



Procurement Policy Framework

Department of Human Services NSW

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Department of Human Services NSW (DHS) Procurement Policy Framework

In response to the Department of Premier and Cabinet's Red Tape Review recommendation to establish more pre-registration panels and establish a risk framework relating tendering and EOI processes to risk, this *DHS Procurement Policy Framework* has been developed.

The framework aims to streamline funding allocation processes within DHS to build more effective and sustainable relationships with the NGO sector. It is an umbrella framework, under which individual Agency investment and allocation frameworks will be supported.

DHS and Community Services are committed to working with the NGO sector to achieve better outcomes for clients. This framework is one means through which the Department can build relationships, promote greater client choice and test new funding methods.

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1 Purpose

The NSW Government has a range of policies and guidelines on procurement and funding allocation which cover all NSW Government agencies. These policies are underpinned by similar principles including value for money, efficiency and effectiveness, probity and equity and effective competition.

The NSW Government also has a whole of government policy to guide *Good Practice in Grants Administration*.

These policies have an impact on the way in which the Department of Human Services (DHS) allocates funding to its non-government partners.

All decisions made in relation to the expenditure of Government funding must be consistent, transparent and made with the highest degree of probity. Decisions must be well documented to demonstrate accountability and to be able to withstand independent scrutiny.

In addition to meeting general NSW Government requirements, the Department has responsibilities to the other stakeholders: the community in general; service users; and service providers.

This procurement policy framework outlines how DHS will manage the allocation of funding to non-government and local government providers of human services.

Within this framework each DHS agency will prepare a procurement policy for their specific operations.

This framework takes into account administrative reform so that fair and transparent grants funding allocation is based on simplifying complex processes, reducing red tape and minimising costs. The procurement policy framework supports strategies for building an effective and sustainable human service delivery system in that it will be consistent with the direction for the non government sector (NGO) sector articulated in the NGO Red Tape Reduction report, the Industry Development Directions paper developed in partnership with National Disability Services (NDS) and the Keep Them Safe NGO capacity building strategy.

This policy framework is sympathetic to the directions for engagement with the NGO sector recommended by the Productivity Commission, the requirements for transparency and accountability recommended by the Audit Office of NSW and is consistent with the existing capacity building arrangements underway with the sector.

2 Objectives

Through its procurement of funded services, DHS aims to:

- provide a range of services that are responsive and relevant to clients and communities;
- build an effective relationship with the non government sector to maximise outcomes for clients;
- facilitate excellence and innovation and diversity in service provision;

- ensure that service delivery is informed by research, evidence and best practice; and maximise the benefits achieved through available funding (achieve best value for money).

In order to support these objectives the DHS Procurement Policy Framework aims to:

- provide a clear process to support fair, impartial and consistent decision making;
- streamline funding processes (including government policy and protocols) and ensure they are commensurate with risk and the amount of funding available in order to reduce red tape; and
- provide increased information about funding allocations and decision making to improve transparency, create awareness and maximise competition.

3 DHS Funding Approaches

The NSW Department of Human Services recognizes that procurement is just one aspect of the funding process and relationship. The Department has a commitment to positioning its approach to funding of services within the broader context of policy and program development, local and statewide planning, quality and performance monitoring.

The Department is also committed to working together with the non-government sector to achieve better outcomes for individuals, families and communities and in doing so applying the principles and objectives of the *Working Together for NSW* Agreement.

The Department will use four broad processes to allocate funding available under NSW Government and any relevant Australian Government programs:

1. a funding allocation process, resulting in a new or varied funding/service agreement, and for capital grants in some cases a capital deed;
3. an individualized or client directed funding process, and
4. funding renewal processes, resulting in the renewal of an existing funding/service agreement.

4 Funding Allocation Processes

The following sections describe the main funding processes used by DHS agencies and the circumstances in which these will be applied. These methods are applied along a continuum of contestability which is determined based on a range of market and risk factors.

Processes used by the Department are:

1. individualised funding processes
2. direct allocation
3. selective tenders

4. open tenders
5. two-staged processes (including pre-qualified panels)
6. Goods and services



4.1 Individualised funding process

There are instances where DHS provides funding in a way that allows people to exercise more choice and control over their support arrangements – this includes individualized funding arrangements.

The availability of individualised funding arrangements will be significant with the rollout of the second phase of Stronger Together through Ageing, Disability and Home Care.

Other types of individual funding arrangements include:

- attendant care clients have the option of managing their own packages'
- school leavers entering Community Participation have portable funding arrangements and a self managed model
- there are packages for ageing parent carers and some people receiving day supports
- flexible respite officers more choice in the ways families can take a break
- allowances and contingencies are available for children and young people who are unable to live with their parents to assist with the cost of normal living expenses.

