

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

**Procurement Functional Leadership Progress Report –
October 2015 to March 2016**

Proposal

1. This paper provides an update on progress with the Procurement Functional Leadership programme from October 2015 to March 2016.

Executive Summary

2. Over the last six months, the Procurement Functional Leadership (PFL) programme has continued to make good progress. A focus of the Ministry of Business, Innovation and Employment (the Ministry) has been to work collaboratively with other government agencies and businesses to further develop and embed existing projects and initiatives.
3. Highlights since the last Cabinet update include:
 - **Procurement Capability Index:** To drive the development of commercial expertise in agencies, a Procurement Capability Index (PCI) tool has been developed. This tool will enable agencies to self-assess their procurement effectiveness and develop clear plans for improvement. The PCI has been successfully piloted with 27 agencies and will be rolled out to agencies covered by the Government Rules of Sourcing in 2016/17.
 - **Supporting agencies with procurement planning:** A more proactive approach to supporting agencies with their procurement planning has been implemented. This new approach is more collaborative, enables earlier and more effective improvements to be made to procurement plans and has been welcomed by a number of agencies.
 - **Procurement facilitating health and safety reforms:** To support health and safety reforms, the Ministry is working with agencies to help them use their procurement practices to improve health and safety outcomes for their agencies, suppliers and New Zealand. The Ministry has facilitated the sharing of good practice across government, developed procurement guidance and updated its suite of templates to support the objectives of the new legislation.
 - **Government Property Group transition:** On 1 April 2016 the Government Property Group (GPG), previously known as the Property Management Centre of Expertise, transferred from the Ministry of Social Development (MSD) to the Ministry. This transfer will promote closer connections and

alignment between GPG and the Ministry's portfolio of work, support synergies between GPG and the Procurement Functional Lead (currently part of the Ministry), and enable the Chief Executive of MSD to focus on changes in the social sector.

- **Significant managed service contracts:** The Ministry has undertaken research on significant managed service contracts across government, those deemed to be high risk and strategically critical to the delivery of an organisation's business. The research indicates that more can be done to improve oversight and management of these types of contracts. A framework is currently being developed that will provide both agency and system-wide visibility of significant service contracts, as well as assurance and accountability that these contracts are being appropriately managed. It is anticipated that the framework will be implemented by September 2016.
 - **Increase in forecasted savings:** All-of-Government (AoG) contracts continue to deliver significant benefits. There are currently 896 agencies, including all local authorities and 519 schools, participating in at least one AoG contract. Total forecast savings over the life of the existing AoG contracts have increased from \$699 million reported in November 2015 to \$740 million.
4. The PFL programme is also increasingly engaging in wider issues across government and adding value to other sectors. In addition to its core functions and initiatives, PFL and procurement is now assisting other agencies across government with a number of projects relating to infrastructure, skills development and Better Public Services (BPS) Result Area 9.

Background

5. 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 (PFL) programme on a six-monthly basis.
6. The PFL programme was implemented in October 2012 with the primary aims of creating an environment where New Zealand businesses can succeed, improving government's procurement capability and performance, and delivering better value through its procurement activity. To achieve these goals, the Ministry has worked collaboratively with other government agencies and businesses to implement initiatives to develop government's commercial skills and practice, improve supplier engagement and development, and deliver benefits through collaborative procurement.

Improving Skills and Practice

Procurement Capability Index

7. A Procurement Capability Index (PCI) tool has been developed to encourage the development of commercial expertise in agencies and improve supplier engagement. This self-assessment tool allows agencies to measure their procurement effectiveness, develop plans for improvement and benchmark their performance against other agencies. The assessment is based on a capability maturity model covering 11 categories, such as strategy and outcomes, governance and contract management.
8. The Ministry of Business, Innovation and Employment (the Ministry) has been working with Treasury and the State Services Commission to ensure that the PCI aligns with Four Year Plans, Investor Confidence Ratings and other related initiatives. Work is also being progressed to develop and implement:
 - an external moderation process to support robust and transparent self-assessment including moderations from outside government; and
 - a framework for taking supplier feedback into account.
9. The PCI was successfully piloted with the 27 agencies required to produce a 2014/2015 Benchmarking Administrative and Support Services (BASS) report and it is expected that all other large agencies will have completed it by the end of 2016. It is intended that from 2017 onwards all agencies covered by the Government Rules of Sourcing will be completing the PCI annually and that the results will be published online.

Supporting agencies with procurement planning

10. The Ministry currently supports government agencies through its Sector Procurement Team by providing peer review on procurement plans for high value and high risk projects. However, the focus is shifting from reviewing agency procurement plans to proactively engaging with agencies before the procurement process has been determined and providing early and valuable advice. This new approach is more collaborative, enables earlier and more effective improvements to be made to procurement plans and has been welcomed by a number of agencies.

Assisting with major government projects

11. The Ministry provides high quality procurement and commercial advice to agencies undertaking complex, risky and strategically important projects through the New Zealand Government Procurement Commercial Pool. In addition to providing support, this assistance helps with immediate capability and capacity issues and builds skills within agency teams. Some of the major projects the Commercial Pool are providing commercial expertise and support to include:

- **Major Projects Monitoring:** Assisting with the preparation of Treasury's Tri-Annual Major Projects Monitoring report and providing agencies with advice from strategy to delivery.
- **Department of Corrections construction projects:** Supporting a number of construction projects managed by the Department of Corrections which aim to increase the capacity of existing correctional facilities.
- **Ministry of Business, Innovation and Employment activities:** Leading and providing support on a number of procurement activities, including External Integrated Print Solutions, Global Impact Visas, Employment Mediation Services and Auckland Crown Land projects.
- **Education Resourcing System:** Led by the Ministry of Education, this project seeks to implement a flexible resourcing system to help with the management of investment decisions.
- **Canterbury construction:** The Ministry is supporting a number of Canterbury rebuild initiatives, such as the Metro Sports Facility project.

Developing procurement leaders programme

12. The developing procurement leaders programme, which seeks to develop the individual skills of those identified as future leaders in government procurement, is progressing well. It has been established to operate collaboratively across agencies using a business accelerator approach to identify opportunities and generate innovative solutions to improve practice across government. The group is currently investigating a number of areas for improving procurement practice across government.

Cross-agency Procurement Graduate Programme

13. The Ministry established a Procurement Graduate Programme in early 2014 to increase procurement capability and capacity across government. A key feature of the two-year programme is the six-month rotations that graduates spend at different government agencies. From four agencies in 2014, a total of 15 government agencies in Auckland and Wellington are now participating in the programme and taking on graduates.
14. This highly collaborative programme is achieving great outcomes. The profile of procurement as a profession amongst university students has increased, the pool of junior procurement practitioners has grown and all of the graduates from the first intake have transitioned into public sector procurement roles.

Procurement facilitating health and safety reforms

15. To support health and safety reforms, the Ministry is working with agencies to help them use their procurement practices to improve health and safety outcomes for their agencies, suppliers and New Zealand. The Ministry has: