BENCHMARKING TO ENHANCE COUNCIL PROCUREMENT OUTCOMES

A snapshot of Local Government Procurement within Victoria – FY17

Overview

There have been significant achievements in local government throughout Victoria in recent years since the implementation of targeted procurement improvement strategies. This includes the implementation of procurement analytics, greater collaboration between councils to leverage and combine their collective purchasing power, streamlining of procurement processes and analysis of each Councils procurement framework to deliver overall better value for money and more sustainable outcomes.

MUNICIPAL ASSOCIATION OF VICTORIA

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

The introduction of rate capping for the Victorian local government sector has placed a greater focus on Council procurement frameworks and practices.

Executives are now seeking answers to questions such as …

How well is our procurement framework currently functioning?

Can procurement be a key financial sustainability driver for Council in this rate capping environment?

So, as a sector …

How much do we know about procurement within local government in Victoria?

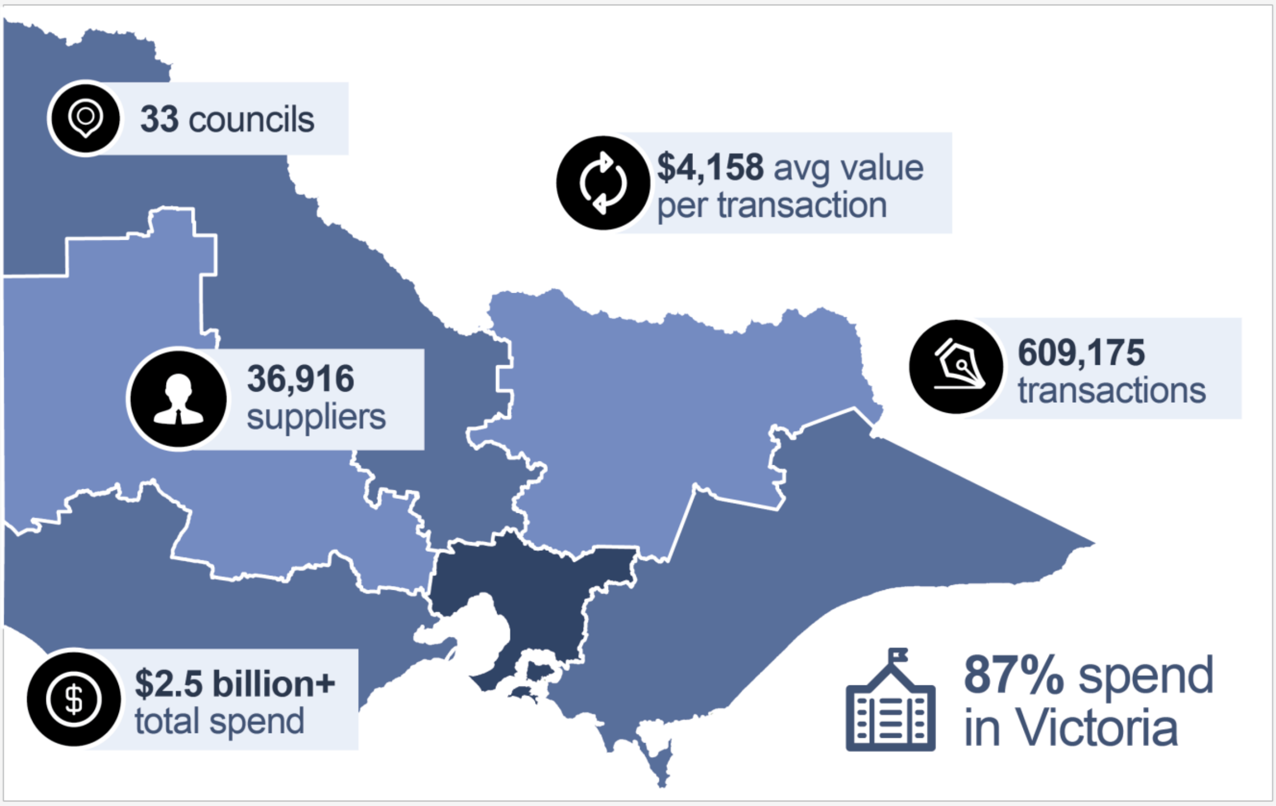
What are our current benchmarks?

How can we extract further value for money through procurement?

ArcBlue Consulting, in collaboration with MAV, have developed this paper to share their insights uncovered through many years of ongoing engagement and support of procurement in local government within Victoria.

Based on sector engagement in the MAV LEAP Program, this paper aims to shine a light on key sector performance figures, establish benchmarks and highlight existing opportunities for creating the platform for greater procurement outcomes within Councils.

FY2017 LEAP Snapshot*



* Accurate as per September 2017 based on data provided through the MAV LEAP Program.

mav.asn.au
procurement@mav.asn.au

What are the key findings?

Procurement Maturity
A targeted approach to procurement development has realised an increase in procurement maturity within the sector.

Process Efficiency
There has been an increase in the efficiency of payment processing with a reduction in invoices and an increase in purchase card usage for transactions below $1,000.

High Spend Suppliers
The number of suppliers used by Councils with over $150,000 spend during FY17 has grown slightly, increasing Council legislative compliance activity.

Uncontracted Spend
More contract information is being captured through Council ERP systems providing better clarity on the usage of Council contracts.

