

CURRENT SHIRE POLICY

P040220 PURCHASING POLICY

Objectives

- To provide compliance with the Local Government Act, 1995 and the Local Government Act (Functions and General) Regulations, 1996 (as amended October 2015).
- To deliver a best practice approach and procedures to internal purchasing for the Shire of Denmark.
- To ensure consistency for all purchasing activities that integrates within all the Shire of Denmark operational areas.

Why do we need a Purchasing Policy?

The Shire of Denmark is committed to setting up efficient, effective, economical and sustainable procedures in all purchasing activities. This policy:

- Ensures that purchasing transactions are carried out in a fair and equitable manner;
- Strengthens integrity and confidence in the purchasing system;
- Ensures that the Shire of Denmark receives value for money in its purchasing;
- Ensures the Shire of Denmark is compliant with all regulatory obligations; and
- Promotes effective governance and definition of roles and responsibilities.

Ethics & Integrity

All officers and employees of the Shire of Denmark shall observe the highest standards of ethics and integrity in undertaking purchasing activity and act in an honest and professional manner.

The following principles, standards and behaviours must be observed and enforced through all stages of the purchasing process to ensure the fair and equitable treatment of all parties:

- Full accountability shall be taken for all purchasing decisions and the efficient, effective and proper expenditure of public monies based on achieving value for money;
- All purchasing practices shall comply with relevant legislation, regulations, and requirements consistent with the Shire of Denmark policies and code of conduct;
- Purchasing is to be undertaken on a competitive basis in which all potential suppliers are treated impartially, honestly and consistently;
- Council reserves the right to give preference to local suppliers in accordance with Councils adopted Regional Price Preference Policy (refer Policy P040216);
- All processes, evaluations and decisions shall be transparent, free from bias; and
- Any actual or perceived conflicts of interest are to be identified, disclosed and appropriately managed.

Value for Money

Value for money is an overarching principle governing purchasing that allows the best possible outcome to be achieved for the Shire of Denmark. It is important to note that compliance with the specification is more important than obtaining the lowest price, particularly taking into account user requirements, quality standards, sustainability and life cycle costing.

An assessment of the best value for money outcome for any purchasing should consider:

- All relevant whole-of-life costs and benefits whole of life cycle costs (for goods) and whole of contract life costs (for services) including transaction costs associated with acquisition, delivery, distribution, as well as other costs such as but not limited to holding costs, consumables, deployment, maintenance and disposal;
- The technical merits of the goods or services being offered in terms of compliance with specifications, contractual terms and conditions and any relevant methods of assuring quality;
- Financial viability and capacity to supply without risk of default; and

- A strong element of competition in the allocation of orders or the awarding of contracts. This is achieved by obtaining a sufficient number of competitive quotations wherever practicable.

Where a higher priced conforming offer is recommended, there should be clear and demonstrable benefits over and above the lowest total priced, conforming offer.

Sustainable Procurement

Sustainable Procurement is defined as the procurement of goods and services that have less environmental and social impacts than competing products and services.

The Shire of Denmark is committed to sustainable procurement where appropriate and shall endeavour to provide a preference to goods, services and/or processes that minimise environmental and negative social impacts. Sustainable considerations must be balanced against value for money outcomes in accordance with these objectives.

Purchasing Thresholds

Where the value of procurement (excluding GST) for the value of the contract over the full contract period (including options to extend) is, or is expected to be:-

| AMOUNT OF PURCHASE | POLICY |
|---------------------------|--|
| Less than \$5,000 | Direct purchase from suppliers requiring at least one oral or written quotation. |
| \$5,000 - \$19,999.99 | Obtain at least two oral or written quotations. |
| \$20,000 - \$39,999.99 | Obtain at least two written quotations. |
| \$40,000 - \$149,999.99 | Obtain at least three written quotations containing price and specification of goods and services (with procurement decision based on all value for money considerations). |
| \$150,000 and above | Conduct a public tender process. |

The responsible officer is expected to demonstrate due diligence seeking quotes and to comply with any record keeping and audit requirements, including the recording and retention of all quotations received and all purchases made.

Where it is considered beneficial, tenders may be called in lieu of seeking quotations for purchases under the \$150,000 threshold (excluding GST). If a decision is made to seek public tenders for Contracts of less than \$150,000, a Request for Tender process that entails all the procedures for tendering outlined in this policy must be followed in full.

Less than \$5,000

Where the value of procurement of goods or services is less than \$5,000, purchase in accordance with the budget and value for money principles. At least one oral or written quotation is required, with use of oral quotes recommended. It is recommended to use professional discretion and occasionally undertake market testing by obtaining quotes to ensure competitiveness and best value is maintained.

