

Council Workshop : Review of our Procurement Policy

2nd Sept 2021

Workshop Purpose

- > To seek feedback on the latest draft of the Procurement Policy
- > Identify key Policy issues / areas for discussion
- > Linking the Policy & the Guidelines
- > To provide an overview of the Guidelines, including:
 - > The Procurement Lifecycle - Plan / Source / Manage
 - > Traditional vs Strategic Procurement
 - > How we could consider the “Financial Thresholds”
 - > What are the right thresholds
- > Reporting
- > Where to from here.

Procurement context in Local Government

- > LGA – a local authority must...
 - > conduct its business in an open, transparent ... manner
 - > undertake commercial transactions in accordance with sound business practice
- > OAG
 - > Procurement guidance for public entities (2008)
- > Government rules of sourcing (GPR) (2019)
 - > Not binding, but ... encouraged, must have consideration for ...
- > NZTA Procurement Manual
 - > Mandatory for all procurement that attracts NLTP funding

Procurement defined

Procurement:

- > Covers all aspects of acquiring works, goods and services
- > **The procurement lifecycle (plan, source, manage)**
- > Starts with needs analysis
- > Ends with the completion of the service contract or the disposal or repurposing of an asset at the end of its useful life.

“Good practice isn’t just mechanically applying the rules. It’s about developing a strong understanding of all aspects of the procurement lifecycle, and skilfully applying these to get the best results” GPR

Key Issues in Development of the Policy

Adapt or Adopt NZ Govt Procmt: Five Principles & Charter Best Practice Test – OAG Adapted 99/100:

2.3 Seek opportunities to involve NZ businesses ... Better covered in Charter #5

4.1 Get the best public value – ~~account for all~~ **consider** costs and benefits ...

Our Policy at: **5.1 OUR PROCUREMENT PRINCIPLES**

5.2 OUR PROCUREMENT CHARTER

The Five Principles of Government Procurement

The Principles of Government Procurement apply to all government agencies and provide government's overarching values. They apply even if the Rules do not. Agencies should use the Principles for guidance and to help make good procurement decisions.

Take time to read the five Principles. You need to understand how they apply to the work that you do.

- 1. PLAN AND MANAGE FOR GREAT RESULTS**
 - Identify what you need, including what **Broader Outcomes** should be achieved, and then plan how to get it.
 - Set up a team with the right mix of skills and experience.
 - Involve suppliers early – let them know what you want and keep talking.
 - Take the time to understand the market and your effect on it. Be open to new ideas and solutions.
 - Choose the right process – proportional to the size, complexity and any risks involved.
 - Encourage e-business (for example, tenders sent by email).
- 2. BE FAIR TO ALL SUPPLIERS**
 - Create competition and encourage capable suppliers to respond.
 - Treat all suppliers equally – we don't discriminate (this is part of our international obligations).
 - Seek opportunities to involve New Zealand businesses, including Māori, Pasifika and regional businesses and social enterprises.
 - Make it easy for all suppliers (small and large) to do business with government.
 - Be open to subcontracting opportunities in big projects.
 - Clearly explain how you will assess proposals – so suppliers know what to focus on.
 - Talk to unsuccessful suppliers so they can learn and know how to improve next time.
- 3. GET THE RIGHT SUPPLIER**
 - Be clear about what you need, and fair in how you assess suppliers – don't string suppliers along.
 - Choose the right supplier who can deliver what you need, at a fair price and on time.
 - Choose suppliers that comply with the Government's Supplier Code of Conduct.
 - Build demanding, but fair and productive, relationships with suppliers.
 - Make it worthwhile for suppliers – encourage and reward them to deliver great results.
 - Identify relevant risks and get the right person to manage them.
- 4. GET THE BEST DEAL FOR EVERYONE**
 - Get best public value – account for all costs and benefits over the lifetime of the goods or services.
 - Make balanced decisions – consider the possible social, environmental, economic and cultural outcomes that should be achieved.
 - Encourage and be receptive to new ideas and ways of doing things – don't be too prescriptive.
 - Take calculated risks and reward new ideas.
 - Have clear performance measures – monitor and manage to make sure you get great results.
 - Work together with suppliers to make ongoing savings and improvements.
 - It's more than just agreeing the deal – be accountable for the results.
- 5. PLAY BY THE RULES**
 - Be accountable, transparent and reasonable.
 - Make sure everyone involved in the process acts responsibly, lawfully and with integrity.
 - Stay impartial – identify and manage conflicts of interest.
 - Protect suppliers' commercially sensitive information and intellectual property.

