



**Tasmanian**  
Audit Office

## Strategic procurement in local government

Report No.3 of 2022-23



# Audit objective

The objective of the audit was to examine how local government councils derived value from procurement that benefited the council, the supplier and the community.

## Audit scope

The in scope councils were:

- Burnie City
- Hobart City
- Launceston City
- Tasman
- Waratah-Wynyard
- West Tamar.

The audit examined procurement activities conducted by councils in the financial years ended 30 June 2021 and 2022.

The audit also highlighted council initiatives planned or in development.

## Audit criteria

1. Have councils identified strategies to achieve value through procurement?
2. Have councils effectively embedded strategies to achieve value in their procurement processes?
3. Have councils effectively monitored value derived from procurement?

## Audit conclusion

Councils, as measured against the audit criteria were, in all material respects, effective in identifying, embedding and monitoring strategies to derive value through procurement.

# Recommendations

## Councils:

1. Document how procurement-related activities support the achievement of strategic goals and objectives.
2. Ensure staff carrying out procurement are provided with regular procurement related training.
3. Develop processes to monitor and review the value derived from procurement activities, including the establishment of performance targets and measures.

## Local Government stakeholders:

4. Collaboratively enhance strategic procurement guidance and opportunities for councils.

# Introduction

- Tasmania's 29 councils are required to undertake procurement in accordance with the *Local Government Act 1993*, *Local Government (General) Regulations 2015*, and each council's Code for Tenders and Contracts (Code).
- The Code has specific procurement principles including:
  - open and effective competition
  - value for money
  - enhancement of the capabilities of local business and industry
  - ethical behaviour and fair dealing.

# Introduction

## Local Government Association of Tasmania (LGAT) Procurement and Vendor Panel

- LGAT is part of the National Procurement Network (NPN).
- The NPN offered 27 panel arrangements across a broad range of goods and services.
- Highest spend by contract category for each council from July 2020 to March 2022:
  - Burnie City - Trucks
  - Hobart City - ICT Solutions and Services
  - Launceston City - Plant Machinery Equipment
  - Tasman - Road, Water, Sewerage and Civil Works
  - Waratah-Wynyard - Plant Machinery Equipment
  - West Tamar - Telecommunications



# Introduction

- Study from *Journal of Purchasing and Supply Management* identified the following value components in the procurement function:

| Council                             | Suppliers                        | User                                    |
|-------------------------------------|----------------------------------|---|
| Procurement process effectiveness   | Improved sustainable performance | Environmental and social sustainability |
| Sustainable public procurement      | Improved innovation              | Service or product availability         |
| Innovation generation and promotion | New market opportunities         | Quality of the service or product       |
| Functioning supplier market         | Better operative capabilities    |   |

Source: Iryna Malacina, *Journal of Purchasing & Supply Management*, <https://doi.org/10.1016/j.pursup.2021.100745>

## Findings – criteria 1: strategies to achieve value

- Councils broadly articulated how to achieve value from procurement in their Code and/or their procurement policies and procedures.
- Hobart City Council's Procurement Strategy 2018-2022:
  - Describes how procurement could bring economic, social and environmental benefits for community
  - Conducted in alignment with strategic objectives
  - Ensuring procurement was compliant with legislation and Council procurement policies and procedures.

## Findings – criteria 1: strategies to achieve value

- The links between specific procurement activities and the overall strategic goals and objectives of the council were not always made explicit.
- Most councils did not document how this would be reflected in policies and procedures.
- One council included a direct link between its procurement strategies or policies and strategic plan objectives.
- For most councils, the alignment between procurement function and activity and the strategic plan were outlined in tender reports prepared by the general manager or senior management and provided to elected members.

## Findings – criteria 2: effectively embedded strategies

- Practices implemented by councils to achieve value through procurement:

| Value building practices     | Examples identified by councils  |
|------------------------------|--|
| Trust building               | Promoting a fair and transparent procurement process; testing the market by seeking quotations or undertaking a public tender.                           |
| Tender-related               | Requirement to conduct public tenders for purchases of high value; advertisement of tenders on the website; supporting participation of local suppliers. |
| Cooperation related          | Joint procurement with other councils (road resealing, waste, recycling, shared infrastructure).   |
| Risk reducing                | Risk management practices in procurement decision-making.  |
| Procurement development      | <b>Covered in criteria 3.</b>  |
| Procurement network building | LGAT Vendor Panel and access to suppliers on the National Procurement Network.   |

