

ITEM 2

UPDATED SUSTAINABLE PROCUREMENT POLICY - INCREASED LOCAL ECONOMIC CAPACITY FOCUS

The current Sustainable Procurement Policy has recently been reviewed to consider options to increase Council's procurement from local businesses via recalibrating scoring systems in Council's tendering assessment.

An updated draft Sustainable Procurement Policy, which includes an increase in the value of the local economic capacity criteria in assessment scoring to a weighting of 10%, is now recommended to Council for adoption.

RECOMMENDATION

- 1 The draft Sustainable Procurement Policy be placed on public exhibition for a period of 28 days.
- 2 A further report be provided to Council at the conclusion of the exhibition period.

REPORT AUTHORISATIONS

Report of: Todd Hopwood, Manager Governance and Customer Service
Authorised by: Renee Campbell, Director Corporate Services - Connected + Engaged City

ATTACHMENTS

- 1 Sustainable Procurement Policy Draft

BACKGROUND

Council's Sustainable Procurement Policy contains a requirement for the inclusion of a scoring criteria within the assessment of formal quotations and tenders to reflect suppliers that provide a "Demonstrated Strengthening of Local Economic Capacity". This has a value of 5% in the assessment scoring.

Council assess five criteria to determine strength of local economic presence:

- An existing legitimate business premises in WCC local area;
- Locally sourced materials;
- Locally sourced services as a result of the contract (e.g. maintenance);
- Locally sourced labour (domiciled within the WCC local area); and
- Locally sourced labour and materials from a business premise in WCC area.

Suppliers are scored on a scale of 0-5 based on how many of the local economic presence criteria they satisfy.

At the Council Meeting of 20 November 2017, a Notice of Motion was put forward by Cr David Brown and Council resolved (in part):

1. A Councillor Briefing be held that explores options to increase Council's procurement from local businesses via recalibrating scoring systems in Council's tendering assessment.
2. The Briefing include data generated from re-weighting examples from historical tender assessments, and outline any legal and financial ramifications of such a change.

A Briefing was held with Councillors and outlined ways the tendering assessment process could be reviewed to increase the local economic capacity criteria whilst minimising potential risks associated with such a change.

PROPOSAL

Council has implemented a number of measures to assist the community during the current pandemic. One of the ways Council can provide additional assistance to the local economy is through a review of

the Sustainable Procurement Policy to increase the value of the local economic capacity criteria in assessment scoring to a weighting of 10%. It is proposed that Council place the revised policy on public exhibition.

Analysis

In support of the proposed increase in scoring, analysis has been performed on all Tender submissions from a 2-year period to identify the impacts of increasing to a 10% weighting for the “Strengthening of Local Economic Capacity” criterion. A total of 60 tender processes were modelled in the 2-year sample period.

The analysis conducted indicated that changing the weighting to 10% for local economic capacity as proposed, could have resulted in an additional 8% of tenders being awarded to tenderers who were fully based in the local area. While the analysis showed an additional potential cost of \$71,000, this amount from a total tender value of \$53 million for the same period is relatively minor. The value of the tenders that would have been awarded to local suppliers was determined to be \$3.2 million, noting however that part of the value of the tenders that were originally awarded also remained within the LGA from the original decision.

While an analysis of past tenders provides some indication of the likely impact of a change in the weighting of certain criteria, it is not a guaranteed predictor of future outcomes, given the relatively small sample size and the fact that future tenders may not be for a similar range of products and services.

Updated Policy

The updated policy that is presented to Council for consideration has the following amendments when compared to the current Sustainable Procurement Policy:

- The “Strengthening of Local Economic Capacity” mandatory criterion scoring has been increased from 5% to 10%.
- The policy has been rewritten to comply with the required format of policies in Council’s Policy Framework which has been implemented since this policy was last adopted by Council. It should be noted that whilst written in a new format, the only change to policy positions in the updated policy is the increase of the “Strengthening of Local Economic Capacity” mandatory criterion from 5% to 10%.

