

28 October 2019

Dr Matthew Butlin  
Presiding Commissioner  
South Australian Productivity Commission  
GPO Box 2343  
ADELAIDE SA 5001



Dear Matthew,

### **SA PRODUCTIVITY COMMISSION – LOCAL GOVERNMENT EFFICIENCY INQUIRY**

Following on from the Commission Roundtable held on 15 November 2019, to discuss procurement practices in local government, I present this submission help to identify the key issues and common concerns regarding the efficiency and effectiveness of the procurement of goods and services within the local government sector.

In April 2018, the Network of Procurement Professionals provided the Local Government Association of SA a Discussion Paper with the intent of strengthening the relationship between the NPP and the LGA and raising the profile of procurement within the policy areas of the LGA.

The following document largely follows the Discussion Paper that was presented to the LGA.

### **BACKGROUND**

The Network of Procurement Professionals was formed by a group of Council employees working in the area of procurement. The aim of the group was to share knowledge and information in order to develop the profile of procurement. The NPP is an informal and voluntary group of representatives across metropolitan and regional Councils.

In 2012, the Year of Procurement, the LGA acknowledged the importance of a sector wide approach to improving procurement practice via the development and release of a Procurement Handbook and suite of template documents for Councils to use. The LGA facilitated a focus group of procurement specialists to develop these documents, however NPP did not contribute to this body of work as a collective but rather individuals. The aim of these documents was to provide guidance to Councils lacking resources and systems in the area of procurement and also to provide consistency across the sector to improve relationships with suppliers. Upon implementation, the ongoing maintenance of this body of work was handed to LGAP.

The LGA launched LGAP in 2012 under the umbrella of the Year of Procurement, as a profit making business unit to create a centre of excellence plus commercial contracting model. Since that time, it is considered that LGAP has narrowed its focus to commercial contract management/panels and providing a fee for service where councils cannot fulfil their procurement needs with internal resources.

In 2014, the many councils participated in the Regional Procurement Roadmap Program facilitated by ArcBlue which was subsidised by Local Government Association Procurement (LGAP) to develop a strategic procurement roadmap for either individual councils or regional collaborations such the Legatus Group, Barossa Regional Procurement Group or the Riverland Councils.

In December 2015, LGA Procurement held a Breakfast Roundtable seeking input from councils to help determine the needs of the sector and shape their future direction. There has been little or no feedback on this forum nor any obvious or directly related outcomes evident.

Since 2012, we believe that there has been little ongoing sector leadership in this space. There is currently no formal Policy and Project area within the LGA for procurement and NPP is increasingly being relied upon to bridge this gap, without the benefit of an overarching strategy or approach. Recently we have seen a level of duplication of effort and a lack of communication between key stakeholder groups as a result of legislative reform (ACCC, occupational licensing, ICAC etc). Without a Policy and Project area relating to procurement individual councils will approach their procurement activities without leadership and support in a disconnected and uncoordinated way.

## **DISCUSSION**

Procurement is becoming an increasingly complex environment that intersects with other highly regulated functions within councils eg WHS, risk, internal control, governance, etc.

Councils are faced with the expectation of doing more with less in a commercially competitive environment. In recent years, the need for transparent and thorough procurement policies and procedures has been highlighted by changes brought about by the Freedom of Information Act 1991 and introduction of Independent Commissioner Against Corruption. Further to this there are also the internal pressures requiring more robust processes.

### Risk Management

Every year councils are required to participate in a Risk Review coordinated by Local Government Risk Services (LGRS) in order to maintain the sector's self insurance status. Procurement is an activity within the Risk Review and is an area identified as requiring improvement, particularly, how councils manage and engage with contractors.

### Internal Control

As at 1 July 2015, councils are required to be able to demonstrate a level of Internal Control to ensure each council has checks and balances in place to ensure that the financial transactions are carried out in accordance with each council's policies and procedures. Where no policy or procedure exists, councils are required to develop them.

### Good Governance

Councils have the option of taking on a Good Governance Toolkit endorsed by the LGA. The aim of the toolkit is to identify whether councils have policies and procedures in place to carry out its business to a level of best practice. Procurement and procurement-related activities are typically areas of non-conformance and require improvement.

### Local Economic Benefit

Given the current economic climate with – community transparency and expectations, the supply market is more knowledgeable and increasingly starting to hold councils to account. The Office of the Industry Advocate and their requirement for additional checks and reporting for those councils who incorporate their templates and policy has resulted in sporadic adoption across local government.

