

Project Assessment Framework

Source supplier/s

July 2015



Queensland
Government

Component of the Project Assessment Framework (PAF)

This document forms part of the Project Assessment Framework, as outlined below.

Overarching policy document	
	<i>Policy overview</i>
Guidance material	
	<i>Strategic assessment of service requirement</i>
	<i>Preliminary evaluation</i>
	<i>Business case development</i>
	<i>Supply strategy development</i>
✓	Source supplier/s
	<i>Establish service capability</i>
	<i>Deliver service</i>
	<i>Benefits realisation</i>
Supplementary guidance material	
	<i>Cost-benefit analysis</i>
	<i>Alliance establishment and management</i>
Related policy documents	
	<i>Queensland public private partnership supporting guidelines</i>
	<i>Guidelines for the assessment of market-led proposals</i>

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Contents

- 1 Purpose** **1**
- 2 Process** **2**
 - 2.1 Call for offers (or tenders) 2
 - 2.1.1 Distribute offer documentation to suppliers 2
 - 2.1.2 Manage the receipt of responses 2
 - 2.2 Evaluate offers (or tenders) 3
 - 2.2.1 Screening 3
 - 2.2.2 Short listing 3
 - 2.2.3 Detailed evaluation 3
 - 2.2.4 Comparative evaluation 3
 - 2.3 Conduct a supplier appraisal 4
 - 2.3.1 Explore multi-supplier arrangements 4
 - 2.3.2 Assess structure of proposed supplier groups 4
 - 2.4 Undertake financial appraisal 5
 - 2.4.1 Conduct basic checks 5
 - 2.4.2 Consider turnover and contract limit 5
 - 2.4.3 Consider financial information 6
 - 2.4.4 Check for warning signs 6
 - 2.5 Develop evaluation report 6
 - 2.6 Negotiate and finalise the service contract 7
 - 2.6.1 Use standard agreements 7
 - 2.6.2 Allocate risk 7
 - 2.6.3 Negotiate the contract 8
 - 2.6.4 Finalise the contract 8
 - 2.6.5 Prepare for contract management 9
 - 2.7 Refresh the business case 9
 - 2.7.1 Update the project implementation plan 9
 - 2.7.2 Update the change management plan 9
 - 2.7.3 Update the issue and risk registers 9
 - 2.7.4 Update the benefits management plan 9
 - 2.7.5 Update the project learnings register 10
 - 2.7.6 Update the communication plan 10
 - 2.8 Seek approval to proceed 10
- 3 Products** **10**
- 4 Checklist** **11**
 - 4.1 Products 11
 - 4.2 Process 11
- Appendix A – Supplier capability** **13**

1

Purpose

This document provides guidance regarding the range of issues to consider when calling and evaluating offers, selecting preferred suppliers and putting in place contracts with suppliers.

The purpose of the *Source supplier/s* stage is to apply procurement policies in undertaking rigorous offer (or tender) processes and associated evaluation activities. For projects which do not involve procurement activities, such as some policy development projects, those projects may proceed directly to the Establish service capability stage.

Any procurement activity must be consistent with the requirements of the *Queensland Procurement Policy* and all other relevant legislative and statutory obligations and local standards under which the agencies or agencies managing the project operate.

Agencies should refer to the Project Assessment Framework (PAF) Policy Overview for further information about the PAF's application and the roles and responsibilities that may apply.

Throughout the *Source supplier/s* stage, a range of resources can provide further information and guidance, as shown.

Sources for further information

A range of procurement related policies and publications are available within and across agencies, and from other jurisdictions. Resources may be tailored to suit specific project types.

Further information on agency-specific purchasing procedures may be available in documents known as 'local instructions', 'agency procurement procedures' or 'local purchasing instructions'.

Further information on legislative requirements for probity and ethical dealings is available via the *Public Sector Ethics Act 1994* and the *Financial Accountability Act 2009* available through www.legislation.qld.gov.au.

Further information on the *Queensland Procurement Policy*, administered by the Department of Housing and Public Works is available at www.hpw.qld.gov.au.

The extensive series of Procurement Guidelines, produced by the Department of Housing and Public Works available at www.hpw.qld.gov.au, covers topics such as:

- Ethics, Probity and Accountability in Procurement
- Supply Market Analysis
- Specifying Requirements
- Inviting Offers
- Evaluating Offers in Purchasing
- International Trade Obligations and Government Procurement.

A range of resources specific to the planning and delivery of building projects is available through the *Capital Works Management Framework and Maintenance Management Framework*, administered by the Department of Housing and Public Works. Useful resources available at www.hpw.qld.gov.au include:

- Procurement Strategy and Contract Selection
- Consultant PQC Invitation and Selection Process
- Contractor PQC Tendering and Selection Process.

A range of resources specific to the planning and delivery of projects with a major information communication and technology (ICT) component is available through the Department of Science, Information Technology and Innovation, at www.qld.gov.au/dsitia.

