



# Putting Queenslanders first when securing value for money

Queensland Government Procurement

This document will be progressively reviewed as part of  
Buy Queensland 2023 implementation.



**Queensland**  
Government

***Putting Queenslanders first when securing value for money***

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Queensland Government Procurement is committed to continuous improvement. If you have any suggestions about how we can improve this guide, or if you have any questions, contact us at [betterprocurement@epw.qld.gov.au](mailto:betterprocurement@epw.qld.gov.au).

**Disclaimer**

This document is intended as a guide only for the internal use and benefit of government agencies. It may not be relied on by any other party. It should be read in conjunction with the Queensland Procurement Policy, your agency's procurement policies and procedures, and any other relevant documents.

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## Introduction

Every year the Queensland Government spends billions of dollars on a wide range of goods and services to support the delivery of frontline services for Queenslanders.

This means that the procurement activities of the Queensland Government have a significant impact on local communities and the services delivered to them throughout Queensland.

## Purpose of this guide

This guide provides some practical hints and tips for government buyers to optimise value for money. It equips government buyers and decision makers with the information they need to consider all the components that define value for money when procuring goods and services.

### Guidance to support the Queensland Government Procurement Strategy

To support the Queensland Government Procurement Strategy – *Backing Queensland Jobs*, Queensland Government Procurement, has released a range of guidance materials. These guides should be read together. They include:

- Putting Queenslanders first when securing value for money
- Probity and integrity in procurement
- Optimising opportunities for local suppliers
- Local benefits test.

## The Queensland Procurement Policy

Value for money is the primary principle of the Queensland Procurement Policy (QPP).

Under this principle the Queensland Government is committed to:

- pursuing government targets through procurement
- selecting the option that provides best value for money outcomes, pursuing economic, environmental and social objectives as well as price
- deploying the most appropriate strategies to deliver the best procurement outcomes.

## What is value for money under the QPP?

**Value for money is more than just lowest price.** At its simplest, value for money involves an assessment of the total benefits and costs provided by a procurement.

Under the framework provided by the QPP, the following factors are to be addressed as part of the value for money assessment:

- advancing relevant government objectives and the outcome being sought
- cost related factors including up-front price, whole-of-life costs and transaction costs associated with acquisition, use, holding, maintenance and disposal
- non-cost factors such as fitness for purpose, quality, delivery, service and support.

For major projects of \$100 million and above and declared projects, the value of money assessment must also include application of all the following best practice principles:

- workplace health and safety systems and standards
- commitment to apprentices and trainees
- best practice industrial relations
- history of compliance with procurement, tendering and other government policy.

A dedicated guide is available to support implementation of the Best practice principles: Quality, safe workplaces.

Importantly, value for money under the QPP also includes the application of a local benefits test for all significant procurement where a weighting of up to 30 per cent may be applied. To assist government buyers in applying the test a dedicated resource is available [online](#).

The QPP also outlines a range of specific requirements that help to secure value for money. These are discussed further in **Appendix 1**.

## Components of value for money

### Cost related factors

In determining value agencies need to look beyond up-front costs and include all relevant cost related factors. This means buyers considering the up-front cost, as well as the cost of maintaining and disposing of the item at the end of its life. **Appendix 2** of this guide offers a checklist for whole-of-life cost considerations.

## Assessing whole-of-life costs

Whole-of-life cost assessments are particularly important when there are potentially high ongoing costs associated with a good or service. For short-life, low-cost and low-risk items, there is generally little benefit in undertaking a detailed formal assessment of whole-of-life costs.

### Why assessing whole-of-life costs (and not just the initial price) is important

Different suppliers can price a service or good differently. By having a breakdown of total costs, the government buyer can better understand the total solution, the supplier's interpretation of the requirements and any components that might be negotiated if the solution is chosen. Doing this can also help when considering the merit of alternative offers or innovative solutions. See **Appendix 3** for further information on Total Cost of Ownership.

### Broader government priorities, targets and commitments

In addition to the more traditional cost related factors and non-cost factors, broader **government priorities, targets and commitments** listed in the QPP should also be considered as part of value for money.

In determining which priorities, targets or commitments to pursue, agencies need to consider which are suitable for the procurement at hand and can be realistically achieved without disadvantaging smaller suppliers.

