

# THE BENCHMARKING TO ENHANCE COUNCIL PROCUREMENT OUTCOMES SERIES

A snapshot of Local Government Procurement  
within Victoria – FY18

## Overview

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Many Councils are actively committing to the development of their procurement practices and therefore outcomes, empowering their procurement professionals to maximise the benefits of procurement to assist in the delivery of the Councils strategic objectives. The delivery of greater social outcomes being delivered through local government procurement is the next frontier for some but a reality for many.

MAV Procurement, the not-for-profit unit of the Municipal Association of Victoria, are primarily focused on achieving better procurement outcomes for the local governments throughout Victoria.

## Sector Insights for FY18

Last year we published an introductory paper on the Victorian local government procurement landscape. The paper introduced then explored key sector procurement performance metrics, established benchmarks and visualising opportunities for Councils to enhance their procurement outcomes.

One year on, we will revisit the introduced key sector procurement performance metrics to determine what progress has been made and dive deeper into an analysis of the data gathered through the sector engagement in the MAV LEAP Program. We seek to find answers to questions such as ...

### What has changed over the last twelve months?

Has procurement been leveraged to address key organisational objectives?

Are there differences in outcomes between Metro, Regional and Interface Councils?

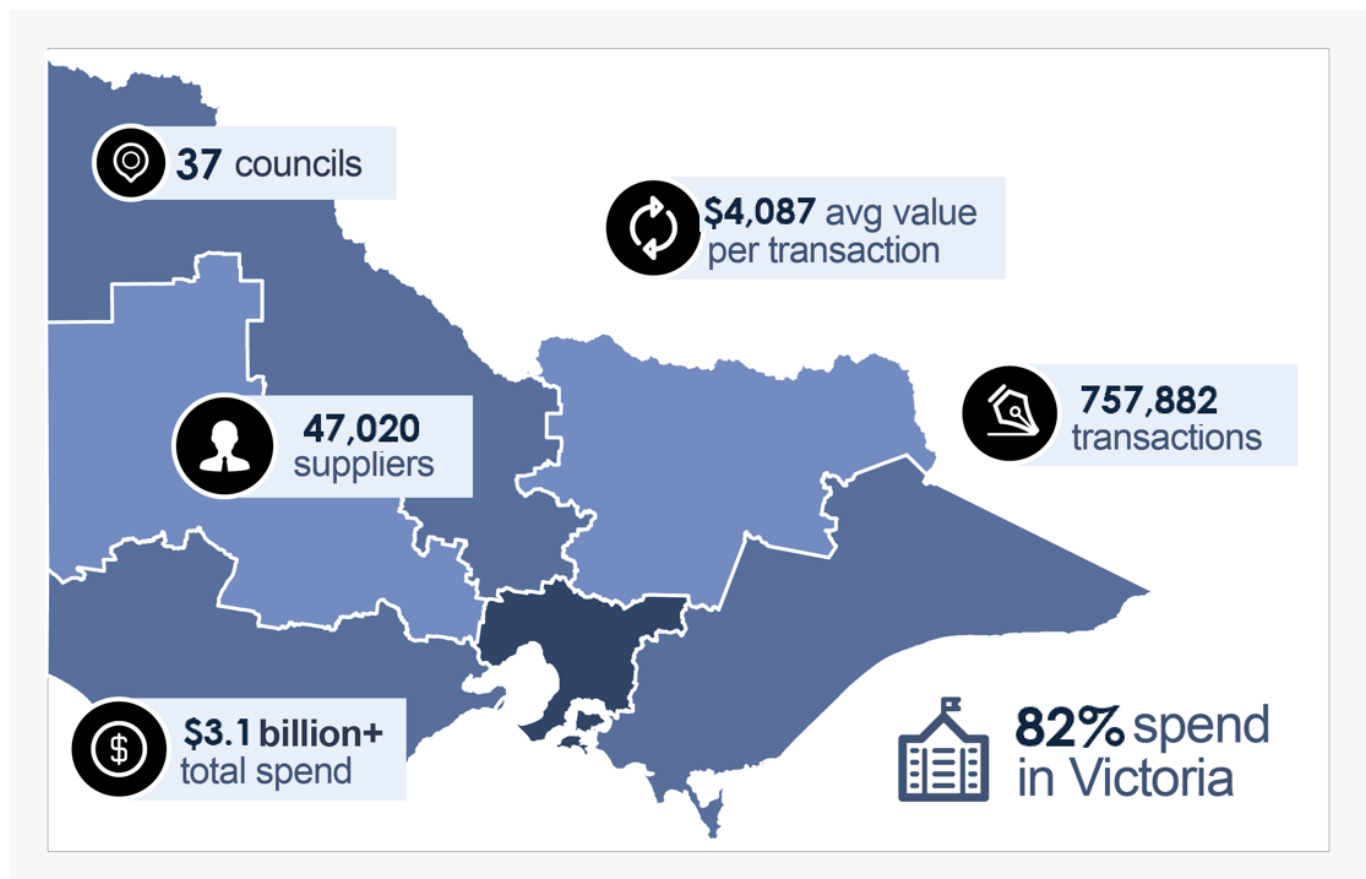
What are the leading Councils achieving?