Government Procurement Charter

The Charter sets out Government's expectations of how agencies should conduct their procurement activity to achieve public value.

Government agencies spend approximately \$40 billion a year on a wide range of goods and services from third party suppliers. We need to ensure that government procurement delivers public value for all New Zealanders while supporting the delivery of better public services throughout New Zealand.

Agencies should identify their key priorities and seek to meet as many of these expectations as practical.

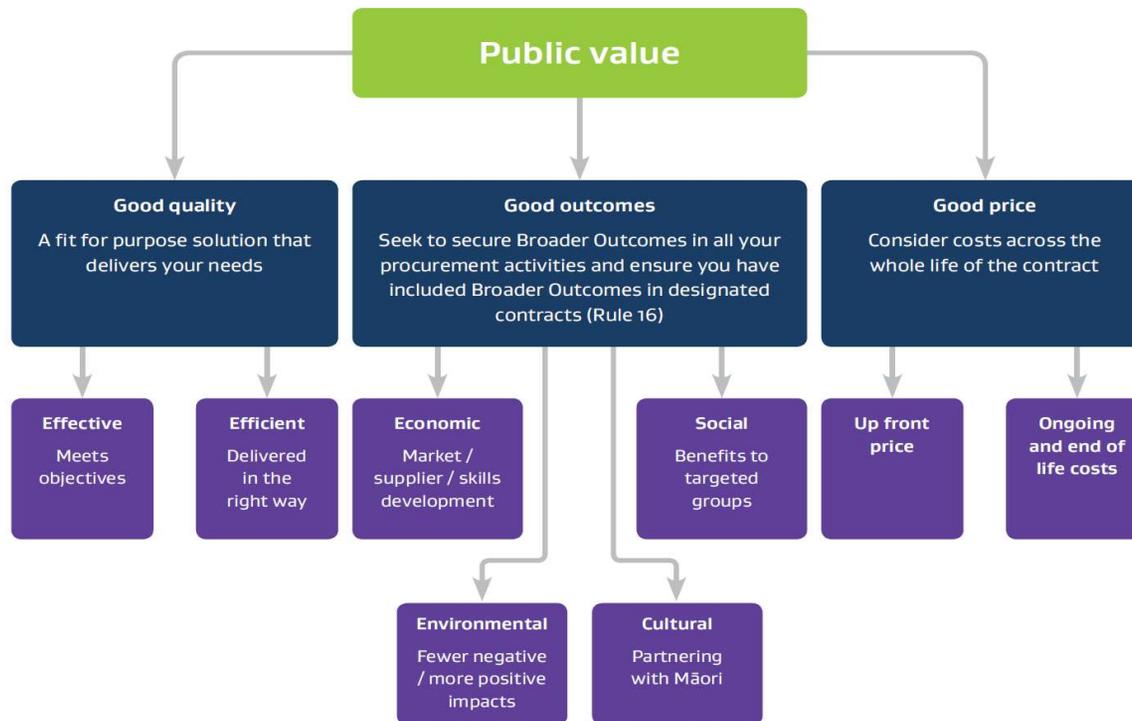
The New Zealand Government directs agencies to:

- 1. SEEK OPPORTUNITIES TO INCLUDE NEW ZEALAND BUSINESSES**
 - Openly work to create opportunities for local businesses and small-to-medium enterprises to participate in your procurement processes.
- 2. UNDERTAKE INITIATIVES TO CONTRIBUTE TO A LOW EMISSIONS ECONOMY AND PROMOTE GREATER ENVIRONMENTAL RESPONSIBILITY**
 - Ensure that economic and social development can be implemented on a sustainable basis with respect for the protection and preservation of the environment, reducing waste, carbon emissions and pollution.
- 3. LOOK FOR NEW AND INNOVATIVE SOLUTIONS**
 - Make sure you don't overprescribe the technical requirements of a procurement, give businesses the opportunity to demonstrate their expertise.
- 4. ENGAGE WITH BUSINESSES WITH GOOD EMPLOYMENT PRACTICES**
 - Ensure that the businesses you contract with operate with integrity, transparency and accountability, and respect international standards relating to human and labour rights. For businesses operating within New Zealand, ensure that they comply with all New Zealand employment standards and health and safety requirements.
- 5. PROMOTE INCLUSIVE ECONOMIC DEVELOPMENT WITHIN NEW ZEALAND**
 - Engage with Māori, Pasifika, and regional businesses and social enterprises in order to actively contribute to our local economy. Openly working to include and support these businesses and enterprises through procurement will promote both skills development and a diverse and inclusive workforce.
- 6. MANAGE RISK APPROPRIATELY**
 - Responsibility for managing risks should be with the party – either the agency or the supplier – that is best placed to manage the risk. Agencies and suppliers should work together on risk mitigation strategies.
- 7. ENCOURAGE COLLABORATION FOR COLLECTIVE IMPACT**
 - Look to support greater collaboration, both across-agency and across-businesses to give disadvantaged groups the opportunity to find common solutions within your procurement opportunities.

Key Issues in Development of the Policy

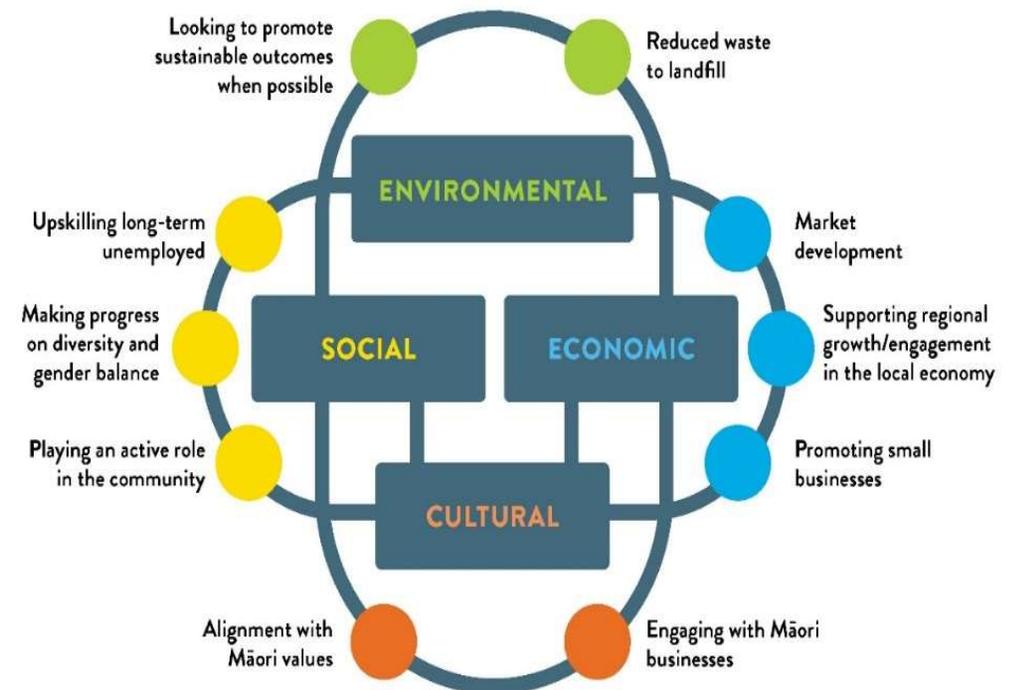
- > What other key areas considered in the Draft Policy
 - > Public value
 - > Climate
 - > Broader outcomes
 - > Local

