



***Productivity Commission
Inquiry into Local Government
costs and efficiency***

LGA Procurement Submission

October 2019

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Introduction

LGA Procurement is a private company that was established by the Local Government Association to help South Australian councils undertake best practice procurement and deliver value for money. This is achieved through:

- Developing and maintaining a suite of managed goods and services contracts that enable councils to access robust, streamlined, aggregated procurement arrangements;
- Providing a comprehensive set of best practice procurement and contracting tools and resources;
- Providing tendering and contracting advice and support services;
- Preparing and managing tenders and tender evaluations on behalf of councils;
- Facilitating the exchange of knowledge about products, services and developments of interest to the sector;
- Delivering professional development and procurement leadership to the sector; and
- Supporting wider sector development via a shareholder return to the parent company - the LGA of SA.

Being a commercial organisation with its own Board and CEO with a “not for profit” ethos, LGA Procurement does not have a policy-setting or lobbying agenda. Rather, the organisation focusses on achieving best practice through a combination of the above listed activities.

This document outlines LGA Procurement achievements to date, sector wide positive outcomes and challenges and 10 key recommendations.

Thank you for the opportunity to make this submission. I would be happy to elaborate on any of the items raised.

Yours Sincerely,



Andrew Haste
Chief Executive Office LGA Procurement
15 October 2019

LGA Procurement Achievements



LGA Procurement in the 2018/19 financial year achieved:

- Estimated \$10m in direct savings to councils through negotiated pricing and red tape reduction;
- Estimated red tape savings to businesses of \$6m through simplified procurement processes;
- Increase in the number and diversity of South Australian businesses working with South Australian councils through LGA Procurements managed contracts;
- Sector consultation and establishment of working parties when developing new and revised preferred supplier arrangements;
- Over 100 council staff trained in several courses, including procurement essentials, advanced procurement, contract management, tenders and specifications, and procurement planning and management; and
- Growth in consultancy business to deliver best value outcomes for clients.

Specific examples of projects that LGA Procurement has undertaken to achieve this includes:

- Aggregated procurement of sector-wide electricity contracts that will, over the next three years (2020-2022 calendar years), save councils an estimated \$14m on current pricing. Councils have benefitted from similar market leveraged favourable performance over many years;
- Establishment of an Australian-first Microsoft Enterprise Agreement under LGA Procurement, allowing all SA councils to achieve best possible pricing without needing to overcome previous “head count” barriers;
- Growth of direct consultancy services to the sector that are supportive of cost:time pressures offering certainty and independence of process and innovative, flexible outcomes;
- A focus on regional capability building through staff placed in two regional councils (District Council of Yankalilla and the City of Port Lincoln);
- Establishment of more preferred supplier panels that have a local economic benefit focus and regionally relevant choices for councils; and
- A range of nationally developed panels with partner LGA organisations that leverage volume and centralised “national” pricing benefits.

Through our engagement and close work with the South Australian local government sector, LGA Procurement has firsthand experience and understanding of the challenges facing councils achieving best value for money in their procurement activities.

Supplier Engagement

LGA Procurement is uniquely positioned through its Supplier Engagement Program to understand the positive outcomes and challenges facing local business in engaging with councils. The program is designed to:

- a) improve outcomes for councils in terms of service, innovation and pricing; and
- b) provide suppliers with a cost-effective market response mechanism that allows them to reduce their costs of doing business (with councils), better understand the risk and reward triggers across the sector and ultimately build resilient businesses that remain able to provide (ideally local) solutions well into the future.

LGA Procurement is pleased that its Supplier Engagement program has demonstrated success in meeting these key objectives and can cite many examples of where these have been achieved. For the purposes of this submission these examples remain Commercial & In Confidence but could be provided under a future confidentiality arrangement if required.

Sector Wide Positive Outcomes

LGA Procurement has noted many positive developments in procurement practices across the sector in recent years, including:

- Heightened consideration of local and sustainable procurement in determining value for money;
- A steady increase in the level of training being completed by staff undertaking procurement processes within councils with an increasing awareness of how procurement responsibilities are often spread across many staff;
- An increasing focus from councils and groups of councils in seeking ways to reduce risk, meet local supply chain expectations and improve value for money outcomes through aggregated or refreshed procurement approaches;
- Increasing sophistication in seeking and evaluating new and emerging technologies and innovations rather than relying on following previous patterns;
- A willingness to review and challenge pre-existing procurement arrangements with a focus on fair play and contractual surety; and
- A willingness to utilise centralised, aggregated procurement panels as a way of reducing risk, time, effort and supplier confusion whilst providing proven value for money and contract management benefits.