This purchasing method is suitable where the purchase is relatively small and low risk. Purchase orders should be issued for all purchases with the exception of items purchased via petty cash and/or through a resolution of Council.

\$5,000 to \$19,999.99

For the procurement of goods or services where the value is equal to or exceeds \$5,000 but is less than \$20,000, at least two oral or written quotations (or a combination of both) are required. On occasion this may not be practical e.g. due to limited suppliers.

The general principles for obtaining oral quotations are:

- Ensure that the requirement / specification is clearly understood; and
- Ensure that the requirement is clearly, accurately and consistently communicated to each of the suppliers being invited to quote.

Purchase orders should be issued for all purchases.

\$20,000 to \$39,999.99

For the procurement of goods or services where the value is equal to or exceeds \$20,000 but is less than \$40,000, it is a requirement to obtain at least two written quotes (commonly a sufficient number of quotes would be sought according to the type and nature of purchase).

Notes: The general principles relating to written quotations are:

- An appropriately detailed specification should communicate requirement(s) in a clear, concise and logical fashion;
- Invitations to quote should be issued where practical at the same time;
- Responses should be assessed for compliance and then value for money and all quote retained for record keeping purposes; and
- The successful respondent should be advised in writing by the issue of a purchase order as soon as possible after the final determination is made and approved.

\$40,000 to \$149,999.99

For the procurement of goods or services where the value is equal to or exceeds \$40,000 but is less than \$150,000, it is a requirement to obtain at least three written quotations containing price and a sufficient amount of information relating to the specification of goods and services being purchased.

Notes: The general principles relating to written quotations are:

- An appropriately detailed specification should communicate requirement(s) in a clear, concise and logical fashion;
- Invitations to quote should be issued where practical at the same time;
- Responses should be assessed for compliance and then value for money and all quote retained for record keeping purposes; and
- The successful respondent should be advised in writing by the issue of a purchase order as soon as possible after the final determination is made and approved.

For this procurement range, the selection should not necessarily be based on price alone, and it is strongly recommended to consider some of the qualitative factors such as quality, stock availability, accreditation, time for completion or delivery, warranty conditions, technology, maintenance requirements, organisation's capability, previous relevant experience and any other relevant factors as part of the assessment of the quote.

Refer also Policy P040216 – Regional Price Preference Policy

Refer Delegation D040217 – Tenders for Providing Goods & Services

27FEB07

AMENDED by Res: 301015 / 20 October 2015

DRAFT AMENDED POLICY

P040220 PURCHASING POLICY

1. **POLICY**

The Shire of Denmark is committed to delivering the objectives, principles and practices outlined in this Policy, when purchasing goods, services or works to achieve the Shire of Denmark's strategic and operational objectives.

This policy complies with the Local Government Act 1995 and the Local Government (Functions and General) Regulations 1996.

2. **OBJECTIVES**

The Shire of Denmark's purchasing activities will achieve:

- The attainment of best value for money;
- Sustainable benefits, such as environmental, social and local economic factors are to be considered in the overall value for money assessment;
- Consistent, efficient and accountable processes and decision-making;
- Fair and equitable competitive processes that engage potential suppliers impartially, honestly and consistently;
- Probity and integrity, including the avoidance of bias and of perceived and actual conflicts of interest;
- Compliance with the Local Government Act 1995, Local Government (Functions and General) Regulations 1996, as well as any relevant legislation, Codes of Practice, Standards and the Shire of Denmark's Policies and Procedures.
- Records created and maintained to evidence purchasing activities in accordance with the State Records Act and the Shire of Denmark's Record Keeping Plan.
- Confidentiality protocols that protect commercial-in-confidence information.

3. **ETHICS & INTEGRITY**

The Shire of Denmark's Code of Conduct applies when undertaking purchasing activities and decision making. All employees of the Shire of Denmark shall observe the highest standards of ethics and integrity and act in an honest and professional manner.

Council reserves the right to give preference to local suppliers in accordance with Council's adopted Regional Price Preference Policy (refer Policy P040216).

4. **VALUE FOR MONEY**

Value for money is an overarching principle governing purchasing that allows the best possible outcome to be achieved for the Shire of Denmark. It is important to note that compliance with the specification is more important than obtaining the lowest price, particularly taking into account user requirements, quality standards, sustainability and life cycle costing.

