

Construction Procurement Policy - NSW Department of Health

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Functional Sub group Corporate Administration - Asset Management

Summary Sets out the reporting, assessment and monitoring requirements for construction works.

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Applies to Area Health Services/Chief Executive Governed Statutory Health Corporation, Board Governed Statutory Health Corporations, Affiliated Health Organisations - Non Declared, NSW Ambulance Service, NSW Dept of Health

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Director-General

This Policy Directive may be varied, withdrawn or replaced at any time. Compliance with this directive is **mandatory** for NSW Health and is a condition of subsidy for public health organisations.

CIRCULAR

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**NSW DEPARTMENT OF HEALTH
CONSTRUCTION PROCUREMENT POLICY**

NSW Treasury has assumed the responsibility for Total Asset Management (TAM) Policy and the role and functions of the Government Asset Management Committee (GAMC) Secretariat previously managed by the Department of Commerce.

NSW Treasury has issued Circular NSW TC 04/07 and Policy Paper TPP04-1 to inform government agencies that the Government has approved a range of reforms to commence on 1 July 2004 designed to improve the procurement outcomes of NSW Government agencies.

The objectives of the Procurement Policies are to assist agencies to make appropriate and informed decisions, particularly with respect to major procurements, without diminishing their accountability for outcomes. The Policy will also enable NSW Treasury to adopt a greater role in assessing and monitoring major capital works construction projects valued at \$1 million or greater.

This Circular addresses construction procurement and is intended for all personnel involved in capital and infrastructure planning and construction procurement.

The Process of Facility Planning Review

The NSW Department of Health's Process of Facility Planning (POFP), now under review, incorporates the new NSW Government Procurement Policy requirements. The new POFP will be finalised by mid September 2004 and will be issued under a separate Circular as a Working Draft for twelve months. The Treasury monitoring requirements are built into the revised POFP therefore by following the POFP Area Health Services will be meeting the requirements of the Procurement Policy.

Treasury's monitoring regime is illustrated in attached matrix. The matrix has been developed to indicate alignment of the NSW Government Procurement Policies with the Department's proposed POFP. In particular it illustrates the:

- Planning and delivery phases;
- Ten stage Procurement Process; and
- Appraisal and monitoring requirements for construction projects.

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In accordance with the provisions incorporated in the Accounts and Audit Determination, the Board of Directors, Chief Executive Officers and their equivalents, within a public health organisation, shall be held responsible for ensuring the observance of Departmental policy (including circulars and procedure manuals) as issued by the Minister and the Director-General of the Department of Health.

The NSW Government Procurement Policy documents are summarised in the NSW Treasury Circular (TC04-07) http://www.treasury.nsw.gov.au/pubs/04_tcirc/tc04-7.pdf and Treasury Policy Paper (TPP04-1) <http://www.treasury.nsw.gov.au/pubs/tpp2004/tpp04-1.pdf>

Key Impacts of the NSW Government Procurement Policy include:

1. **A single Code of Practice for Procurement.** This Policy outlines a framework for all business relationships and replaces eight existing Codes and Guidelines relating to government procurement. The Code of Practice for Procurement can be accessed at: http://www.treasury.nsw.gov.au/procurement/pdf/code_of_practice.pdf
2. **A ten stage procurement process map** has been developed for three main categories of procurement - construction, information and communication technology, and goods and services. The NSW Health POFP is aligned with the ten step procurement process for construction. This ten stage procurement process can be accessed at: <http://www.treasury.nsw.gov.au/procurement/10-step-const.htm>
3. **The Gateway review process** is mandatory at the Project Definition Plan stage for all high risk procurement or all procurements valued at \$10 million or more. Further Gateway Reviews may be considered to be appropriate depending on the project Risk Profile. This Gateway Review process uses independent experts to assess whether an appropriate level of discipline is applied at key stages of the procurement cycle, without diminishing agency accountability. The Director, Asset and Contract Services (A&CS), NSW Health will be the sponsor of Gateway Reviews across the Health System. A&CS will co-ordinate all Gateway Reviews with Area Health Services involved in construction projects. The Gateway review process can be accessed at: <http://www.treasury.nsw.gov.au/procurement/pdf/gateway.pdf>

Project Risk is assessed using a **Risk Profile Assessment tool**, which is part of the Gateway process. Area Health Services are to undertake Risk Profile Assessment for all capital projects equal to or >\$1 million and provide the results with routine submissions of Service Procurement Plan (Procurement Feasibility Plan) and Project Definition Plan to the Department. The Risk Profile Assessment tool can be accessed at: <http://www.smarterbuying.nsw.gov.au/gateway/>