Local Spend
Council spend with local suppliers is slightly down on last year however there was an overall increase in local spend in Councils that have specific local supplier development targets.

Regional Spend
Councils increased their spend with suppliers within their broader regions.

What opportunities did we identify?

Procurement Maturity
The maturity of the sector would be greatly enhanced through a targeted approach from Councils in the People, Sustainability, Category Management and Results & Benefits dimensions.

Process Efficiency
By establishing more consolidated invoicing arrangements with suppliers, increasing the use of purchase cards and targeting high transaction volume categories further process efficiencies can be achieved.

High Spend Suppliers
Reviewing high spend suppliers provides an opportunity to investigate the alignment of this spend to specific category strategies or supplier engagement expectations within the categories.

Uncontracted Spend
The clarity of contract spend will be enhanced by greater contract data being gathered through Council ERP systems. In particular, contracts within the Legal & Conveyancing category may be an opportunity to gain further value for money.

Local Spend
The Plant & Vehicles and Temporary Labour categories generally offer an opportunity to increase the percentage of local suppliers used by Councils.

Regional Spend
A review of out of region spend will highlight opportunities for Councils to increase their percentage of regional suppliers used and regional collaborative procurement programs provide a platform to gain further value for money through regional aggregation.

mav.asn.au
procurement@mav.asn.au

What else is emerging across the sector from a procurement perspective?

Category Management	Some Councils are reviewing their procurement framework and looking at establishing centre-led procurement models built around a category management approach. These Councils have identified category management as their preferred strategic procurement model structuring procurement activities around strategies for key categories of spend.
Social Procurement	Social procurement programs are emerging strongly across the sector. There has been a significant rise in interest in how Councils can utilise their procurement activities to have a positive impact on their social objectives. The Geelong based GROW Program has led the development of structured social procurement programs, but other regional and Council programs are now emerging across the state with MAV investigating how they can best support social procurement within the sector.

Objectives

The objective of this paper is to highlight trends, insights and developments of the Victorian Councils during the 2016-17 financial year based on the procurement data Councils have provided. The report centres around findings and potential opportunities from several Key Performance Indicators (KPIs) relevant to the sector. The key KPIs are referred to in the body of this report and focus on the overall sector not the individual Councils.

The KPIs that are introduced are those which will be implemented in the upcoming Procurement KPI Dashboard which will be available to all participating Councils to provide them with a procurement measurement tool to guide local procurement policy and strategy.

Sector Key Performance Indicators (FY17)

Effectiveness	Compliance	Local & Social
Process Efficiency 66.1% ▲-2% $ Transactions below > $1,000	**High Spend Suppliers** 4.5% ▲+0.4% Percentage of suppliers with >$150k spend in prior 12 months	**Local Spend** 29.1% ▼-0.4% Percentage spend in local area
Procurement Maturity 2.30/5.1 ▲+12% Maturity assessment score	**Uncontracted Spend** 59.6% ▲-4% $ Uncontracted spend	**Regional Spend** 43.3% ▲+1% Percentage spend in the region

The findings contained within the KPIs mentioned above are based on the Council provided information and data available as at 30 September 2017.

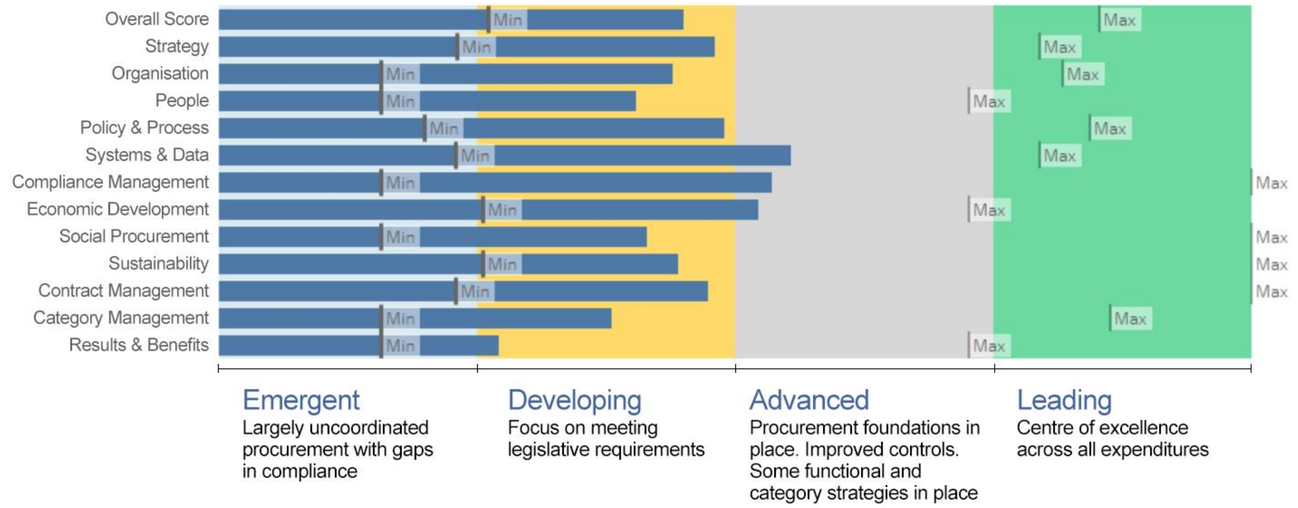
mav.asn.au
procurement@mav.asn.au

Effectiveness

Procurement Maturity (1/2)

Councils have been measured and benchmarked against leading practice procurement to understand the relative strengths and areas for improvement across all dimensions of procurement.

