfunded services (and to ensure government paid a fair and appropriate price) in two components:

- A 15 per cent upfront, across-the-board price adjustment for eligible NFP human services contracts, rolled out to 494 NFP organisations, through 982 eligible contracts, from 1 July 2011.
- A second funding injection equivalent to an average increase of 10 per cent rolled out from 1 July 2013, as NFP human service contracts were reviewed and linked to the roll-out of contracting reforms.

The Partnership Forum was established in 2010 to oversee, among other reforms emanating from the Economic Audit Committee’s final report, reforms to funding and contracting with the NFP community sector. The forum comprised leaders from State Government agencies and the NFP community sector, peak bodies and consumer advocates, and was responsible for developing the Delivering Community Services in Partnership (DCSP) policy which underpins the reforms. The DCSP policy focuses on:

- improving the relationship between the public and NFP sectors
- outcomes and improving services and support for vulnerable and disadvantaged Western Australians
- the importance of partnering with the NFP sector and clients in the planning, design and delivery of human services
- reducing the administrative burden imposed on NFP organisations engaged to deliver services
- ensuring services are funded and procured in a sustainable manner.

The DCSP policy, effective from 1 July 2011, replaced the Funding and Purchasing Community Services Policy (2002). The DCSP policy was endorsed by Cabinet and applies to all public authorities that provide funding for, or purchase community services from, NFP organisations. It can also apply to contracts with community sector service providers that do not have NFP status.

The Funding and Contracting Services (FaCS) reform unit was established to lead the reforms and provide policy and procurement practice advice to line agencies. Within the FaCS unit, the direct agency support (DAS) team was established to provide hands-on support and mentoring to line agencies when undertaking community services procurement processes, allowing agencies sufficient time to build their own capability. In 2016, as part of transformation program, a decision was made to reduce and merge the DAS function with Agency Procurement Services, while FaCS remained to provide leadership and policy application support.

FaCS continues to offer a range of capability-building programs to agencies and the NFP sector, such as tendering for outcomes, pricing and costing, introduction to service agreement management, tender evaluations and preferred service provider process.
The DCSP policy has shifted overly-prescriptive service contracts with community sector organisations, where service models, volumes and price were set by government agencies, towards a system that works on providing opportunities for innovation and better outcomes for service consumers. Examples of new service models include child and parent centres, family support networks and the My Way disability services trial sites. These service models reflect a more localised, integrated and responsive approach to service delivery.

In 2012 Curtin University was engaged to provide an annual, independent evaluation of the implementation of the DCSP policy reforms. Specific areas for ongoing development identified in the 2015 report are:

- improving how outcomes, including service level outcomes, are defined and measured in community service contracts
- guiding and up-skilling both government agencies and NFP organisations to undertake collaborative development of outcomes that best measure a program's effectiveness, efficiency and appropriateness
- improving contract management processes which are critical in monitoring NFP organisations’ performance to determine whether value-for-money outcomes are being achieved
- improving data sharing and data linkage between government agencies for improved analysis of a program’s effectiveness, efficiency and appropriateness
- enhancing the capacity and awareness of NFP organisations to develop integrated approaches to service delivery by encouraging formal or contractual partnerships (e.g. consortium bids)
- improving communication and collaboration between government agencies and NFP organisations to work in partnership to continue to co-design services to develop better targeted and value for money services
- continuing to explore opportunities to streamline reporting requirements. 4

ICT procurement

There is currently no specific whole-of-government policy on ICT procurement, meaning agency ICT procurement decisions are guided through general State Supply Commission procurement policies. The Office of the Chief Information Officer (OGCIO) was established on 1 July 2015, as a sub-department of DoF, to address whole-of-government ICT issues and future directions. The OGCIO has led a strategic procurement program to deliver ICT savings through the development of a whole-of-government ICT strategy and supporting documents as well as a consortium to meet the infrastructure and telecommunications needs of the WA Government. This represents a shift away from government being an owner and operator of ICT infrastructure to a consumer of services, and an opportunity to consolidate more than 60 data centres across government.