4. **Business Cases** are required for all projects where the capital value (irrespective of the method of funding) exceeds \$1 million. A “business case” is a form of advice, providing a substantiated argument for a project or program proposal requiring a resource investment, often including a financial commitment. The form of Business Case for construction procurement in NSW Department of Health will be presented as a Preliminary outline at the Service Procurement Plan stage and a refined Business Case at the Project Definition Plan stage.
5. **Enhanced Treasury Monitoring for construction or procurement projects.** Treasury will also adopt a greater role in monitoring major construction projects valued over \$1 million throughout the procurement cycle. The Enhanced Treasury Monitoring document can be accessed at: <http://www.treasury.nsw.gov.au/procurement/pdf/monitor.pdf>

For high risk projects and other projects valued at \$50 million or more the following additional reports are required to be submitted by the Department to Treasury:

- Project Appraisal Report
- Procurement Strategy Report and pre-tender estimate prior to the calling of tenders.
- A post tender review report prior to the contract award.
- Material variations report during project delivery.

For projects valued between \$10 million and \$50 million and not considered high risk, Treasury requires:

- Business Case Gateway Review and the Economic Appraisal
- Project Risk Assessment report
- A procurement strategy report and pre-tender estimate prior to the calling of tenders.

For projects valued at between \$1 million and \$10 million and not considered a high risk, Treasury requires:

- Project Risk Assessment report and summary of economic appraisal

The enhanced Treasury monitoring generally will only apply to construction projects yet to have funding approved or for projects classified by the NSW Department of Health as high risk or valued at \$50 million or greater.

Any inquiries concerning this circular should be directed to Patsy Choo, Manager, Asset Management Services, on 9391 9435.

When seeking planning approvals and/or funding for Capital Works, Area Health Services are to meet these new requirements as a minimum .

Robyn Kruk
Director-General

**Alignment of NSW Department of Health's Process of Facility Planning to
NSW Government Procurement Policy**

Treasury Construction Capital Works Phase	Treasury Construction Procurement Process Map	Proposed NSW Health Process of Facility Planning	TREASURY APPRAISAL/MONITORING REQUIREMENTS FOR CONSTRUCTION PROJECTS			Typical Deliverables
			\$1 – 10M	\$10 – 50M	>\$50m	
PLANNING PHASE	1. Services Demand Identification	Clinical Services Plan				
	2. Service Delivery Options 3. Justification of Proposed Options	Service Procurement Plan (SPP)	<ul style="list-style-type: none"> - Preliminary Outline Business Case - Executive Summary of SPP and planning estimates - Risk Profile Assessment 	<ul style="list-style-type: none"> - Preliminary Outline Business Case - Executive Summary of SPP and planning estimates - Risk Profile Assessment 	<ul style="list-style-type: none"> - Preliminary Outline Business Case - Executive Summary of SPP and planning estimates - Risk Profile Assessment 	Executive summary submitted to Treasury including: <ul style="list-style-type: none"> • Consistency with Corporate Objectives • Preliminary FIS (indicative capital & recurrent cost estimates) • Scope & Objectives • Service Delivery options study¹ • Stakeholder analysis¹ • Preliminary Economic and Financial Appraisal Project Strategy Report¹ • Asset Strategy¹
	4. Project Definition	Project Definition Plan (PDP)	Business Case: <ul style="list-style-type: none"> • Scope and objectives of project² • Economic Appraisal² • Technical/Impact Reports supporting Economic Appraisal² • Financial Appraisal² • Financial Impact Statement² • Risk Assessment, Mitigation and Valuation² Submission to the Budget Committee of Cabinet: <ul style="list-style-type: none"> • Feasibility study³ • Economic/Financial Appraisal³ • VMS for projects of value \$5M and over³ • Risk Management Plan³ Submission to Treasury in support of budget bids prior to submission to BCC: <ul style="list-style-type: none"> • Summary of economic appraisal² • Project Risk Assessment² 	Business Case: <ul style="list-style-type: none"> • Scope and objectives of project² • Economic Appraisal report² • Technical/Impact Reports supporting Economic Appraisal² • Financial Appraisal² • Financial Impact Statement² • Risk Assessment, Mitigation and Valuation² • Gateway Review Report² Submission to the Budget Committee of Cabinet: <ul style="list-style-type: none"> • Feasibility study³ • Economic/Financial Appraisal³ • VMS³ • Risk Management Plan³ Submission to Treasury in support of budget bids prior to submission to BCC: <ul style="list-style-type: none"> • Gateway Business Case Review Report (mandatory)² • Economic Appraisal² • Risk Profile Assessment² 	Business Case: <ul style="list-style-type: none"> • Scope and objectives of project² • Economic Appraisal report² • Technical/Impact Reports supporting Economic Appraisal² • Financial Appraisal² • Financial Impact Statement² • Risk Assessment, Mitigation and Valuation² • Gateway Review Report² Submission to the Budget Committee of Cabinet: <ul style="list-style-type: none"> • Feasibility study³ • Economic/Financial Appraisal³ • VMS³ • Risk Management Plan³ Submission to Treasury in support of budget bids prior to submission to BCC: Project Appraisal Report including: <ul style="list-style-type: none"> • Economic Appraisal² • Risk Profile Assessment² • Financial Impact Statement² • Gateway Business Case Review Report (mandatory)² 	<ul style="list-style-type: none"> • Benefits Realisation Register¹