An assessment of the best value for money outcome for any purchasing should consider:

- All relevant whole of life cycle costs (for goods) and whole of contract life costs (for services) including transaction costs associated with acquisition, delivery, distribution, as well as other costs such as but not limited to holding costs, consumables, deployment, maintenance and disposal;
- The technical merits of the goods or services being offered in terms of compliance with specifications, contractual terms and conditions and any relevant methods of assuring quality. This includes but is not limited to an assessment of compliances,

tenderers resources available, capacity and capability, value-adds offered, warranties, guarantees, repair and replacement policies, ease of inspection, ease of after sales service, ease of communications etc.;

- Financial viability and capacity to supply without risk of default (competency of the prospective suppliers in terms of managerial and technical capabilities and compliance history);
- A strong element of competition in the allocation of orders or the awarding of contracts. This is achieved by obtaining a sufficient number of competitive quotations wherever practicable and consistent with this policy.
- The safety requirements and standards associated with both the product design and the specification offered by the suppliers and the evaluation of risk arising from the supply, operation and maintenance;
- The environmental, economic and social benefits arising from the goods, services or works required, including consideration of these benefits in regard to the suppliers operations, in accordance with this Policy and any other relevant Shire of Denmark Policy; and
- Providing opportunities for businesses within the Shire of Denmark's boundaries to quote wherever possible.

Where a higher priced conforming offer is recommended, there should be clear and demonstrated benefits over and above the lowest total priced, conforming offer.

5. SUSTAINABLE PROCUREMENT

Sustainable Procurement is defined as a collective term of practices that bring together the consideration of sustainability outcomes in addition to the commercial value proposition in deciding the most appropriate supply option to select.

The Shire of Denmark is committed to sustainable procurement and incorporates the following objectives into its decision making, in considering the following impacts:

- The environmental impact (positive or negative for the purchase);
- Economic cost of supply over the life of the purchase;
- Social and ethical implications of the purchase; and
- Application of good governance and leadership over its procurement decision making.

Sustainable considerations must be balanced against value for money outcomes in accordance with these objectives.

6. PURCHASING REQUIREMENTS

The responsible officer is expected to demonstrate due diligence seeking quotes and to comply with any record keeping and audit requirements, including the recording and retention of all quotations received and all purchases made.

Where it is considered beneficial, tenders may be called in lieu of seeking quotations for purchases under the \$150,000 threshold (excluding GST). This may occur where an assessment has been undertaken and it is considered that there is benefit from conducting a publicly accountable and more rigorous process. In such cases, the Shire of Denmark's tendering procedures must be followed in full.

6.1 Values

Purchasing that is **\$150,000 or below in total value** (excluding GST) must be in accordance with the purchasing requirements under the relevant threshold as defined under section 6.4 of this Purchasing Policy.

Purchasing that exceeds **\$150,000 in total value** (excluding GST) must be put to public tender when it is determined that a regulatory tendering exemption, as stated under section 6.7 of this Policy is not deemed to be suitable.

6.2 Purchasing Value Definition

Determining purchasing value is to be based on the following considerations;

1. Exclusive of Goods and Services Tax (GST);
2. The actual or expected value of a contract over the full contract period, including all options to extend; or the extent to which it could be reasonably expected that the Shire will continue to purchase a particular category of goods, services or works and what total value is or could be reasonably expected to be purchased; and
3. If a purchasing threshold would be reached within three years for a particular contract for procurement, then the purchasing requirement under the relevant threshold (including the tender threshold) would need to be considered.

6.3 Purchasing from Existing Contracts

Where the Shire has an existing contract in place, it must ensure that the goods and services are purchased under these contracts to the extent that the scope of the contract allows.

6.4 Purchasing Thresholds

In addition to the other policy provisions the table below prescribes the purchasing request process to be applied, based on the proposed purchase value. On occasions this may not be practical due to limited suppliers (refer section 6.5).

| PURCHASE VALUE THRESHOLD (EX. GST) | PURCHASING REQUIREMENT |
|------------------------------------|---|
| Up to \$5,000 (Ex. GST) | <p>Direct purchase from suppliers requiring at least one oral or written quotation.</p> <p>Purchase in accordance with the budget and value for money principles. At least one oral or written quotation is required, with use of oral quotes recommended. It is recommended to use professional discretion and occasionally undertake market testing by obtaining quotes to ensure competitiveness and best value is maintained.</p> <p>This purchasing method is suitable where the purchase is relatively small and low risk. Purchase orders should be issued for all purchases with the exception of items purchased via petty cash and/or through a resolution of Council.</p> <p>Where the Shire has an established Panel of Pre-Qualified Suppliers relevant to the required purchasing</p> |

