

Public Procurement Agency

Increased Procurement Thresholds & Local Preference

What We Heard

September 2021



Increased Procurement Thresholds & Local Preference

Overview

On June 1, 2020, the Minister Responsible for the Public Procurement Agency (PPA) announced increased procurement thresholds, as well as a local preference provision, to the Public Procurement Regulations. These measures have been introduced to allow for more opportunities to direct business to local suppliers through a limited call process and by enhancing local competitiveness.

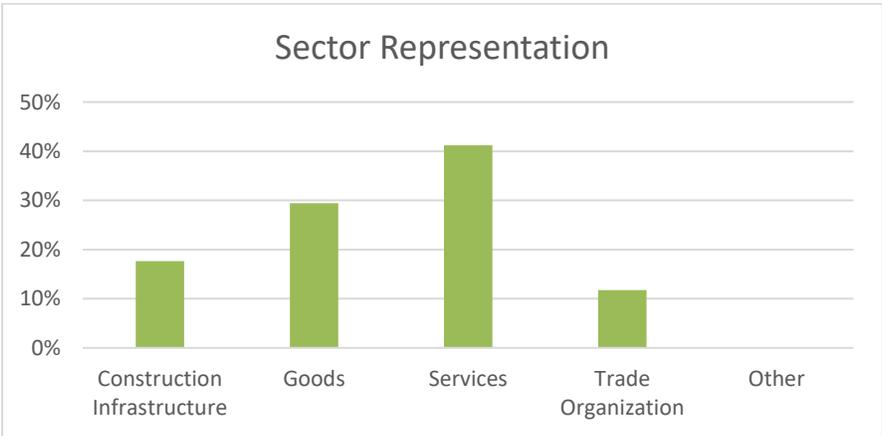
PPA is reviewing procurement legislation, regulations and policies to enhance local preference in order to further support Newfoundland and Labrador businesses. As part of this review, the Minister publicly committed to consult with the local business community to identify opportunities to improve local preference in procurement. This resulted in the publishing of a questionnaire in July 2021 that provided an opportunity for stakeholders to provide feedback and insights into these measures.

This What We Heard document provides the information received from respondents who participated in the questionnaire.

Please Note: The sample size for this questionnaire was limited to ten respondents. As such, readers are cautioned not to draw general conclusions from the responses.