What is likely to emerge across procurement? Social procurement ...

With the new social procurement framework now been implemented across state government authorities within Victoria, **what does the Victorian local government social procurement landscape look like?**

ArcBlue Consulting, in collaboration with MAV, have developed this paper to explore these questions, providing a valuable resource to assist Councils in driving improved procurement outcomes.

### FY2018 LEAP Snapshot\*



\* Accurate as per November 2018 based on data provided through the MAV LEAP Program.

## Objectives

The objective of this paper is to highlight trends, insights and developments of the Victorian Councils during the 2017-18 financial year based on the procurement data Councils have provided. The paper centres around findings from several Key Performance Indicators (KPIs) relevant to the sector and aims to paint a picture of procurement across Victorian Councils during the year using key sector procurement data to provide further insights into the local government procurement in Victoria.

The paper will also explore the current state of social procurement across Victorian Councils and highlight opportunities that exist for Councils to improve their own social procurement framework.

## Sector Key Performance Indicators (FY18)

The following are the key performance indicators for Victorian Local Government for the financial year 2018:



The findings contained within the KPIs mentioned above are based on the Council provided information and data available as at 30 November 2018.

\*The maturity assessment measurement system has been updated during the FY18 therefore direct comparison is not available with FY17

### What are we looking for in these measures?

#### Procurement Maturity

The Procurement Maturity measure has been established utilising ArcBlue's nine dimensions of procurement excellence model and assesses sector-wide procurement maturity against leading procurement practice.

The model benchmarks organisational procurement across all key dimensions of procurement – Leadership & Influence | Organisation | People & Skills | Process & Governance | Technology | Supplier Management | Category Management | Sustainability | Value Realisation & Results. Organisations are benchmarked as “Emergent” (0 to 25%), “Developing” (25 to 50%), “Advanced” (50 to 75%) and “Leading” (75 to 100%).



We are looking for an increase in the current sector average procurement maturity which will indicate that Councils are addressing the improvement opportunities they have targeted for action.

*Process Efficiency*

The Process Efficiency measure targets an area of procurement that generally creates a significant workload across Councils. The measure highlights the volume of invoices below \$1,000 that have been generated and are required to be processed by Councils. The processing of invoices is time consuming and can be costly for Councils, with benchmarking highlighting a cost of approximately \$73 per invoice<sup>1</sup>.



We are looking for a reduction in the current quantity of invoices valued less than \$1,000, through the establishment of consolidated invoicing arrangements with suppliers and / or an increase in the use of purchase cards.

*Uncontracted Spend*

The Uncontracted Spend measure is an indicator of how much control and / or visibility a Council has over their procurement spend. Council procurement activities aim to deliver value for money outcomes within their legislative framework so significant spend that isn't readily identified as being under contract may not allow Councils to be able to satisfy these two key procurement principles. It is worth noting that this measure is heavily reliant upon the capability of organisational systems to capture, extract and report on key contract data.



We are looking for a reduction in the current percentage of uncontracted spend to ensure that Councils have a satisfactory portfolio of contractual arrangements in place.

*High Spend Suppliers*

The High Spend Supplier measure indicates the percentage of the Councils suppliers that need to be assessed for compliance to legislative tendering requirements. The measure is also an indication of whether Councils are consolidating their supplier base to gain further value either through more strategic contracts and / or by addressing the length of their tail of suppliers or whether Councils prefer to disaggregate spend across numerous suppliers within a category.