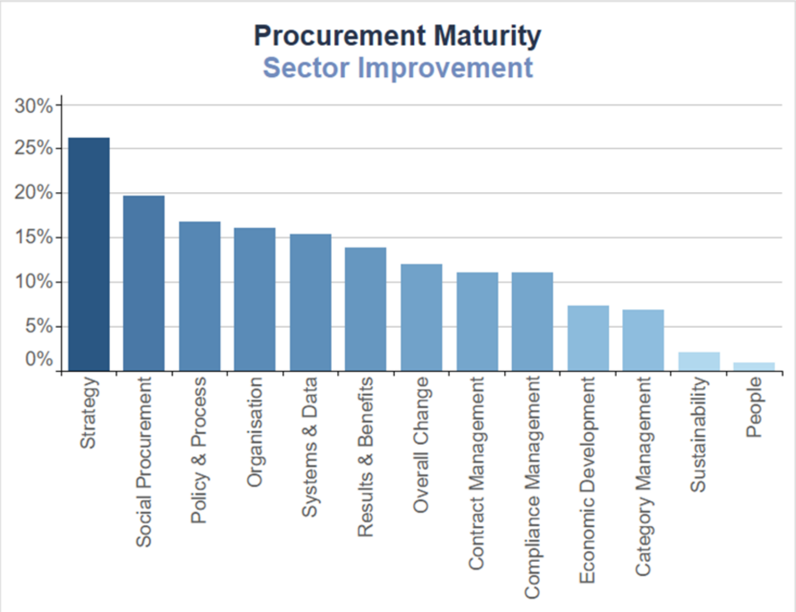
Sector averages across maturity dimensions



A. Findings

The Victorian local government sector is currently rated overall as a developing sector from an organisational procurement perspective. Whilst the foundational aspects of procurement are generally adequately addressed there is still significant scope across the sector to improve on the strategic and value realisation components of procurement.

In positive signs that procurement practices across the Councils are maturing and developing, there has been a noticeable overall improvement of 12% in the sector wide procurement maturity scores from the established organisational benchmarks. Councils are most mature in the areas of Systems and Data, Compliance Management and Economic Development. The sector performs poorly overall however when it comes to procurement tracking and reporting as highlighted by the Results and Benefits dimension.



Since the initial maturity assessments, the largest improvement has been in the areas of Strategy and Social Procurement whereas there has been almost no additional improvement across the sector in the areas of Sustainability and People (staff development). When compared to the university sector, Councils generally compare favourably most noticeably in Category Management, Sustainability, and Policy & Process dimensions.

Procurement Maturity (2/2)

B. Opportunities

Sustainability: Most Councils have some sort of policy provisions in place when it comes to Sustainability, however there has been minimal focus and improvement in this area since the initial benchmarking assessments. There is an opportunity for Councils to review their current sustainability framework and provide clear procedural direction to staff on how sustainability is considered as part of the sourcing process then systemising this process if possible.

People: There was also almost no change in the sector maturity scores for the People dimension. Improvement in this area can be relatively easily achieved by implementing a training program for all staff who undertake procurement as part of their roles. MAV Procurement have established a tailored local government eLearning and face-to-face training program designed to address all key development areas of procurement, including contract management.

Category Management: With all participating Councils now having access to detailed procurement analytics dashboards there is a significant opportunity for Councils to utilise these to gain a greater understanding of their categories of spend and identify opportunities for savings and efficiencies. Given the minimal increase in sector maturity in this dimension there is scope for further category management training across most councils to further improve and develop better category strategies.

Results and Benefits: Whilst it was great to see a 14% improvement in the tracking of procurement results and benefits, it is still the lowest scoring of all the dimensions. Participating Councils will soon have access to a KPI dashboard which will enable Councils to improve their procurement performance reporting and tracking of savings. To maximise improvement in this area, Councils will need to ensure they are proactive in implementing a savings tracking program.

mav.asn.au
procurement@mav.asn.au

Process Efficiency (1/2)

When addressing the question of process efficiency within an organisations procurement framework, a commonly used measure is to determine what percentage of transactions processed are below $1,000 in value.

A. Findings

Transactions valued below $1,000 usually are responsible for approximately two thirds of the transaction volume for the sector, however only represent a small amount of total procurement spend. Monitoring the way in which Councils process their transactions valued below $1,000 has highlighted key areas for efficiency improvements.

Transactions below $1,000[1]	Average	Min	Max	Change[2]
% of total transactions	66.1%	45.5%	80.8%	-2%
% of total procurement spend	5.0%	1.0%	11.4%	-1%
Purchase Card use on transactions less than $1,000[3]	15.1%	2.1%	31.8%	+3%

Due to the high overall cost of processing transactions from end-to-end (approximately $73 via traditional purchase order[4]), often the cost of processing is more than the value of the product or service itself. Payment processing costs are derived by calculating not just the bank fees involved per transaction, but also other variables such as the cost of relevant staff wages to process the transactions, their associated overheads and supporting infrastructure costs.

Analysis of the Councils has highlighted that processing efficiencies are being realised on these low value transactions, however there is still a significant opportunity for improvement across the sector. The percentage of total transactional volume and total procurement spend valued below $1,000 saw a decrease of 2% (transaction volume) and 1% (spend) respectfully.