The need to get better value from ICT procurement has been identified by the OGCIO (and the sector) more generally. Rapid technological advances in ICT often mean declining costs and technological obsolescence can occur throughout the life of a contract. Suboptimal ICT procurement can mean that services are locked in over a number of years, with a potentially significant financial and productivity cost. There is potential benefit in better leveraging government’s buying power through cross-sector agreements.

**Approaches in other jurisdictions**

Consultation with New South Wales and Victoria suggest that effectively leveraging the Government’s buying power and ensuring the achievement of outcomes in an evolving sector is an ongoing challenge for many jurisdictions.

Comparisons of the situation in the WA public sector were made against the Victorian, NSW and New Zealand systems of procurement. In particular, this paper compares WA’s current delivery model with the recommendations from a 2012 review of the NZ model. The secretariat also met with previous United Kingdom Paymaster-General and Minister for the Cabinet Office Lord Francis Maude about his experiences on reforming procurement practices. Across the board, the importance of procurement leadership and effectively harnessing the sector’s buying power were common themes.

**Victoria**

In Victoria, the Victorian Government Purchasing Board (VGPB) sets the policies that govern procurement of non-construction goods and services across all Victorian Government departments and some public bodies.

State purchase contracts (SPCs), similar to CUAs in WA, are standing offer agreements for Victorian Government common use goods and services, which are established when value for money can best be achieved through aggregating demand. The Victorian Department of Treasury and Finance, through its strategic sourcing group, is responsible as lead entity for the establishment and category management of whole-of-government mandated SPCs relating to goods and services, excluding the ICT category.

A key point of difference from the current WA arrangements is that, in Victoria, the Department of Premier and Cabinet (DPC), through its technology procurement group, is responsible for establishing and managing whole-of-government mandated and non-mandated SPCs relating to hardware, IT infrastructure, telecommunications and software contracts.

DPC Victoria also manages and administers the eServices register. The eServices register allows suppliers to respond to requests from government departments and agencies (buyers) to provide specified IT services. The eServices register does not have an end date and is open to suppliers who are able to provide goods and services relating to a range of IT services and related products. The register aims to provide buyers with flexibility and choice in their procurement requirements, along with opportunities for industry to compete for Victorian Government business. It also allows buyers to generate reports and track
procurement transactions over time. There is some similarity between this process and the Service Towers concept in the GovNext contract in WA.

SPCs are either mandatory or non-mandatory for inner budget entities (all departments and a number of agencies bound by VGPB policies). These entities must purchase from mandatory SPCs unless the lead department has granted a written exemption.

New South Wales

Central to the NSW reform program is the devolved procurement model. In contrast to WA, the NSW government has devolved responsibility for some whole-of-government contracts to individual NSW government agencies with specialist knowledge of a category.

NSW Procurement sits within the Department of Finance, Services and Innovation and is designed to support NSW Government agencies to meet the following business outcomes:

- maximise value for money
- make it easy to do business with government
- meet probity, fairness and legal compliance requirements
- encourage sustainability, diversity and a competitive NSW economy
- support innovation including leveraging data

In particular, it is noted that the intention to “support innovation including leveraging data” is not currently a stated objective within WA’s procurement policies.

NSW Procurement provides consultancy and advisory services, category management, analytical support, analysis and guidance, and access to procurement-enabling technologies.

With regard to Human Services, NSW Procurement has a registration scheme for NFP organisations (which NSW has indicated may become compulsory) and a human services data hub (a business intelligence tool to provide a single view of human services commissioned by NSW agencies). NSW’s Social Innovation Council, which has similarities to WA’s Partnership Forum, is a strategic partnership between the NSW Government and the Forum of Non-Government Agencies, established to help foster innovation in the way human services are developed, delivered and measured.

