

**OFFICE OF THE MINISTER
FOR ECONOMIC DEVELOPMENT**

The Chair
CABINET EXPENDITURE CONTROL COMMITTEE

GOVERNMENT PROCUREMENT REFORM

PROPOSAL

- 1 This paper provides an update for the Expenditure Control Committee on Government Procurement Reform progress, seeks agreement to centrally fund year 1 (2009/2010) of this reform agenda, and to fund the out years (July 2010 onwards) from a proportion of savings delivered by all-of-government contracts.

EXECUTIVE SUMMARY

- 2 On 18 May 2009, Cabinet agreed to initiate Government Procurement Reform (CAB Min (09) 17/3 and ECC Min (09) 8/3 refers). This reform targets transformation of government procurement policy and practice across the State sector. Its three aims are to improve State sector productivity and efficiency, increase the opportunities for New Zealand businesses to participate in government contracts and to release fiscal savings for use in other priority areas.
- 3 Since the Cabinet decision, the Ministry of Economic Development (MED), The Treasury and the State Services Commission (SSC) have worked to finalise the reform actions and to establish the structure necessary to deliver the reform programme.
- 4 MED has undertaken significant consultation with New Zealand businesses as part of this reform agenda, in particular to identify areas of red tape and high supplier compliance cost. It is already clear to me that the current approach to government procurement is problematic and is largely an untapped resource that could be better used to drive value and further support economic development.
- 5 On the whole, the reform agenda has been positively received by agencies across the State sector. The reform programme aims in its first year to focus on delivering cost and efficiency savings, with at least three all-of-government contracts in place by June 2010. To deliver this work, small teams called Centres of Expertise will be established in host agencies.
- 6 The Centres of Expertise in this first year are mainly focussed on driving cost savings in simple, common spend areas. In the future they will also be expected to support procurement capability building and manage supplier relationships across key areas of government expenditure.
- 7 The Department of Internal Affairs has agreed to host a Centre of Expertise for IT Equipment and Multi-functional devices (printer, photocopier, scanner, fax). MED is currently examining opportunities with District Health Boards New Zealand to host a

health sector specific Centre of Expertise to accelerate procurement savings in frontline clinical equipment, devices and consumables.

- 8 To maintain pace in the short term, MED will establish Centres of Expertise for passenger vehicles and stationery. I do not, however, want this to be seen as a centralised contracting unit, so I have asked MED to examine opportunities for these activities to be hosted elsewhere in the future.
- 9 To obtain best possible pricing, all-of-government contracts should include all Public Service Departments¹ and State Services² agencies. However, it is not legally possible to mandate contracts to all Public Service and State Services agencies. This could present a commercial risk to suppliers bidding for all-of-government contracts and may also compromise delivery of savings and other value for money initiatives.
- 10 To mitigate this commercial risk and firm up commitments to the market, MED will write to all agency Chief Executives to seek their approval to go to the market on their behalf for pricing and to support the outcomes of this process.
- 11 I believe that where any agency wishes to opt out of these arrangements, or takes action that may undermine the principle of all-of-government contracting, this should be reported back with reasons to the Expenditure Control Committee for information. That way we can see what impact these individual agency decisions may have on the likely success of the overall Government Procurement Reform programme.
- 12 In terms of organisations in the wider State sector³ agencies, these all-of government contracts should be optional. I also believe that these contracts should also be optional for School Boards of Trustees, giving flexibility for schools to utilise any local community support that may be present.
- 13 Officials have considered funding options to support delivery of this reform agenda. The funding mechanisms available are: to centrally fund this reform; deduct a proportional contribution from agency budgets; utilise retrospective rebates from successful suppliers; or a combination of these options.
- 14 It is not yet possible to accurately project the savings potential from the all-of-government contracts as MED are currently establishing baseline data. Once this base-lining is complete it will then be possible to estimate the savings potential for each contract. As a guide, in other jurisdictions, savings of 5-10% from baselines are typical for these initiatives, although savings of up to 40% have been reported in some areas.
- 15 Officials from MED and the Treasury have examined funding options and recommend that central funding for year 1 (2009/2010) is the preferred option. The out-years can then be funded from a proportion of the savings delivered from July 2010 onwards. The treatment of these fiscal savings will be finalised in June 2010 once the first proposed contracts have been awarded and savings are evident.