There was also an increase in Purchase Card use by 3 percentage points on these low value transactions from the Councils who were able to provide two or more years of accurate Purchase Card data. This reflects that Councils with Purchase Cards are seeing the cost saving benefits and consequently increasing their usage.

[1] Results based on FY 2017 transaction data.
[2] Represents the difference between FY17 and FY16.
[3] Purchase Card findings only reflect data from Councils which have provided two consecutive years of Purchase Card data.
[4] Figures based on Deloitte Touche Tohmatsu B2B Payments 2015 Australian and New Zealand Research.

mav.asn.au
procurement@mav.asn.au

Process Efficiency (2/2)

B. Opportunities

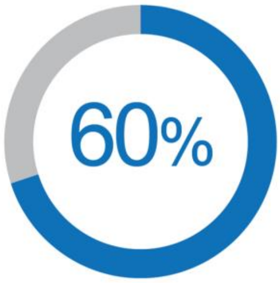
There are opportunities across many categories for a reduction in transaction volume and costs. Councils by increasing the use of consolidated invoicing and purchase cards can further reduce their processing costs of high volume, low value transactions.

Consolidated invoicing: At 66.1%, the current percentage of total transactions valued below $1,000 is high.

One way Councils can actively reduce this percentage is by establishing a realistic target of below 60%.

There are significant opportunities for councils to negotiate consolidated invoicing arrangements with their high transaction volume suppliers. Consolidated invoicing can often be negotiated on a weekly, monthly or quarterly basis.

REALISTIC TARGET



Total transactions valued below $1,000

Increase use of Purchase Cards: Amongst the Councils with accurate purchase card data, this method of payment is applied on average to just over 15% of their low value transactions. Sector wide approximately one third of councils have accurate purchase card data, highlighting an opportunity for greater emphasis on this method of payment.

With processing cost savings of approximately $53 per purchase card transaction over the traditional purchase order method, each Council will save themselves on average over $100,000 annually in processing costs if they utilise Purchase Cards for just 15% of their transactions valued below $1,000[5].

$53

Savings per transaction by using Purchase Cards

Targeting categories with highest transaction volume: The following categories represent the biggest opportunities for Councils to consider implementing either consolidated invoicing or purchase card programs with their highest transaction volume suppliers:

1. Temporary Labour
2. Catering services and supplies
3. Electricity
4. Plumbing maintenance supplies and services
5. Books and other printed materials

OPPORTUNITIES

Categories with highest transaction volume

---

[5] Figures based on Deloitte Touche Tohmatsu B2B Payments 2015 Australian and New Zealand Research.

Compliance

Section 186 of the Local Government Act states that Councils must undertake a competitive tender process to test the market by giving public notice before entering into a contract when the value of the contract is equal to or greater than $150,000 (for goods and services) and $200,000 (for works). If the per transaction spend per supplier is below these thresholds but their aggregated spend is above, they may still fall within the parameters of the tender thresholds. For this review we have addressed spend with suppliers over $150,000 over the 2017 Financial Year.

A. Findings

For this analysis we have grouped all Councils by the size of their total procurement spend. The analysis shows that across all Council groupings the average number of suppliers above the $150,000 threshold increased slightly during the past financial year. Aside from the small councils, the percentage of suppliers above the $150,000 tender threshold represents approximately 6% of total suppliers used. The average spend per supplier noticeably rises as the size of the Council increases.

	Council Category			
	Extra Large Councils *($190m+)*	**Large Councils** *($90m - $189m*	**Medium Councils** *($42m - $89m)*	**Small Councils** *($0 - $41m)*
Average # suppliers above tender thresholds	159	108	75	43
Difference between FY16 & FY17	+7 suppliers	+8 suppliers	+3 suppliers	+2 suppliers
Min # High spend suppliers	134	89	59	26
Max # High spend suppliers	206	129	96	56
Average Total No. of suppliers	2544	1727	1289	1040
Average spend per supplier	$82,357	$65,016	$50,796	$30,081
% of suppliers above tender thresholds	6%	6%	6%	4%

** Refers to suppliers used and spend during the 2017 financial year. Comparisons are made against the same quarters from FY16.*

B. Opportunities

When Councils are undertaking their annual legislative compliance review of supplier spend, they may take the opportunity to gain further value by investigating whether the supplier spend aligns to specific category strategies or supplier engagement expectations within the categories.

Due to the trend for the average spend per supplier to rise as Councils increase in size there are also opportunities for larger Councils to review the mix of small and medium sized businesses in their supply chain.

The following sub-categories have been identified as where the most high spend suppliers exist across the sector:

1. Road building services
2. Building construction materials and services
3. Temporary labour
4. Pavement construction and streetscape services
5. General waste collection and disposal
6. Arborists and tree services
7. IT software licensing and maintenance
8. Landscaping services and supplies
9. Commercial cleaning

mav.asn.au
procurement@mav.asn.au

Uncontracted Spend

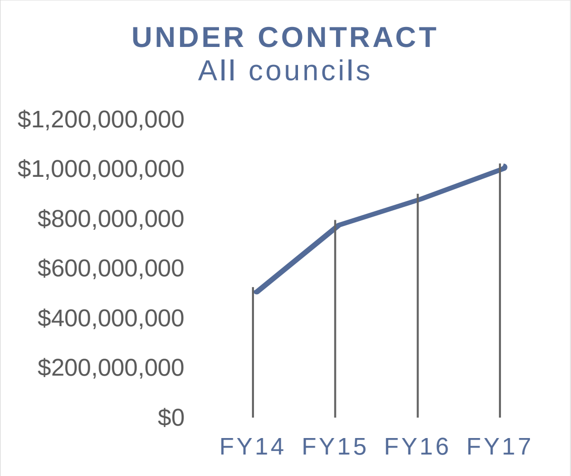
A key measure for procurement performance is to have clarity on what percentage of spend is captured under contracted arrangements.

