



# PORT MACQUARIE HASTINGS

Procurement Strategy  
September 2013

# PROCUREMENT STRATEGY

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## 1. INTRODUCTION

Strategic procurement management is central to PMHC's efficiency and the delivery of the services that are provided to the community. Each procurement activity, irrespective of size or scope, impacts in some way on the delivery of agreed outcomes to the community.

Procurement is the process of acquiring goods, works and services. The procurement process should span the whole life cycle, from identification of needs through to the end of a works or services contract or the end of the useful life of an asset. Procurement ensures we seek value for money in how we deliver projects, goods and services to our community.

Traditionally procurement has been seen as an administrative / purchasing function, however today, procurement should be seen as a key enabler of organisational strategic objectives. Procurement should involve activities ranging from business planning right through to contract management.

Key procurement activities can be grouped into four key areas:

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

Effective procurement practices enable:

- **Lower costs** through the leveraging 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 & accountability** of expenditure and supplier performance; and
- **Consistency** in meeting legislative requirements.

A procurement strategy is not a one-off exercise and having a procurement strategy does not in itself, lead to effective procurement. It is the commitment of Councillors and senior management and Council-wide use of the strategy which are the important elements in its success.

A strategic approach to procurement can achieve significant benefits for Council and the community and must be seen in the context of Council's overall objectives. Whilst the driving force has been and will remain focused on obtaining goods, works and services that demonstrate best value for money, it is also important that procurement decisions are taken in light of the broader objectives that Council is seeking to achieve.

This Procurement Strategy forms part of Port Macquarie-Hastings Councils (PMHC) approach to delivering and supporting the Council's objectives as detailed in the Community Strategic Plan, the four (4) year Delivery Program and the annual Operational Plans under the Integrated Planning & Reporting (IPR) framework. The Procurement Strategy sets out how we will approach procurement into the future, whilst reaping significant benefits from a more coordinated approach.

Through the adoption of the Procurement Strategy, we aim to achieve a more consistent organisation-wide approach to procurement. The organisation will need to rely on developed procurement skills to understand specific supply markets, to inform the decision-making process and to be able to implement relevant procurement decisions. Improved procurement planning will become part of our overall business planning process along with financial and operational plan development.

It is essential for the future sustainability of PMHC to have the procurement capability to meet its needs and to be able to deliver sustainable best value for money to the community. A one-size-fits-all approach to procurement will not suffice; procurement needs to be tailored to meet the specific needs of the particular category of goods or services being procured, the needs and services required by the organisation and most importantly the needs required to deliver a successful outcome. Failure to fully invest in the right capabilities in procurement will cost the Council in lost opportunity many times the cost of any initial investment.

To implement this Procurement Strategy will require a new flexible operating model based on improved engagement and more effective planning of organisation-wide procurement activity.

## **2. SCOPE**

The procurement practices and expenditure across all of Port Macquarie-Hastings Council (PMHC) are within the scope of this procurement strategy.

## **3. GOVERNANCE & ORGANISATIONAL CONTEXT**

Procurement services within PMHC sit within the Commercial Services & Industry Engagement directorate and reports directly through the Group Manager Financial Services. The Director Commercial Services & Industry Engagement and the Group Manager Financial Services will be responsible for the implementation and monitoring of the procurement strategy.

In relation to elected Councillors, procurement is a key focus area of the Finance & Governance Portfolio. The Director Commercial Services & Industry Engagement and / or the Group Manager Financial Services will report to the Finance & Governance Portfolio on a monthly basis with regard to progress against the agreed implementation plan and actions of the procurement strategy. The relevant portfolio Councillors will report back to the full elected body on developments and progress in relation to this strategy and procurement in general, whilst it is anticipated that regular reports will be tabled at formal meetings of Council. The impact of procurement across the organisation cannot be understated in that reforms in procurement can also mean a more effective and efficient organisation. However the actual function of procurement is both a financial / commercial transaction and a governance process due to the regulated and policy-driven nature of procurement, hence the inclusion of procurement as part of the Finance & Governance Portfolio.

From an internal governance perspective, one of the key recommendations to come from this Procurement Strategy is the development of a Procurement Steering Group (PSG) that will have joint accountability for ensuring this procurement strategy is implemented across the organisation. Further information relating to the PSG can be found under Section 7 of this strategy.