| | |
|----------------------|---|
| | category, the quote must be sought from the Panel in accordance with the procedures set out in section 7. |
| \$5,001 - \$20,000 | <p>At least two oral or written quotations (or a combination of both) are required.</p> <p>Purchase in accordance with the budget and value for money principles.</p> <p>The general principles for obtaining oral quotations are:</p> <ul style="list-style-type: none"> • Ensure that the requirement / specification is clearly understood; and • Ensure that the requirement is clearly, accurately and consistently communicated to each of the suppliers being invited to quote. <p>Purchase orders should be issued for all purchases.</p> <p>Where the Shire has an established Panel of Pre-Qualified Suppliers relevant to the required purchasing category, the quote must be sought from the Panel in accordance with the procedures set out in section 7.</p> |
| \$20,001 - \$40,000 | <p>At least two written quotations are required. Commonly a sufficient number of quotes would be sought according to the type and nature of purchase.</p> <p>The general principles relating to written quotations are:</p> <ul style="list-style-type: none"> • An appropriately detailed specification should communicate requirement(s) in a clear, concise and logical fashion; • Invitations to quote should be issued where practical at the same time; • Responses should be assessed for compliance and then value for money and all quotes retained for record keeping purposes; and • The successful respondent should be advised in writing by the issue of a purchase order as soon as possible after the final determination is made and approved. <p>Purchase in accordance with the budget and value for money principles.</p> <p>Purchase orders should be issued for all purchases.</p> <p>Where the Shire has an established Panel of Pre-Qualified Suppliers relevant to the required purchasing category, the quote must be sought from the Panel in accordance with the procedures set out in section 7.</p> |
| \$40,001 - \$150,000 | <p>Obtain at least three written quotations containing price and specification of goods and services .</p> <p>The general principles relating to written quotations are:</p> |

| | |
|--|---|
| | <ul style="list-style-type: none"> • An appropriately detailed specification should communicate requirement(s) in a clear, concise and logical fashion; • Invitations to quote should be issued where practical at the same time; • Responses should be assessed for compliance and then value for money and all quote retained for record keeping purposes; and • The successful respondent should be advised in writing by the issue of a purchase order as soon as possible after the final determination is made and approved. • For this procurement range, the selection should not necessarily be based on price alone, and it is strongly recommended to consider some of the qualitative factors such as quality, stock availability, accreditation, time for completion or delivery, warranty conditions, technology, maintenance requirements, organisation's capability, previous relevant experience and any other relevant factors as part of the assessment of the quote. <p>Purchase in accordance with the budget and value for money principles.</p> <p>Purchase orders should be issued for all purchases.</p> <p>Where the Shire has an established Panel of Pre-Qualified Suppliers relevant to the required purchasing category, the quote must be sought from the Panel in accordance with the procedures set out in section 7.</p> |
| <p>\$150,000 and above</p> | <p>Conduct a public Tender process in accordance with Part 4 of the Local Government (Functions and General) Regulations 1996 and this policy.</p> <p>Where the Shire has an established Panel of Pre-Qualified Suppliers relevant to the required purchasing category, the quote must be sought from the Panel in accordance with the procedures set out in section 7.</p> |
| <p>Emergency Purchases <i>(within Budget)</i></p> | <p>Must be approved by the Shire President or by the Chief Executive Officer under delegation and reported to the next available Council Meeting.</p> |
| <p>Emergency Purchases <i>(Not included in Budget)</i></p> | <p>Only applicable where, authorised in advance by the Shire President in accordance with s6.8 of the Local Government Act 1995 and reported to the next available Council Meeting.</p> |

6.5 Sole Source of Supply

The procurement of goods and/or services available from only one private sector source of supply, (i.e. manufacturer, supplier or agency) is permitted without the need to call competitive quotations provided that there must genuinely be only one source of supply. Every endeavour to find alternative sources and goods/services must be made, with a written confirmation of this recorded.

Once determined, the justification for a sole source of supply must be endorsed by the Chief Executive Officer or Director, prior to a contract being entered into, or a purchase order raised.