Additional Measures to Improve Local Economic Capacity

Increasing locality scoring is only one mechanism at Council’s disposal to attempt to strengthen local economic capacity. To be genuinely effective in increasing local economic capacity Council must aim to achieve the following:

- Increase the number of local suppliers who bid for tenders
- Increase the quality of tender submissions from local suppliers
- Increase the capacity of local suppliers to undertake tendered works
- Increase supplier awareness of other government procurement options i.e. Local Government Procurement, State Government Contracts etc.

To assist with achieving the above outcomes Council's Supply Chain and Logistics Unit and Economic Development Unit and other relevant Business Units will develop and deliver the following initiatives over the coming months:

- Workshops, and educational materials, on submitting tenders to Council
- Infrastructure Roadshow highlighting all of the infrastructure / capital works detailed in Council's 4-year Delivery Program.
- Workshops on Local Government Procurement and State Contract processes.
- Continue to hold pre-Tender information sessions (now on-line) for interested parties for a range of major panel contracts.
- Collaborate with the Illawarra and Shoalhaven Joint Organisation to take a regional focus to some of the above initiatives.

CONSULTATION AND COMMUNICATION

Internal consultation has occurred with Council's Economic Development team and Finance Division to determine the appropriate percentage level of the Demonstrated Strengthening of Local Economic Capacity criteria, and to model the potential financial impacts of any change in percentage.

PLANNING AND POLICY IMPACT

This report contributes to the delivery of Our Wollongong 2028 objective "*Our council is accountable, financially sustainable and has the trust of the community*".

It specifically delivers on core business activities as detailed in the Governance and Customer Service Division Service Plan 2019-20.

The policy change as proposed aligns with the Economic Development Strategy, which was endorsed by Council in September 2019, and more specifically addresses action item 7.1 "Council review procurement of local goods and services to increase its role as a major lever for local job creation".

SUSTAINABILITY IMPLICATIONS

A key focus of the Sustainable Procurement Policy is to support sustainable work practices and minimal environmental impact in its procurement activities. The Policy requires staff to consider the entire life cycle of a product i.e. the production, distribution, usage and end of life stages, when determining the sustainability component of the overall value of any procurement. The policy identifies the following areas of sustainability focus:

- Elimination of unnecessary inefficiency, waste and expenditure
- Opportunities to utilise the combined purchasing power of local government
- Increase utilisation of quality sustainable products
- Play a leadership role in advancing long term social and environmental sustainability.
- Support local businesses and organisations
- Support procurement from social enterprises

RISK MANAGEMENT

The policy identifies that appropriate risk management principles are to be applied at all stages of procurement activities which will be properly planned and carried out in a manner that will protect and enhance the Councils capability to prevent, withstand and recover from interruption to the supply of goods, services and works.

The ICAC has issued guidance in relation to use of local preference in the evaluation of tenders and awarding of contracts and have indicated that it possesses inherent risks in terms of anti-competitiveness and the maintenance of defensibility, accountability and probity. In particular there are challenges “in rural/regional areas” with the application of Local Preference actions due to lack of competition in smaller markets.

The ICAC guidance advice states the following:

“use of local preference in the evaluation of tenders and awarding of contracts possesses inherent risks in terms of anti-competitiveness and the maintenance of defensibility, accountability and probity”.

Council will implement controls in its Formal Quotation and Tendering Procedures to ensure staff consider the total cumulative percentage value for criterion that can be considered non-price and non-technical with a view to set a maximum value of these criteria for any tender scoring assessment. These non-price and non-technical criteria include Safety, Environmental, Social Procurement and Strengthening of Local Economic Capacity.

An appropriate maximum cap on these criteria allows for an increased focus on local economic capacity, however, minimises the risk that increased value on local procurement will be at the expense of sound technical knowledge and good value for money for Council.

The risks identified by the ICAC in relation to the use of local preference in the evaluation of tenders increase relatively as the percentage value attributed to local preference increases. For this reason, it is recommended to increase the local preference percentage to 10%, as there is a chance that any further increase may lead to a significant increase in anti-competitiveness and a reduction in the overall value achieved by Council in our procurement activities.