Integration between procurement and the service delivery cycle is important. In general terms, there are only two reasons for procuring goods, works or services and they are for the delivery of an internal or external service or for the delivery of a project. This means that all procurements must be outcomes focussed i.e. what is the purpose of the procurement and what is the outcome we are contributing to?

In an organisational context, it should be noted that procurement forms a key part of Council's overarching project management framework and process. In most cases, procurement requirements will form part of a broader project management context i.e. the majority of project plans will require a procurement approach to be defined within the project management plan. To this end, a key reference document to be used when developing procurement plans is the PMHC Project Management & Gateway Policy adopted by Council in October 2012. It should be noted that some procurements may be so large that they will require their own project management approach in line with the above-mentioned project management policy.

#### **4. PROCUREMENT STRATEGY OBJECTIVES**

The Procurement Strategy objectives are as follows:

##### **4.1 Savings**

The key objective is to maximise savings across Council's procurement spend. There is the potential to save a minimum of 5% across the overall procurement spend by implementing a more formal procurement strategy. Each year Council spends between \$35 million & \$50 million procuring goods and services, therefore a 5% saving would equate to a value of between **\$1.75 million & \$2.5 million** per annum based on the current estimated spend.

It should be noted that the above-mentioned savings are estimates only and further detailed analysis will be required in order to determine a more accurate savings estimate. It should also be noted that with the adoption of any strategy, there are various phases throughout the strategy lifecycle. This means that it will not always be possible to continually deliver year on year large dollar savings as the procurement model matures; rather the

procurement model will move towards building better value with our supplier base through improved processes and supplier consolidation etc.

#### **4.2 Value for Money**

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. 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.

#### **4.3 Ease of Doing Business**

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. Straightforward and consistent processes enable:

- Increased compliance by staff with council policies;
- Lower costs from suppliers as their cost of servicing local government decreases;
- Reduction in transaction costs both for local government and suppliers to local government.

#### **4.4 Use of e-Procurement**

E-Procurement is integral to the overall development of procurement processes and involves the use of an electronic system/s to procure and pay for goods & services and works. By utilising e-procurement we aim to:

- Reduce transaction costs;
- Make processes more efficient;
- Improve management information and visibility of spend;
- Increased access to market;
- Increase control and consistency of processes, and
- Improve spend compliance across the organisation.

#### **4.5 Economic & Industry Development**

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.

#### **4.6 Environment & Sustainability**

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.

#### **4.7 Building Local Government Capability**

Ensure the long term viability of PMHC and the services it provides to the community through:

- Improved expenditure management;
- Continuous improvement;
- Attraction and retention of key staff i.e. being an 'employer of choice'.

#### **4.8 Training & Development**

Aim to ensure that PMHC has adequate trained resources to undertake procurement projects effectively and efficiently. Various internal training courses covering the entire

procurement process, tendering, tender evaluation and contract management as well as other procurement areas will be made available as required.

Further to the above, the overarching objective of the Procurement Strategy is to provide strategic advice and recommendations on how to drive efficiencies in Council's procurement practices, whilst balancing effectiveness with social, environmental and economic objectives. In general terms, the objective is to move from a process-focussed procurement practice to a focus on value for money outcomes. The major outcome of this strategy will be further development of strategic procurement policies and practices throughout Council; improved procurement service delivery; organisation-wide cost savings through improved procurement practices and the ability for procurement strategies to be integrated with the overarching objectives of the organisation.

## **5. PROCUREMENT CAPABILITY**

In November 2011, PMHC undertook a Procurement Roadmap Pilot program tailored specifically to NSW local government. This trial was jointly funded by PMHC and Local Government Procurement (LGP) and was undertaken by an independent facilitator, PMMS Consulting Group, a global specialist in procurement.

Through a series of workshops, questionnaires and undertaking a capability assessment, a broad, documented snapshot of current organisational procurement capability was established. Following this assessment, a procurement roadmap was developed that set out agreed actions to improve organisational procurement capability and performance over three time periods being 0-6 months, 6-12 months and 12-24 months.

