

In Confidence

**OFFICE OF THE MINISTER
FOR ECONOMIC DEVELOPMENT**

The Chair

State Sector Reform and Expenditure Control Cabinet Committee

Government Procurement Reform Programme Quarterly Report, July to October 2013

Proposal

- 1 This paper reports on the progress of the Procurement Functional Leadership programme from August to October 2013. It includes savings results from all-of-government (AoG) contracts as at 30 September 2013 and agency participation data as at October 2013.

Executive Summary

- 2 During this quarter, the Ministry of Business, Innovation (the Ministry) continued preparations to extend the mandatory application of the rules to State Services agencies. I note that a suite of papers on this work and related proposals to extend the mandate of the ICT and Property Management Services Functional Leaders will be considered at the State Sector Reform and Expenditure Control Committee's meeting on 3 December 2013. This is a significant development as it will drive consistent good practice procurement across a wider group of government agencies. It will make it easier for businesses to bid for government contracts and lead to improved procurement practices.
- 3 By 30 September 2013, savings from the AoG contracts grew to approximately \$92.6 million as agency uptake of the contracts continued to increase steadily. The range of AoG contracts has expanded to include reticulated gas and a rental vehicles solution will be in place by late November. These contracts will bring the total estimated forecast savings to \$337.9 million over the life of the contracts.
- 4 The Ministry is investigating the potential for further AoG solutions, including for insurance and other forms of risk financing. In this paper, I seek Cabinet's approval to progress the development and, if warranted, the implementation of this solution.
- 5 The Ministry recently completed initial consultation with suppliers on an AoG consultancy services solution. Around 500 suppliers responded to the Ministry's Request for Information, indicating a high level of interest in the sector. I have directed the Ministry to focus initially on establishing open panel or pre-qualified supplier arrangements for a few sub-categories of consultancy services. Other sub-categories could be added where there are benefits from an AoG approach.
- 6 Over the quarter, the Ministry has engaged with other agencies to refine government's banking services requirements. I expect officials to report back to me in late November on the best way to package an AoG banking services contract.
- 7 The Ministry also released a Discussion Document to consult the suppliers on the potential to establish an all-of-government solution for building materials. Government procurement accounts for around twenty seven per cent of the construction market and an AoG solution could lead to lower building costs for the private sector.

In Confidence

Lifting performance across the State Sector

- 8 In my last report, I noted that work is underway to extend mandatory coverage of the Government Rules of Sourcing across the State Services [SEC Min 13 10/2]. Cabinet has directed officials to prepare the ground for the Ministers of Finance and State Services to initiate the changes by issuing directions under the Crown Entities Act 2004 [CAB Min 13 10/4A]. Work is also underway to extend the mandate of the ICT and Property Management Services Functional Leaders via a direction to support a whole of government approach.
- 9 The Crown Entities Act and related Cabinet guidelines require consultation with the entities affected by the proposed directions. A suite of papers is being presented to the State Sector Reform and Expenditure Control Cabinet Committee, with this report, to seek approval to begin the consultation process.

Unlocking cost savings

AoG contracts savings and participation

- 10 I am pleased to report that savings from the AoG contracts continue to grow and reached \$92.6 million by 30 September 2013 (up from \$75.4 million at 31 July). Agency participation continued to increase at a steady pace over the quarter. As shown in the participation tables set out in Annex 2 of this paper, most non-participating agencies in the Public Service have demonstrated good reasons for their decision.
- 11 The Ministry has improved the way it conveys the benefits of participating in AoG contracts to encourage continued participation in and wider uptake. Agencies have responded positively as it gives them a clear picture of cost savings and opportunities to realise further efficiencies.

Current AoG contracts

- 12 The Ministry is committed to ensuring that the current AoG contracts continue to offer good value for money. Where appropriate, modifications can be made during the term of a contract or when it comes up for renewal or retendering. For example, the AoG Office Consumables contract comes up for renewal in June 2014 and the Ministry is undertaking detailed analysis of the market and procurement options to determine whether to renew the contract for a further year or retender it.

Recently launched AoG contracts

- 13 The Ministry continues to establish AoG contracts for commonly used goods and services so that government can get greater value for money by streamlining processes and reducing transaction costs for suppliers and agencies.
- 14 The AoG Reticulated Gas contract, which is worth approximately \$32 million a year, was launched on 2 October 2013. Agency uptake of this contract is already off to a good start. Twelve District Health Boards (DHBs), the Department of Corrections, the New Zealand Defence Force and the New Zealand Police came on board within three weeks of the launch. Several local government and tertiary education organisations have also initiated discussions with the Ministry. The estimated savings from this contract are \$4.1 million. The DHB's alone account for around forty per cent of government spending on reticulated gas. Participants stand to save two to twenty six per cent of their current costs in the first year of the contract.