We are looking for a slight increase in the current percentage of high spend suppliers from a value to Council perspective and that Councils have clarity on their high spend supplier engagements.

*Local Spend & Regional Spend*






The Local Spend and Regional Spend measures indicate how much economic support Councils are providing to their municipality and regions through their procurement activities. Councils are often one of the largest spending organisations in the areas they are located, consequently strong local / regional spend policies can have significant positive economic impacts within their communities.



We are looking for an increase in the current levels of local and regional spend by Councils to enable Councils to continue to demonstrate how they are delivering on their economic development objectives.

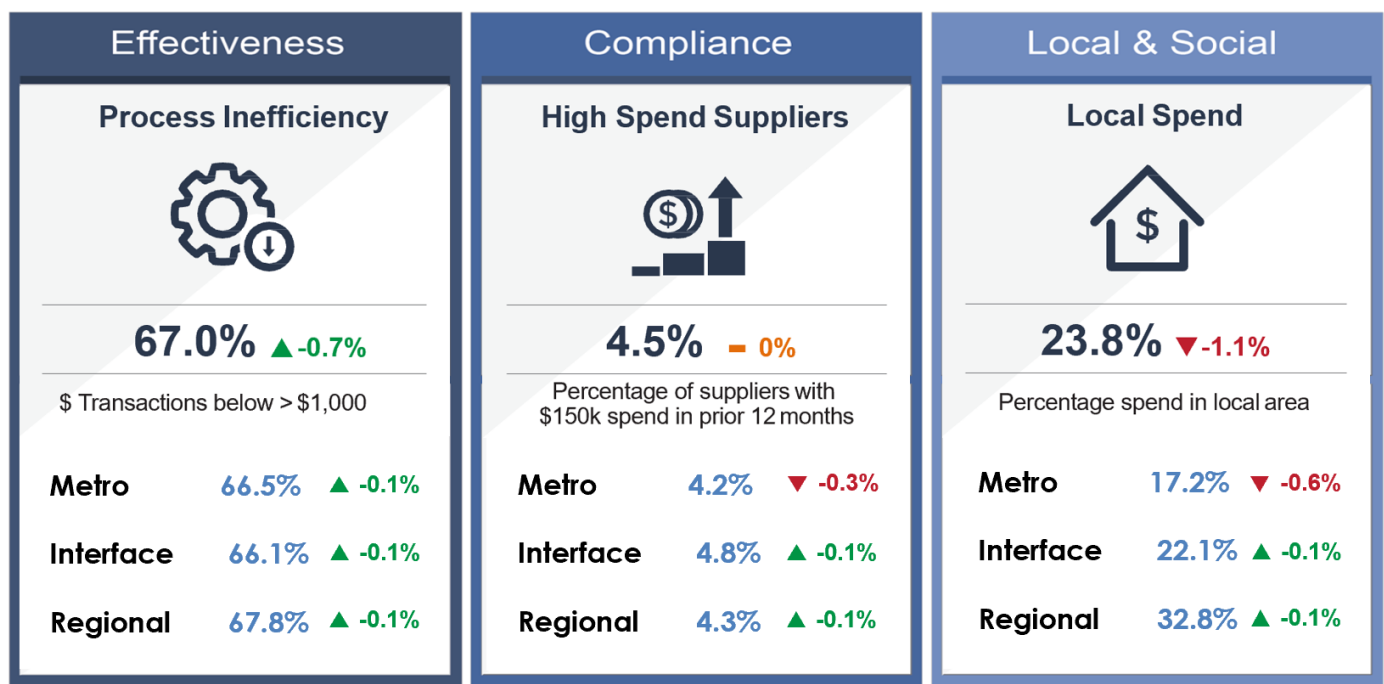
<sup>1</sup> Figures based on Deloitte Touche Tohmatsu B2B Payments 2015 Australian and New Zealand Research.