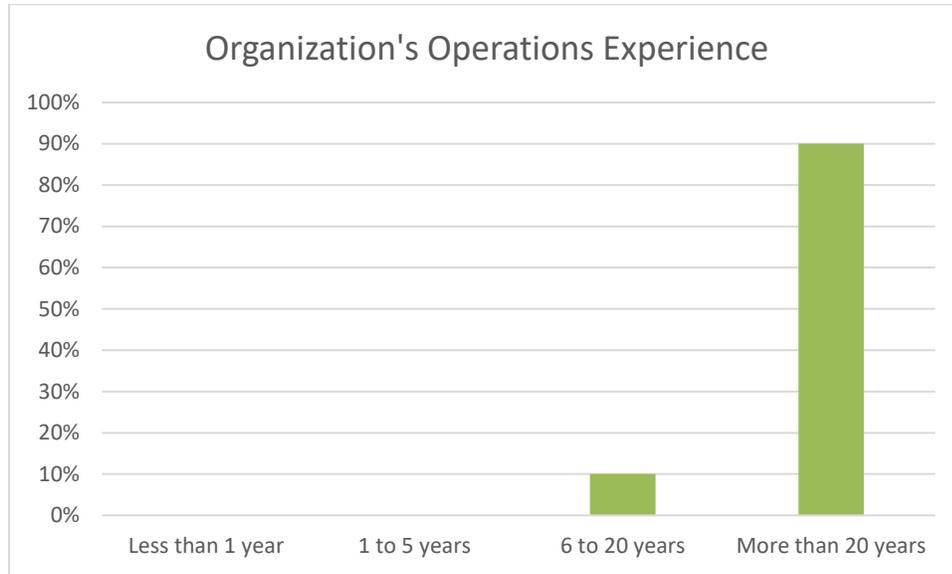
Introductory Questions

1. What sector best represents you? Select all that apply.



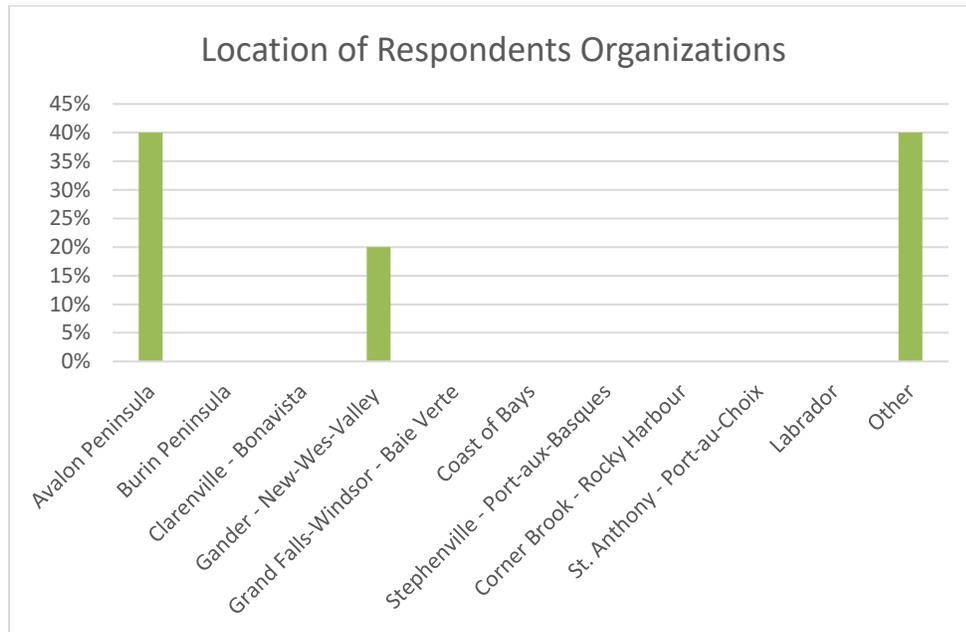
Approximately 70% of respondents represent the goods and services sectors.

2. How long has your business/organization been in operation?



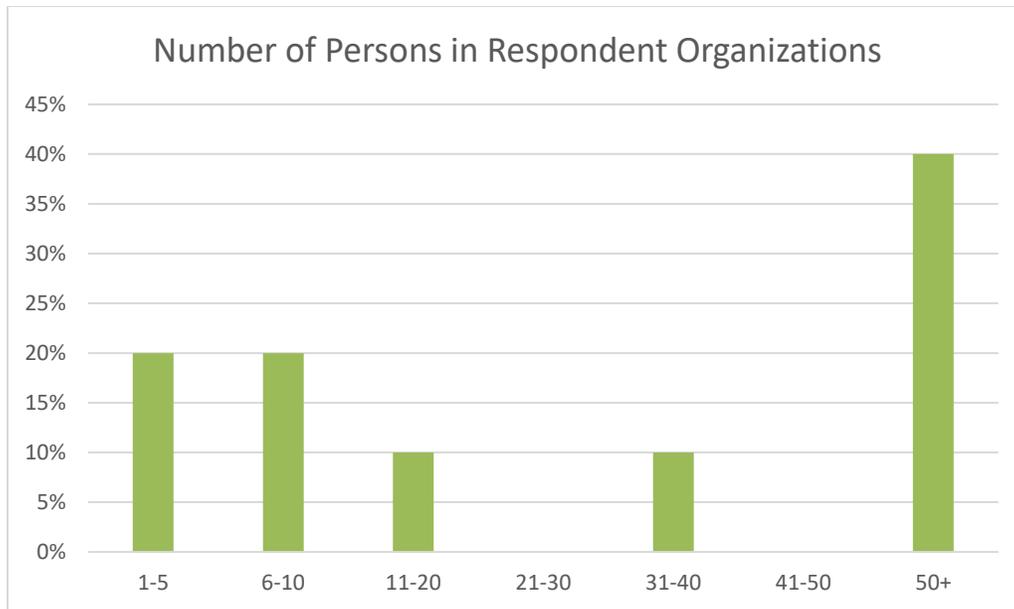
The vast majority of respondents represent organizations that have been in operation for 20 years or more.

3. My business/organization is primarily based in:



40% of respondents listed their location as “other”. This category was comprised of respondents who identified their organization as based in Newfoundland and Labrador on a provincial scale, with one respondent citing that their organization was a national one.