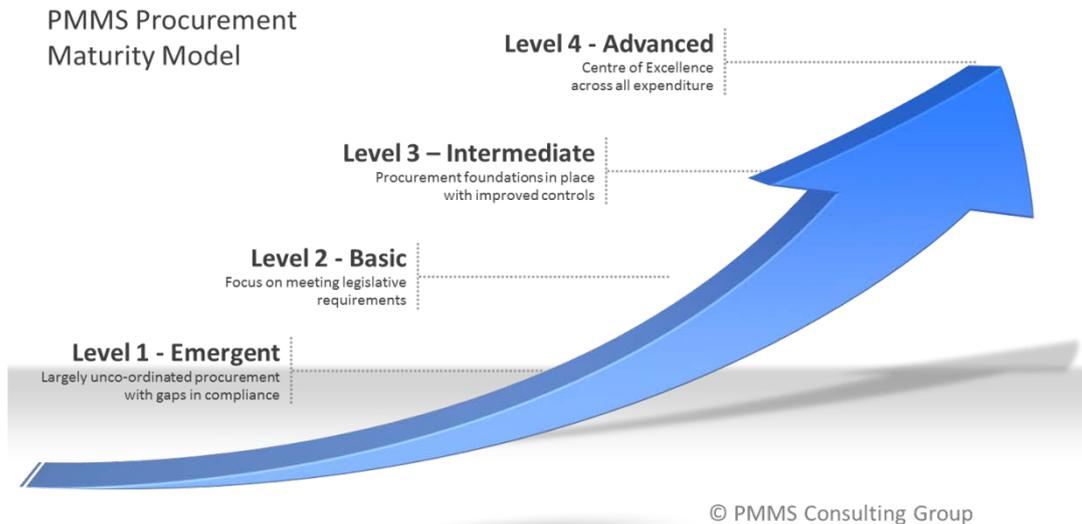
The organisations level of procurement capability was determined across eight (8) building blocks as follows:

- Leadership & Influence;
- Procurement Strategy & Organisation;
- Process & Governance;
- People & Skills;
- Supplier Management;
- Use of Technology;
- Sourcing & Collaboration;
- Triple Bottom Line.

Through answering a series of questions across the above-mentioned building blocks, with responses rated from one (1) to four (4), a level of procurement capability was determined.

Below is the PMMS Procurement Maturity Model, which determines where an organisations procurement capability is sitting in relation to what is considered best practice, with best practice being attainment of Level 4.

Following the capability assessment, it was determined that PMHC currently sits at between Level 1 & Level 2 on the PMMS Procurement Maturity Model, with 25.64% of responses being rated as Level 1 and 51.28% of responses being rated Level 2, 17.95% of responses being rated Level 3 and 5.13% of responses being rate Level 4.



The analysis undertaken throughout the capability assessment has resulted in a series of actions being included in a Procurement Roadmap. Council will undertake the actions as listed in the roadmap over the next 12 to 24 months in an effort to progress along the Procurement Maturity Model path. The activities included in the Procurement Roadmap will be incorporated into future procurement activities as detailed further in this Procurement Strategy.

## 6. PROCUREMENT OPERATING MODEL

In 2003, PMHC had a system of decentralised procurement, where staff across the organisation and various locations had the authority to requisition and purchase order goods and services within a set delegation.

Following the adoption by Council in late 2003 of a comprehensive suite of purchasing and tendering policies and processes, procurement within PMHC became a more centralised function, where the delegation to raise purchase orders was limited to specific purchasing / stores staff and all tendering processes became centralised.

To date PMHC is still operating a pseudo centralised procurement model; however this has lost considerable effectiveness as an operating model in recent years due to the limited human resources within the procurement section being able to keep pace with the procurement needs of the organisation. Whilst tendering remains largely centralised due to its legislative obligations, day-to-day purchasing is a mix of centralised and decentralised purchasing.

A key outcome from this procurement strategy is to determine which procurement model best suits the needs of PMHC. Following is a brief explanation of three main procurement operating models, followed by the recommended approach for PMHC:

### **Decentralised:**

A decentralised model of procurement is where each area of Council would be responsible for its own purchases. Whilst this model can be seen to empower people with a degree of autonomy and control over the process, it has a number of disadvantages. It does not allow you to leverage your corporate spend or align service objectives with the objectives of the

organisation. There is little coordination or information sharing between the many services that are undertaken, best practice is not shared and supply costs and supplier performance are not equal across the organisation.

**Centralised:**

A centralised model of procurement is where all procurement goes through a single, central unit. Unlike the decentralised model, a centralised model allows an organisation to fully leverage their corporate spends across the organisation and to drive standardised purchasing and tendering processes through the organisation. Economies of scale allow full control over organisational spend, it enhances operational efficiencies and improves knowledge sharing and the delivery of best practice procurement.

