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OFFICE OF THE MINISTER
FOR ECONOMIC DEVELOPMENT

The Chair

Cabinet Committee on State Sector Reform and Expenditure Control

Government Procurement Reform Programme Quarterly Report - May to July 2013

Proposal

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

Executive Summary

- 2 By the end of the financial year, savings from the AoG contracts grew to approximately \$75.4 million. These were realised through the Ministry of Business, Innovation and Employment (the Ministry) refining AoG solutions so they continue to meet agencies needs and maximise benefits. An example is the air travel contract, which is being enhanced so agencies are able to receive air points at no extra cost or opt for improved pricing. An improved picture of government spending is enabling the Ministry to explore further collaborative contract opportunities, including for banking services and building materials.
- 3 Improving the procurement practices throughout the Public Sector continues to be a key focus of our reform activity. The new Government Rules of Sourcing will raise the benchmark and work is underway to prepare agencies and suppliers for their introduction on 1 October 2013. As a considerable amount of procurement is done by agencies in the State Services, preparatory work for expanding mandatory application of the Rules via a whole of government direction has commenced.
- 4 In addition to setting a sound procurement policy framework we need to lift agency procurement and commercial acumen. This is being done through a range of initiatives that give agencies and staff a clear picture of where they need to improve and opportunities to upskill. **Withheld under S9(2)(gi) of the Official Information Act 1982**
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The Ministry is also providing direct support for agencies in their complex, high risk commercial and procurement activities through the Commercial Pool. To improve the government's procurement interface with businesses the Ministry is preparing to upgrade the Government Electronic Tenders Service to enable improved provision of tender information and ease of responding to government tender opportunities. An overview of the achievements made in this quarter is provided in Annex 1.

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Unlocking cost savings

AoG contracts savings and participation

- 5 Cost savings achieved through the AoG contracts have grown steadily. I am pleased to report that in the 2012/13 financial year government agencies realised combined savings of \$41.7 million (compared with a forecast of \$41.5 million). This contributed to a total savings of \$75.4 million realised by participation in AoG contracts date which is in line with forecast savings and tracks well against total forecast savings of over \$330 million to be achieved over their life.
- 6 The government procurement reform activity is part funded through two repayable capital injections totalling \$9.6 million. The Ministry collects an administration fee of 1.5% of agency spend in order to repay the injections. Continued good performance of the programme may enable early repayment of the first capital injection in 2013/14.
- 7 The increase in savings realised has been driven in part by an improvement in agency participation in AoG contracts let to date, which is highlighted in Annex 2. The Ministry continues to work closely with agencies that are not yet purchasing against the AoG contracts to demonstrate the benefits in participating.
- 8 In July 2012, I reported that some agencies have been reluctant to participate in the air travel contract because their existing employee benefits include air travel points [CAB Min (12) 35/5]. To address this, the benefit structure of the AoG air travel contract is being enhanced so agencies will be able to receive air points at no extra cost. Alternatively they can opt to receive greater discounts on pricing. I am confident this will encourage more agencies outside the Public Service to take up this contract. Agencies will still need to comply with the Standards of Integrity and Conduct under the State Service Act.¹
- 9 The first AoG contracts - office supplies, vehicles, print devices, and desktop / laptop computers - are nearing the end of their initial contract term. This provides an opportunity to re-engage the market for these products and services with a more accurate picture of agencies' needs and spend, so that the AoG contracts continue to deliver value for money.
- 10 Since these AoG contracts were negotiated, technology and ICT services have evolved and offer new and improved ways of communicating. The introduction of tablets, for example, is enhancing the way agencies like the New Zealand Police deliver frontline services. The Ministry will work with the Department of Internal Affairs, as the Functional Leader for ICT, to develop contract strategies for the three current ICT AoG contracts so that they make the most of this potential.

Upcoming collaborative contracts

- 11 Since my last report, the Ministry has made good progress with new AoG contracts for banking services, building materials and consultancy, and is in the final stages of establishing contracts for rental vehicles and reticulated gas.