A review of the impact of the proposed increase in the local procurement scoring percentage will be undertaken after 12 months of implementation to ensure that all risks are being appropriately mitigated.

The risks of processes becoming anti-competitive will further be addressed by the proposed initiatives to increase the number of local suppliers that participate in tender processes as well as increased education and awareness campaigns to improve the quality of tender submissions provided by local suppliers.

FINANCIAL IMPLICATIONS

A 2-year sample of recent tenders was analysed to determine the potential financial impacts of increasing the local supplier criteria to 10%. The analysis showed that an increase in the scoring criteria to 10% would have resulted in an additional five Tenders being awarded to an alternate local supplier with a net cost of approximately \$71,000 to Council. The value of tenders in this period was over \$53 million, equating to a less than 0.2% increase in total tender expenditure in that period.

However, it should be noted that the future financial impacts of an increased value in the scoring value of the local capacity criteria cannot be guaranteed to be similar to the figures from the 2-year sample.

CONCLUSION

The increase in scoring value for the “Strengthening of Local Economic Capacity” mandatory criterion in formal quotation and tender assessments is expected to have the effect of ensuring that additional procurement actions will result in local suppliers being selected to supply council, which will boost the local economy.



SUSTAINABLE PROCUREMENT POLICY COUNCIL POLICY

ADOPTED BY COUNCIL: [TO BE COMPLETED BY GOVERNANCE]

1. PURPOSE

The purpose of this Policy is to provide policy and guidance to the Council and employees to allow consistency and control over Procurement activities and demonstrate accountability to the community in relation to procurement activities.

By the adoption of this Policy, Council's procurement activities will support Council's corporate strategies provide opportunities to use the community's money wisely and to deliver much needed goods and services in an environmentally, socially and sustainable way.

2. POLICY INTENT

This Procurement Policy defines the framework for Council's procurement functions relating to the acquisition and use of goods and services. The principal aim of this policy is to provide optimal value to the community in council's procurement activities.

In addition to achieving value in all procurement activities, the main objectives of this policy are to:

1. Acknowledge that procurement is a function that is high risk in terms of corruption and therefore it is subject to strict oversight and defined process.
2. Ensure that a long-term strategic view of procurement needs is taken while continually assessing, reviewing and auditing procedures, strategy and objectives in a robust and transparent manner.
3. Provide a procurement function that manages risk and provides for the safety of Council officers, business partners and the community.
4. Provide clarity of accountabilities and guidance for officers engaged in purchasing, use of purchase cards, tendering and quotations, contract management, payments and asset disposal relating to the acquisition and use of goods and services.
5. Ensure that all business dealings are conducted in an open and transparent manner, meeting the highest ethical standards whilst delivering value to the community.

All officers involved in procurement activities must be aware of, and comply with this policy, and must be able to demonstrate through training or certification that they can address all the principles within the policy and associated procedures that support it.

This policy does not apply to the procurement or lease of land and property by Council.

3. WOLLONGONG 2028 Objectives

Procurement is a fundamental supporting element of all Council activities and as such it supports all six of our interconnected Community Goals outlined in Wollongong 2028, which are shown below:

1. We value and protect our environment
2. We have an innovative and sustainable economy
3. We have a creative, vibrant city
4. We are a connected and engaged community
5. We have a healthy community in a liveable city
6. We have affordable and accessible transport

SUSTAINABLE PROCUREMENT POLICY**COUNCIL POLICY****4. POLICY****4.1 Responsible Financial Management and Value for Money**

The availability of existing funds within an approved budget, or source of funds, shall be established prior to the commencement of any procurement process. Council officers must not authorise the expenditure of funds in excess of their financial delegations or available budget.

Council funds must be used efficiently and effectively to procure goods, services and works and every attempt must be made to contain the costs of the procurement process without compromising any of the procurement principles set out in this Policy.

Achieving value for money underpins responsible financial management and is an important element in Council's procurement framework. Council will achieve value for money by balancing the following:

- Relevant non-cost factors including quality, fitness for purpose, capacity and capability of service provider, timeliness, environmental, sustainability and social factors and any non-cost risks.
- All relevant cost factors such as whole of life costs from acquisition to disposal and any cost related risks.