Agencies may also find guidance in their agency procurement plan or the relevant category strategy. Care must be taken to make sure effort is not spread too thinly, for example, by

pursuing multiple priorities, targets and commitments. Agencies also need to ensure other relevant, non-cost factors, such as capacity to deliver, are given due weighting and consideration in the process.

Government buyers should, where possible, consider and record in their tender documentation, how targets and commitments will be measured and reported.

### Increasing procurement from Aboriginal businesses and Torres Strait Islander businesses

An example of a broader government priority is the Queensland Indigenous (Aboriginal and Torres Strait Islander) Procurement Policy (QIPP). The QIPP aims to increase government spend with Aboriginal businesses and Torres Strait Islander businesses to be three per cent of addressable spend by 2022.

These businesses are significantly more likely to employ Aboriginal peoples and Torres Strait Islander peoples. Growing these businesses is therefore a viable pathway to support broader government objectives to create employment and increase the economic participation of Aboriginal peoples and Torres Strait Islander peoples.

### Value for money from an economic perspective

Beyond the cost and non-cost factors there are broader economic considerations. In some cases, it may be difficult to put a dollar value on these, requiring a more qualitative assessment.

Demonstrating value for money from an economic perspective requires consideration of broader benefits and how they will flow from the initial demand and supply market analysis to tender evaluation and contract management.

### Specific economic targets for Queensland

The QPP cites the following economic targets and commitments as being relevant to procurement. As part of the overall value for money assessment, each procurement process needs to consider and include targets and commitments which are relevant to the good or service being procured:

- require the application of *'best practice principles'* for all major projects valued at \$100 million and above and declared projects, in accordance with guidance issued by the Department of Energy and Public Works and the Office of Industrial Relations
- prioritise 'Buy Queensland first' for food and beverages at events and corporate functions
- build regions by increasing the participation of Queensland suppliers and local workforces in procurement opportunities
- require the use of local contractors and manufacturers in significant Queensland Government infrastructure projects, worth \$100 million and above, wherever possible
- increase opportunities for apprentices and trainees in significant Queensland Government infrastructure projects, worth \$100 million and above

- increase government procurement with Aboriginal and Torres Strait Islander businesses to three per cent of addressable spend by 2022. For more information, refer to the QIPP at <https://www.dsdsatsip.qld.gov.au>.
- focus on using the government's procurement activities to create genuine, secure ongoing jobs for Queenslanders
- focus on jobs, reducing long-term unemployment and youth unemployment, and increasing opportunities for training apprentices.

### Local benefits test

The QPP requires agencies to conduct a local benefits test for all significant procurement<sup>1</sup> where a weighting of up to 30 per cent may be applied.

The local benefits test is intended to ensure economic benefits flow to local communities, with a focus on jobs for Queenslanders. This might include creating new jobs, ensuring sustainability of existing local jobs, or upskilling local workforces and creating new opportunities in regional areas.

Each procurement is different and there is no set formula. The consideration of local benefits should be clearly documented for each significant procurement.

The local benefits test should not be assessed in isolation. The capacity and capability of suppliers should also be taken into consideration when assessing value for money.

To assist government buyers in applying the test a dedicated resource is available [online](#).

### Value for money from an environmental perspective

The impact on our environment should be considered in all procurement activity. Some procurements will have a more direct association than others. Considerations include:

- when buying simple products, factors like whether the product is produced from sustainable materials or comes with biodegradable packaging may form part of the value assessment
- in infrastructure projects, considerations may include how the environment may be impacted via things such as carbon emissions and waste products.

Refer to [Integrating sustainability into the procurement process guide](#) for more tips.

## Specific environmental targets for Queensland

The QPP cites the following environmental targets and commitments as being relevant to procurement. Each procurement process needs to consider and include, as appropriate, those targets and commitments which are relevant to the good or service as part of the overall value for money assessment:

- procure Australian-sourced, environmentally accredited paper products
- achieve net zero emissions by 2050
- achieve one million rooftops or 3000 megawatts of solar photovoltaics (PV) in Queensland by 2020.

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<sup>1</sup> The QPP defines a significant procurement as including goods and services identified by the agency as being high expenditure and/or for which there is a high degree of business risk.

## Value for money from a social perspective

Social benefits refer to how Queensland Government spending might be used to support social priorities, such as employment opportunities for vulnerable Queenslanders. By leveraging even a small slice of the Queensland Government's spending to support social priorities, communities across the state can benefit.

