

**The Chair
Cabinet State Sector Reform and Expenditure Control Committee**

**Procurement Functional Leadership Progress Report –
October 2014 to March 2015**

Proposal

1. This paper provides an update on progress with the Procurement Functional Leadership (PFL) programme.

Executive Summary

2. On 17 June 2014, the Cabinet Committee on State Sector Reform and Expenditure Control (SEC Min (14) 10/2 refers) invited the Minister for Economic Development to report on progress with the Procurement Functional Leadership programme on a six monthly basis.
3. One of the key PFL objectives is to accelerate the improvement of state services commercial expertise. In 2015/16 the Ministry of Business, Innovation and Employment (the Ministry) plans to build on the foundations developed to date in order to accelerate the development of procurement and commercial skillsets in government.
4. To assist the development of commercial skills, agency leaders will be provided with appropriate tools to track how their agency is performing. The Ministry will also develop support options for smaller agencies, particularly those agencies that do not have direct access to procurement professionals or commercial experts.
5. All of Government (AoG) contracts continue to achieve significant benefits. There are currently 1399 agencies, including all local authorities and 1039 schools participating in at least one AoG contract. Forecast savings from existing AoG contracts remains the same at \$415 million.
6. Good progress is being made with AoG contracts. Four AoG contracts have been renewed¹; three new AoG contracts have been established²; and four AoG solutions are on-track for contracts to be finalised this year³.

¹ Renewed AoG contracts: External Legal Services; Travel Management Services; External Recruitment Services; and Mobile Voice and Data

² New AoG contracts: Advertising Media and Design Services; Office Supplies; and Risk Financing and Insurance

³ In progress AoG solution: Vehicles; Print Devices and IT Hardware; Banking; and Consultancy Services.

Background

7. On 17 June 2014, the Cabinet Committee on State Sector Reform and Expenditure Control (SEC Min (14) 10/2 refers) invited the Minister for Economic Development to report on progress with the Procurement Functional Leadership programme on a six monthly basis.

Recent Developments

World Trade Organisation - Agreement on Government Procurement (GPA)

8. We are currently formalising New Zealand's accession to GPA, which will give New Zealand businesses improved access to \$1.3 trillion of government contracts in export markets. The Parliamentary treaty examination process is now completed and domestic implementation by the government agencies bound under New Zealand's offer is nearing completion. To support implementation of the GPA, NZ Trade and Enterprise is organising a New Zealand-wide roadshow called "Selling to Government Internationally" for exporters and potential exporters starting in Auckland mid-June 2015.

Government Rules of Sourcing

9. From 1 February 2015, the Government Rules of Sourcing were applied to a further 103 agencies (SEC Min (14) 5/2 refers). The Rules create consistency in practice across government agencies; making it easier for business to work with government.
10. The third edition of the Rules (SEC Min (15) 4/2 refers) is now online and available for use by government agencies. The third edition will supersede the current edition on 1 July 2015. Until then, government agencies can implement the changes in the third edition if they are ready to do so.
11. The Ministry has published guidance for government agencies to assist them to align their internal procurement policy with the Government Rules of Sourcing and the five Principles of Government Procurement. The model procurement policy includes a section for outlining agencies' procurement objectives and a high level statement of the Principles as they apply to different stages of the procurement life cycle.

Amendment to the Rules

12. When the Government Rules of Sourcing were considered in 2013, Cabinet noted that the Rules were a living document and that they may need updating from time to time to keep them current and relevant. Cabinet directed the Ministry to keep the Rules under review and make amendments as required provided that Cabinet's prior approval is obtained for any new mandatory requirements [SEC Min (13) 4/1].
13. As a result of the strong New Zealand dollar and growing economy, the threshold in the Government Rules of Sourcing^[1] for construction services is no longer aligned

^[1] Rule 8: The Rules apply: a) to the procurement of goods or services or works for new construction work, when; b) the maximum total estimated value (Rule9) of the procurement meets or exceeds the value threshold of \$10 million (excluding GST).

with the commitments made in a range of trade agreements, including the WTO Agreement on Government Procurement.