Additional information on the tender process is available through publications of Standards Australia, including *Australian Standard Code of Tendering (AS4120)*.

More information on International Trade Agreements between Australia, New Zealand, Singapore, Thailand and the United States of America is available at www.hpw.qld.gov.au.

2

Process

The *Source supplier/s* stage is undertaken after approval is given to proceed with the project beyond the *Supply strategy development* project stage.

Much of the work undertaken in this stage builds on and reflects the work previously undertaken in the *Supply strategy development* stage of the project. It involves activities leading up to the point of (but not including) the award of a contract to the preferred supplier/s. The key activities undertaken in the *Source supplier/s* stage include:

- call for offers (or tenders)
- evaluate offers (or tenders)
- conduct a supplier appraisal
- undertake financial appraisal
- develop evaluation report
- negotiate and finalise the service contract
- refresh the business case
- seek approval to proceed.

The key outcome from the *Source supplier/s* stage is a recommendation for the nomination of the preferred supplier/s and completion of contract negotiations.

2.1 Call for offers (or tenders)

During the previous stage of the project lifecycle, *Supply strategy development*, a range of activities were undertaken to prepare for the commencement of the competitive offer process. These activities included:

- establishing processes to ensure probity
- gathering demand and supply information
- developing procurement specifications
- undertaking supply market analysis
- undertaking market sounding
- developing a procurement strategy
- developing offer (or tender) documents
- developing the offer (or tender) evaluation strategy.

With this preparatory work complete, the next step involves calling for offers or tenders, by distributing request for offer¹ documentation.

¹ In this document, the term 'request for offer' is used to represent 'Expression of Interest', 'Request for Information', 'Invitation to Offer', 'Request for Offer', 'Request for Tender' and 'Request for Proposal'. In practice, these terms are often used interchangeably, although there are differences in their intent and use, especially in the case of multiple stage offer processes where a request for information precedes a request for offer. For more information, refer to the Department of Housing and Public Works' Procurement Guideline, Inviting Offers.

What you need to do:

- distribute offer documentation to suppliers
- manage the receipt of responses.

2.1.1 DISTRIBUTE OFFER DOCUMENTATION TO SUPPLIERS

Potential suppliers may be made aware of the offer through a number of sources including QTenders, daily press, the Internet or through a direct approach to a justifiably restricted number of select suppliers.

The offer documentation (as prepared in accordance with the guidance included in the *Supply strategy development* stage) should provide suppliers with a range of information, including but not limited to: the procedures and requirements for lodging offer; the details of any industry briefings related to the offer; and a nominated contact officer who can answer questions about the process.

The offer documentation should, at the outset, advise all potential suppliers of the offer process, how their offers will be evaluated and whether post-offer negotiations will be entered into with the preferred supplier. Suppliers should be advised that the Government reserves the right (at its absolute discretion) to accept, evaluate and select non-conforming offers but is not obliged to do so.

Offers should only be sought where there is a firm intention to continue, subject to receiving a suitable offer, as it can be expensive for suppliers to develop their responses. Agencies should be mindful of process contract issues when calling for offers. For example, calling for expressions of interest can be interpreted by some parties as the formal commencement of a competitive bidding process. If this is not the intention by the procuring agency then advice should be sought on how to appropriately structure the proposed procurement.

In complex, or multiple stage offer processes, after submitting an initial response to a request for offer, the most promising supplier may be provided with an opportunity to enhance their proposal to make it capable of acceptance.

2.1.2 MANAGE THE RECEIPT OF RESPONSES

During the offer process, if a response is provided to a question from a potential supplier, all suppliers who have requested offer documents should be provided as soon as possible with the question asked and the response given

The requirements and evaluation criteria stipulated in the offer documents should be strictly applied. If an amendment is required, all suppliers who have requested offer documents should be notified of the change to allow adequate time before the closing date for an amended response. In some circumstances, significant changes to the evaluation criteria may mean that the offer process may have to start again. Probity advice should be sought in this instance.

After the nominated closing time for offers has elapsed, all responses should be opened as soon as practicable, stamped, initialled by two officers, dated and registered. This receipting process must be auditable.

At all times, responses should be treated with the strictest confidence and secured in such a way that they can be accessed only by authorised persons.

2.2 Evaluate offers (or tenders)

The evaluation of offers is intended to guide the selection of the offer that provides best value for money in meeting the project outcome sought and the procurement objectives.

Significant factors to consider in determining value for money include:

- contribution to government and agency priorities
- contribution to the project outcome sought
- cost related factors (e.g. whole-of-life and transaction costs)
- non-cost factors (e.g. fitness for purpose, quality, service and support).

Based on the evaluation strategy and evaluation committee established in the *Supply strategy development* stage, evaluating offers involves appraising a supplier's proposed approach and other information relevant to their potential delivery of the require project outcomes (e.g. due diligence on their financial position).