¹ Departments on first schedule of the State Sector Act

² Executive branch non-Public Service departments, Crown Entities (except Tertiary Education Institutions), Agencies on fourth schedule of the Public Finance Act

³ State-owned enterprises, Tertiary Education Institutions, Office of Clerk, Parliamentary Services, Offices of Parliament

16 The funding required is as follows:

Vote Economic Development Minister for Economic Development	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Out years
Departmental Output Expense : Policy Advice and Sector Leadership – Firm Capability, Sectoral and Regional Development (funded by revenue Crown)	3.000	-	-	-	-
Departmental Output Expense : Policy Advice and Sector Leadership – Firm Capability, Sectoral and Regional Development (funded by revenue Other)	-	5.600	5.700	5.700	5.700

17 The government procurement reform will be \$20 million over four years and \$5.7 million in out years from 2013/14.

BACKGROUND

18 On 18 May 2009, Cabinet agreed to initiate Government Procurement Reform (CAB Min (09) 17/3 and ECC Min (09) 8/3 refers). This reform targets transformation of government procurement policy and practice across the State sector. Its three aims are to improve State sector productivity and efficiency, increase the opportunities for New Zealand businesses to participate in government contracts and to release fiscal savings for use in other priority areas.

19 Cabinet invited the Minister of Commerce (activity now transferred to Minister of Economic Development) to report back to ECC by the end of August 2009 on the funding of the first year's activity and seeking confirmation of the initial procurement reform actions.

20 To deliver this transformation in government procurement performance, four themes of reform activity have been targeted:

- Enhancing New Zealand business participation
- Achieving Cost savings
- Building procurement capability and capacity
- Improving governance, oversight and accountability

BUSINESS PARTICIPATION – PROGRESS

- 21 An appraisal of over 50 government tenders has been undertaken to identify possible conflicts, barriers and areas of added bidding costs to businesses from government procurement processes. A cross section (size, sector and geographic location) of over 50 suppliers to government have been interviewed to identify specific areas of added compliance cost and lack of transparency/opportunity.
- 22 A number of interviews have also been held with trade and representative bodies as well as procurers in agencies to input their views and experience. Officials have also met with the Small Business Advisory Group to ensure their views are incorporated.
- 23 Most suppliers interviewed have reported a mix of both positive and negative experiences in supplying government. However, a common range of problems with our current approach to procurement has been identified.
- 24 One common complaint is the lack of standard government terms and conditions of contract, requiring businesses to incur unnecessary repeat legal costs. While bespoke contracts may be needed in specialist areas, I believe a standard set of government conditions of contract for common goods and services must be developed. I have asked MED to approach Crown Law to progress this action.
- 25 It is also apparent that opportunities exist to link government procurement more closely with building innovative businesses within New Zealand. The size of government contracts can give the necessary impetus to invest in research, plant and equipment. Having government as a client can also provide businesses with a credible reference client when bidding for overseas contracts.
- 26 In the interviews, businesses have identified the following key issues of concern:
 - some companies don't bother bidding for government work as they perceive that there are already preferred companies who will win the tender;
 - agencies cost business time and money by going to tender for contracts that they have no intention of awarding, just to get ideas or inform budget bids;
 - a lack of consistency and/or standardised processes/conditions of contract, adding compliance costs, this can mean that every tender from government has to be checked by lawyers;
 - the requirement in many government contracts for unlimited public indemnity insurance is unreasonable and prohibitive, as it is not actually possible for businesses to obtain this. Businesses therefore have to run the risk of being potentially bankrupted should the government exercise a claim;
 - poor and inconsistent documentation among agencies, requiring detailed answers to questions that are not always directly relevant such as sustainability, with little information provided on the actual criteria (and corresponding weighting) that will be used to select the successful supplier;

- agencies are generally averse to sharing risk in the development and application of innovative solutions;
- concerns that intellectual property/ideas are solicited by agencies and used without permission and/or that confidentiality of innovative offerings is not maintained, eliminating the incentive to be innovative in proposals;
- uneven or low procurement capability within agencies, making the cost of liaison and engagement higher than it should be and reducing the ability to have open strategic discussions about options to reduce risk or increase value;
- long contract periods (sometimes up to 16 years) for fairly routine goods and services, effectively locking out competition.

