

Implementation progress: Government procurement rules - 4th edition

October 2020





One year on from the latest Government procurement rules

How are Government agencies progressing?

The 4th Edition of Government procurement rules came into effect for the public sector in October 2019. Agencies have now had a year to get up to speed and implement the changes.

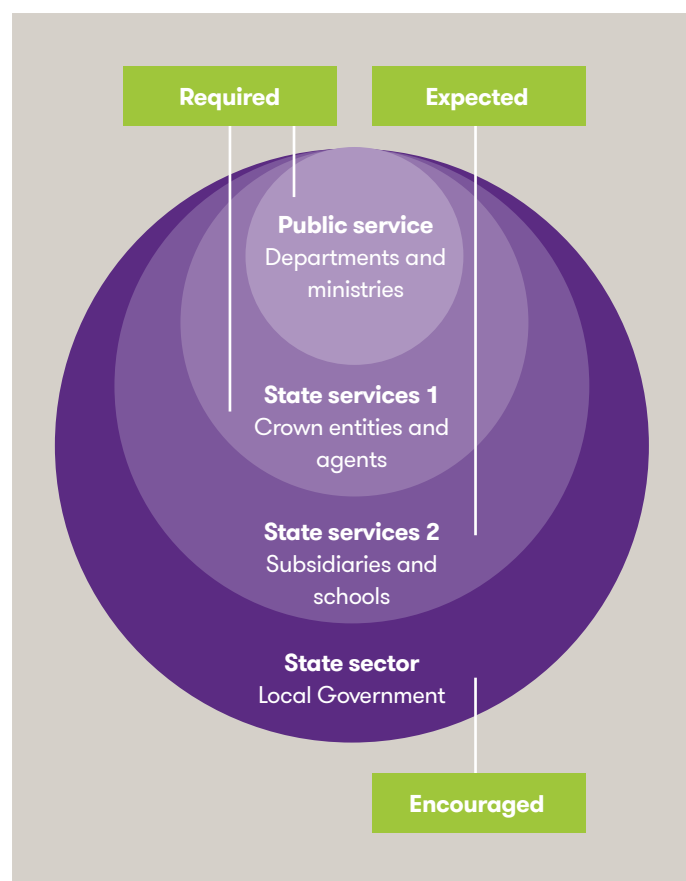
The eleven new rules included a focus on delivering public value through procurement, including:

- broader outcomes
- access for New Zealand businesses
- construction skills
- employment standards
- sustainability

Seven designated contracts have initially been targeted.

We interviewed and surveyed a number of leading agencies across the public sector to see how they were getting on; we identified common themes and learnings that could help other agencies.

Who do the rules apply to?



Key themes from our research

We uncovered five key themes in our interviews and survey responses.



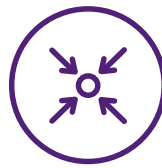
Leading agencies have spent the last 18 months laying the foundations and showing how the rules can be used effectively in specific procurements to deliver public value. They are now shifting their focus to activation and implementation.



The biggest challenges faced by agencies are competing priorities and getting the resources to support implementation.



COVID-19 has created a stronger focus on access for New Zealand Businesses, but made broader outcomes harder to prioritise if they come at an additional cost.



Leading agencies have moved away from an output focus and become outcome focused. This requires more involvement in the planning phase.



The area that has been slowest to implement is getting suppliers aligned to meet broader outcome objectives and report on their progress.



The survey results

Our survey revealed some key insights.

1

Aligning organisational strategy and procurement strategy had a high correlation with overall progress.

2

Supplier alignment was lowest when category strategies hadn't been progressed.