- REFERENCES:
1. NSW Government Procurement Policy – Policy and Guidelines Paper
 2. Treasury Appraisal/Monitoring for Construction Projects
 3. Construction Procurement – Process Map

Alignment of NSW Department of Health's Process of Facility Planning to NSW Government Procurement Policy

DELIVERY PHASE	5. Procurement Strategy 6. Specification 7. Service Provider Selection 8. Implementation	Project Implementation (PI)	No requirements.	Prior to calling tenders: <ul style="list-style-type: none"> • Procurement Strategy Report ² <ul style="list-style-type: none"> - Contracting methodology - Proposed Procurement Process - Project Delivery timetable - DA Process - Implications for economic and financial appraisal - Treasury approval may be required • Pre-Tender Estimate ² <ul style="list-style-type: none"> - Letter from Agency - Variations – report on major source of variation and reasons for variations. 	Prior to calling tenders: <ul style="list-style-type: none"> • Procurement Strategy Report² • Pre-Tender Estimate (PTE) ² • If disposal of Govt. assets without the receipt of a cash payment, Treasurer approval is required prior to seeking proposals from the private sector. ³ Prior to tender award: <ul style="list-style-type: none"> • Post Tender Review Report ² <ul style="list-style-type: none"> - Letter confirming price, scope of works, contract consistent with pre-tender estimate. - Where preferred bid is not consistent with PTE <ul style="list-style-type: none"> -Provide reconciliation between tendered cost and PTE -Comprehensive explanation for variations - Summary of Commercial arrangements - Updates regarding Accounting treatment - Project Delivery timetable <p>(Agency is required to consult with Treasury in all cases on the results of the Post Tender Review before contract signing.)</p> During Construction: <ul style="list-style-type: none"> • Material Variations Report ² <ul style="list-style-type: none"> - Estimate of cost variation - Revised program for delivery – changes from original program - Explanation for variation - Explain how the change in cost will be funded. 	<ul style="list-style-type: none"> • Project Procurement Plan ¹ • Project Brief ¹ • Risk Management Plan ¹ • Benefits Management Plan ¹ • Approval to contract with recommended tenderer ¹ • Asset Management Information¹ <p style="color: green;">Approval should be sought from Agency for the Procurement Plan prior to proceeding.³</p>
	9. Operation 10. Evaluation	Post Occupancy Evaluation (POE)				<ul style="list-style-type: none"> • Operation plans ¹ • Maintenance Plans ¹ • Post Completion and/or Post Implementation Review ¹ • Benefits Realisation Report ¹

Note:

- Agency in this instance is NSW Department of Health
- Every capital works/program valued at \$1M or above is required to undertake a Risk Profile Assessment and included with the routine Economic Appraisal for submission to Treasury. ⁴
- Treasury approval required prior to awarding tender for projects over \$50M or high risk.²
- Enhanced Treasury monitoring will only apply to construction projects yet to have funding approval/classified as high risk/valued >\$50M⁵

REFERENCES:

1. NSW Government Procurement Policy – Policy and Guidelines Paper
2. Treasury Appraisal/Monitoring for Construction Projects
3. Construction Procurement – Process Map
4. Agency Accreditation Scheme for Construction Projects
5. Treasury Circular NSW TC 04/07 - Procurement Policy Reform