14. An adjustment to the construction services threshold from \$10,000,000 to \$9,000,000 (excluding GST) can be made by the Procurement Functional Leader as it does not create any new obligations on government agencies.
15. As fluctuations to currencies occur on a regular basis I expect the Procurement Functional Leader to make appropriate adjustments to thresholds as required from time to time.

Better Public Services Result Area 9 Business Accelerator

16. The Better Public Services Result Area 9 Business Accelerator is New Zealand's first accelerator process for government projects and is being delivered by Wellington business incubator Creative HQ. Teams will develop Minimum Viable Products (MVPs) that will be pitched to a panel of public and private sector investors at a Demo-Day in July 2015. The Panel will consider which concepts to take to the due diligence stage. The projects the five teams are working on are:
 - Reducing the barriers to participating in government procurement processes;
 - Developing a marketplace to better enable the development of government interfaces (API's - Application Programming Interfaces);
 - Simplifying Building Consent processes;
 - Using government data to provide location-based information to retail and hospitality businesses; and
 - Simplifying and improving the compliance process for employing seasonal workers in the horticulture and viticulture industries.

Business Survey

17. The Ministry annually runs an online survey to obtain feedback from business on government procurement practices. A total of 277 businesses participated in the March 2015 business survey. The results show an improvement in procurement practices across a range of areas. In particular, businesses generally reported an improvement in the quality and clarity of tender documents, the quality of contract management and the sufficiency of time to respond during a procurement process. More than 80 per cent of businesses surveyed said they would recommend government as a customer to other businesses in some circumstances, and more than half of respondents said that government compared more favourably or was about the same as their other customers.
18. It is evident, however, that there is still significant room for improvement. Businesses were particularly critical of government's supplier relationship management and contract management. Results also indicate that many agencies do not provide helpful feedback after a tender response or hold regular contract review meetings. Twenty seven per cent indicated that they did not receive any follow-up from an agency after having bid for a contract and 57 per cent reported that they did not have regular contract review meetings with government agencies.

Agency Award

19. The Ministry of Social Development (MSD) has won the award for 'Best Example of Socially Responsible Procurement' at the Chartered Institute of Procurement and Supply (CIPS) Australasia Awards 2014. MSD's entry is an excellent example of how procurement can be an effective mechanism for achieving positive social outcomes. MSD put together a preferred supplier agreement for client purchases through recoverable hardship assistance grants of white-ware and optical goods and services. The new agreements have multi-faceted benefits including a reduction in client debt, sustainable disposal of old products, and employment opportunities for clients.

Improving Skills and Practices

20. One of the key PFL objectives is to accelerate the improvement of state services commercial expertise. In 2015/16 the Ministry plans to build on the foundations developed to date in order to accelerate the development of procurement and commercial skillsets in government.

SCC leadership development

21. Work being led by the State Services Commission (SSC) to strengthen leadership at a system, sector and agency level, is being supported by the Ministry. Knowledge of supply markets and how agencies are managing key supplier relationships will be important aspects of future leadership and have been included in the new Leadership Success Profile, which will be part of the basis for the evaluation of senior manager performance in the future.

Procurement Effectiveness Reviews

22. To assist the development of commercial expertise, agency leaders will be provided with appropriate tools to track how their agency is performing. These will be based on recognised standards of commercial excellence and enable agencies to benchmark their performance against other like agencies. This will support the creation of an environment where agencies are encouraged to own and manage the development of their own commercial skills, to work together and to support each other.
23. The Ministry began funding independent reviews of agency procurement effectiveness in 2010. To date 20 initial reviews have been completed and five agencies have had a second review. The review programme is now at a point where most key agencies have been reviewed at least once and there is a strong understanding of the common strengths and weaknesses in government procurement.
24. Rather than continuing with independent reviews the focus is shifting toward assisting agencies to self-assess their procurement effectiveness and develop improvement plans with the support of the Ministry.

