

2008

**Local Government  
Procurement  
Strategy**

September 2008

## September 2008

Prepared by



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## Minister's Foreword

As Minister for Local Government I am committed to working with local councils to identify ways for them to reduce their costs, improve services and cut costs for business.

The Councils Reforming Business Initiative is delivering on this commitment. This Victorian Government-funded initiative was launched in 2007 in partnership with the Municipal Association of Victoria (MAV).

The Victorian local government sector spends in excess of \$2.7 billion on goods and services every year. Much of this is spent in common procurement categories, where opportunities for financial and procedural benefits from improved procurement practices are significant.

Through this *Local Government Procurement Strategy*, I hope to harness the sector's commitment to improved procurement, and provide practical recommendations for councils to work in partnership to deliver savings to local communities.

The strategy has been prepared by Ernst & Young, who were commissioned to undertake a detailed assessment of existing procurement practices employed by councils and to identify opportunities for councils to work in partnership to improve these practices.

Ernst and Young conducted a series of workshops, interviews and detailed data analysis involving more than 40 Councils to develop the *Local Government Procurement Strategy*. The research concludes that the adoption of better procurement practices across the sector has the potential to yield annual savings in the region of \$180-350 million. Cost saving on that scale would have a significant impact across the sector, and ultimately deliver savings to local communities.

I endorse the recommendations in this report, and look forward to working with the MAV and local councils on the implementation of the Procurement Strategy.

I would like to thank the councils that have participated in the research undertaken as part of this strategy, and the Councils Reforming Business Steering Committee for its guidance and support.

A handwritten signature in black ink, reading "Richard Wynne". The signature is written in a cursive, flowing style.

**Richard Wynne MP**  
**Minister for Local Government**

# 1. Executive Summary

Ernst & Young was appointed to develop a procurement strategy and performance assessment model for Victorian Local Government. This report sets out the core findings, recommendations and initial roadmap for delivery of that Strategy.

The Strategy was developed in close consultation with Local Government Victoria, the Municipal Association of Victoria (MAV), a range of key stakeholders, and many councils who contributed data, insight and feedback to the process.

## 1.1 Context

Governments across the world have followed the private sector and begun to look at ways to improve procurement practices within the public sector.

The potential prizes from improved procurement practices are generally well-known in terms of significant financial benefits as well as improved internal processes and overall financial and demand management. Learnings from other government sectors across Australia have demonstrated that these benefits are achievable. The local government sector in Victoria has recognised this broad potential and already put in place a range of individual initiatives to improve procurement practices and aggregate expenditure in order to extract better value for money for ratepayers and their communities.

At the same time, such initiatives remain relatively uncoordinated, with no clear overall strategy across the sector or significant focus on lifting procurement capability and expertise within the sector.

There has also been a lack of rigorous assessment of local government practice and of the real financial and other benefits of improved procurement.

A number of legislative and process constraints may also be forcing local councils to operate in a less than optimal manner when seeking to obtain best value for money in the acquisition of external goods and services.

This provides a context to the *Local Government Procurement Strategy* developed over the last 4 months and set out in this document.

## 1.2 Key Findings

- ▶ The Victorian local government sector spends in excess of \$2.7 billion on goods and services - largely in common categories of spend as the “business” of local councils is similar, regardless of geography or size. There would be very few corporate organisations in Victoria with such a significant external spend.
- ▶ Some councils have initiated good procurement practices in areas such as fleet management, waste disposal and some engineering works – but these are limited in number and scale.
- ▶ An assessment of procurement capability across the sector reveals a self-assessed “low/medium-only” level of capability, with higher levels of maturity in metropolitan compared to regional councils. The level of interest by senior council staff in the *Local Government Procurement Strategy* workshops, interviews and data collection suggests a growing appreciation of the importance of procurement.
- ▶ The major areas of spend are roads and associated infrastructure, facilities, including building, construction and maintenance, waste management and plant & equipment.
- ▶ There is quite a varied approach by like councils to the use of suppliers within common categories, and little evidence of coordinated acquisition of vendor services.
- ▶ A number of categories are characterised by a small number of significant players - yet councils appear to remain uncoordinated in their approach in acquiring the services of these vendors.
- ▶ Many councils see procurement as a way of supporting local business and fostering economic development, particularly in regional areas. Aggregating demand for selected categories of external expenditure can assist local economic activity and development AND reduce procurement costs if designed properly and embedded in procurement policies and category strategies.
- ▶ After undertaking category-specific analysis, and considering existing procurement practices, the adoption of better practice procurement across the sector has the potential to yield annual savings in the order of \$180-350 million per annum. This is a significant number, even at the lower end of the scale.

\* Further detailed findings are presented in the Local Government Procurement Strategy – Supporting Analysis document available at [www.localgovernment.vic.gov.au](http://www.localgovernment.vic.gov.au).

## 1.3 Recommendations and Roadmap

The estimated magnitude of potential financial benefits is large enough to justify a concerted investment and level of effort to embrace a comprehensive procurement strategy.

Ernst & Young envisage four (4) broad stages of an implementation roadmap, comprising:

### 1. Awareness Raising

- ▶ Working throughout the sector to raise awareness as to the significant potential to lift procurement capability across local government and generate very significant savings to councils and their communities – savings that can in turn be used to fund much-needed infrastructure and other services, as deemed of most priority by local communities

### 2. Setting Foundations

- ▶ Establish a truly representative governance body to oversee and drive the Sector Procurement Strategy – the body should comprise parties from DPCD - Local Government Victoria, MAV, council representatives and other parties
- ▶ Build upon existing and new pilot category strategies and widen their scale
- ▶ Begin the process of aligning processes and technology, as well as a common chart of accounts and associated financial processes
- ▶ Establish a major program of procurement capability build across the sector
- ▶ Negotiate access to State Government hosted contracts, where appropriate

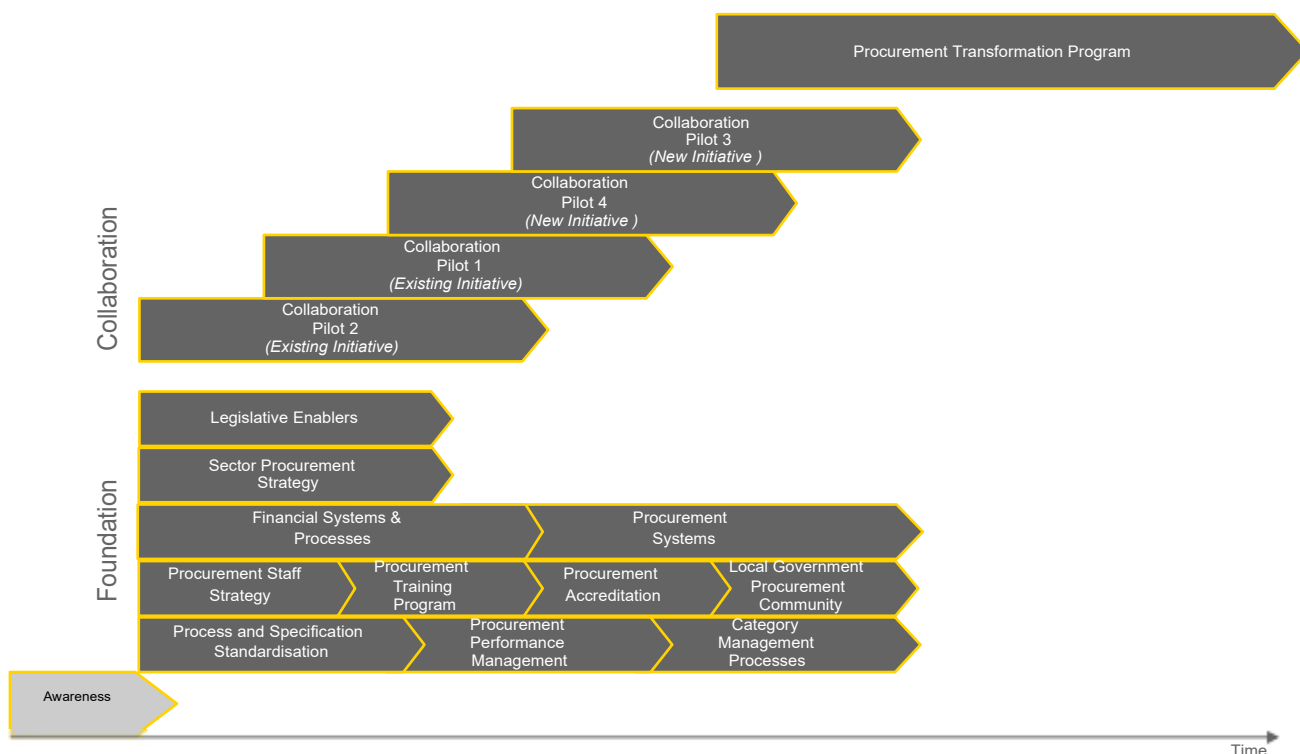
### 3. Creating Sector-wide Collaboration

- ▶ Extend the pilot-only category specific initiatives across the whole sector
- ▶ Develop and implement sector-wide strategies focussed on those areas of greatest potential benefits, especially to councils and communities in regional areas where there is a significant “infrastructure gap” and limited financial capacity to close that gap
- ▶ Deliver strategies that effectively aggregate demand and reduce costs, but also assist in enhancing local and regional local economic activity and development.

### 4. Move to Sector Transformation

- ▶ Extend procurement collaboration into potential sharing and collaboration of service provision, assets and other infrastructure created for the benefits of communities

A high-level roadmap is set out below, reflecting the above approach.



## 1.4 1.4 Successful Implementation

The keys to successfully implementing the *Procurement Strategy* will be:

- ▶ Quantifying potential benefits by category from improved procurement practices
- ▶ Agreeing on how benefits are distributed between councils from any improvements, where collaboration or shared resources are used
- ▶ Deepening the understanding of the current level of maturity of procurement practices
- ▶ Agreeing on the goals of better practice procurement
- ▶ Strong governance and leadership to drive the *Procurement Strategy*, using appropriate levers of influence and control
- ▶ Building on operating models consistent with the nature of each individual category, drawing upon existing bodies such as State Government contracts, strategic purchasing, co-operative purchasing services and other public sector initiatives

By establishing clarity and acceptance around the potential benefits of improved procurement, and clear and agreed governance and operating models, local government in Victoria can successfully reap significant benefits from its *Procurement Strategy*.



## 2. Background

### 2.1 Objectives

The *Victorian Local Government Procurement Strategy* project will provide strategic advice and recommendations on how to drive efficiencies in council procurement practices while balancing effectiveness with social, environmental and economic objectives. The major outcome of this project will be the further development of strategic procurement policy and practices in Victoria that will work to reduce councils' costs and improve service delivery.

### 2.2 Scope

The procurement practices and spend of all local councils were within the scope of the project, however detailed data gathering and interviews were limited to 15 nominated councils selected by the DPCD to ensure a broad range of geographies, expenditure levels and procurement practices were included.

### 2.3 Governance

The *Victorian Local Government Procurement Strategy* project was funded by the Department of Planning and Community Development (DPCD) and was managed by Ernst & Young (EY).

A Procurement Project Steering Committee comprising DPCD, the Municipal Association of Victoria (MAV) and EY had joint accountability for the program and were responsible for key decision making and issue resolution.

### 2.4 Glossary

Procurement	In this document, the word "procurement" refers to the external purchase of goods and services.
Procurement categories	Procurement divided into operational categories such as Roads & Streets, Facilities, Waste Management, Vehicles, etc. Each category is made up of sub-categories.
Spend Map	Procured goods and services grouped into categories, then sorted and presented based on the amount spent on each category.
Demand aggregation	Parties coming together in a coordinated fashion to purchase common goods or services.
Procurement capability	The organisational capacity and ability to effectively perform strategic procurement.
Procurement dimensions	Representation of particular organisational elements or attributes that together contribute to procurement capability.
Supplier concentration	A measure of the number of suppliers of a particular product or service. A high concentration demonstrates few suppliers whilst a low level of supplier concentration indicates many suppliers.

