

## 4.0 Strategic approach to procurement

### 4.1 Overview

#### Introduction

This chapter sets out how a strategic approach to procurement will enable an approved organisation to better increase its chances of obtaining value for money. The documentation of a strategic approach to long-term procurement must include a statement of the programme of activities and the initiatives and actions that the approved organisation intends to undertake to obtain best value for money spent from those procurement activities. A strategic approach will also address the delivery models proposed for the procurement activities and the approved organisation's approach to maintaining an efficient and effective supplier market.

This chapter describes:

- the importance of an approved organisation having a strategic approach to procurement
- the requirement for an approved organisation to understand the strategic context in which the procurement of activities funded under s20 of the LTMA takes place
- how the strategic context will inform the selection of procurement procedures and their components
- a step-by-step process to prepare a procurement strategy for an approved organisation's long-term integrated approach to the procurement of a programme of activities funded from the NLTP.

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## 4.2 A strategic approach

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### Introduction

Approved organisations must understand the strategic context in which the procurement of goods and services is to take place. Each procurement activity, irrespective of size or scope, impacts in some way on the environment in which the approved organisation operates. By developing a strategic approach to purchasing the required outputs, an approved organisation can increase the likelihood of obtaining best value for money spent.

A strategy is a long-term plan of action designed to achieve a particular goal and is differentiated from immediate actions by its nature of being planned, reviewed and often consulted on. A strategy is about the choices that need to be made in order to affect outcomes. In this context, a procurement strategy documents an approved organisation's long-term integrated approach to the procurement of transport sector procurement activities funded under s20 of the LTMA.

To aid this understanding of the environment, the planning for all procurement activities should involve a process of identifying and understanding the objectives of the activity, the relevant supplier market, the associated risks and the nature and quality of the goods and services to be purchased. This understanding must then be documented in a strategy.

A procurement strategy will raise the profile of procurement practice within an approved organisation and with its stakeholders. It will explain an approved organisation's approach to the purchase of goods and services to suppliers, the NZTA and other stakeholders.

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### Taking a longer-term view

A strategic approach to procurement allows an approved organisation to consider longer-term goals, such as maintaining competitive and efficient supply markets. It also assists an approved organisation to consider these goals in a structured and justifiable way when choosing the best procurement procedure for a particular procurement activity.

In some cases, however, the selection of a procurement procedure that delivers best value for money for a given activity may in fact be detrimental to a long-term competitive and efficient market. For example, bundling a range of activities together into a 'mega-contract' may obtain more service for less money for the given activities, but such a contract may create barriers to entry for smaller suppliers and lead to reduced competition in the supplier market.

Approved organisations must consider such factors when developing a procurement strategy to ensure that they understand the long-term consequences of decisions and can plan for those consequences in a clear and consistent manner.

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### Encouraging improvement

A procurement strategy enables decision makers to understand longer-term goals, such as realising value for money and encouraging supplier improvement, and to consider these goals when making procurement decisions. The strategy should describe how procurement procedures can provide incentives for the approved organisation and its suppliers to continually innovate and work to improve people, practices, goods and services.

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## 4.2 A strategic approach continued

### **Creating certainty through clear communication**

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A procurement strategy that outlines the context, objectives and performance measures for a programme of activities creates a level of certainty and predictability for the approved organisation. It also provides a channel for clear communication with potential suppliers and for other purchasers in the market, including other approved organisations.

An approved organisation will use its procurement strategy to document its procurement objectives and how it intends to achieve them. Suppliers will be interested in this strategy as it will contain information they can use to plan investment and services to better meet the needs of the approved organisation. The strategy will also form the basis for sharing information about procurement programmes with other approved organisations. And it will provide good transparency to the public regarding each approved organisation's procurement intentions.

### **Identifying and managing risks**

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A procurement strategy describes the particular risks an approved organisation faces with regard to procurement. This means that each approved organisation can plan ahead to avoid and manage all risks.

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## 4.3 Procurement strategy

### Introduction

Approved organisations purchase a wide range of goods and services on behalf of their communities. To ensure cost-efficient and cost-effective service delivery, best practice suggests that better results are obtained when the purchase of goods and services is undertaken within a strategic context.

There are two aspects to this strategic consideration. The first and broadest is an approved organisation's business-wide approach to procurement for all of its purchasing, not just transport related. The NZTA anticipates that most approved organisations will have a business-wide procurement strategy and it strongly encourages this approach.

The second and critical area of consideration for the NZTA's purposes is an approved organisation's approach to its programme of transport sector procurement activities funded under s20 of the LTMA. This includes how to deliver a programme of activities, across different market segments, in a way that obtains the best value for money spent and how the approved organisation will address the requirements and considerations of s25. Such requirements and considerations include encouraging competitive and efficient markets, sustainability and the objectives of the LTMA. It must be dynamic and should be fully revisited as part of an approved organisation's strategic planning process.

The NZTA requires that the strategic context in which each procurement activity is to take place be documented as part of the detailed design of a procurement procedure. To support approved organisations in the documentation process, the NZTA considers it is best practice that approved organisations develop a procurement strategy.

The NZTA requires approved organisations to submit their procurement strategies for endorsement. If an approved organisation does not have an endorsed procurement strategy, it will be unable to comply with the strategic context component of each procurement procedure. All approved organisations are required to notify the NZTA of any material changes to the strategic context that may adversely affect the competitiveness and efficiency of the supplier markets. Such material changes will require an approved organisation to review their procurement strategy and obtain a renewal of their existing endorsement, where appropriate.