27 I believe this feedback clearly makes the case for why procurement reform needs to be progressed. Many instances described by New Zealand businesses fall well short of best practice and indicate areas of efficiency gains and cost savings for both businesses and Government.

28 Once the full range of specific business concerns and policy issues have been prioritised, MED will identify options to cut red tape and improve efficiencies with specific proposals to the Expenditure Control Committee. It is likely that policy changes will be cross departmental and may require Cabinet approval.

COST SAVINGS – PROGRESS

29 To test the ability to drive tangible fiscal savings at least three all-of-government contracts will be established in 2009/10. MED is currently working on all-of-government contracts in the following areas of spend:

- IT equipment (desk top and lap top computers);
- multi-functional devices (printer, copier, scanner, fax combined);
- passenger vehicles; and
- stationery.

30 These areas have been selected as suppliers are national/international in nature and agencies are generally buying the same things from the same suppliers. Expenditure is likely to be significant and information on each spend area is currently being analysed to inform development of the contract approach to be taken by Centres of Expertise that will be responsible for the negotiation process with the market.

31 Early indications of likely spend under these first all-of-government contracts are:

Spend area	2010/11 Projected	5 Year Contract Value
IT Equipment	\$58.0 million	\$290.0 million
Multi-functional devices	\$18.5 million	\$92.5 million
Passenger vehicles	\$68.0 million	\$340.0 million
Office stationery	\$39.3 million	\$196.5 million
TOTAL⁴	\$183.8 million	\$919.0 million

- 32 The next stage of data collection will focus on assessing current pricing and firming up future demand with agencies. This will inform contract negotiation and be used to determine potential fiscal benefits of the all-of-government contracts.
- 33 Providing baseline information is essential to determine the savings delivered. I request that Ministers encourage their departments and agencies across the State sector to support MED and the Centres of Expertise in their efforts to obtain this specific information. It is also important that Ministers encourage agencies not to enter into new or extend existing agreements in such a manner that may unintentionally undermine the planned all-of-government contracts.
- 34 To achieve best possible pricing, the focus will be to meet agency needs, whilst driving down total cost with the national/international suppliers. I do not foresee a significant impact here for SMEs or other New Zealand firms. While there are resellers in each of these areas such as car dealers, stationery wholesalers and computer shops, there is no major business or economic issue that suggests that SMEs or other New Zealand firms are disadvantaged in these markets.
- 35 To deliver each all-of-government contract, MED has been working to establish Centres of Expertise to lead the procurement activity. The Department of Internal Affairs (DIA) has agreed to lead the all-of-government contracts for IT equipment and multi-functional devices.
- 36 District Health Boards New Zealand (DHBNZ) has been approached to trial a health sector specific Centre of Expertise to accelerate procurement activity to reduce the costs of frontline clinical equipment, devices and consumables. MED is currently working with DHBNZ to determine possible opportunities.
- 37 The approach of using this reform to provide the seed funding needed to lever benefits through better co-ordination of health sector procurement activities appears consistent with the principles of the "Horn Report" (Meeting the Challenge: Enhancing Sustainability and the Patient and Consumer Experience within the Current Legislative Framework for Health and Disability Services – 31 July 2009). However,

⁴ Data currently being validated.

any approach to trial a Centre of Expertise within the health sector will be kept flexible enough to respond to Cabinet recommendations made in the health sector.