### 3. Procurement Strategy Objectives

The objectives of each council will vary with the needs of their community. Councils located in higher growth areas of Victoria may be focused on supporting infrastructure and development projects while councils in established regional shires are focused on delivering social outcomes. The procurement strategy should be developed to support each council's overall strategy.

Regardless of the specific objectives of the council, all procurement activities should fulfil a common set of objectives. Table 1 lists the key objectives that have been assumed and used to guide the development of the *Local Government Procurement Strategy*.

**Table 1: Local Government Procurement Strategy Objectives**

<p><b>Value for Money</b></p>	<p>Procurement should focus on more than lowest cost purchase; it must balance the needs of the community, the environment and internal service with financial responsibility.</p> <p>Whilst local government can outsource the production and delivery of goods and services required to achieve their objectives, they cannot outsource the outcomes that councils are required to deliver.</p>
<p><b>Ease of Doing Business</b></p>	<p>Procurement should be an enabler of council operations rather than an inhibitor. Policies and processes should be developed to reduce the effort required to carry out best practice procurement.</p> <p>Straightforward and consistent processes enable:</p> <ul style="list-style-type: none"> <li>▶ Increased compliance by staff with council policies</li> <li>▶ Lower costs from suppliers as their cost of servicing local government decreases</li> <li>▶ Improved collaboration within the local government sector and with State Government bodies</li> <li>▶ Reduction in transaction costs both for local government and suppliers to local government</li> </ul> <p>Balance the immediate needs of the community (low cost and high service) against the needs of the long term economic sustainability of the community and industries required to support competition in local markets.</p>
<p><b>Environment &amp; Sustainability</b></p>	<p>Local government should be responsive to the community's environmental expectations and take a leading role, where appropriate, in educating the community or changing behaviour.</p>
<p><b>Building Local Government Capability</b></p>	<p>Ensure the long term viability of the council and the services it provides to the community through:</p> <ul style="list-style-type: none"> <li>▶ Expenditure management</li> <li>▶ Continuous improvement</li> <li>▶ Attraction and retention of key staff; Be the "employer of choice"</li> </ul>

## 4. The Importance of Procurement

Procurement is now seen by many leading organisations as a key enabler of strategic objectives. Traditionally procurement has often been seen as just a purchasing function. Today, procurement involves activities ranging from business planning to OH&S and the environmental certification of suppliers.

Procurement activities can be grouped in four major areas

1. **Business Case:** Identifying needs within a business, assessing the level of demand and supply, undertaking an analysis of available procurement options and selecting the best option based on cost, risk and benefit to the community
2. **Sourcing:** Specifying requirements, identifying suppliers, tendering, evaluating OH&S/environmental credentials, negotiation of prices and service levels and establishing terms & conditions
3. **Purchasing:** Managing the acquisition of products from an existing agreement/contract or through ad hoc purchases
4. **Contract Management:** Once an agreement is in place, monitoring, measuring and managing the suppliers to ensure that the right service is being provided at the agreed price

Effective procurement practices enable:

- ▶ Lower costs through leverage of total spend, standardisation, demand management and improved supplier management
- ▶ Improved services from suppliers, resulting in better outcomes for the community and staff
- ▶ Increased transparency of expenditure and supplier performance
- ▶ Responsiveness to environmental and sustainability issues

To ensure that procurement's broad objectives are met and that capabilities are continuously improved the procurement function must be managed across 8 key procurement dimensions. Table 2 describes these 8 dimensions in detail. Leading performance in all 8 areas typically correlates with organisations with highly effective procurement functions.

**Table 2: Procurement Dimensions**

<p><b>Strategy &amp; Governance</b></p>	<p>Procurement strategy and governance structure is aligned with council's objectives &amp; strategy. This typically impacts the trade-off of sometimes conflicting objectives, such as lowest cost vs. support of small/local vendors.</p>
<p><b>People &amp; Culture</b></p>	<p>The procurement team is staffed with full time procurement professionals who have appropriate skills, training and authority within the organisation to perform their jobs.</p>
	<p>Spend is coordinated by category specialists or lead departments to ensure that the organisation's buying power is leveraged. Category management typically results in lower purchase costs, improved service from suppliers and lower internal management costs.</p> <p>Procurement activities are supported by an integrated set of systems and tools that are fully automated to provide standardised and timely reporting.</p>
<p><b>Purchase to Pay</b></p>	<p>Back office processes, such as purchase order or accounts payable processing, are streamlined to support the procurement function and probity requirements.</p>
	<p>Collaboration with other councils/organisations to standardise specifications, leverage increased spend or share resources. Partnership with suppliers to develop innovative business models.</p>
<p><b>Performance Management</b></p>	<p>Key Performance Indicators (KPIs) to measure the effectiveness of procurement practices and the performance of suppliers are in place, monitored by senior officers and are used to identify areas for improvement.</p>
	<p>Procurement is integrated into council's social and environmental objectives. More than just purchasing.</p>

## 5. Study Approach

The *Local Government Procurement Strategy* has been developed using a fact based analysis of procurement practices and council expenditure.

### 5.1 Data Collection

Quantitative and qualitative data was gathered from the following sources in a variety of methods. A sample of 15 councils was selected by the DPCD to ensure a broad range of geographies, expenditure levels and procurement practices were included.

**Table 3: Data Collection**

Accounts Payable Data & Chart of Accounts	✓		
Questionnaire	✓		
Interviews	✓		✓
Online Survey of procurement maturity	✓	✓	

Refer to Appendix 1 for a table of all personnel interviewed during the course of the study.

### 5.2 Procurement Capability Assessment

The procurement capability assessment was developed using the output from surveys, questionnaires and face-to-face interviews.

This assessment included:

- ▶ Benchmarking of procurement process maturity across local government, identifying key differences between regional and metropolitan councils
- ▶ Understanding leading or innovative practices used by local government in Victoria
- ▶ Understanding areas for improvement nominated by councils

### 5.3 Stakeholder discussions

Interviews with State Government, professional associations and other 3<sup>rd</sup> party stakeholders to understand the:

- ▶ Impact of current local government procurement practices on these stakeholders
- ▶ Opportunities for greater collaboration with these groups

## **5.4 Spend Map**

The accounts payable data (2006/07) provided by the sample councils has been grouped according to the category of goods and services being purchased. Expenditure has been mapped against procurement categories to complement the traditional departmental budget format. This spend map enables the consistent analysis of the total spend on common goods and services used across multiple departments.

Within each category, spend is further categorised by suppliers to allow the identification of common suppliers across multiple departments or councils.

All council and supplier details have been masked to ensure that any commercially sensitive information is not disclosed.

## **5.5 Leading Practice Assessment**

Evaluation of both public and private sector procurement strategies and operational models, via Ernst & Young's global network and recent engagements, has been conducted. Leading practice assessment has included models operating in Victorian State Government, other state local governments and the United Kingdom.

Details of these models and experiences are provided in the Appendices.

## **5.6 Policy Review**

High level review of selected government policy issues related to local government procurement.

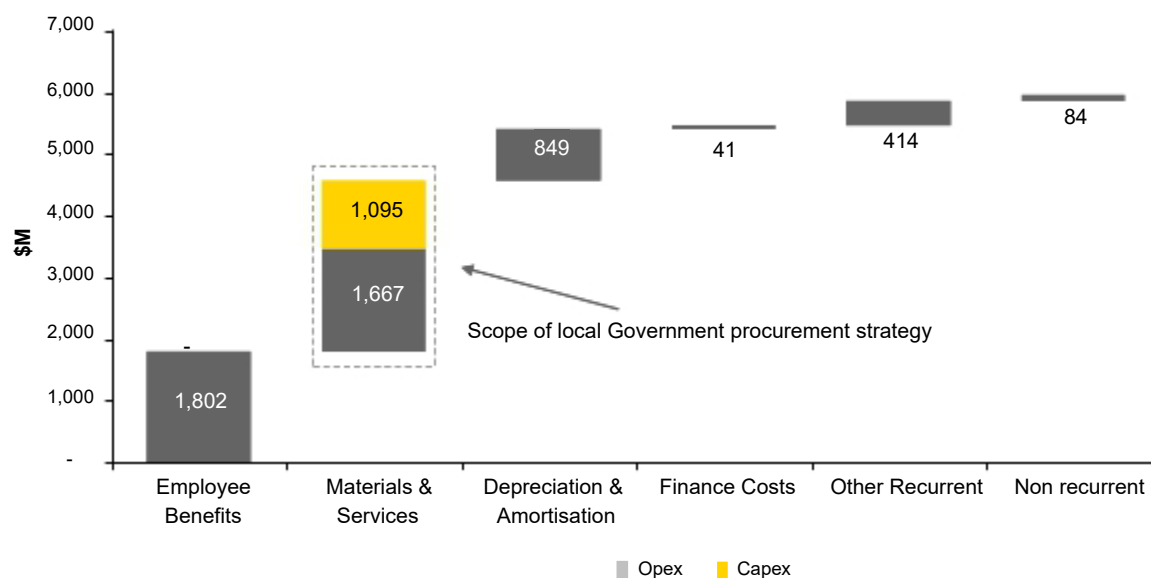
## 6. Current State of Local Government Procurement

Utilising the detailed qualitative and quantitative data, an assessment of current procurement practices and sector wide expenditure of goods and services has been compiled. Detailed analysis has been performed for 15 councils and extrapolated to all 79 councils.

### 6.1 Local Government Total Expenditure

The local government sector in Victoria is a major purchaser of infrastructure, materials and services, spending more than \$2.7 billion each year.

**Chart 1: Local Government Operational & Capital Expenditure**



Operational and capital expenditure has been included in the scope of this review. Employee benefits and depreciation/amortisation has not been specifically addressed. It is recognised that changes to procurement practices may impact staff costs or depreciation if costs are reduced or if different supplier relationship models (i.e. Public Private Partnerships) are entered into.

### 6.2 Policy & Legislation

Local government procurement practices are impacted by council specific policies and State Government policies and legislation. There is a perception amongst some councils that some State Government policies and legislation limit the effectiveness of the local government procurement practices, particularly:

#### Compulsory Tendering thresholds under section 186

- ▶ Councils currently have the discretion to establish their own business rules for the procurement of goods, services or works with a value below \$100,000, i.e. whether a certain number of verbal or written quotes are to be obtained, or that a tender be undertaken for procurement with a value below \$100k. This threshold has recently been raised (August 5<sup>th</sup> 2008) to \$150,000 for Goods and Services and \$200,000 to carry out works.

- ▶ Some council procurement staff indicated that the \$100k threshold creates additional work for the procurement team and other council functions without significantly impacting the cost of goods and services. This is particularly common amongst metropolitan councils where increases in construction costs have significantly increased the frequency of these tenders.
- ▶ There is a perception by some councils interviewed that the cost of responding to these tenders may be factored into pricing by some vendors.

#### Access to State Government Whole of Government Contracts

- ▶ While there have already been some isolated examples, there are significant further opportunities for local government to gain access to State Government contracts. There are processes and legislative barriers that could be addressed to enable significant benefits for the local government sector.
- ▶ There may be statutory barriers to allowing local government access to Whole of Government Contracts where the total expenditure under the contract exceeds \$100k.
- ▶ Enabling access by local government to Whole of Government contracts may require either ministerial approval under section 186(5)(c) of the Local Government Act; prescribing these contracts under section 186(5)(d) of the Local Government Act; or an amendment to the Local Government Act.



### 6.3 Current Procurement Operating Model

The majority of local government spend is procured by individual councils through the procurement team or directly by individual staff. The use of aggregation services or collaborative approaches such as clustering is largely ad hoc, however where these practices are being used, significant savings are often realised.

