

# Project Assessment Framework

**Supply strategy development**

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>
✓	<b>Supply strategy development</b>
	<i>Source supplier/s</i>
	<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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# 1

## Purpose

This document provides guidance regarding the range of issues to consider when developing and/or refining a proposed procurement approach and preparing to invite offers, proposals or tenders from the public or private sectors.

The purpose of the *Supply strategy development stage* is to develop and/or refine a proposed procurement approach and undertake all preparations in readiness for internal sourcing or competitive offer (or tender) processes. For projects which do not involve procurement activities, such as some policy development projects, project teams may proceed directly to the *Establish service capability stage*.

In preparing for a competitive offer process, work is undertaken to conduct a meaningful engagement with the marketplace and explore feasibility and market interest. This information facilitates the development of a procurement plan and offer and contractual documentation that will inform the market of the project outcome sought and procurement objectives.

Any procurement activity must be consistent with the requirements of the *Queensland Procurement Policy (QPP)* and all other relevant legislative and statutory obligations and local standards under which the agency or agencies managing the project operate. Cabinet has mandated the QPP for application to departments, statutory bodies and certain special purpose vehicles as defined in the policy. Consideration should also be given to Queensland Government policies such as the *Local Industry Policy* and *Queensland Government Building and Construction Training Policy*.

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.

### 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 is available in documents known as 'local instructions' 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](http://www.legislation.qld.gov.au).

Further information on the QPP, administered by the Department of Housing and Public Works is available at [www.hpw.qld.gov.au](http://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](http://www.hpw.qld.gov.au), covers topics such as:

- *Ethics, Probity and Accountability in Procurement*
- *Planning for Significant Procurement*
- *Supply Market Analysis*
- *Inviting Offers*
- *Evaluating Offers in Purchasing*
- *Managing and Monitoring Suppliers' Performance.*

A range of resources specific to the planning and delivery of building projects are 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](http://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/dsiti](http://www.qld.gov.au/dsiti).

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](http://www.hpw.qld.gov.au).

# 2

## Process

The *Supply strategy development* stage is undertaken after approval is given to proceed with the project beyond the Business case development stage. It involves activities leading up to the point (but not including) the release of offer documents to the supply market.

Key factors influencing the nature of supply strategy development relate to the degree of complexity, innovation and uncertainty about the project outcome sought, together with the time needed to achieve a successful outcome.

The extent of rigor and effort that should be applied in procurement planning should be scaled to be commensurate with the magnitude of the size, complexity, risk and sensitivity associated with the project outcome sought and the proposed procurement itself.

Much of the work undertaken in this stage builds on and reflects the work previously undertaken in the Strategic assessment of service requirement, Preliminary evaluation, and Business case development stages of the project. The key activities undertaken in the Supply strategy development stage include:

- 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
- refreshing the business case (and update associated plans and registers)
- seeking approval to proceed.

### 2.1 Establish processes to ensure probity

In pursuing procurement arrangements with suppliers, the Queensland Government is committed to a transparent, accountable process which ensures that all potential suppliers are given honest, fair and equitable treatment.

The agency or agencies managing the project must have systems, policies and procedures in place that are able to withstand public scrutiny and that preserve private and public sector confidence in the procurement process.

These systems, policies and procedures should be documented in a probity plan, and may be overseen by an appointed probity advisor.

#### What you need to do:

- develop a probity plan
- if appropriate, appoint a probity advisor
- uphold the principles of probity in all procurement activities:
  - transparency
  - confidentiality
  - manage conflicts of interest
  - accountability.

### 2.1.1 DEVELOP A PROBITY PLAN

A probity plan, as agreed with the project's governing body and management, should be prepared before the commencement of the procurement process. The plan should include:

- details of the individuals and groups who have responsibility for dealing with suppliers and making procurement decisions
- the role of the independent probity advisor, if appointed
- principles and practices associated with the dissemination, use and storage of project and procurement information
- procedures for the management of probity issues, including managing conflicts of interests.

#### Sources for further information

Additional guidance on the development of a probity plan is contained in the publication *Ethics, Probity and Accountability in Procurement*, available at [www.hpw.qld.gov.au](http://www.hpw.qld.gov.au).

### 2.1.2 APPOINT A PROBITY ADVISOR

In some circumstances, the appointment of an independent probity advisor to oversee the procurement process may be particularly useful. This may be the case where:

- the transaction is of high value, complex, innovative, unusual and/or contentious
- suppliers are concerned about protecting their intellectual property and/or the costs of participating in the procurement process
- the project outcome sought is politically sensitive
- the possibility for conflicts of interest is high.

The main roles of the probity advisor are to:

- provide independent scrutiny of the procurement process
- investigate probity issues raised by the agency or agencies managing the project and/or suppliers
- review the probity plan and monitor adherence to it

- review any proposed procurement documentation
- report to the project's governing body on acts or omissions that could or do affect the integrity of the procurement process
- provide a report to the project's governing body at the end of the procurement process that provides an independent view on how the process was managed.