## Findings – criteria 2: effectively embedded strategies

- Practices implemented by councils to achieve value through procurement (continued):

| Value building practices             | Examples identified by councils  |
|--------------------------------------|--|
| Information sharing with supplier    | Supplier workshops and surveys.  |
| Environmentally oriented demand-side | Setting a corporate carbon emissions target; encouraging suppliers to minimise waste and use recyclable materials. |
| Supplier selection                   | Value for money considerations beyond purchase price; local content and environmental evaluation criterion.        |
| Socially oriented demand-side        | Contracting suppliers committed to ethical practices.  |

## Findings – criteria 2: effectively embedded strategies

- Most councils provided standardised procurement procedures and processes in support of the Code.
- Four councils built capabilities of their employees to undertake procurement through training and development.
- Procurement-related training at a few councils was insufficient.
- Elected members noted procurement reports from senior management and approved high value procurements.
- Launceston City Council had a Tender Review Committee comprised of elected members that reviewed tender recommendations from the Council's Tender Evaluation Panel.




## Findings – criteria 3: monitoring value derived

- Councils were variable in their approach to monitoring value derived from procurement.
- Councils primarily used internal audit to provide assurance that procurement processes and the Code complied with the LGA.
- Hobart City Council's procurement manager provided quarterly performance reports on the Procurement Strategy to the Executive Leadership Team.
- Waratah-Wynyard Council assessed the value of its resource sharing arrangement with Circular Head Council.

## Findings – criteria 3: monitoring value derived

- Most councils have looked to improve how they obtain value from procurement:
  - New procurement strategy
  - Resource sharing and joint procurement activities
  - Implementation of environmental and sustainability initiatives
  - Introduction of TenderLink.





The intent of the Report was to start a broader conversation on strategic procurement and encourage councils to consider how they can derive more value from procurement.

# Procurement maturity scale

|  | Minimal   | Developing   | Mature  | Leader  | Innovator  |
|--|---|--|---|---|--|
| Strategies to achieve value                | <ul style="list-style-type: none"> <li>Follows the processes outlined in the Act/LGA and Code.</li> <li>Procurement policy includes principles to support approach.</li> <li>Limited connection to strategic objectives.</li> </ul> | <ul style="list-style-type: none"> <li>No procurement strategy, but Code/policy has been expanded to help achieve value.</li> <li>Connection to strategic objectives.</li> </ul>   | <ul style="list-style-type: none"> <li>Procurement strategy developed with initiatives applied in multiple procurement processes.</li> <li>Procurement strategy has a direct alignment with strategic plan objectives.</li> </ul> | <ul style="list-style-type: none"> <li>Senior management recognise importance of procurement strategy in driving change in processes.</li> <li>Strategic plan objectives include measures on how procurement can be used to support delivery (where relevant).</li> </ul> | <ul style="list-style-type: none"> <li>Data-driven approach to strategic procurement.</li> <li>Procurement strategy drives achievement of strategic objectives and is embedded across council operations.</li> </ul> |
| Processes embed strategies                 | <ul style="list-style-type: none"> <li>Limited training, documented processes, guidance and templates.</li> <li>Elected members approve high value procurements as required under the LGA.</li> </ul>                               | <ul style="list-style-type: none"> <li>New approaches and ideas applied in isolated procurement processes.</li> <li>Sufficient training, documented processes, guidance and templates.</li> </ul>  | <ul style="list-style-type: none"> <li>Comprehensive training, documented processes, guidance and templates.</li> </ul>   | <ul style="list-style-type: none"> <li>Training provided across council on meeting procurement strategy actions.</li> <li>Elected member engagement is delivering better results across all procurement activity.</li> </ul>  | <ul style="list-style-type: none"> <li>Elected member engagement is contributing to the success of strategic procurement decision-making.</li> </ul>   |
| Monitoring of value to enhance procurement | <ul style="list-style-type: none"> <li>Internal audit used to monitor compliance and review processes.</li> </ul>   | <ul style="list-style-type: none"> <li>Internal audit used to monitor compliance and review processes.</li> <li>Changes implemented following these audits/reviews have resulted in improvements to the procurement function.</li> </ul> | <ul style="list-style-type: none"> <li>Senior management is regularly informed on procurement strategy.</li> </ul>  | <ul style="list-style-type: none"> <li>Regular monitoring of value derived from procurement activity.</li> </ul>  | <ul style="list-style-type: none"> <li>KPIs are used to monitor and measure value derived from procurement, including impact on the community.</li> <li>Lessons learned shared with other councils.</li> </ul>       |

# Responses received

Responses were received from:

- Treasurer
- Chief Executive Officer, Hobart City Council