

QLDC Procurement Review

Councillor Workshop
15th February 2021

Introduction

- Purpose of the workshop
- Background to the report
- Additional context – OAG RfI
- Next steps

ZQN.7 REVIEW

PETE HANSBY
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ZQN.7 Review - background

- Underlying trigger – Media enquiry re: ZQN.7
- Mayor's request for report from CE
- Scope of the report

Summary of procurement

Date	Project	Stage	Initial PO (excl GST)	Final Cost (excl GST)	Actual vs Budget
Mar-18	Speed	Stage 1	\$ 10,000	\$ 10,000	\$0
Mar-18	Trade Waste	Stage 1	\$ 15,000	\$ 7,713	\$7,288
Mar-18	Traffic and Parking	Stage 1	\$ 20,000	\$ 20,000	\$0
May-18	Speed	Stage 2	\$ 10,000	\$ 76,589	(\$66,589)
May-18	Trade Waste	Stage 2	\$ 10,000	\$ 42,724	(\$32,724)
May-18	Traffic and Parking	Stage 2	\$ 10,000	\$ 66,919	(\$56,919)
Jun-18	Trade Waste	Stage 3	\$ 24,000	\$ 30,324	(\$6,324)
Jan-19	Traffic and Parking	Stage 3	\$ 136,000	\$ 148,128	(\$12,128)
Mar-19	Speed	Stage 3	\$ 50,500	\$ 87,525	(\$37,025)
Oct-19	Bus Stops		\$ 10,000	\$ 10,000	\$0
Oct-19	Speed	Stage 4 (School)	\$ 12,000	\$ 10,522	\$1,478
Jan-20	Speed	Stage 4 (NZTA)	\$ 16,500	\$ 17,700	(\$1,200)
			\$ 324,000	\$ 528,144	(\$204,144)

- Outcome: bylaw reviews delivered on time, with positive feedback from stakeholders
- Majority of cost overruns in Speed (-\$103k), Traffic and Parking (-\$69k).
- Intensive consultation and revision in these two projects

Key report findings

Source of issue – Guidelines’ approach to procurement options permissible for different financial thresholds

Financial Thresholds

QLDC standard procurement processes are based on monetary thresholds.

In determining the category of procurement that is required for any purchase, the estimated whole of contract value must be used. Contracts may not be split into component parts and procured using a lesser standard than the whole of contract value would demand. The following table summarises the procurement options and thresholds:

Contract \$ Value (excluding GST)	\$0 - \$50,000	\$50,001 - \$100,000	Over \$100,000
Preferred Supplier or 3 Quotes	✓	✗	✗
Restricted Tender	✓	✓	✗
Open Tender	✓	✓	✓
Approved Procurement Plan	✓	✓	✓

Key report findings

- Sole-supplier negotiations \$<50k did not meet requirements of 2016 Guidelines (no Approved Procurement Plan, APP); but aligned with a pre-existing management belief and practice
- No evidence whatsoever that contract splitting intended to avoid procurement requirements: combining initial contracts at each stage would have resulted in the same procurement requirements (actual or perceived)

Procurement practice for <\$50k

- Non-compliance vis sole-supplier arrangements driven by a pre-existing procurement practice: that sole-supplier negotiations could occur without GM signoff/APP for procurement <\$50k
- NZTA has a similar sole-supplier procurement “exemption” for <\$100k
- Practice wider than ZQN.7

Procurement review: P&D

- Recognised need to review procurement practices
- Direct appointment based on skills needed
- Annual expenditure across P&D

Learnings from review

- Custom and practice had departed from Guidelines, but no mal-intent (<\$50k sole supplier)
- Lack of clarity in Guidelines re: contract splitting and use of panels >\$50k
- A need to review Guidelines had been highlighted (Jul 2020):
 - Do Guidelines reflect “proportionality of effort” Policy principle?
 - Is a strict interpretation even workable?
 - Guidelines have not moved with industry practice and pace of activity