The main procurement operating models currently in use by local government in Victoria are:

**Table 4: Procurement Operating Models Description**

Operating Model	Description	Example
	Local management of sourcing, purchasing and contract management for council specific goods and services	Most council procurement activities
<b>Demand Aggregators</b>	<p>Institutionalised use of state government contracts or 3rd party aggregators to achieve cost reductions or improved services through aggregation of demand for commodity goods and services</p> <p>Members typically have limited ability to influence specifications or supplier selection</p>	<p>Co-operative Purchasing Services (CPS)</p> <p>Municipal Association of Victoria (MAV)</p> <p>State Government – Whole of Government Contracts</p> <p>Strategic Purchasing Group (SPG)</p>
<b>Regional Clusters</b>	Shared procurement function or activities across councils in similar geographies to improve procurement capabilities and reduce the cost of infrastructure and some services	<p>Mount Alexander/Central Goldfields</p> <p>Gippsland Local Government Regional Managers Forum</p>
<b>Consolidated Procurement</b>	Management of sourcing, procurement and contract management by one body on behalf of Local Government	Multimedia Victoria – IT/Telecommunications

## 6.4 Procurement Capability

Using a combination of interviews, surveys and questionnaires, an assessment of local government's procurement capability has been performed using the 8 procurement dimensions discussed earlier, in Table 2.

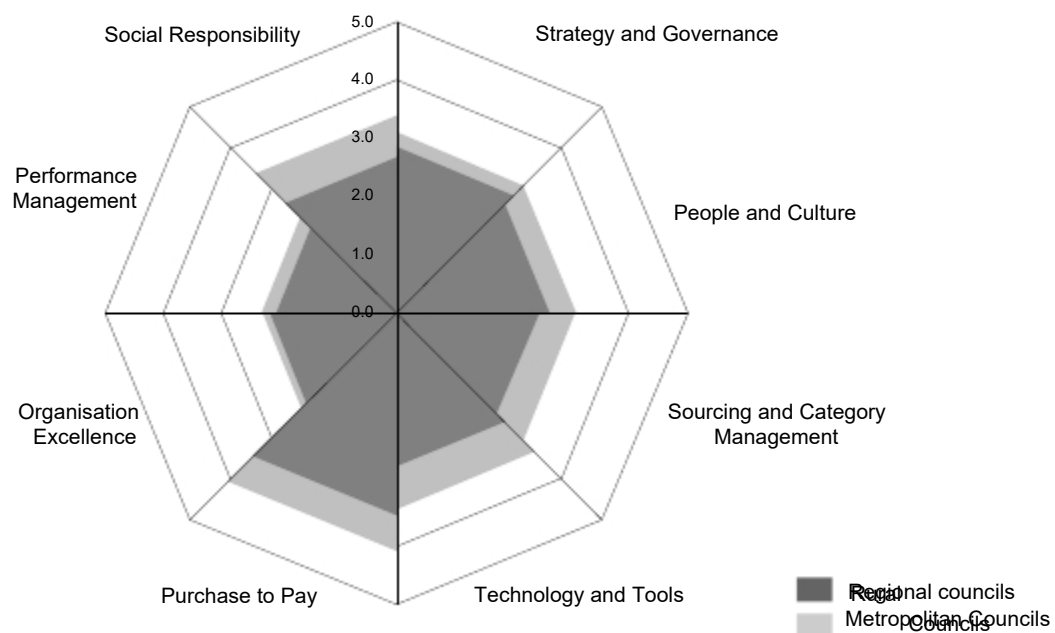
Ernst and Young use a procurement maturity assessment model to determine an organisations' performance on each of the procurement dimensions. Leading performance on each of the procurement dimensions (a score of >4.5), typically correlates with organisations with highly effective procurement functions.

The procurement maturity assessment evaluates the maturity or effectiveness of local government procurement practices relative to other similar size organisations. It identifies specific areas where an organisation is lagging behind leading practice.

Overall, procurement capability in local government is low relative to private and public sector organisations of similar size. Actual capability varies significantly between councils, however several weaknesses are common across most councils. Chart 2 & Table 5 summarises the overall performance of councils across the eight procurement dimensions.

As shown by the higher score, metropolitan councils consistently demonstrated higher levels of procurement maturity as compared to regional councils, particularly in those areas requiring investment in technology or processes.

**Chart 2: Victorian Local Government Procurement Maturity**



**Table 5: Current Procurement Capability of Local Government in Victoria**

Procurement Dimensions	Summary Comments
	<p>Councils operate mostly decentralised procurement; where centralised purchasing activities exist, there is little alignment to council strategy</p>
<p><b>People &amp; Culture</b></p>	<p>Particularly in regional areas, experienced procurement staff are difficult to attract. Existing procurement capabilities are gained from mostly on-the-job training. This is reflective of a competitive market for procurement skills and the challenges for local government in being able to pay for them.</p> <p>Procurement staff do not feel they receive sufficient recognition within their council for the broad range of responsibilities they manage</p>
<p><b>Sourcing &amp; Category Management</b></p>	<p>Inconsistent sourcing practices and low levels of category management are evident within and across most councils. However, collaborative activities do exist for some categories</p> <p>Metropolitan councils consistently demonstrated higher levels of category management capability, which generally correlates with the presence of a dedicated procurement manager within these councils</p>
<p><b>Technology &amp; Tools</b></p>	<p>Many councils use incompatible systems and tools, resulting in manual processes and poor integration of systems, providing financial controls but limited insightful reporting.</p> <p>The effectiveness of IT systems supporting procurement generally appears to be more robust in metropolitan councils</p>
<p><b>Purchase to Pay</b></p>	<p>No standard Purchase to Pay process exists throughout local government, however processes developed by each council appear to be generally robust and support probity requirements</p> <p>Many processes are labour intensive and administrative, whilst some remain paper-based</p>
	<p>Focus on day-to-day purchasing limits procurement teams' ability to lead change and improve supplier relationships</p>

<p><b>Social Responsibility</b></p>	<p>Decentralised procurement results in mostly throughput-based measures, with legislative compliance adopted as the maximum reporting requirement in most councils</p>
	<p>Council-specific social objectives are evident and environmental policies exist. However they are not always embedded in procurement activities</p> <p>Where policies are in place, formal contracts to evaluate environmental or social impact lack rigour</p>

## 6.5 Local Government External Spend

The Accounts Payable data (2006/07) of 11 councils was analysed to develop a detailed „spend map“. The accounts payable data of the remaining four councils could not be incorporated into the spend map due to incomplete data or a complicated chart of accounts structure.

The spend map provides a “category” based view of spend, as against a traditional departmental income and expenditure budget format.

Every transaction of the Accounts Payable extract of each council is mapped to a particular category. Each category is further broken down into sub-categories. Within each of these categories and sub-categories, the transaction is linked to the vendor to identify common vendors across categories and councils.

The spend map, therefore, enables detailed analysis of the spend patterns by: council, council groups, regional vs. metropolitan councils, the whole sector and vendor or vendor groups. It provides management and other stakeholders with higher visibility, tighter control and closer monitoring of spend.

The table below provides a summary of the spend map, showing key categories and sub-categories along with the estimated spend for the sector as a whole for that particular category / sub-category. The results of the spend map for the 11 councils have been extrapolated using Victoria Grants Commission data to estimate the total expenditure of all 79 Victorian Councils.

## 6.5.1 Key Categories & Sub Categories

**Table 6: Category / Sub Category Spend**

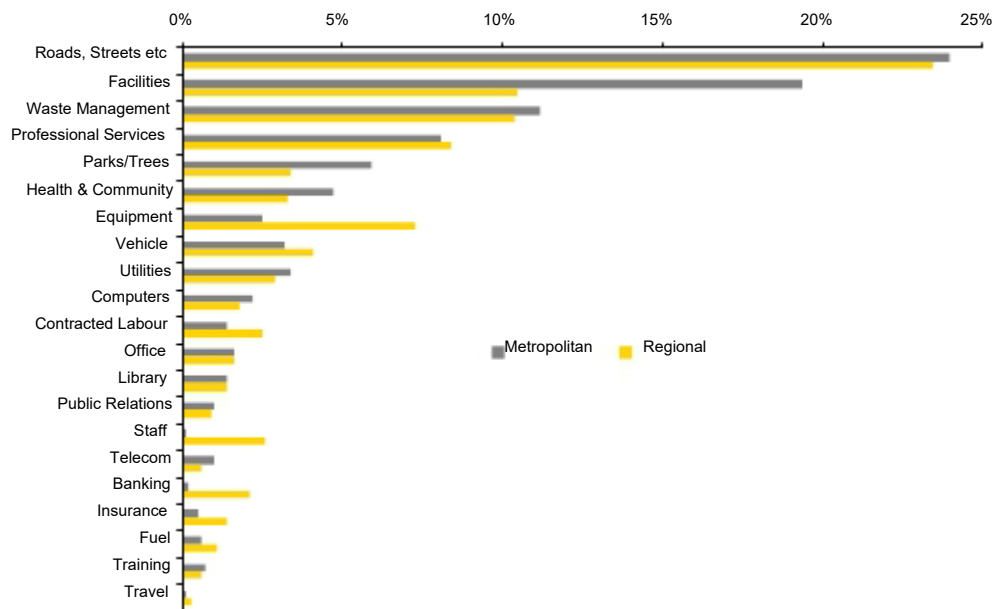
Category	Sub-Categories	Estimated Spend
Computers & Equipment	Software	\$30-34m
	Hardware	\$13 -14m
Equipment	Plant & Equipment, Lease, Minor Equipment	\$106-117m
Facilities	Building & Construction	\$258-285m
	Maintenance	\$125 to 140m
Health & Community	Health, Food Services	\$112-124m
Insurance	Insurance	\$21-23m
Office	Furniture, Stationery, Postage, Printing and Photocopying	\$42-47m
Parks/Trees	Maintenance, Sports Grounds	\$133-147m
Professional Services	Accounting	\$6-7m
	Architects	\$24-26m
	Engineers	\$19-21m
	Other	\$41-45m
Roads & Streets	Construction, Maintenance & Renewal	\$630-690m
Travel	Accommodation, Taxi, Airfare	\$4-5m
Utilities	Electricity	\$58-64m
	Water	\$15-16m
	Gas	\$3-4m
	Other	\$8-9m
Vehicle	Purchase	\$65-70m
	Maintenance	\$17-18m
Waste Management	Collection	\$120-130m
	Disposal	\$37-40m
	Recycling	\$32-35m
	Street Cleaning	\$70-80m

## 6.5.2 Spend highlights

The spend map enables analysis of the spending patterns of councils and characteristics of the market by category. It also helps bring out the key differences between buying patterns of metropolitan versus rural councils.

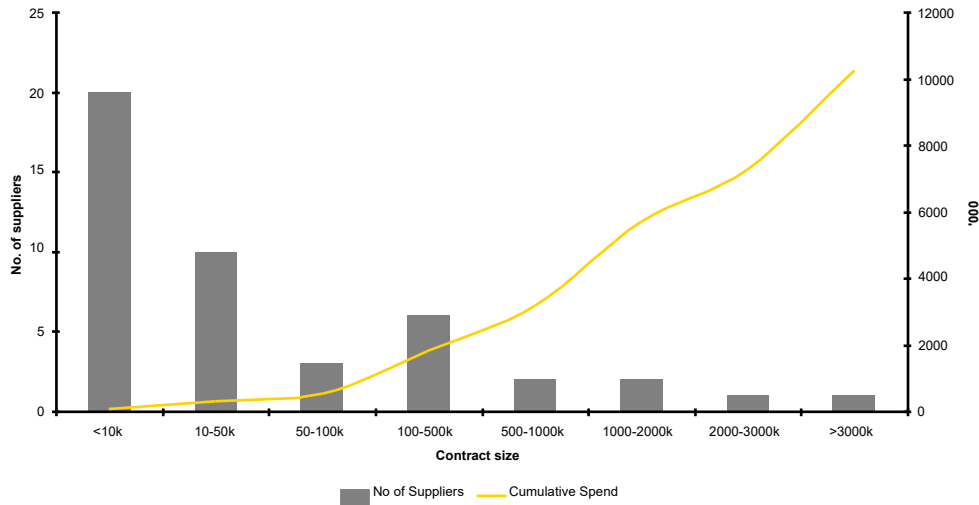
While many areas of spend are approximately equal there are several key differences between regional and metropolitan councils.