6.6 Tendering Exemptions

An exemption from the requirement to publicly invite tenders may apply when the purchase is:

- obtained from a pre-qualified supplier under the WALGA Preferred Supplier Arrangement or other suppliers that are accessible under another tender exempt arrangement .
- from a pre-qualified supplier under a Panel established by the Shire of Denmark;
- from a Regional Local Government or another Local Government;
- acquired from a person/organisation registered on the WA Aboriginal Business Directory, as published by the Small Business Development Corporation, where the consideration under contract is worth \$250,000 or less (exc GST) and represents value for money;
- acquired from an Australian Disability Enterprise and represents value for money;
- the purchase is authorised under action by Council under delegated authority;
- within 6 months of no tender being accepted;
- where the contract is for petrol, oil, or other liquid or gas used for internal combustion engines; or
- the purchase is covered by any of the other exclusions under Regulation 11 of the Regulations.

6.7 Emergency Purchases

An emergency purchase is defined as an unanticipated purchase which is required in response to an emergency situation as provided for in the Act. In such instances, quotes and tenders are not required to be obtained prior to the purchase being undertaken.

Time constraints are not a justification for an emergency purchase. Every effort must be made to anticipate purchases in advance and to allow sufficient time to obtain quotes and tenders, whichever may apply.

6.8 Other Procurement Processes

6.8.1 Expressions of Interest

Expressions of Interest (EOI) are typically considered in situations where the project is of a significant value, or contains significant

complexity of project delivery that may solicit responses from a considerable range of industry providers.

In these cases, the Shire of Denmark may consider conducting an EOI process, preliminary to any Request for Tender process, where the purchasing requirement is:

- Unable to be sufficiently scoped or specified;
- Open to multiple options for how the purchasing requirement may be obtained, specified, created or delivered;
- Subject to a creative element; or
- To establish a procurement methodology that allows for an assessment of a significant number of tenderers leading to a shortlisting process based on non-price assessment.

All EOI processes are conducted as a public process and the EOI should not seek price information from respondents, seeking qualitative and other non-price information only. All EOI processes should be subsequently followed by a Request for Tender through an invited process of those shortlisted under the EOI.

6.8.2 Request for Proposal

As an alternative to a Request for Tender, the Shire of Denmark may consider conducting a Request for Proposal where the requirements are less known, or less prescriptive and detailed. In this situation, the request would seek responses from the market that are outcomes based or that outline solutions to meet the requirements of the Shire of Denmark.

7. PANELS OF PRE-QUALIFIED SUPPLIERS

The Shire of Denmark will consider creating a Panel of Pre-qualified Suppliers ("Panel") when a range of similar goods and services are required to be purchased on a continuing and regular basis.

Part of the consideration of establishing a panel includes:

- there are numerous potential suppliers in the local and regional procurement related market sector(s) that satisfy the test of 'value for money';
- the purchasing activity under the intended Panel is assessed as being of a low to medium risk;
- the Panel will streamline and will improve procurement processes; and
- the Shire of Denmark has the capability to establish a Panel, and manage the risks and achieve the benefits expected of the proposed Panel.

Should the Shire determine that it is beneficial to create a Panel, it must do so in accordance with Part 4, Division 3 of the Local Government (Functions and General) Regulations 1996. This ensures that clear and consistent information is communicated to all suppliers, including selection criteria, conditions of contract, specifications and price schedules (as required).

Pre-Qualified Suppliers will be appointed to the Panel based on value of money principles, their suitability to provide the goods and/or services as per the weighted evaluation criteria. The number of suppliers appointed to a Panel will be dependent on requirements.

7.1 Distributing Work Amongst Panel Members

In considering the distribution of work among Panel members, the detailed information, which is to be stipulated in the detailed information set out under Regulation 24AD(5)(f) when establishing a Panel, will also prescribe whether:

- each Panel member will have the opportunity to bid for each item of work under the Panel, with pre-determined evaluation criteria forming part of the invitation to quote to assess the suitability of the supplier for particular items of work. Contracts under the pre-qualified panel will be awarded on the basis of value for money in every instance; or
- work will be awarded on a ranked basis. The Shire of Denmark will invite the highest ranked Panel member, who is to give written notice as to whether to accept the offer for the work to be undertaken. When a ranking system is established, the Panel will not operate for a period exceeding 12 months.

Should the list of Panel members invited be exhausted with no Panel member accepting the offer to provide goods/services under the Panel, the Shire of Denmark may then invite suppliers that are not pre-qualified under the Panel, in accordance with the Purchasing Thresholds stated in section 6.4 of this Policy.

8. RECORDS MANAGEMENT

Records of all purchasing activity must be retained in compliance with the State Records Act 2000 (WA), the Shire's Record Keeping Plan and any associated procurement procedures.

Refer also Policy P040216 – Regional Price Preference Policy

Refer Delegation D040217 – Tenders for Providing Goods & Services