- 38 To maintain pace in the short term, MED will establish a Centre of Expertise for passenger vehicles and stationery. The risk of hosting these activities long term within MED is that this could be seen as an attempt to create a large centralised contracting unit. I have asked MED to examine opportunities for these activities to be hosted elsewhere in the future.
- 39 It is becoming clear that cost savings in vehicle procurement are going to be a challenge due to world-wide increases in vehicle prices⁵. However, MED is continuing to progress this contract initiative from both a cost saving and cost containment perspective.
- 40 Centres of Expertise will take a highly proactive approach to sourcing, responding quickly to market shifts and using approaches such as reverse auctions, where appropriate, to maximise best possible pricing. This approach contrasts with the current practice of many agencies to establish long-term arrangements and fixed price indexing.
- 41 A key part of the Centre of Expertise remit will be to manage supply markets rather than individual suppliers, as maintaining a sustainable competitive market in New Zealand is of the highest importance. They will need to develop effective links with supplier networks, possibly through supplier forums as recently proposed by the Building and Construction Sector Taskforce on Productivity⁶.
- 42 Whilst I want to extract maximum value, this will need to be done in a way that ensures markets are not distorted. It is therefore likely that many contracts will be awarded to more than one supplier, with on-going active management/market testing to ensure that those suppliers do not become complacent and that best pricing is achieved.
- 43 To obtain best possible pricing, all Public Service Departments⁷ and State Services⁸ agencies will need to participate in these processes. However, it is not legally possible to mandate contracts to all agencies. Public Service Departments can be required to use them, but they cannot be mandated for State Services agencies under the Crown Entities Act. This could present a commercial risk to suppliers bidding for all-of-government contracts and may also compromise delivery of savings and other value for money initiatives⁹.

⁵ New Zealand Police report that vehicle prices have increased by 5% since January 2009.

⁶ <http://www.dbh.govt.nz/UserFiles/File/Building/sector-forum/Sector-Productivity-Taskforce-Report.pdf>

⁷ Departments on first schedule of the State Sector Act

⁸ Executive branch non-Public Service departments, Crown Entities (except Tertiary Education Institutions), Agencies on fourth Schedule of the Public Finance Act

⁹ The negotiation of all-of-government contracts and Treasury's current benchmarking investigation into back-office shared service functions are complementary. The issues the procurement reform is now facing will likely be faced by any future IT shared service model. In this sense the all-of-government contracts being negotiated to achieve savings will act as a prototype for the future implementation of other cross government initiatives. I have instructed MED to ensure lessons learned from the roll out of the procurement reform actions are shared with Treasury and the State Services Commission.

- 44 To mitigate this commercial risk and firm up commitments to the market, MED will write to all agency Chief Executives to seek their approval to go out to the market on their behalf for pricing and to commit to supporting the outcomes of this process. Once the contract has been negotiated, MED will then write again to all Chief Executives to obtain their individual sign up to the new pricing/contract.
- 45 I believe that where any agency wishes to opt out of these arrangements or takes an action that may undermine the principle of all-of-government contracting, this should be reported back with reasons to the Expenditure Control Committee for information. That way we can see what impact these individual agency decisions may have on the likely success of the overall Government Procurement Reform programme.
- 46 In terms of organisations in the wider State sector¹⁰, these contracts should be optional. I also believe that these contracts should be optional for School Boards of Trustees, giving flexibility to utilise any community support that may be present.
- 47 The request for Public Service Departments and State Services agencies to use the all-of-government contracts has previously been communicated by MED to all Chief Executives and has been positively received. MED has also published transition guidance for all agencies on options for moving to the all-of-government contracts between 1 July 2010 and 30 June 2012.

PROCUREMENT CAPABILITY AND CAPACITY - PROGRESS

- 48 The capability of procurers was identified as a key issue during the Job Summit (27 February 2009). This has been further reinforced during more than 50 interviews MED has held with New Zealand businesses. To address the causes of poor procurement practice, strong, concerted effort will need to be placed over the medium to long term to build capability to support the millions of dollars spent through procurement.
- 49 Preliminary training has already been provided to DIA and DHBNZ to support the development of robust contract strategies to deliver the tangible benefits and cost savings required. To support on-going procurer education, MED has in place a formal proposal from the Chartered Institute of Purchasing and Supply to run procurement education and qualification programmes. This will be progressed and trialled once funding has been confirmed.
- 50 MED is currently in discussions with The Treasury to examine whether and how the planned capability assessments of agency procurement operations under this reform agenda could be linked with The Treasury's administrative shared services benchmarking exercise. Where sensible, a joint approach to delivery will be initiated.
- 51 A trans-Tasman guide to building government procurement capability has been agreed with the Australian Procurement and Construction Council. This includes capability requirements, role descriptions and specific guidance for procurers on how to progress their skills development within New Zealand.