**Chart 3: Spend on a category as a proportion of total expenditure – Metropolitan Vs Regional Councils**



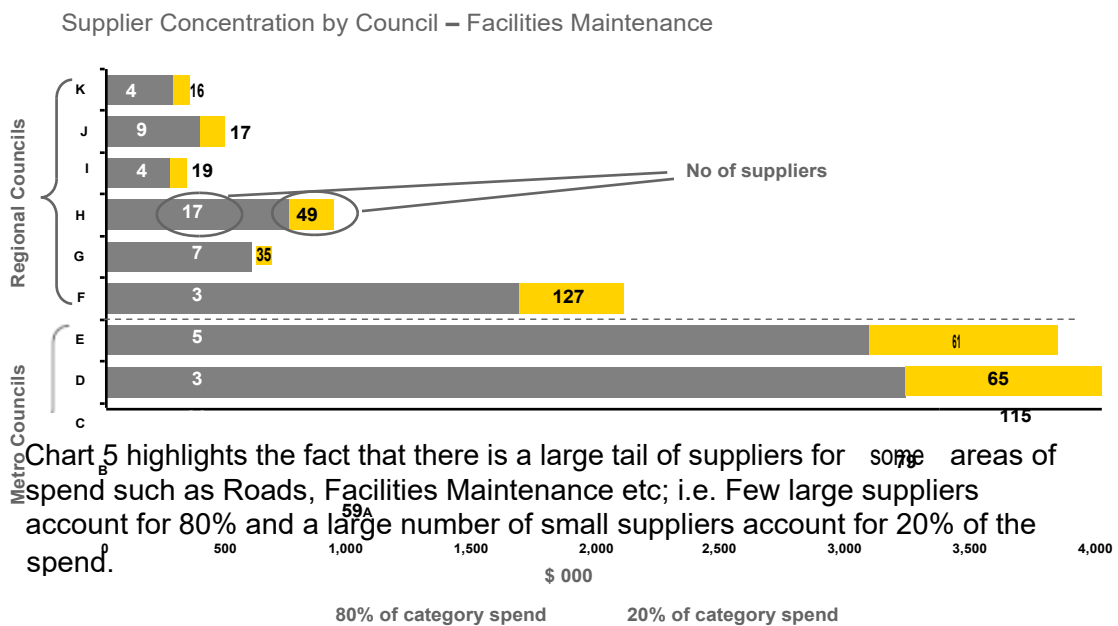
- ▶ Shortage of skills in regional areas appears to be driving the high use of Professional Services, especially legal firms and consultants.
- ▶ Metropolitan councils spend twice as much as regional areas as a proportion of their total spend for Parks / Trees, probably due to the larger number of maintained parks & gardens and sports grounds in metropolitan areas.
- ▶ The other areas of spend where regional councils spend more as a proportion of total expenditure include vehicles and fuel, plant & equipment, contracted labour and travel.

**Chart 4: Typical Council Supplier Concentration – Roads, Streets etc**



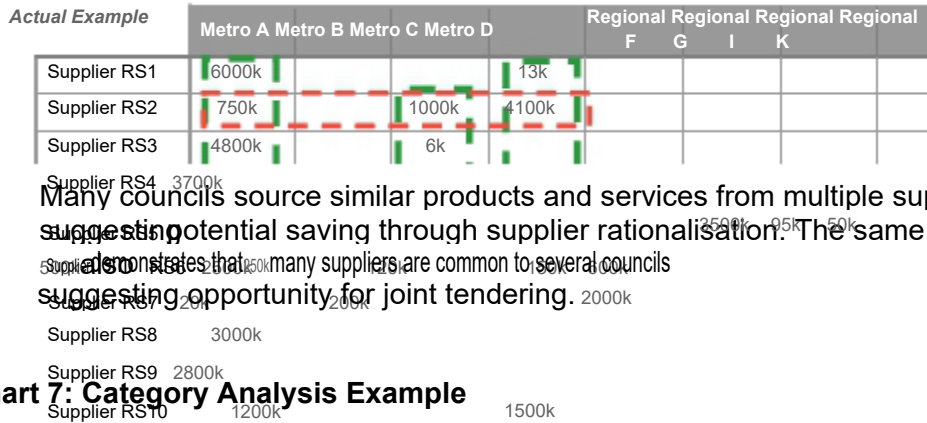
As shown in Chart 4, there is a large and fragmented supplier base for Roads, Streets etc. A few large suppliers account for the major spend. This characteristic is also common to other categories such as facilities maintenance, some professional services, computer software etc.

**Chart 5: Category Analysis Example**



► Chart 5 highlights the fact that there is a large tail of suppliers for some areas of spend such as Roads, Facilities Maintenance etc; i.e. Few large suppliers account for 80% and a large number of small suppliers account for 20% of the spend.

## Chart 6: Spend on Major Suppliers, by council



## Chart 7: Category Analysis Example

- ▶ Chart 7 shows the high supplier concentration for the Utilities sector. This is also the case for categories such as Telecommunications & Fuel.

\* Further detailed category analysis is presented in the Local Government Procurement Strategy – Supporting Analysis document available at [www.localgovernment.vic.gov.au](http://www.localgovernment.vic.gov.au).



## 7. Procurement Operating Models – Key Attributes

Annual expenditure by Victorian local governments on products and services exceeds \$2.7 billion. A review of current procurement practices and the spend map have identified potential annual benefits of \$180-350 million through the introduction of improved procurement capabilities within councils and the adoption of new procurement models across the sector. The estimated annual savings could benefit ratepayers through further investment in the local community.

### 7.1 Improving Procurement Capability

Before sector wide improvements can be made, councils must improve the processes and systems used to support procurement strategies and the capability and/or recognition of procurement professionals within their council.

Major areas that must be addressed are:

**Table 8: Improving Procurement Capability**

	Individual Councils	Local Government Sector
Council Procurement Strategy	<ul style="list-style-type: none"> <li>▶ Develop and implement a formal procurement strategy which is aligned with council objectives. Objectives may include environment/ sustainability, support of local industry, community support or lowest cost</li> <li>▶ Develop effective organisational procurement structures, including procurement reporting and the centralisation or key activities to ensure that procurement staff have sufficient authority to implement the procurement strategy</li> </ul>	<ul style="list-style-type: none"> <li>▶ A common vision and procurement strategy for the sector as a whole, given that all councils need to achieve similar objectives from a procurement strategy</li> <li>▶ Ownership and responsibility for the sector-wide strategy should lie with Municipal Association of Victoria</li> </ul>

<p><b>People</b></p>	<ul style="list-style-type: none"> <li>▶ Clearly defined roles and responsibilities for procurement staff</li> <li>▶ Appropriate incentives, training and career development to ensure the attraction and retention of skilled professionals</li> <li>▶ Benchmarking of salaries with other councils of similar size and characteristics</li> </ul>	<ul style="list-style-type: none"> <li>▶ Common sector-wide training programs</li> <li>▶ Accreditation of Procurement staff</li> <li>▶ Development and formalisation of regional and procurement category communities to support continuous improvement and knowledge sharing</li> </ul>
<p><b>Standardisation</b></p>	<ul style="list-style-type: none"> <li>▶ Standardisation of specifications or adoption of agreed product catalogues for most council spend. Where possible access Whole of Government Contracts</li> <li>▶ Harmonisation with existing standards for infrastructure (e.g. Australian Standards) where appropriate</li> <li>▶ Adoption of industry standard tendering guidelines and terms &amp; conditions.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Alignment of planning cycles across councils to enable collaborative planning of infrastructure investment or maintenance</li> <li>▶ Standardisation of specifications for major categories such as roads, drainage, footpaths, vehicles, IT and waste collection to facilitate leveraging sector spend</li> <li>▶ Adoption of standardised category-specific tendering processes and terms &amp; conditions</li> </ul>
<p><b>Category Management</b></p>	<ul style="list-style-type: none"> <li>▶ Category management programs within each council to ensure more leverage and visibility of day-to-day expenditure</li> <li>▶ Comply with council-specific guidelines and sector-wide category strategies</li> </ul>	<ul style="list-style-type: none"> <li>▶ Coordinated category management across local government or a cluster of councils to ensure that the entire sector is benefiting from lowest prices and superior service levels</li> </ul>

<p><b>Performance Management</b></p>	<ul style="list-style-type: none"> <li>▶ Performance measures to track and evaluate the effectiveness of procurement processes and compliance with these processes by council staff</li> <li>▶ Implementation of contract management processes to provide structured assessment of suppliers and major contracts to ensure that agreed services are provided and that financial and schedule risks are identified for the council</li> </ul>	<ul style="list-style-type: none"> <li>▶ Sector-wide assessment for large contracts and suppliers</li> <li>▶ Periodic benchmarking of procurement effectiveness and maturity</li> </ul>
<p><b>Systems</b></p>	<ul style="list-style-type: none"> <li>▶ Implement or refine finance or procurement systems to enable automated business rules/workflow and facilitate category analysis/management</li> </ul>	<ul style="list-style-type: none"> <li>▶ Implement common/standard chart of accounts (and use of the accounts) across councils to facilitate cross-council collaboration</li> </ul>

## 7.2 Demand Aggregation/Collaboration Models

To effectively leverage the \$2.7 billion spent by the local government sector, councils must adopt more formal collaboration structures. Collaboration can significantly reduce cost through aggregation of spend, sharing of specialist procurement skills and improved management of suppliers for large contracts.

The main models proposed to improve collaboration are:

### Aggregation Services

**Table 9: Aggregation Services Model**

Description				
Use of State Government or 3rd party aggregators, enabling councils to pool demand and obtain lower prices while still maintaining their own processes				
<ul style="list-style-type: none"> <li>▶ Aggregator negotiates on behalf of all participants. Best results achieved when participants commit to minimum volumes</li> <li>▶ Adoption of whole of government or aggregator contracts typically involves adoption of some common specifications, processes and policies</li> <li>▶ Councils use their purchase order and accounts payable systems for the actual acquisition of the goods or services</li> </ul>				
Operator	Owner	Decision Maker	Regulator	Funding
State government or private organisation	State government or private organisation	Aggregator typically defines selection criteria and selects suppliers	Aggregator becomes de facto regulator of standards	Typically funded through commission on purchase
Benefits		Challenges	Target Categories	
<ul style="list-style-type: none"> <li>▶ Reduced purchase costs for councils</li> <li>▶ Reduced cost of tendering or supplier engagement by council procurement staff</li> </ul>		<ul style="list-style-type: none"> <li>▶ Aggregation limits choice and stakeholder engagement for staff of councils</li> <li>▶ Process changes may be required to ensure compliance to volume commitments</li> </ul>	<ul style="list-style-type: none"> <li>▶ Telecommunications</li> <li>▶ Utilities</li> <li>▶ Vehicles</li> <li>▶ Stationery</li> </ul>	

## Virtual Clusters

**Table 10: Virtual Cluster Model**

Description				
<p>Collaborative efforts by a small number of councils or organisations to procure one-off or infrequently purchased goods or services.</p> <ul style="list-style-type: none"> <li>▶ The Virtual Cluster may be a formal structure, such as a consortium or an existing demand aggregator or an informal arrangement between councils</li> <li>▶ Best results are often achieved when facilitated by experienced category specialists, negotiators or contract managers</li> </ul>				
Operator	Owner	Decision Maker	Regulator	Funding
Councils, State Government or 3 <sup>rd</sup> parties	Councils, State Government or 3 parties	Cluster Members	Cluster Members	Funding may not be required for informal clusters. Formal clusters funded through commission on purchase
Benefits		Challenges		Target Categories
<ul style="list-style-type: none"> <li>▶ Lower cost and/or improved service for large value and/or infrequently purchased goods through aggregation and negotiation/tendering</li> </ul>		<ul style="list-style-type: none"> <li>▶ Clustering reduces choices and flexibility for member councils</li> <li>▶ Informal structures may be difficult to manage</li> </ul>		<ul style="list-style-type: none"> <li>▶ Computer Software</li> <li>▶ Plant &amp; Equipment</li> </ul>