4.2 Direct Allocation

Direct allocation is where funds are allocated to a known service provider with no contestable process, generally as a result of limited market, a known specialisation, proven quality, or an identified partnership/investment opportunity.

Increasingly direct allocations will be used by DHS agencies to test new funding methods and relationships.

Direct allocations will be made when:

- There is only one possible service provider in the area or for the service model to be funded.
- Market improvement and/or service system development is the focus and only one provider is positioned to deliver.
- There is an emergency situation where vulnerable clients are at risk.
- Continuity of service provision is required.
- The amount of funding available is relatively small and the cost of administering a competitive process would require a disproportionate use of funds.
- A panel of approved providers or prequalification scheme exists and a transparent mechanism for allocation has been established (eg client choice).
- Competitive tendering options have been exhausted.

Direct allocations will be substantiated in a transparent and open way to ensure that probity considerations are addressed.

4.3 Selective Tenders

Under a selective tender, funding applications are sought from a limited number of organisations.

Invited organisations will be identified based on their demonstrated performance, the location in which they operate, the service activities that they undertake, and/or research of the market or service models.

This process will be used when:

- There are a limited number of organisations in the market that can provide the service in the required area.
- The market or service system is small, specialised or requires development.
- DHS wishes to supplement a range of existing providers by supporting particular service models.
- The amount of funding available is moderate.
- The cost of administering an open tender process would be a disproportionate use of project funds.
- A pre-qualified list or panel of approved providers exists and more than one of these could provide the service and none of the criteria for direct allocation is satisfied.

4.4 Open Tenders

Open tenders involve a process of public advertisement inviting all organisations meeting the necessary criteria (legal status etc) to apply for funding to deliver the advertised service.

All open tenders will be conducted with the goal of selecting the best provider and achieving value for money from competitive proposals.

This process will be used when:

- There are sufficient providers to make up a competitive market.
- DHS wishes to attract new providers to the market.
- The initiative to be funded is new and the capacity of the market is unknown.
- The services to be delivered are tightly specified.
- Competition does not have adverse impacts on service continuity, integration and partnership priorities.
- Innovation is desired and DHS wishes to test the market for new approaches to client needs.
- There is a large amount of funding to be allocated.
- No pre-qualified list or panel of approved providers exists.

4.5 Two Stage Processes

Two stage procurement processes typically involve:

1. a call for submissions or expressions of interest, and
2. a process to narrow the field of potential providers usually involving either a selective tender, or secondary submission process).

Typically two-stage processes are used to establish and then allocate funding from a pre-qualified panel of providers, with Stage 1 involving the establishment of the panel and Stage 2 involving selection of the most appropriate provider if further differentiation is required for a particular service.

DHS may run a preliminary process in limited circumstances to support efficient and effective funding. Two stage processes may be used when:

- DHS wants to support client choice from a panel of approved providers, where the service provider holds the funds.
- An ongoing need to allocate funds for a specific purpose over a period of time exists and a prequalification scheme would streamline this process.
- New entrants and/or innovation is sought and a preliminary stage allows DHS to canvass the market.
- The amount of funding to be allocated justifies the costs of running (and in some cases maintaining the results from) a preliminary process.

4.6 Goods and Services

DHS will use a goods and services procurement process in limited circumstances where the duration of the project is time limited and a contractual relationship with the provider is

desirable. An example would be the development of an evaluation framework to measure the efficacy of a new service model. This process would be subject to the requirements of the Public Sector Management (Goods and Services) Regulation 2000, NSW Government procurement policies and relevant guidelines.

A goods and services tendering approach may be used when:

- the requirement can be clearly specified and value for money determined;
- competition in relation to price is a key consideration;
- the time limited nature of the contract will not impact on service continuity for clients;
- the good and/or service is being procured by the Department for its use or provision to clients on its behalf.

5 Funding Renewal

DHS funds a number of services on an ongoing basis to meet long term client and community needs. Most of these arrangements have been in place for many years. Generally funding cycles are 3 years, however the Department will be exploring longer funding terms and renewal options.

At the end of a Funding/Service Agreement cycle DHS will review its arrangements with funded service providers. Generally a new Funding/Service Agreement will be offered if:

- there is a continuing need for the service in its current form;
- the service provider has met all of their obligations under the Agreement and has a record of satisfactory performance; and
- funds for the program or activities continue to be available from Government appropriations.

The allocation methods described in this policy statement are used to allocate funding that can be:

- applied to an existing service to expand supply, or
- used to establish a completely new service.

Generally these processes will result in a variation to an existing funding arrangement.

From time to time decisions can be made to transfer the funding allocation for services where a NGO wishes not to continue to deliver the service, or there are issues with the service delivery and the service is still required to meet local demand. Transferring funding will be undertaken in accordance with this Framework.