Social benefit (or social value) is described as:

*“The positive impacts on people, places or communities generated through procurement practices”.*

While some social benefits, such as greater social justice, cannot easily be quantified, social and economic participation is a key indicator of the overall health and vibrancy of a community. Procurement can assist in advancing government objectives by providing opportunities that support and drive genuine employment for all Queenslanders.

Consideration of social benefits in tendering activity might include things like:

- the creation of training and employment opportunities through clauses and specifications in contracts, particularly for disadvantaged or marginalised jobseekers, such as people with disability
- considering set asides, particularly for low risk/low value purchasing.

Government buyers should, where possible, document in their planning and tender documentation how social benefits will be measured and reported.

For more about consideration of social benefits in procurement, refer to the [Social procurement toolkit](#). The toolkit includes a social procurement guide as well as guidance about including domestic and family violence clauses in procurement processes.

## Specific social targets for Queensland Government

The QPP cites the following social targets and commitments as being relevant to procurement:

- increase spend with genuine, quality, social enterprises, providing award-based wages (using the Supported Wage System where appropriate) and pathways to mainstream employment for disadvantaged Queenslanders
- take into account workplace policies and practices aimed at ending domestic and family violence as part of supplier evaluation and selection
- ensure that all Queensland Government procurement activities are compliant with the *Disability Discrimination Act 1992 (Cth)*.

## Value for money should be considered at each stage of the procurement process

What represents value for money will vary depending on what is being procured – there is no ‘one size fits all’ approach. What ultimately represents value for money will involve achieving the right balance between cost and non-cost factors, government objectives, targets and commitments. Critically, the good or service must effectively and efficiently deliver on the core needs of a procurement.



There is also no set methodology or a single formula that will ensure value for money is realised. Government buyers need to take a planned and considered approach when securing value for money, making reasonable and defensible judgements and decisions. This needs to occur throughout the procurement process and the life of the contract. From understanding what you are going to buy (demand analysis) during the planning phase, to analysis of the supply market, specification and contract development and locking in value while managing the contract.

You may also need to look to your agency procurement plans and relevant category strategies which will guide you in determining what constitutes value for money. Internal clients and end-users are important stakeholders when determining what value for money ultimately looks like.

## Approach to value for money based on the complexity of the procurement

Value for money must be considered in everything we buy. The approach taken will vary based on the value and risk associated with a procurement. For further information about the value risk assessment, refer to the [Value Risk Matrix](#).

**Routine procurement:** These are usually low value, low risk procurements, or purchases, which can be sourced via quotations or purchased using a corporate card. Some questions to ask yourself:

1. does a common-use supply arrangement already exist? Where an arrangement does exist, a basic value for money assessment has been done. Government buyers are encouraged to use common-use supply arrangements as an efficient way to procure goods and services. It is important that buyers seek to add more value by considering current community, government, agency and category priorities when using these arrangements. Buyers can find out more about these arrangements at the [Queensland Contracts Directory](#).

The QPP also allows government buyers to consider a supplier who is not on a common-use supply arrangement where the good or service is to be supplied to regional or remote Queensland. This is another way to secure value, by buying the required good or service and supporting local business

2. if no common-use supply arrangement or contract exists, government buyers should ask whether there is a capable local supplier offering value for money. Low value and low business risk procurements should, where practicable, be delegated to the geographical location where the good or service is to be supplied.

These purchases play an important role in advancing government objectives to support regional and remote economies and create and sustain jobs for Queenslanders. They can also support businesses like social enterprises, which can deliver valuable outcomes in local communities. Refer to [Optimising opportunities for local suppliers](#) and the [Social procurement toolkit](#) for more tips.

**Significant procurement:** These are procurements with a high value and/or for which there is a high degree of business risk and are the primary focus of this guide. Achieving value for money for these procurements requires a well-considered and planned approach to what determines 'value'.

For these procurements value should be considered at each key stage of the procurement.

## Key stages of a significant procurement process



### Why pursuing value for money throughout the procurement process is important

Traditionally, procurement has focused on securing value through formal tender processes. Greater value can be driven by focusing more effort on planning, engagement with industry and more effective contract management.

Doing this acknowledges two things:

- that proper planning is fundamental to securing value for money
- that industry often has great ideas which they can bring to the table. They can also help government agencies structure their procurement approach in such a way that outcomes for all parties are maximised, while the effort and complexity associated with the formal tender process is reduced.

This increased engagement with industry should also carry through to the contract management phase, where government agencies and suppliers work together to drive value through the life of the contract.