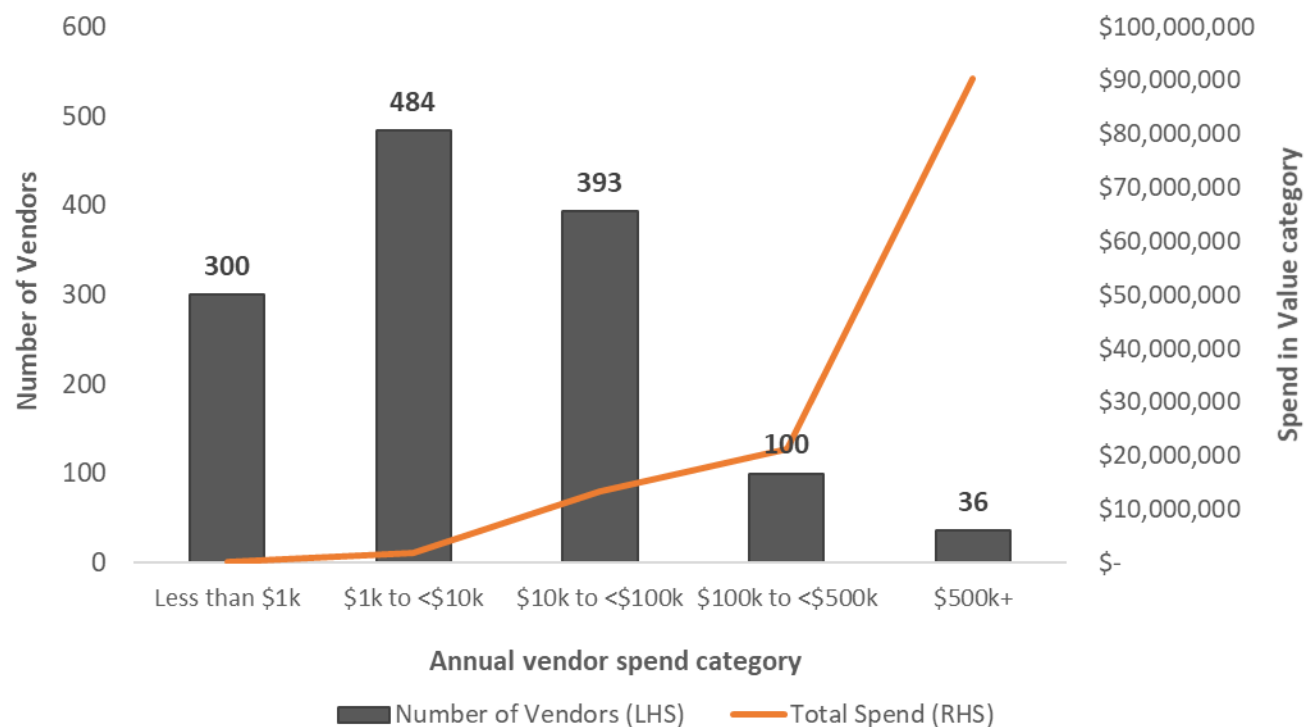
PROCUREMENT CONTEXT

STEW BURNS
GEOFF MAYMAN

Procurement context and recent focus

Annual Vendor Expenditure (2019/2020 CAPEX and OPEX)

Number of vendors and spend



- Total Annual Controllable spend (CAPEX and OPEX): **\$127M**
- Total number of vendors: **1,313**
- **\$90M (71%)** of spend sits with **36 vendors (3%)**

Increasing procurement maturity

- 2018 recruitment of Commercial and Procurement Manager
- Increasing organisational consistency
- Maturing and wider use of panels; wider use of AoG suppliers
- Piloting use of technology to improve controls and transparency
- 2020 appointment of Commercial Lawyer (Brendan Peet)