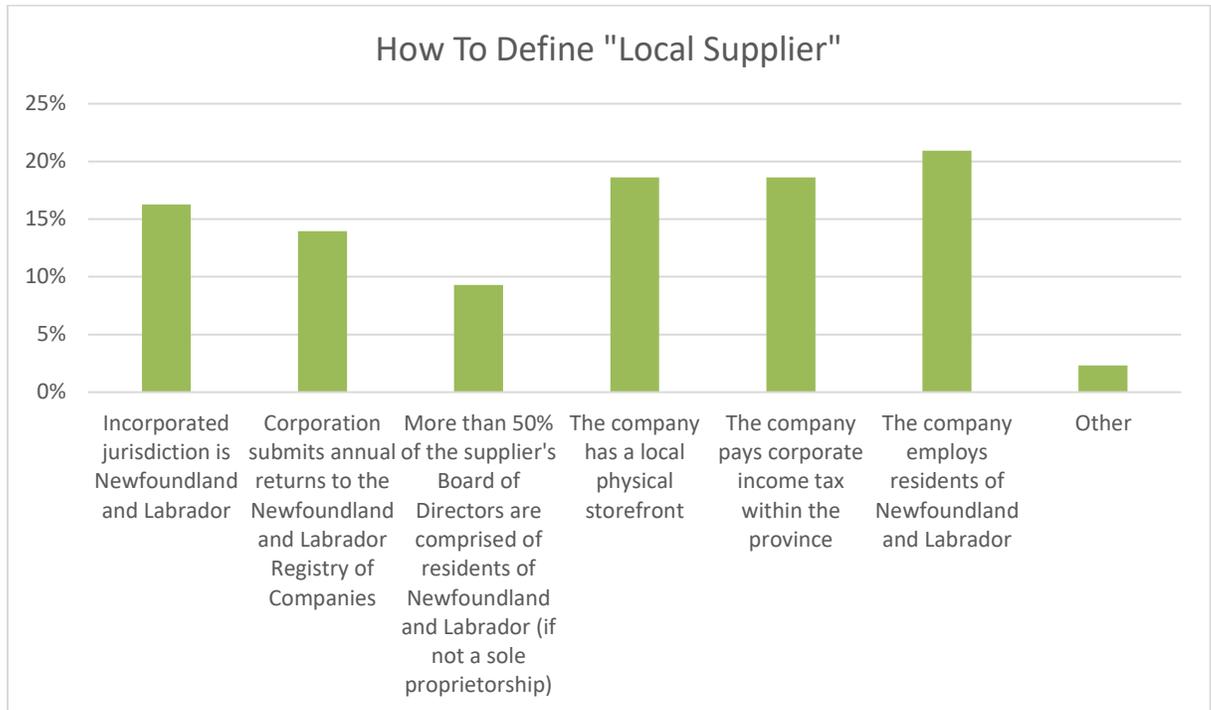
4. How many employees/members does your business/business organization/not-for-profit have? Please include total number in all locations.



Respondents were split on the size of organizations being represented. With 50% having 20 or fewer individuals and 50% having 31 or more.