¹⁰ State-owned enterprises, Tertiary Education Institutions, Office of Clerk, Parliamentary Services, Offices of Parliament

IMPROVED GOVERNANCE, OVERSIGHT AND ACCOUNTABILITY

- 52 The Expenditure Control Committee (ECC) has agreed to oversee the Government Procurement Reform agenda and to assist where necessary in removing any barriers to progress. The Value for Money Chief Executives' Group, recently established by The Treasury and the State Services Commission to lead value for money initiatives across government, will also provide specific governance for the procurement reform agenda. This group met for the first time on 26 August 2009.
- 53 Specific actions to update procurement policy are currently on hold, pending the outcomes from the enhanced New Zealand business participation work stream of the reform agenda. It is likely that this will highlight current policies and processes that add high compliance costs to businesses, and ECC support will be needed to cut red tape and drive changes in procurement practice needed to reduce costs to businesses.

CONSULTATION

- 54 The Treasury and SSC have both confirmed their support for the finalised set of actions to deliver this Government Procurement Reform.
- 55 A number of workshops have also been held with procurers across the State sector to discuss the reform agenda and specific actions. On the whole there appears to be broad support for this change programme. In particular, I welcome the strong support given by agencies such as the Ministry of Social Development and District Health Boards, as large procurement spenders.
- 56 Support from agencies and business continues to be significant. Industry groups and individual suppliers see the reform as a way to improve the procurement process for the better, and have also offered their assistance and help in order to facilitate change.
- 57 MED has consulted on this paper with agencies hosting Centres of Expertise (Department of Internal Affairs and District Health Boards New Zealand), The Treasury, and the State Services Commission.

FISCAL IMPLICATIONS

- 58 To progress, and begin implementation of the procurement reform agenda a funding mechanism needs to be agreed as a matter of urgency. Work to date has been achieved through re-deployment of existing MED resources, but that is now at capacity.
- 59 Detailed in table 2 is a summary of the funding required to progress the Government Procurement Reform agenda.

Table 2 – Government Procurement Reform Cost

Vote Economic Development Minister for Economic Development	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Out years
Departmental Output Expense : Policy Advice and Sector Leadership – Firm Capability, Sectoral and Regional Development (funded by revenue Crown)	3.000	-	-	-	-
Departmental Output Expense : Policy Advice and Sector Leadership – Firm Capability, Sectoral and Regional Development (funded by revenue Other)	-	5.600	5.700	5.700	5.700

60 The government procurement reform cost will be \$20 million over four years and \$5.7 million in out years from 2013/14. As requested by the Expenditure Control Committee, MED has explored a range of funding options with The Treasury; this is set out in table 3 below:

Table 3 – Funding Mechanism Options

Option	Approach	Advantages	Disadvantages
Option 1 - Central Funding (New Money)	Additional monies are allocated to MED to fund the reform programme.	Responds to agency requests for central funding. Maintains goodwill of agencies. Agreed and clear funding route. Enables reform actions to be progressed quickly.	Lack of unallocated funding. Agencies have no direct fiscal interest in delivery.

Option	Approach	Advantages	Disadvantages
<p>Option 2 –</p> <p>Proportional contribution from all Public Service Departments’ and State Services agencies’ budgets</p>	<p>Costs are apportioned according to forecast benefits with an annual contribution undertaken via the baseline update process.</p>	<p>Agreed and clear funding route.</p> <p>Enable reform actions to be progressed quickly.</p> <p>All agencies contribute and have a financial interest in the success of the reform programme.</p> <p>Contribution reflects agency spend.</p>	<p>Cost to administer across the State Services.</p> <p>State sector agencies, buying from the contracts are in effect subsidised by Public Service Departments and State services agencies.</p> <p>Agencies may object to the charge.</p> <p>Agencies may look to off set this charge by reducing their own procurement resources/ training budget. This would undermine capability building activities.</p>
<p>Option 3 -</p> <p>Retrospective rebates</p>	<p>Approach is based on actual agency spend through the contract, the supplier rebates an agreed small percentage amount in cash annually. This would be used to fund on-going reform. The model would be based on cost-recovery only.</p>	<p>The data gathering is administered by the supplier, who may have systems that can already accommodate this.</p> <p>Agencies pay based on actual use of contracts.</p>	<p>There is a potential supplier conflict of interest.</p> <p>Perceived compliance cost for supplier at a time when we are trying to cut red tape.</p> <p>It is difficult to link the costs of reform to this funding mechanism.</p> <p>Potential difficulties in allocating any additional income received back to agencies.</p> <p>Not a tried and tested approach in NZ State sector.</p> <p>Approach could increase agency unit pricing.</p> <p>Agencies buying larger volumes may find this costing method prohibitive.</p>

