

Sourcing Framework Principles

File No: S095194.009

Summary

On 25 November 2024, Council resolved that the Chief Executive Officer be requested to develop a Sourcing Framework to assess opportunities for insourcing services

Under the Local Government Act 1993 and the delegations to the Chief Executive Officer, decisions to award tenders relating to work currently undertaken by Council staff and relating to new services cannot be made unless resolved by Council. These services cannot be outsourced without Council resolving to do so.

The City has a robust procurement approach in place with which to manage the sourcing and management of services contracts from external suppliers to provide the best possible value, quality, outcomes and innovation opportunities for residents and ratepayers. It is governed by the Local Government Act 1993 to meet Council's obligations to effectively use public funds in a fair and transparent manner.

Staff currently assess service options before deciding to publish a tender. Through proactive contract management, staff may also identify opportunities to deliver better outcomes through in-house delivery and may implement changes as appropriate.

This was evidenced by the recent Parks Maintenance Services review. This review also highlighted significant limitations to the City's depot capacity. It demonstrated that full reviews would require significant time and costs from consultants as well as delivery staff, supporting the development of a staged approach for opportunity evaluation.

The Sourcing Framework Principles set out in Attachment A were developed to supplement existing processes and to provide a consistent set of staged criteria when assessing opportunities to insource contracted services.

Recommendation

It is resolved that:

- (A) Council note that under the Local Government Act 1993 and delegations to the Chief Executive Officer decisions to award tenders relating to work currently undertaken by Council staff and relating to new services cannot be made under delegation;
- (B) Council note the lessons learnt from the recent Parks Maintenance review reported to Council at its August 2025 meeting;
- (C) Council note the time and costs associated with internal and consultant resources associated with the reviews;
- (D) Council note the practices already in place supporting the objectives of the Sourcing Framework Principles; and
- (E) Council endorse that staff will incorporate the Sourcing Framework Principles as shown at Attachment A to the subject report into the procurement decision-making cycle.

Attachments

Attachment A. Sourcing Framework Principles

Background

1. On 25 November 2024, Council resolved that the Chief Executive Officer be requested to develop a Sourcing Framework to assess opportunities for insourcing services. In response, staff have identified the principles for such a framework which are detailed in Attachment A.
2. The Chief Executive Officer delegations determine that new services cannot be outsourced without Council resolving to do so. For example, the service model to collect Food Organics waste will be subject to a resolution of Council.
3. The Local Government Act 1993 also determines that services delivered by Council staff cannot be outsourced without Council resolving to do so.
4. In relation to currently outsourced services, Council's procurement practices, under the Local Government Act 1993 (the Act), Regulations and Tendering Guidelines for NSW Local Government, demonstrate:
 - (a) Appropriate use of public funds;
 - (b) Compliance with legislation;
 - (c) Probity, transparency, and accountability;
 - (d) Implementation of risk management practice;
 - (e) Value for Money and value for impact; and
 - (f) Promotion and inclusion of social and sustainable procuring practices.
5. Under existing procurement practices, staff evaluate service delivery performance and options before deciding to publish a tender.
6. Staff must also ensure that the selected service delivery options align with the City's objectives to efficiently use public resources and enable positive community outcomes.
7. Under existing contract management practices, staff monitor that outsourced providers deliver expected outcomes through service levels, key performance indicators, and delivery milestones.
8. The City's contract templates ensure compliance with performance obligations, Modern slavery, Fair Work requirements and all other applicable legislation, supported by audit and step-in rights.
9. Staff closely manage contracts and may make provisions to insource certain services based on the assessment of potential benefits, as appropriate. This is evidenced by the recent partial insourcing of property services and the recent decision to insource certain park maintenance services included in the 2025/26 budget.
10. Staff may, from time to time, conduct service reviews to assess existing service delivery models.
11. Fairness, consistency and transparency are evidenced by the advertising of tenders, contract registers and purchase orders on publicly available channels.

12. Staff therefore recommend integrating the proposed Sourcing Framework Principles into internal guidance for the following reasons:
 - (a) Procurement rules, which are legislated by the Act, are complex to follow. Integrating the Sourcing Framework Principles into internal guidance will support existing good practice with a set of consistent principles;
 - (b) Third-party influence and lobbying should not influence the Council's procurement decisions;
 - (c) Maintaining positive relationships with our suppliers is essential to deliver positive outcomes through our contracts; and
 - (d) Managing integrity and confidentiality is essential, including confidential information, market or supplier capability, performance and pricing.