25. The first version of the Procurement Capability Index (the self-assessment tool) will be rolled out across a small group of pilot agencies in the first quarter of 2015/16. As part of the pilot, an external moderation process will be developed. Over time, the new model will allow more agency reviews to take place and provide a solid benchmark to assess agency procurement effectiveness. It is intended that the results be published and will incorporate supplier feedback, where appropriate, in agency scoring.
26. The new self-assessment model will be aligned with the Benchmarking Administration and Support Services (BASS) reviews and Performance Improvement Framework (PIF) which agencies are familiar with. It will also be delivered in conjunction with Treasury's work on Four Year Plans and investment management. For example, to show sound commercial understanding, a Four Year Plan should:
- Demonstrate a clear understanding of agency spend by market category;
 - Clearly identify those market categories, suppliers and providers that are critical to achieving outcomes; and
 - Identify high level strategies for engaging with those markets/ suppliers.

Support for smaller agencies

27. The Ministry will also develop support options for smaller agencies, particularly those agencies that do not have direct access to procurement professionals or commercial experts. The Ministry will actively seek and promote opportunities for larger agencies to work with and support smaller agencies' operations and capability development. The Ministry has also established a collaborative Communities of Practice to bring like-minded agencies together to work on developing solutions, guides, tools, and training packages for all agencies.

Developing individual's skills and knowledge

28. Complementary to the agency-focused initiatives, the following programmes form the New Zealand Procurement Academy, aiming to continue to build public sector procurement skills and knowledge at the individual level.
29. Demystifying Procurement: The Ministry's flagship procurement training course is being revamped to broaden its reach. The self-paced online modules are in the final stages of development and will be launched on www.procurement.govt.nz in June 2015. This will enable agencies to direct staff to complete the online modules to gain a better understanding of procurement.
30. Procurement Qualifications: One of the Academy's primary initiatives is to support public sector procurement practitioners study towards Chartered Institute of Procurement and Supply (CIPS) qualifications. The latest annual Academy intake saw an additional 29 individuals join, bringing the total number of members studying towards CIPS qualifications to 104.
31. Procurement Graduate Programme: A trial Procurement Graduate Programme was implemented in February 2014 to increase procurement capability and capacity

across government. A review of the programme was conducted in September 2014 and indicated that it was successfully meeting its objectives.

32. **Mentoring, Shadowing and Secondment Programmes:** The Ministry is developing mentoring, shadowing and secondment programmes and intends to launch trial programmes in June 2015. These initiatives have been designed to align with the SSC's Talent Management programme.
33. **Procurement Presentations:** The Ministry hosts a series of presentations held once a month in Wellington on various procurement-related topics. For 2015 a theme of leadership and influencing has been adopted. Feedback from agencies indicates that these sessions are contributing to increased procurement knowledge, enhanced capability, and the growth of the government procurement community.

Create an environment for New Zealand businesses to succeed

Procurement fostering innovation

34. Public procurement has the potential to influence economic growth by acting as an important source of demand for businesses and innovators. The main way governments can leverage their procurement expenditure to foster innovation is by giving suppliers the room and incentives (where appropriate) to propose innovative solutions to public needs. Such 'innovation-friendly' procurement can involve:
 - early and ongoing engagement with suppliers;
 - signalling to the market future agency needs (eg procurement pipelines);
 - using outcomes and performance measures when approaching the market; and
 - using procurement as a problem-solving tool (i.e. going to the market with a problem rather than relying solely on officials to identify a solution).
35. The Government Rules of Sourcing support innovation-friendly procurement processes. However, there needs to be a more active push to make procurement 'innovation-friendly' and address some pervasive myths that the Rules do not permit some of the techniques that would support innovative offers from suppliers.
36. There are three points of leverage to encourage agencies to make their procurement more 'innovation-friendly'.
 1. Ensure senior leadership support, so agency staff have the time and scope to identify where they are looking for new solutions;
 2. Promote to policy makers and operations management the opportunities to use procurement as a problem-solving tool; and
 3. Promote the techniques for making procurement more 'innovation-friendly'.
37. The Ministry is developing information on how agencies could use procurement when they are seeking new solutions for identified public needs. The Ministry will also facilitate small-scale, self-contained demonstration projects designed to show the benefit of procuring innovative solutions.