The probity advisor should be given full access to necessary documentation; personnel; premises; and meetings to assess adherence to the principles of probity (i.e. transparency, confidentiality, management of conflict of interest and accountability).

#### Sources for further information

Additional guidance on the engagement of a probity advisor is contained in the publication *Ethics, Probity and Accountability in Procurement*, available at [www.hpw.qld.gov.au](http://www.hpw.qld.gov.au).

### 2.1.3 MAINTAIN TRANSPARENCY

Transparency across the procurement process increases the confidence that stakeholders have in its outcomes. It also minimises the opportunity for, and the risk of, fraud and corruption.

Transparency involves providing all suppliers with the same impartial opportunity to access the same commercial information, guidance, instructions and treatment at every stage of the procurement process. For example, transparency is evident when a project team makes information shared in a discussion with one supplier available to all other potential suppliers.

### 2.1.4 MAINTAIN CONFIDENTIALITY

Although procurement related information should be made available equally to all parties, the Government's and suppliers' commercial interests and commercial-in-confidence information needs to be stringently protected from unwarranted disclosure to third parties.

Although all public employees are under an obligation of confidentiality as a condition of their employment, this obligation should not be assumed for external project advisors or any other party that may be privy to commercially sensitive project or procurement information. Such individuals should provide a formal, written undertaking to maintain confidentiality (e.g. a legal deed of confidentiality) to the agency or agencies managing the project.

Confidentiality should also be reflected in the security and management of project and procurement related documents. For example, limited numbers of commercially sensitive documents should be made, numbered, stored securely and their distribution logged.

### 2.1.5 MANAGE CONFLICTS OF INTEREST

Managing conflicts of interest addresses situations where individuals involved in the procurement process may be influenced by personal financial gain (pecuniary interest) or self-interest (non-pecuniary interests).

Pecuniary interests may arise from owning land or shares, holding positions in companies or trusts, or deriving income, hospitality or sponsored travel from particular organisations.

Non-pecuniary interests may arise from relationships or associations in which another party or organisation may benefit or suffer because of a decision that is to be made in the procurement process.

Determining whether a situation may lead to a conflict of interest involves applying the 'reasonable person' test. This means considering whether a third person acting reasonably would consider that there is a conflict of interest, even if there is not.

Individuals involved with the procurement process should be asked to declare if they have a conflict of interest before the procurement process commences and to declare any conflicts that arise during the course of the process.

Remedies to address conflicts of interest may range from the person with the conflict being removed from the process, the conflict being resolved by the interest being removed or in simple circumstances, declaring and documenting the interest.

In any case, all conflicts of interest should be advised to the probity advisor to ensure that the proposed course of action to address it is adequate. Additionally, individuals who are involved in the procurement process should not accept gifts or gratuities, including entertainment from suppliers who are involved, or may become involved, in the procurement process.

#### Sources for further information

Ethics in the Queensland Public Sector ([www.ethics.qld.gov.au](http://www.ethics.qld.gov.au)) gives agencies and employees from across the sector a central point to access ethics-related information, including declaration of interests forms.

The Crime and Corruption Commission ([www.ccc.qld.gov.au](http://www.ccc.qld.gov.au)) provides resources on best practice for conflicts of interest. It also provides access to all relevant legislation as well as case studies and other advisory resources.

## 2.1.6 DEFINE ACCOUNTABILITY

Accountability is the obligation placed on agencies and individuals involved in the project's procurement process to be able to account for or explain how duties have been performed.

A fundamental method of facilitating accountability is to ensure that auditable and comprehensive records of decisions and their rationale are maintained. This includes the involvement of committees or groups and documenting their membership, terms of reference, meetings and processes. Explanations for deviating from procedures should be documented and maintained.

Records of all procurement related documentation should be securely maintained by the project team.

## 2.2 Gather demand and supply information

This activity involves collecting and analysing existing and new information relating to demand and supply factors to assist in the evaluation of potential procurement strategies. While much of this information may have already been collected and analysed during the *Business case development* stage, it should now be reviewed, verified and further developed. Further information will continue to be generated through the conduct of other key activities undertaken during this stage in the project lifecycle, such as undertaking supply market analysis and market sounding.

### Sources for further information:

More information on gathering demand and supply information is available from the Department of Housing and Public Works' Procurement Guideline, *Planning for Significant Procurement*, available at [www.hpw.qld.gov.au](http://www.hpw.qld.gov.au).

### What you need to do:

- collect and analyse existing and new information relating to demand and supply factors.

## 2.3 Develop procurement specifications

Procurement specifications define the needs of the purchaser; the good, service or output that the purchaser wants; and consequently, what the supplier is required to supply. Specifications form part of any future contract that might result from the offers received.

It is important to get procurement specifications right, as they form part of the offer documentation provided to potential suppliers, as well as part of any future contract that might result from the offers received.