A. Findings

Anecdotally it is widely viewed that local government, due to its legislative requirements, has a large amount of spend which is under some form of contract.

Analysis of the data has shown is that there is a large amount of contract spend that is not readily identifiable or verifiable via data available through existing financial and related systems.

Of the data which has been provided, it was found that overall the amount of spend under contract has gradually been increasing across the entire sector. The largest Councils noticeably have the highest amount of spend under contract and have seen a 43% improvement in the reporting of their contracted spend.



B. Opportunities

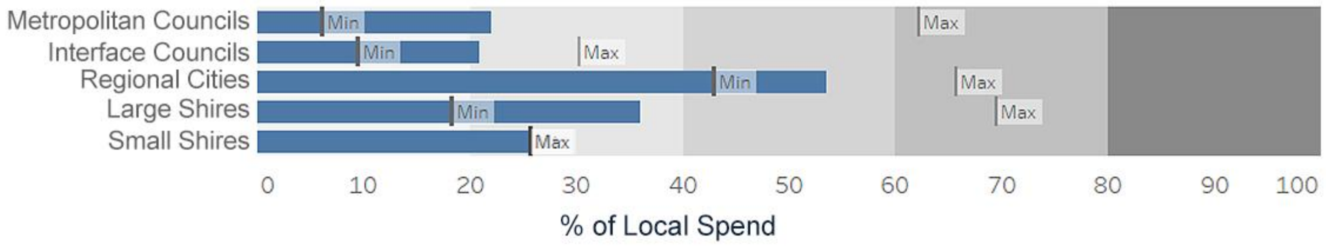
Improve contract data quality: Contract data quality can be improved across the entire local government sector. Accounts Payable transaction data often doesn't link with or capture contract information. It is important to have clarity of contract spend to reduce leakage with both contracted and uncontracted suppliers.

With reliable contract data the high spend uncontracted suppliers can also reliably be uncovered across most Councils and an appropriate strategy to address this spend and potntial compliance issues can be developed and actioned.

Legal and conveyancing: The Legal and Conveyancing category is exempt from legislative tendering requirements in Victoria however it represents an opportunity to gain further value for money outcomes for Councils. MAV have identified this as an opportunity for the sector and are currently in the process of establishing contracts in this category which can be utilised by all Councils. During the past financial year there were 377 suppliers in this category across all Councils, however the two leading suppliers represented 54% ($80m) of the total spend. Of the category spend, only 16% has been identified as contracted. It is anticipated that there will be significant opportunities for Councils to reduce their legal costs without sacrificing outcomes by utilising these MAV contracts or similar contracted arrangements.

Local Spend

Council spend% within their municipality - FY17



% change of total spend within municipality *(Ave. per Council)*[6]	Down 0.4%
% change of local suppliers used *(Ave. per Council)*	Down 1.1%
% change in total suppliers used *(Ave. per Council)*	Down 2.0%

A. Findings

The procurement maturity dimension of Economic Development, which focusses on local government efforts, policies and procedures to support local suppliers saw the sector maturity score increase by 7% from previous Council benchmarks. Three quarters of the Councils who improved their maturity in the Economic Development dimension saw an overall increase in their local spend, suggesting that a proactive approach to this dimension is generating positive results for Councils.

Regional Cities are easily the leaders when it comes to spending locally. This can be explained partially due to their relative isolation but also due to proactive and effective local spend policies.

The sector however has seen an overall decrease in local spend by 0.4% with only approximately half the Councils seeing improvements in local spend and a third experiencing increases in the proportion of local suppliers used.

It needs to be highlighted that annual local spend can fluctuate dramatically between Councils due to variables largely beyond their control, such as the need to utilise outside suppliers for large construction projects.

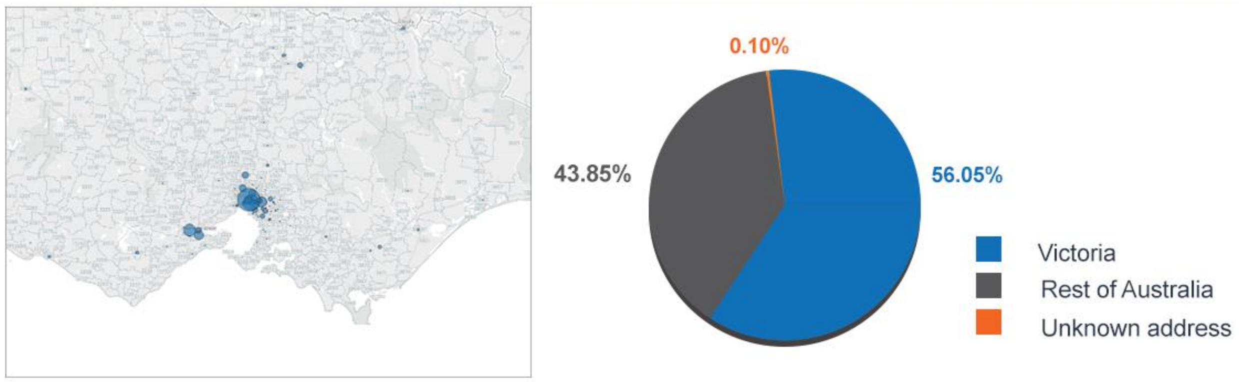
[6] % changes represent the difference between FY17 and FY16.