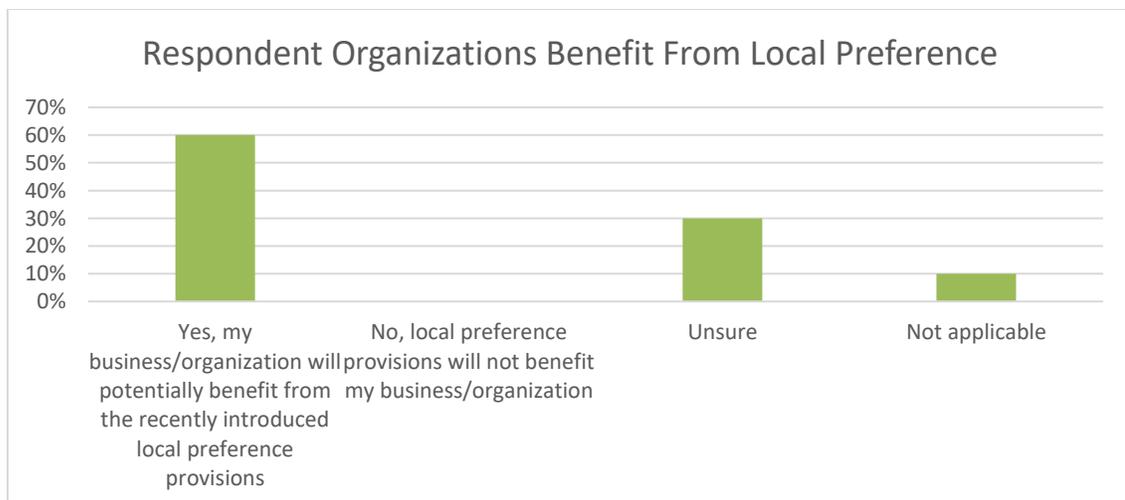
Local Preference Questions

5. What criteria should define a 'local supplier' in Newfoundland and Labrador?



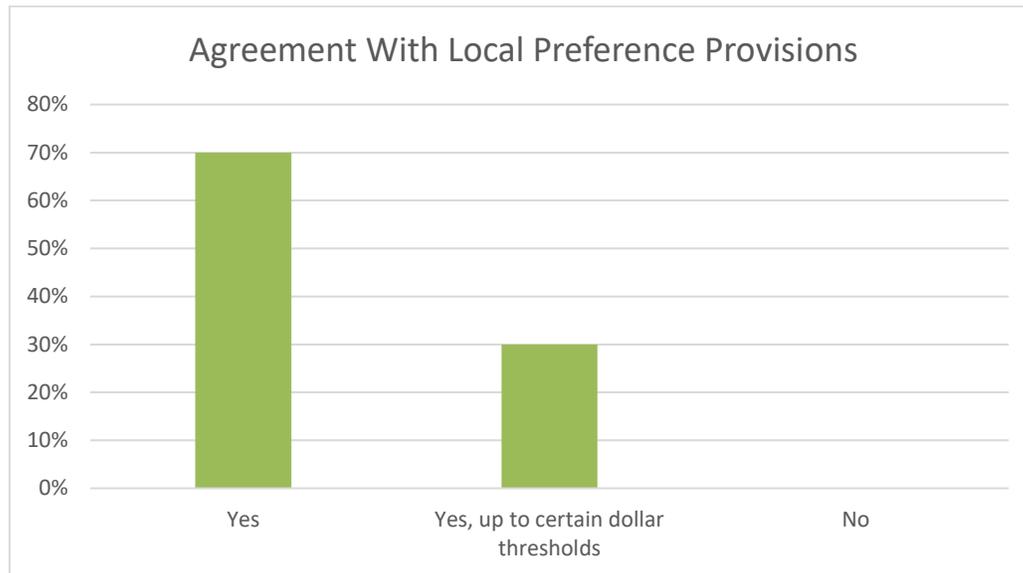
Respondents felt that all of the potential criteria could apply in defining a local supplier. The sole "other" response noted that a local supplier should have a branch in the province that employs residents and pays corporate tax.

6. Do you feel your business/organization will potentially benefit from the local preference provisions?



The majority of respondents felt that their business/organization would benefit from local preference provisions, with none stating that they would not benefit.

7. Do you agree with public bodies preferring local suppliers in procurement activities?



All respondents agreed with the implementation of local preference provisions, with 30% responding that a threshold should apply.

8. If you agree with local preference provisions, why do you agree?

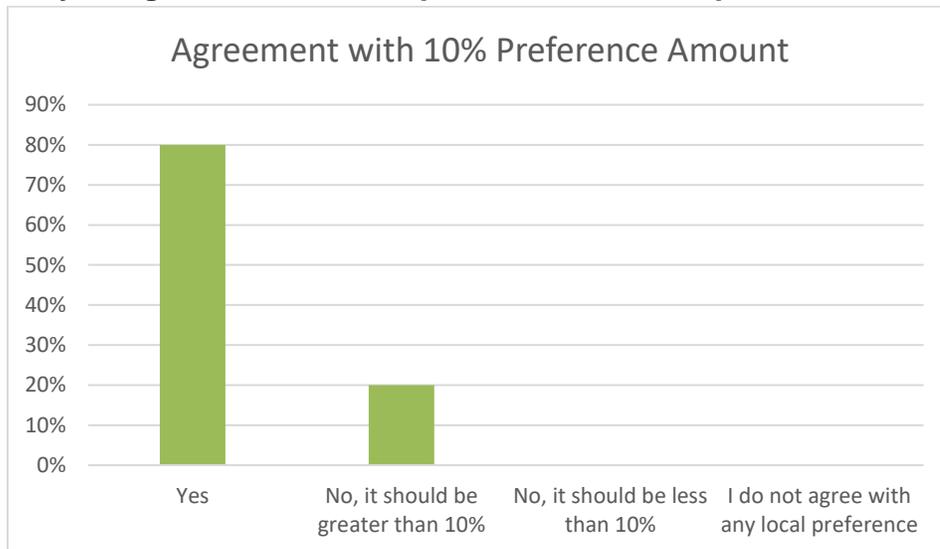
- All purchasers should have the latitude to purchase locally if it makes sense to do so. A hard 10% may be too much in some cases and not enough in others.
- Keeping revenue in the Province maintains a cycle of economic growth for NL.
- Providing opportunities in the province for "local" business can promote economic spin-offs and stimulus into the economy.
- For all the reasons stated above related to economic growth and sustainment of communities. With the changes in the thresholds, we were afforded more opportunity to select local suppliers to provide quotes in limited calls. In open calls, the reliance is on local bidders to respond.
- What gets procured here stays here. We pay all the taxes and spend most of what we earn locally. Savings and investments are also benefiting local as well. Most businesses hire people to do the work and payroll is one of the largest expenses. Payroll gets spend almost 80% gets spent directly into the local economy.
- French Language Training Services, EN-»FR and FR -»EN Translations and Bilingual Websites.
- It would allow local businesses to be competitive yet profitable and keep the money within the province.