## What are the key findings?

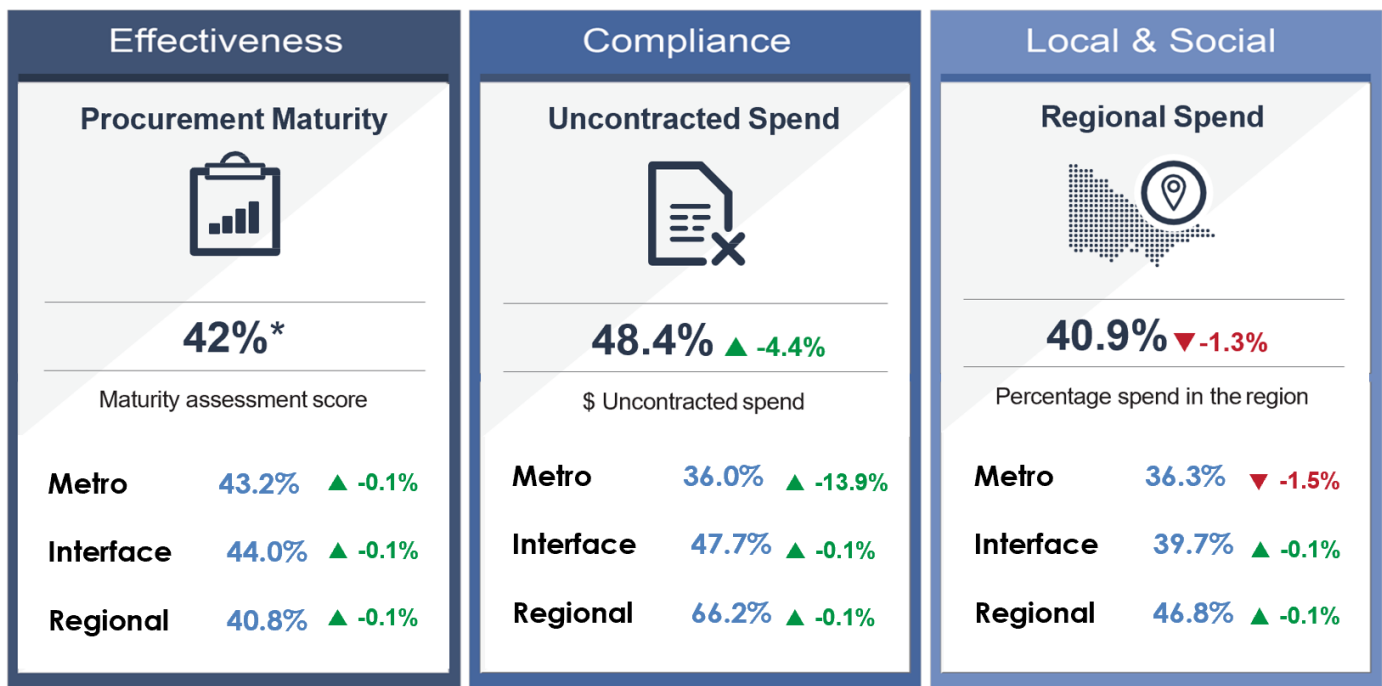
	<p><i>Procurement Maturity</i> The procurement maturity of the sector is currently benchmarked as “Developing” with just over a quarter of the Councils classed as “Advanced”. Approximately 60% of the Councils are targeting development in the identification, measurement and tracking of procurement KPI’s, savings, process improvements and governance.</p>
	<p><i>Process Efficiency</i> There has been an increase in the efficiency of payment processing with a reduction in invoices and a large increase in reported purchase card usage for transactions below \$1,000. These efficiencies were worth approximately \$15,000 per council<sup>2</sup> during FY18.</p>
	<p><i>High Spend Suppliers</i> 46% of Councils have seen an increase in the quantity of suppliers used above the \$150,000 spend threshold. However overall these suppliers still represent 4.5% of total suppliers used, a figure which has remained static over the previous two financial years.</p>
	<p><i>Uncontracted Spend</i> More contract information is being captured through Council ERP systems providing better clarity on the usage of Council contracts with the Metro based Councils generating the most significant positive movement in this measure.</p>
	<p><i>Local Spend &amp; Regional Spend</i> Spend with local and regional suppliers is slightly down on the previous financial year. Only 27% of Councils were targeting strengthening their local spend policies during FY18.</p>

## KPI Analysis - Metro vs Interface vs Regional

In this section we explore the sector KPIs based on the geographical nature of the Councils – highlighting the differences across metropolitan, regional and interface councils.



<sup>2</sup> Figures based on Deloitte Touche Tohmatsu B2B Payments 2015 Australian and New Zealand Research.