For more information about probity and how to engage with suppliers during a procurement project, see [Probity and integrity in procurement guide](#).

## Planning

The Queensland Government uses procurement to advance the government's economic, environmental and social objectives to support the community. Every procurement is different and a decision to advance particular objectives should consider a range of factors, including the characteristics of what is being procured as well as the capability and capacity of the supply market.

Regardless of which approach is pursued it is important it is included from the start during the planning process.

### Securing value for money through process improvements

Agencies should also be mindful that value for money can be secured by ensuring that procurement processes are conducted in an efficient manner. This can be through, for example, simplified tender processes and documentation requirements.

## Category planning

The Queensland Government segments its procurement expenditure into six categories. The lead agency for each category is responsible for developing a category strategy which details the category's approach to value for money, including the advancement of economic, environmental and social outcomes, along with targets and commitments of the government. These strategies therefore act as good starting points in determining what value for money looks like in a particular category. They should also provide direction about which government objectives, targets and commitments are the most relevant, and how these are to be pursued, through the category.

The six categories are:

- Building Construction and Maintenance – led by the Department of Energy and Public Works
- General Goods and Services – led by the Department of Energy and Public Works
- ICT – led by the Department of Energy and Public Works
- Medical – led by Queensland Health
- Social Services – led by the Department of Communities, Housing and Digital Economy.
- Transport Infrastructure and Services – led by the Department of Transport and Main Roads.

In addition to category planning activities, lead agencies often set up common-use supply arrangements or contracts to leverage government's collective buying power. Depending on the government objectives relative to the category or sub-category of spend, specific objectives may be in place through these common-use supply arrangements or contracts targeting small businesses, local suppliers, Aboriginal businesses and Torres Strait Islander businesses, or social enterprises. They may also include targets in support of environmental objectives, local jobs, ending domestic and family violence or supporting other relevant government priorities.

Agencies are encouraged to look at what strategies and arrangements have been put in place through these category plans and are encouraged to actively use the arrangements that

contribute to these targets. The category strategies can be obtained by contacting the category lead while information on existing arrangements is available on the [Queensland Contracts Directory](#).

### Forward procurement pipelines

Category lead teams are also required to co-ordinate with budget sector agencies and produce a forward procurement pipeline which shows all key procurement activity that is expected to occur over at least the next 12 months.

These pipelines help support value for money by promoting forward planning and early engagement with industry. This is particularly important in regional and remote communities, especially construction and maintenance related activity, to help ensure there is a planned supply of work that enables ongoing, stable employment.

### Pre-tender planning

Good planning prior to going to market for a procurement is essential. Government buyers are strongly encouraged to ensure they have a thorough understanding of the outcome being sought and supply market capability.

Government buyers are also strongly encouraged to express the procurement objectives in their tendering documents as outcomes rather than detailed specifications where possible. This enables suppliers to understand what government is trying to achieve and to contribute ideas and solutions for how government might best achieve the objectives. Prescribing a solution through specification may be more expensive or not provide the best result.

#### Local benefits evaluation planning

To help officers quantify the benefit one supplier brings over another, the local benefits criterion can be broken down into sub-criteria to help the evaluation panel score the local benefit in line with the government's priorities. For more information on this refer to our guide on the [Local benefits test](#).

For complex or high-risk procurements, government buyers are advised to seek support and advice from the relevant lead agency category team. Advice should also be sought from the Department of State Development, Infrastructure, Local Government and Planning for significant infrastructure procurement.

Government buyers are also advised to seek input from industry, particularly for complex procurements. It is important that any discussions with industry maintain expected standards of probity. Talking to industry about the objectives being sought in procurement activity, and the problem to be solved, enables collaboration in solution design. It also contributes to improved service delivery outcomes and can help to drive innovation.

#### Frameworks

The Queensland Government uses a range of frameworks to help ensure value for money outcomes. Government buyers should be aware of these when undertaking procurement activities. Some of these include:

- Project Assessment Framework, administered by Queensland Treasury
- Capital Works Management Framework, and the Maintenance Management Framework, administered by the Department of Energy and Public Works

- Transport Infrastructure Project Delivery System, administered by the Department of Transport and Main Roads
- Business Case Development Framework, administered by Building Queensland.

In addition, Public Private Partnerships are subject to the National PPP Guidelines, along with supporting guidelines issued by Queensland Treasury.