## Regional Clusters

**Table 11: Regional Cluster Model**

Description				
<p>Shared procurement function across councils in similar geographies to improve procurement capabilities and gain economies of scale</p> <ul style="list-style-type: none"> <li>▶ Regional Cluster could include up to 5-7 neighbouring councils and potentially other organisations, such as regional hospitals or schools</li> <li>▶ Clustering enables smaller councils to participate in larger tenders and to attract suppliers and achieve lower costs than they could by themselves. Where a limited number of suppliers exist, coordinated planning assists the smoothing of demand and limits the risk of neighbouring councils bidding up the cost of services</li> <li>▶ Cluster may be a stand-alone organisation, jointly owned and governed by the member councils or be operated as a committee of current procurement teams</li> <li>▶ Requires standardisation to one or a reduced set of specifications</li> </ul>				
Cluster member councils	Cluster member councils	Cluster member councils	Cluster member councils	Cluster member councils
Benefits	Challenges	Target Categories		
<ul style="list-style-type: none"> <li>▶ Lower cost and/or improved service for some goods and services purchased</li> <li>▶ Improved ability to attract and retain procurement staff</li> </ul>	<ul style="list-style-type: none"> <li>▶ Clustering reduces choices and flexibility for member councils</li> <li>▶ Standardisation of specifications and planning cycles</li> </ul>	<ul style="list-style-type: none"> <li>▶ Roads &amp; Streets</li> <li>▶ Facilities Maintenance</li> <li>▶ Waste Collection</li> </ul>		

## Consolidated Procurement

**Table 12: Consolidated Procurement Model**

Description				
<p>Management of sourcing, procurement and contract management by one body on behalf of local government</p> <ul style="list-style-type: none"> <li>▶ The independent body engages in planning, sourcing, buying, contract management and supplier relationships on behalf of the entire local government sector</li> <li>▶ State Government departments also use the services of the body</li> <li>▶ Best results are often achieved when facilitated by experienced procurement specialists with strong negotiation skills to achieve best price and service levels, usually from large suppliers</li> </ul>				
Statutory Body – owned by local / stage government	Statutory Body – owned by local / stage government	Statutory Body – owned by local / stage government	Statutory Body – owned by local / stage government	State Government funding
Benefits	Challenges	Target Categories		
<ul style="list-style-type: none"> <li>▶ Lower price through aggregation and improved purchasing power</li> <li>▶ Approved list of suppliers for categories</li> </ul>	<ul style="list-style-type: none"> <li>▶ Less strategic alignment with individual councils</li> </ul>	<ul style="list-style-type: none"> <li>▶ Utilities</li> <li>▶ Telecommunications</li> </ul>		

### 7.3 Assessing the “Size of the Prize”

High level strategies for some of the larger categories have been developed. These category strategies include a summary of the potential model and implementation considerations. In most cases a hybrid of models, such as Regional Clusters for sourcing of local projects supported by state aggregation for consumables and materials, will be required to deliver maximum benefits. Refer Appendix C for a summary of Category Strategies.

The categories were selected based on size of spend, presence of existing sector-wide category management, savings potential and ease by which savings can be obtained.

**Table 7: Category wise Spend and Benefits Range**

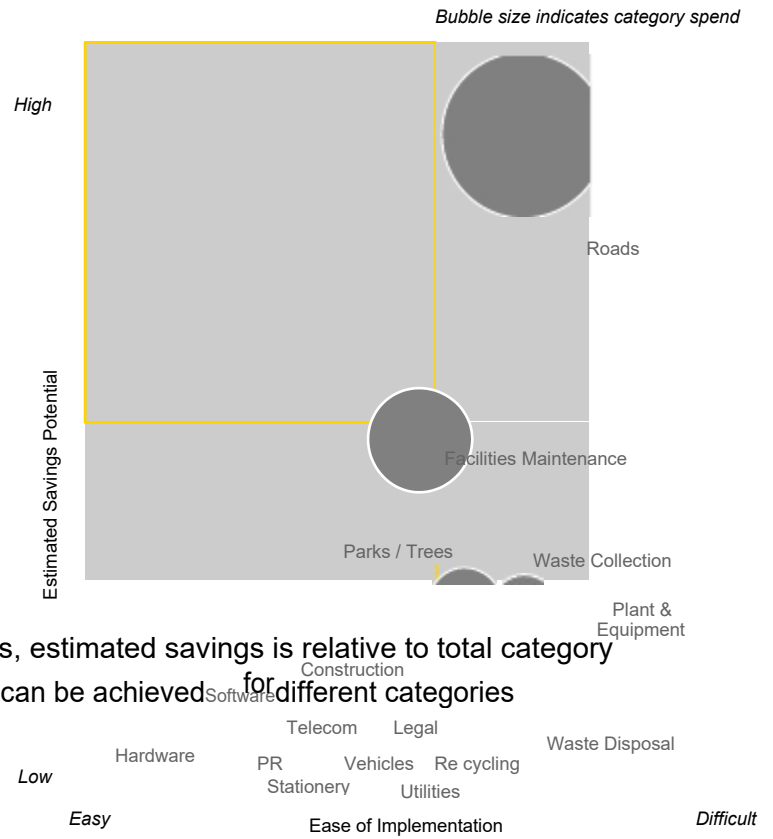
Category / Sub Category	Spend (\$M)	Primary Category Strategy	Benefits Range (%)	Savings Potential (\$M)	Ease Implement
Roads, Streets etc	\$630-690m	Regional cluster	7.5-15%	\$50-100m	Difficult
Facilities Construction	\$260-290m	Improve capability	7.5-15%	\$20-40m	Medium
Facilities Maintenance	\$125-140m	Regional cluster	7.5-15%	\$10-20m	Medium
Waste Management - Collection	\$120-130m	Regional cluster	7.5-15%	\$10-19m	Medium -Difficult
Waste Management - Street Cleaning	\$70-80m	Regional cluster	7.5-15%	\$5-11m	Medium -Difficult
Waste Management - Disposal	\$37-40m	Regional cluster	5-10%	\$2-4m	Medium -Difficult
Waste Management - Recycling	\$32-35m	Regional cluster	7.5-15%	\$2.5-5m	Medium -Difficult
Professional Services - Legal	\$38-41m	Demand aggregator	7.5-15%	\$3-6m	Medium
Professional Services - Architecture	\$23-26m	Improved capability	5-10%	\$1-4m	Easy
Professional Services - Engineering	\$19-21m	Demand aggregator	7.5-15%	\$2-4m	Medium
Parks / Trees	\$128-141m	Improved capability	7.5-15%	\$10-20m	Medium -Difficult
Plant & Equipment	\$100-110m	Virtual cluster	7.5-15%	\$8-15m	Medium -Difficult
Vehicle Purchase	\$65-70m	Demand aggregator	7.5-15%	\$5-10m	Medium
Utilities – Electricity, Water, Gas	\$75-85m	Demand Aggregator	Cost Containment	-	Easy-Medium
Computers & Equipment Software	\$30-34m	Virtual cluster	7.5-15%	\$2-5m	Easy-Medium
Computers & Equipment Hardware	\$13-14m	Demand Aggregator	5-10%	\$1-1.5m	Easy
Public Relations	\$25-28m	Demand aggregator	7.5-15%	\$2-4m	Easy-Medium
Other	\$23-25m	Consolidated			Easy-Medium
Office Stationery	\$8-9m	Demand Aggregator	7.5-15%	\$1-1.5m	Medium
Other	\$800-900m	Improved capability	5-10%	\$42-85m	Difficult
<b>TOTAL</b>	<b>~\$2700m</b>			<b>~\$180-350m</b>	

\*Other assumed those categories not in the above list: Health, Community, Services, Banking, Training, Library etc.

For these categories it is assumed that improved procurement capabilities will deliver lower overall expenditure.



## Chart 8: Savings – Implementation Matrix



## 8. Local Government Procurement Strategy - Implementation

### 8.1 Procurement Transformation Phases

The review of the current state of procurement in local government and the category strategies described in Appendix C in this document have demonstrated the benefits of improved procurement practices and the key areas that need to be addressed to enable these benefits.

Many of these benefits will require significant organisational change, both within councils and across the local government sector. Accordingly, a phased approach is recommended to ensure that the necessary capabilities are established and in some cases piloted. The four-phase procurement transformation approach recommended is described in table 11.

**Table 11 : Procurement Transformation Phases**

	<b>Awareness</b> <b>1</b>	<b>Foundation</b> <b>2</b>	<b>Collaboration</b> <b>3</b>	<b>Transformation</b> <b>4</b>
<b>Description</b>	Recognition of the importance of procurement to local government	Focus on core procurement skills and capabilities	Adoption of alternate procurement practices such as regional/virtual clustering or aggregation	Procurement as enabler of improved service delivery for local government
<b>Focus</b>	Communication to Councillors and council staff: <ul style="list-style-type: none"> <li>▶ Current status of procurement in local government</li> <li>▶ Benefits of good procurement</li> <li>▶ Leading practices</li> <li>▶ Innovative practices</li> </ul>	Within each council <ul style="list-style-type: none"> <li>▶ Leverage of all spend</li> <li>▶ Standardisation</li> <li>▶ Simplification of policies and processes</li> <li>▶ Integrate systems</li> <li>▶ Compliance with policies and processes</li> </ul>	Collaboration across several councils to <ul style="list-style-type: none"> <li>▶ Standardise specification</li> <li>▶ Standardise systems &amp; processes (e.g. planning, tendering)</li> <li>▶ Aggregation or clustering of spend</li> </ul>	Use of improved capabilities and category management to identify and implement initiatives to transform the sector e.g. <ul style="list-style-type: none"> <li>▶ Public-Private Partnerships</li> <li>▶ Shared Service Delivery</li> </ul>
<b>Estimated Benefit (%)</b>	0%	5 – 8%	10 - 15%	15%

This phased approach should be applied to all categories of local government expenditure, however Phase 4: Transformation may only need to be completed for categories where significant benefits can be realised.

## 8.2 Learnings from Other Jurisdictions

A number of case studies from other jurisdictions were considered during this exercise, covering the UK, Canada, NSW and a recent Public Health demand aggregation model put in place by the Victorian government. These case studies are provided in Appendix D.

Some key observations drawn from those case studies include:

- ▶ Strong leadership and governance from the top is required to both gain initial commitment from previously autonomous business units/departments and set a clear direction.
- ▶ Initial stages seem to focus on gathering data and assessing the potential gains of improved procurement practices, with typical recommendations focussing on the better practice attributes such as consolidated number of vendors, common technology systems, implementation of eProcurement in all its forms and variations, etc.
- ▶ A progressive move towards mandating certain policies and practices over time suggesting an evolving governance model and increasingly consolidated operating model.
- ▶ A progressive move towards mandated spend over certain categories.
- ▶ Reform occurs over a long period of time – and after periods of trial and error – this appears most strongly in the case of public sector procurement reform.

These observations provide an important backdrop to our following considerations of governance and operating models as they might apply to a procurement strategy across local government in Victoria.

## 8.3 Governance Roles and Responsibilities

State and local government groups have a number of distinct but interrelated roles to play in setting and driving the *Procurement Strategy* forward. These are set out below.

**Table 12: Key Roles to Drive the Procurement Strategy**

<b>Strategy / Policy Setter</b>	Establishes overall procurement direction, strategic objectives, KPIs and any associated administrative policies required to support its implementation. Monitors outcome/benefit realisation
<b>Strategic Architect</b>	Establishes overall architecture and design in consultation with key stakeholders including Customer, Provider and Central Governance Agencies
<b>Regulator</b>	Ensures corporate governance processes are in place to monitor, measure, audit and enforce achievement of procurement objectives. Intervenes as required to ensure compliance. Can also act as an independent adjudicator or “umpire” in the event of disputes between Procurement Service Providers and Customers
<b>Procurement / Demand Aggregator</b>	Establishes and manages contracts to procure common use, standardised or shared goods and services. This can include the procurement of external shared service providers, IT infrastructure, applications or assets.
<b>Program Manager / Operator</b>	Oversees the implementation of key projects or initiatives which fall under the scope of procurement. Can be done in association with the Strategic Architect role, but requires different skills and capabilities

Roles and responsibilities should be appropriately allocated to improve each procurement attribute and cater for each operating model. This means:

- ▶ All five roles (Strategy Setter, Strategic Architect, Regulator, Aggregator and Program Manager) should be understood for each attribute
- ▶ There must be clearly defined responsibility and accountability across Local Government Victoria, MAV, councils and other stakeholders
- ▶ Responsibility for some roles may vary depending on the category or operating model

For example, a decision to focus on selected categories should be made at a strategic level - by those parties responsible for policy and strategic direction. Existing providers of Demand Aggregation – Strategic Purchasing, CPS, state government and others – should be viewed as potential providers of such aggregation services but not the drivers of strategy.

