

10 October 2024

Minister Melissa Lee

Parliament House
Wellington
(Via e mail)

Dear Minister Lee

Using Government Procurement to boost the economy

As you will be aware, each year, government agencies spend approximately \$51.5 billion on a wide range of goods and services.

Central and local Government spending can have a big impact on the local economy because the government tends to control the bigger projects. In a country of 5 million people, where most of our businesses are small to medium sized enterprises (SME's) there can be barriers to winning Government contracts.

Over the years, BusinessNZ has advocated for Procurement Rules, which emphasise "whole of life value" over 'lowest cost' procurement. The latter can be a false economy if the lowest cost solution is poor quality and doesn't last very long.

We have also advocated for Procurement Rules that require Government agencies to take into account the wider economic benefits of their procurement decisions.

It is our observation, that even if the Rules of Procurement contain language we have advocated for, the far harder task is getting procurement managers all around New Zealand to put the rules into action. The Rules as they stand are akin to a smorgasbord of options/recommendations. We think there could be a good case for reducing the rules down significantly so that they are more impactful, digestible and enforceable.

We have looked at a few examples of what other countries are doing (Australia, Canada, the UK) to boost the participation of their local businesses in procurement opportunities, and they are all much more supportive of local businesses (**without breaching any international free trade agreements**) than is the case in New Zealand (see Appendix 1).

We appreciate that the best supplier for a project may not be a local supplier, depending on the size and complexity of a project, but it would be good to see points awarded in tender evaluation for the use of a local business somewhere in the supply chain as a subcontractor, if not the tier one supplier.

Our definition of a local business would be quite broad, they could be overseas owned, but if they have a local office and employ local people that pay tax in New Zealand, then that is contributing to the local economy and to job creation/retention.

It is always frustrating when we hear about local businesses that have more success winning overseas contracts, than they have in their home market. A big foundation customer, such as a government agency, gives our exporters greater credibility when pitching for international work.

We would like to see better access to government procurement opportunities (which tend to be bigger projects) growing bigger and more export capable firms.

We have talked to multi-nationals looking to win New Zealand Government tenders who have gone to great lengths to put together a consortium of local companies to support their tier one bid and were then disappointed the procuring agency did not appear to be awarding any points in the tender evaluation to the local content aspect of the bid.

While other countries do a range of things to better support the local economy when it comes to procurement, some of them in our view are overly complex and costly, in terms of setting up support systems like Australia's Industry Capability Network, Procurement Assistant Canada (PAC) etc.

It would be far simpler in our view to mandate that Government agencies are required to give a weighting for a local business bid. A weighting won't necessarily be enough for them to win the tender if other aspects of their proposal fall short, but it will serve to put local suppliers on the radar of evaluators, and it will potentially encourage tier one multinational suppliers to look for local partners.

In Victoria, Australia they take the following approach (noting their definition of local content includes New Zealand businesses under Trans-Tasman Mutual Recognition Agreement).

*In both standard and strategic projects, procuring agencies must include a 10 per cent weighting for local content in overall procurement evaluation criteria. For example, if evaluation criteria provides for up to 100 points, ten of these points could be allocated to the evaluation of the VIPP or LIDP Plans provided by suppliers. A local content commitment of 95 per cent within these plans would earn suppliers 9.5 points out of a possible ten towards their overall tender evaluation.*¹¹

Feedback we are getting from procurement professionals that work both with government agencies, local government and with suppliers, is that local government is doing a better job including local suppliers than central government. They say procurement professionals in central government could do with additional training and capability building and that could make a change for the better as well.

So in closing, we are recommending simplifying the Procurement Rules, giving a weighting for local suppliers and investing in more training for government procurement professionals. We would welcome the opportunity to meet with you to discuss this further.

Yours sincerely



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Appendix 1.

The place of SMEs in government procurement rules

Australia

The Commonwealth Procurement Rules document in Australia¹ (published on 1 July 2024) is subtitled “Achieving value for money”, but it explicitly recognises the need to provide opportunities for SMEs.

It's Foreword states that:

“The Commonwealth procurement framework is a major economic lever, and the Government will use its significant purchasing power to stimulate First Nations entrepreneurship and further increase the opportunities for small and medium sized enterprises (SMEs) securing Commonwealth contracts.”

An SME is defined as an Australian or New Zealand firm with fewer than 200 full-time employees.

The rules document includes a section on SMEs that further states:

“To ensure that Small and Medium Enterprises (SMEs) can engage in fair competition for Australian Government business, officials should apply procurement practices that do not unfairly discriminate against SMEs and provide appropriate opportunities for SMEs to compete. Officials should consider, in the context of value for money:

- a. the benefits of doing business with competitive SMEs when specifying requirements and evaluating value for money;*
- b. barriers to entry, such as costly preparation of submissions, that may prevent SMEs from competing;*
- c. SMEs' capabilities and their commitment to local or regional markets; and*
- d. the potential benefits of having a larger, more competitive supplier base, including the disaggregation of large projects into smaller packages, where appropriate, that maximise competition.”*

Commitments to support SMEs are:

“ The Australian Government is committed to non-corporate Commonwealth entities procuring at least 25 per cent of contracts by value from SMEs, for contracts with a value of up to \$1 billion.

In addition, the Government has a target of non-corporate Commonwealth entities procuring 40 per cent of contracts, by value from SMEs, for contracts with a value of up to \$20 million.

¹ [Commonwealth Procurement Rules 2024 \(finance.gov.au\)](https://finance.gov.au)

The Australian Government recognises the importance of paying suppliers on time, particularly SMEs. Non-corporate Commonwealth entities must make all payments to suppliers within the maximum payment terms, following the acknowledgement of the satisfactory delivery of goods or services and the receipt of a correctly rendered invoice.”