



PROCUREMENT POLICY AND FINANCIAL DELEGATIONS UPDATE

WARD:

WHOLE OF MUNICIPALITY

GENERAL MANAGER:

CHRIS CARROLL, ORGANISATIONAL PERFORMANCE

PREPARED BY:

WAYNE MOORE, COORDINATOR CONTRACTS, PROCUREMENT & FLEET

TRIM FILE NO:

16/01/654

ATTACHMENTS:

1. Procurement Policy

PURPOSE To outline the results of the annual review of the Procurement Policy and seek approval of the revised Procurement Policy.

1. RECOMMENDATION

That Council:

- 1.1 Notes that the annual review of the Procurement Policy has been completed that facilitates increased efficiency, probity and sustainability.
- 1.2 Adopts the Procurement Policy 2017 (Attachment 1).

2. BACKGROUND

- 2.1 In November 2008 amendments to the *Local Government Act (1989)* were passed including Section 186A which requires Council to prepare and approve a Procurement Policy.
- 2.2 The Act also requires that Council review the Procurement Policy annually and make it available for public inspection.
- 2.3 The Finance department has led the annual review of the Procurement Policy with support from an internal stakeholder and advice from Arc Blue, an independent procurement specialist.



3. KEY INFORMATION

Context

- 3.1 The procurement profile and performance measures from the past three years is summarised in the following table;

Indicator	2014/15	2015/16	2016/17
Total number of purchase orders	13,229	12,074	11,679
Total invoices paid	\$131,169,270	\$124,090,873	\$134,668,934
Number of public tenders	56	100	83
Total expenditure under contract	\$66,862,995	\$69,731,682	\$75,053,547
% of purchase orders raised prior to invoice	85	83	85
Number of breaches of section 186 of the LGA	Nil	Nil	1*
Negotiated savings through best and final offer	N/A	\$724,397	\$505,099

- Reported in the CEO Report in June 2017. Investigation identified improvement opportunities which are being implemented through changes proposed to this Policy and related guidelines.

- 3.2 Analysis of the procurement activity highlights a continued reduction in the number of purchase orders raised in 2016/7 notwithstanding an increase in value procured.
- 3.3 The overall percentage of total expenditure resulting from a competitive tendering process has increased slightly to 56%.
- 3.4 Council is working with our neighbouring councils to develop collaborative procurement opportunities. Port Phillip City Council has signed a Memorandum of Understanding with the City of Melbourne, City of Yarra and City of Maribyrnong. To date we have completed tenders for Security Services and Coin Collection, Counting and Banking Services. The latter contract resulted in savings of \$200,000 in the first year of the contract.
- 3.5 The procurement team has also helped progress the Melbourne Renewable Energy project to tender evaluation stage with the City of Melbourne and other partners.



Summary of key changes

- 3.6 A requirement to develop and report against a rolling four-year Enterprise Procurement Plan updated annually outlining all major procurement activity. This will enable a more strategic and planned approach to procurement and be used as tool for identifying collaboration opportunities with other councils.
- 3.7 A comprehensive review of our delegation framework including benchmarking with similar Councils has identified a number of proposed improvements:
- 3.7.1 The current delegation framework provides the CEO with a \$1M delegation if the preferred tenderer submits the lowest price, however this delegation reduces to \$500,000 if the preferred tenderer does not submit the lowest price. It is proposed to remove this distinction and streamline this whereby the CEO has a \$1M delegation in all instances. This is in line with Council's focus on best value versus lowest price. The requirement for contracts above \$1M regardless of price to go to Council remains.
- 3.7.2 The current Financial Authority Limits and Power to Enter into Contracts are structured in separate delegation tables. In order to provide greater clarity, it is proposed to merge these two frameworks.
- 3.7.3 The delegation levels for managers, coordinators and team leaders have been increased to better reflect the operational nature of these roles. The proposed change will assist with streamlining the decision making process at all levels of the organisation.
- 3.7.4 Section 186(5)(a) of the *Local Government Act* makes provision for Council to exempt expenditure due to emergency situations. The Victorian Local Government Best Practice Procurement Guidelines 2013 identifies the key emergency characteristics:
- The occurrence of a natural disaster such as flooding, bushfire or epidemic,
 - Flooding or fire to Council premises,
 - Unforeseen cessation of trading of a core service provider,
 - Any other situation which is liable to constitute a risk to life or property.
- In order to provide greater clarity to the emergency provisions, it is proposed to provide the CEO with a \$5M delegation in emergency situations. The contract must be limited to that required to deal with the emergency while a compliant process is conducted.
- 3.8 The introduction of Procurement Cards to streamline the process for low value, low risk and repetitive procurement. Robust business rules will be incorporated within our processes and procedures to ensure we meet the organisation's probity requirements.