This strategic analysis informs the approach that an approved organisation will take to a specific procurement activity to deliver the required outputs. This is the strategic context in which a particular procurement activity takes place and must be documented as part of using the procurement procedure.

The NZTA strongly recommends that a strategy for the procurement of activities funded under s20 of the LTMA be aligned with an approved organisation's business-wide procurement strategy.

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## 4.3 Procurement strategy continued

### Business-wide procurement

The objectives of a business-wide procurement strategy include:

- alignment of purchasing objectives and outcomes with the approved organisation's vision
- a focus on value for money being sought through purchasing activity
- robust probity and accountability for purchasing outcomes.

A coherent and well-supported business-wide procurement strategy will ensure that procurement practices:

- contribute to the approved organisation's vision and objectives
- help obtain value for money from all purchasing activity
- help effectively manage supplier markets
- effectively manage risks associated with purchasing activity
- enable the best quality of goods and services to be obtained
- are undertaken in a way that ensures probity and accountability for outcomes.

A business-wide procurement strategy will raise the profile of procurement practice in an approved organisation. It should be documented and it should cover all purchasing that is undertaken.

The procurement strategy should be aimed at those who are responsible for budgets, operations and service delivery, as well as the traditional audience of procurement professionals (such as contract officers and those involved in purchasing). This audience will include both executives and board members and, in the case of approved organisations, the elected members.

Such a procurement strategy will guide all business groups in the approved organisation when they are formulating their annual strategic procurement plans. The procurement strategy will help improve procurement efficiency across the approved organisation and align procurement practices with its broader objectives.

A business-wide strategy will also interest suppliers of goods and services to approved organisations. Knowing what approved organisations intend to purchase will enable suppliers to plan to better meet their requirements.

For an approved organisation, such an overarching strategy will provide guidance to those responsible for the procurement of outputs funded through the NLTP.

### Transport sector procurement

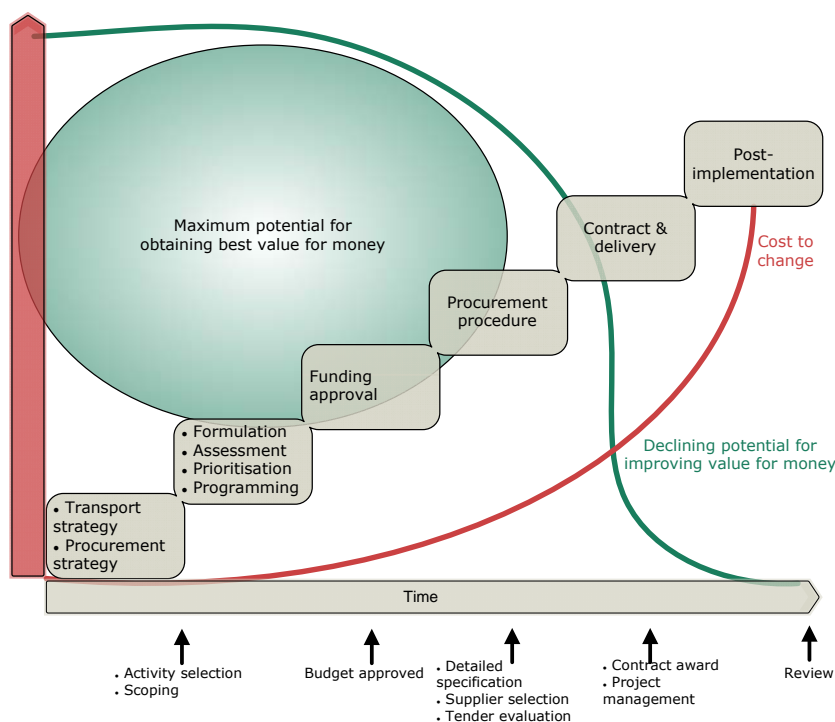
Approved organisations must meet the requirements under s25 of the LTMA. To ensure that best value for money spent can be obtained, approved organisations must satisfy the NZTA that they understand which procurement procedures and actions are best suited to delivering value for money and encouraging competitive and efficient markets.

The following diagram illustrates the importance of having a strategic approach to procurement and how such an approach will inform the planning for the procurement activity, and the selection of the procurement procedure and delivery model, to increase the opportunity to obtain value for money.

## 4.3 Procurement strategy continued

Transport sector  
procurement  
continued

### Maximum potential for obtaining best value for money



The diagram reinforces the view that having a strategic approach will significantly influence the approved organisation's ability to obtain better value for money. If procurement is undertaken without understanding the wider environmental context, the risk of not maintaining (or reducing) value during the procurement process increases significantly. This occurs because the options to improve value become increasingly limited as time passes.

An approved organisation's documentation of their strategic approach to transport sector procurement will enable it to take into account long-term considerations, such as encouraging competitive and efficient markets, sustainability requirements and the objectives of the LTMA. This in turn will allow an approved organisation to select the most appropriate procurement procedure for a procurement activity. The procurement strategy is an important mechanism to gain flexibility and to seek innovation from suppliers. The context in which transport sector procurement is undertaken is also a platform for documenting and communicating:

- how value for money will be determined in respect of the procurement activities
- how procurement outcomes are aligned with an organisation's overarching vision and goals

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## 4.3 Procurement strategy continued

### Transport sector procurement continued

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- the proposed approach to the selection and detailed design of procurement procedures and the selection of delivery models and supplier selection methods
  - a framework for performance measurement and monitoring of procurement outcomes.