The areas of focus of the Social Innovation Council are slightly different from WA’s Partnership Forum, with its stated objective being to improve human services outcomes by:

- promoting the use of technology and collaborative work practices to optimise service delivery
- improving the quality and accessibility of human services data for government and NGOs

---

driving strategic engagement of the NGO sector
making it easier for NGOs and government to do business together\(^8\).

New Zealand

The NZ Government Procurement and Property Branch recently undertook a review of its operating model.\(^9\) The resulting new operating model consists of five externally-facing teams – delivery services, capability, enabling, the commercial pool, and two chief advisors (property and procurement) – and recognises the need to deliver long-term value based on strengthened relationships with agencies and suppliers. A key focus of the reforms was recruitment of high calibre staff to support the implementation, reflecting the importance of leadership to deliver procurement effectively. With particular regard to asset management, the NZ model has central leadership and guidance along with a much stronger focus on asset investment and performance than in the case in WA.\(^10\)

Delivery Services is responsible for whole-of-government market approaches, strategic category reviews and managing supplier relationships. The capability team focuses on capability design and development for procurement and property and provides an advisory service. The enabling team provides overarching assurance through the use of planning and governance frameworks and systems, provides a data and reporting capability, supports stakeholder engagement and operates a team of account managers as a first point of contact for key agencies. Similar to WA’s centre of expertise, the commercial pool leads and supports significant commercial activity on a user-pays basis for government agencies. The chief advisors procurement and property provide high quality thought leadership and advice on complex procurement and/or property matters.

In 2012 NZ developed a Cabinet paper on government procurement functional leadership\(^11\) that included recommendations structured around three key themes:

- increase performance, add value and maximise results
- create an environment for NZ businesses to succeed
- unlock cost savings

The NZ paper advocates for a centre-led model of procurement (and project management) expertise to help agencies with high value or high risk needs. WA already employs a centre-led model, where procurement practitioners for high risk and high value transactions from the Department of Finance’s Government Procurement directorate help agencies procure all goods and services valued at $250,000 and above.

---

\(^8\) Ibid.
The third theme, ‘unlock cost savings’, advocates for greater use of whole-of-government contracts. NZ has 18 whole-of-government contracts, which account for two per cent of government spend.\textsuperscript{12} In comparison, expenditure under CUAs in WA (equivalent to NZ’s whole-of-government contracts) accounts for about seven per cent of total government spend (this figure rises to 10 per cent if capital expenditure is excluded)\textsuperscript{13}. As at 30 June 2017, WA’s Government Procurement was responsible for managing 38 CUAs.

**Commonwealth**

With respect to ICT procurement, the Commonwealth Government introduced ICT benchmarking in 2009. It is a requirement that non-corporate Commonwealth entities subject to the *Public Governance, Performance and Accountability Act 2013* participate in annual benchmarking of their ICT activities (some exemptions apply). The program is conducted by the Commonwealth Department of Finance.

The ICT benchmarking framework, revised in October 2015, sets out the objectives: to measure the efficiency of ICT services, to inform policy development, and to support ICT investment decision making at both entity and whole-of-government levels. The framework also defines the annual benchmarking process and agreed metrics. A taxonomy provides guidance to entities to ensure the consistent treatment and categorisation of ICT costs.

In accordance with the annual cycle, Finance releases the ICT benchmarking data collection template to entities in July each year. Entities return the completed templates in October. Following a data validation and analysis process, Finance provides benchmarking reports to entities in, or before, the third quarter of the financial year. In addition, a publicly released report summarising the high-level trends is produced annually\textsuperscript{14}.

This process allows for increased transparency around ICT procurement and means that there is also a strong point of reference at the entity and whole of sector level.

**Potential improvements for procurement in WA**

What becomes apparent from the examination of procurement across the sector, and against its inter-jurisdictional counterparts, is that different areas of procurement in WA are at different stages of maturity.