Gathering this information helps the evaluation committee to evaluate and compare offers received against the evaluation criteria and shortlist offers for possible further consideration. If a large number of responses are received, it may be desirable to use screening and short listing processes to focus on the most credible candidates for the detailed evaluation.

2.2.1 SCREENING

Screening allows offers which meet the conditions of offer and all essential evaluation criteria to progress to the next stage of consideration.

2.2.2 SHORT LISTING

Short listing allows only those offers which demonstrate a reasonable likelihood of achieving value for money to progress to the next stage of consideration. During this evaluation process, it may be useful to consider the level of risk presented by each supplier, for example:

- low risk— proceed to next stage of consideration
- medium risk— proceed with caution to the next stage of consideration
- high risk— consider elimination from further consideration.

2.2.3 DETAILED EVALUATION

The detailed evaluation process involves using evaluation criteria (as communicated to suppliers) to consider each offer. This is the point at which the selected evaluation method is used, and results or scores recorded.

For larger and/or more complex projects, evaluation moderation may be held once all evaluators have completed their assessment. This allows for discussion on all ratings and comments, with the view of agreeing a consolidated rating for each supplier.

2.2.4 COMPARATIVE EVALUATION

The comparative evaluation process involves using the results from the detailed evaluation to develop rank order of merit and identify a preferred offer (assuming a competitive bidding process).

For less complex projects, short listing may be omitted and for some project types, additional processes may be required. For example, for construction projects, often a prequalification process is used. The Department of Housing and Public Works' Prequalification System for building consultants and contractors (PQC System) lists suppliers who are eligible for invitation to tender of government building projects.

Large complex projects may require a multi-stage tendering process (e.g. Expression of Interest, Indicative Bid and Final Binding Offer).

Throughout screening, short listing, evaluation and comparison, the evaluation committee may also identify points that need to be clarified with selected suppliers through meetings, supplier visits and/or reference site visits at a later stage.

At all times, evaluation processes must be able to withstand scrutiny and appropriate probity arrangements should be in place. Interaction with suppliers can assist in clarifying the requirements of the Government and supporting suppliers in providing the appropriate information in bids. However, evaluation committee members would need to be careful in interactions to avoid inappropriately providing feedback on the quality of a supplier's proposal or guidance on the specific features of a bid. The agency may retain the services of a probity advisor to observe these interactions to ensure that the type of information provided to suppliers would not advantage one supplier over competitors.

What you need to do:

- activate evaluation committee arrangements.

2.3 Conduct a supplier appraisal

Supplier appraisal should focus on the viability of the supply arrangements proposed by those who have responded via the competitive offer process. A balance needs to be created between narrowing down the field sufficiently to allow an in-depth focus on a smaller group of suppliers, and ensuring that all suppliers who are suitable are selected to go forward for further consideration.

In evaluating offers, it may be useful for the evaluation committee to consider topics such as:

- capability, capacity and track record
- culture and change management
- technical understanding
- knowledge management and learning
- benefits management and delivery
- ICT specific questions
- provision for a new competitive process when the initial contract expires.

These themes are discussed in more detail in *Appendix A*.

What you need to do:

- conduct a supplier appraisal:
 - consider viability of the proposed supply arrangements
 - consider capability and capacity of supplier
 - for approaches involving multi-supplier arrangements, consider supply chains, value chains and structure.

2.3.1 EXPLORE MULTI-SUPPLIER ARRANGEMENTS

Assessing offers with proposed multi-supplier arrangements is more complex than assessing offers provided by a large company that is vertically integrated.

For large and/or complex requirements, or those that touch on multiple marketplaces, multi-supplier arrangements are often the only way for suppliers to satisfy the project outcome sought. Examples of such arrangements include consortia (groups of companies which specialise in certain projects or cooperate to undertake one specific project) and prime contractor plus subcontractor arrangements.

Whatever kind of multi-supplier solution is put forward, there are key themes of enquiry that should be pursued, namely:

- what is the organisational structure of the group
- who is the leader (now and if a contract is awarded)
- who has authority over whom within the group
- how are issues within the group handled
- what explicit or implied supply chains are present

- what value chains are present
- is every supplier adding value to the group
- how well does the structure of the group fit with the project outcome sought?

2.3.1.1 Supply chains

Proposed multi-supplier arrangements that create a supply chain may be obvious from the outset, or implied in a supplier's response. Supply chains split procurement requirements on functional lines, allowing firms best placed to fulfil a particular aspect to get involved where they can add most value.

The supplier should demonstrate how its subcontractors or other firms in the supply chain, if any, are integrated, organised and will be managed. Flexibility in response to changing demand or circumstances should also be demonstrated.

The evaluation committee should ensure that requirements about the desired level of supply chain transparency (as stipulated in the offer documentation) have been addressed.