### Does procurement maturity matter?

As part of this paper, we were keen to seek an answer to the following question...

*Do the leading Councils from a procurement maturity perspective generate better outcomes than the less mature Councils?*

We explored key procurement metrics comparing leading Councils against sector averages and discovered the following:

<b>67.0%</b>	<b>Transactional Efficiency</b>	67.0% of transactions across the sector were valued below \$1000 in 2018, an improvement from 67.7% in 2017.  The leading Council was able to attain a Transactional Efficiency score below this, with the Council scoring <b>60.2%</b>  <b>\$66K potential cost savings for this Council against the sector average<sup>3</sup></b>
<b>48.4%</b>	<b>Uncontracted Spend</b>	Across the sector, 48.4% of spend doesn't have a known contract against it, down from 52.8% in 2017.  On average the leading five Councils with contract data provided, have an uncontracted spend amount of approximately <b>35.9%</b>  <b>\$11M+ more spend identified under contract based on average sector spend</b>
<b>-1.3%</b>	<b>Regional Spend</b>	Regional spend on average decreased by 1.3% across the sector during the past financial year.  The leading three Councils bucked this trend by increasing their regional spend on average during the same period by <b>1.2%</b>  <b>\$5M additional combined spend within these Councils regions</b>

<sup>3</sup> Figures based on Deloitte Touche Tohmatsu B2B Payments 2015 Australian and New Zealand Research.

## Social Procurement in Local Government

**Social Procurement** is when organisations use their buying power to generate social value above and beyond the value of the goods, services, or construction being procured.