Each procurement strategy should clearly articulate how an approved organisation intends to move from process-focused procurement to a focus on value for money. Where procurement has been treated simply as a series of discrete one-off tasks, the procurement strategy will need to document a shift to procurement that takes place within the strategic context of the approved organisation as a whole.

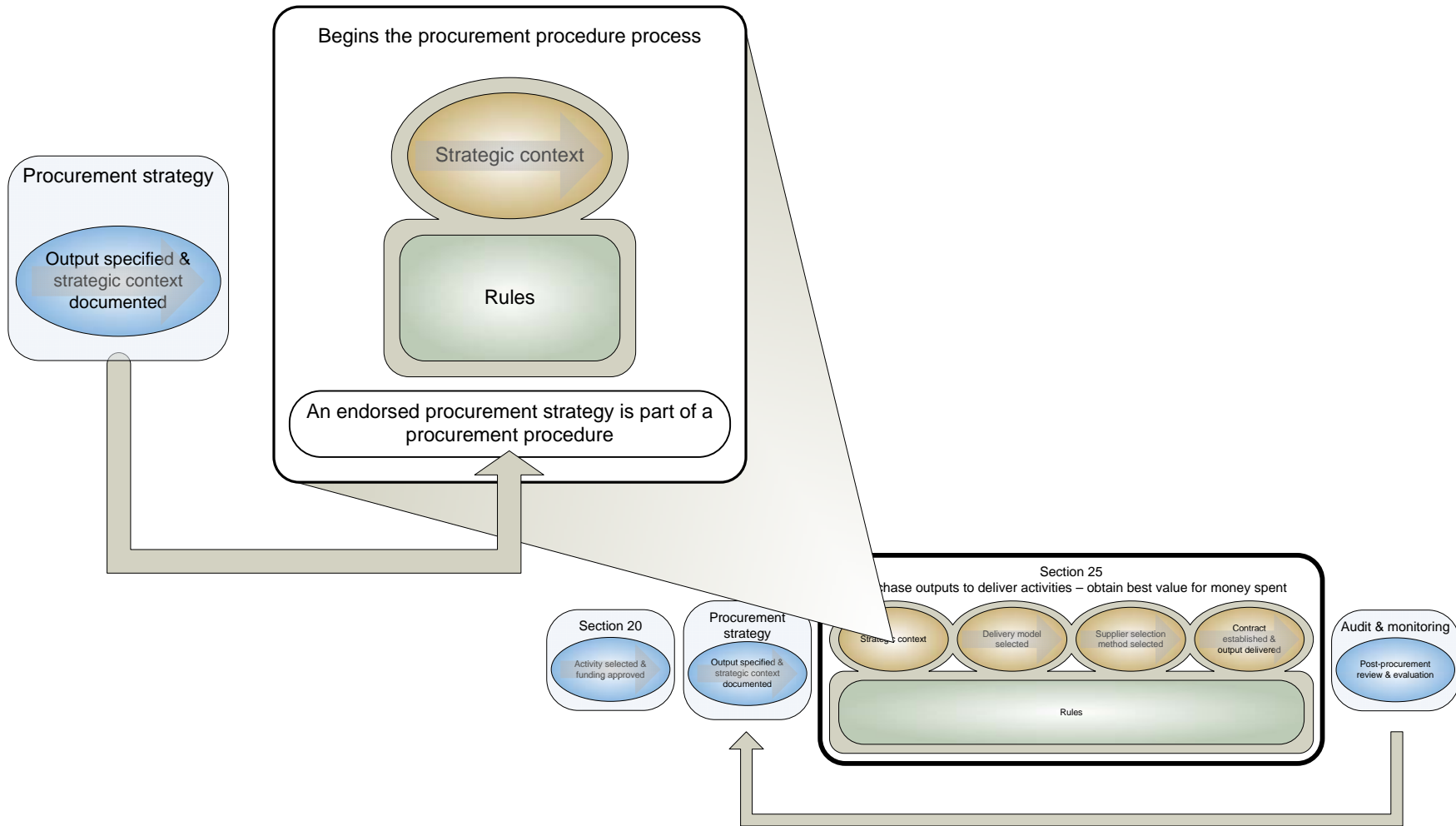
If an approved organisation has not already done so, it will need to review internal procedures to ensure it can implement the strategy and operate an efficient procurement function.

Prior to commencing a procurement activity, the strategic context for that activity must be considered with reference to the procurement strategy. This is to ensure that the approach to purchasing the outputs is consistent with the approved organisation's strategic approach and that the right procurement procedure and associated tools are used to maximise obtaining the best of value for money spent.

The following diagram shows the link between the approved organisation's procurement strategy and the application of a procurement procedure to a particular procurement event.

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### 4.3 Procurement strategy continued



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## 4.4 Writing a procurement strategy

### Introduction

This section provides guidance to approved organisations on how to develop a procurement strategy that covers a long-term integrated approach to the procurement of a programme of activities funded from the NLTP.