38. Earlier and more active engagement with industry creates more opportunity for the development of innovative products and services. The existing 'Meet the Buyer' events are being complemented with 'product surgeries' or 'industry forums' where government agencies seek business input into solution design, pre-procurement.
39. Procurement 'pipelines' are also a key element of market engagement, giving suppliers advance notice of upcoming tenders and opportunities to do business with government. The Ministry is supporting the development of procurement pipelines through compiling and publishing agencies' Annual Procurement Plans, publishing construction market information, and working with CERA and Treasury on Canterbury rebuild and infrastructure projects.

Collaborative Procurement

Agency feedback on collaborative contracts

40. Agencies continue to benefit from AoG contracts and are generally happy with the savings being achieved. Results from the annual agency survey completed in November 2014 show a significant improvement in the quality of service they receive from the Ministry. However, feedback indicates more can be done to improve the value that AoG contracts can deliver to agencies, by for example improving communications and collateral to support agencies in the effective implementation and management of AoG contracts.
41. A new reporting solution, which will provide agencies with better spend and savings information, is on target for release in July 2015.

Benefits from collaborative contracts

42. All of Government (AoG) contracts continue to achieve significant benefits since their establishment. There are currently 1399 agencies, including all local authorities and 1039 schools, participating in at least one of the AoG contracts.
43. Total forecast savings over the life of existing AoG contracts remains the same at \$415 million. This does not include forecast savings for the AoG contracts returning to market, nor the AoG solutions in progress.
44. Annex 1 provides a dashboard summary of the PFL progress, and Annex 2 lists agency participation in AoG contracts.

Market Engagements

Recently Renewed Contracts

45. The AoG contracts for 'External Legal Services', 'Travel Management Services', 'External Recruitment Services', and 'Mobile Voice and Data' have been renewed following reviews, and positive feedback from participating agencies and suppliers.

Recently Established Contracts

Advertising Media and Design Services

46. The Ministry awarded contracts for Advertising Media and Design Services in December 2014 and January 2015, respectively. This has provided a consolidation of contractual terms and conditions for agencies to engage suppliers.
47. The first round of reporting has seen at least 972 agencies (including 791 schools and 73 councils) benefit from discounts available under this contract. As part of the new solution, suppliers accepted the AoG definition of “eligible agencies” which increased the range of agencies eligible for the discount. It is difficult to forecast the eventual number of participating agencies, as joining this agreement does not require signing a formal Letter of Accession and previous media-spend was not captured to this level of detail.

Office Supplies

48. The first AoG contract for Office Consumables, established in 2010 with two suppliers, is due to expire in July 2015. It has been very successful with over 450 agencies participating and an average of 7 per cent savings achieved representing \$27 million over the life of the contract to date.
49. The new solution for Office Supplies was announced in May 2015. The eleven successful suppliers were selected following a competitive tender process conducted late last year. The new solution provides the opportunity for a larger number and type of suppliers to enter the panel and includes regionally-owned and New Zealand businesses as well as multinationals. It will also provide additional value and choice to agencies. The Ministry is working on contract transition for the commencement of the new solution in July 2015.

Risk Financing and Insurance

50. Five providers have been selected for a new AoG panel for risk financing and insurance intermediary services. The successful providers have demonstrated the necessary capacity, capability and expertise to deliver world-class services and solutions to government agencies.
51. The next stage of the project involves the Ministry determining the configuration of clusters of eligible government agencies with similar risk profiles. The clusters' requirements will then be presented to the panel in a series of closed RFPs.
52. The new solution will provide better insurance coverage and terms, and facilitate the progressive development of risk management maturity across the state services. Savings of up to 10% per cent are anticipated on approximately \$127 million spend per annum on intermediary fee and insurance premiums that can be influenced.

Contracts in progress

Vehicles

53. The RFP for the Vehicles AoG contract closed on 18 December 2014. The Ministry is currently negotiating with the shortlisted suppliers for the establishment of the new contract in July 2015.
54. The new solution for Vehicles will be very similar to the existing one, with an additional introduction of two classes to meet the requirements for Department of Internal Affairs' crown cars and NZ Police operational vehicles. Agency participation is expected to remain high from those eligible agencies with vehicle fleets. The Ministry expects an increase in savings.

