



New South Wales Government

## **NSW Government Procurement Guidelines**

# **Procurement Planning**

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These guidelines were prepared by the NSW Department of Commerce for the NSW Government. They are available from the procurement process maps on

<http://www.treasury.nsw.gov.au/procurement/procure-intro.htm>

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### Issue log

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### Related Guidelines

[NSW Government Procurement Policy](#)

[NSW Government Code of Practice for Procurement](#)

[NSW Government Tendering Guidelines](#)

### Related Instruments

[Treasury Research and Information Paper \(TRP 04-3\)](#)

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# 1 Introduction

The Procurement Planning Guidelines are designed to lead agencies through a planning process for their goods and services procurement activities. Agencies should be developing a strategic approach to procurement and integrating procurement planning with their business planning.

The NSW Government Procurement Policy requires all government agencies, including Public Trading Enterprises, to annually prepare a procurement plan. State Owned Corporations are strongly encouraged to prepare a plan. To align this plan with an agency's strategic business plan the procurement plan is made on a three-year forward basis. Agencies are to update their procurement plan annually, and submit a progress report on their performance against their plan to NSW Treasury (via their Treasury analyst) by 31 August each year. Agencies' procurement plans will be discussed at routine meetings with NSW Treasury analysts to ensure they are consistent with broader agency and government directions. NSW Treasury may also conduct spot audits of procurement plans. See [Treasury Research and Information Paper \(TRP 04-3\)](#) on the Procurement Planning Program.

Section 3 of these guidelines provides a procurement plan template. Agencies are encouraged to build on this template to develop a procurement plan appropriate for their needs.

## 2 Procurement planning

Procurement planning is included in both agency and program level activities of the Government's Strategic Management Framework. The Framework aims broadly at the strategic management of all resources to better match service requirements. The Framework, illustrated in Figure 1, below, summarises and defines the various processes that the NSW Government and its agencies use to plan activities and services, allocate resources and report on performance.

*Figure 1. Strategic Planning Framework*



source: Premier's Department website

The most important outcome of the procurement planning process is to clearly and directly link an agency's procurement activities to its service delivery and to improve the way the agency procures the necessary goods and services.

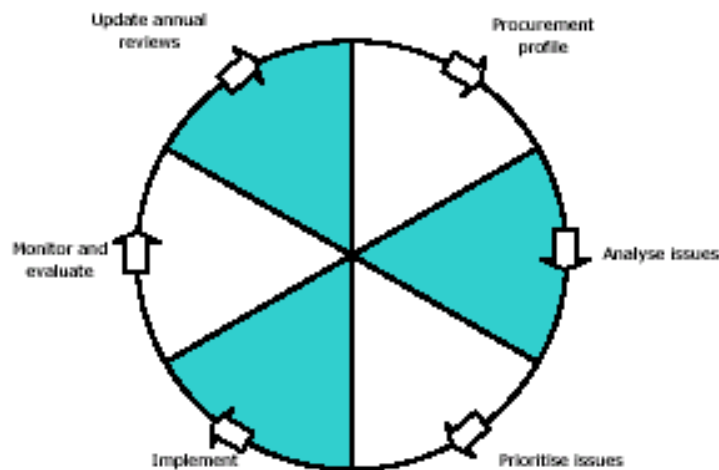
A procurement plan is an effective tool to identify and review an agency's current procurement profile and practices, establish benchmarks to measure performance, and identify improved ways of purchasing to meet its future needs. Procurement planning assists agencies to identify opportunities to:

- better align procurement with agency service delivery strategies
- achieve better value for money outcomes, through, for example, aggregation strategies

- realise more cost efficient procurement process, through e-procurement, etc.

Procurement plans need to be clear and succinct so that any reader should be able to understand the agency's procurement objectives, how these link to its service delivery outcomes, what initiatives are planned, and how the agency will measure the achievement of these initiatives. The following diagram, Figure 2, illustrates a procurement reform cycle that agencies could use to review and analyse how and what they currently buy and identify areas where improvements can be made.

