



**Land Transport NZ**  
Ikiiki Whenua Aotearoa

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Consulting

# Review of physical works and professional services procurement procedures

12 October 2007

## Today's presentation

- Part 1 – Role of Land Transport NZ
- Part 2 – Consultation process
- Part 3 – Procurement procedures review

## Introductions

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# Part 1 – Role of Land Transport NZ

## **Part 1 - Outline**

- Land Transport NZ's role
- Procurement procedures
- Recent changes
- Industry views
- Need for a new approach
- Procurement reviews

## Land Transport NZ's role

- Crown entity formed on 1 Dec 2004 under the Land Transport Management Act (LTMA)
- Promotes safety and sustainability
- With functions that include:
  - Managing access through licensing and regulation
  - Funding development and operation
  - Monitoring and communicating information

## Land Transport NZ's objectives

- To allocate resources and undertake functions in a way that contributes to an integrated, safe, responsive and sustainable land transport system
- And in doing so, exhibit a sense of social and environmental responsibility (take account of the views of affected communities)

## **Land Transport NZ's procurement functions are to:**

- Approve procurement procedures for use by approved organisations
- Procedures must be designed to obtain best value for money having regard to purpose of LTMA
- Must also have regard to desirability of:
  - enabling competition that is fair
  - encouraging competitive markets
- Assist and advise approved organisations and monitor their performance



## **Approved procurement procedures 2006-07 apply to:**

- \$2,426M of physical works and professional services for State highway/local roads and passenger transport infrastructure
- \$252M of passenger transport services
- \$30M of travel demand management, walking and cycling activities

## Statutory changes

- Competitive pricing procedures continued as procurement procedures under the LTMA
- Procurement procedures need to be re-aligned with the wider scope of the LTMA

## Background

- **Pre-1991:** Ministry of Works/local government
- **1991-96:** Competitive tendering/outourcing
- CPPs introduced subject to approval by Transit NZ
- **1996-2004:** CPPs approved by Transfund
- **From 2005:** Procurement procedures approved by Land Transport NZ

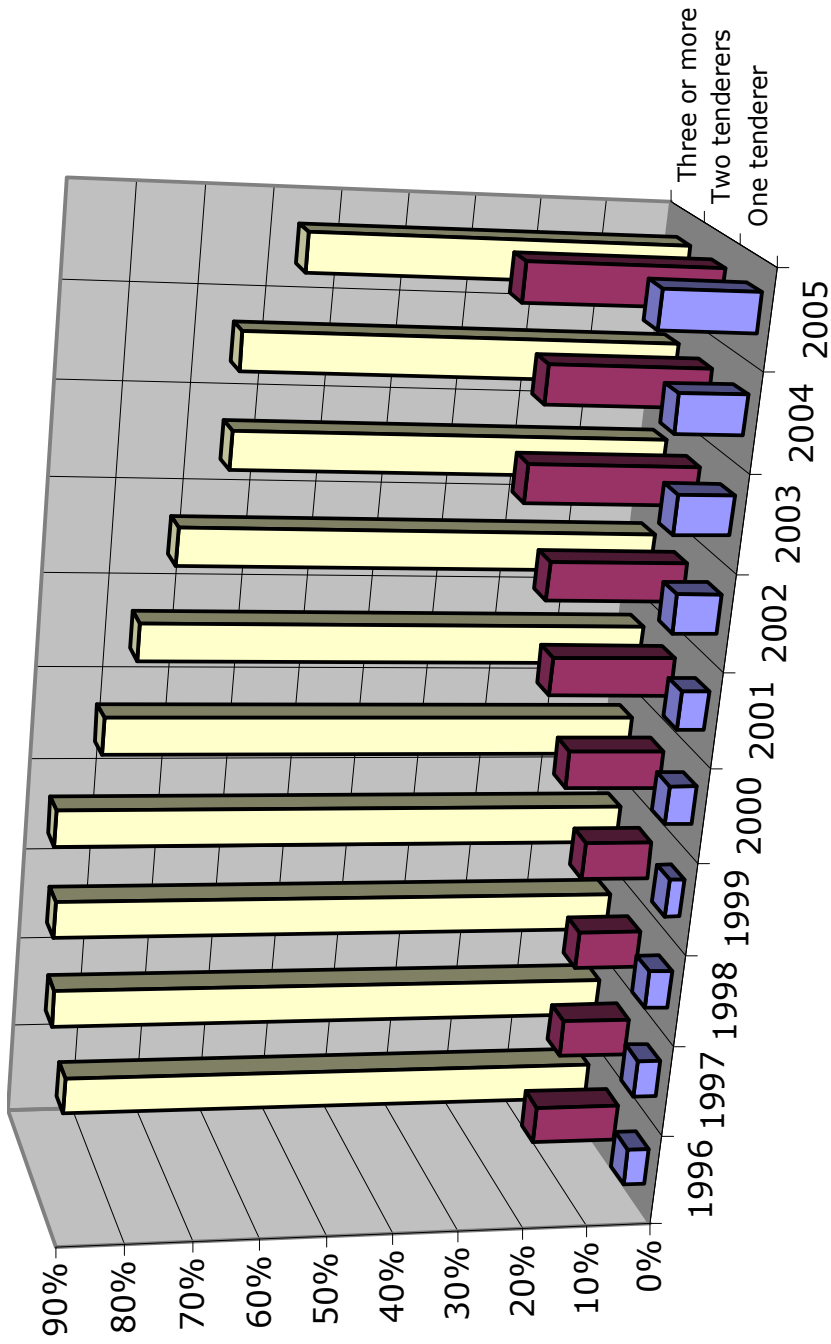
## **Competitive pricing procedures were successful in?**

- Reducing costs
- Increasing efficiency
- Creating private sector markets
- Promoting innovation
  - Performance specified maintenance contracts
  - Alliance contracts

## Market change

- **Capacity** - 2006/07 NLTP funding of over \$2 billion is more than double the \$959M allocated in 2002/03
- **Price** - Transport/construction prices have been rising - 30% to 40% in the last 5 years
- **Competition** - tender numbers for roading at a 10 year low
- **Some purchasers** - are adopting a broader range of contracting methods

# Declining tender numbers



## Physical works

- 3 years to 30 June 2005 – all contracts above \$50k

Contractor group	Share of market		Average contract size (\$M)
	Contracts	\$ value	
Top two	30%	53%	1.7
Next 13	18%	26%	1.4
The rest +	52%	21%	0.4

+ 165 contractors in 2004/ 05

## **Industry views on procurement procedures – 2005**

- Adversarial contracting can be costly
- Early supplier involvement works well
- Target price contracting allows for win-win
- Need to reduce barriers for new entrants
- Need clarification of social and environmental attributes
- Long term market sustainability is important



## Need a new approach

- Market changes need to be countered with innovative procurement procedures
- Improvements being pioneered by Transit and others may be applied elsewhere
- Land Transport NZ needs to actively promote better practice
- Must ensure that primary driver remains best value for money

## **Land Transport NZ is assisting change through:**

- Procurement reviews for:
  - Passenger transport
  - Physical works and professional services

## The reviews

- Passenger transport review
- Physical works/professional services review
- Reference Group established representing - Transit, Local Government NZ, Roothing NZ, ACENZ, NZ Contractors' Federation, Ministry of Transport, INGENIUM
- Consultation process began in November 2006

## **Procurement review addresses**

- Leadership roles – to achieve best practice
- The use of prescription & empowerment
- The future role for a manual of ‘standard’ procedures (CPP manual)
- The role for other organisations – INGENIUM, RCA Forum, SOLGM
- The mix of in-house/outsourced services
- Monitoring practice
- Achieving continuous improvement

## **Procurement review covers**

- International and local best practice procurement
- Review of the CPP manual – the manual of ‘standard’ procurement procedures
- Guidance on application of new options
- Training needs for practitioners
- Mechanisms to ensure continuous improvement in practice

## **Some innovative practice/ideas**

- Collaborative working
- National key performance indicators
- Alliance/competitive alliance
- Target contracts
- Framework contracts
- Supplier panels
- Approved organisation procurement strategies

## New Zealand 'scorecard'

Area	'Par' Rank Against Best Practice	Comment
<b>Policy focus</b> – Value for money is supported by competition.	At par	There is a need to communicate the specific meaning and importance of value for money.
<b>Guiding principles and strategy</b> – A cascade from global to strategic to the procedures.	Below par	There is a need for best practice guidance on when and where to deploy models.
<b>Range of models available</b> – A spectrum from traditional to alliancing to direct.	At or above par	A wide range of models is required plus enhanced guidance on when different models should be used.
<b>Guidance support and training</b> – Procurement qualifications, resource and support centres, and guideline tools.	Below par	More guidance, support, training, etc is required.
<b>Performance measurement</b> – Industry level / model performance and individual procurement contracts.	Below par	Need to develop a workable approach.