B. Opportunities

Categories where Councils may be able to generate quick quantifiable wins to boost their local spend include Plant & Vehicles and Temporary Labour. This is due to the prevalence of vehicle dealerships and local labour hire branches across most municipalities.

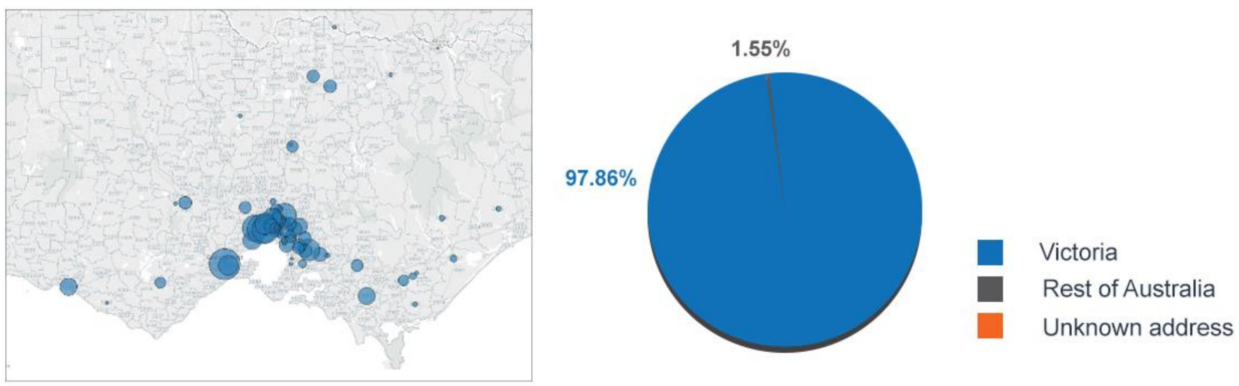
Temporary Labour: Temporary Labour is often sourced from suppliers with head offices based outside of a Councils municipality. Many Councils have local suppliers within their Temporary Labour supply chain therefore an increased emphasis on engaging staff through these labour hire companies with local branches will help boost local spend in this category.

Temporary Labour



Plant & Vehicles (purchase of cars, vans, utes, trucks and heavy plant): Fleet purchases always comprise large individual purchases. The data highlights there is a wide dispersion of vehicle dealerships throughout Victoria and many Councils are already do a great job in ensuring these purchases remain local. Provided value can be assured, utilising local dealerships for high value plant and vehicle purchases is an easy way for Councils to boost their local spend.