One of the most positive elements of procurement in WA is that many of the structural elements to enable more effective purchasing of goods and services are in place.

Functional leadership around procurement and regular reviews of procurement process have ensured that procurement of commercial goods and services in WA has evolved and does not differ significantly from processes in other jurisdictions. Commercial procurement


\textsuperscript{13} Information provided by the Department of Finance based on 2015-16 data.

in particular is continuing to develop to get closer to industry best practice models, although the secretariat has received feedback that continued work is needed to increase the consistency of both contract negotiation and management.

Contracting for goods and services is guided by set policies and, while recent changes have led to a more devolved model, strategies have been put in place so that the functional leaders can still support procurement at the agency level through direct assistance and capability development.

There is also the view across the board that, while there are good systems in place, contracts and tenders are not consistently designed or negotiated to ensure that risk is appropriately managed. As a result, the sector has a history of having costs increase significantly, being left with goods or services that are either unable to be used or not properly fit for purpose.

Where suitable contracts are in place, the lack of adequate resourcing, uniform expertise, or incentive or authority to drive performance of awarded contracts means that contract management is not done as well as it could be, and contractual conditions are not always exercised. Further, although reports of these problems are consistent, there is not timely or easily accessible information or data that allows these perceived issues to be properly analysed. It is noted that the Department of Finance produces an annual report, *Who Buys What and How*. However, the publicly-released report focuses on aggregate data and lacks timeliness, with the most current publicly available report being for 2014-15\(^\text{15}\).

If it can be acknowledged that the systems themselves are not broken, it becomes apparent that there are areas where work can be done to allow the systems in place to work more effectively.

A key issue is the limited timely analysis of centrally-held procurement data to both better identify and analyse procurement patterns, as well as efficiently evaluate the effectiveness of tenders across the sector. In most cases, the process for compiling information is cumbersome and time consuming. Agencies must be approached individually to provide information on a case-by-case basis, and do not always know what other agencies are spending in the same area. Further, while information is held centrally, DoF is overly reliant on agencies to provide the information. Particularly in the human services area, WA also lacks a clear picture of how Commonwealth and non-government funding may duplicate or interact with State Government-funded services.

Similarly, a whole-of-government picture around agencies’ future intended procurement does not exist. NZ and Victoria have included forward procurement planning in their most recent reforms. Forward planning allows a whole-of-sector picture of procurement areas and creates potential for identifying opportunities for aggregating purchasing or removing duplication to create better value.

\(^{15}\) Department of Finance. *Who Buys What and How 2014-15*. Note: the 2015-16 *Who Buys What and How* report was undertaken using a new Business Intelligence online dashboard. This report was provided directly to some agencies and is not yet released publicly as the Department of Finance is working to refine the technology and ensure integrity of the data.
Benchmarking is one tool to support evaluation and value-driven purchasing. In this context, benchmarking refers to the process of measuring various factors related to an organisation’s acquisition of goods against industry standards. The sector has a responsibility to properly consider social and economic objectives as part of the procurement process, and benchmarking can enable consideration of both these objectives. When done well, benchmarking will support identifying appropriate opportunities for aggregated procurement, and promoting standardisation, to achieve economic objectives. It will also measure performance against private sector or international benchmarks and, in this way, can be used to better evaluate government’s delivery of services against best practice models and, in doing so, improve both economic and social outcomes. The goal is to continually develop and facilitate adherence to industry best practices.

Finally, there are broader cultural issues that must be addressed to create an optimal procurement environment. In particular, there is a culture created through the budget process of:

- needing to ‘lock in’ funding up front
- designing projects based on the forward estimates time frame
- not adequately accounting for risk
- spending up to the limit so as not to return unspent funds.

These are problems that are arguably faced by many jurisdictions. In the current system, agencies are inadvertently incentivised to try and maximise transactional gains rather than looking more broadly to how savings could be re-invested. This works on both the level of funding bids that aim to lock in the total amount for a project, but also the culture of spending ‘up to the limit’ rather than driving contract efficiency and returning or reinvesting unused funds.