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# Part 2 – Consultation Process



## Part 2 - Outline

- Sector input
- Themes, issues, and findings
- Specific responses to proposals
- Breakdown by sector groups

## **Sector involvement**

- Very pleased with willingness from sector to be involved
- Reference Group – practical overview from day one
- Early workshops to ensure issues understood
- Structured consultation on proposals
- Including sector-based workshops

## Themes, issues, and findings

- Inefficiencies from lack of **flexibility**
- Insufficient opportunity for **innovation**
- Decreasing **competition** but differing views on its material impact
- **Collaborative approaches** have potential to add value in the right situation
- Current **training and support** for approved organisations is inadequate

## Specific responses to proposals

- Leadership roles to achieve best practice:
- Widespread acceptance that fixation on lowest price does not provide value for money
- Call for more flexibility in approach, but need for strong guidance
- Strong support for sector organisations to play increased leadership role
- Support for development of procurement strategies – although not overwhelming

## Specific responses to proposals

- Procurement procedures:
  - Increase \$ limits for expedited procedures
  - More flexibility for weightings for price/non-price attributes
  - Mixed support for lengthening term service contracts, and/or allowing non-tendered extension – buyers vs suppliers
  - Focus on allowing for innovation
  - Some support for pre-qualification, but concern about how applied

## **Specific responses to proposals**

- Procurement framework and guidance:
- Strong support for guiding framework on where and when to apply different procedures
- Strong support for more non-tendered negotiation in the right circumstances
- Support in general for flexible approach with strong guidance on its application

## Specific responses to proposals

- Training and support processes:
  - Focus on improving skill sets in both buyers and sellers
  - Support for enhanced Land Transport NZ guidance, education and information-sharing role
  - Sector bodies keen to play support role also
  - Transit also seen to have role here
  - Call also for development of guidance and support for contract management

## Specific responses to proposals

- Monitoring and information sharing:
  - Focus on continuous improvement
  - Strong view that monitoring must be relevant and value-adding
    - mixed views on whether this would be possible
  - Real support for sharing of lessons – both successes and areas for improvement



## Responses by sector group

- Metropolitan Local Authorities:
  - Need to define value for money
  - Want flexibility – some frustrated by current rules
  - Focused on ensuring acceptable level of competition
  - Strong push for change in weightings of price/non-price attributes, and lifting \$ limits
  - See a role for more collaborative approaches
  - Concern that current procedures stifle innovation

## Responses by sector group

- Provincial/Rural Local Authorities:
  - Need to define value for money
  - Issues with retaining technical competence and institutional knowledge – skills shortage
  - Retaining/improving competition seen to be a key issue
  - Focus on non-price attributes, ability to appoint directly (increase \$ limits on expedited procedures)
  - Real enthusiasm about improved guidance and education/assistance role by Land Transport NZ

## Responses by sector group

- Physical works providers:
  - Value for money needs to be defined
  - Saw slight lessening of competition (fewer small-medium players)
  - Focus on **practice**, not necessarily the procedures (want also to see a focus on contract management)
  - Key barrier to innovation seen to be risk-averse clients
  - Strong support for the increased use of collaborative approaches

## Responses by sector group

- Professional services providers:
  - Value for money needs to be defined
  - Suggested there has been some lessening of competition
  - Focus on sustainability of industry – fees sufficient for ongoing investment in people
  - Suggest some price increases driven by inappropriate risk allocation
  - Focus on **practice**, not just the procedures
  - Support for increase in \$ limits for expedited procedures, mixed for non-tendered renewals

## Responses by sector group

- Central Government:
  - Focus on environmental, market and social sustainability through procurement
  - Cross-government coordination essential
  - Training and education seen as critical
  - Transit indicated willingness to play guidance role, share experience
  - Transit also suggested further investigation of some of the incentive regimes it has developed and applied