There are some disadvantages to a centralised procurement model. For instance, there is a risk of losing extensive knowledge of the people in other areas of Council, which can result in sub-optimal purchasing across the organisation.

Maverick buying often increases when areas of the organisation do not agree with the procurement decisions made centrally. Reaction times can also be an issue in a centralised procurement model, largely due to limited resources being able to deal with the large number of procurement requests.

**Centre-led:**

A 'centre-led' model is where a centralised procurement hub is established and focuses on corporate supply chain strategies, best practice and knowledge sharing, whilst leaving individual areas of the organisation to undertake purchasing as required. Corporate spend can still be fully leveraged through centralised sourcing and non-corporate requirements not necessarily suited to centralised sourcing and procurement can be handled by the individual areas of Council. Best practice can be shared easily throughout the organisation, maverick buying is significantly reduced, and supplier performance is maintained at a consistent level across the organisation.

It should be stated that there appear to be very few 'centre-led' procurement models operating in local government in Australia, with most Council's operating either a decentralised or centralised model, or a mix of both. The centre-led model is the predominant procurement model in Federal Government and also has significant take up in the private sector.

More information in relation to the proposed procurement operating model can be found in Section 8 below.

**7. SWOT ANALYSIS**

The following Strengths, Weaknesses, Opportunities & Threat (SWOT) analysis of Councils current procurement practices has been developed to provide some situational analysis that forms part of the strategy planning process.

<p style="text-align: center;"><b><u>STRENGTHS</u></b></p> <ul style="list-style-type: none"> <li>- Established processes &amp; procedures;</li> <li>- Existing centralised procurement model;</li> <li>- Political support;</li> <li>- Senior Management support;</li> <li>- Robust budget development process;</li> </ul>	<p style="text-align: center;"><b><u>WEAKNESSES</u></b></p> <ul style="list-style-type: none"> <li>- Large number of suppliers to manage;</li> <li>- Large number of staff to re-train;</li> <li>- Poor use of technology;</li> <li>- Regional location;</li> <li>- Lack of procurement planning;</li> <li>- Limited performance against contract reporting available;</li> <li>- Limited visibility on total procurement spends;</li> <li>- Limited understanding of &amp; experience in operating with a commercial focus.</li> </ul>
<p style="text-align: center;"><b><u>OPPORTUNITIES</u></b></p> <ul style="list-style-type: none"> <li>- Savings in dollar terms;</li> <li>- Productivity gains;</li> <li>- Improved use of technology;</li> <li>- Supplier rationalisation;</li> <li>- Improved contract management capabilities;</li> <li>- Supplier development at a local and regional level;</li> <li>- Potential to collaborate with other organisations;</li> <li>- Revised procurement provisions in the Local Government Act review.</li> <li>- Leading edge to drive greater commerciality throughout the organisation</li> </ul>	<p style="text-align: center;"><b><u>THREATS</u></b></p> <ul style="list-style-type: none"> <li>- Staff resistance to change;</li> <li>- Lack of internal political will to support implementation of the strategy;</li> <li>- Limited time to achieve long-term results;</li> <li>- Lack of resources to implement the procurement strategy;</li> <li>- Lack of competition between suppliers;</li> </ul>

The SWOT analysis will be used to inform the implementation of the Procurement Strategy. It is critical to ensure that the threats and weaknesses are addressed during the implementation phase and beyond in order for the benefits of implementing this strategy are realised.

## 8. RECOMMENDATIONS - FUTURE DIRECTION FOR PROCUREMENT AT PMHC

Given the evolution of procurement that has already taken place at PMHC since 2003, the organisation is now ready to move to the next phase of procurement maturity.

The key recommendation relates to the procurement operating model that is required to drive better procurement practices within PMHC as follows:

### 8.1 Centralised Category Management Procurement Model

It is proposed that PMHC move towards a **centralised category management** approach to procurement, where key procurement functions such as policy development; supply chain strategies; tendering; data management; contract / commercial negotiations and best practice and knowledge sharing remain a focus of the centralised procurement unit, with day-to-day purchasing undertaken by category specialists within the centralised procurement unit to ensure that best value for money procurement is undertaken across the organisation.