To create a procurement strategy, approved organisations must gather, analyse and document information about their procurement programme and the environment in which they operate. Approved organisations should outline their procurement programme (ie what they intend to purchase and when) for the next three to five years, and indicate the category of delivery model that they intend to use for the groups of activities within the programme. The high-level decisions in the procurement strategy will inform the approved organisation's approach to procurement and provide direction when using procurement procedures.

An approved organisation's procurement strategy should be dynamic and updated at least every three years to ensure alignment with the NZTA's activity funding cycle. As an approved organisation's procurement environment changes, it may require more frequent updates.

In summary, the areas that should be considered include:

- What is being purchased and why?
- What is the extent of competition in the market?
- What is the capacity and capability of the market to deliver the outputs?
- What is the capacity and capability of the approved organisation to manage the procurement activity?
- How is it to be purchased, including the selection of a procurement procedure and its components (ie delivery model and supplier selection method)?

The analysis of these factors and the conclusions drawn will help specify the outputs to be purchased.

### Step-by-step guide to writing a procurement strategy

The following step-by-step guide is designed to help approved organisations develop a procurement strategy. This guide sets out five steps:

- Step 1 - Document the policy context.
- Step 2 - Document the procurement programme.
- Step 3 - Document the approved organisation's understanding of the procurement environment.
- Step 4 - Develop an approach to delivering the work programme.
- Step 5 - Implement the procurement strategy.

The level of detail required at each step should be balanced against the level of procurement activity the approved organisation intends to undertake.

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## 4.4 Writing a procurement strategy continued

### Step-by-step guide to writing a procurement strategy continued

The procurement strategy must be fit-for-purpose and sufficiently robust to achieve the desired outcomes, but not disproportionately complex in relation to the specific procurement needs and the procurement environment of the approved organisation. A checklist to assist approved organisations to develop a procurement strategy is contained in appendix A *Procurement strategy checklist*.

If an approved organisation already has a procurement strategy, the NZTA does not expect it to be rewritten in the structure and format proposed here. The NZTA acknowledges that approved organisations may have their own approach, approved forms and templates.

However, the NZTA expects that all approved organisations will use this step-by-step guide as a checklist to ensure that all important considerations have been covered as they relate to the approved organisation's programme of procurement activities.

### Step 1 – Document the policy context

#### Strategic objectives and outcomes

##### Questions for approved organisations

- How do your procurement goals support your organisation's objectives and desired outcomes?
- What are your objectives in respect of obtaining better value for money spent?
- What are your policies in respect of economic, environmental and social considerations as they relate to the purchase of goods and services?

Developing a procurement strategy should start with an approved organisation considering its strategic objectives and desired outcomes, and the role procurement can play to help achieve them. The intention is to align procurement objectives to the desired outcomes of the organisation and to s25 of the LTMA.

It is important that an approved organisation clearly understands what it is trying to achieve by developing a procurement strategy. The primary purpose is for the approved organisation to document how it intends to obtain best value for money spent through the use of the approved procurement procedures. However, it is also important that other considerations are taken into account to ensure that the procurement strategy is complete and covers all relevant strategic issues, including procurement objectives and the outcomes to be obtained through the completion of the procurement programme. A range of these considerations are set out below to inform the approved organisation as it develops its procurement strategy for transport sector procurement.

#### Procurement objectives and outcomes

An approved organisation may consider the following examples of procurement objectives and desired outcomes when developing its procurement strategy.

- Ensure organisational alignment
  - Ensure that procurement planning reflects the approved organisation's core values, corporate aims and objectives.

## 4.4 Writing a procurement strategy continued

### Step 1 – Document the policy context continued

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- Achieve corporate ownership
    - Secure commitment to improved procurement practices from elected members and officers at all levels throughout the organisation.
    - Provide a corporate focus to procurement and thereby help coordinate procurement activity and help achieve optimum resource allocation while avoiding duplication of effort.
  - Enable continuous improvement
    - Produce a plan for ensuring the approved organisation's procurement function engages in continuous improvement.
  - Implement efficient and effective processes
    - Facilitate programming and assignment of budgets, tasks and targets to meet the key procurement objectives identified over the next three years.
    - Draw together, in one document, all the existing elements of a procurement strategy developed in response to obtaining best value for money.
    - Use technology to reduce the transactional cost and improve the efficiency and effectiveness of all aspects of the procurement process for the approved organisation, its suppliers and contractors.
  - Implement effective risk management practices
    - Ensure that risk is appropriately managed and that all procurement remains legal, ethical and transparent, and embodies the approved organisation's vision and priorities.
  - Enhance procurement capability
    - Ensure a structured approach to education, training and development for all individuals with procurement responsibilities or interests across the approved organisation.
  - Ensure accountability for actions
    - Improve the accuracy, availability, appropriateness and accessibility of procurement-related management information.
  - Meet established economic and sustainability targets
    - Reduce the cost of the procurement process and obtain best value for money on all purchased outputs.
    - Encourage the development of a range of suppliers and providers that will contribute to the economic growth of the local economy.
    - Identify the barriers to competition and the steps required to lower these barriers.
    - Plan the forward procurement programme so that there is a steady flow of work to the market.
    - Promote procurement practices and policies that contribute to government priorities on sustainable procurement.
  - Establish effective performance monitoring processes
    - Promote the development and use of performance measures.
  - Establish cooperative behaviours
    - Manage the approved organisation's supply chains, develop better relationships and promote cooperative and collaborative procurement arrangements.
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## 4.4 Writing a procurement strategy continued

### Step 1 – Document the policy context continued

#### Compliance with other relevant policies

An approved organisation's procurement strategy should ensure that procurement activity complies with all relevant legislation, regulations and internal policies. For example, policies on managing conflicts of interest, site safety or better managing the number of suppliers will be relevant to all types of procurement.