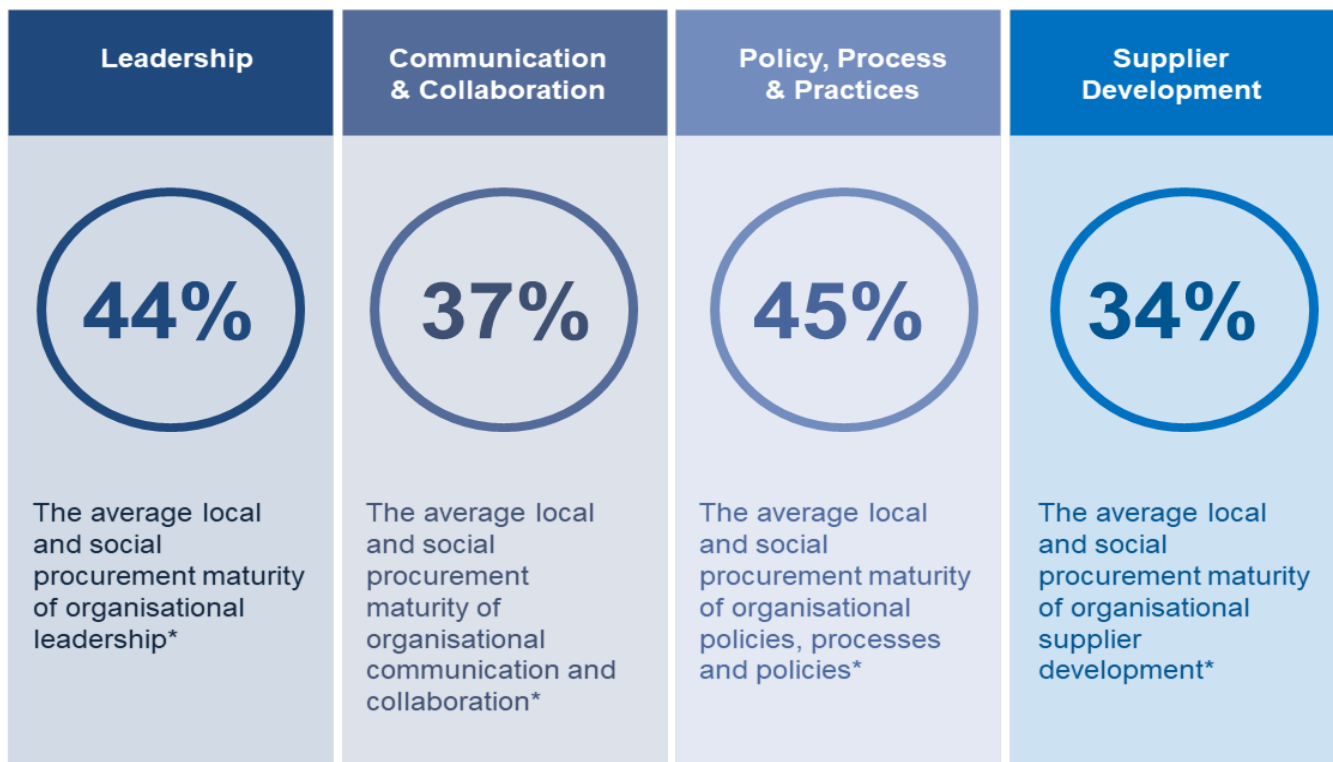
### Introduction and Overview

There is a growing interest within Victorian Councils in establishing and implementing social procurement through their procurement framework and practices. The introduction of the Victorian State Government Social Procurement Framework and its associated obligations has further generated momentum for discussions and investigations at Council’s around social procurement.

For this paper, we have leveraged ArcBlue’s extensive engagement with social procurement programs across the state to provide an overview of the general social procurement landscape within Victorian Council’s as well as highlight opportunities that may exist for the generation of greater social outcomes through Council procurement.

Through their engagement with social procurement programs, ArcBlue has developed and implemented a social procurement maturity assessment model which has enabled significant benchmarking on the current state of organisation’s social procurement frameworks and provided a platform to develop action plans to increase organisational social procurement performance and outcomes.

Listed below is the collated social procurement maturity assessment of a large state government regional social procurement program across the four key social procurement dimensions – Leadership ■ Communication & Collaboration ■ Policy, Process & Practices ■ Supplier Development. Organisations are benchmarked as “Emergent” (0 to 25%), “Developing” (25 to 50%), “Advanced” (50 to 75%) and “Leading” (75 to 100%).



\*Based on an assessment of various multi-sector organisations across the regional social procurement program.

## Current Situation

The following are general observations on social procurement across Council's in Victoria.

<p><b>Leadership</b></p>	<p>The delivery of social outcomes is a vital strategic objective across local government and is a key pillar in all Council Plan's but the link to procurement is currently not strong.</p> <p><b>Executive support</b> Social procurement has in principle support from Councillor and executive levels of Council.</p> <p><b>Resourcing</b> In general, social procurement is not well resourced or defined across Councils.</p> <p><b>Program leadership</b> Social procurement leads have not been formally identified and empowered to act across Councils.</p> <p><b>Reporting</b> Social procurement key performance indicators have not been established and social procurement measures are generally not included in procurement reporting.</p>
<p><b>Communication &amp; Collaboration</b></p>	<p>Councils have established communication and collaboration platforms which can be leveraged for enhancing social procurement activities.</p> <p><b>Internal social procurement networking</b> The use of internal procurement working groups or networks varies across Councils, however social procurement focused internal networking very rarely occurs.</p> <p><b>External social procurement networking</b> A growing number of Councils are involved in social procurement focused external networks which is providing these Councils with a unique opportunity to gain a greater understanding of social procurement and the opportunities that exist within their municipality / region. Councils involved in these external social procurement networks have clearly identified internal leads.</p> <p><b>Social supplier usage</b> There is little knowledge of how well social benefit suppliers are used across the organisation.</p> <p><b>Promotion of social procurement opportunities</b> Councils have a well-established process of using supply market engagement technology for its key procurement activities. However, most Councils do not clearly highlight social procurement specific opportunities to the market.</p>
<p><b>Policy, Process &amp; Practice</b></p>	<p>The internal and external scrutiny associated with Council procurement provides a critical platform for the establishment of adequate procurement frameworks.</p> <p><b>Social procurement policy and procedures</b> All Councils have procurement policies which are reviewed, updated and endorsed on an annual basis. In general, these procurement policies broadly cover the organisations social procurement objectives. However, the majority of Councils have not embedded these social procurement objectives into their key procedural documentation and practices.</p> <p><b>Procurement documentation social procurement content</b> Only a few Councils have embedded social procurement objectives into their key tender and quotation procurement processes and documentation. Councils that have embedded their social procurement objectives into their procurement processes and documentation have communicated the organisations expectations to their staff.</p>