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# Part 3 – Procurement Procedures Review

## **Part 3 – Outline**

- Review process
- Stage 1 recommendations – change initiatives
- Stage 2 – overview of implementation plan
- Levers to effect change
- Next steps

## **Review process to date**

- Stakeholder input received
- Research and analysis completed
- Procurement principles agreed by the Board
- Consultation process, including consultation paper, completed
- Stage 1 report completed
- Presentation to Board, noted will receive implementation plan at October meeting



## Proposed guiding principles

1. The selection of an appropriate procurement method, within the context of an overall procurement strategy, is an important contributor to achieving best value for money spent by approved organisations.
2. To achieve value for money requires a focus on both the financial and non-financial attributes of value and on whole-of-life or 'ownership' costs, not simply a focus on cost-minimisation in the short term.
3. Competition is an important contributor to achieving best value for money in procuring the outputs required to deliver activities.

## **Proposed guiding principles (cont.)**

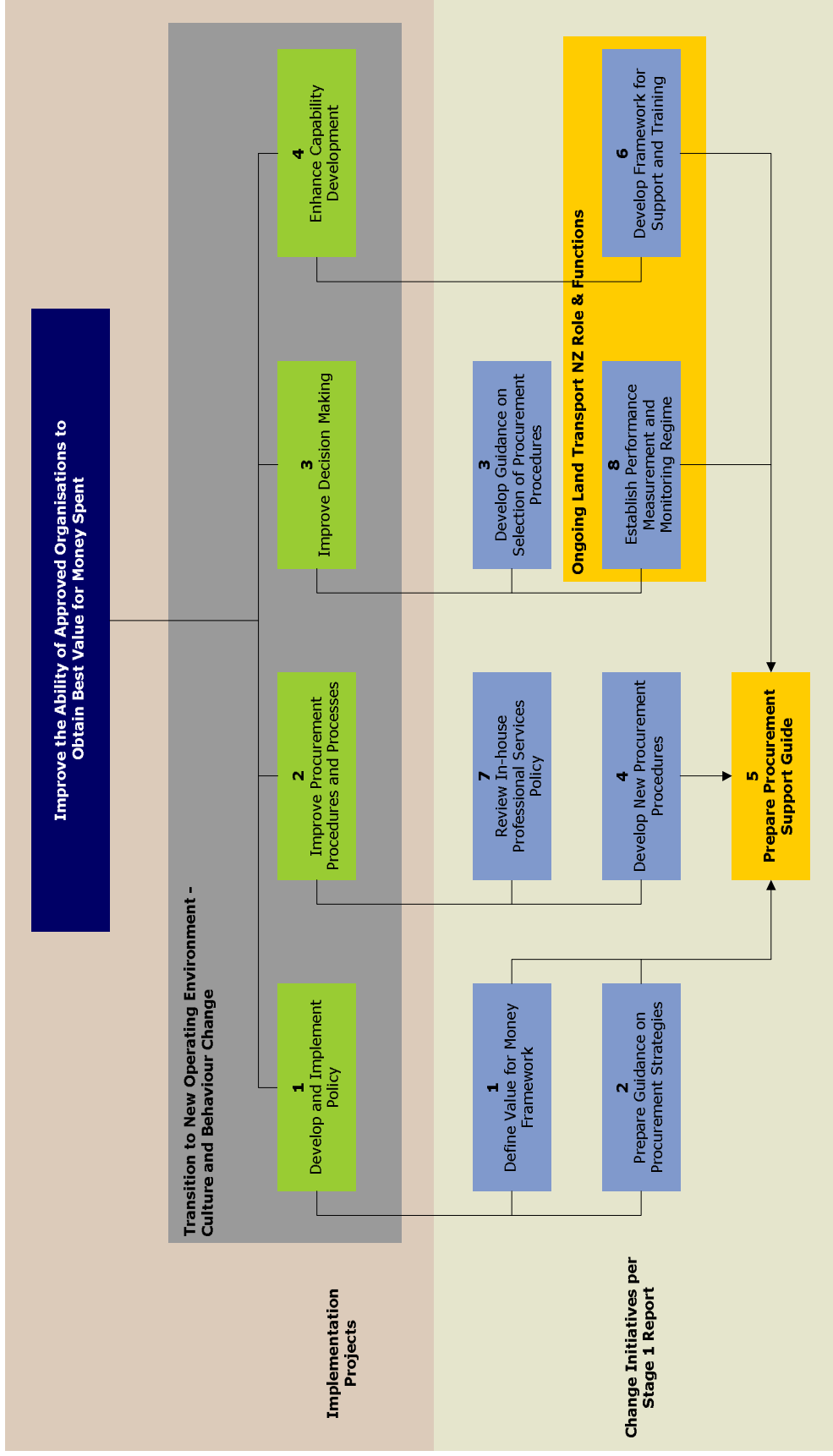
4. Maintaining the long-term sustainability of the supplier market will ensure that competition continues to exist for the supply of services.
5. Ongoing dialogue between suppliers and approved organisations and an understanding of shared objectives is an important contributor to achieving best value for money.
6. Procurement procedures should avoid unnecessary process costs.
7. More iterative and collaborative procurement processes are desirable for services or works with uncertain scope and for large, unusual or complex projects.