- The local supplier is paying municipal and provincial taxes. This should be important in determining where the money is being spent.
- Local preference provisions provides enhanced opportunities for local companies to compete for work. It helps to level the playing field and build capacity and expertise.
- Each year, the government spends approximately \$3.5 billion on goods and services, but much of that money leaves the province. Local preference provisions would help ensure local businesses access to these procurement contracts. This access would translate to more money in our local economy, stronger communities and more provincial government revenue.

9. If you disagree with local preference provisions, why do you disagree?

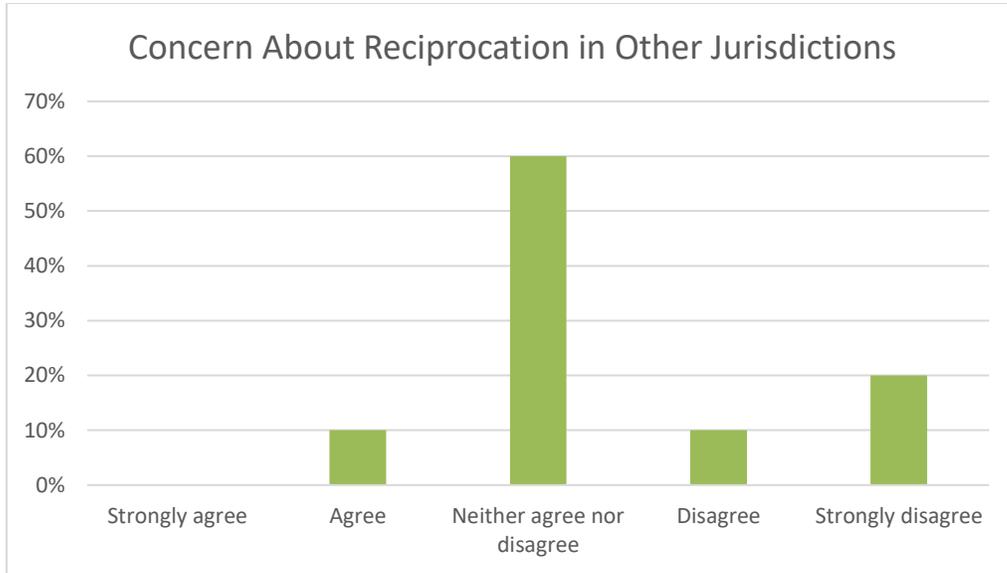
- No responses disagreeing.

10. Do you agree with the 10% preference amount provided to local suppliers?



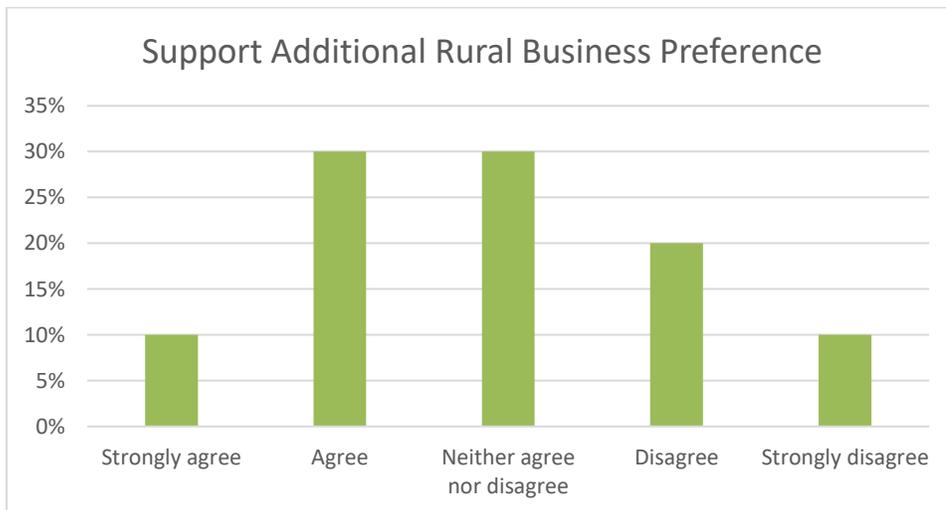
No respondent felt that the local preference provision should be less than 10%. 20% of respondents felt that the preference should be greater than 10%.

11. I am concerned that other jurisdictions (e.g., another province) will introduce similar local preference measures that may negatively affect my business/organization.



Little concern for reciprocation was expressed. This may potentially be related to businesses conducting most of their activities within the province.

12. Rural-based businesses in the province should be provided with additional local preference supports.



While 40% of respondents felt that rural businesses should receive additional preference, 30% were undecided and 30% disagreed or strongly disagreed.

13. If you agree that rural-based businesses should be given additional preference, what additional measures should be taken?