## Tender and contracting

### Evaluating for value in quotes and tenders

Typically, an evaluation process will consider both price and non-price criteria in supplier selection. It should also consider relevant economic, environmental and social considerations, as described earlier in this guide.

The emphasis and weighting placed on these criteria are likely to be different for the good/service being purchased and should be determined by the evaluation panel and documented in the evaluation plan prior to the tender or quote being released. For more information about evaluating offers, refer to [Evaluating Offers](#)<sup>2</sup> guide.

The non-cost factors will likely include things such as the quality aspects of a product, the relevant experience of a service provider and many other aspects important to achieving the outcome being sought from the procurement activity.

Government buyers are also encouraged to ensure that the focus remains on the outcome and not having too many criteria to make the process difficult and costly for suppliers and government. Buyers should look for opportunities to generate new ideas and innovation in the solution design.

For example, if an agency genuinely requires a specific quality assurance standard this should be clearly specified and included upfront as a mandatory criterion. This will clearly communicate to suppliers the government's expectations and save some suppliers from submitting an offer when they do not (and do not wish to) hold certain quality assurance. Agencies should always strive to align the procurement outcomes with industry best practice principles.

## Managing contracts

### Contract extensions

Many contracts contain an option to extend after the contract term has expired. It is important that the contract output is examined prior to extending the term to ensure that the agency is still getting a value for money outcome.

Government buyers should consider several factors in this assessment:

- has the market changed significantly since the original procurement was undertaken? *(e.g. are there new competitors or less competitors, has technology changed the way this good/service is used, have there been any significant market disruptions)*
- is the market expected to change over the duration of the extension?

<sup>2</sup> Evaluating Offers [www.hpw.qld.gov.au/SiteCollectionDocuments/ProcurementGuideEvaluatingOffers.pdf](http://www.hpw.qld.gov.au/SiteCollectionDocuments/ProcurementGuideEvaluatingOffers.pdf).

- can we benchmark the prices, and if so, what does it tell us about the current pricing structure in the contract? Is it in line with current market offerings?
- has the supplier been meeting their contractual obligations and key performance indicators?
- what are the benefits and risks associated with exercising this extension?

**Where a contract can be varied or extended consider:**

- if targets and commitments of the government can be included in variations or extensions
- working with a supplier to have them voluntarily incorporate government policy.

## Contract management

To ensure value for money is achieved it is important that what you request in the tender process and a supplier undertakes to do, flows through to the contract and is monitored as part of the contract management process. If applicable, plans for transitioning in and out should be used to better understand each party's obligations during the implementation and end phase. Also consider building in relevant key performance indicators in the contract and check that the supplier is doing what has been agreed. This is highly important in relation to benefits that a supplier has undertaken to deliver, particularly social benefits.

For example, if you had requested that several apprenticeships be created as one of your value for money criteria, then it is important to ensure this requirement has been included in the contract – and that you check to confirm the successful supplier has created and filled the agreed number of apprenticeships.

It is important to remember that the initial value realised during the sourcing process can be quickly reduced if your contract is not managed properly. For further guidance see the [Contract Management Framework<sup>3</sup>](#).

## Learning

Reporting requirements must be commensurate with the size and value of the procurement and should be kept as simple and clear as possible.

Evaluating the value and other outcomes associated with a procurement is easier and more meaningful if it is considered during planning stages and not just at the end of a contract. Clearly articulated, measurable and easily reported outputs and outcomes form the foundation for any evaluation and learning process. Planning for this early takes the hard work out of supplier reporting and outcomes evaluation.

Learning, sharing and applying the lessons from each procurement project is a powerful way to continuously improve and maximise the impact government buyers can have over time.

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<sup>3</sup> Contract Management Framework  
[www.hpw.qld.gov.au/SiteCollectionDocuments/OneGovernmentContractManagementFramework.pdf](http://www.hpw.qld.gov.au/SiteCollectionDocuments/OneGovernmentContractManagementFramework.pdf).

## Appendix 1

**Principle 1** of the QPP details several requirements to help secure value for money. While clause 1.1 is the primary focus of this guide, agencies can also help secure value for money by making sure other clauses are properly implemented.

The below table details these clauses and how they help support securing value for money.