The Procurement Procedures will provide guidance to staff on defining value for money and identifying benefits, costs and risks when determining value for money based on the guidance Statement on Value for Money produced by the NSW Procurement.

4.2 Ethical Principles

Council procurement processes shall be conducted in a fair, honest and open manner, with the highest levels of probity and integrity and in the public interest, with all suppliers / tenderers being treated fairly and having access to the same opportunities and information. There must be no improper advantage and all processes must withstand public and internal audit scrutiny. Council officials with an actual, perceived or a potential conflict of interest must declare and manage that interest without delay. Failure to do so may result in disciplinary action.

Suppliers will be eliminated from any procurement process if found to be lobbying Councillors or staff during the procurement process.

Except under exceptional circumstances, Council will not extend contracts with suppliers unnecessarily, and will ensure that regular periodic competitive quotation and tender processes occur to allow regular testing of the value Council is achieving.

4.3 Risk Management

Risk Management is to be appropriately applied at all stages of procurement activities which will be properly planned and carried out in a manner that will protect and enhance the Council's capability to prevent, withstand and recover from interruption to the supply of goods, services and works.

The provision of goods, services and works by contract potentially exposes the Council to risk. Procurement procedures will incorporate measures and controls to minimise Council's exposure to this risk.

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4.4 Sustainable Procurement

Council supports sustainable work practices and minimal environmental impact in all procurement activities and appropriate evaluation criteria shall be implemented in all procurements that will allow suppliers to demonstrate their commitment to the environment.

Staff should consider the entire life cycle of a product i.e. the production, distribution, usage and end of life stages, when determining the sustainability component of the overall value of any procurement as outlined in section 4.1, and be guided by:

- Elimination of unnecessary inefficiency, waste and expenditure
- Opportunities to utilise the combined purchasing power of local government
- Increase utilisation of quality sustainable products
- Play a leadership role in advancing long term social and environmental sustainability.
- Support local businesses and organisations

4.5 Social Procurement

Council will aim to generate positive social outcomes when acquiring goods, services and works. Staff shall consider the following when determining the social value component of the overall value of any procurement as outlined in section 4.1:

- **Employment & Training** – Create opportunities for inclusion of people who have been excluded from the workforce.
- **Diversity & Equality** – ensuring that all businesses have fair and equal access to procurement opportunities to build a supplier base that reflects the diversity of the community.
- **Fair trade** – ensuring that supply chains are adhering to fair trade practices to support equitable local, national and international trade.
- **Accessibility Requirements** – Australian Disability Enterprises (ADEs) shall be considered when making procurement decisions for goods and services.
- **Local Economic Development** - Local companies and contractors– including small to medium enterprises and social benefit suppliers shall not be disadvantaged or excluded from procurement processes.

4.6 Improving Local Economic Capacity

Local companies and contractors– including small to medium enterprises and social benefit suppliers shall not be disadvantaged or excluded from procurement processes.

Council will endeavour to strengthen local economic capacity through its procurement activities. Procurement Procedures shall include a mandatory scoring criterion that assists local firms obtain business with Council and shall be implemented as follows:

- **Quotations** - Council will give preference to a local supplier if the assessment of all selection criteria is equal;
- **Formal Quotations and Tenders** – A criterion weighted at 10% for strengthening of local economic capacity shall be included in all tenders (definitions will be included in the tender documents).