While total supply chain transparency is ideal, it becomes impractical beyond the point when subcontractors become purely tactical (i.e. where simple commodity suppliers are chosen purely on the basis of price). At this level, it is usually irrelevant as to who is chosen to fulfil requirements. However, some tactical subcontracting arrangements may be of interest to the evaluation committee where they are likely to substantially affect the whole-of-life cost of the good, service or output (product).

In this case, the evaluation committee may need to learn more about proposed subcontractors, including the:

- rewards they stand to gain
- effort they will have to expend
- criticality of the function they perform
- risks that they manage or create
- innovation or creativity that they bring to the project.

2.3.1.2 Value chains

In a multi-supplier proposal aimed at fulfilling a complex or wide-ranging project outcome sought, some suppliers will fulfil tactical roles (delivering specific services or products) while others will add value through strategic roles (e.g. strategic planning, risk management, and business change planning and management).

Suppliers who add value typically take on the responsibility for tasks or risks that might previously have been managed by the agency or agencies managing the project. The evaluation committee should consider whether the involvement of these suppliers will genuinely help to realise the intended benefits of the project outcome sought, and whether they are in a position to effectively manage risk.

The supplier's ability and willingness to take on risk is an important issue. The evaluation committee should probe the supplier's understanding of, and attitude towards: the risks involved; their preparedness to take on reasonable and appropriate risk; and a process for the management of risk issues to resolution.

2.3.2 ASSESS STRUCTURE OF PROPOSED SUPPLIER GROUPS

The evaluation committee should determine to what degree the proposed structural arrangements of any supplier groups are logical and practical in the context of the project outcome sought, supply chains and value chains.

If it is apparent that the structure of the group is not as logical or practical as desired, the evaluation committee may consider potential actions which could address these concerns. For example, having another firm more experienced in project management lead the group could reduce strategic risk by imposing a more effective management structure.

2.4 Undertake financial appraisal

The key objective of financial appraisal is to analyse a supplier's financial position and determine the level of risk that it would represent to the project – having regard to the contract requirements and value, criticality of the project, and the nature of the market. A balance needs to be created between narrowing down the field sufficiently to allow an in-depth focus on a smaller group of suppliers, and ensuring that all suppliers who are suitable are selected to go forward for further consideration.

The scope and effort of financial appraisal should be commensurate with the size and risk of the project. Although some application of financial formulae is likely to be involved, the assessment should also include qualitative considerations and sound business judgement. Overall, financial standing should be considered as one part of the evaluation process. It may not, on its own, reflect a supplier's ability to deliver on a project. Further, only persons who are qualified to undertake financial analysis should do so.

What you need to do:

- conduct a financial appraisal:
 - conduct basic checks
 - compare contract value to annual turnover
 - examine financial information
 - check for financial warning signs.

2.4.1 CONDUCT BASIC CHECKS

The scope of analysis for basic financial checks, regardless of the type of project, should cover each supplier responding to the offer and, if applicable, their ultimate parent(s).

Proof of the supplier's financial and economic standing, as a general rule, may be provided by one or more of the following:

- appropriate statements from the supplier's bankers
- audited statements (or extracts) of accounts relating to the business of the supplier
- a statement of the overall turnover of the business of the supplier (including in respect of the goods, services or outputs of a similar type to those to be provided)
- quarterly and annual reports.

The evaluation committee may also be interested in:

- parent company accounts (if applicable)
- accountants' references
- management accounts
- financial projections, including cash flow forecasts
- details of previous contracts, including contract values
- capital availability
- debt ratings from credit agencies, online databases and ratings agencies.

Where the supplier is unable for a valid reason to provide the information required, the evaluation committee may accept other information provided by the supplier as is considered appropriate. The evaluation committee may also require the supplier to provide supplementary information.

For projects over \$1 million involving building construction and maintenance (excluding roads, bridges, harbours, railways and dams), a formal financial capacity assessment of the preferred contractor is undertaken in accordance with the Contractor Prequalification System as described in the *Contractor PQC Financial Requirements document* available at www.hpw.qld.gov.au.

2.4.2 CONSIDER TURNOVER AND CONTRACT LIMIT

A contract limit is the size of contract which is considered 'safe' to award to a supplier based on a simple comparison of annual contract value to annual (or average annual) turnover. A common rule of thumb applied is to award contracts which represent 25 per cent or less of the supplier's average annual turnover. Consideration of this threshold can guide the evaluation committee's determination of a supplier's financial strength, capacity and dependency.

A notional calculation of contract limit should only be used as a guide, and potential suppliers should only be eliminated from further consideration if they clearly have insufficient capacity to deliver the project outcome sought and there is no appropriate support available from a parent organisation or third party.

Turnover may be a useful indicator as to capacity, but it is not the only factor. Other factors for the evaluation committee to consider include recent investment in production capacity, recent growth, and/or recent examples where the organisation has successfully managed contracts representing a higher proportion of annual turnover.

2.4.3 CONSIDER FINANCIAL INFORMATION

A thorough financial analysis of a supplier involves collective consideration of profit and loss data, the balance sheet and cash flows.

2.4.3.1 Profit and loss

Profit and loss data should be noted and considered for both the supplier and its ultimate parent company (if applicable). If the supplier's profit and loss account is showing losses, this does not justify the automatic elimination of the supplier from further consideration.

2.4.3.2 Cash flow

As cash is the immediate requirement for working capital needs, examining cash flows can indicate the current trading position of the supplier based on cash generation and absorption. This enables the evaluation committee to assess whether there is sufficient cash flow to cover working capital requirements, capital repayments and interest.

The supplier's cash generating ability is a major influence on investment capacity and the level of debt that can be carried.

2.4.3.3 Balance sheet

When examining the balance sheet, the evaluation committee may consider:

- the calculation of key ratios for liquidity and gearing
- short and long-term borrowing
- quantifying the overall stability of the supplier
- the value of any goodwill, intellectual property and other intangibles as capitalised on the balance sheet
- net worth, including what can be mobilised in a financial crisis.

2.4.4 CHECK FOR WARNING SIGNS

The evaluation committee may find it useful to consolidate their financial appraisal by checking for a range of financial warning signs, some of which appear below:

- cash draining from the business
- falling profit margins
- increasing overdraft with static turnover
- major reductions in staffing
- increasing employment with static turnover
- increasing debtor and creditor days
- larger increases in creditors than debtors
- increasing stocks, slower stock turnover
- deteriorating liquidity
- over-reliance on short term debt
- high gearing
- heavy write-offs of foreign or subsidiary holdings
- late filing of accounts

- qualified accounts
- court judgements
- poor credit ratings
- unusual accounting policies
- changing auditors and bankers
- debt rating downgrades/alerts
- investment bank prospect reports
- adverse press reports.

2.5 Develop evaluation report

The evaluation report is one of the main deliverables from the comparative evaluation of offers (or tenders). The evaluation report should summarise evaluation scores and provide a detailed analysis of the results of supplier and financial appraisals. The report would normally include a recommendation to the project's governing body about the supplier/s which could be awarded a contract, and also document the reasons why suppliers should not be awarded a contract, with sufficient detail to support a debriefing to those affected.

The evaluation report contributes to the business case refresh and provides a commercial justification for the award of a contract to the preferred supplier/s.

Some agencies have developed standards, templates and guidelines which may assist project teams in the development of an evaluation report.

In general, a typical evaluation report should:

- be based on rankings, recommend one or more preferred suppliers (or at a minimum, outline a preferred way forward such as further negotiation, reissuing of offer documentation or a decision not to proceed)
- describe critical issues and the justification used to select the preferred supplier/s or way forward
- describe any further consultation undertaken with suppliers (e.g. amendments, site visits or requests for clarification)
- include details of the evaluation process and methods applied (as described in the evaluation strategy and the evaluation committee's evaluation plan)
- provide a summary of all offers received, briefly describing each offer and outlining its (and the supplier's) strengths and weaknesses
- provide copies of individual evaluations completed for each offer received, as well as results of the comparative assessment.

What you need to do:

- develop the evaluation report:
 - rank supplier offers
 - justify preferred supplier/s or alternative way forward.

2.6 Negotiate and finalise the service contract

Clarification can be sought about supplier proposals when evaluating offers. Negotiations are permitted and would normally take place following evaluation of detailed proposals. Shortlisted supplier/s may be asked to provide thorough and detailed information to confirm terms and conditions and their preparedness to deliver the good, service or output (product) required to achieve the project outcome sought.

In assessing whether the preferred supplier's offer is likely to meet the Government's requirements and offer value for money, an Independent Verifier can be used to provide advice on the quality of the technical solution and whether the proposed pricing reflects competitive costs for the standard of service provided. The role of an Independent Verifier can be important where the selection of a preferred supplier relies on factors other than price competition (e.g. in some projects delivered as alliances or with early contractor involvement).

For large projects involving significant procurement, a contract is the usual legal instrument that establishes the benefits, responsibilities and liabilities to accrue to those involved. The iterative contract development process commences at the acceptance of the business case, continues with the issuing of the proposed terms and conditions of the contract with the offer documents, and concludes following the finalisation of contract negotiations with the preferred supplier/s and with the establishment of a contract.

A good contract not only identifies clearly the obligations of the provider, but also forms the foundation for a productive relationship built on communication and trust.

What you need to do:

- negotiate and/or finalise the service contract:
 - use standards and templates (amended where appropriate)
 - seek expert procurement and legal advice
 - allocate risk.

2.6.1 USE STANDARD AGREEMENTS

Various standard and template contracts and agreements have been developed at agency and/or whole-of-government levels. Whole-of-government standards and templates are available through the Department of Housing and Public Works at www.hpw.qld.gov.au.

For complex, unique or less repetitive projects, changes to these standard agreements may be required.

Where possible, a contract developed by an agency or at the whole-of-government level should be used in preference to a contract developed by a supplier. Regardless of the 'source' of the contract, it is essential that the agency or agencies managing the project seek expert legal advice in reviewing and finalising service contracts.

2.6.2 ALLOCATE RISK

Although the precise issues covered in the service contract vary from project to project, overall, the service contract is the mechanism through which the Government allocates and manages risks associated with the delivery of the project. This risk allocation is governed mainly by:

- service delivery specifications
- payment/pricing structure
- explicit contractual provisions.

2.6.2.1 Service delivery specifications

In the contract, the required goods and services must be expressed in terms of quantity and quality; measurable outputs; and in the context of key performance indicators. Where an element of input specification is required, it should, wherever possible, be expressed in terms of a measurable output to be achieved within defined parameters. The allocation of service delivery risk to the supplier will be supported by contractual mechanisms for dealing with any failure to perform to the required standards.

2.6.2.2 Payment / pricing structure

The contract reinforces the allocation of service delivery risk to the supplier, and provides incentives for good performance through a robust payment mechanism. The basic rule of payment, with few exceptions, is, 'no service or product results in no payment'.

2.6.2.3 Explicit contractual provisions

The contract should also contain a statement regarding the principal allocation of risk. Unless specifically allocated in whole or in part to the Government, all risks in the agreed arrangements lie with the supplier. Any risks to be borne by the Government, or to be shared between the parties, must be clearly identified in the contract.

2.6.3 NEGOTIATE THE CONTRACT

The parties entering into the service contract, the agency (or agencies) for the State of Queensland and the preferred supplier/s, should reach a clear and full understanding and agreement about each other's obligations and expectations. These should be reflected in the terms and conditions of the contract.

Large projects are frequently funded by third party financiers who assume a considerable financial risk in the project. For this reason, they too will require input to the final form of the contract to ensure that their risk position is managed.

Negotiation is a bargaining process between the contracting parties seeking to reach agreement or settlement of a matter of mutual concern. Effective negotiation should result in a cost effective arrangement that: is fair and durable; assigns risks appropriately; clearly outlines performance, payment requirements, communication and escalation protocols; meets the legitimate needs of the parties; improves (or at least does not damage) the relationship between the parties; and improves value for money.

Government negotiators should be skilled and experienced. If they are not available within project or agency resources, expert assistance should be secured.

In post-offer (or post-tender) negotiations, the Government's position should not be unnecessarily compromised. The key principles in contract negotiations include a controlled and documented process and a clear audit trail.

2.6.3.1 A controlled and documented negotiation

Contract negotiations should not be entered into automatically on all projects involving procurement activities. Before engaging in contract negotiations, the following criteria should be met:

- there is a considered and soundly based prospect of improving value for money
- it is possible to justify the resource costs involved
- the appropriate internal agency and project approvals have been obtained
- trained and experienced purchasing negotiators are available to conduct the negotiations.

2.6.3.2 A clear audit trail

A clear audit trail is important in ensuring the use of negotiation can be justified and have been conducted in a fair manner.

Documentation supporting the development and negotiation of the contract should clearly show:

- the justification for the use of the negotiation strategy
- the approval for the negotiation
- the aim of the negotiations

- the methods used
- a precise record of all exchanges, written and verbal
- approval for the award of the contract.

What you need to do:

- justify and document negotiation approach and outcomes.

2.6.4 FINALISE THE CONTRACT

At the conclusion of successful contract negotiations, agreement between the agency or agencies managing the project and preferred supplier/s on all of the salient terms and conditions should result in a contract that satisfies the project outcome sought.

The terms and conditions agreed between the negotiating parties should be subject to a final review and acceptance of legal provisions by agency legal and commercial advisors.

Upon acceptance of the negotiated contract by agency advisors, it is appropriate to prepare a report on the outcomes of the negotiations and recommend that the contract be executed by an appropriately authorised officer of the State of Queensland.

Agencies should have regard to relevant financial limits for delegated authority when executing documentation. Execution of major contracts may require prior Ministerial or Executive Council approval.

2.6.4.1 Failed negotiations

Situations may arise where it has not been possible to reach agreement between the parties on the salient terms and conditions of the contract. In this situation formal advice should be provided to the preferred supplier that contract negotiations have not been successfully concluded and that a contract will not be entered into with the supplier.

The evaluation plan and the offer documentation should allow for this contingency. If it is appropriate, negotiations may then commence with the next ranked supplier from the evaluation process.

It may instead be appropriate for the offer process to be terminated at the conclusion of failed negotiations with the preferred supplier (e.g. if no other offers were considered capable of acceptance). The options available are to go to the market again with a revised offer or not to proceed with the proposed project.

What you need to do:

- if negotiations are successfully concluded, prepare a report to the project's governing body, recommending signing of the negotiated contract
- if negotiations are not successfully concluded, notify preferred supplier and determine another way forward.