*Figure 2. Procurement Reform Cycle*



There are many initiatives that agencies may consider to improve their procurement outcomes. These typically include:

- understanding how procurement outcomes affect service delivery outcomes (for example, hospitals cannot run without medical supplies, prisons without food, printers without paper)
- considering future demand for goods and services based on changes in service delivery strategies
- including procurement as a regular agenda item at executive meetings
- developing procurement skills of staff (identified through a procurement capability tool for example; this broadens the skill base of staff and improves contract management)

- assessing and managing the risks of the different forms of procurement
- communicating and sharing the benefits and experiences internally, and with other agencies (also useful for market intelligence)
- including a procurement page on the agency intranet (to share information within the agency and raise awareness of the procurement unit)
- knowing the marketplace (market intelligence is an important way to find out about innovations and changes to market conditions)
- improving access for firms to compete for government business (improving competition and efficiencies for the agency and companies)
- being ready for e-procurement (the transition will be easier);
- choosing suppliers based on value for money (this includes the whole-of-life cost of goods and services)
- understanding the goods or service providers critical to the agency's operation (ie those suppliers, which, if their performance was substandard, would disrupt service delivery)
- measuring and reviewing supplier performance and managing relationships (including solving minor problems before they become major, and working with suppliers to improve service delivery)
- measuring and reviewing procurement performance and understanding the cost of procurement. (Low value, low risk purchasing often presents opportunities to identify process savings. Assess how much is spent, with whom and on what goods and services)
- using contracts managed by other agencies instead of creating new ones
- rationalising the number of suppliers, reducing the number of invoices and using catalogues for common products such as stationery, clothing, consumables etc (aggregation saves money both in price and transaction costs)
- reducing the amount of expenditure off contract (maverick buying undermines the contract and contract suppliers relationships and generates quality and performance risks).

## 3 Plan format

Procurement planning is an integral part of business planning and much of the procurement information can be collated from the agency's corporate and business unit plans, asset plans, financial system reports and previous procurement plans and saving targets submissions.

### Part A – Strategic objectives

The first section is designed to provide an overview of the agency, how procurement links to the agency's objectives as well as whole-of-government objectives. While some questions may seem routine, they assist in establishing a basis for achieving procurement reform.

### Part B – Procurement profile and practices

The second section looks at the current status of procurement within the agency. Before any improvements and savings can be identified, the agency's current procurement practices, expenditure levels, purchasing patterns and savings targets need to be reviewed. A summary of project specific procurement plans for purchases of goods and services that are of high value (over \$500,000) or strategic should also be included.

### Part C – Improving procurement practices

This section builds on the agency's current procurement practices and is where the initiatives and areas identified for improvements are outlined. This may include finding better linkages between procurement and agency objectives, developing purchasing strategies, enhancing procurement capability and identifying savings.

### Part D – Performance targets and measures

The section is the action plan to achieve improved procurement practices as identified in Part C. This section includes a table listing the initiatives to improve procurement practices and their timing, performance targets and measures. Agencies should also include their savings targets for the next three years.

### Communication

The agency's plan should be communicated to staff (e.g. published on the agency's intranet), integrating it with the agency's business plan, so that staff are informed about how procurement helps achieve agency service delivery objectives.

# 4 Agency plan guide

## Part A – Strategic objectives

1. Provide an overview of the agency. Include information on the agency's role, size, financials and locations. If relevant, outline the changes in functions, activities and size resulting from organisational changes, if any.
2. Outline the agency's procurement objectives and how these are linked to the agency's role and service delivery objectives. Agencies that rated less than 4 for procurement objectives for their 2003-04 procurement plans are encouraged to establish or strengthen links with their agency's goals and service outcomes.