Extensive additional requirements are now required to be obtained under the Building & Construction industry Act 2016 which provides great emphasis, impact and pressure on councils once they have gained federal funding relating to their tender and contracting processes).

Procurement is still an area under development for most councils and as a result is a potential weak point for the majority of councils.

### Arc Blue – Procurement Roadmap

In 2014, the many councils participated in the Regional Procurement Roadmap Program facilitated by ArcBlue which was subsidised by Local Government Association Procurement (LGAP) to develop a strategic procurement roadmap for either individual councils or regional collaborations such as the Legatus Group, Barossa Regional Procurement Group or the Riverland Councils.

The above work culminated in the finalisation of a two-year Regional Procurement Roadmap setting out agreed actions to improve both member councils and each region's capability and performance in procurement in terms of probity and compliance; external cost savings and improvements; administrative and efficiency cost savings, use of technology and internal process improvements; and strategies to achieve triple-bottom-line objectives through procurement.

However, once each Regional Roadmap was delivered there has been little or no follow up to ensure that the appropriate resources are being applied to deliver each Regional Roadmap.

### Shared Services/Collaboration

Council Solutions (G6) was established as a Regional Authority in December 2012 in accordance with the Local Government Act 1999 (SA), its purpose is to optimise the financial sustainability of its constituent councils through the benefits of collaborative strategic procurement and contract negotiation and management. It does not necessarily provide support and advice in a formal way to either member councils or beyond. It is understood that the G6 is not going to continue.

Since then, Regional Procurement Clusters such as Barossa Regional Procurement Group have been working through their Regional Roadmap and have successfully called a number of collaborative tenders. The resulting contracts are enabling the councils to consider shared services or collaboration via joint contracts.

Riverland Councils (Loxton-Waikerie, Berri-Barmera and Renmark-Paringa) have also had similar collaboration and subsequent success.

Legatus Group commenced a similar process for a period of just over 12 months but failed to deliver one successful tender.

Other South Australian Regional Organisations of Councils (SAROC) such as Limestone Coast and Murraylands & Riverland have contacted Barossa Regional Procurement Group and Legatus to seek information and ideas regarding joint procurement initiatives and shared services.

Each time a Regional Procurement Group is formed, new documentation is being prepared and new processes developed for each group to follow and use. This is being done with little or no support from the LGA or LGAP. This is resulting in the duplication of effort across these Regional Procurement Groups.

While LGAP offer a range of services, mostly fee for services, they are conflicted by their own imperatives as an independent profit making business unit of the LGAP. There needs to be support given at the LGA level as a member service organisation.

## **AREAS OF SUPPORT & LEADERSHIP**

Currently unmet demand for support and leadership in local government across the following areas has been highlighted but is not limited to:

### Policy development

- Review of legislative framework
- Buying local (Industry Participation Policy)
- Sustainable procurement
- Unsolicited Bids

### Review of sector wide resources

- Model documents
- Tools and templates

### Training, mentoring and professional development

- Career path identification
- Modular training
- Mentoring opportunities

### Centralised prequalified contractor database

- Capacity building within the marketplace
- Consistent approach to prequalification and licencing
- Education and support of contractors

### Forward procurement plans

- Category management
- Resources and timing

### Project areas

- CITB levy
- Online conveyancing
- Fair Work Ombudsman requirements
- NHVR requirements
- Consumer and Business Services licencing review

## **RECOMMENDATIONS**

The Network of Procurement Professionals has made a number of recommendations to the LGA about where improvements can be made with regard to improving procurement polices and procedures within councils:

1. Lobby for Procurement to be escalated within the LGA to be allocated its own Policy & Project area.
2. Lobby for internal LGA R&D funding for the areas of support and leadership outlined in this document.
3. Provide support and leadership to councils in the area outlined in this document in order to develop and grow the profile of procurement within councils.
4. Foster collaboration and clustering of councils to provide more effective and efficient procurement outcomes for their communities.

In closing the Network of Procurement Professionals is focussed on raising the profile of procurement within local government to deliver better outcomes for our communities. We welcome the findings of the Commission's Inquiry.

I would like to take this opportunity to thank you for receiving this submission and welcome the opportunity for further discussion on this matter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'KJ', with a long, sweeping horizontal flourish extending to the right.

**Kathryn Johnson**  
**Vice Chair**  
**NETWORK OF PROCUREMENT PROFESSIONALS**