2.6.5 PREPARE FOR CONTRACT MANAGEMENT

Where a contract is executed, a long term contract management strategy and plan should be prepared to manage:

- contractual administration
- performance measurement and monitoring
- optimisation of project costs
- risks and issues
- exit strategies.

Contract management is a proactive process which requires incorporation of activities into the project plan, the adequate allocation of appropriately skilled resources and a budget for its administration and legal advice support.

More information on active contract management is available in the *Establish service capability* guidance material.

What you need to do:

- commence preparations for long term contract management.

2.7 Refresh the business case

The *Source supplier/s* stage may have more clearly defined the operational requirements for the outcomes of the project or influenced numerous areas of the business case including the scope, value assessment, risk assessment or the project implementation plan.

Given the outcomes of the *Source supplier/s* stage, the business case should be reviewed and updated if the final position that was approved by the Government, agreed with the supplier and executed in the contract involves any material changes from the proposals outlined in the business case.

What you need to do:

- refresh the business case
- update the project:
 - implementation plan
 - risk and issues registers
 - benefits management plan
 - learnings register.

2.7.1 UPDATE THE PROJECT IMPLEMENTATION PLAN

The project implementation plan should take into consideration all pertinent matters which arose during the *Source supplier/s* stage such as outcomes from offer evaluation and contract negotiations. The plan should also reflect the activities, budget, timeframes, key skills and capabilities required in the next project stage, *Establish service capability*.

The refreshed project implementation plan should receive the agreement of key stakeholders and the project's governing body.

2.7.1.1 Development and test planning

At this point in the project lifecycle, the project plan should now also incorporate the finalised arrangements and plans for development or construction of the good, service or output (product) required. These plans should address issues such as test and acceptance planning and preparation for implementing or commissioning the products.

2.7.2 UPDATE THE CHANGE MANAGEMENT PLAN

The change management plan for the business and processes takes on an increasing importance as products are developed. Decisions to this stage of the project, particularly if suppliers have proposed alternative strategies, may necessitate amendments to the change plan to ensure its viability for implementing or commissioning products in the *Deliver service* stage of the project.

2.7.3 UPDATE THE ISSUE AND RISK REGISTERS

The logging of risks and issues, their allocation to the most appropriate person to manage, their analysis and determination of impact on the business case and on the project plan occur across the duration of each stage of the project.

Issue and risk logs should be reviewed to ensure that all matters requiring attention are resolved, or if necessary, escalated, before they negatively impact the project.

2.7.4 UPDATE THE BENEFITS MANAGEMENT PLAN

Updates to, and execution of, the benefits management plan and supporting benefit profiles occur across the duration of each stage of the project lifecycle. This may involve change management activities with business managers who 'own' identified benefits, and are responsible for ensuring their realisation.

2.7.5 UPDATE THE PROJECT LEARNINGS REGISTER

The learnings, both positive and negative from the course of the project should be compiled and made available as resource material to the next stage of this project and to other projects as appropriate.

2.7.6 UPDATE THE COMMUNICATION PLAN

Activities during the *Source supplier/s* stage set parameters for the remainder of the project. The pertinent outcomes of the stage require inclusion in an updated communication plan which can now provide greater specificity with regard to strategies and communication activities to be undertaken.

2.8 Seek approval to proceed

At the end of the *Source supplier/s* stage, a submission should be presented to CBRC or other project-specific governing body seeking approval to proceed to the *Establish service capability* stage.

The submission should describe findings from the offer evaluation and negotiation processes and seek approval to enter into the negotiated service contract with the preferred supplier/s (or nominate an alternative way forward).

What you need to do:

- develop a submission to the appropriate decision maker seeking approval to proceed to the *Establish service capability* stage.

3

Products

The products to be produced in the *Source supplier/s* stage include:

- offer (or tender) evaluation report with recommendations
- report on contract negotiations (including approach and outcomes)
- agreed contract for service with the preferred supplier/s
- contract management plan (including any exit strategy)
- refreshed business case
- updated:
 - project implementation plan
 - change management plan
 - risk and issues registers
 - benefits management plan and supporting benefit profiles
 - project learnings register
 - communications plan.

4

Checklist

As each project is unique, the following checklist should be used as a guide to a range of appropriate project assurance questions, not as a full checklist of mandatory items. Where a 'no' or 'not applicable' response is recorded in the checklist, it is good practice to provide justification in some form, such as in the stage products listed in 4.2.