- I appreciate it may be hard to enforce given a fair play clean slate but within effective and fair limits it is better to support local wherever.
- Some financial help to encourage volunteering engagement whether the rural-based businesses use volunteers to help them providing their services or to recognize the work of volunteers by offering them a discount for their volunteer status.
- Would need to know what options are available to provide support.
- Government should review policy that will ensure a more level playing field between rural and urban businesses in our province, potentially a regional preference when it comes to the location of the contract.

14. If you disagree that rural-based businesses should be given additional preference, why?

- We are all NL businesses so we should compete equally.
- Rural business should not have any further preference than urban. Both have the same opportunity to bid/procure work. If overhead costs for rural businesses leads to difficulty bidding work, funding/grants should be made available through business/provincial programs and not the small local governments with defined, and usually less than adequate, budgets.
- The Public Procurement Act, Regulations and Policy is based on the premise of unbiased, fair and open process. By awarding a particular group and additional preference over other companies takes away from this fair and open process.

15. What are the key advantages of local preference provisions to your business/organization?

- Gives the procurement a better chance to deal with a local supplier which makes more sense operationally as well. On a personal basis I would be happy to pay 10% more to deal with a local supplier as it gets me better service in most cases.
- Ensures our employees, who are Newfoundlanders and/or residents of NL, have continued opportunities for local work.
- Advantages include local servicing, if included as part of the contract defining local vendor.
- We expect that there are some savings associated as we are not paying shipping and other fees for goods being delivered. As long as the company has the goods on site, delivery is also quicker.

- Too much of the work in the province is given to outsiders who don't pay taxes here. The work is done out of province with little or no local benefit. The people being hired do not understand, care or appreciate local values. It's not just economic benefit but collective societal benefit. If we could acquire more work locally we could hire more people to work and it becomes self-perpetuating. It is unfair advantage for others who are situated in much more prosperous or sustainable markets who can undercut us locally as they can do it cheaper but not better. Supporting and encouraging local enhances our ability to get better at what we do and provide better quality services.
- The major advantage would be to be able to count on a much more stable demand than at present, and thus it would give visibility to be able to hire locally employees in this sector of activity (there are indeed young people who are very competent in the French language whom we cannot call upon given the uncertainty of the local order). Federal tenders are a perfect example: no demand for months (or even years) and all of a sudden you have to be able to provide training for 9 months full time. This is absolutely impossible for small businesses that need more stability to grow.
- It would allow our business to have a defense against predatory pricing from larger national companies.
- We employ local people. We spend money in our jurisdiction. We support local charities.
- Local preference provisions allow local companies to build capacity, expertise and a client base. They also provide economic spinoffs through a multiplier effect. Local companies employee local residents and profits made by local businesses that are successful in government procurement processes stay within the province. Provincial and municipal governments receive tax revenue from the businesses.
- In the same way we agree with the reason for local preference provisions, we support the improved access to local businesses for procurement contracts and the benefits that brings to those businesses as well as the provincial economy as a whole.

16. What are the key disadvantages of local preference provisions to your business/organization?

- Defining what is local has always been a challenge, is there such thing as one company being more local than another. Example a local company like Verafin is now owned by non-local shareholders.
- Selecting based on price only and providing an automatic 10% reduction may not provide the quality product/service required.
- Cost of goods given that we are applying a 10% reduction to supplier bids, however, given the thresholds, we have not had to apply the preference regularly as we are choosing local business for quotes.

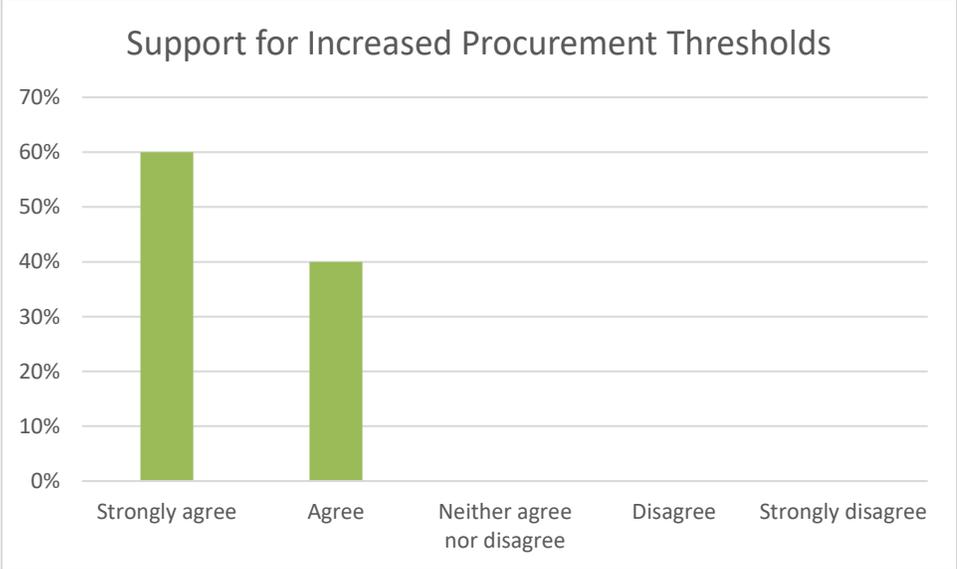
- Sometimes we need expertise that can only be acquired from out of province or not locally. It augments our ability to put the best team together quality wise not necessarily cheapest. To be penalized for having some exterior quality added would not be fair but it's sometimes hard to balance that from an adjudication perspective.
- I don't identify any. The only flaw would be to have more competition, but competition is a good thing for consumers!
- It may impede opportunities in other provinces.
- Ensuring that more of our provinces' businesses are able to access procurement contracts is all positive.