Lessons Learnt from the Parks Maintenance Review

13. The Parks Maintenance review identified that the City's existing and planned depot infrastructure does not have capacity for major staff increases. Additional depot space would require a significant investment in assets and infrastructure, which is not included in the City's Long Term Financial Plan and would attract a material minimum lead time of 3 to 6 years.
14. Through rigorous contract management practices, staff had already identified an opportunity to deliver a component of the services in-house at a lower cost. Staff included the associated provisions in the budget independently of the review.
15. Excluding the above-mentioned services, the Parks Maintenance review highlighted that insourced and outsourced models are not easily comparable, with different organisational, industrial and financial arrangements. Conducting a cost-benefit analysis of the different models requires industry expertise. This would have to be procured from professional services consultants.
16. The review required significant involvement from internal contract and service delivery managers, and corporate services staff to work with the consultants. The time to complete a cost benefit analysis is anticipated to exceed 6 months from the sourcing of a consultant to the discussion of findings with council.
17. Costs to the City for a cost benefit analysis, including consultants and staff, would range from \$100,000 to \$250,000 each, including internal and external costs.
18. The proposed principles consider the above findings to support good contract management practices and forward planning, using a standard set of staged criteria to screen potential opportunities before committing council resources to proceed with a thorough cost-benefit analysis.

Development of the Sourcing Framework Principles

19. Staff reviewed similar frameworks including the *ACT Insourcing Framework*, the *Australian Public Service (APS) Strategic Commissioning Framework* and the *NSW Government – Building up NSW public service capability and driving down the use of consultants*.

20. The APS and NSW frameworks mostly focus on the use of external workforce, such as contractors and consultants, for policy and decision-making. The ACT framework focuses on employment security. Although the focus and priorities of the 3 documents are different, the City has incorporated relevant aspects of all frameworks into the proposed principles.

Increased Consistency and Transparency

21. The Sourcing Framework Principles are articulated around 3 stages to consistently assess potential insourcing opportunities.
22. The Sourcing Framework Principles apply to major services contracts as defined in Attachment A.
23. Each stage comprises criteria to assist staff in deciding whether to proceed to the next stage of review.
24. The Sourcing Framework Principles will mandate that:
 - (a) A Council briefing be held within 12 months of the election of Council to advise the outcome of the first stage assessment.
 - (b) Staff complete assessments of insourcing opportunities in relation to contracts progressing to following stages prior to retendering these services and advise Council of the outcome by CEO Update at least six months prior to the contract expiry.

Key Implications

Strategic Alignment - Sustainable Sydney 2030-2050 Continuing the Vision

25. Sustainable Sydney 2030-2050 Continuing the Vision renews the communities' vision for the sustainable development of the City to 2050. It includes 10 strategic directions to guide the future of the City, as well as 10 targets against which to measure progress. This report is aligned with the following strategic directions and objectives:
 - (a) Direction 1 - Responsible governance and stewardship – Ongoing consideration of service delivery options using current staff expertise and existing procurement and sourcing frameworks is consistent with legislative obligations under the Local Government Act, with a focus on the responsibility of council to the residents and ratepayers.
 - (b) Direction 9 - A transformed and innovative economy – evaluating service delivery models ensures that council's services are delivered with best possible value, quality outcomes and innovation opportunities for residents and ratepayers.

Organisational Impact

26. Insourced service models would need to take into consideration the overall organisational, industrial and financial context of the City's operations, and may not be directly comparable to outsourced service models.
27. Increased workloads for key staff undertaking reviews may negatively affect the performance of business-as-usual duties or services.

Risks

28. There is a number of risk categories that are potentially impacted by the adoption of the Sourcing Framework. Key considerations include:
- (a) We maintain a cautious appetite to financial risks, aiming to minimise the likelihood and impact of significant financial losses. We prioritise the protection of our financial resources and our long-term financial sustainability. We strive to ensure that our financial decisions are well informed, based on sound financial analysis and are aligned with our strategic objectives.
 - (b) We have minimal appetite for operating deficits as positive operating results are the primary source of funds to renew our assets and our capital works program.
 - (c) We are committed to complying with all applicable laws, regulations and financial reporting standards. We have no appetite for financial losses arising from non-compliance with legal and regulatory requirements.
29. No arrangement exceeding Council's risk appetite would be recommended to proceed after assessment through the proposed staged approach.