¹ The accrual of air travel points for individual travellers is not allowed for some agencies through the Standards. Agencies in the wider Public Sector are not covered by the Standards. These include tertiary education institutions, local authorities and state owned enterprises.

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- 12 The government spends over \$1.5 billion per annum on building materials and I believe we can use collaborative contracts to get much greater value for money. As the Procurement Functional Lead the Ministry is well placed to work with other government agencies to improve the procurement of building materials. The potential for this is especially high in Canterbury and includes putting in place measures to manage supply chain and inflationary risks as the rebuild ramps up. A good example of this is the Ministry working with the Earthquake Commission and Southern Response to bring a new entrant to the New Zealand market to participate as one of two suppliers in a \$40 million contract for the supply of wallboard solutions.

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- 13 Looking nationwide, the Ministries of Social Development and Education, the Department of Corrections and Housing New Zealand Corporation need to procure building materials for construction projects like schools, housing and corrections facilities. The Ministry is collaborating with these agencies to assess the potential for establishing AoG solutions whilst supporting their ongoing procurement and contracting activity.
- 14 Negotiations for the AoG reticulated gas contract concluded in August. It will complement the AoG contract for electricity already let, giving agencies a total energy solution. Currently, over \$100M of government's electricity needs are met through the AoG electricity contract. The electricity contract is delivering good results and driving competition between electricity retailers. The Ministry has developed an index based pricing tool which shows the AoG electricity contract has produced savings of 6% compared with other large electricity contracts.

Syndicated contracts

- 15 Syndicated contracts are an alternative to AoG contracts where there is a smaller cluster of agencies with similar purchasing requirements. Discussions between the Ministry and other agencies confirm that there is strong demand for these contracts. As well as strengthening agencies' ability to negotiate better deals, syndicated contracts can reduce tender costs for government and suppliers by streamlining sourcing processes under one contract.
- 16 The Ministry's initial review of existing and potential syndicated contracts is now complete and has revealed that six agencies are responsible for 62 of the 67 current syndicated contracts.

New Zealand Defence Force	37
New Zealand Police	9
Ministry for Primary Industries	4
Ministry of Social Development	4
Department of Corrections	5
Department of Internal Affairs	3
Other agencies	5

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- 17 To realise the potential of this type of collaborative procurement, the Ministry is encouraging more agencies to purchase off existing contracts and to take the lead in developing new contracts. Government sectors where there is further opportunity for syndicated contracts include Crown Research Institute and local government entities.

Improved information for agencies and purchasing behaviour

- 18 The AoG contracts have been successful in giving agencies better pricing but further efficiencies can be realised by improving agencies' purchasing behaviour. The Ministry is building a more in-depth view of spending across government and is able to identify potential for improved purchasing behaviour. It is using the information to develop solutions and tools that give agencies visibility of the efficiencies they can achieve, including:
- an *electricity pricing tool*, which demonstrates the savings agencies are making by purchasing under the AoG electricity contract,
 - a *travel calculator* that allows agencies to compare the benefits of participating in AoG contracts against non-AoG providers,
 - the feasibility of introducing a fleet optimisation solution.

Increasing performance, adding value and maximising results

- 19 We need to maintain a focus on improving the overall performance and results from public sector procurement as a whole. While the AoG and syndicated contracts have proved to be successful in helping agencies realise cost savings and improve procurement practice they only account for a relatively small amount of total procurement activity. In 2012/13 out of a total \$30 billion of government procurement activity AoG and syndicated contracts accounted for \$420 million and \$240 million respectively. We will build performance across the sector by:
- Improving the procurement policy framework and increasing coverage of the Government Rules of Sourcing;
 - Lifting the procurement capability and commercial acumen of government agencies and their staff; and
 - Improving the interface between the government and potential suppliers.