3

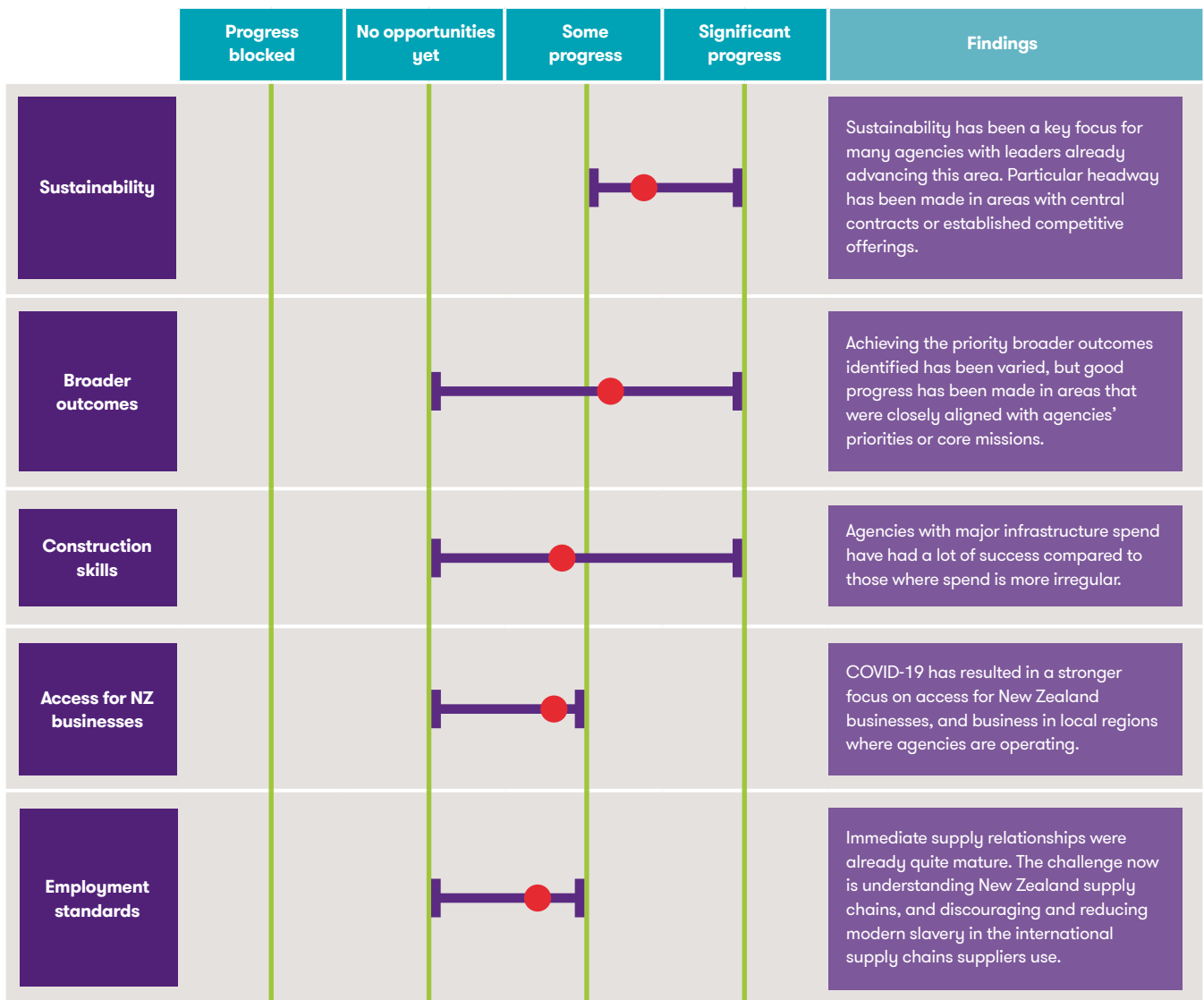
Policy and category strategies were usually progressed as much as procurement strategy; where procurement strategy was aligned, cascading into other areas has been easier.

4

Progress on RFPs was only delayed when a procurement strategy was not developed.