Public value (Draft Policy c7.1)



Broader outcomes (Draft Policy c7.2)

- > Acknowledges the Primary need
- > Secondary benefit (Economic, Social, Cultural, Environmental)
- > “incorporate where appropriate”



Local (Draft Policy at c7.3)

- > Recognises the value of a healthy, efficient, effective supply market
- > Local in the context of:
 - > International Treaties, CER etc
 - > NZ
 - > South Island
 - > Surrounding Districts ... Qtn Lakes ?
- > “where appropriate” - free from requirements that could limit local opportunities
- > Transparent

QLDC's Climate Action Plan (CAP)

- > Our goals for the CAP are to:
 - > achieve net zero carbon emissions by 2050
 - > be resilient to the local impact of climate change across the whole district

- > Five outcomes in the CAP:
 - > The community looks to QLDC for leadership and action
 - > Queenstown Lakes has a low-carbon transport system
 - > Built environment and infrastructure is climate-responsive
 - > Communities are climate-conscious and resilient
 - > Our economy and natural environment thrive together

> Procurement Charter

- > #2. Undertake initiatives to contribute to a low emissions economy and promote greater environmental responsibility
- > Break it down:
 - > Ensure economic and social development can be implemented ...
 - > on a sustainable basis
 - > with respect for the protection and preservation of the environment, reducing waste, carbon emissions and pollution

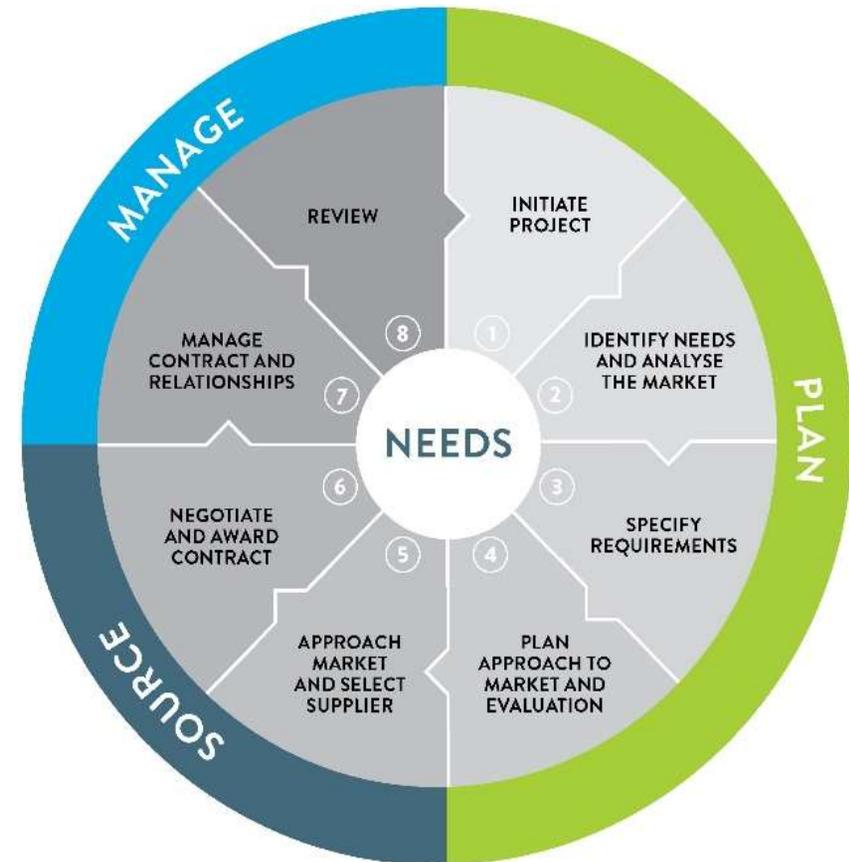
Linking Policy & Guidelines

> Policy #8 Procurement Lifecycle

> Plan / Source / Manage

“You should design your process proportionate to the value, risk and complexity of the procurement”