Plants and Vehicles



mav.asn.au
procurement@mav.asn.au

Regional Spend

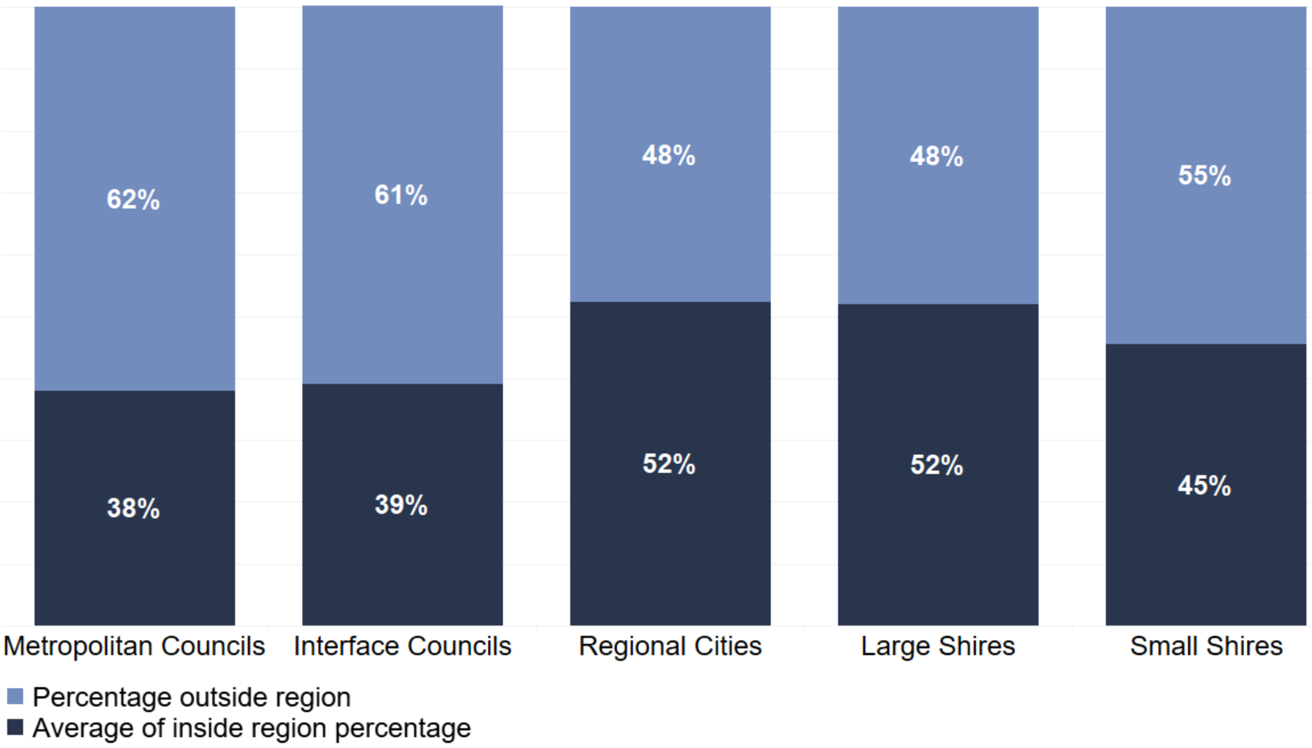
A. Findings

There are striking differences in the amount Councils spend within their wider regions and the categories they are most likely to engage suppliers regionally. Metropolitan Councils and Metropolitan Interface Councils are far less likely to utilise suppliers within their regional boundaries compared to their regional Council counterparts.

Similar to individual Council local spend data, there are large fluctuations between the regions and Councils when comparing the current and previous years regional spend data. Often these fluctuations are caused by large one-off construction or road projects.

It was positive to see that most groups of Councils increased the percentage of spend within their wider regions over the past financial year.

There have been discussions and progress across several regions focussing on regional collaboration efforts to generate better outcomes for participating Councils and regional suppliers.



% of spend with region (FY17)	Metropolitan Councils	Interface Councils	Regional Cities	Large Shires	Small Shires[7]
Min	21%	30%	22%	34%	N/A
Max	57%	57%	72%	75%	N/A
Change[8]	2%	-3%	0%	2%	9%

[7] The sample size from Small Shires is too small to draw accurate findings from.
[8] Represents the difference between FY17 and FY16.

mav.asn.au
procurement@mav.asn.au

B. Opportunities

To increase the percentage of local and regional spend, Councils may identify opportunities through the categories where they have the highest procurement spend that is outside their region. The following categories have been identified as the leading categories for Councils to investigate improving their proportion of local and regional spend. It is noted that some Councils cannot greatly improve local spend in some of these categories:

	Top 10 Spend Categories FY17 ($) - Outside of region[9]				
	Metropolitan	**Interface**	**Regional City**	**Large Shire**	**Small Shire**
1	Building construction materials and services	Building construction materials and services	Road building services	Building construction materials and services	Road building services
2	General waste collection and disposal	General waste collection and disposal	Other civil construction – general	General waste collection and disposal	Arborists and tree services
3	Temporary labour	Other civil construction – general	Electricity	Road building services	Insurance premiums
4	Road building services	Temporary labour	Building construction materials and services	Roads and paving supplies - asphalt and bitumen	Temporary labour
5	Roads and paving supplies - asphalt and bitumen	Road building services	IT software licensing and maintenance	IT software licensing and maintenance	IT software licensing and maintenance
6	IT software licensing and maintenance	Arborists and tree services	Drainage services	Insurance premiums	Building construction materials and services
7	Arborists and tree services	Other landscape works – landscape construction	Insurance premiums	Roads and paving supplies – concrete	Vehicle registration
8	Landfill management services	IT software licensing and maintenance	Architectural and design services	Temporary labour	Sewers and drainage construction
9	Green waste collection and recycling	Green waste collection and recycling	Legal and conveyancing services	Electricity	Mobile phone expenses
10	General recycling	Electricity	Commercial cleaning	Legal and conveyancing services	IT technical services

Regional Collaboration
In every region there are significant opportunities for Councils to collaborate with their regional counterparts to gain further value for money outcomes through regional aggregation.

There have been several regional collaboration efforts in recent years to improve regional local government procurement outcomes. As an example, a recent MAV program bought together the Councils of the Gippsland region, via the Gippsland Local Government Netork. The aim of the program was to:

- Make savings and create efficiencies by sustainably reducing the cost of goods, services and infrastructure,
- Stimulate economic activity across the region through providing broader opportunities for local suppliers, and
- Provide a structured model and regional procurement development plan to strengthen on-going regional collaboration and cooperation.

The group now has a Regional Procurement Development Plan and a Priority Contracts Program in place to assist in achieving these objectives.

[9] Councils have been classified using the Victorian Local Government Comparator Groups.

mav.asn.au
procurement@mav.asn.au

Summary

Councils with targeted procurement development programs are experiencing quantifiable improvements in their procurement spend and processes, however there are still significant opportunities across a range of procurement measures for further development.

Many opportunities to further enhance Council procurement outcomes have been highlighted in this report. Councils who continue to commit to procurement development and are proactive in implementing the recommendations for improvement will be best placed to achieve their procurement objectives and positive procurement outcomes.

The upcoming introduction of the Procurement KPI Dashboards will allow Councils to track and monitor their performance improvements over time and benchmark themselves against other participating Victorian Councils. Most of the insights generated throughout this report will be generated onto this dashboard.

What is planned

KPI Dashboards

Through the MAV LEAP program, ArcBlue are current working on the development of a KPI Dashboard for Councils. These dashboards will feature individualised Council specific KPI information for the KPIs mentioned in the body of this paper.