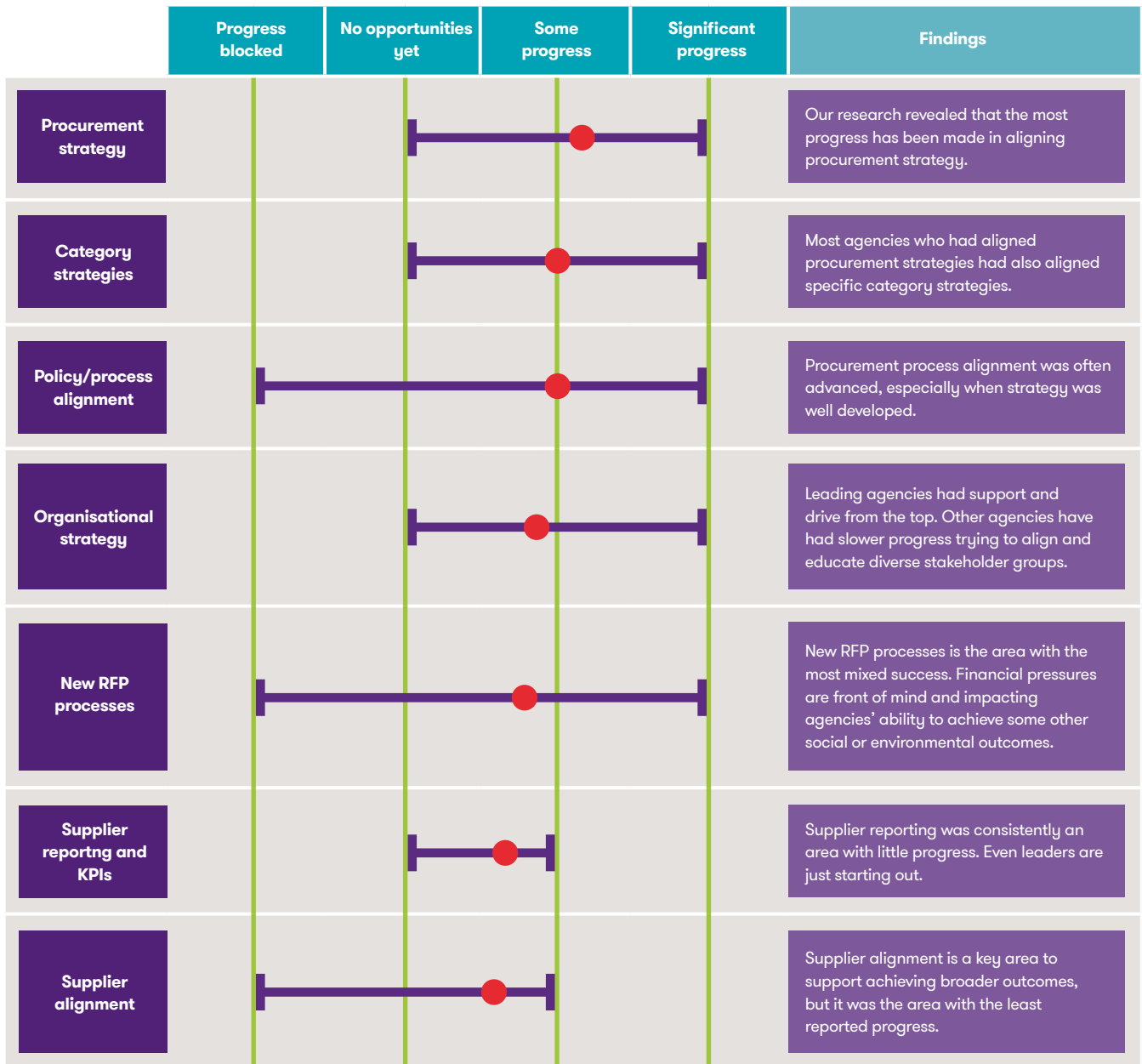
Which new rules have agencies been able to progress?