### What you need to do:

involve representative stakeholders in developing detailed specifications based on functional, performance and technical requirements.

## 2.3.1 DEFINE FUNCTIONAL, PERFORMANCE AND TECHNICAL SPECIFICATIONS

Developing detailed specifications should involve stakeholders and end-users. The definition of complex specifications may require assistance from technical or procurement specialists. If additional expertise is secured from the external marketplace, care should be taken to avoid specifications being formed in any way that favours one or more specific suppliers.

Specifications should clearly indicate in what form, when, where, and to what level of quality the good, service or output (product) is to be delivered. This information helps suppliers to decide how and for what price the good, service or output (product) will be provided. Insufficient information may lead to suppliers making incorrect service and price assumptions that could lead to scope related cost inflation during the project or post-project service delivery. The level of detail required should reflect the level of complexity in the project outcome and good, service or output (product) sought.

Specifications usually address functional, performance and technical requirements, either separately or collectively. Whatever methods are used to specify the good, service or output (product), it is good practice to concurrently develop criteria to evaluate the compliance of an offer against the requirements set (refer to section 2.7: *Develop offer or tender documents*).

### 2.3.1.1 Define functional or output specifications

Functional or output specifications describe in broad terms what is to be delivered rather than how. Defining specifications in this way prompts suppliers to use their specialist knowledge and innovation to demonstrate how they can best contribute to the achievement of the project outcome sought.

### 2.3.1.2 Define performance specifications

Performance specifications are a logical extension of functional specifications. They describe the purpose of the good, service or output (product) in terms of capability and how effectively it will perform. Performance specifications define the task or the desired result by focusing on what is to be achieved, not how it will be achieved.

### 2.3.1.3 Define technical specifications

Technical specifications define the technical and physical characteristics and/or measurements of a good, service or output (product), such as physical aspects (e.g. size, materials and surface); design details; material properties; energy requirements; processes; maintenance; operational requirements; or programming language. While these specifications need to be sufficiently detailed to indicate accurately the requirements of the good, service or output (product), they should not be so detailed that they leave no room for innovative solutions by the supplier.

#### Sources for further information

For more information on specifications, refer to the Department of Housing and Public Works' Procurement Guideline, *Specifying Requirements*, available at [www.hpw.qld.gov.au](http://www.hpw.qld.gov.au).

## 2.3.2 DEVELOP THE SPECIFICATIONS DOCUMENT

Once functional, performance and technical specifications have been defined, the next step is to combine them with other pieces of important project information in the form of a specifications document.

To maximise the usefulness of this document for potential suppliers, it should:

- state requirements clearly, concisely and logically
- describe how requirements fit with whole-of-government priorities, agency objectives and the project outcome sought
- include needs expressed as outcomes
- include the project scope (and any exclusions)
- include key success factors
- provide some background on the agency or agencies managing or involved in the project
- describe project, and where appropriate, post-project governance arrangements
- indicate proposed procurement timeframes
- highlight opportunities that the project provides to suppliers, both directly in relation to the project and more broadly across the market and in a commercial sense
- contain sufficient detail to permit suppliers to decide and cost the goods, services or outputs required
- permit offered goods, services or outputs to be evaluated against defined acceptance and other criteria
- provide equal opportunity for all potential suppliers.

It is also important to avoid under or over specifying requirements, or contain features that directly or indirectly discriminate against potential suppliers.

#### Sources for further information

For more information on suggested formats and content for specifications documentation, refer to the Department of Housing and Public Works' Procurement Guideline, *Specifying Requirements*, available at [www.hpw.qld.gov.au](http://www.hpw.qld.gov.au).

#### What you need to do:

- document agreed procurement specifications (including evaluation criteria).

## 2.3.3 CONSIDER ICT SPECIFIC REQUIREMENTS

In addition to the guidance on specifications outlined above, ICT procurement is influenced by the mandatory requirements of *Information Standard 13: ICT Procurement* (refer to [www.qld.gov.au/dsitia](http://www.qld.gov.au/dsitia)).

Also, the requirements of the current *Government Information Technology Contracting Framework*, (GITC Version 5) available at [publications.qld.gov.au/dataset/gitc-framework](http://publications.qld.gov.au/dataset/gitc-framework) must be used as the context for framing specifications and for all Queensland Government agencies ICT contracting with suppliers.

## 2.4 Undertake supply market analysis

Supply market analysis is a technique used to identify market characteristics for specific goods or services. It provides information to assist with procurement planning and is particularly useful for projects which are innovative in nature, complex or are characterised as high risk.

Supply market analysis can provide: a strategic understanding of how a market works; the direction in which the market is heading; its competitiveness; the existence of adequate capacity; who the key suppliers are; and the value that suppliers place on customers.

It helps to manage risk by identifying and analysing potential supply difficulties associated with suppliers or the market and can assist in developing strategies to shape the market in a way that will increase the supply base, increase competition, or provide innovative responses to constraints or opportunities.

For complex projects, procurement experts may work collaboratively with the project team to undertake supply market analysis. For less complex projects (involving the purchase of relatively low cost and easy to acquire goods or services) it is generally unnecessary to undertake this analysis.

In practice, supply market analysis may be undertaken in parallel with market sounding activities.



#### What you need to do:

- use primary and secondary sources to undertake research into market characteristics
- analyse the findings and interpret their impact on the project
- develop strategies to optimise opportunities and manage risk.

## 2.4.1 RESEARCH AND ANALYSE MARKET CHARACTERISTICS

When undertaking supply market analysis, a range of primary and secondary information sources may be of use, including but not limited to users and purchasers of goods and services; quality assurance auditors; online databases; media sources; specialist public sector organisations (e.g. the Australian Bureau of Statistics and Australian Securities and Investment Commission); private sector research organisations; Internet search engines; and company specific publications (e.g. annual reports).

From these and other sources, project teams (or procurement experts in collaboration with project teams) should concurrently analyse market characteristics across the following five areas:

- market structure
- competition
- supply chain
- substitute goods and services
- value as a customer.

For a range of sample questions to consider across these market areas, refer to *Appendix A*. Attention should also be paid to other factors that may influence the procurement plan, (e.g. legal, political, economic and technical factors).

#### Sources for further information

More information on conducting supply market analysis is available in the Department of Housing and Public Works' Procurement Guideline, *Supply Market Analysis*, available at [www.hpw.qld.gov.au](http://www.hpw.qld.gov.au).

## 2.4.2 ANALYSE FINDINGS AND DEVISE STRATEGIES TO ADDRESS RISK AND OPPORTUNITIES

Once market characteristics are identified, it is useful to interpret how these characteristics may impact the project outcome sought. In practice, findings from supply market analysis and market sounding are synthesised, then strategies are devised to address any risks or opportunities identified.

## 2.5 Undertake market sounding

Market sounding assesses the reaction of the market in the private and/or public sectors to the proposed procurement activity and approach. It can be undertaken in parallel with supply market analysis and brings early collective perspectives from suppliers. Market sounding is undertaken through direct communication with potential suppliers, whereas supply market analysis uses primary documentation and secondary sources to gain information.

Market sounding should lead to an understanding of the attitude, thoughts and likely response by the market as a whole to the proposed procurement activity. This is through discussions with multiple individual suppliers. It provides potential benefits of making the procurement process more specific, accurate and efficient.

Market sounding does not include elements of supplier selection or offer evaluation, nor does it create commitments of any kind on the part of the agency or agencies managing the project, or the suppliers involved.

Market sounding can be particularly useful when:

- uncertainty exists over the extent of market capacity, capability, competitiveness or maturity
- the project outcome sought or procurement specifications are complex or innovative
- there is uncertainty over the potential level of supplier interest
- there is a need to manage market expectations.

The approach to market sounding will vary from project to project. It requires the selection of approaches that provide a balanced assessment of the market and its attitude to satisfying the project outcome sought and procurement specifications.

Whatever process is adopted, it must be transparent and auditable. Any pertinent information that is provided to individual suppliers should be made available to prospective suppliers likely to be included in the offer process.

At all times, care should be taken to preserve a level, competitive playing field in accordance with the provisions of the *Competition and Consumer Act 2010*. More information on requirements under this Act can be accessed through agency Compliance Officers and/or Legal Services units.

#### What you need to do:

- consult with suppliers in the market on a without prejudice basis to explore:
  - supplier levels of interest
  - technical or business feasibility
  - evidence of value for money
- analyse the findings and interpret their impact on the project
- develop strategies to optimise opportunities and manage risk.

## 2.5.1 CONSULT WITH SUPPLIERS TO EXPLORE MARKET PERCEPTIONS

Consulting with suppliers on a ‘without prejudice’ basis is central to market sounding. Usually, findings from supply market analysis help in selecting the appropriate suppliers to consult.

Consultations should be held with suppliers who have achieved project or procurement outcomes of a similar nature and scale as those being sought (i.e. suppliers who have demonstrated the required capability and capacity).

Once a group of potentially suitable suppliers has been identified, formal and documented meetings can be held with each supplier to explore supplier levels of interest, technical or business feasibility and evidence of value for money. This often translates into exploring:

- feasibility
- capability, capacity and maturity
- competition and collaboration
- supply chain and subcontracting
- traditions, attitudes and practices
- attitudes to customers.

For a range of sample questions to consider across these areas, refer to *Appendix A*.

At a minimum, those talking with suppliers should have strong analytical, decision making and communication skills, and knowledge of:

- the agency or agencies managing the project
- the project outcome sought and procurement objectives, including any unchangeable aspects
- market sectors and how they are changing and interacting
- how suppliers might add value.

#### Sources for further information

More information on conducting market sounding is available from the Department of Housing and Public Works’ Procurement Guideline, *Supply Market Analysis*, available at [www.hpw.qld.gov.au](http://www.hpw.qld.gov.au).

## 2.5.2 ANALYSE FINDINGS AND DEVISE STRATEGIES TO ADDRESS RISK AND OPPORTUNITIES

Upon completion of market sounding it is useful to interpret how any findings may impact the project outcome sought. In practice, findings from market sounding and supply market analysis are synthesised, then strategies are devised to address any risks or opportunities identified.

## 2.6 Develop a procurement strategy

The procurement strategy identifies an appropriate approach to a procurement activity, associated risks and risk management strategies and how to achieve the objectives of a purchase. The development of a procurement strategy is informed by a range of activities and analysis undertaken in previous project stages.

For some projects, procurement activities will include significant purchases. A significant purchase occurs where the purchase:

- is of high relative expenditure compared to agency or whole-of-government total purchases, or
- presents critical risk to the agency or agencies managing the project, or
- is difficult to secure or there is concern about the market being able to provide competitive supply.

In these circumstances, the development of a plan for significant purchase is required under the QPP.

#### Sources for further information

More information on the QPP and plans for significant purchases is available through the Department of Housing and Public Works at [www.hpw.qld.gov.au](http://www.hpw.qld.gov.au).

The activities involved in developing a plan for significant purchase are to:

- identify total proposed expenditure and assess difficulty of securing supply
- formulate procurement objectives
- evaluate potential procurement strategies
- identify preferred procurement strategy
- specify performance measures.

#### What you need to do:

- develop a procurement strategy that:
  - specifies costs and risks
  - specifies the objectives for the procurement activity
  - describes procurement options
  - justifies the preferred procurement option
  - specifies performance measures which will demonstrate the success of the procurement strategy.

### 2.6.1 IDENTIFY TOTAL PROPOSED EXPENDITURE AND ASSESS DIFFICULTY OF SUPPLY

Identifying total expenditure on the proposed procurement activity (purchase) and the difficulty of securing supply is intended to confirm the criticality of the purchase to the project and/or the agency or agencies managing the project.

This information should have already been at least partly gathered and analysed through previous activities such as supply market analysis and market sounding.

### 2.6.2 FORMULATE PROCUREMENT OBJECTIVES

The objectives for the proposed procurement activity (purchase) may be identified by analysing the project outcome sought. For example, where the project outcome sought relates to improving the quality of a service provided to the community, the objectives for the proposed procurement activity may relate to improving supplier performance.

Procurement objectives may also be derived from market related risks and issues that have been identified through previous activities such as supply market analysis and market sounding. In these cases, a procurement objective may involve overcoming such risks or issues or taking advantage of a known opportunity. For example, where there is a limited source of supply for a product in the market, the objective may be to secure a continuous supply.

The procurement objectives must be consistent with the objectives of the corporate procurement plan/s devised by the agency or agencies managing the project. In some cases, the nature of the purchase which is being considered for the project may have in fact influenced the formulation of the corporate plan objective/s in the first place.

### 2.6.3 EVALUATE POTENTIAL PROCUREMENT STRATEGIES

This activity involves identifying and evaluating potential procurement strategies in the context of securing the most appropriate source of supply to satisfy the project outcome sought and the procurement objectives.

As with most procurement activities in a project environment, considerable analytical skill, market knowledge and agency business knowledge is required to devise an effective procurement (sourcing or buying) strategy.

The approach to be taken will depend on a range of factors including the scarcity of supply, market expertise, maturity, the proposed duration of the supplier relationship, the operational or service criticality of the purchase and the cost magnitude.

Some sourcing or buying strategies to consider in the evaluation may include, but are not limited to:

- a single provider approach
- a multi-sourcing approach (for example, a consortium)
- the use of panel or standing offer arrangements
- encouraging new entrants to the market
- leasing options
- bundling or unbundling requirements
- promoting supply chain efficiencies.

#### Sources for further information

For more information on evaluation, including the advantages and disadvantages of various sourcing or buying strategies, refer to the Department of Housing and Public Works' Procurement Guideline, *Planning for Significant Procurement*, available at [www.hpw.qld.gov.au](http://www.hpw.qld.gov.au).

In all procurement plans, assessment of a potential procurement strategy needs to be linked back to the project's business case, achievement of the project outcome sought and achievement of any established procurement objectives.

## 2.6.4 IDENTIFY PREFERRED PROCUREMENT STRATEGY

Appropriate expertise should be accessed to determine the preferred procurement strategy. This decision is typically based on a range of factors, including:

- the nature of the project and the outcome sought
- the established procurement objectives
- demand and supply market characteristics
- the desired nature of the relationship with the supplier
- supplier development initiatives
- risk management strategies
- the type of contract to be entered into.

## 2.6.5 SPECIFY PERFORMANCE MEASURES

Specifying performance measures identifies indicators of success and the metrics that will be used to assess the success of the proposed procurement strategy and what it sets out to achieve.

The performance measures and the targets to be achieved need to be set against the procurement objectives. Note that these measures are different from the criteria against which offers will be evaluated.

The extent to which targets are achieved, including any trends that develop, provide an indication of the extent of the success of the procurement strategy.

## 2.7 Develop offer (or tender) documents

Following the selection of a preferred procurement strategy, the next steps involve preparations for initiating the offer process. The offer process involves informing prospective suppliers of procurement specifications and inviting them to declare and demonstrate how they are able to satisfy them. This is facilitated by inviting offers or seeking interest and/or information via a request for offer\*.

Offer documentation is critical because it forms the basis for the selection of the supplier who will be charged with the delivery of a successful outcome with the best value for money.

### What you need to do:

- prepare offer documentation, including:
  - objectives and specifications
  - format and lodgement instructions
  - terms and conditions
  - arrangements for communicating with suppliers.

## 2.7.1 PREPARE REQUEST FOR OFFER DOCUMENTATION

Depending on the nature of the project, it is likely that major projects will involve significant purchases thus requiring formal, written request for offer documentation prepared by the project team or procurement specialists in consultation with the project team.

For significant purchases, request for offer documentation must include a range of elements, including:

- identity of the agency or agencies managing the project
- procurement objectives and specifications
- format and lodgement requirements for offers received
- terms and conditions for the offer (usually documented in a service contract)
- evaluation criteria against which offers will be assessed
- schedule of prices
- schedule of particulars (a pro-forma of questions on technical and commercial procurement specifications)
- arrangements for providing feedback to unsuccessful parties.

For some elements of the request for offer (e.g. contracts, terms and conditions) standards and templates have been developed at agency and/or whole-of-government levels. Whole-of-government standards and templates are available at [www.hpw.qld.gov.au](http://www.hpw.qld.gov.au).

## 2.7.2 COMMENCE ITERATIVE CONTRACT DEVELOPMENT PROCESS

The iterative contract development process commences at the acceptance of the business case, continues with the issuing of the contract with the offer documents, and concludes following the finalisation of contract negotiations with the preferred supplier/s.

For the purposes of developing offer documentation, a contract and/or the terms and conditions of an offer may include:

- a definition of what is to be provided
- an agreed level of service
- pricing mechanisms, including incentives, rewards and mechanisms for reducing payment in cases of poor performance
- ownership of assets and intellectual property
- escalation and dispute resolution mechanisms
- change control procedures
- invoicing arrangements
- communication strategies
- exit strategies and break options.

It is also important to clearly define the means by which a successful supplier's performance will be measured. All potential suppliers need to be made aware at the earliest opportunity that supplier performance will be assessed and recorded.

Developing contracts for the purposes of issuing them with the request for offer documentation should be undertaken in consultation with expert procurement and legal advice.

More information on contracts, including the use of standard contracts, is available in the *Source supplier/s* guidance material.

### 2.7.3 DEVISE EVALUATION CRITERIA

A key component of the request for offer is the evaluation criteria against which the ability of potential suppliers to satisfy the procurement specifications and objectives is assessed. Care should be taken to include all of the evaluation criteria (classified as essential or desirable) in the request for offer documentation.

However, as the core set of essential and desirable criteria can be voluminous, unnecessary criteria and any that will not contribute directly to the evaluation of prospective suppliers should be omitted.

As a general rule, any evaluation criteria released to the market should be qualitative only and be expressed in general terms. Detailed evaluation criteria are more appropriately contained in the evaluation plan used by the project evaluation committee. Structuring the evaluation criteria in this way avoids the risk that changes to the evaluation criteria may mean that the offer process may have to start again.

Criteria will vary project by project, however for some project types, some standard criteria are available. For example, under the *Capital Works Management Framework* (administered by the Department of Housing and Public Works) the selection of contractors for building projects identified as 'high risk' or 'significant' (excluding roads, bridges, harbours, railways and dams) is subject to the application of a range of non-price criteria.

It may also be useful to seek information on a supplier's capacity and capability to deliver, such as their:

- eligibility in terms of solvency and marketplace conduct
- economic and financial stability and standing
- track record in providing similar products or services.

In order to level the playing field for prospective suppliers, reduce bid costs and reduce time taken in evaluation, project teams should consider using standardised formats and word limits when seeking information from suppliers. At all times, project teams should only ask for information will actually be used in evaluation of all offers.

Particularly for larger projects, consideration should be given to a staged approach to the procurement process, limiting the detail of information required from suppliers in the initial stage. More detailed information from short-listed suppliers can be provided in subsequent stages. This staged approach may reduce bid costs for both suppliers and assessment costs for the Government.

In determining the number of suppliers to short-list for the second stage (particularly in a two-stage procurement process), consideration should be given to:

- quality suppliers – by only selecting suppliers that demonstrate the capability and experience capable of satisfying the procurement specifications and objectives
- competitive tension – by short-listing enough suppliers to maintain competitive tension
- minimise bid and assessment costs – by limiting the number of short-listed suppliers requested to prepare detailed proposals.