17. What opportunities exist for Government to enhance local preference provisions?

- All purchasers should have the latitude to purchase locally if it makes sense to do so. A hard 10% may be too much in some cases and not enough in others.
- Define "local" clearly and include servicing opportunities to prevent the sales person (one employee) representing an out of province supplier the reduction.
- An opportunity, which could be a disadvantage, is to expand on the thresholds.
- Putting out better proposals that focus on quality not just lowest price. Focus on local team collaboration with justifiable exterior augmentation of services. Give bonus points for local.
- To benefit from products adapted to their reality. For example we could offer French language courses in person to people while hiking the East Coast Trail. This product simply cannot exist on the market at present (we only offer it to individuals in a "one-to-one" way).
- A higher quality product as opposed to the cheapest.
- Greater employment of local people.
- As it pertains to the offshore oil and gas industry, the Atlantic Accord affords local companies full and fair opportunity to participate in procurement within the industry. This provision of the Accord must be upheld and supporting, encouraging, and enforcing local preference provisions will help businesses involved in the offshore supply and service sector prosper and grow. We must take advantage of the Atlantic Accord and opportunities it affords the local supply and service community.
- Opening up the preference by lowering the thresholds and ensuring that local preferences are applied to all procurement contracts.

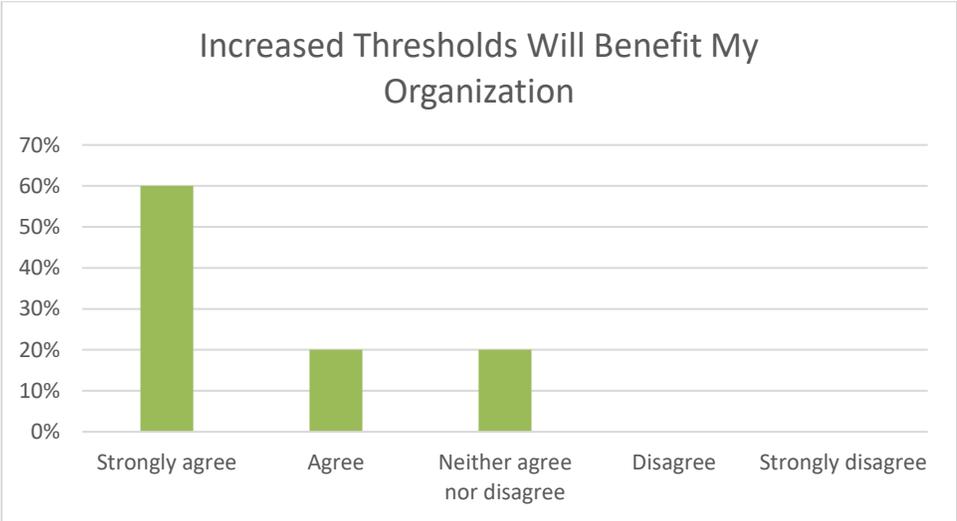
Increased Procurement Thresholds Questions

18. Increased procurement thresholds will positively impact local suppliers.



All respondents agreed that increased procurement thresholds will positively impact local suppliers.

19. Increased procurement thresholds will benefit my business/organization.



80% of respondents either strongly agreed or agreed that increased procurement thresholds will benefit their business or organization. No respondents felt that increased thresholds would negatively impact their business or organization.

20. My business/organization...



Most respondents indicated that they attempt to balance affordability with a preference to purchase local products and services when available.

21. Public bodies should...



90% of respondents felt that public bodies should be willing to pay a slight premium in order to purchase local products and services.