● Average — Lowest — Highest



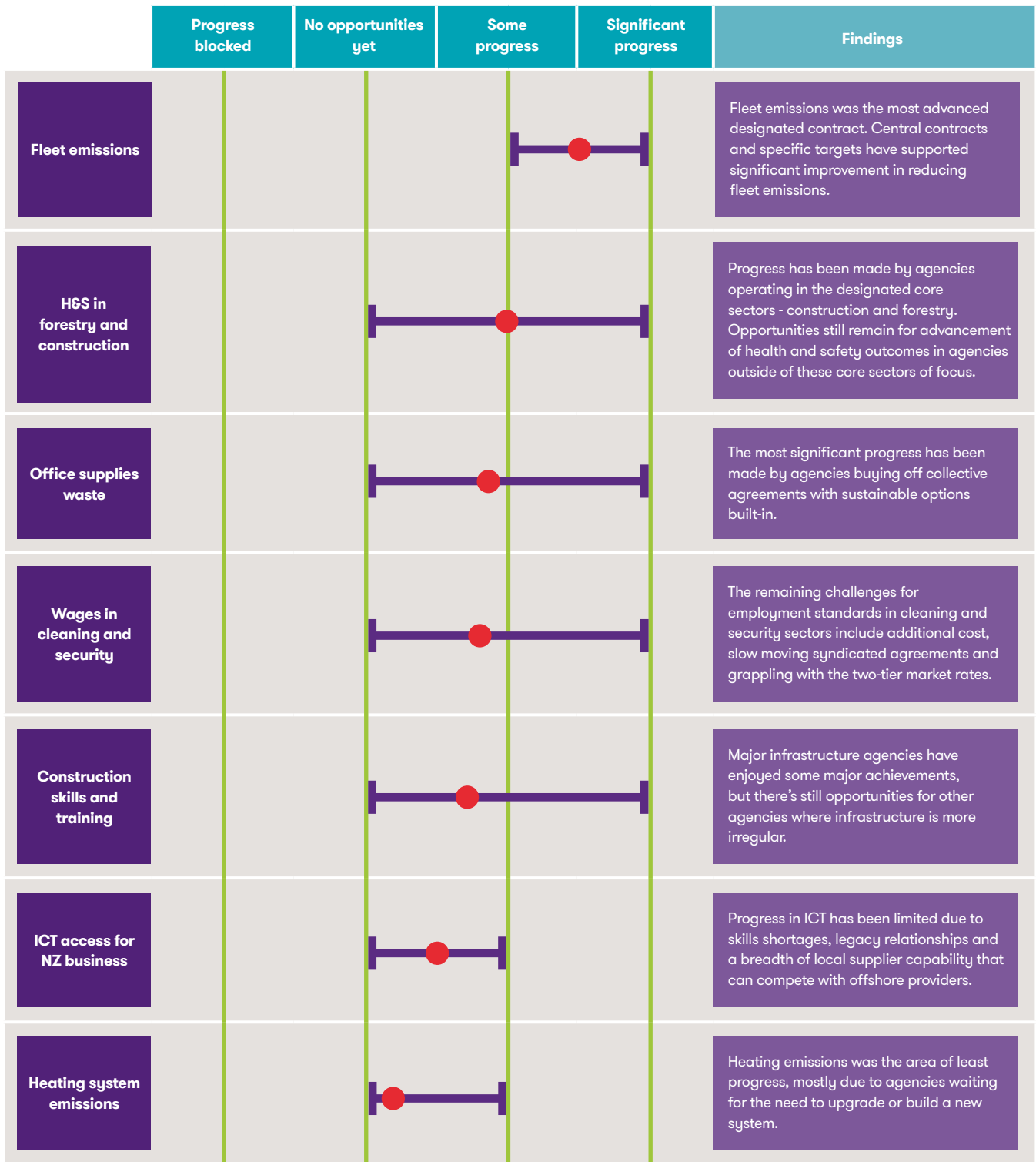
Where have agencies been able to progress the rules?



● Average | Lowest | Highest



Which designated contracts have agencies advanced?



● Average — Lowest — Highest

Lessons from the leaders

COVID-19 has caused tail and headwinds; there's a stronger focus on employment, but broader outcomes are harder to prioritise if they come at additional cost.

Buying local: A shift in national consciousness

COVID-19 has resulted in agencies prioritising employment and supporting local businesses. The national shift in consciousness toward buying local is aligned to, but not because of, the Procurement Charter objective.

Many agencies are taking the objective one step further by prioritising companies in regions where services are being delivered. Agencies are challenging the traditional method of awarding cost-effective national contracts, with pressure to 'buy local'.

Leading agencies are working with strategic suppliers who can deliver consistent quality across the country. They are looking closer at delivery models, ensuring outcomes and benefits are achieved in local communities through subcontracting, local hiring or training.

Challenge to deliver broader outcomes in a financially constrained environment

Solutions that offer greater public value are often more expensive initially, despite having lower overall Total Cost of Ownership (TCO). In the current environment, financial constraints are causing additional scrutiny, which makes it tougher to get projects signed off.