## 8.4 Local Economic Development – A Special Consideration

Many local councils, especially those in non-metropolitan areas, suffer from financial stress and confront a significant “infrastructure gap” – the difference between what they need to spend on infrastructure and what they can afford.

(see MAV-commissioned Study “Infrastructure: Cradle to Grave” 2006)

Such councils typically have a broad objective to sustain and promote economic activity and development within their own municipality. Yet they often confront a lack of competition from external parties to provide infrastructure build and maintenance services.

So the financial squeeze is exacerbated by:

- ▶ **Natural preference to purchase locally – with a potential cost penalty compared to other providers**
- ▶ **Need to deliver many services using internal resources – due to inability to attract competitive external bidders**

But does a procurement approach based on “aggregating demand” mean local economic activity and development must be sacrificed in order close the infrastructure gap?

Aggregating demand for selected categories of external expenditure can assist local economic activity and development AND reduce procurement costs if designed properly and embedded in procurement policies and category strategies.

### Use the savings elsewhere locally

Savings generated by using a non-local provider of a selected service can be spent in the local economy on other services/products – expanded hours of local library, local building works or additional community services.

### Leverage buying power to get what you want

Regional and/or sector-wide contract arrangements can include specific provisions to ensure:

- ▶ those services and products are provided at the same cost as elsewhere across the state, including in metropolitan areas

- ▶ local distributors retain their commercial relationship with council e.g. car dealerships, technology suppliers

Regional procurement clusters can enhance regional economic development

Strategically planning aggregated purchasing with a focus across a region rather than council-by-council can reduce costs and encourage regional specialised economic and market development.

Improve the attractiveness of the local region – for business and people

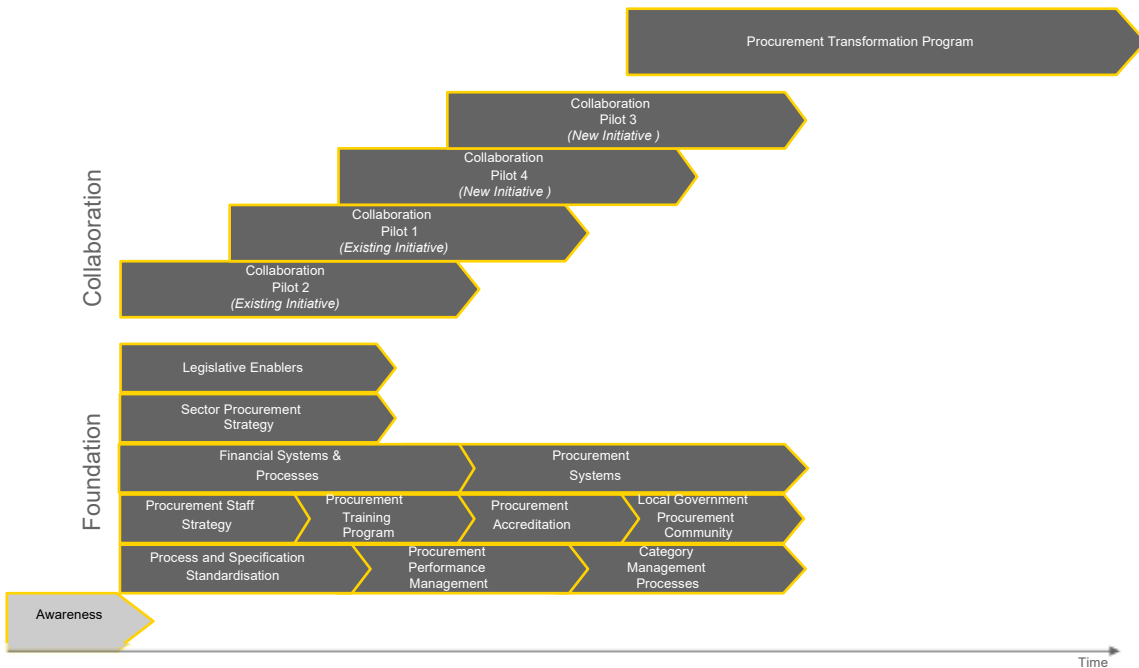
Savings generated from improved procurement practices can be used to:

- ▶ Accelerate infrastructure build – to the benefit of the whole community
- ▶ Improve service - to the benefit of the whole community

### 8.5 The Strategy and Implementation Roadmap

This report has identified high level requirements for improved capabilities and strategies that can enable cost reductions for large areas of expenditure in the local government sector. As discussed earlier in this report, the local government sector cannot transition to an advanced procurement environment immediately, the sector must invest in a program to raise the awareness of procurement and build basic capabilities.

**Chart 7: Implementation Roadmap**



### 8.5.1 Awareness

Project	Key Worksteps
Local Government Procurement Strategy	<ul style="list-style-type: none"> <li>▶ Publish the <i>Local Government Procurement Strategy</i></li> <li>▶ Conduct workshops to communicate the agreed findings of the Local Government Procurement Strategy to Council CEOs, professional associations (e.g. LGPro) and other relevant stakeholders</li> <li>▶ Obtain feedback from stakeholders about the prioritisation of next steps and potential pilots to be implemented</li> </ul>

### 8.5.2 Foundation

Local Government Victoria and MAV should be responsible for initiating the Foundation project, providing resources and financial support where appropriate. Once established, governance of Foundation projects should be by groups from within the local government sector.

Initiative/Project	Key Worksteps
Legislative Enablers	Review of key legislative enablers of improved procurement practices, including: <ul style="list-style-type: none"> <li>▶ Formation of Municipal Enterprises to support regional clusters formed as a result of the <i>Local Government Procurement Strategy</i>. Review should consider ministerial approval and establishment costs</li> <li>▶ Improved access to Whole of (State) Government contracts by local government, including potential exemption from compulsory tendering thresholds for local government where State Government contracts have been established using a competitive process</li> </ul>
Sector Procurement Strategy	State Government, Peak Bodies and sector led project to assist councils to incorporate outputs of the <i>Local Government Procurement Strategy</i> into council plans and organisation structures. Key activities: <ul style="list-style-type: none"> <li>▶ Develop and distribute guidelines for developing council specific procurement strategies</li> <li>▶ Develop guidelines and incentives for effective organisational procurement structures, including procurement reporting the centralisation or key activities</li> </ul>
Procurement & Financial Systems	

- ▶ State Government, Peak Bodies and sector led project to move local government finance systems to a common set of chart of accounts and selected set of processes. Key activities:

- Evaluate feasibility of harmonised/common finance

- 11▶

- platform(s) across the local government sector

- Identify requirements through consultation with the

- 11▶

- sector for a common/harmonised finance platform

- If feasibility study successful, engage market and

- 11▶

- develop business case

- Standardise/harmonise Chart of Accounts structure

- 11▶

- across all councils. Where complete standardisation is not possible, categories with potential for inter-council collaboration should be prioritised

- ▶ State Government, Peak Bodies and sector led initiative to move local government to a common/ harmonised procurement platform to improve procurement capability and facilitate collaboration between councils:

- Conduct review of procurement systems best practice

- 11▶

- across Victorian and interstate local government and State Government

- Identify requirements through consultation with the

- 11▶

- sector for a common procurement platform

- Evaluate feasibility of common procurement platform

- 11▶

- across the local government sector

- If feasibility study successful, engage market and

- 11▶

- develop business case

- ▶ State Government, Peak Bodies and sector led initiative to develop a sector-wide strategy to build the capability of procurement staff through training and employment of experienced professionals. Key activities:

- Procurement Workforce Planning to identify skills

- 11▶

- required and availability within government and private sector

- Procurement salary survey

- 11▶

- ▶

- ▶ Develop &
- ▶ roll-out a

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	▶ Identify appropriate incentives to encourage accreditation



<ul style="list-style-type: none"> <li>▶ Local Government Procurement Community</li> </ul>	<p>Sector-led initiative to build a local government procurement community to help share knowledge and encourage further aggregation and clustering</p> <ul style="list-style-type: none"> <li>▶ Identify existing procurement communities within the local government sector and/or other State Government areas</li> </ul>
<p><b>Procurement Process Effectiveness</b></p>	
<ul style="list-style-type: none"> <li>▶ Process Standardisation</li> </ul>	<p>Sector-led initiative to standardise or harmonise key procurement processes across the local government sector. Emphasis will be on processes relating to engagement of suppliers or other councils:</p> <ul style="list-style-type: none"> <li>-11▶ Adoption of common planning cycles for roads/infrastructure and major equipment purchases to enable improved collaboration and joint tendering</li> <li>-11▶ Adoption of tendering documentation and standard terms and conditions by category. Scope for localisation of some components retained. Standardised tenders and terms &amp; conditions will reduce the effort required to prepare tenders and the cost incurred by suppliers to respond</li> </ul>
<ul style="list-style-type: none"> <li>▶ Specification Standardisation</li> </ul>	<p>Sector or relevant professional body-led initiative to adopt a common set of specifications for high value and frequently purchased goods and services to enable vendor consolidation and joint tendering. Focus areas could include:</p> <ul style="list-style-type: none"> <li>-11▶ Adoption of a common set of standards for road, street, drainage and footpath construction. Standards could be developed in conjunction with VicRoads or Australian Standards</li> <li>-11▶ Standards could be developed to allow variety with each category e.g. 4-6 kerb profiles could be included rather than just one</li> <li>-11▶ Flexibility for councils to use alternate designs when justified, could be retained</li> <li>-11▶ Adoption of a common set of standards or model specifications for motor vehicles, heavy equipment etc. to facilitate category management</li> <li>-11▶ Consideration of a common set of standards or service levels for waste and recycling collection. Flexibility to adopt council specific requirements</li> </ul>

- ▶ Local government procurement community-led initiative to develop guidelines and templates to support the implementation of local and sector-wide performance measures.

- 11▶ Introduction of performance measures to track and evaluate the effectiveness of procurement processes and compliance with these processes by council staff
  - Implementation of contract management processes to

- 11▶ provide structured assessment of suppliers and major contracts to ensure that agreed services are provided and that financial and schedule risks are identified for the council