## Part B – Procurement profile and practices

3. Review the agency's existing procurement plan and outline progress at meeting the targets and goals in the plan. Include information on the areas in which the agency has achieved procurement process improvement, details of the improvements achieved, benefits gained, performance measures and lessons learnt.
4. Outline the agency's procurement function. The following provides points for consideration when assessing the agency's procurement function:
  - How is the procurement function co-ordinated and managed within the agency? Is it centralised or decentralised? Are there clearly defined roles, responsibilities and delegations?
  - Is a senior manager or executive responsible for strategic guidance and oversight?
  - Are there procurement policies, procedures, manuals and/or standard contract documentation and do they reflect a strategic approach to procurement?
  - Are the procurement policies, procedures, manuals and/or standard contract documentation up to date, easy to use and understood by staff?
  - Who is currently involved in purchasing operations and decision-making and what are their responsibilities? To whom do these personnel currently report?

- What is the efficiency of existing ordering, payment and accounting processes?
  - Is procurement management information maintained and easily accessible? For example, give details on procurement profile changes, contract arrangements, service provider performance information, market information on suppliers, pricing and products.
  - How are centralised purchasing arrangements (for example, standing offer arrangements, prequalified suppliers) managed and monitored to ensure effective outcomes?
  - How does the agency manage and keep staff informed on contract information, service provider/supplier performance information and market information on suppliers, products, pricing, new developments and trends?
  - What is the efficiency of current inventory management systems, including warehousing and distribution costs?
  - How is the performance of the procurement function assessed?
5. Outline the agency's e-procurement strategy and initiatives. For example, electronic tendering, electronic marketplaces or online project management being undertaken by the agency. Include information on when it was developed, what are its objectives, the timing and performance measures? If applicable, outline the progress made in the take-up of e-procurement, include information on the benefits realised and lessons learnt.
6. Review the agency's procurement profile. Consider the following:
- What was the agency's operating expenditure for the last financial year?
  - What are the major categories of goods and services purchased and how much is spent on them?
  - How are goods and services purchased?
  - How critical are the goods and services to the agency's service requirements?
  - Who and where are the goods and services purchased from?
  - Identify the number of service providers and their respective market shares.

- Assess the impact of the agency's purchasing activities on its largest supply markets.
- Review the purchase to payment process. What is the cost per unit for the agency to process a purchase order to invoice cycle from the raising and issuing of the initial purchase order to the payment of invoice?
- Review the tendering process. What is the cost per tender document issued from the preparation of tender documentation, issue and close of tenders and evaluation of tenders? Outline briefly how these were calculated.

## Expenditure analysis

7. In the table below analyse the agency's expenditure and service provider (vendor) profile. List categories by chart of accounts line item using information from the financial systems. Delete the examples in the table.

Category (1)	Actual spend Year 1 (2)	Actual spend Year 2 (3)	No. of current service providers for each category (4)	No. of orders/ invoices processed Year 2 (5)	Proportion of spend in and out of contract (6)	Comment (7)
eg. Catering	\$87,245	\$68,535	58	925	100% outside	Each area looks after own catering arrangements.
eg. Couriers	\$35,653	\$24,563	2	18	100% SCCB	No change
eg. Stationery and paper	\$235,526	\$173,635	5	45	63% SCCB 37% outside	Using 2 service providers not on SCCB contracts. Consolidate to 3 SCCB suppliers. Current paper is 100% virgin. Establish policy to use paper with recycle content and print duplex.
eg. Temporary staff	\$453,405	390,472	18	176	53% SCCB 28% Agency 19% outside	Invoiced weekly. Look to establish service level agreements with SCCB service providers and consolidate all invoices for all temps onto one monthly invoice.
<b>Total</b>						

8. From the expenditure analysis assess the following:
  - Compare the past year’s expenditure on each item with that projected for current and future years (ie 3-5 years).
  - What is the average number of transactions for each service provider? From the expenditure analysis, Column 5 (total number of invoices issued) divided by Column 4 (current total number of service providers).
  - What is the average value of expenditure for each service provider? From the expenditure analysis, Column 3 (total actual expenditure) divided by Column 4 (current total number of service providers).
  - What is the average number of service providers for each category? From the expenditure analysis, Column 4 (total number of service providers) divided by the number of categories (Column 1 total).
  - What percentage of the agency's expenditure was made under either SCCB contracts or the agency's own contracts?
9. If applicable, outline and update the agency's performance against the savings targets and strategies identified in previous procurement plan as indicated in Figure 3, below.