Shortlisting involves balancing the competing objectives of ensuring that the number of short-listed suppliers is not too high whilst maintaining competitive tension between suitable potential suppliers.

#### Sources for further information:

Other requirements for request for offer documentation and information on ethical dealings with offerors are available in the Department of Housing and Public Works' Procurement Guideline, *Inviting Offers* available at [www.hpw.qld.gov.au](http://www.hpw.qld.gov.au).

## 2.8 Develop the offer (or tender) evaluation strategy

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.

The formation of an evaluation committee and the development of an evaluation plan are two important steps in devising a transparent, fair and accountable evaluation process.

The evaluation plan should ideally be devised and finalised before offer documentation is provided to prospective suppliers. If this is not possible, the plan must be finalised before evaluation committee members review any offer responses from suppliers. The project probity advisor should also sign-off on the evaluation plan.

Although the evaluation plan is not made available to prospective suppliers, most of the information contained in it will be based on the request for offer documentation (refer to section 2.6: *Develop a procurement strategy*). Some additional features of the evaluation plan include:

- roles and responsibilities for evaluation committee members
- guidelines for the consistent application of the evaluation criteria, including 'example' ratings of potential responses from suppliers
- further details on the evaluation method to be used.

At all times, evaluation processes must be able to withstand scrutiny as to the basis for selection of the preferred supplier.

### What you need to do:

- form an evaluation committee and agree procedures
- document in an evaluation plan:
  - roles and responsibilities for evaluators
  - the proposed evaluation process
  - details on the evaluation method.

## 2.9 Refresh the business case

The *Supply strategy development* 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 plan.

Given the outcomes of the *Supply strategy development stage*, the business case should be reviewed and updated if there are material changes to reflect current financial and non-financial adjustments where required.

Any material amendments to the business case should be agreed with the project's governing body.

### What you need to do:

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

## 2.9.1 UPDATE THE PROJECT IMPLEMENTATION PLAN

The project implementation plan should take into consideration all pertinent matters which arose during the *Supply strategy development* stage such as outcomes from market sounding and other preparatory activities. The plan should also reflect the activities, budget, timeframes, key skills and capabilities required in the next project stage, *Source supplier/s*.

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

## 2.9.2 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.

## 2.9.3 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 and reporting on their realisation.

## 2.9.4 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.

## 2.10 Seek approval to proceed

At the end of the *Supply strategy development* stage, a submission should be presented to Cabinet Budget Review Committee (CBRC) or other project-specific governing body seeking approval to proceed to the *Source supplier/s* stage.

The submission should describe findings from engagement with the marketplace and seek approval for the proposed procurement strategy.

### What you need to do:

- develop a submission to the appropriate decision maker seeking approval to proceed to the *Source supplier/s* stage

# 3

## Products

The products to be produced in this *Supply strategy development* project stage include:

- probity plan
- demand and supply information
- procurement specifications
- supply market analysis
- market sounding assessment
- procurement strategy (or plan for significant purchase)
- offer (or tender) documents
- offer (or tender) evaluation process documentation
- refreshed business case
- updated:
  - project implementation plan
  - risk and issues registers
  - benefits management plan and supporting benefit profiles
  - project learnings register.

# 4

## Checklist

As each project is unique, the following checklists 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 4.1.

## 4.1 Products

Have the following products been completed in accordance with quality standards as agreed via relevant (internal agency) assurance processes?	Guideline Ref	Yes	No	N/A
Probity plan	2.1	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Demand and supply information	2.2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Procurement specifications	2.3	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Supply market analysis	2.4	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market sounding assessment	2.5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Procurement strategy (or plan for significant purchase)	2.6	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Offer (or tender) documents	2.7	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Offer (or tender) evaluation process documentation	2.8	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Refreshed business case	2.9	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Updated: <ul style="list-style-type: none"> <li>• project implementation plan</li> <li>• risk and issues registers</li> <li>• benefits management plan and supporting benefit profiles</li> <li>• project learnings register.</li> </ul>	2.9	<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 (internal agency) assurance processes?	Guideline Ref	Yes	No	N/A
<b>Can project decision makers be assured that processes are in place to ensure probity?</b>				
Has a probity plan been developed and probity roles assigned, taking into account transparency, confidentiality, potential conflicts of interest and accountability?	2.1	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