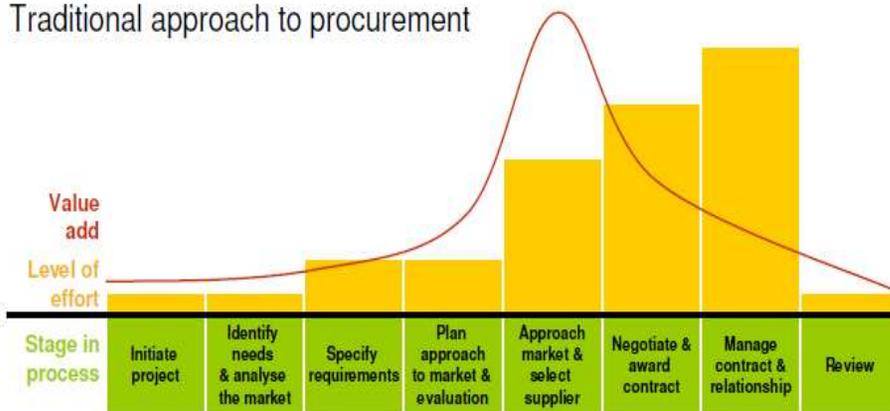
*“Also covers proactively managing suppliers ...
... to continue to develop the supplier and drive public value” GPR*



Any Policy gaps?

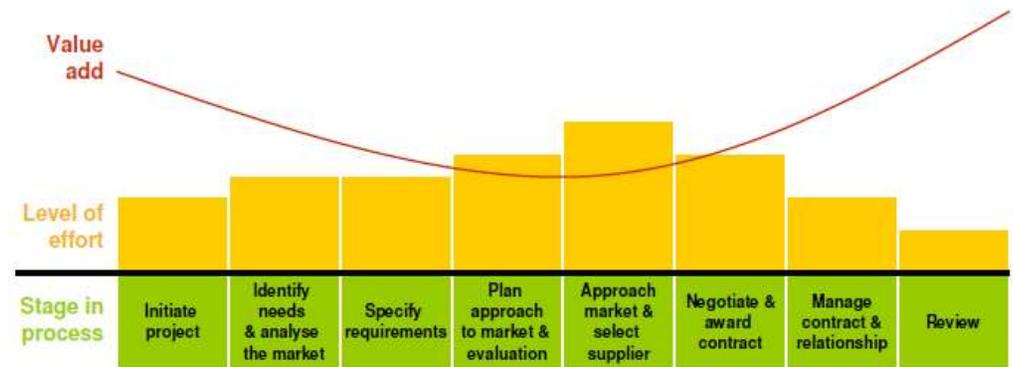
Where do we want the effort & controls

Traditional approach to procurement



This diagram illustrates a traditional approach to procurement where little time is spent on planning. Effort is generally brought to bear when it comes to approaching the market. As a consequence of insufficient analysis in the planning stages increasing levels of effort are required through contract and relationship management. If the procurement is not reviewed there is little opportunity to benefit from lessons learned.

Strategic approach to procurement



This diagram illustrates a strategic approach to procurement which methodically works through each stage in the procurement process. The time taken to plan, research and analyse add significant value to identifying solutions that will meet the needs. A focus on relationship development and management means that less time is spent resolving issues and more time applied to assessing quality in delivery and identifying opportunities for cost savings and benefit gains. A strategic approach delivers greater value.

The Procurement Plan – key elements

> Sound business practice, Transparency, Rationale, Defensibility

> MBIE Over \$100k covers:

- > What are we buying & why
- > Requirements & cost estimates
- > Timeline & key dates
- > Supply market
- > Risk
- > **Procurement method (output)**
- > Evaluation methodology & probity
- > Contract – type, management, end/exit

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Critical to Success / Credibility: Controls, Compliance & Reporting

- > Ability to regularly report to ELT, AFRC, Council on:
 - > The numbers of procurements undertaken
 - > The different procurement methods used
 - > Whether broader outcomes (eg climate, living wage)
 - > Considered
 - > Used as an evaluation criteria
 - > The value of the contracts issued, any variations, and their out-turn costs
 - > Top X Opex Contracts, Top Y Capex Contracts
 - > Number and value of contracts held per Supplier
 - > On/off contract spend
- > *Technology Gap, but we have a plan*

Financial Thresholds

> Our current Guidelines

Estimated Total Contract Value		Up to \$10,000	\$10,001 to \$50,000	\$50,001 to \$100,000	Greater than \$100,001
Procurement methods	Direct Appointment / Sole Source Negotiation	✓	X	X	X
	Preferred Supplier or 3 Quotes	✓	✓	X	X
	Restricted Tender	✓	✓	✓	X
	Open Tender	✓	✓	✓	✓
	Procurement Departure Request (Approved Procurement Plan)	✓	✓	✓	✓

> Other Org's Thresholds:

- > NZTA (>\$20m pa): Direct Appoint <\$100k / Closed <\$200k / Open \$200k plus
- > Tararua District: All Procmt Methods via Procurement "plan" - linked to DA
- > Tauranga City: All Procmt Methods <\$250k / Open >\$250k unless PDR
- > Waimakariri District: Direct Appoint <\$20k / ... / Open >\$100 - linked to DA

What to mandate...Financial Thresholds

> Options:

- 1. Procurement Planning** (Tararua : All Procmt Methods via Procurement “plan” - linked to DA)
- 2. Procurement methods (Our status quo)**
- 3. Hybrid**

Procmt Method / Financial Thresholds

Current Guidelines

Estimated Total Contract Value		Up to \$10,000	\$10,001 to \$50,000	\$50,001 to \$100,000	Greater than \$100,001
Procurement methods	Direct Appointment / Sole Source Negotiation	✓	X	X	X
	Preferred Supplier or 3 Quotes	✓	✓	X	X
	Restricted Tender	✓	✓	✓	X
	Open Tender	✓	✓	✓	✓
	Procurement Departure Request (Apprvd Procmt Plan), Gen Mgr DA	✓	✓	✓	✓

NZTA Model

Estimated Total Contract Value		Up to \$100,000	\$100,001 to \$200,000	than \$200,001
Procurement methods	Direct Appointment Sole Source Negotiation	✓	X	X
	Restricted Tender	✓	✓	X
	Open Tender	✓	✓	✓
	Procurement Departure Request, signed under DA	✓	✓	✓

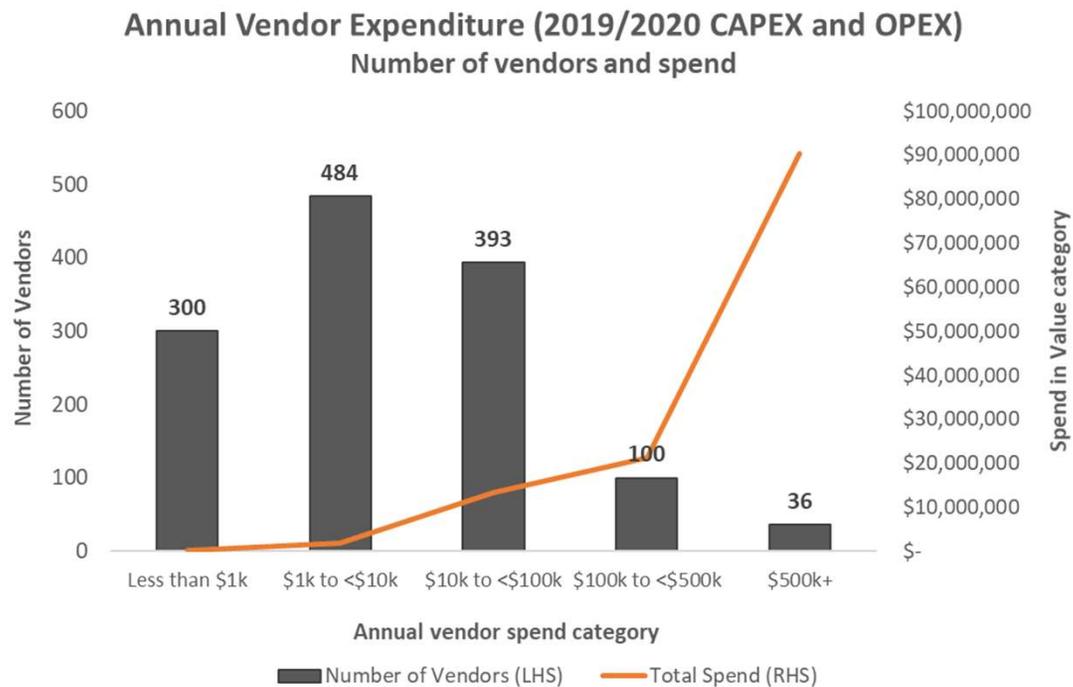
Status Quo with Increase of Direct Appt to \$50k, Removal of Preferred Supplier & Lower Band

Estimated Total Contract Value		Up to \$50,000	\$50,001 to \$100,000	Greater than \$100,001
Procurement methods	Direct Appointment Sole Source Negotiation	✓	X	X
	Restricted Tender	✓	✓	X
	Open Tender	✓	✓	✓
	Procurement Departure Request, signed under DA	✓	✓	✓

Keep it simple - Open Over \$100k

Estimated Total Contract Value		Up to \$100,000	Greater than \$100,001
Procurement methods	Direct Appointment Sole Source Negotiation Restricted Tender	✓	X
	Open Tender	✓	✓
	Procurement Departure Request, signed under DA	✓	✓

“Procurement Context & Recent Focus”



- > Total Annual Controllable Spend (Opex & Capex): **\$127m**
- > Total number of Vendors: **1,313**
- > The top **136** (10%) Vendors accounted for **\$111m** (87%) of spend
- > The lowest **1177** (90%) Vendors had p.a. spend less than **\$100k**

Purchase Order Activity

> For the nine months to 31 March 2021 we raised

> **4351** PO's

> with a total value of **\$62m**; or

> Approx **half** Controllable Spend.

> **95%** of the PO's were for less than **\$50k**, and accounted for **\$24m/38%** of spend under PO's

> **98%** of the PO's were for less than **\$100k**, and accounted for **\$32m/51%** of spend under PO's

	< \$1K	\$1K-\$10K	\$10K-\$50K	\$50K-\$100K	\$100K-\$500K	> \$500K	TOTAL
Number of PO's	1587	1820	716	121	93	14	4351
Number of PO's %	36%	42%	16%	3%	2%	0%	100%
Cumulative %	36%	78%	95%	98%	100%	100%	
Total value	\$613,235	\$6,884,794	\$16,121,669	\$8,243,503	\$19,442,820	\$10,652,814	\$61,958,835
Cumulative value	\$613,235	\$7,498,029	\$23,619,698	\$31,863,201	\$51,306,021	\$61,958,835	
Cumulative %	1%	12%	38%	51%	83%	100%	

Where to from here ...

- > Finalise Policy, then through AFRC to Council
- > Develop Guidelines - AFRC & Council Workshops
- > Develop Processes, Procedures, Standardisation, Tools
- > Implement Technology

Guidelines WIP

> Practical considerations:

- > Balancing / Prioritising Principles
- > Proportionality & Right sizing
- > Broader outcomes
- > Whole of life

> Education

- > Policy & Guidelines
- > On-boarding new starts
- > Contract Splitting, Staging & DA
- > Departure process

> Classes of complying procurement

- > QLDC Panels
- > All of Govt Panels
- > NZTA Procmt Manual

> Technology

> Tools & Templates

- > Planning
- > Standardised RFX Suite
- > CA & Col
- > Evaln
- > Matrix Guide (\$, Risk, Plan, Meth, Legal/Contract)

> Procmt Planning

> Probity

> GETS

- > Build capability
- > Award Notices - successful