**Figure 3. Procurement Report format**

Categories	Savings Estimate	Savings Actual	Reason for variation
	\$000 Year 1, Year 2, Year 3		
<b>Total</b>			

10. Outline what the agency has done to assess its procurement capability and any initiatives to address gaps and opportunities identified. Include information on repositioning and/or restructuring of procurement within the agency, benefits gained and lessons learnt.
11. Outline the agency’s program(s) to increase knowledge and skills in procurement. Include information on the benefits realised and lessons learnt.
12. The NSW Government’s procurement policy framework allows for consideration of economic, environmental and social objectives in procurement decisions where it is value adding,

appropriate and relevant to the procurement. Outline the agency's approach to and outcomes achieved for economic development, environmental and social objectives in its procurement.

13. Project specific procurement plans should be prepared for specific purchases of goods and services that are considered high value (over \$500,000), strategic or high risk according to the [Project Profile Assessment Tool](#). Provide a summary of these specific procurement plans. Include information on how they link to the agency's objectives and value for money objectives, the anticipated savings and/or non-cost benefits to be gained, timing, performance measures, targets and whether the agency is working with other agencies.
14. Does the agency have a forward program of purchases or tenders to be issued in the next 12-36 months? Outline the agency's forward program.

### Part C – Improving procurement practices

15. Using the analysis from Part B, what areas are identified where procurement practices can be improved? Include background information to the improvement, what will change, what the objectives and targets are, the anticipated savings and/or non-cost benefits and the time periods and performance measures to be used. Agencies are encouraged to:
  - use the cost to process an invoice or transaction as a measure of performance
  - exceed 70% as a proportion of their procurement spend using SCCB or agency wide contracts
  - increase their average expenditure per invoice
  - increase their average expenditure per service provider
  - reduce the average number of service providers for each procurement category
  - use consolidated invoices where there they receive a high number of separate invoices from the same service provider.

Other areas for consideration include:

- recording and analysing procurement data to assist in making strategic management decisions
- integrating procurement, financial and accounting systems
- developing performance measures for the procurement processes

- benchmarking against a best practice performer
- considering and developing strategic alliances with service providers
- monitoring service providers' performance
- skilling procurement personnel
- rationalising purchases, deliveries
- standardisation of common use products
- reviewing and improving tendering processes
- implementing e-procurement initiatives including the Governments [eTendering](#) and [smartbuy®](#) services.

16. What longer-term strategy does the agency have to achieve procurement reform?

## Part D – Performance Targets And Measures

17. Outline the agency’s quantifiable performance targets and measures, and timing for their implementation. In the table below and in order of priority, summarise the various initiatives outlined in Part C

Priority	Initiative What is planned over the next 3 years to improve procurement?	Timing For example, 2 stages over 18 months	Target What is the goal or aim of the initiative?	Measure How will the success of the initiative be measured?	Responsibility What area or unit in the agency is leading this initiative?	Comment Is there any additional information about the initiative that would be useful?
1						
2						
3						
Etc.						

18. Indicate the agency’s savings targets for the next 3 years.

Categories	Savings Estimate Year 1 \$000	Savings Estimate Year 2 \$000	Savings Estimate Year 3 \$000
<b>Total</b>			

19. How will the agency achieve the savings identified for the next 3 years? For example, maximising use of contracts, analysing operational need, consolidating into new contracts, rationalising or reducing product range, using preferred service providers and guaranteeing quantities.