Print Devices and IT Hardware

55. The RFPs for the Print Devices and IT Hardware solution closed on 11 March 2015. The Ministry is currently completing the evaluation recommendations before commencing negotiations with shortlisted suppliers, and is on track to establish the new contracts in September 2015.
56. Both new solutions will provide more coverage and options for participating agencies within the respective catalogues. The extra coverage within the IT Hardware catalogue allows agencies flexibility in developing their own packages across the AoG contracts.
57. Minor changes within the contracts have been made to increase participation from schools.

Banking

58. The Ministry has completed the tender evaluation and is currently progressing with negotiations. It remains on track to award contracts in August 2015. It will provide banking solutions across four sub categories: Transactional banking, Foreign exchange (low value), Merchant facilities and Inward payment collection services, and Card services.
59. It is anticipated that the outcomes of the tender will facilitate faster uptake of innovative new banking services, improved value for money, and provide a more consistent service delivery model for financial transactions across government. This could include new channels and easier ways to pay, streamlining of processes within government, and use of a more strategic relationship model with banks to improve the collection, processing and disbursement of government money. The solution also contributes towards achievement of Better Public Service Result Areas 9 & 10 (making it easier for businesses and New Zealanders to transact with government in a joined up and digital online environment).

Consultancy Services

60. The RFP for Tranche 1⁴ closed on 5 February 2015. The Ministry has completed the evaluation moderations and is finalising the evaluation recommendations. The evaluation and negotiations remain on track to award supplier contracts by the end of September 2015.
61. A second tranche of consultancy services will commence immediately following Tranche 1 contract award using lessons learned. The Ministry is currently targeting the fourth quarter of 2015 for releasing the tender to market.

Telecommunications as a Service (TaaS)

62. The procurement process for Telecommunications as a Service (TaaS), a joint initiative between the Department of Internal Affairs and the Ministry, commenced in mid-2014 with an early market engagement phase, followed by a Request for Proposal which closed in February 2015. The programme has now shortlisted respondents to take through into a solution-refinement phase to explore, challenge, and assess proposals to ensure refined offers (when submitted) are fit for purpose and meet government's objectives for TaaS.

Consultation

63. The Treasury, State Services Commission, Ministry of Social Development Property Management Centre of Expertise and Department of Internal Affairs' ICT Functional Lead have been consulted in the preparation of this paper.

Financial Implications Human Rights and Legislative Implications

64. This paper has no financial, human rights or legislative implications.

Regulatory Impact Analysis

65. A regulatory impact analysis is not required for this paper.

Publicity

66. A redacted version of this paper will be published on the Ministry's website.

Recommendations

I recommend that Cabinet State Sector Reform and Expenditure Control Committee:

1. **Note** that the Procurement Functional Leader periodically adjusts the Government Rules of Sourcing so the value of thresholds are aligned with the commitments made in a range of trade agreements, and that the construction threshold is now \$9,000,000 (excluding GST);

⁴ Tranche 1 includes consultancy services for: Accounting, Assurance, Audit, Finance and Economics, Procurement and Logistics, and Taxation

2. **Note** the establishment of All of Government contracts for:
 - a. Risk Finance and Insurance;
 - b. Media and Design Services;
 - c. Office Supplies;

3. **Note** the work underway to accelerate the development of commercial expertise in the state sector including the:
 - a. development and piloting of the Procurement Capability Index for agencies to self-assess their procurement effectiveness and develop improvement plans;
 - b. development of support options to help smaller agencies develop their commercial skills; and
 - c. New Zealand Procurement Academy programmes aimed at building public sector procurement skills and knowledge; and

4. **Note** that the Ministry has published guidance to assist government agencies to align their internal procurement policy with the Government Rules of Sourcing.



Hon Steven Joyce
Minister for Economic Development

Annex 1: PFL Progress Dashboard
Annex 2: List of agency participation in AoG contracts