- 3.9 Amendment of the spend threshold table to better align with our expenditure profile and to reflect the introduction of Procurement Cards. These changes will streamline low value low risk expenditure enabling greater focus and support on high value high risk expenditure. The key changes include:
- 3.9.1 Enabling the use of Procurement Cards for expenditure up to \$10,000.
 - 3.9.2 An increase in the current \$10,001-\$25,000 threshold (two written quotes) to \$50,000.
 - 3.9.3 Removal of the current \$25,001-\$100,000 (three written quotes) and \$100,001 to \$149,999 (three written quotes via Tenderlink) thresholds.
 - 3.9.4 A new threshold of \$50,001 to \$149,999 requiring three written quotes – with Tenderlink optional but a range of more specific management requirements.
- 3.10 An increased emphasis on Corporate Social Responsibility (Sustainable and Ethical Procurement). As per section 7 of this report.
- 3.11 Enhanced monitoring and reporting including:
- 3.11.1 A monthly reporting to Senior Managers on purchase order compliance and vendor spend levels.
 - 3.11.2 A quarterly report to the Executive Leadership Team outlining progress against the Procurement Plan, compliance with key internal controls, financial savings and economic, environmental and social benefits achieved through procurement.
 - 3.11.3 An annual report to the Audit and Risk Committee and the Council on annual procurement activity, compliance with key internal controls, financial savings and economic, environmental and social benefits achieved through procurement.
- 3.12 Greater clarity on the Procurement Policy exemption process – designed in part to address the breach of the legislative tender thresholds.
- 3.13 The Victorian Local Government Best Practice Guidelines 2013 states that Councils must undertake a public tender for insurances. As insurance premiums are reviewed on an annual basis it is proposed to streamline the process and delegate to the CEO to approve annual insurance policy renewals following a public tender process.



FURTHER SUPPORTING INFORMATION

4. ALIGNMENT TO COUNCIL PLAN AND COUNCIL POLICY

- 4.1 The Policy supports the draft Council Plan 2017- 2027. The key alignments include:
- Direction 3 we have smart solutions for a sustainable future. Broader sustainability engagement in procurement decision making together with an integrated sustainability training program supports this objective.
 - Direction 6.1 transparent governance and an actively engaged community. The consistent application of sound procurement processes promotes a culture of good governance.

5. CONSULTATION AND STAKEHOLDERS

- 5.1 The review was informed by ongoing feedback from key stakeholders across the organisation.

6. LEGAL AND RISK IMPLICATIONS

- 6.1 Policy is a requirement of Section 186 of the Local Government Act.
- 6.2 The revised policy seeks to reduce the risk of legislative breach through enhanced monitoring and reporting of procurement activity and more detailed guidance on policy exemptions.

7. SUSTAINABILITY – Triple Bottom Line

7.1 ENVIRONMENTAL, SOCIAL, CULTURAL AND ECONOMIC IMPLICATIONS

- 7.1.1 The proposed policy seeks to enhance environmental, social and economic sustainability through:
- 7.1.1.1 Enhanced requirements to consider these aspects in procurement planning and decision making.
- 7.1.1.2 Allowing, all other things being equal, a price preference of up to 10 per cent for:
- the purchase of recycled and environmentally preferable products
 - goods with relevant ecolabels and certification
 - purchase of goods, machinery or material manufactured in Australia and New Zealand
 - purchases from social enterprises.
- 7.1.1.3 For procurements over \$1m, a requirement for the Sustainability and Transport Department to be engaged in the process and for tenderers to provide a Corporate Social Responsibility statement.



- 7.1.1.4 Engaging Ecobuy, Supply Nation (Indigenous Business Directory), and Social Procurement Australia to help improve our sustainable procurement capability and practices.

7.2 FINANCIAL IMPLICATIONS

- 7.2.1 The proposed changes will require approximately \$30,000 per annum for membership with and support from peak bodies related to sustainable procurement. Effort will be made to fund this through reprioritisation.
- 7.2.2 The use of purchasing cards will lower costs offsetting increased costs related to high value tenders.

8. IMPLEMENTATION STRATEGY

8.1 TIMELINE

- 8.1.1 Following adoption, the Procurement Policy will be updated on both the intranet and internet by July 1 2017.
- 8.1.2 An internal communication will be sent to staff advising them of the revised changes by July 1 2017.
- 8.1.3 The ongoing procurement and contract management training program will continue and reflect the changes introduced in this Policy.

8.2 COMMUNICATION

- 8.2.1 In accordance with the requirements of Section 186 of the Local Government Act 1989 the procurement policy must be reviewed and approved by Council on an annual basis.
- 8.2.2 The proposed changes to the Procurement Policy are largely designed to improve the efficiency of low value low risk purchases while increasing the focus on high value high risk purchases. They also seek to improve the environmental, social and economic outcomes from our procurement activities.

9. OFFICER DIRECT OR INDIRECT INTEREST

- 9.1 No officers involved in the preparation of this report have any direct or indirect interest in the matter.