Government Rules of Sourcing

- 20 From 1 October Public Service agencies will be required to undertake their procurement in line with new Government Rules of Sourcing. Agencies in the wider Public Sector, such as Crown Entities, will be expected and encouraged to apply the Rules. During this quarter, preparation for implementing the new Rules started with business and agency briefings in Auckland, Wellington and Christchurch. These were well attended and overall the feedback was positive.
- 21 The Ministry is continuing to develop a suite of guides, tools and templates to promote good procurement practice and support effective implementation of the Rules. This quarter, the Ministry released an online training module for the new Rules, and guides on competitive dialogue and constructive market engagement to explain how agencies can take a more strategic approach to procurement. This includes a pilot of a 'Smart Procurement Planning Methodology' which will help agencies improve their market research and procurement planning.

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- 22 A considerable amount of government procurement is carried out by agencies in the State Services. To maximise savings and lift the standard of procurement practices, it is important that they apply the Rules of Sourcing consistently. On 2 April 2013, Cabinet directed the Ministry to prepare for extending mandatory application of the rules across the State Services [CAB Min (13) 10/4A]. The Crown Entities Amendment Act 2013, enacted on 13 July 2013, paves the way for this work by expanding the grounds for making a whole of government direction to Crown Entities and companies named in Schedule 4 of the Public Finance Act 1989.

Commercial Pool Initiatives

- 23 As I mentioned in my last report, there is high demand for services from the Commercial Pool - a self-funding team of procurement experts that provides agencies with strategic support for major projects. The Pool is coordinating the first steps of a review that will consider how major and complex projects operate within the current procurement and project framework (including the Better Business Cases process, Functional Leadership, new Government Rules of Sourcing and recent changes to the State Services Act and the Public Finance Act). The review follows on from the Novopay Inquiry and will consider whether the current project monitoring framework is robust enough to ensure that government agencies can manage similarly complex activities effectively.
- 24 The Pool is continuing to progress a contract framework for government agencies to use when engaging Non-Government Organisations (NGOs) to deliver services. The framework will reduce the compliance burden and place a stronger focus on delivering outcomes. The Pool is currently working with the Ministry of Social Development and Ministry of Health on planning for the transition of current and future contract requirements to the new framework.
- 25 The Pool is also providing commercial advice and procurement support to Te Puni Kōkiri for the selection of three 'commissioning agencies' to support the delivery of the Whanau Ora programme.

Building Procurement Capability

- 26 This quarter, the Ministry became the twelfth agency to complete an independent procurement effectiveness review. The results of the review were similar to those other agencies reviewed to date and the Ministry is working towards implementing the recommended action plan.

- 27 Withheld under S9(2)(g) of the Official Information Act 1982
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- 28 Agencies frequently tell the Ministry that a shortage of skilled procurers is a significant barrier to capability building so the Ministry is rolling out new initiatives to support individual career development. These include a training needs analysis tool and exploring the potential for a graduate procurement programme. The training needs analysis tool, launched in July 2013, allows agencies to assess their procurement staff against a competency framework and develop a plan for upskilling.

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New Generation Government Electronic Tenders Service (GETS)

- 29 To help the government's Better Public Service targets in improving its interaction with business the Ministry is redeveloping the Government Electronic Tenders Service (GETS). Government departments and ministries are required to advertise tender notices on GETS. The current system, which was acquired in the mid-1990s, is not meeting businesses and agencies needs and technical support will cease in the near future.
- 30 Development of a new generation GETS is well underway and will enhance the way business view and bid for government contract opportunities. The Ministry has established a strong governance arrangement and is working closely with the supplier, eValue, to ensure a seamless transition to the new application when it goes live in April 2014. Supplier registration for the new application will start in February 2014.

Consultation

- 31 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.

32 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 No publicity relating to this paper is planned.

Recommendations

It is recommended that the Committee:

- 1 **Note** that savings from the all-of-government contracts grew to \$75.4 million by the end of the 2012-2013 financial year;
- 2 **Note** that Public Sector agencies are preparing so that they are able to apply the new Government Rules of Sourcing from 1 October; and
- 3 **Note** that the Ministry is redeveloping the Government Electronic Tenders Service, which will go live from April 2014, to improve the interface with businesses in government procurement.

Hon Steven Joyce
Minister for Economic Development

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