- 61 MED has worked hard to build goodwill for this reform agenda and it is likely this will be put at risk should central funding not be found for the first year.
- 62 Proportional contributions from agency budgets are a tried and tested, quick mechanism to guarantee the funding needed to progress this reform. However, agencies may object to this approach and this could undo some of the goodwill that now exists. This would lead to time and cost implications for MED in year 1, as greater effort would be needed to gain the buy-in and level of agency participation necessary to successfully deliver this change programme.
- 63 Retrospective rebates are successfully utilised in other jurisdictions where it is not possible (through a lack of integrated management information systems) to manage funding for all-of-government contracts in another manner. It has not, however, been tried and tested in the New Zealand State sector. In a retrospective rebate model, a monetary rebate would be agreed with the successful all-of-government supplier to provide money back to Government based on a percentage of the total business earned that year (e.g. 1 percent of total spend).
- 64 The challenge with retrospective rebates is keeping unit pricing to agencies as low as possible, relying on truthful and accurate data management by suppliers. This is a potential conflict of interest that would need to be closely managed. It may also take a number of years before all agencies fully transition onto the all-of-government contracts, therefore projecting income will be difficult.
- 65 Having examined all the funding options, officials recommend that a mix of both central funding (for year 1, 2009/2010) and proportional contributions (for year 2 onwards) from savings achieved by the all-of-government contracts is the optimal solution. It demonstrates our commitment to invest in value for money initiatives, it supports agency specific efforts to improve value and it means that pace of this reform progress can be maintained.
- 66 To progress the reform agenda with urgency I recommend the following changes to appropriations to fund Government Procurement Reform in year 1, with a corresponding impact on the operating balance:

Vote Economic Development Minister for Economic Development	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14 & Out years
Departmental Output Expense : Policy Advice and Sector Leadership – Firm Capability, Sectoral and Regional Development (funded by revenue Crown)	3.000	-	-	-	-
Departmental Output Expense : Policy Advice and Sector Leadership – Firm Capability, Sectoral and Regional Development (funded by	-	5.600	5.700	5.700	5.700

revenue Other)					
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- 67 If Cabinet agrees with my recommendation to centrally fund Government Procurement Reform in year 1 (2009/2010), I believe that the reform agenda be funded from savings delivered from year 2 onwards. This is a simple deal for agencies; if there is central funding to begin the reform programme then savings should also be managed centrally to cover the investment made.
- 68 Agencies should however be permitted to count these saving against their individual efficiency targets. I propose that the treatment of fiscal savings (to fund the reform program from July 2010 onwards) be finalised once the proposed contracts have been awarded and savings are evident.
- 69 Ongoing support to the procurement reform agenda remains contingent on tangible savings being evident by 30 June 2010.

HUMAN RIGHTS

- 70 There are no human rights issues arising from this paper.

LEGISLATIVE IMPLICATIONS

- 71 There are no legislative implications arising from this paper.

REGULATORY IMPACT ANALYSIS

- 72 There are no regulatory impacts arising from this paper.

PUBLICITY

- 73 A communications and stakeholder engagement plan for the Government Procurement Reform agenda is in place and is currently being delivered. There is clear media interest in the Centres of Expertise and who will be hosting them.
- 74 Subject to Cabinet approval, I plan to issue a press statement on the agencies hosting Centres of Expertise by the end of October 2009.
- 75 MED will take the lead on all communications activities relating to this reform agenda and will develop Centre of Expertise specific communications plans with each host agency.
- 76 Subject to Cabinet approval this paper and its subsequent Cabinet Minute will be released on the MED website as if it had been requested under the Official Information Act.