The challenge at some agencies, particularly with COVID-19, has been getting leadership to view broader outcomes as important enough to influence an outcome or come at additional cost.

Other procurement teams have had more success by investing effort up front, engaging organisational stakeholders and changing mindsets; this has resulted in support for bids which deliver more public value, even if they come at a higher cost.

Supplier growth key to progress

Supplier alignment to deliver outcomes desired has been the slowest area to implement.

Raising supplier capability and alignment to broader outcomes is a key area to support achieving better public value procurement outcomes. Supplier alignment was the area with the least reported progress. Our interviews revealed that many suppliers were not aware of broader outcomes outside of ad hoc elements included in occasional RFPs.

Upskilling suppliers on outcomes desired is just as important as upskilling internal stakeholders. Unless an investment is made during early supplier engagement, including supplier upskilling and ongoing relationship management with a shared focus on innovation, results will be limited to minor tweaks to existing services and products delivering only incremental improvements.

Grant Thornton has produced a supplier guide to the 4th edition rules that agencies can provide their suppliers ([see Additional Resources section](#)).

Leading suppliers find that As-a-Service models are more effective at delivering broader outcomes for agencies. Service models that closely control product lifecycles can help implement sustainable products and methods more smoothly.

Agencies need to challenge the traditional procurement sourcing cycle that delivers existing products in a contract lifecycle. Two-step and early contractor involvement (ECI) procurement models are being effectively used to achieve greater innovation and gain more input from suppliers.

A relationship approach over the procurement lifecycle, from initiation to review, will deliver the best public value outcomes.

Over time, transformative outcomes can be achieved by working closely with strategic suppliers that are aligned to organisational values and work.

What are the challenges facing agencies?

Of the six challenges in implementing the new rules, competing priorities and resources to support implementation were the biggest challenges.

<p>1 Competing priorities</p>	<p>Procurement teams are regularly facing competing priorities, particularly when asked to support a procurement last minute or deliver on an ambitious savings target.</p>
<p>2 Resources to support implementation</p>	<p>To plan and deliver broader outcomes, there is more effort required in the strategic and planning phases, and in supplier monitoring and relationship management. Agencies are being limited by the human resources available to do the planning up front and ensure benefits are realised alongside suppliers. Limited resources are stuck in the sourcing phase, the smallest of the phases in leading teams (Plan, Source, Manage).</p>
<p>3 Understanding opportunities</p>	<p>Quick wins have been achieved through some AoG and designated contracts. Outside of these, many agencies and category managers have encountered challenges in understanding opportunities. Leading agencies have spent time understanding supply markets and using two-step processes to allow suppliers to bring innovation.</p>
<p>4 Measurement and reporting</p>	<p>For many agencies, measurement and reporting is still on the horizon. Outside of AoG agreements with established reporting, supplier reporting is still a development area. MBIE has just completed the first round of agency progress reporting, which will shed some light on what agencies have been able to measure.</p>
<p>5 Stakeholder/organisational buy in</p>	<p>Most procurement teams have had support from their organisation - at least in theory. The challenge has been getting leadership to view broader outcomes as important enough to influence an outcome or have an impact on price. Leading procurement teams have invested effort up front, bringing organisational stakeholders along on the journey.</p>
<p>6 Organisational rules that conflict</p>	<p>Organisational policies, rules or acceptable behaviours can be slow to change. Some agency rules and commitments are currently at odds with the 4th edition procurement rules and this is slowing progress for procurement teams. Leading agencies have found that Ministerial and Director General support can speed up otherwise slow change.</p>