As stated earlier in this strategy, a centralised model allows an organisation to fully leverage the corporate spend across the organisation and drive standardised purchasing and tendering processes through the organisation. The economies of scale that a centralised approach brings allows you full control over organisational spend, it enhances operational efficiencies and improves knowledge sharing and the delivery of best practice procurement.

A category management approach to procurement will bring together expertise from across the Council to identify the most appropriate and effective approach to deliver the Council's outcomes through sourcing and supply arrangements. A 'category' is an area of spend largely determined by known market boundaries separating different products, services or industries. Category management recognises that suppliers within a certain market are likely to have similarities which enable a tailored approach to procurement.

A category management approach will provide the following benefits:

- a) Detailed spend analysis;
- b) Deliver initial savings typically in the range of 5% - 7% dependent on the category;
- c) Ensures all benefits from any awarded contract are realised;
- d) Reduction or elimination of avoidable spends;
- e) Consolidates spend across the supplier base per category;
- f) Highlights the criticality of certain categories to the delivery of outcomes for the organisation;
- g) Improved ability to manage and exploit changing market conditions;
- h) Supplier consolidation;
- i) Leveraging of internal resources;
- j) Creates value and minimises procurement risk through increased procurement planning;
- k) Improved service levels from suppliers to the organisation;
- l) Stakeholder buy-in to the process and results;
- m) Enables supplier capability development;

Below is a proposed category management approach, delivered through a series of process steps:

- **Information Gathering** - i.e. category spend, spend analysis, market analysis, competitive analysis, customer requirements;
- **Opportunity Assessment** - analysing what are the likely opportunities, benefits and improvements available within each category;
- **Category Action Plan** - developing an action plan for each category with specific performance & savings targets for each category;
- **Undertake Relevant Procurement Processes** - i.e. tenders, expressions of interest or requests for quotation etc;
- **Implementation** - i.e. awarding the contract and implementing the proposed solutions under the contract;
- **Supplier Relationship Management** - implementing contract management processes and monitoring supplier performance and operational performance against the contract;
- **Review & Improve** - incorporating continuous improvement, ongoing benefits realisation monitoring, contract review and ongoing category review.

One of the main objectives of category management approach is to reach a point where a large percentage of Councils spend within a category is being channelled through appropriate and approved arrangements.

Another key element of an improved operating model will be formal procurement planning. The introduction of a framework for procurement planning will allow PMHC to map the future procurement activity for each procurement service required and develop one to four year plans against which resources can be allocated and performance measured.

- 8.2** Establishment of a Procurement Steering Group (PSG). The establishment of a PSG will assist in the coordination of actions to come out of this Procurement Strategy, procurement activity generally, determination of categories and in the development of the procurement plans for each service or project. A brief internal charter will be developed that will detail the membership of the PSG as well as its clear objectives and purpose.
- 8.3** Ensure that the Procurement Strategy and related actions are aligned with the Community Strategic Plan, the four (4) year Delivery Program and the annual Operational Plan;
- 8.4** Understand the nature of the organisation's total third party expenditure to enable a more tailored approach to procurement into the future;
- 8.5** Deliver the best value from all procurement spends. This can include but is not limited to:
  - 8.5.1** Taking a lowest whole-of-life cost approach as opposed to the lowest cost;
  - 8.5.2** Reducing the number of suppliers to improve efficiency of supplier selection;
  - 8.5.3** Analyse bundling or unbundling of activities as appropriate to create better competition or to retain in-house capability;
  - 8.5.4** Collaborating with other local government entities.
- 8.6** Manage risk by balancing control, cost effectiveness and process efficiency;
- 8.7** Meet and exceed the expectations of key external stakeholders;
- 8.8** Provide guidance and training for Council officers involved in procurement, including contract management practices;
- 8.9** Review the resources and capabilities required for procurement across the organisation on an ongoing basis;
- 8.10** Benchmark the capacity and skills with those of other organisations;
- 8.11** Develop appropriate systems technology for greater control and efficiency, ensuring that these systems form part of the organisational wide Enterprise Resource Planning system;

- 8.12 Maximise use of technology and pursue electronic procurement wherever possible, including more efficient procure-to-pay processes.
- 8.13 Develop an organisational-wide rolling program of major procurement activities i.e. upcoming projects, procurement planning, contract renewals etc.