- 11▶ Sector-wide assessment for large contracts and suppliers

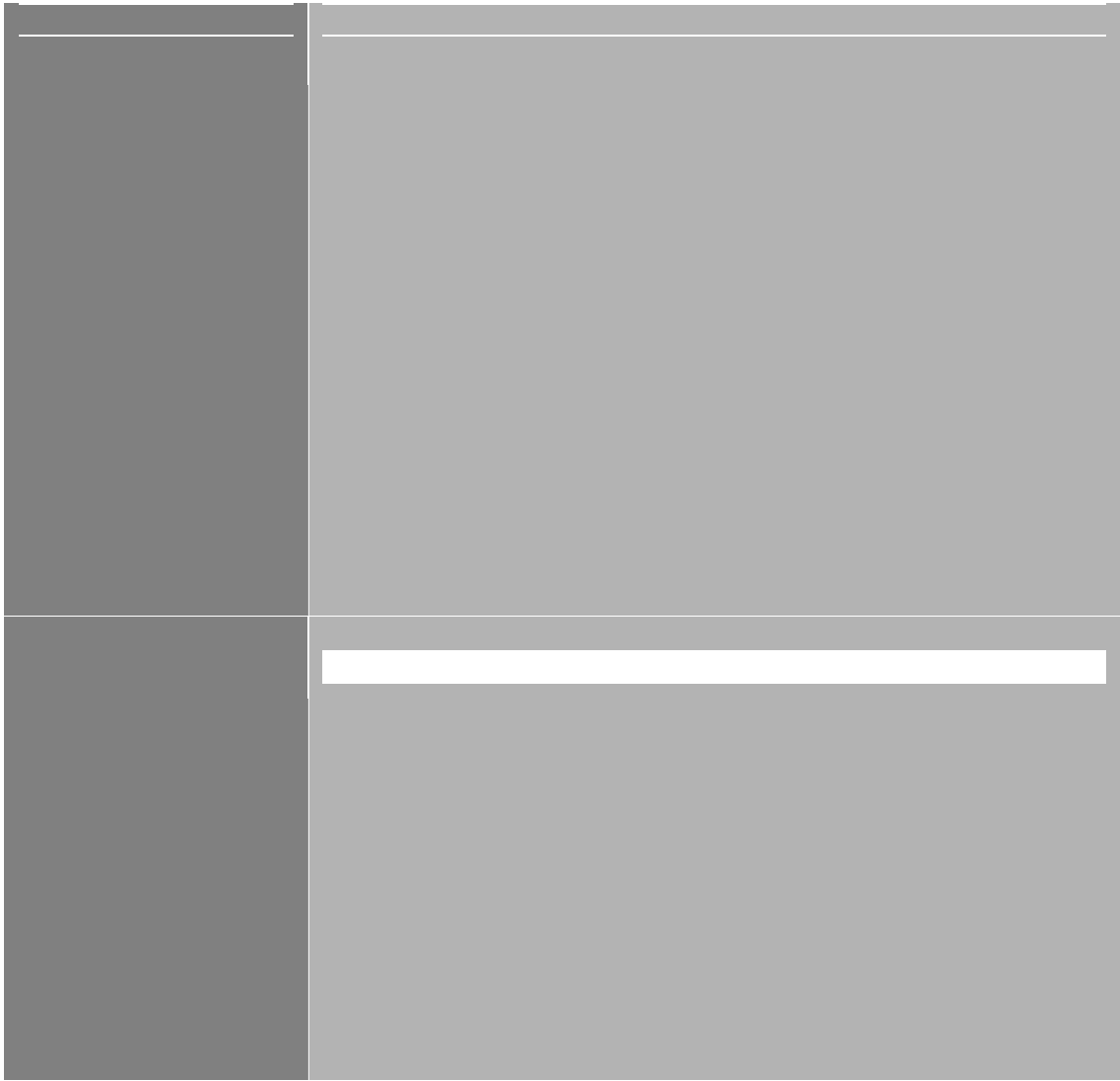
- ▶ Periodic benchmarking of procurement effectiveness and maturity

- Local government procurement community-led initiative to develop processes and forums to facilitate local and sector-wide category management

- 11▶ Category management programs within each council to ensure more leverage and visibility of day to day expenditure

- 11▶ Comply with council specific guidelines and sector wide category strategies

- 11▶ Coordinated category management across local government or a cluster of councils to ensure that entire sector is benefiting from lowest prices and superior service levels



### 8.5.3 Collaboration

Recommended/Potential Pilots

1. Roads & Streets Regional Clusters
2. Facilities Maintenance Regional Clusters
3. Plant & Equipment Virtual Cluster
4. Vehicle Demand Aggregation

While the implementation requirements for the pilot will vary with the scope and participants selected, a typical work plan has been prepared.

Pilot Phase	Key Worksteps
Validate Category Strategy	<p>Building on the <i>Local Government Procurement Strategy</i>, a team of local government procurement and functional (e.g. Engineering) representatives will validate each category strategy selected and confirm:</p> <ul style="list-style-type: none"> <li>▶ Scope and participants in category pilots</li> <li>▶ Indicative costs and secure preliminary funding for design and business case if required</li> <li>▶ Timelines for design and planning</li> <li>▶ Relevant stakeholders, such as professional bodies, government regulators and industry representatives</li> </ul>
Design, Plan & Business Case	<p>Once the category strategy has been validated and the scope and participants have been determined and agreed upon, detailed design and planning will need to be conducted:</p> <ul style="list-style-type: none"> <li>▶ Agree and document operating and governance model, including: <ul style="list-style-type: none"> <li>▶ Ownership and management of the pilot and any organisation created</li> <li>▶ Day to day operating processes</li> <li>▶ Performance management and reporting, including definition of the pilot's success</li> <li>▶ Technology and tools</li> </ul> </li> <li>▶ Agree and document quantitative and qualitative benefits expected from the pilot</li> <li>▶ Quantify pilot implementation and incremental operating costs</li> <li>▶ Develop formal business case &amp; funding</li> <li>▶ Obtain sign-off by stakeholders</li> <li>▶ Plan project</li> </ul>
Implement Pilot	Implementation activities will vary with the pilot
Rollout	If the pilot is successful, develop guidelines or implementation plans to enable sector-wide roll-out of category strategy

#### **8.5.4 Transformation**

The transformation phase relates to more than just day-to-day purchasing or sourcing activities. Improved procurement capabilities will be an enabler of improved service delivery for local government through the adoption of innovative practices and the funding of new programs through sourcing savings. These transformation activities may include Shared Services Delivery, Public-Private Partnerships or changes to the way that councils provide services to their communities.

It is anticipated that the local government procurement communities, enabled by improved capabilities and collaboration, will be instrumental in identifying, planning and implementing these initiatives.

### **8.6 Monitoring Performance and Achievement**

The agreed *Local Government Procurement Strategy* should be accompanied by a form of “benchmarking” whereby local government benchmarks itself against previous years’ performance, while setting itself progressively more ambitious objectives, as deemed appropriate by local councils themselves.

Monitoring and benchmarking could take the form of:

Lead Indicators:

- ▶ Changes in levels of assessed procurement capability
- ▶ Level of involvement in demand aggregation arrangements
- ▶ Best practices implemented

Lag Indicators

- ▶ Savings generated from the improvements in place
- ▶ Relative changes in the measured “infrastructure gap” for impacted councils

## Appendix A Category Strategies

### Roads, Streets etc

Category Description	
<ul style="list-style-type: none"> <li>▶ Goods &amp; services related to construction, maintenance &amp; renewal of roads, bridges, pavements, bike paths etc</li> <li>▶ Includes drainage, line marking, traffic lights, street furniture etc</li> </ul>	
Estimated Sector Spend	Estimated Savings Potential
\$630-690m pa	7.5-15%, \$50-100m
Primary Category Strategy	Key Enablers
<ul style="list-style-type: none"> <li>▶ Regional Cluster; opportunity to collaborate based on regional proximity and hence command lower prices for construction, maintenance and renewal of roads</li> </ul>	<ul style="list-style-type: none"> <li>▶ Standardisation of specifications</li> <li>▶ Common tendering &amp; contract management processes</li> <li>▶ Common planning cycles across councils in each cluster</li> <li>▶ Good relationships with major suppliers</li> <li>▶ Bundling of upgrades/maintenance into a program of work</li> </ul>

### Facilities Maintenance

Category Description	
<ul style="list-style-type: none"> <li>▶ Maintenance of office buildings, community centres, town halls etc.</li> <li>▶ Includes cleaning, electrical work, plumbing, re-flooring, painting, window glass replacements etc</li> <li>▶ Excludes construction of facilities, air conditioning, security services, fencing etc</li> </ul>	
Estimated Sector Spend	Estimated Savings Potential
\$125-140m pa	7.5-15%, \$10-20m
Primary Category Strategy	Key Enablers
<ul style="list-style-type: none"> <li>▶ Regional Cluster; opportunity to engage in collaborative buying with neighbouring councils and hence reduce costs</li> </ul>	<ul style="list-style-type: none"> <li>▶ Establishment of cluster possibly aligned with expiry of existing contracts</li> <li>▶ Presence of cleaning / maintenance companies across geographies</li> <li>▶ Ability / flexibility of suppliers to service different types of facilities e.g. office versus town hall</li> </ul>

## Waste Collection

Category Description	
<ul style="list-style-type: none"> <li>▶ All expenditure on collection of waste</li> <li>▶ Does not include cleaning of buildings, street cleaning, waste disposal and waste recycling</li> </ul>	
Estimated Sector Spend	Estimated Savings Potential
\$120-130m pa	7.5-15%, \$10-19m
Primary Category Strategy	Key Enablers
<ul style="list-style-type: none"> <li>▶ Regional Cluster; regional proximity of metro councils give them the opportunity to collaborate and have a contract with one supplier, leading to lower costs and better service levels</li> </ul>	<ul style="list-style-type: none"> <li>▶ Standardisation of planning cycles and specifications across councils in cluster</li> <li>▶ Establishment of clusters may be aligned with expiry of existing contracts with suppliers</li> <li>▶ Continuing competition among the big waste management companies; state wide review to identify potential monopolies forming</li> <li>▶ Capability of waste collection companies to service the wide geography</li> </ul>

## Professional Services – Legal

Category Description	
<ul style="list-style-type: none"> <li>▶ All expenditure on legal services provided by external providers</li> </ul>	
Estimated Sector Spend	Estimated Savings Potential
\$38-42m pa	7.5-15%, \$3-6m
Primary Category Strategy	Key Enablers
<ul style="list-style-type: none"> <li>▶ Demand aggregation with a preferred supplier panel providing benefits of increased buying power and lower operational costs, improved visibility and quantification of spend on these services and better monitoring of contracts with legal firms</li> </ul>	<ul style="list-style-type: none"> <li>▶ Improved controls for legal spend for councils going forward</li> <li>▶ Strong internal legal capabilities, reducing requirement to outsource legal services</li> <li>▶ Internal legal resources, potentially shared across multiple councils</li> <li>▶ Continuing competition amongst top tier legal firms</li> </ul>

## Professional Services - Engineering

Category Description	
▶ All expenditure on firms providing engineering services	
Estimated Sector Spend	Estimated Savings Potential
\$19-21m pa	7.5-15%, \$2-4m
Primary Category Strategy	Key Enablers
▶ Demand aggregation with a preferred supplier panel providing benefits of increased buying power and lower operational costs, improved visibility and quantification of spend on these services and better monitoring of contracts with engineering firms	<ul style="list-style-type: none"> <li>▶ Standardisation of requirements</li> <li>▶ Similar planning cycles</li> <li>▶ Continuing competition amongst top engineering services firms</li> <li>▶ Ability of construction companies to effectively implement plans of engineering companies</li> </ul>

## Plant & Equipment

Category Description	
▶ Purchase, maintenance and lease of large types of plant and machinery, including trucks, excavators, bulldozers etc	
Estimated Sector Spend	Estimated Savings Potential
\$100-105m	7.5-15%, \$10-20m
Primary Category Strategy	Key Enablers
▶ Virtual Clustering by local government councils with Plant & Equipment companies, including manufacturers, to obtain better prices and superior service levels	<ul style="list-style-type: none"> <li>▶ Standardisation of specifications</li> <li>▶ Common planning cycles across councils with similar needs</li> <li>▶ Common tendering &amp; contract management processes</li> <li>▶ Direct negotiations and good relationships with manufacturers</li> <li>▶ Bundling of upgrades/maintenance into a program of work</li> </ul>



## Vehicles

Category Description	
<ul style="list-style-type: none"> <li>▶ Purchase of cars by local government staff</li> <li>▶ Does not include maintenance and service costs of cars, including purchase of new tyres</li> <li>▶ Does not include other vehicles like trucks, bulldozers, earth excavators etc</li> </ul>	
Estimated Sector Spend	Estimated Savings Potential
\$68-70m pa	7.5-15%, \$5-10m
Primary Category Strategy	Key Enablers
<ul style="list-style-type: none"> <li>▶ Demand aggregation by local government councils with leasing companies or manufacturers to obtain sector discounts and superior service; aggregation will also improve focus on environmental aspects of the vehicle</li> </ul>	<ul style="list-style-type: none"> <li>▶ Standardisation of vehicles</li> <li>▶ Approved list of car manufacturers and partnership with these manufacturers</li> <li>▶ Personal preference of staff</li> <li>▶ Fuel efficiency/Carbon</li> <li>▶ Safety</li> <li>▶ Potential re-sale value</li> <li>▶ Local businesses</li> </ul>

## Utilities

Category Description	
<ul style="list-style-type: none"> <li>▶ Expenditure on Electricity (including Street Lighting), Water &amp; Gas</li> </ul>	
Estimated Sector Spend	Estimated Savings Potential
\$78-82m pa	Cost Containment
Primary Category Strategy	Key Enablers
<ul style="list-style-type: none"> <li>▶ Consolidated Procurement</li> </ul>	<ul style="list-style-type: none"> <li>▶ Long term contracts with energy providers</li> </ul>