Wider procurement controls

Checks & Balances

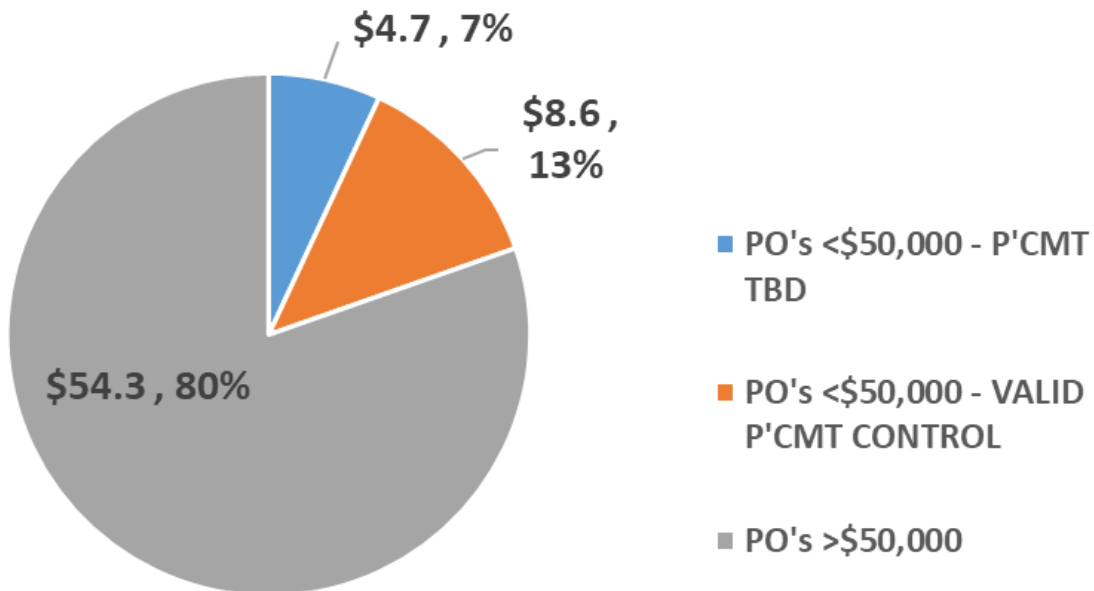
- External audit (Deloitte)
- OAG audit brief
- NZTA annual audits
- Financial delegations in TechOne
- POs – one up approval

Procurement Controls

- All-of-Govt contracts
- NZTA procurement manual (e.g., WTP Alliance) for roading
- P-Card transaction limits and reporting
- Sensitive expenditure policy

Putting the <\$50k issue in context

Purchase Order Values
2019/20, \$M



- Initial/indicative analysis which informs a right-sized approach to low cost, low risk, low complexity (as per Policy)
- Out of total \$67M of POs, 20% under \$50k. Made up of:
 - POs that had a valid procurement controls (e.g., AoG, Panel, Statutory, Community Grant) – **13%, \$8.6M**
 - POs that would require either a contestable process or APP per Guidelines – **7%, \$4.7M**

Potential solutions to sole-supplier, <\$50k

1. Need a right-sized approach to low cost, low risk, low complexity (per Policy)
2. Clarity that procurement with other sufficient controls effectively meet the Guidelines.
3. Clarity regarding pre-requisites for sole-supplier negotiation (e.g., urgency, specialist expertise).
4. A more pragmatic de-minimus (>\$0) below which a formal APP is not required if sole-supplier.
5. Clarity regarding requirements for use of panels for >\$50k
6. Increased TechOne integration between finance and procurement

PROPOSED ACTIONS

**MIKE THEELEN, GEOFF MAYMAN
STEVE BATSTONE**

Proposed actions (1 month)

1. Set up internal procurement steering group
2. Mandatory training for delegated staff
3. Review panel arrangements to ensure compliance with the policy/guidelines
4. Interim review of guidelines (esp direct sourcing) and align with Policy
5. Report to AFR and Council signoff in March

Proposed actions (6 months)

1. Comprehensive review of Policy/Guidelines, with independent advice; Ensure consistency with other policies
2. Review procurement resourcing; right-size to support good practice with additional procurement staff in draft LTP
3. New procurement reporting regimes to AFR
4. Increase use of TechOne capability for procurement process & monitoring

SLIDES IF NEEDED

Bylaw reviews – consultation intensity

	Traffic and Parking	Speed Limits
Council Workshops	1	2
Council Meetings	5	5
Committee Meetings	3	1
Wanaka Community Board	1	1
Hearings	1	2
Consultation period	2 months	2 months

Approved Procurement Plan - TechOne

Online procurement register in use since Oct 2019.

Documents robust level of justification and recommend-endorse-approve tracking

\$77M procurement through this, of which

- \$34M were secondary procurement from 3W panels
- \$28M were tenders
- \$15M were effectively an APP (as envisaged by Guidelines), of which \$10M (49 procurements) were exemptions to direct source – all signed off by GM