The distinction and separation of ICT procurement from other commercial procurement occurs in other jurisdictions (for example, Victoria) and a move to the more recently developed OGCIO would recognise that ICT procurement has specialist requirements. However, the benefits of this for WA have not been proven over other options and, given the undetermined future and/or scope of the OGCIO compared against the relative maturity of the Government Procurement division, there is also risk in not being better connected to the sector’s key procurement body.

The 2011 shift of NFP sector funding from a grants model to outcomes-based service procurement reflects a shift in both ideology and process with regard to engaging with the NFP sector in WA. In essence, there is general acceptance that the concept is worthwhile but, while there has been positive work in the area, the sector is still relatively immature and there remains much to be learnt by both sides.

Where successes have been achieved, these learnings are not necessarily captured in a way that promotes the development of capability across the public sector. Further, the focus on the welfare of those receiving the services and the outcomes achieved needs to remain at the forefront of discussion in this area to ensure that any social impact of procurement is considered\textsuperscript{17}.

As discussed, stakeholder feedback from both the NFP and government sectors suggest that tendering for outcomes is not being done as well as it could be. The NFP sector expressed frustration that tendering for government contracts across the human services sector lacks consistency, meaning organisations that may tender through different agencies or for different programs can be burdened with the differing approaches.

While agencies are required to involve DoF for the purchase of commercial goods and services over $250 000\textsuperscript{18}, this is not required for the procurement of community services\textsuperscript{19}. Although there is a government community services leadership council and the community services procurement review committee, these do not carry sufficient authority to drive the development of procurement practices and there is a missed opportunity to leverage these bodies to drive change.\textsuperscript{20}

While there are reasons for the lack of mandate around human services procurement, including the nuanced environment of working with the NFP sector around social issues where outcomes or success are not always easily measured, there remains an argument that Government Procurement should be more consistently involved in the management of contracts to create a more supported and coordinated approach for developing the sector’s processes in what is still quite a new way of working in WA.

**Options for reform**

Proposed approaches to procurement reform must acknowledge the different needs and levels of maturity across different areas while identifying common areas that will help to strengthen procurement as whole.

There is potential to strengthen the functional leadership role, improve upon current systems, and develop capability across the procurement life cycle as well as different types of procurement.

---


\textsuperscript{20} The Community Services Procurement Review Committee is an advisory committee and does not operate under a delegated authority from the State Supply Commission or the Department of Finance. Source: https://www.finance.wa.gov.au/cms/Government_Procurement/Not_for_profit/Community_Services_Procurement_Review_Committee.aspx
Overarching government procurement policy

It is recommended that a new overarching government procurement policy be developed to frame the move towards a more whole-of-government approach to achieving value for money outcomes. The policy should specifically:

- provide a more formal and structured forward procurement planning process for agencies to allow a whole of sector evaluation of opportunities for buying
- take a considered approach to managing risk within procurement processes to enable true commercial negotiation, process efficiencies and innovation
- seek to actively achieve time and cost efficiencies as part of core business
- facilitate better capture (and then use) of whole of sector procurement information across the life of a contract.

To actively achieve time and cost efficiencies, the policy could include a process that targets different areas of commercial procurement (on a rotating basis) and seeks to analyse procurement patterns to identify savings that can be achieved.

Better capture and use of procurement data should be a key priority in a shift towards data-driven decision making, given its budget size and potential for efficiencies. This would require investment in the development of new systems to easily track and analyse procurement activities, which would:

- allow more rigorous analysis of buying patterns to better identify opportunities for efficiency through benchmarking or aggregation
- create a review process to enable end of contract life evaluation of outcomes.

Commercial-in-confidence clauses are often used to restrict the sharing of procurement information across government. The ability to access information around procurement would need to be examined to explore how information can be better shared to improve the outcomes for government.