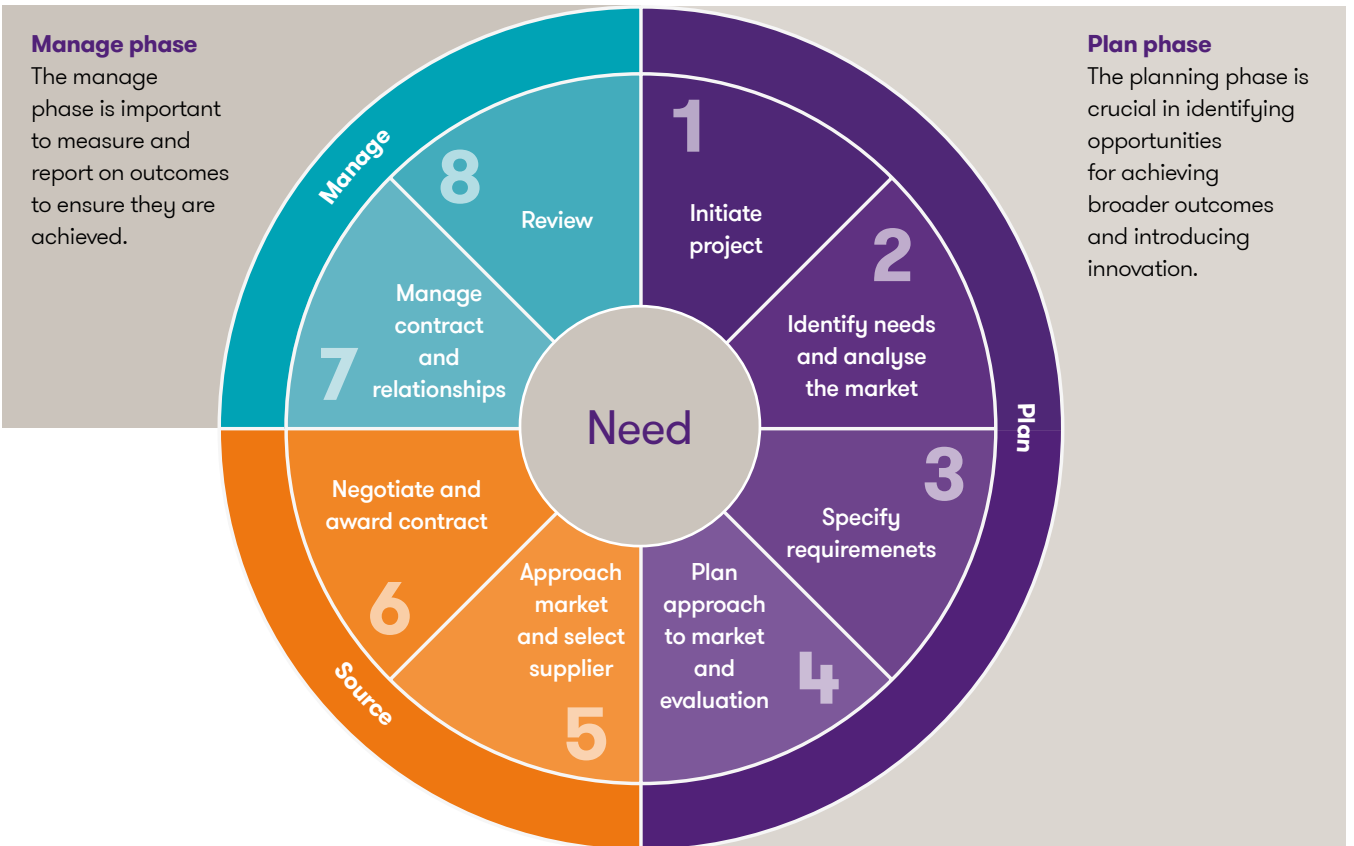
Focus on outputs

Leading agencies have made a shift from an output focus to an outcome focus. This requires more effort and input in the planning and managing phases from procurement professionals. This sounds simpler than it actually is - for decades procurement teams have been set up, incentivised and managed to deliver outputs.

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Procurement teams are starved of resource and given targets where the focus naturally drifts to the source phase. However, to effectively achieve outcomes that deliver public value, significant investment in planning and managing is required.