RECOMMENDATIONS

- 77 It is recommended that the Committee:

- 1 **Note** that significant progress has been made with the Government Procurement Reform since its launch on 11 June 2009;

- 2 **Note** that the reform actions have been finalised and both The Treasury and SSC have confirmed their support for the actions identified;
- 3 **Note** that all-of-government contracts will be negotiated by 30 June 2010 for IT equipment (desktop and laptop computers), multi-functional devices (printer, copier, scanner, fax), passenger vehicles and stationery;
- 4 **Note** that these expenditure areas have been identified for contract consolidation as they are not strategic, suppliers are national/international in nature and that agencies are buying broadly the same things from the same suppliers already;
- 5 **Note** that small teams called Centres of Expertise are being established in host agencies to lead the negotiation of all-of-government contracts;
- 6 **Note** that Centres of Expertise will be tasked with ensuring that all-of-government contracts do not negatively distort markets, ensuring sustainable and competitive markets both now and in the future;
- 7 **Note** that the Department of Internal Affairs has agreed to host the Centre of Expertise for IT equipment and multi-functional devices;
- 8 **Note** that MED will establish a Centre of Expertise for passenger vehicles and stationery, with options being explored to move one or more of these activities to another agency in the future;
- 9 **Note** that District Health Boards New Zealand has been approached to trial a health sector specific Centre of Expertise to deliver procurement savings in frontline clinical equipment, devices and consumables;
- 10 **Direct** Public Service Departments and request State Services agencies to provide full and accurate information to MED and Centres of Expertise as required, on existing expenditure categories, pricing, budget forecasts and existing contract information;
- 11 **Note** that a lack of firm commitment from agencies may undermine the ability to deliver best possible pricing and savings from the all-of-government contracts;
- 12 **Direct** MED to write to all Chief Executives to request their approval to go to market on their behalf for all-of-government contracts and a commitment to support the outcomes of this process;
- 13 **Direct** MED to report back to the Expenditure Control Committee with information on any Public Service Department or State Services agency that wishes to opt out of, or takes action that may undermine the savings available from an all-of-government contract approach;
- 14 **Agree** that School Boards of Trustees are encouraged to use the all-of-government contracts;
- 15 **Agree** that Public Service Departments and State Services agencies transition to all-of-government contracts as soon as possible from June 2010; and that

agencies should not enter into new or extend existing arrangements that may undermine the planned all-of-government contracts;

- 16 Agree** that the Chief Executive of each Centre of Expertise is responsible for delivering robust and effective all-of-government contracts for each expenditure area allocated to them for delivery;
- 17 Note** that, while New Zealand businesses have highlighted both positive and negative experiences with government procurement performance, the feedback received so far indicates that the current approach falls well below good practice procurement standards;
- 18 Note** that MED will present specific proposals to cut red tape to the Expenditure Control Committee once the full range of New Zealand business concerns with the current approach to government procurement has been identified;
- 19 Direct** Crown Law to work with MED to create a standard, simple, plain English set of conditions of contract for common goods and services to be used by all Public Service Departments and State Services;
- 20 Approve** the following changes to appropriations to fund year 1 (2009/2010) of the Government Procurement Reform, with a corresponding impact on the operating balance:

Vote Economic Development Minister for Economic Development	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Out years
Departmental Output Expense : Policy Advice and Sector Leadership – Firm Capability, Sectoral and Regional Development (funded by revenue Crown)	3.000	-	-	-	-

- 21 Agree** that the changes to appropriations for 2009/10 above be included in the 2009/10 Supplementary Estimates, and that, in the interim, these expenses be met from Imprest Supply;
- 22 Agree** that the cost of this reform programme from July 2010 onwards will be recovered from savings delivered through the all-of-government contracts;
- 23 Direct** MED and The Treasury to report to ECC with proposals for the treatment of fiscal savings from all-of-government contracts in June 2010;
- 24 Note** that ongoing support to the Government Procurement Reform agenda is contingent on tangible savings and benefits being evident by 30 June 2010;

- 25 Note** that the Minister for Economic Development intends to release the submission under CAB (09) 628 and its subsequent minute on MED's website.

Hon Gerry Brownlee

Minister for Economic Development

Date signed: _____