<b>Have the following processes been completed in accordance with quality standards as agreed via relevant (internal agency) assurance processes?</b>	<b>Guideline Ref</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
<b>Can project decision makers be assured that sufficient demand and supply information has been collected and analysed?</b>				
Has existing and new information relating to demand and supply factors been collected and analysed?	2.2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Can project decision makers be assured that procurement specifications effectively describe what the supplier will be required to supply?</b>				
Have representative stakeholders been involved in developing specifications which address functional, performance and technical requirements?	2.3	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Have procurement specifications (and associated evaluation criteria) been agreed and documented?	2.3	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Can project decision makers be assured that supply market analysis has been completed?</b>				
Have primary and secondary sources been used to gather information about the supply market?	2.4	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Have the findings from supply market analysis been used to assess likely impacts on the project and to develop strategies to address opportunities and risks?	2.4	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Can project decision makers be assured that market sounding has been completed?</b>				
Have suppliers been approached (without prejudice) to explore supplier interest; technical and business feasibility; and value for money?	2.5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Have the findings from market sounding been used to assess likely impacts on the project and to develop strategies to address opportunities and risks?	2.5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Can project decision makers be assured that the preferred procurement option is justified?</b>				
Does the procurement strategy appropriately document procurement options and reasons for selecting the preferred option/s?	2.6	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Can project decision makers be assured that offer (or tender) documents are ready?</b>				
Will the offer documentation inform prospective suppliers of the agreed procurement objectives and specifications, in order to allow them the best chance of demonstrating how they are able to satisfy them?	2.7	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Can project decision makers be assured that the process to evaluate any offers (or tenders) is ready?</b>				
Are offer evaluation roles, responsibilities and procedures agreed and documented?	2.8	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Can project decision makers be assured that the business case and project implementation plan have been refreshed?</b>				

<b>Have the following processes been completed in accordance with quality standards as agreed via relevant (internal agency) assurance processes?</b>	<b>Guideline Ref</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
Have the following been considered in the context of the business case and/or project implementation plan: <ul style="list-style-type: none"> <li>• risk and issue management</li> <li>• benefits management and supporting benefit profiles</li> <li>• project learnings?</li> </ul>	2.9	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Can decision makers be assured that a sufficiently detailed submission seeking approval to proceed to the Source supplier/s project stage has been prepared?</b>				
Does the submission include: <ul style="list-style-type: none"> <li>• findings from engagement with the marketplace</li> <li>• details of the proposed procurement strategy?</li> </ul>	2.10	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

# Appendix A – Sample questions for market analysis

## 1 Supply market analysis

(This analytical model is adapted from Michael Porter's *Five Forces Model of Competition*).

The questions below represent a minimalist generic set that may be used to explore market characteristics. They should be tailored or expanded depending on the type of market being analysed.

## 2 Market structure

- What is the number of suppliers and their size (that is, employees and production capabilities compared to the market)?
- What is the size of the total market?
- What is the geographical distribution?
- Does the market extend to Australia's Free Trade Agreement partners?
- Which firms are the market leaders?
- What is the status of mergers and acquisitions?
- What is the status of horizontal and vertical integration?
- What is the level of product differentiation?
- What influence do key industry bodies have?
- Which firms are price leaders?
- Is there cross market interest among firms?

## 3 Competition

- Are there sufficient firms in the market to ensure procurement generates competitiveness?
- What is the basis of competition among suppliers?
- What types of barriers do firms have for entry to and exit from the market?
- Are there any long term market trends related to, for example, price or supply volumes?
- Do any of the firms hold clear competitive advantage?
- Are there leaders in research, development and innovation?
- What government support is provided?
- Are there trade, consumer or environmental legislation impacts?
- Where is the product in its lifecycle?

## 4 Supply chain

- Which firms comprise the supply chain for the market and is the arrangement complex?
- Is there a reliance on imports?
- What level of value adding do members of the supply chain contribute?
- Are there any points of threat or weakness in the supply chain?
- Are there more efficient sources of supply?

## 5 Substitute goods and services

- What goods and services are available to meet the needs of end users?
- Are there any viable substitute goods or services in existence or under development?

## 6 Value as a customer

- What is the turnover for individual suppliers and for the market as a whole?
- What is the agency managing the project's current and proposed value as a customer?
- Does the way in which the agency manages the project make it an attractive customer?
- Would the agency managing the project as a customer increase the supplier's business with other customers?
- Can the agency contribute to the development of a firm or to the industry generally?

## 7 Market sounding

The questions below represent a minimal generic set that may be used to explore supplier perceptions in terms of supplier levels of interest, technical or business feasibility and evidence of value for money. They should be tailored or expanded depending on the nature of the market sounding process.

- What is the level of interest and reasons for the degree of interest in bidding for the proposed procurement activity?
- Would interest be greater if the procurement specifications were packaged differently?
- Is the supplier bidding for or performing similar work elsewhere in the Government?
- To what extent is the proposed business model and aims realistic, and how might they be improved?
- Could the proposed procurement activity provide a reasonable return for the supplier?
- Are the risks to the supplier reasonably manageable and are they worthwhile taking on?
- Can indicative costs be provided?
- Can value for money be improved?
- Can likely timeframes for delivery be provided?
- Are project targets realistic?
- Are there better technologies, approaches or solutions available?
- What are the supplier's main concerns?
- Has the project team missed any significant issues?
- What assumptions has the project team made?
- What assumptions has the supplier had to make?