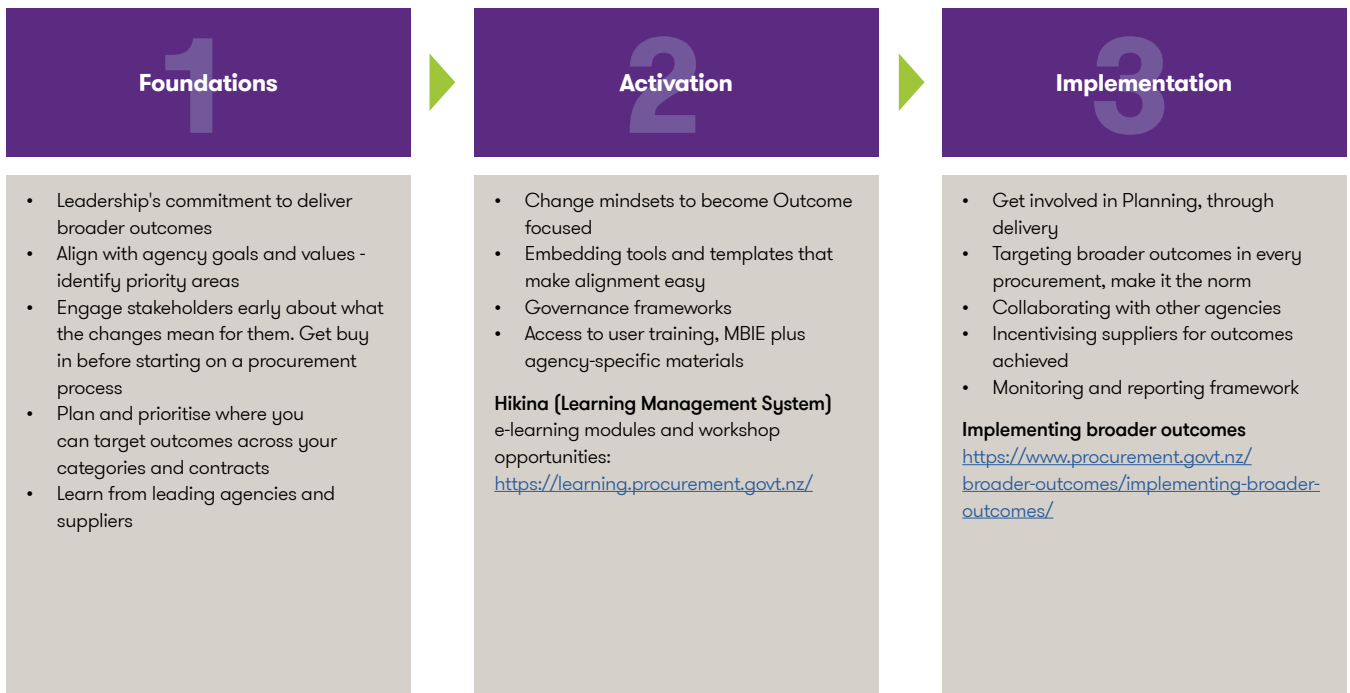
Leading agencies have been moving from deep expertise in social procurement and broader outcomes to spreading the knowledge throughout the procurement team and other stakeholders. This allows them to identify required outcomes early and to consider broader outcomes at all stages of the procurement cycle.



What's next?

The shift to delivering broader public value isn't going to happen overnight - but it will happen. Leading agencies are moving from laying the foundations to activation and implementation.

The best-practice steps agencies are taking to implement the new rules are outlined below. At a high level these apply to all agencies, but start to differ and become more detailed for different public sector entities.



Additional resources

Complementary procurement rules guides



Agency guide on 4th edition procurement rules



Suppliers guide on 4th edition procurement rules

IPANZ public sector article



Are you ready for ethical consumerism on a national scale?
September 2019, pg24/25



Methodology

Our research comprised a qualitative survey and in-depth interviews.

The survey

Participants

Our survey respondents and interview participants represent ten organisations that vary in size and complexity. These organisations range from agencies with substantial external spend and dedicated procurement teams, to those with limited external spend and decentralised sourcing activity. Our sample also represented the two of the three levels of Government procurement rules and how they apply to certain entities:

- **Required** to be followed by all departments, Ministries, Crown entities and agencies
- **Expected** to be followed by subsidiaries and schools
- **Encouraged** to be followed by local government entities

Types of entities surveyed

Entity type	Procurement rules are:	Number surveyed
Departments	Required	3
Crown agents	Required	3
District health boards	Required	1
Local government	Encouraged	1
Mixed ownership model	Encouraged	1
State-owned enterprises	Encouraged	1

Survey questions

- 1 Which of the areas of the new rules has your organisation been able to advance?