Decision makers in public organisations must always make decisions in a way that is legal, fair and reasonable. The procurement strategy will identify these policies and reflect and support the requirements they place on the approved organisation.

#### Summary

At the completion of the analysis, the approved organisation will have a sound understanding of its long-term procurement goals and objectives and how these link to the requirements of s25 of the LTMA. The procurement strategy must detail how the approved organisation will monitor the outcome of the value for money initiatives and continually evolve the approach to ensure that best value for money can be continually realised.

### Step 2 – Document the procurement programme

#### Specification of the required outputs

##### Questions for approved organisations

- What is your procurement programme for the next three years?
- Have you considered both operational and capital expenditure?

An approved organisation must clearly understand its current and future procurement programme for a period of at least three years. This is about understanding what the approved organisation is going to purchase and why and how this aligns with the approved organisation's strategic priorities. This includes the segmentation of the programme of work into groups that have similar attributes. These attributes help specify the activities and include:

- description and scope of the procurement activities
- an assessment of the risk
- understanding of the complexity
- the scale of the activity, including its value and duration
- potential for innovation.

For approved organisations, the LTCCP and related plans provide a clear overview of future procurement activities. In the case of public transport, the RPTP will provide this overview. Approved organisations should consider the types of physical works, professional services or public transport services that are required, recognising that some activities will require more specialised expertise than standard activities.

## 4.4 Writing a procurement strategy continued

### Step 2 – Document the procurement programme continued

In order to create an appropriate procurement strategy, the approved organisation must plan its upcoming procurement programme. Understanding the volume, nature and timing of the goods and services it is likely to require enables effective long-term planning of its procurement strategy. It will also increase certainty and make timeframes for each activity more predictable.

An approved organisation expecting to be involved in a number of new, complex activities over the upcoming period is likely to require a different strategy to an organisation that is planning a 'business as usual' operating environment. Complex activities, or activities where the scope is uncertain, may need an advanced delivery model or supplier selection method.

### Step 3 – Document the approved organisation's understanding of the procurement environment

#### Components of an environmental scan

An environmental scan will include analysis of the following three important areas:

- an approved organisation's supplier market
- an approved organisation's current spend and profile
- the impact of the procurement programmes of other approved organisations and businesses that use the same supplier market.

#### Analysing the supplier market

##### Questions for approved organisations

- What is the capability and capacity of the market to supply your requirements and how has this changed over the last five years?
- Are there any emerging trends that give rise to concern? What is your relationship with your suppliers? What are the lessons that have been learned? This should be assessed by output category (eg physical works, professional services and public transport services).
- Who do you currently buy from and who do you not buy from, and why? What other sectors and industries are purchasing in your region and how will they influence your ability to deliver value for money over time?
- Are professional services currently undertaken in-house or outsourced, and why? Is the balance of in-house or outsourced professional services delivering value for money? Does your current arrangement support the sustainability of the supplier market?
- How does the physical environment in your region affect the nature and extent of the supplier market? Consider physical remoteness or other impediments to the supply of services.
- How will your approach to procurement maintain or enhance efficient and competitive markets over the longer term?

## 4.4 Writing a procurement strategy continued

### Step 3 – Document the approved organisation's understanding of the procurement environment continued

Information about the state of the supplier market is an important input for creating an effective procurement strategy. An approved organisation's strategy will bring together details about its work programme and information about what the market can provide to allow the approved organisation to make fully informed decisions about the best approach to obtain value for money. In doing this analysis, the approved organisation must take a long-term view on how it will achieve market sustainability, encourage efficient and competitive markets, remove barriers and foster supplier entry or growth.

Market conditions will change over time. The procurement strategy should address likely short-term and long-term trends and changes in the market. This will ensure that the approved organisation is prepared to respond appropriately and, to the extent possible, influence the market to respond to its changing requirements.

An approved organisation will need to understand how the market for goods and services is structured in its area and the type of activities it is planning to undertake. For some activities, one supplier may be able to provide all the skills and services required. For others, or in some geographical areas, it may be necessary to bring together a number of smaller suppliers in order to deliver the required outputs.

An approved organisation will also need to consider market size and diversity. How many suppliers are there (locally or nationally) that might be able to supply what the organisation is going to need? Is there a substantial difference between what the different suppliers are likely to offer the organisation (eg are some suppliers likely to be more innovative, while others might be able to provide more experience and reliability)? The way contracts are packaged (eg the 'work content' of contracts) will have a large bearing on competition and best value for money.

Each of these situations presents different benefits and risks. A procurement strategy should discuss how an approved organisation will take advantage of the possible benefits and manage the possible risks created by the structure of the market in its area and the work programme. Issues to consider include:

- Are there sectors of the market where supply is limited (eg an area where the approved organisation has difficulty in finding the necessary expertise)?
- What information does the approved organisation have about the reliability and effectiveness of the suppliers in the market?
- What is the nature of the competition from other sectors for goods and services that the approved organisation is purchasing?
- Can better value for money be obtained by providing further work to the supplier market or by undertaking professional services in-house?