Clause	How it helps support value for money
<p><b>Clause 1.2</b> Agencies will identify the procurement strategy and method (open, limited or selective) most appropriate for delivering the best procurement outcome. This will be based on an assessment of complexity, scope, opportunities and risks associated with procurement objectives, as well as the level of competition in the supply market.</p>	<p>Value for money outcomes are also supported through ensuring that procurement processes are efficient.</p> <p>This clause gives agencies the flexibility to select the most appropriate way to engage the market based on an assessment of the procurement.</p> <p>For example, an agency could choose to maximise competitive tension through an open tender process. Alternatively, an agency could streamline the effort associated with its tender process by directly approaching several suppliers (a limited tender) which its supply market analysis has shown are the only ones capable of delivering the required good/service.</p>
<p><b>Clause 1.3</b> Agencies may deal directly with their own agency or other Queensland Government agencies including commercialised business units.</p>	<p>The government has several internal service providers who can also offer required services to government.</p> <p>To streamline the engagement process, this clause reinforces the ability for agencies to directly engage an internal to government service provider.</p> <p>Agencies should refer to the Advisory Note – Intragovernmental Procurement at <a href="https://www.forgov.qld.gov.au/procurement">https://www.forgov.qld.gov.au/procurement</a>.</p>
<p><b>Clause 1.4</b> Agencies will:</p> <ul style="list-style-type: none"> <li>• use the Queensland Government's QTenders website to publish all open tenders</li> <li>• ensure the Queensland Contracts Directory is maintained and up to date.</li> </ul>	<p>Using QTenders as a 'single point' for all open government tenders means that suppliers interested in tendering have only one website to monitor. QTenders also alerts suppliers to new tender opportunities, which helps to maximise the available supply market.</p> <p>Using the Queensland Contracts Directory ensures that there is a 'single point' for all government common-use supply arrangements. This allows government buyers from across the sector to more quickly and easily buy goods/services rather than having to each time engage with the market. It also helps to secure value by aggregating government expenditure together which, in turn, can help achieve better pricing.</p>
<p><b>Clause 1.5</b> When identifying value for money priorities during category planning activities, category managers will pursue opportunities to advance relevant economic, environmental and</p>	<p>The Queensland Government has adopted a category management approach for procurement. Requiring category strategies to consider government objectives, targets and commitments helps to ensure that these are appropriately integrated and pursued within procurement.</p>

Clause	How it helps support value for money
<p>social outcomes and objectives of the government. This includes factoring the achievement of targets set by government into planning and subsequent procurement activities.</p>	<p>Examples of outcomes relating to added value can be found at <a href="https://www.forgov.qld.gov.au/procurement">https://www.forgov.qld.gov.au/procurement</a>.</p>
<p><b>Clause 1.6</b> Lead agency category teams, in consultation with other budget sector agencies, are responsible for coordinating and publishing a forward procurement pipeline (minimum 12 month forecast) for their category.</p>	<p>Ensuring greater visibility of future supply opportunities gives industry a better chance to prepare and respond to future supply opportunities. It can also help industry by smoothing peaks and troughs in government demand over time. For government, it may also increase the number of interested suppliers, increasing competitive tension in a procurement process.</p>
<p><b>Clause 1.7</b> Statutory bodies, government owned corporations and special purpose vehicles will publish notices of potential future procurements on the Queensland Government's QTenders website, where the agency identifies there would be a benefit to it or the supply market from doing so.</p>	
<p><b>Clause 1.8</b> Agencies will measure and report on procurement benefits in accordance with whole-of-government procurement performance principles issued by Queensland Government Procurement.</p>	<p>To help determine whether value for money has been secured it is necessary to measure and report on procurement benefits.</p>



## Appendix 2

Checklist for identifying whole-of-life costs	
<p><b>Acquisition costs</b></p> <p><i>Associated with the initial procurement</i></p>	<p>These can include:</p> <ul style="list-style-type: none"> <li>• price</li> <li>• costs of capital</li> <li>• freight/transport</li> <li>• permits and fees</li> <li>• survey</li> <li>• design</li> <li>• consulting and contractor costs</li> <li>• legal fees</li> <li>• labour, materials, components</li> <li>• replacement costs</li> <li>• direct communication</li> <li>• warehousing</li> <li>• initial inventory management</li> <li>• initial quality inspection and testing</li> <li>• initial handling and insurance</li> <li>• any modification costs to meet immediate requirements</li> <li>• installation and commissioning</li> <li>• initial training</li> <li>• manuals and support literature</li> <li>• initial consumables</li> <li>• initial spare parts</li> <li>• safety compliance.</li> </ul>
<p><b>Operating costs</b></p>	<p>These can include:</p> <ul style="list-style-type: none"> <li>• fuel or energy sources and charges</li> <li>• operational labour</li> <li>• technology refresh and software licences</li> <li>• security</li> <li>• safety</li> <li>• training</li> <li>• ordering and processing costs incurred by the agency</li> <li>• performance monitoring and managing arrangements</li> <li>• supplier relationship management.</li> </ul>
<p><b>Maintenance costs</b></p> <p><i>Relate to the cost of retaining the asset in a fit, efficient and operable condition (this might vary over the life of the asset according to corporate strategies on maintenance liability and appraisal)</i></p>	<p>These can include:</p> <ul style="list-style-type: none"> <li>• consumables</li> <li>• maintenance of spare parts</li> <li>• inventory and use of spare parts</li> <li>• environmental compliance</li> <li>• software maintenance</li> <li>• external environmental and social impacts</li> <li>• recalibration costs</li> <li>• overhaul and repair – labour and overheads</li> </ul>

<b>Checklist for identifying whole-of-life costs</b>	
	<ul style="list-style-type: none"> <li>logistics, costs of spares including inventory management, warehousing, quality inspection, purchasing, handling, and receipts</li> <li>systems monitoring costs</li> <li>warranty conditions</li> <li>training for operations and maintenance staff</li> <li>contract maintenance.</li> </ul>
<p><b>Cleaning costs</b></p> <p><i>Can be separately identified or included as maintenance costs</i></p>	<p>These can include:</p> <ul style="list-style-type: none"> <li>cleaning labour rates</li> <li>comparative costs associated with types of surface coverings</li> <li>capital expenditure on dedicated cleaning equipment, including discrete operating/maintenance/replacement costs</li> <li>cleaning consumables</li> <li>protective clothing</li> <li>accommodation/storage facilities for cleaning equipment/materials.</li> </ul>
<p><b>Alteration/refurbishment costs</b></p>	<p>These can include:</p> <ul style="list-style-type: none"> <li>upgrade costs including retrofits</li> <li>alteration resulting from future change</li> <li>modification to a standard or to purpose-built</li> <li>those replacement costs that cannot economically be justified over an expected life span, including retraining costs.</li> </ul>
<p><b>Support costs</b></p>	<p>These can include:</p> <ul style="list-style-type: none"> <li>management fees and charges</li> <li>safety compliance costs.</li> </ul>
<p><b>Disposal costs</b></p>	<p>These can include:</p> <ul style="list-style-type: none"> <li>residual/salvage cost</li> <li>asset 'residual valuation' costs/impacts of depreciation</li> <li>disposal method costs, e.g. auctioneers'/agents' fees</li> <li>associated transport and freight</li> <li>decommissioning</li> <li>management and administration</li> <li>labour costs associated with disposal</li> <li>any demolition/destruction costs</li> <li>environmental re-establishment</li> <li>site or environmental remediation.</li> </ul>

## Appendix 3 – Total Cost of Ownership

Total cost of ownership (TCO) is also commonly referred to as the life cycle cost analysis. It considers not just the purchase price, but the ongoing costs of operating or maintaining a product or service for the duration of use.

When considering value for money, it is important to consider the total cost of ownership to appreciate not just present costs but targeted and projected costs in the future.

A practical everyday example would be the purchase of a car – you will need to factor in not just the drive-away price, but servicing the vehicle, registration and insurance costs, and allow for ‘once-off’ costs such as repairs.

### Direct and indirect expenses

A practical way to approach total cost of ownership is to look at both direct, and indirect expenses. Direct expenses are easily tracked and reportable, such as the purchase price of the product and regular servicing; while indirect expenses include potential/unexpected costs and things that can have an unintended flow-on effect.

An example might be the purchase of a new operating system for a company. The company would expect to pay costs around installing the product, training staff in using it, and ‘troubleshooting’ issues for the first few months. An unintended and unexpected costs might be compatibility issues with the new software or significant increases in required service desk assistance.

The table below provides a simple example of how you might look at the lifecycle of the asset and projected costs.

	Initial	Projected First Year	Projected Second Year
<b>Product / service cost</b>			
<b>Implementation cost</b>			
<b>Staff training cost</b>			
<b>Maintenance/upgrade cost</b>			
<b>Once-off costs</b>			