Financial Implications

30. The City's Budget and Long-Term Financial Plan do not currently assume any budgetary impact as a result of insourcing currently outsourced services.
31. Insourcing services would increase employee related expenditure and associated liabilities, may require unplanned investments in assets and increase depreciation costs, and would reduce other expenses associated with contracted costs.
32. Staged criteria would first assess the level of investment in assets, infrastructure or similar, compared with Council's Long-Term Financial Plan commitments in order to screen potential opportunities, before conducting a detailed cost-benefit analysis.
33. Any detailed cost benefit analysis would likely require external independent expertise through the engagement of professional services consultants. It is estimated that each review would cost between \$100,000 and \$250,000, including external and internal costs, depending on the complexity of the service reviewed, for which a source of funds would need to be identified.
34. Additional implementation and transition costs such as recruitment, technology, inventory and plant transfer or acquisition would also need to be considered.

Relevant Legislation

35. Local Government Act 1993 - Section 10A provides that a council may close to the public so much of its meeting as comprises the discussion of information that would, if disclosed, confer a commercial advantage on a person with whom the council is conducting (or proposes to conduct) business.
36. Local Government Act – Section 377 provides that decisions to award tenders relating to work currently undertaken by Council staff cannot be made under delegation.

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Attachment A

Sourcing Framework Principles

Sourcing Framework Principles

1. The purpose of the Sourcing Framework Principles (the Principles) is to:
 - (a) Support strategic planning and decision-making to meet the diverse needs of the community;
 - (b) Ensure services provide the best possible value and quality outcomes and provide innovation opportunities for residents and ratepayers; and
 - (c) Provide a standard process to assess optimal service delivery when managing contracts and planning for procurement.
2. The Principles apply to major services contracts:
 - (a) with a value over \$5M;
 - (b) expiring within the term of Council;
 - (c) delivering services traditionally performed by councils.
3. These include services performed by not-for-profit organisations, but exclude the following categories: IT, major construction and specialised services.
4. Staff may utilise the Principles when performing service reviews, or throughout the procurement decision-making cycle, as appropriate.

Staged Approach

5. Opportunities to insource services follow a sequential process:
 - (a) Stage 1 –High-Level Review;
 - (b) Stage 2 – Costs and Benefits Analysis; and
 - (c) Stage 3 – Readiness Assessment.
6. Stage 1 – High Level Review – Criteria to select which opportunity could be subject of a detailed cost benefit analysis in Stage 2:
 - (a) Level of investment in assets, infrastructure or similar, compared with Council's Long-Term Financial Plan commitments;
 - (b) Non-specialised resources readily available in the employment market;
 - (c) Demand for services is regular and continuous, allowing for full-time employment;
 - (d) No conflict with other strategies to support and grow specific segments of the economy and community; and
 - (e) Time required to perform the review against contract expiry timelines and operational requirements for services.

7. Stage 2 - Cost Benefit Analysis – Criteria to select opportunities that could be subject to a readiness assessment:
 - (a) Assess risk against the Council's risk appetite;
 - (b) Identify the potential benefits, including non-financial benefits, of insourcing and outsourcing;
 - (c) Assess the financial sustainability of each option through a cost benefit analysis;
 - (d) Assess competitive neutrality;
 - (e) Assess the impact on accessing innovation and economies of scale; and
 - (f) Oncosts for services valued between \$5M and \$20M are calculated using internal assumptions and templates such as the City's Activity Based Costing template audited by the NSW Audit Office. Any service with a total contract value exceeding \$20M includes a detailed overhead validation as part of Stage 2.
8. Stage 3 – Readiness Assessment:
 - (a) Availability of the necessary workforce and likely engagement period;
 - (b) Availability of appropriate facilities including, plant and fleet to support resources;
 - (c) Indirect resources required to support additional activities;
 - (d) Related procurements such as specialised subcontractor arrangements; and
 - (e) Transition risk and direct and indirect workload assessment.
9. Stages 2 and 3 may be combined depending on the contract value and complexity and may include consultation with industry groups or unions, as appropriate.

Timing of reviews

10. A Council briefing will be held within 12 months of the election of Council to advise of the outcome of Stage 1 assessment.
11. Staff will complete assessments of insourcing opportunities in relation to contracts progressing to following stages prior to retendering these services and advise Council of the outcome by CEO Update at least 6 months prior to the contract expiry.