Approved organisations can gain information about the supplier market by:

- engaging with current and potential suppliers
- engaging with other approved organisations
- drawing on their past experience.

## 4.4 Writing a procurement strategy continued

### Step 3 – Document the approved organisation’s understanding of the procurement environment continued

The NZTA expects to see evidence that approved organisations have engaged with current and potential suppliers during the development of procurement strategies.

#### Understanding current procurement spend and supplier relationships

##### Questions for approved organisations

- How much do you spend?
- What do you spend it on?
- Who are your suppliers?
- What are the opportunities for efficiency gains?

An approved organisation should analyse its current procurement spend to determine how many suppliers it currently deals with and what its spending level and procurement arrangements are with each supplier. To assist the analysis, an approved organisation can segment its current suppliers by either size of annual spend or the type of goods or services purchased.

The results of the analysis may include a spend profile that will identify how the spend is skewed. For example, the results may show a:

- heavy skewing towards a small number of suppliers with significant spend
- long trail of smaller suppliers receiving a very small proportion of the spend.

The approved organisation should consider if the current spend profile is the most effective means of achieving the desired outcomes. For example, efficiency gains may be made by considering bundling or aggregating a number of smaller contracts. Alternatively, smaller suppliers could be encouraged into the market by unbundling traditionally larger contracts.

The above analysis will provide insights into an approved organisation’s current strategy for managing its supplier network and the strategy will outline where the opportunities are to manage this supplier portfolio more efficiently.

#### Understanding the procurement programmes of other approved organisations

##### Questions for approved organisations

- Identify the procurement programmes of other agencies using the same supplier market. What impact do they have on your plans?
- Have you discussed and shared your procurement strategy and planned activities with other approved organisations?
- What is the opportunity to collaborate? For example, could you shift the timing of proposed procurement to minimise any critical demand on suppliers, or work together to purchase inputs?

## 4.4 Writing a procurement strategy continued

### Step 3 – Document the approved organisation's understanding of the procurement environment continued

Part of creating an effective strategy is to communicate with other approved organisations so that approved organisations can learn from each other and work together, where appropriate. An approved organisation should communicate with other approved organisations in its area early in the process of creating its procurement strategy to ensure that any opportunities to collaborate can be acted on. The NZTA will facilitate such interactions and provide examples of success stories and case studies in other regions to help approved organisations identify possible opportunities.

Understanding the procurement programmes of other approved organisations in the area can help minimise unnecessary and inefficient competition if, for example, the timing of a procurement activity is changed. An approved organisation may also identify where collaborative procurement will result in better value for money. For example, two or more smaller approved organisations may find that collaborative procurement allows them to negotiate better terms with suppliers. The key is to either identify opportunities to collaborate and put a plan in place to make that happen, or conclude there is little opportunity to provide value for money through this initiative and focus on other areas.

#### Summary

An approved organisation's analysis of the procurement environment and its current interaction with the market will provide valuable insights into the lessons learned to date. Consider what has worked well and what areas an approved organisation could influence to provide better value for money outcomes.

The next step is about an approved organisation outlining its plans and documenting the detail of the activities required to sustain the value or benefit identified at the time funding was approved. It will also help an approved organisation consider what it is going to do differently in those areas that provide opportunities for enhancing value for money.

### Step 4 – Develop an approach to delivering the work programme

#### Introduction

Developing an approach to delivering a work programme has two components:

- confirmation of an approved organisation's specific long-term objectives in relation to each segment of its work programme – these objectives will take into account the risk and complexity of the activities to be undertaken, how value for money will be obtained and how the competitive health of the supplier market will be sustained
- the indicative delivery models and supplier selection methods that will deliver the procurement activities as part of the work programme and achieve the approved organisation's objectives.

The primary purpose of an approved organisation's procurement strategy is to establish the best mix of approaches for the organisation to use to meet its value for money objectives. At this point, the approved organisation should draw on all the information it has gathered about its desired outcomes, the characteristics of its procurement programme and the procurement environment.

## 4.4 Writing a procurement strategy continued

### Step 4 – Develop an approach to delivering the work programme continued

During the analysis of this information, an approved organisation should group its procurement activities based on a series of criteria. The criteria could include the nature of the work (ie professional services, physical works) or its complexity, scale, timing, innovation potential, risk and an assessment of the supplier market.

To simplify the process for each of these groups, an approved organisation will need to document its strategy for obtaining the best value for money spent and how this will enable fairness of competition and encourage competitive and efficient markets. In relation to each group of procurement activities, consideration should be given to the actions and activities the approved organisation can take to sustain the value it has created and enhance value in those areas that provide opportunities to do so.

#### Value for money

Chapter 3 of this manual introduced value for money and identified a number of actions in a procurement process that can help realise value for money. An approved organisation's procurement strategy must consider each group of activities in its programme and identify where the value for money opportunities are. This can include:

- taking a lowest whole-of-life cost approach, as opposed to the lowest cost
- reducing the number of suppliers to improve the efficiency of supplier selection
- assisting new entrants into the market to increase the number of suppliers and enhance competition
- identifying the optimal delivery option for professional services whether it is outsourced, in-house or a combination of both
- bundling or unbundling activities, as appropriate, to create better competition or to retain in-house capability
- deciding how to ensure best value for money from a package of activities to be delivered sequentially over time
- reducing the total costs incurred by the market to respond to tenders through shortlisting, supplier panels and direct appointment
- combining procurement activity with another approved organisation.