## **Proposed guiding principles (cont.)**

8. Risks should be identified early in the procurement process and allocated to the party in the best position to control and manage the risk.
9. Contracts should be managed for compliance, continuous improvement, innovation and the achievement of best value for money.
10. Procurement should involve measurement of performance (of approved organisations and suppliers), benchmarking and exchange of best practice information.
11. Procurement is an activity that should be undertaken by well-trained and well-advised professionals, with ongoing support available.

## Stage 1 report

- To improve the ability of approved organisations to obtain best value for money spent
- Recommends a programme of change initiatives with 4 areas of focus:
  - Develop and implement policy
  - Improve procurement procedures
  - Improve decision making
  - Enhance capability development



## **Project 1 – Develop and implement policy**

- Prepare a framework (guidance and tools) to better understand value for money
- Promote procurement strategies that address competition and the mix of procurement methods

## **Project 2 – Improve procurement procedures and processes**

- Revise and add new procedures to the suite of available procedures
- Publish a new ‘procurement procedures manual’
- Review in-house professional services policy to ensure it supports ‘smart’ buyer capability

## **Project 3 – Improve decision making**

- Prepare guidance on using the ‘right’ procurement procedure
- Enable greater exchange of success stories
- Create centres of advice
- Establish measurement and monitoring mechanisms
- Define roles for supporting organisations



## **Project 4 – Enhance capability development**

- Establish training on new approach to procurement
- Provide ongoing support
- Define change in role for Land Transport NZ

## Conclusions

- Extensive sector consultation and buy-in to change proposals
- No silver bullet – the initiatives are a package
- Significant change implications – for the sector and for Land Transport NZ
- Value for money is a key consideration in shaping the new organisation

## **Implementation plan**

- Defines the project to deliver Stage 2 of the Review
- Establishes robust project governance, including role for Transit NZ
- Identifies deliverables, activities, milestones, resources, and budgets for each implementation project