In Confidence

- 15 The Ministry has evaluated proposals for an AoG Rental Vehicles solution and contract award is imminent. The solution will give agencies a favourable daily rate and reduce administration costs for government and suppliers by streamlining sourcing processes. It will deliver an estimated \$1.2 million over the three year life of the contact, based on uptake by eighty five per cent of eligible agencies.

New AoG contracts

- 16 The consultancy sector has shown a high level of interest in the Ministry's work on an AoG Consultancy Services contract, which is in the early planning stage. Close to 500 suppliers, ranging from multi-national companies to sole traders, responded to a Request for Information released in June 2013. The respondents generally favour an open approach that allows participation by the diverse consultancy businesses that make up the sector. They also seek a transparent quality measurement framework that recognises and rewards suppliers who deliver value for money.
- 17 An open panel arrangement would differ to other AoG contracts and I believe it makes good sense in light of the dynamic nature of this market. I have directed the Ministry to focus on establishing an open panel or pre-qualified arrangement, starting with a few specific sub-categories of consultancy services. Cross-agency advisory groups will work with the Ministry to identify these initial sub-categories and others are likely to be added over time where there are potential benefits.
- 18 The Ministry is continuing consultation with business and government stakeholders on the potential shape and benefits of an AoG Banking contract. Ten banking organisations (ANZ, ASB, BNZ, Citigroup, First Union, HSBC, Kiwibank, Standard Chartered, Visa and Westpac) responded to the Ministry's Discussion Document, also released in June 2013. The Ministry and the Treasury are working closely with agencies to refine the government's service requirements before the tender process begins. Officials will report back to me on the intended focus for of the tender and related timeframes in late November 2013.
- 19 The Ministry is also exploring an AoG approach for insurance (and other forms of risk financing). This solution could include a consistent government-wide approach to purchasing traditional insurance cover and self-insurance or alternative risk management options. The Ministry is preparing a procurement plan and is working with the Treasury to confirm the scope of the project. Initial engagement with the market is proposed for December 2013.
- 20 On 18 October 2013, the Ministry released a Discussion Document to consult the suppliers on the potential to establish an all-of-government solution for building materials. Building materials account for approximately fifty per cent of the price of new construction works and there is likely to be scope to reduce costs through aggregating agencies spending.
- 21 The potential benefits of an AoG solution could extend to the private sector. Government spending is a significant proportion (historically around twenty seven per cent) of New Zealand's construction market and an AoG solution could lead to more competitive pricing for private sector and residential projects. I believe government should be looking for opportunities to use its market influence to get better results in the construction sector.

In Confidence

Other collaborative contract opportunities

- 22 I noted in my last quarterly report that agencies should make better use of collaborative contracts to realise further value for money in areas of common spend. I am pleased to report that several agencies are working with the Ministry on new syndicated and common capability contracts¹ (see table below) but I remain concerned that only a handful of agencies are showing leadership in this area.

| Category | Lead agency | Progress |
|--|---|--|
| Electronic Content Management System as a Service (common capability contract) | Department of Internal Affairs / Ministry of Primary Industries | contract approved for signing |
| ICT security and related services (common capability contract) | Department of Internal Affairs | contract approved for signing |
| Desktop as a Service (common capability contract) | Department of Internal Affairs | contract approved for signing |
| Contracts database and communications tolls | Ministry of Social Development | contract approved for signing |
| Eye tests and eye wear | Department of Corrections | initial analysis of buyer needs and planning approach to market underway |
| Security services (card access, guards, CCTV) | New Zealand Defence Force | initial analysis of buyer needs and planning approach to market underway |
| Office furniture | New Zealand Police | contract approved for signing |
| Meeting room technologies | Statistics New Zealand | contract negotiations underway |
| Driver instruction | New Zealand Defence Force | review of contract prior to signing underway |

Increasing performance, adding value and maximising results

Building Capability

- 23 Building agencies' capability will take time and requires a multi-pronged approach that increases the number of skilled procurement experts and makes the best use of available resources right now.