#### Using procurement to encourage sustainable competition

A sustainable, competitive supplier industry means that an appropriate number of suppliers are able to provide the full range of services an approved organisation requires. These services are provided on the basis of sound competition between the suppliers, enhancing an approved organisation's ability to obtain value for money. Competition should not be on price only – ideally, suppliers will also be competing with each other by offering innovative services, or an increased level of service, that increase the value of their offering to an approved organisation.

If an approved organisation's market analysis identifies a lack of sustainable competition in a segment of the market, its procurement strategy should consider how its approach to the use of procurement procedures can contribute to enhancing sustainability and competitiveness in that market. This situation occurs in particular in the public transport sector.

## 4.4 Writing a procurement strategy continued

### Step 4 – Develop an approach to delivering the work programme continued

In some cases, a single supplier or limited market may be the most efficient market outcome, and it is unlikely that a competitive market could be sustainable. If this is the case for segments of the market that are important for an approved organisation's procurement programme, its strategy will need to address how it will use the procurement procedures to help obtain the best value for money spent from a limited number of supplier relationships.

In some markets, supplier competition may be excessive and potentially lead to suppliers investing too much time and money in procurement. This will eventually inflate costs throughout the market and damage an approved organisation's ability to obtain the best value for money spent. In this case, a procurement strategy must address how the procurement procedures can be used to manage the costs of the proposal process, thereby achieving more efficient and sustainable market outcomes.

Purchasing the right professional services at the right time, under a sound contract, is critical to obtaining the best value for money spent. An approved organisation's procurement strategy must address how professional services will be resourced, including whether these services will be undertaken in-house.

An approved organisation must have approval from the NZTA under s26 to use in-house professional services. An approved organisation's application for approval to use in-house professional services should refer to and if necessary include the approved organisation's endorsed procurement strategy, along with a rationale for how in-house professional services will deliver better value for money. The application should also refer to any relevant material changes to the strategic context that may adversely affect the competitiveness and efficiency of the supplier markets.

The NZTA will consider applications for approval to use in-house professional services on a case-by-case basis.

The detailed policy and processes for undertaking and managing professional services and for claiming financial assistance is found in the NZTA's *Planning, programming and funding manual*.

### Delivery models and supplier selection methods

#### Questions for approved organisations

- For each of your activities, what delivery model is most appropriate? This may include consideration of advanced components.
- What supplier selection method is preferred for each activity and how do they contribute to delivering value for money? This may include consideration of the rules and limits for direct appointment.

For each aspect of a programme of activities, an approved organisation must consider:

## 4.4 Writing a procurement strategy continued

### Step 4 – Develop an approach to delivering the work programme continued

- What is the nature of the activities within the work programme?
  - Scope – is there clarity of scope?
  - Scale – what is the size of the activities?
  - Level of complexity – has bundling or aggregation been considered?
- What is the planned timing for the activities? Can this be changed to improve value for money?
- Is there an intention to increase, maintain or reduce the number of suppliers for each segment and why?
- Is there an intention to increase the average value per activity through bundling? Could this be achieved through bundling activities or by working with other approved organisations?
- Could unbundling of activities assist new entrants into the market or reduce risk to more manageable levels with the objective of increasing the number of suppliers to enhance competition?
- Is there a risk of losing institutional knowledge and in-house capability if all professional services are outsourced? Could undertaking all professional services in-house undermine the sustainability of the supplier market?
- Has a lowest whole-of-life cost view been taken?
- What delivery models are appropriate for the work programme and for each activity? How will the choice of delivery model contribute to value for money?

Chapters 6 to 9 describe the procurement procedures and provide general guidelines on selecting appropriate delivery models and supplier selection methods.

#### Approach to contract management

It is important that a procurement strategy considers the most effective approach to contract management throughout the life of the contract. Contract management means ongoing monitoring and management of a supplier's provision of services in line with the agreed terms and conditions. This means ensuring open and effective communication, making sure that suppliers meet their commitments on time, and that the approved organisation, as the purchaser, has also performed and delivered in accordance with the contract.

Efficient contract management includes consideration at the start of the contract of how to manage anticipated and unanticipated changes to the contract over time. Overall, good contract management will ensure that the anticipated best value for money spent outcomes are obtained.

#### Summary

The output from this section is an outline of an approved organisation's strategic approach and its intentions as to how the strategic approach will be implemented. This will include statements about how the approved organisation will:

- maintain the value for money it is currently creating
- enhance value in those areas where there are opportunities to do so.

This process will be supported by actions around communications, building in-house capability (where required) and the process the approved organisation will use to ratify its procurement strategy.

## 4.4 Writing a procurement strategy continued

### Step 5 - Implement the procurement strategy

Implementation will involve:

- consideration of the approved organisation's capability and capacity to deliver its procurement programme consistent with the strategy
- consideration of the approved organisation's internal procurement processes
- implementation of a performance measurement and monitoring framework
- establishment of a communications plan
- obtaining internal procurement strategy endorsement.

### Capability and capacity

#### Questions for approved organisations

- What is your current procurement capability and capacity?
- Is this capability suitably experienced and confident that it can undertake the planned work programme? If not, where are the gaps and how is the necessary capability to be resourced?