22. What are the key advantages of increased procurement thresholds?

- More discretion by the purchaser for best solution versus cheapest price which is often a local supplier. Bureaucracy gets bogged down with small tenders.
- Agency can select those who are invited to bid, which can reduce non-local participation.
- It allows the owner/company increased flexibility to be creative, inventive and financially responsible by specifying the most efficient and effective products, processes, and services.
- Faster turnaround on procurement.
- So long as it is not based solely on price, it gives opportunity to reduce the cost of bidding work on a percentage basis. If the threshold is too low you have to spend more time going after (writing proposals which is overhead) the work and it can be an onerous amount that will negatively impact profitability or making a business unviable. Greater thresholds means more fees for less work going after it.
- To empower decision-makers to look to the local market in order to support SMEs which is the real lifeblood of the local economy. As a local SME manager we are supporting our children with local money and teaching them to respect, to be proud of, to be aware of, the importance of local business, in the same way as we encourage them to be respectful of their environment.
- To allow a broader variety of suppliers to supply goods and services as compared to those proficient in the procurement/tender process. To allow government to select products and services on criteria other than price.
- Better value.
- If the local preference provisions are applied as intended they should provide increased opportunities for local companies to participate in the process and be successful in being awarded government procurement contracts. If local companies are successful they will be able to grow their business, employ local residents, and improve their overall performance. For this process to be successful, local companies must be engaged and informed about procurement processes. They must be made aware of how bidders lists are established and how to participate in the processes. Proactive outreach will be required to ensure businesses are informed and knowledgeable of the processes.
- Increasing procurement thresholds reduce the burden on municipalities, health authorities, school boards, academic institutions and government departments and agencies.

23. What are the key disadvantages of increased procurement thresholds?

- Could pay more but money isn't everything.
- Agency can select those who are invited to bid, which could eliminate other potential bidders if the agency does not know all potential bidders.
- We are unable to determine if pricing would be better by having an open call.

- Smaller suppliers and service providers may not get a chance to grow or break into newer fields of experience if they cannot compete. However team collaboration is a means to get better and grow to allow more responsibility and experience to take on larger projects.
- The only disadvantage would be that other companies outside the province would be harmed. However, these companies benefit from a much stronger economic fabric that allows them to diversify their supplies more easily.
- Will require additional oversight to ensure transparency and that it isn't abused.
- Can't note either one.
- Smaller bidder's lists may result. Less information about processes and results may be made public. Those who are unaware of the processes and/or unable to be placed on bidders lists may be disadvantaged as a result of such a process.
- The increase in thresholds will or could cause public organizations to not follow proper due diligence. Proper oversight and justification should be required for public bodies not matter what the value. We have seen in the past how public organizations have misspent money and higher thresholds will only open the door to more abuse of who gets contracts. As well, the Greene Report recommends proper oversight specifically "The Provincial Government should develop a new accountability framework for departments, agencies, boards, commissions, and other entities in receipt of public funds, including mandatory adherence to the Global Reporting Initiative Standards. This should also apply to private sector partners, non-governmental organizations, and unions. Improving transparency also includes extending reporting requirements to all organizations. For Provincial Government employees, the cost of individual public service pension plans should be disclosed." If increased procurement thresholds are implemented, an adequate public accountability framework must be put in place.

24. Is there any additional information or comments you feel the Public Procurement Agency should consider with regards to local preference provisions or increased procurement thresholds?

- Professional services definition should be expanded to include several other professional and designated bodies such as engineers, geoscientists and architects that have a high standard of ethical, moral and legal responsibility while being regulated by their respective associations. What are the provincial government terms that categorized lawyers as a professional service but not others mentioned above?
- Just that there needs to be much better quality in the content of proposal calls. Too much is being emphasized on cheapest price. Consequently the levels of service and quality and value is going down not up. This is not serving the government who are stewards of our tax dollars. We need to be spending smarter with the limited budgets we have. Developing an attitude of demonstrated value or value added in procurement policy is the most important

thing. It only takes a little bit more or a different attitude for the same cost to get a better solution and more value out of taxpayers money.

- I would advise making an effort to make these calls for tenders bilingual, so as to respect the country's linguistic duality, which is an asset for the province. By doing so, private companies would see an example to follow.
- Referring to question 17, all products and services acquired by the public body through the process must be of good quality and value.
- The goal of the local preference provision is to ensure that the majority of the economic benefit from public procurement contracts stays in the province. This can be done through greater local preference and lower procurement thresholds. Following the Greene Report especially, the province needs to maximize the value for necessary procurement contracts for the economy of the province. That will only be done by bridging the need of small businesses in our province to be competitive and that proper oversight is conducted on those contracts. A complete strategy should be elaborated to maximize the procurements opportunities for Newfoundland and Labrador businesses. Transparency in the processes should be at the forefront, a proactive engagement strategy between suppliers and public sector should be in place, additional training and tools should be made available to suppliers to increase their knowledge of the procurement system and their odds of a successful bid.