## 9. PROCUREMENT STRATEGY IMPLEMENTATION & ACTIONS

The current state of procurement practices within PMHC leaves the organisation with an enormous opportunity to reap significant benefits from implementing the recommendations of this strategy. Many of these benefits will require significant organisational change and a phased approach is recommended to ensure that the necessary capabilities are established and in some cases even piloted. The four phases of implementation can be described as follows:

### **Awareness:**

Awareness is about recognising the importance of procurement to the organisation and recognition that there are substantial benefits in pursuing improved procurement practices. This includes promoting the Procurement Strategy and conducting briefings with Councillors and staff on the recommendations and future direction as detailed in the strategy.

### **Setting the foundations:**

Setting the foundations is about ensuring that the procurement skills and capabilities required to meet the objectives and recommendations as detailed in this strategy are available within PMHC, including a satisfactory level of staff resources to implement the recommendations. Key to setting the foundations is ensuring policies, procedures and processes are current and adopted as required by Council; that the PMHC financial systems and processes are adequate and that procurement systems can achieve the level of rigour required for successful implementation of this strategy. Without these core foundations, it will be difficult to realise any benefits from a new approach to procurement.

### **Stakeholder Engagement:**

Stakeholder engagement is about engaging with the organisation to adopt alternate procurement practices to deliver on the objectives and recommendations as included in this strategy. It is about engaging with cross-organisational teams to determine and validate relevant categories for inclusion in the category management approach to procurement. This is about piloting a particular procurement category to quantify if this approach will see benefits realised for the organisation. If the pilot is successful, then guidelines will be developed for implementation across other procurement categories.

### **Transformation:**

Transformation is about ensuring that with improved procurement capabilities, procurement becomes an enabler of improved service delivery through the adoption of innovative procurement practices and through sourcing ongoing savings. Some transformation activities may include shared services delivery; the outsourcing of some services; public-private partnerships or simply changes to the way Council provides services to the community.

In addition to the above overarching implementation phases, the key to successfully implementing the Procurement Strategy will be:

- 9.1 Quantifying the potential benefits, by category, from improved procurement practices;
- 9.2 Agreement regarding benefits realisation i.e. how benefits from improved procurement practices are to be realised and distributed throughout the organisation;
- 9.3 Increased organisational understanding of the criticality of improved procurement practices;
- 9.4 Strong governance and leadership to drive the Procurement Strategy, using appropriate influence and control;
- 9.5 Development of a strong operating model consistent with the nature of procurement across the organisation.

By establishing clarity and acceptance around the potential benefits of improved procurement and clear governance and operating models, PMHC can successfully reap significant rewards and benefits from the implementation of this Procurement Strategy.

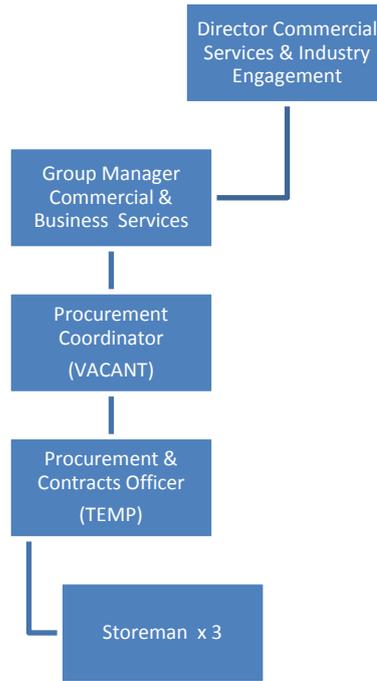
For a detailed implementation schedule, please refer to Appendix A titled 'Procurement Strategy Implementation Plan'.

## **10. RESOURCING**

Implementation of the revised model of procurement for PMHC as recommended in this strategy will only succeed if the following is in place:

- Local political will and support from Councillors;
- Strong executive and management leadership which provides proactive and ongoing support for the revised model;
- Adequate financial and staff resources are in place to ensure the objectives of the strategy can be met.

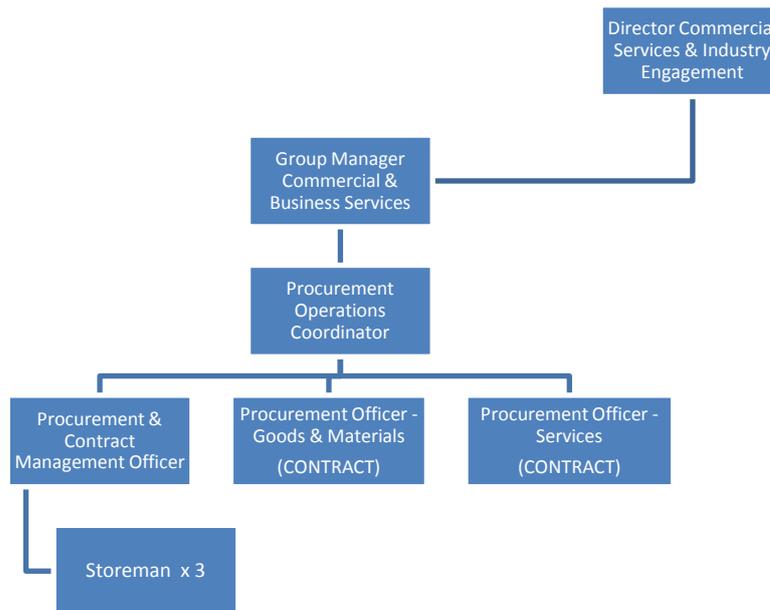
The existing resources dedicated to procurement within the organisation will not be adequate for the implementation of the centralised category management approach as detailed in this strategy. Following is the structure that currently exists for procurement activities:



Current Procurement structure as at August 2013

As seen above in the existing structure, there are very few permanent resources currently dedicated to procurement across the organisation. For clarification, the three (3) Storeman play a dual role within Council. The primary role of the Storeman is to service the operational staff with inventory requirements via Council’s two stores located at the Port Macquarie and Wauchope depots. In addition to this, the Storeman play a key role in processing the organisations purchase orders through the existing finance system, as well as receiving the goods and invoices as required.

Under the proposed procurement model detailed in this strategy, it is envisaged that the following human resources will be required:



Proposed Procurement structure as at August 2013

Further to the structural hierarchy provided above, following is a more detailed explanation of the proposed structure:

- **Procurement Operations Coordinator:**  
This role is a revised version of the existing Procurement Coordinators role. The revised role will oversee all procurement operations of the organisation and will have day-to-day responsibility for the implementation of the procurement strategy. This role has responsibility for all procurement related policies, processes and practices and will provide oversight to all procurement activities, including all tender processes across the organisation.
- **Procurement & Contract Management Officer:**  
The primary objective of the position is to assist with the coordination of Councils purchasing, tendering, and stores activities and functions. This role will provide oversight to all contracts entered into by Council to ensure supplier compliance and to maximise opportunities within the conditions of the contract. This role will need to move from a temporary role to a permanent role.
- **Procurement Officers:**  
These newly created roles will undertake category management responsibilities across the organisation. This will primarily involve category analysis (i.e. procurement spend & related issues), identification of savings opportunities, supplier assessments and profiling, procurement planning with relevant stakeholders, tender specification development, supplier development and management, contract review and other tasks to be determined. These two (2) roles are recommended to commence as contract roles for an initial two (2) year period with regular reviews during that time. Engaging people into these roles initially on a contract basis provides the organisation with some flexibility with structure and in implementing the procurement strategy.
- **Storeman:**  
The role of the Storeman would remain very much as per the current mix of stores duties as well as day-to-day purchasing processing.

The cost of the existing procurement structure (including on-costs) is as follows:

Role	Grade	Remuneration
Procurement Coordinator	15/4	\$104,163
Procurement & Contracts Officer	9/4	\$73,243
Storeman x 3	5	\$191,967
<b>Total:</b>		<b>\$369,373</b>

The cost of the proposed procurement structure (including on-costs) will be as follows:

Role	Grade	Remuneration
Procurement Coordinator	15/4	\$104,163
Procurement & Contracts Officer	12/4	\$88,838
Procurement Officers x 2	12/4	\$177,676
Storeman x 3	5	\$191,967
<b>Total:</b>		<b>\$562,644</b>

As detailed above, the additional cost to the organisation of the proposed structure will be approximately **\$193,271** per annum.

Whilst Council will be required to invest in additional resources as proposed above, it is considered that unless this investment is made, there will be limited opportunities to deliver improved procurement practices across the organisation. It is anticipated that the cost of the additional procurement staff would be offset by the savings and efficiencies achieved through the implementation of the procurement strategy.