LGA Procurement is pleased to note the above practices and developments (of which there are many more) but believes a broader adoption of higher-level procurement principles will lead to improved outcomes in terms of value for money, reduction of risk, greater clarity of expectation and increased transparency and fairness.

Sector Wide Procurement Challenges

LGA Procurement has observed the following examples of the challenges faced across the sector, including:

- Procurement policies that are often structured to be prescriptive and restrictive (e.g. pre-set arbitrary dollar value thresholds requiring certain procurement processes) rather than a risk and complexity determination on directions forward that allows for innovative practices and appropriate risk management (i.e. cost and risk are not necessarily linked);
- Signalling of project budget through publicly available data can lead to a pre-determined pricing outcome;
- A propensity for disunity across the sector for the procurement of same/similar things directly impacting the cost of doing business with the sector in responding and winning work. The extra associated costs are often passed on to the buyer as a result;
- Overly difficult &/or complex tendering documentation that causes doubt amongst suppliers in how to respond resulting in a risk premium being included in pricing, or a low tender response rate being realised;
- Developing overly prescriptive procurement/project scopes that restrict innovation or fit for purpose, pragmatic market responses;
- Observed lack of connection between the procurement process and the subsequent contract management leading to potential for price over runs;
- A lack of clear, manageable and managed KPI's within contracts that can also lead to project variations and cost impacts;
- Only a small number of councils can sustain trained, focused specialist procurement staff;
- A lack of recognition of the internal cost attribution to procurement staffing and activities summed up as "we have to do something with our time" rather than making use of existing, well-proven alternative preferred supplier panel arrangements;
- Hesitance to engage appropriately with suppliers before and after a procurement process, particularly in doing market research and then providing feedback to unsuccessful suppliers;
- The above hesitance may be a direct result of a fear or misunderstanding of how the Office of Public Integrity may interpret such actions;
- Exploring more options for collaboration between council groups to allow the market to respond with a more cost-effective solution;
- Accurately recognising and accounting for the costs associated with conducting a sound and meaningful procurement process; both in terms of internal costs and costs transferred to suppliers in responding competitively with full compliance to all requirements;
- Legacy behaviours and relationships that are often not founded under a valid or current contract or have no regular market pricing review;
- The juxtaposition of meeting local supply requirements and achieving broader market pricing benefits and lead to extra costs being realised. Many councils Procurement Policies allow for a local supply pricing premium however; and
- An inclination for conducting multiple similar "trials" of established technologies and processes without ongoing commitment can drive prices higher e.g. some circular economy and smart cities solutions.

Key Recommendations

Based on the experience of LGA Procurement, key recommendations that could continue to improve procurement outcomes, efficiency and value for money in local government include:

1. Recognition of procurement (both on the buyer and vendor side of the transaction) as being an essential skill for councils and businesses requiring an upward shift in status of the profession;
2. Continued capacity building of local government staff that undertake procurement with the development of a minimum standard of on-job experience, training or qualification being required;
3. Continued upskilling of suppliers to improve chances of winning work through a structured training program tailored for the sectors requirements;
4. Evolved standardised procurement documentation and technologies to streamline process and engagement improving efficiencies;
5. Adoption of a new contemporary Model Procurement Policy that promotes good practice market engagement, flexible risk-based thresholds and innovative evaluation methodologies;
6. Mandated requirement for councils to act in unison to leverage sector wide buying power and respectful behaviour when dealing with suppliers. This is ideally conducted through the current and future services of LGA Procurement in its role or supporting all LGA members;
7. Establishing of a mandated procurement focused training module for elected members focusing on their roles, responsibilities and limitations within the procurement process and clearly understanding the conduct of local supply;
8. Required annual reporting by councils of internal full cost attribution associated with the acquisition of goods and services outside of an aggregated arrangement;
9. Sector wide implementation of a standard risk assessment methodology in lieu of traditional simple dollar value thresholds; and
10. A requirement for independent probity support to be linked to this risk assessment determination.



Procurement

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