(For each area, participants were asked to select from: progress blocked, no opportunities yet, some progress, significant progress, N/A)

- Broader outcomes
- Access for NZ business
- Construction skills and training
- Employment standards
- Sustainability

- 2 How has your organisation been able to advance the new procurement rules in your organisation through each of these areas?

(For each area, participants were asked to select from: progress blocked, no opportunities yet, some progress, significant progress, N/A)

- Organisational strategy
- Procurement strategy
- Specific category strategies
- Policy/process alignment
- Supplier alignment

- 3 Which designated contracts have you been able to advance?

(For each contract, participants were asked to select from: progress blocked, no opportunities yet, some progress, significant progress, N/A)

- Access for NZ businesses in ICT services
- Construction skills and training
- Employment standards (low wage) for cleaning and security
- Health and safety in forestry and construction
- Reducing fleet emissions
- Reducing heating system emissions
- Reducing office supplies waste



4 Please explain where you have been able to make the most progress on implementing the new Government procurement rules

{Open comment}

5 What area has been the biggest challenge to implementing the new procurement rules so far?

{Choose one}

- Stakeholder/organisational buy in
- Supplier maturity
- Competing priorities
- Understanding opportunities to achieve broader outcomes
- Resources to support implementation
- Other

6 Please explain what you have found the most challenging in implementing the new Government procurement rules?

{Open comment}

7 What will be your focus for the next six months in implementing the new Government procurement rules?

{Open comment}

In-depth interviews

Types of entities interviewed

We carried out in-depth interviews with the Head of Procurement (or their delegates) from four agencies, leaders in social and sustainable procurement and New Zealand Government Procurement and Property Groups.

Interview questions

Each interviewee (or group) was asked the following key questions:

- Which of the new rules have you have been able to advance?
- Which parts of the procurement process have you been able to apply them to?
- What have been your biggest challenges?
- What your focus will be for the next six months?
- Have you got a good case study/success story to share?



Our procurement services and public sector expertise

Procurement and supply chain

Procurement and supply chain inputs will often dominate your balance sheet. They must constantly evolve for organisations to remain competitive and meet changing customer requirements. The arrangements you put in place in the past might not be what you need for the future.

We have a reputation for delivering real results fast. This is possible for two unique reasons: the use of our best practice toolbox we have been developing and using since 1999 and our people - senior, commercially experienced professionals. You get delivery from senior resources, real knowhow transfer to your team and tangible results, often in 90 days or less.

Our relationships with clients tend to be long term. Over the arc of our involvement, we can provide our services in a variety of ways: working with you, coaching, and mentoring or educating.

We offer:

- procurement strategy
- procurement analytics
- category management and sourcing strategies
- procurement automation
- supplier relationship management
- vendor innovation management
- supply chain review and process improvement
- inventory management
- sales and operations process improvement
- logistics and distribution review.

Public sector expertise

Government departments and agencies are facing an unprecedented demand for services coupled with increased budgetary pressures to deliver more with less.

These pressures combined with the ever-increasing requirement for greater transparency and accountability presents unique challenges for Government agencies.

At Grant Thornton, we understand these challenges often drive significant organisational transformation and the need to review and change structures, strategies and service delivery models to improve performance.

Our dedicated public sector advisory works with all types of agencies, including central and local government, Crown Entities, State Owned Enterprises, autonomous agencies, public-sector units and public-private partnerships. We are perfectly placed to help your organisation deliver on its vision in the longer term. In addition to our procurement expertise, our key Government services include:

- policy and programme development - strategy, guideline and framework development
- programme implementation - change management, programme and project management
- risk and financial assurance - independent certification, risk identification and assessment, control design and assurance
- programme reviews - funding and price reviews, business case development, performance and compliance management, financial assessment, business and operating model development
- operational efficiency - service integration, business process improvement, organisational transformation, and change and service cost modelling.



Contact us

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Grant Thornton New Zealand is a national, fully integrated firm and is organised into six main service lines. We offer a broad range of professional services and an exceptional client experience. In addition to traditional accounting, audit, assurance and tax services, we also focus on business advisory, information technology, business risk services, government advisory, performance improvement, insolvency services, corporate finance and transaction advisory services.

Grant Thornton New Zealand



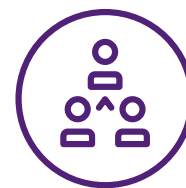
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