	<p><b>Systems</b> Most Councils have not established systems that allow for visibility or understanding of social benefit suppliers therefore social procurement reporting through Council systems is not possible. Participating MAV LEAP Program Councils do have great visibility of local and regional suppliers.</p> <p><b>Supplier performance management and reporting</b> Social benefit supplier performance is rarely captured and only sporadic feedback is provided to these suppliers to help inform future social procurement decisions.</p> <p><b>Social procurement opportunity analysis</b> Most Councils have not established a program to identify and prioritise opportunities for social procurement contracts and suppliers.</p> <p><b>Training</b> The majority of Councils have not conducted any social procurement training with their staff.</p> <p><b>Social Procurement contracts and supply arrangements</b> Very few formal social procurement contracts have been implemented within Councils with the majority of social benefit suppliers being engaged through adhoc supplier arrangements.</p>
<p><b>Supplier Development</b></p>	<p>Councils rely heavily on their suppliers to assist them deliver their services to ratepayers.</p> <p><b>Supplier development support</b> Suppliers are generally required to undertake their own social procurement development activities.</p>

## Development Opportunities

The following are actions that Councils can consider undertaking which will assist them in achieving successful social procurement outcomes.

<p><b>Leadership</b></p>	<p>Council leadership can have a significant positive impact on social procurement outcomes.</p> <p><b>Executive support</b> Seek in principle support to implement social procurement across the organisation from Councillor and executive levels of Council.</p> <p><b>Resourcing</b> Define and establish social procurement roles and responsibilities across Councils.</p> <p><b>Program leadership</b> Establish and empower a Social Procurement lead Council.</p> <p><b>Reporting</b> Establish social procurement key performance indicators and incorporate into a procurement reporting program to executive.</p>
<p><b>Communication &amp; Collaboration</b></p>	<p>Councils can leverage communication and collaboration platforms for enhancing social procurement activities.</p> <p><b>Internal social procurement networking</b> Incorporate social procurement into Councils internal procurement working groups or networks.</p>

	<p><b>External social procurement networking</b> Engage with relevant social procurement focused external networks and establish a clearly identified internal lead for this engagement.</p> <p><b>Social supplier usage</b> Investigate and benchmark social benefit supplier’s usage across the organisation.</p> <p><b>Promotion of social procurement opportunities</b> Ensure that social procurement opportunities are clearly articulated to the market.</p>
<p><b>Policy, Process &amp; Practice</b></p>	<p>Social procurement can be further embedded into Council procurement policy, process and practice.</p> <p><b>Social procurement policy and procedures</b> Review and update the social procurement content of procurement policies and incorporate the organisations social procurement objectives into key procedural documentation and practices.</p> <p><b>Procurement documentation social procurement content</b> Embed social procurement objectives into key tender and quotation procurement processes and documentation and communicate the organisations expectations to staff.</p> <p><b>Systems</b> Investigate system options to be able to capture and report on social procurement activity.</p> <p><b>Supplier performance management and reporting</b> Capture social benefit supplier performance, and provide feedback to these suppliers, to help inform future social procurement decisions.</p> <p><b>Social procurement opportunity analysis</b> Establish a program to identify and prioritise opportunities for social procurement contracts and supply arrangements.</p> <p><b>Training</b> Conduct a social procurement training program with all key staff.</p> <p><b>Social Procurement contracts and supply arrangements</b> Establish and promote formal social procurement contracts and supply arrangements.</p>
<p><b>Supplier Development</b></p>	<p>An opportunity exists for Councils to work with their suppliers on social procurement to enhance organisational social procurement outcomes.</p> <p><b>Supplier development support</b> Establish and implement a targeted program to develop suppliers in social procurement to enhance organisational social procurement outcomes.</p>

## What is planned

### LEAP Social Program

MAV is committed to supporting better practice procurement across Councils in Victoria and have responded to the social procurement needs of the sector by establishing a social procurement program specifically designed for Councils.

Leveraging the existing MAV LEAP Program framework, the LEAP Social program provides Councils with a platform to enable and action social procurement utilising industry leading social procurement expertise & tools.



MAV are proud to announce the launch of the LEAP Social program and to be partnering with leaders in social procurement to deliver a program designed to assist Councils in successfully delivering social outcomes for their communities through its procurement activities.

**SOCIAL TRADERS**



Visit the MAV Procurement website for further information on LEAP Social:  
<http://www.mav.asn.au/what-we-do/procurement>

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