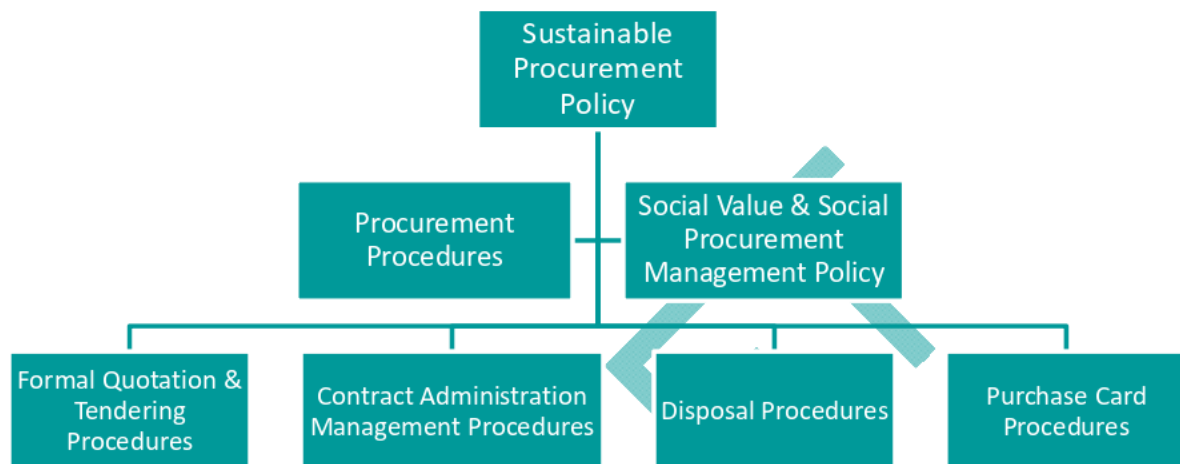
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4.7 Procurement Thresholds and Methodology

Council will implement Procurement Procedures and Formal Quotation and Tendering Procedures and other general Procurement Procedures detailed below, that will outline the relevant method of procurement and methodology to follow based on the estimated value of the supply, service or contract.

All purchasing procedures that are established are to align with procurement policies and guidelines issued by the Independent Commission Against Corruption, Office of Local Government and any other relevant oversight agency.



5. REPORTING

Procurement and purchasing processes shall be subject to audit / review on a timeframe to be determined by Council's Audit, Risk and Improvement Committee based on a risk-based Audit Program.

Scheduled and ad-hoc exception reporting will be undertaken by the Supply Chain and Logistics Manager or delegated employees to enable monitoring of procurement activity and associated compliance with this policy.

6. ROLES AND RESPONSIBILITIES

The Supply Chain and Logistics Manager will be the Responsible Officer for the Policy and will coordinate the following functions in relation to the Policy:

- Maintaining appropriate records relating to the Procurement Framework and its application
- Reporting – including supplier and category spend analysis
- Keeping the policy current, and undertaking regular reviews of both the policy and associated procedures
- Train and educate relevant employees with respect to policy and procedures and ensure documents, tools, templates and user guides are current and readily available.
- Provision of advice and ensuring adherence with the Policy

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6.1 Council

In accordance with the *Local Government Act, 1993*, the Council is responsible for accepting or declining tenders. Council may delegate to the General Manager the authority to accept tenders in certain circumstances.

6.2 General Manager

If delegated the authority by Council, the General Manager has the authority to accept but not decline tenders. The General Manager is responsible for the authorisation of delegations to employees for the acquisition of goods and/or services to the value specified.

6.3 Divisional Managers

Divisional Managers are responsible for ensuring their Division adheres to the requirements of this policy and provide guidance in respect of the strategic procurement goals of the division and organisation.

Divisional Managers should ensure that procurement spend is within Divisional budget and review purchasing reports for compliance with policy and unusual transactions. Divisional managers are responsible for ensuring their teams keep adequate records on procurements they undertake.

6.4 Staff

Staff shall adhere to the requirements of this policy and be able to demonstrate through training or certification that they can address all the principles within the policy and procedures that support it. Staff must also operate within the authorities of any financial or procurement delegations granted to them by the General Manager.

7. RELATED POLICIES AND PROCEDURES

Code of Business Ethics
Code of Conduct
Delegated Authority Limits for Purchasing
Formal Quotation and Tendering Procedures
Procurement Procedures
Social Value and Social Procurement Policy

APPROVAL AND REVIEW		
Responsible Division	Governance and Customer Service	
Date/s adopted	<i>Executive Management Committee</i> [updated by policy owner]	<i>Council</i> [DD Mmmm YYYY]
Date/s of previous adoptions	8 September, 2014	
Date of next review	May 2022	