¹ Syndicated contracts involve a cluster of agencies aggregating their purchasing needs under one contract. Common capability contracts may allow private sector suppliers to purchase under the contract when acting on behalf of an agency and the lead agency may charge participating agencies a levy or fee.

In Confidence

- 24 The Procurement Academy and independent procurement capability reviews will drive long term changes. This quarter, capability reviews started for the Ministry of Health and healthAlliance Limited, which represents four northern District Health Boards. As well as giving these organisations a road map for improvements, the results will inform the health sector procurement reform and the Ministry's capability development programme.
- 25 To complement these initiatives, the Ministry is piloting a graduate programme to create entry level opportunities. The programme will give graduates exposure to a variety of projects and sectors by rotating them through participating agencies. Inland Revenue, the Accident Compensation Corporation and the New Zealand Defence Force have agreed to take part in the pilot.
- 26 To give agencies access to a wider range of expertise, the Ministry has begun reviewing Public Service agencies' significant business cases.² The reviews focus on commercial and procurement planning aspects of business cases, to help agencies get better procurement results. Over time, they will also give the Ministry an overview of agencies' capability so that it can target capability building initiatives where they are most needed.

Commercial Pool Initiatives

- 27 The Commercial Pool of procurement experts that can be engaged by agencies for their high value procurement projects continues to be well used. The Pool is working on 20 projects. These include, for example, assisting MFAT with contracts to design and deliver renewable energy solutions for targeted Pacific Island and Asian countries.
- 28 The new Government Rules of Sourcing introduced a 'competitive dialogue' process that allows agencies to work with shortlisted suppliers to develop possible solutions, while maintaining competitive tension. Suppliers identify possible solutions early in the process and test them with the buyer to see whether they can meet the buyer's needs. As solutions are refined, areas of risk can be identified and mitigating measures built in to the before contract negotiations begin. The process enables participating supplier to explore and develop innovative solutions and deliver high quality proposals.
- 29 Three agencies have requested Commercial Pool assistance with using competitive dialogue for their projects. One of them is the New Zealand Transport Authority, which is seeking new and better ways of delivering practical driver-testing services to increase safer driving and reduce road accidents.
- 30 Competitive dialogue is also being used to select 'commissioning agencies' for delivering the *Whanau Ora* programme. The programme aims to enable Pacific families to determine what they need in their lives to be successful and prosperous in Aotearoa / New Zealand, strong and confident in their Pacific identity, and able to influence decision-making on matters that affect Pacific peoples at all levels. This requires fresh thinking and approaches that are unlikely to be identified and explored through a traditional procurement process.

² The significant business case reviews apply to procurements worth over \$5 million that are not subject to the Treasury's Gateway Review and Better Business Cases processes.

In Confidence

Functional Leadership collaboration

31 The three Functional Leadership agencies continue to align their roles by developing a consistent, agreed approach to collaborative procurement. During this quarter, the Ministry assisted the Ministry of Social Development's Property Management Services Centre of Expertise with its procurement strategy and peer reviewed the Department of Internal Affairs' common capability contracts for ICT procurement.

Consultation

32 The Treasury, State Services Commission, Property Management Centre of Expertise and Government ICT Supply Management Office have been consulted in the preparation of this paper. The Department of Prime Minister and Cabinet has been informed.

Financial Implications Human Rights and Legislative Implications

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

Regulatory Impact Analysis

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

Publicity

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

Recommendations

It is recommended that the Committee:

- 1 **Note** that savings from the all-of-government contracts grew to \$92.6 million by the end of the first quarter of the 2013-2014 financial year;
- 2 **Note** that an all-of-government contract for reticulated gas was launched in October 2013 and, based on uptake by eighty five per cent of eligible government agencies, has the potential to save the government an estimated \$4.1 million over the life of the contract;
- 3 **Note** that an all-of-government contract for Rental Vehicles has the potential to save the government an estimated \$1.2 million over the life of the contract, based on uptake by eighty five per cent of eligible government agencies;
- 4 **Agree** that, subject to finalisation of negotiations, an all-of-government contract for rental vehicles be approved for signing by the Chief Executive of the Ministry of Business, Innovation and Employment;
- 5 **Note** that an all-of-government solution for insurance and other forms of risk financing could deliver better value for money than current arrangements; and
- 6 **Direct** the Ministry of Business, Innovation and Employment to proceed with developing an all-of-government solution for insurance and other forms of risk financing.

Hon Steven Joyce
Minister for Economic Development

____ / ____ / ____

In Confidence

Annex 1 – Overview of the Government Procurement Reform Programme