Benchmarking

The use of benchmarking, where appropriate, is recommended to:

- identify where there is merit in considering the opportunities to make currently government-delivered services contestable (an example might be the State fleet, which directly services the sector and does not impact the wider community)
- better estimate the value of significant contracts
- evaluate publicly delivered services to identify areas for improvement.

Human services procurement

The need for greater central support to develop capability around human services procurement in an outcomes-focused and competitive environment is evident.
As mentioned previously, in Victoria this is done by the Department of Human Services. The newly formed Department of Communities would be the nearest equivalent in WA and, given its increased scope, there is some merit to considering this as an option.

Given the need to improve the systems, planning and information around the procurement life cycle more generally, however, it can be more strongly argued that, for WA, retaining the management of procurement centrally is appropriate while this is undertaken. Therefore, it is suggested that, within the overarching framework, there is a role for Government Procurement to strengthen its functional leadership to develop as a ‘centre of excellence’ specifically around the procurement of human services to:

- Collect and disseminate better sector-wide data and information around procurement and funding of services in this area to create a clearer picture of the activity across the human services sector that can be fed into planning and decision making. The NSW data hub for human services is an example which could be examined to see if it is suitable to develop a similar tool here.
- Support agencies to develop skills around developing tenders that are outcomes-based, and encourage innovative procurement models (such as co-design, consortia bids, social impact bonds) with the aim of being able to better capture and disseminate learnings across the sector.

It is also recognised that there need to be more rigorous links between policy and procurement practice within human services. The development of policy frameworks that set the Government’s priorities around the outcomes being sought in the sector needs to prioritised and clearly articulated if effective procurement is to occur.

Currently the Department of the Premier and Cabinet has had a role in this area with its work on the Partnership Forum and this is expected to continue as the sector responds to the current Government’s priorities in this area around supporting communities. It is recommended that part of this work should include the development of a clearly articulated outcomes framework to help develop procurement responses by agencies in this area.

**ICT procurement**

The best place for ICT procurement needs to be considered in the light of any recommendations regarding the future scope of the OGCIO. Risk aversion around whole-of-sector contracting also needs to be properly addressed if the sector is going to take advantage of government’s potential buying power. Options in this area include:

- OGCIO retaining strong policy input into ICT procurement policy, however, responsibility for ICT procurement sits with Government Procurement in DoF in the same way as other commercial contracting and as recommended here for human services. This would allow OGCIO expertise to be employed while utilising the procurement skills that already exist within Government Procurement.
• Actively examining the potential for savings around whole of sector procurement by:
  – examining options around aggregated purchases, or providing CUAs that are significantly more contained (with either fewer choices or greater mandate) than is the case now, may be more appropriate in some circumstances than a one size fits all approach
  – undertaking more rigorous testing before expanding and rolling out large scale programs across government
  – not locking into high risk, long term contracts in areas of rapid technological advancement, but examining models which properly account for technological obsolescence, the risk of changing requirements and changing costs for products and services over the life of an agreement
  – ensuring more generally that the risk within the contract is appropriately distributed between government and the contractor.

**Budgeting for procurement**

To encourage agencies to seek the most efficient – as opposed to the easiest – procurement option and develop alternatives to the up-front funding culture, Treasury needs to lead and work with Government Procurement to develop and test processes that will:

• Provide incentives to agencies to achieve projects as efficiently as possible (rather than to the level of approved appropriations).
  – in this area, it is noted that there is the potential for adverse consequences in the application of incentives and disincentives, so it is again recommended that any potential changes be tested on a smaller scale before being rolled out.

• Encourage greater evaluation of risk and of outcomes.
  – this could be supported through the creation of a common practice across agencies and the sector of thoroughly testing concepts on a smaller scale within existing appropriations, before funding for the full scale is provided
  – agencies could be asked to provide evaluations of relevant previously-expended procurement funding as part of the submission process for new funding.
References