## **11. MANAGING RISK**

All procurements embody a degree of risk that can never be completely eliminated. However, risks can be identified and many can be mitigated. The risks faced in Procurement can range from the failure of a supplier to deliver a requisition through to the breakdown or delay of a major project. The management of risks requires strategies to mitigate risk and contingency planning to respond to risks that may emerge. At all times, Council must be aware of its statutory obligation to manage its financial risks by prudently having regard to economic circumstances.

All risk management considerations and actions should be consistent with the PMHC Risk Management policy and related framework. This policy provides a framework for establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risk.

High value procurements, and those of lesser value but that might be complex in nature, should be subject to preparation of a risk management plan, which can form part of the overall Procurement plan. Ideally, the risk management plan should consider risks at all stages of the procurement cycle, with the Procurement policy setting the trigger point at which a risk management plan is required.

A risk management plan for a procurement project would address the following aspects:

- **Establish the context**  
This establishes the context of the goals, objectives, strategies, scope and parameters of the procurement activity.
- **Identify risks**  
This entails the identification of what, why and how things can arise in the procurement, providing a basis for further analysis if required.
- **Analyse risks**  
When analysing risks, the existing controls will be determined and the risks in the procurement will be analysed in terms of consequence and likelihood in the context of those controls. The analysis will consider the range of potential consequences and how likely those consequences are to occur. Consequence and likelihood may be combined to produce an estimated level of risk.
- **Evaluate risks**  
The estimated levels of risk to the procurement will be compared against pre-established criteria. This will enable risks to be ranked so as to identify management priorities. If the levels of risk established are low, then risks may fall into an acceptable category and treatment may not be required.

- **Treat risks**  
Medium and low priority risks may be accepted and monitored. For other risks to the procurement, a specific action plan will be required to be developed and implemented in accordance with available funding.
- **Monitor and review**  
Performance of the risk management system will be monitored and reviewed to take account of any changes which might affect it.
- **Communicate and consult**  
Communication and consultation with internal and external stakeholders will occur as appropriate at each stage of the risk management process and concerning the procurement process as a whole.

Council should incorporate the relevant and current risk management standards in the specifications it develops for various goods, services and works.

Council must consider the balance between apportioning risk to a contractor(s) and the cost. If all risks on all procurements are assigned to contractors then it is likely that a premium will be paid by Council. Council should determine what risk it is prepared to accept in a contract and ensure this is reflected in the price it pays.

## **12. PERFORMANCE MANAGEMENT**

An outcomes-focussed process for evaluating procurement outcomes will need to be developed in order to demonstrate that the procurement strategy objectives are being achieved. This will also allow for continual improvement of the procurement processes. Evaluation also provides the basis for effective control and stewardship of resources that demonstrates the value of the procurement function.

Following are a range of performance measures that will be used to evaluate the success of the implementation of the procurement strategy:

- 12.1** Savings achieved - one-off activities (i.e. non recurrent savings);
- 12.2** Savings achieved - recurrent savings against set savings targets;
- 12.3** Volume of orders raised that are under contract;
- 12.4** Volume of orders raised that are not under contract;
- 12.5** Percentage reduction in the expenditure undertaken outside of the formal purchasing process;
- 12.6** Detailed contractor performance i.e. determining the extent to which the requirements of each contract are being met such as contract rates and general adherence to terms and condition of the contract including service levels;
- 12.7** Ongoing evaluation of opportunities to improve processes, policies and procedures.

### **13. ACKNOWLEDGEMENTS**

The ideas and models of procurement included and discussed in this strategy have been developed based on the experience of several key staff along with reference to the following documents and organisations:

- NSW Government Procurement Discussion Paper January 2012;
- Victorian Local Government Procurement Strategy - September 2008;
- Victorian State Government Guide to Developing a Procurement Strategy – September 2012;
- Victorian State Government Best Practice Guidelines for Victorian Local Government 2013;
- New Zealand Transport Agency Procurement Manual - November 2009;
- City of Liverpool, United Kingdom Corporate Procurement Strategy 2010-2014;
- Birmingham City Council, United Kingdom - Commissioning & Procurement Strategy 2011-2014;
- PMMS Consulting Group - Procurement Maturity Model;
- Local Government Procurement & PMMS Consulting - Procurement Roadmap Pilot Program, November 2011;
- Moorabool Shire Council, Victoria - Procurement Strategy April 2014.