Savings Program KPI
Participating Councils will be requested to provide savings information and be provided tools to assist in the collection of this important information.
The Savings Program KPI will highlight the savings each council has realised through their key procurement processes. Information contained within will allow councils to quantifiably report on where savings have been made, how much they have saved, when they made the savings and will allow for savings to be tracked over time.

Other Available KPI Dashboard Options
Other KPI's and associated Dashboards that are available through ArcBlue include:

- *Invoices before Purchase Orders Dashboards:*
  Details information related to invoices received before Purchase Orders (POs) are raised. Information from this KPI will assist councils to measure compliance with their procurement processes. Providing POs to suppliers before receiving invoices is important as it provides clarity on financial commitments made to suppliers and assists with upcoming budget estimates.

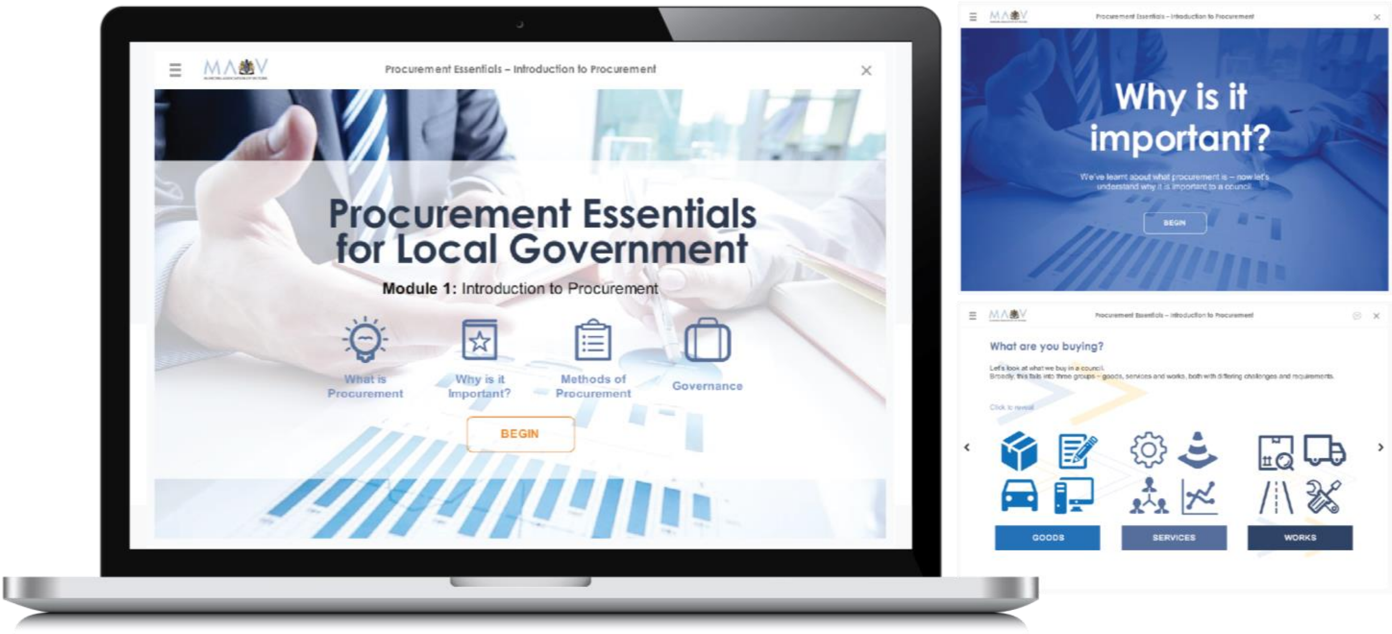
- *Social Impact Dashboards:* The dashboard will aim to assist Councils to quantifiably demonstrate to the positive impacts their procurement spend is having on key social and economic development target areas for the municipality. It will utilise the latest spend data to visualise the local social and economic impact of Council procurement spend.

mav.asn.au
procurement@mav.asn.au

What else is happening

Growth of eLearning

Over recent months there has been a large increase in the number of councils throughout Australia embracing eLearning to develop and refresh the skillset of their procurement teams.



eLearning allows users to tailor their procurement learning in bite size manageable chunks which they can fit into their daily work schedule. Using a mixture of media and interactive tasks the modules are designed to appeal to all learning styles.

There are now 18 procurement development competencies to choose from with more in the development pipeline. ***Procurement Essentials, Contract Management***, and ***Probity for Purchasing and Procurement*** have been the three most popular within the local government sector thus far. MAV has implemented a procurement eLearning Program to complement its face-to-face training program.

Visit the MAV Procurement eLearning for further information:
http://www.mav.asn.au/policy-services/procurement/procurement-training/Pages/elearning.aspx

mav.asn.au
procurement@mav.asn.au

Program Contact Details

LEAP Program queries:

MAV Procurement
Email: procurement@mav.asn.au
Phone: 9667 5587

Tony Kerr
Senior Consultant
Email: tony.kerr@arcblue.com.au
Mobile: 0439 403 303

Noel Irwin
Senior Consultant
Email: noel.irwin@arcblue.com.au
Mobile: 0418 905 744

Dashboard / Data Queries

Email: dashboards@arcblue.com.au

Rob Holland
Executive Manager – Analytics
Email: rob.holland@arcblue.com.au
Mobile: 0428 118 736

eLearning

Jacqui Priestly
Executive Manager – eLearning
Email: elearning@arcblue.com.au
Ph: (03) 8400 4220

in partnership with

ArcBlue
The Global Procurement Network