An important driver to obtaining the best value for money spent is the capability and capacity of an approved organisation to successfully deliver the procurement programme. The primary area for analysis should be the activities that are new to an approved organisation's team and those activities that the approved organisation does not have past experience or a strong track record in. It is important that this assessment is fair because the ramifications of not having experienced staff to undertake what can be complex and lengthy assignments can be high in both financial and operational terms.

Any gaps should be identified and steps put in place to acquire the necessary resource.

The following questions should be used as a checklist to help an approved organisation to determine its current procurement capability and capacity:

- If the approved organisation already has a procurement strategy, does it cover all the relevant areas?
- Does the approved organisation understand and monitor the risks or problems currently experienced in regard to procurement?
- Do personnel within the approved organisation consider that the current procurement strategy and procurement practices are providing value for money?
- Does the approved organisation have performance management measures and processes in place so that it can identify high-performing suppliers and address problems with those that are under-delivering?
- Does the approved organisation have in-house procurement capability? The approved organisation will need to assess the level of professional procurement expertise currently available to it and see if it is in a position to implement the procurement practices in its strategy. If the approved organisation does have skill gaps, it will need to consider how best to build capability through training or recruitment.

## 4.4 Writing a procurement strategy continued

### Step 5 – Implement the procurement strategy continued

The following options are available to address these gaps:

- Build internal capability.
- Acquire the capability for the duration of the activity, including collaborating with another approved organisation.
- Seek assistance and advice from the NZTA.

Approved organisations must confirm they have the capability to undertake the procurement programme and, if not, how they plan to address this gap.

#### Internal procurement processes

##### Questions for approved organisations

- How do your internal procurement processes support efficiency, accountability and transparency?

An approved organisation may need to review its current internal procurement processes to successfully implement its transport sector procurement strategy. In doing so, it should consider:

- Keeping tendering processes as simple as possible to minimise costs for both approved organisations and prospective suppliers.
- Using plain language in all documentation.
- Standardising proposal and contract documentation.
- Seeking feedback from suppliers on the quality of your processes.
- Reducing unnecessary administrative ‘churn’.

#### Performance measurement and monitoring

##### Questions for approved organisations

- How do you intend to monitor the benefits from your approach to delivering the activities?

The procurement strategy must detail how the approved organisation will monitor the outcome of the value for money initiatives and continually evolve the approach to ensure that best value for money can always be realised (refer to chapter 11 *Performance measurement and monitoring*).

Most, if not all, approved organisations will have included key performance indicators in their LTCCPs, infrastructure management plans, RPTPs or contract documentation. Ideally, every procurement strategy will include an overview of the information that an approved organisation will collect and how it will use the information to drive continuous improvement in procurement practice across the business.

At a minimum, approved organisations must collect and assess the key performance indicator information required by the rules in this manual.

## 4.4 Writing a procurement strategy continued

### Step 5 – Implement the procurement strategy continued

#### Communications plan

##### Questions for approved organisations

- How do you intend to share your procurement strategy with stakeholders and how will you manage and communicate changes?
- Who is your audience? What do they need to know and when do they need to know it?

Communication is an important component of delivering value for money. Communication with stakeholder groups has to be planned and managed in a professional manner to be of value. Therefore, an approved organisation should identify all stakeholders as they relate to procurement and document:

- What is their relationship to the procurement programme? Determine why they are a stakeholder (eg supplier, rate payer, internal business groups, elected members).
- What are their information needs and why, and how can the approved organisation satisfy them?
- How should stakeholders be communicated with? What is the required timing and frequency of any communications?
- Who is going to be responsible for making this happen? Individuals should be assigned.

Ideally, this should be documented and agreed with the respective stakeholder groups. As the communications plan is more strategic in nature, it should not restrict 'business as usual' interactions.

#### Internal authorisation of procurement strategies

Finally, the organisation's governance structures should be addressed. As previously mentioned, a procurement strategy should be prepared and reviewed every three years as part of the organisation's business-wide strategic planning process.

The NZTA expects that, as with other strategic planning exercises, approved organisations will have a documented process for the preparation, approval and adoption of their procurement strategy.

The NZTA further expects that all procurement strategies will be signed off at the appropriate level within the approved organisations.

#### NZTA endorsement of procurement strategies

An approved organisation's procurement strategy should be submitted to the appropriate NZTA Regional Director for endorsement once completed. The procurement strategy will also set out the strategic context to support any applications for approval to use advanced components, develop a customised procurement procedure, vary any rules or undertake professional services in-house. Such applications may be made at the time the procurement strategy is submitted for endorsement or subsequently.

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## 4.4 Writing a procurement strategy continued

### Step 5 - Implement the procurement strategy continued

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#### Summary

Once each of these areas has been considered, the approved organisation will understand the strategic context in which procurement will take place. Some of these areas will need to be revisited at the time of the procurement activity to ensure nothing significant has changed. An outcome of this approach is that the approved organisation will identify a number of activities to complete in order to obtain the best value for money spent. Examples include:

- clear communication of plans to the supplier market
- dialogue with other approved organisations to explore the opportunities for collaboration
- consideration of bundling or unbundling contracts
- consideration of the timing of procurement activities
- reduction of the number of suppliers to ensure the total cost of procurement is reduced
- increase of the number of suppliers to improve competition.

The outcome will be a plan to enhance value for money through procurement.

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