## **Levers to effect change**

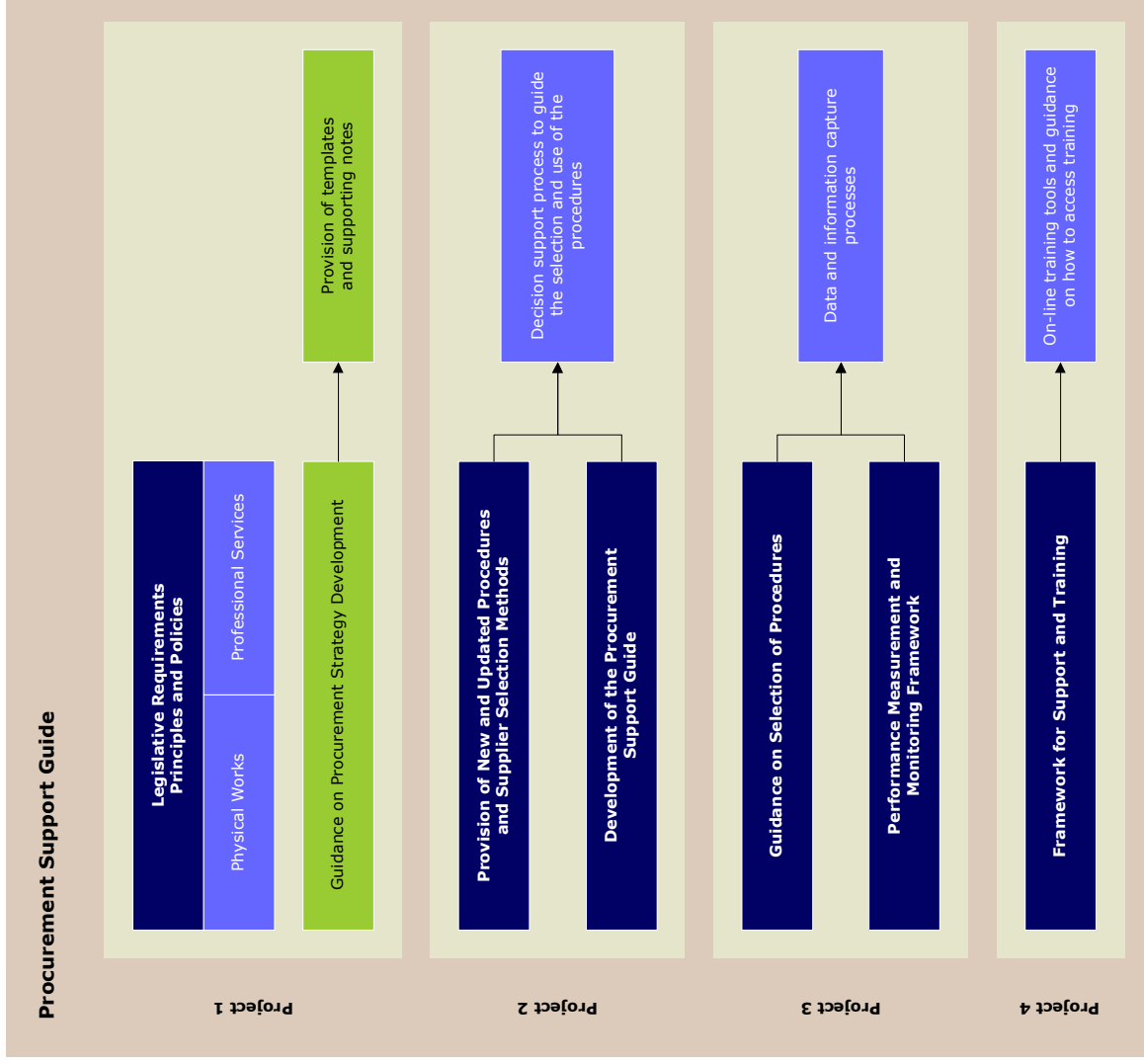
- What are the priority areas to effect the greatest change?
- What do stakeholders want to see in the new 'manual'?
- What are the roll-out priorities? What and who comes first?

## **Priority areas to effect the greatest change**

- Leadership messages of change expectations – Land Transport NZ
- The ‘story’ we tell and priority actions to support this story
- Enhancements to procurement flexibility
- Training and levels of support from Land Transport NZ

## **Ideal attributes of the 'manual'**

- Assurance they are operating in accordance with Land Transport NZ rules
- Support to convince approved organisations of the need to follow the right procurement process
- User friendly procurement process guidance
- Procurement flexibility
- Easy to search and find assistance



## Preferred form of the 'manual'

- Traditional book form – able to be read
- On-line and downloadable
- Electronically searchable
- Act as a decision support system (e.g. assess 'value for money' or choose the right procedures)
- Contain assessment tools (e.g. score and evaluate)
- Model documentation e.g. contract forms



## **Roll-out priorities – what and who comes first**

- Leadership messages – Land Transport NZ
- Policy changes – e.g. in-house services?
- Changes to specific procedures – e.g. range of weighted attributes?
- The form of the ‘manual’?
- Which stakeholders and at what levels should implementation operate?

## Next steps

- Board approved implementation plan Thursday, 10 October
- Detailed design and implementation can now commence
- Initial focus is on enhanced communications
- Continue to engage the Reference Group and the land transport sector through the implementation process