4.1 Products

Have the following products been completed in accordance with quality standards as agreed via relevant project governing bodies?	Guideline Ref	Yes	No	N/A
Offer (or tender) evaluation report	2.5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Report on contract negotiations	2.6	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Agreed contract for service	2.6	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Contract management plan (including any exit strategy)	2.6	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Refreshed business case	2.7	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Updated: <ul style="list-style-type: none"> • project implementation plan • change management plan • risk and issues registers • benefits management plan and supporting benefit profiles • project learnings register • communications plan. 	2.7	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4.2 Process

Have the following processes been completed in accordance with quality standards as agreed via relevant project governing bodies?	Guideline Ref	Yes	No	N/A
Can project decision makers be assured that a competitive offer process has been properly used?				
Were the distribution of offer documentation and the receipt of responses well managed?	2.1	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Can project decision makers be assured that a sound evaluation process has been used?				
Has the evaluation committee effectively evaluated the offers received in accordance with the pre-determined evaluation strategy?	2.2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Did the supplier appraisal consider viability, capability and capacity?	2.3	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
If the proposed approach involves multi-supplier arrangements, has the evaluation committee considered supply chains, value chains and structure?	2.3	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Did the financial appraisal include basic checks, compare contract value to annual turnover, financial information analysis and checks for financial warning signs?	2.4	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the evaluation report rank supplier offers or suggest alternative ways forward?	2.5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Have the following processes been completed in accordance with quality standards as agreed via relevant project governing bodies?	Guideline Ref	Yes	No	N/A
Can project decision makers be assured that contract negotiations have been satisfactorily completed?				
Is the contract based on standards and templates, and has it been finalised in consultation with expert procurement and legal advice?	2.6	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the finalised contract appropriately allocate risk?	2.6	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Did negotiations proceed in a controlled way, with a clear audit trail, as planned and previously documented?	2.6	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the report on outcomes of negotiations recommend award of a contract, or suggest alternative ways forward?	2.6	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
If a contract is to be awarded, have preparations for long term contract management commenced?	2.6	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Can project decision makers be assured that the business case and project implementation plan have been refreshed?				
Have the following been considering in the context of the business case and/or project implementation plan: <ul style="list-style-type: none"> • development and test planning • change management • risk and issues management • benefits management and supporting benefit profiles • project learnings • communication planning? 	2.7	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Can project decision makers be assured that a sufficiently detailed submission seeking approval to proceed to the Establish service capability stage has been prepared?				
Does the submission include: <ul style="list-style-type: none"> • results from offer evaluation and contract negotiations • recommendations for awarding a contract? 	2.8	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Appendix A – Supplier capability

1 Capability, capacity and track record

Some of the key capability issues to consider include whether:

- the organisational structure of the supplier will enable them to meet specifications, fulfil expectations of quality, and build a strong working relationship
- the supplier has in place, or can create, the necessary structures to deliver the solution
- supplier staff have the skills and experience, including specialised technical knowledge, to deliver the solution.

The supplier should be able to demonstrate a commitment to open working relationships and effective communication. It should also demonstrate its preparedness and processes that will foster the development and maintenance of amicable and professional business relationships for the contract period.

2 Culture and change management

The compatibility between the business cultures of the customer and the supplier will be a key factor in determining the strength of the relationship and therefore the achievement of shared objectives. Suppliers should also have a positive approach to change and be able to demonstrate capabilities in managing it.

3 Technical understanding

It is crucial to understand suppliers' proposals in depth in order to make a balanced evaluation of each one's strengths and weaknesses. As well as the technical and organisational merits of the proposed solution, it is also important to consider the whole-of-life implications of awarding a contract to a particular supplier, considering attributed costs, risks that must be managed, and what kind of working relationship can be forged with the supplier.

Simply, the evaluation committee should endeavour to understand the supplier's proposal, as well as testing the assumption that the supplier has a full technical understanding of what they have proposed.

4 Knowledge management and learning

A supplier's proposed solution should address plans, procedures and systems which will assist in managing any information, knowledge and learnings generated throughout and after the proposed customer-supplier relationship. Suppliers should be able to demonstrate:

- effective information gathering, dissemination and feedback mechanisms
- a recognition and broad understanding of key information assets
- an ability to measure information quality (e.g. reliability, timeliness and accuracy)
- an ability to use information, knowledge and learnings to support decision making
- an ability to use information, knowledge and learnings to support continuous improvement.

5 Benefits management and delivery

The supplier should have a balanced approach to benefits, delivering those required by the agency while aligning them with those they seek for themselves. To be able to do this they need to demonstrate an understanding of the benefits to be derived, what they will do to realise the benefits and how the project's required benefits align with the benefits it wishes to realise.

6 ICT-specific questions

For projects with a substantial ICT component, the evaluation committee may choose to explore issues such as how well the proposed solution's ICT component is linked to business need, and/or to what extent that the supplier is proposing links with current infrastructure. Suppliers should also be able to demonstrate the extent to which they can provide competent, integrated and proactive technical support to back up their proposed solution/s.

7 Provision for a new competitive process when the initial contract expires

Suppliers' attitudes towards re-competition, and proven abilities in handling it, should form an integral part of the evaluation committee's assessment. For example, the supplier should demonstrate a willingness to transfer critical knowledge back to the agency or agencies managing the project at the end of the proposed arrangement.