## Computers & Equipment - Software

Category Description	
<ul style="list-style-type: none"> <li>▶ Purchase and lease of software, including licenses</li> <li>▶ Software Maintenance</li> <li>▶ Does not include mobile phones, PDAs, Blackberrys etc</li> </ul>	
Estimated Sector Spend	Estimated Savings Potential
\$30-34m pa	7.5-15%, \$2-5m
Primary Category Strategy	Key Enablers
<ul style="list-style-type: none"> <li>▶ Virtual clustering; opportunity to cluster with councils with similar software requirements resulting in lower costs due to improved sourcing and aggregation</li> </ul>	<ul style="list-style-type: none"> <li>▶ Improve specification to ensure that software requirements are fully specified and are fit for purpose</li> <li>▶ Use of remote system maintenance with software suppliers to lower maintenance costs</li> <li>▶ Complete detailed business case before initiating additional systems development</li> </ul>

## Computers & Equipment - Hardware

Category Description	
<ul style="list-style-type: none"> <li>▶ Purchase and lease of Desktops, Laptops, Printers and photocopiers etc</li> <li>▶ Maintenance of such hardware</li> <li>▶ Network solutions and management, including servers, network cables, routers, modems etc</li> <li>▶ Does not include mobile phones, PDAs, Blackberrys etc</li> </ul>	
Estimated Sector Spend	Estimated Savings Potential
\$13-15m pa	5-10%, \$1-1.5m
Primary Category Strategy	Key Enablers
<ul style="list-style-type: none"> <li>▶ Demand Aggregation</li> </ul>	

## Appendix B Case Studies of Public Sector Procurement Strategies

UK Government	
Old Practice	<ul style="list-style-type: none"> <li>▶ Procurement responsibilities were delegated to departments without any common framework within which they should operate</li> </ul>
Need for Change	<ul style="list-style-type: none"> <li>▶ UK public sector spends £250b a year on goods and services with over 50% discretionary.</li> <li>▶ Procurement seen as a key enabler for the UK government goal of delivering world-class public services that are value for money, in a sustainable way.</li> <li>▶ Departmental approaches tended to be inconsistent and varied in performance.</li> <li>▶ Limited coordination of procurement and no common processes for managing large and complex procurements.</li> <li>▶ Suppliers enjoyed differential pricing across departments</li> <li>▶ No common systems across Government and no visibility of overall spend.</li> <li>▶ Overall procurement skill levels needed to be raised</li> </ul>
Approach	<ul style="list-style-type: none"> <li>▶ Review of procurement in central government and findings published.</li> <li>▶ Public Service Agreements were introduced in the 1998 Comprehensive Spending Review setting out key Government procurement priorities and how its performance against them should be judged. This encouraged departments to focus on priority outcomes (rather than the means of delivery) and also signalled the marketplace to those areas.</li> <li>▶ Departments were given incentives to take a long-term view of “value for money” through the capital budget process, encouraging investment.</li> <li>▶ In 1999, the Office of Government Commerce (OGC) was established as a central “one-stop shop”</li> <li>▶ In 2000, OGC buying solutions was launched, providing access to more than 500,000 products and services and offering managed services, including telecommunications, e-mail and web services, energy and eCommerce.</li> <li>▶ Introduction of Gateway reviews to foster better project management and delivery</li> <li>▶ OGC improved collaboration by leading with departments on specific deals – such as the Department for Work and Pensions fleet deal</li> <li>▶ Government Procurement Card is making savings on transactions across 400 public sector organisations</li> <li>▶ Promoted use of eProcurement – 63 e-auctions (worth \$2b) and e-</li> </ul>

UK Government	
	<p>tenders worth \$4b</p> <ul style="list-style-type: none"> <li>▶ In 2007, the “Transforming Government Procurement” Project redefined the OGC role to place even more importance on Procurement</li> </ul>
Outcome/ Learnings	<ul style="list-style-type: none"> <li>▶ Over \$16b of efficiency savings from public sector procurement</li> <li>▶ 1500 Gateway reviews have been completed on 700 procurement projects resulting in \$5b savings</li> <li>▶ A Chief Executive heads up the Government Procurement Service (GPS) with responsibilities for setting procurement standards, monitoring performance, developing procurement skills, project management and managing Government estates</li> <li>▶ <b>Reform process is ongoing – after almost 10 years of focus</b></li> <li>▶ Major exercise currently being commissioned to improve impact of procurement reforms to date</li> </ul>

NSW Government	
Old Practice	<ul style="list-style-type: none"> <li>▶ Sector-wide common use goods and services contracts established under authority of State Contracts Control Board (SCCB)</li> <li>▶ Agencies mandated to use SCCB contracts, and the services of NSW Supply to project manage large, complex procurement projects</li> <li>▶ NSW Supply funded through a supply fee (commission) paid by suppliers on every purchase made under SCCB contracts by agencies</li> <li>▶ Procurement policy function for NSW Government performed within same Department as NSW Supply, but in a different arm</li> <li>▶ Fragmented / non-standardised procurement practices and contracting arrangements within Agencies for non-SCCB contract items</li> </ul>
Need for Change	<ul style="list-style-type: none"> <li>▶ Budgetary pressures on Agencies to achieve savings to fund future sector-wide wage increases or meet central agency efficiency dividend targets</li> <li>▶ Agency resistance to mandated use of NSW Supply and desire for greater agency autonomy</li> <li>▶ Central agency concerns over having procurement policy and mandated shared procurement service provider in the one Department</li> </ul>
Approach	<ul style="list-style-type: none"> <li>▶ NSW Supply restructured to become Office of Government Procurement, with procurement policy role transferred to NSW Treasury</li> <li>▶ Procurement policy activities centrally funded</li> <li>▶ Strategic Sourcing group established within Office of Government</li> </ul>

NSW Government	
	<p>Procurement to drive renewed focus on category-specific aggregation opportunities</p> <ul style="list-style-type: none"> <li>▶ Shared contracting group within Office of Government Procurement restructured to focus on specific key agencies, rather than sector-wide procurement categories only to drive greater client focus</li> <li>▶ Agency procurement accreditation scheme established to allow capable agencies to become exempt from using mandated shared service model</li> </ul>
<b>Outcomes/ Learnings</b>	<p>Progressive shift from mandated and fully centralised supply arrangements for a limited number of goods and services to:</p> <ul style="list-style-type: none"> <li>▶ Expanded range of sector-wide common use category contracts established as a result of renewed strategic sourcing approach</li> <li>▶ Expanded number of agency-specific contracts also set-up for large agencies (e.g. health)</li> <li>▶ Shift towards greater line agency procurement autonomy, but within established „best practice“ guidelines and competency standards</li> <li>▶ Hybrid - part centralised and decentralised model – very much still in transition</li> <li>▶ Still - a mandated model to ensure ability to aggregate, standardise and streamline cost of doing business with government</li> </ul>

Canadian Government	
<b>Old Practice</b>	<ul style="list-style-type: none"> <li>▶ Procurement responsibility is fragmented across the Government.</li> <li>▶ The Treasury Board set Government-wide procurement policies and approval limits for Departments</li> <li>▶ Public Works and Government Services Canada (PWGSC) offers mandatory and optional procurement services and set policies</li> <li>▶ Departments can generally pick and choose how they use the centralised services and are responsible for developing their own operational requirements.</li> <li>▶ PWGSC monitors performance but focus is on processes rather than outcomes</li> <li>▶ A specific mandate of PWGSC is to establish and expand partnership relationships with industry associations involved with government procurement. PWGSC is structured along commodity lines to foster expertise in specific commodities</li> </ul>
<b>Need for Change</b>	<ul style="list-style-type: none"> <li>▶ The major driver is the need to address negative perceptions of Federal procurement and to deliver better value for money</li> <li>▶ Taxpayers, suppliers and Departments want to make procurement more transparent, quicker and focused to support broader government objectives and departmental programs.</li> <li>▶ There are key issues, particularly driven by the lack of clarity in roles</li> </ul>

Canadian Government	
	<p>and responsibilities in the interface with central government and Departments</p> <ul style="list-style-type: none"> <li>▶ Other criticisms included the insufficient use of competition (to meet government and public expectations), and the need to improve compliance and performance reporting</li> </ul>
Approach	<ul style="list-style-type: none"> <li>▶ In 2004, an extensive review was carried out by a “Task Force” consisting of members of the PWGSC, Treasury, Department of Defence (a major spender) and a private consultant</li> <li>▶ The aim was to find a better balance between better procurement and more transparency</li> <li>▶ The review was at a Government-wide level rather than delving into deeper departmental activities</li> <li>▶ Adopted a consultation approach with extensive input from suppliers, Departments and private sector best practice as well as using case studies of other National Governments</li> </ul>
Outcome/ Learnings	<ul style="list-style-type: none"> <li>▶ There were a number of key recommendations: <ul style="list-style-type: none"> <li>▶ The government should adopt a corporate approach to managing procurement which includes a focal point of accountability, clarifying roles of central government, a new body to drive transparency, a PWGSC-driven Annual Procurement Plan and a mandate for PWGSC to proceed with awarding contracts in line with approved strategies</li> <li>▶ There were key legislative, regulatory and policy changes to be made to enable this more corporate approach</li> <li>▶ Mandatory adoption of government-wide tools and systems where they exist</li> <li>▶ The government should manage its procurement based on government-wide, commodity management planning, taking into consideration the overall total costs.</li> <li>▶ It should review its sourcing objectives and use different sourcing approaches. Rather than simply encourage open competition it should also encourage competition from qualified suppliers and non-competitive sourcing where appropriate.</li> <li>▶ Procurement skills within the Government to be increased by stopping procurement by non-procurement staff and setting up a knowledge management centre within the PWGSC</li> </ul> </li> <li>▶ There seems to be little action so far against each of these recommendations</li> <li>▶ A 2006 Federal Accountability Act was passed to strengthen accountabilities</li> <li>▶ This led to the appointment of a Procurement Ombudsman Designate reporting directly to the PWGSC Minister to review compliance, policies and complaints and define policies.</li> </ul>

Public Health – Victorian Government	
Old Practice	<ul style="list-style-type: none"> <li>▶ Health procurement largely operates autonomously through individual acute hospitals</li> <li>▶ A voluntary Health services Demand Aggregator, Health Services Victoria, existed for a number of years</li> </ul>
Need for Change	<ul style="list-style-type: none"> <li>▶ Increasing pressure on hospital expenditure and hence government funding of same</li> <li>▶ As a major funder of acute hospitals, the Victorian Government decided that a more formal, funder-driven approach to improved procurement practices was required</li> </ul>
Approach	<ul style="list-style-type: none"> <li>▶ “Health Purchasing Victoria (HPV) was established as an independent statutory authority by section 129 of the Health Services Act 1988</li> <li>▶ HPV exists to improve the collective purchasing power of Victoria to establish “best value” in the procurement of services, equipment and goods through common use contracts for Victorian Public Hospitals and other health agencies</li> <li>▶ HPV is responsible to the Minister for Health and works closely with the Department of Human Services, public hospitals and health services</li> <li>▶ Health Purchasing Victoria works in collaboration and consultation with hospitals and suppliers to achieve best value for money arrangements for the purchase and supply of clinical and non-clinical goods and services</li> <li>▶ The purchasing policy compels Victorian public hospitals and health services to use HPV contracts <ul style="list-style-type: none"> <li>Public hospitals (as defined in Schedule 1 of the Health Services Act 1988)</li> <li>Public health services (as defined in Schedules 3 and 5 of the Health Services Act 1988)</li> </ul> </li> <li>▶ If there is no HPV contract in place for these particular goods or services, you can continue to purchase from your current supplier. We suggest you liaise with HPV when you are considering entering contractual arrangements with the supplier in the future</li> <li>▶ Where there is a mandated HPV contract in place you will be required to purchase good or services in accordance with that contract. It should be noted that an exception process will be in place to ensure that where particular clinical or other circumstances apply, you will be able to purchase outside of a mandated contract.”</li> </ul>
Outcome/ Learnings	<ul style="list-style-type: none"> <li>▶ Shift from a voluntary to mandated model applied to selected categories of goods purchased through public acute hospitals</li> </ul>