

The Chair
Cabinet State Sector Reform and Expenditure Control Committee

Procurement Functional Leadership Progress Report - April to September 2014

Proposal

1. This paper provides an update on progress with the Procurement Functional Leadership programme and seeks agreement that, subject to negotiations, the Chief Executive of the Ministry of Business Innovation and Employment, as Procurement Functional Lead (or delegate), signs All-of-Government contracts for:
 - Banking Services;
 - Office Supplies;
 - Passenger and Light Commercial Vehicles;
 - Consultancy services; and
 - Risk Finance and Insurance Services.

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 (PFL) programme on a six monthly basis.
3. Each year the government procures between \$38 – 40 billion with third party suppliers. Good procurement can not only deliver better value public services, it can also support business development and economic growth.
4. In 2011, in order to drive a step change in procurement performance, the Chief Executive of the Ministry of Business Innovation and Employment (the Ministry) was appointed functional leader for government procurement.
5. All-of-Government (AoG) contracts have achieved significant benefits since their establishment. Participation by government agencies in AoG contracts continues to grow. There are now over 720 agencies, including all the DHBs, 371 schools, and 76 of the 78 local authorities participating in at least one of the AoG contracts. Participation in AoG contracts also save agencies the transaction costs in sourcing routine goods and services so that they can focus their procurement capability on their core business objectives. The Ministry is currently engaging the market over a number of new and existing AoG contracts. Annex 1 provides a Dashboard summary of the progress achieved with the Procurement Functional Leadership programme.
6. The Ministry has developed a comprehensive range of procurement guidance, tools, templates, training, and monitoring and assessment tools to support the development of improved procurement practices in the public sector. There is evidence that improvements are being made, with more procurement practitioners becoming qualified and agency procurement effectiveness reviews showing improvements in agencies' procurement processes.

7. However, there is a need to widen the reach and accelerate the change within agencies. Specialist procurement practitioners are in the minority as procurement is normally done by staff with other responsibilities. Greater awareness is also needed in agencies' policy development, operational delivery and senior management levels regarding how procurement can assist with the identification of new solutions to policy and operational issues. Early identification of where new solutions are sought enables a more open, proactive, market engagement that can help develop new solutions to public policy issues.
8. The Ministry is also working with agencies on how, within the scope of the Government Rules of Sourcing, agencies can more effectively involve New Zealand businesses in procurement processes. The key is for agencies to have early and proactive engagement with the supply market to ensure that New Zealand businesses are aware of upcoming procurement activity and are equipped to respond.

Background

9. 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.
10. Procurement is the planning for, acquisition of, and the subsequent management of products and services provided by third parties. Each year the government procures between \$38 – 40 billion with third party suppliers. This equates to between 17% - 18% of GDP, and includes a range of products and services such as prisons, IT systems, social services, the rebuild of Canterbury, and advertising services. Good procurement can not only deliver better value public services, it can also support business development and economic growth.
11. In 2011, in order to drive a step change in procurement performance, the Chief Executive of the Ministry was appointed functional leader for government procurement to:
 - introduce a centre-led model of procurement leadership;
 - strengthen and accelerate agencies' development of procurement skills and practices;
 - provide clear accountability for delivery of procurement commercial results;
 - support greater collaboration across state services agencies; and
 - improve oversight and support for agency procurement.

Recent Developments

New Zealand's accession to the World Trade Organisation: Agreement on Government Procurement (WTO:GPA)

12. New Zealand is a member of the WTO and has been an observer to the GPA since 2008. The GPA is a plurilateral agreement within the framework of the WTO and is optional for WTO members. It establishes open, fair and transparent conditions of competition in the government procurement markets covered by the agreement.
13. I am pleased to report that on 29 October 2014 we were successful in concluding the terms of our accession to the WTO GPA. The agreement will enter into force for New Zealand on the 30th day following the deposit of New Zealand's instrument of accession to the Director-General of the WTO.

14. New Zealand's accession to the WTO GPA secures access to government procurement markets in the 43 member countries which are party to the agreement. This opens up significant opportunities for New Zealand businesses to export. The value of the procurement covered by the agreement is currently estimated at US\$ 1.7 trillion by the WTO. When the GPA is in place, New Zealand based businesses will be able to supply entities such as the US Government, creating local jobs and growing New Zealand for all.

Consultation on proposed changes to the Government Rules of Sourcing

15. In October 2013 the Government Rules of Sourcing were introduced to improve the way Government does business with suppliers. They represent the government's standards of good practice for procurement planning, approaching the market and contracting. Feedback since then confirms the Rules are generally easy to understand, provide a platform for improving government agencies' procurement practices, and address suppliers' concerns about government procurement processes.
16. Cabinet directed (CAB Min (13) 10/4) 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. With the Rules set to become mandatory for 103 Crown Entities on 1 February 2015, it is timely to consider a few areas where feedback indicates the Rules could be improved or made clearer. The Ministry is consulting on a limited number of possible amendments to the Rules. These include:
 - Streamlining procurement by allowing Crown Entities an exemption from open tendering rules when they are sourcing goods, services or construction works from other central government agencies.
 - A clarification that ensures agencies publish the weightings they intend to use when evaluating tenders so suppliers can see where to focus their time and effort.

Review of commissioning capability within government agencies

17. Following the Novopay inquiry, the Ministry has reviewed the support mechanisms central agencies provide to agencies undertaking large or complex projects. It found that situations like Novopay could happen again, due to a range of gaps and overlaps identified in central government processes. While elements of the support available added value to public sector decision making, the system of 'triggers' that linked the support was fragmented, complex, out-dated, and sometimes subjective. There were also capability gaps within agencies and the supply market; and a lack of collaboration between corporate centre agencies and the wider state services. Some practices mandated by the corporate centre were not meeting expectations.
18. To address this, the corporate centre needs to better coordinate its activity so that there is better oversight of the commissioning of commercial capability in government.

Improving procurement practices and skills

Wider reach needed for procurement training and resources

19. The Ministry has developed a comprehensive range of procurement guidance, tools, templates, training, and monitoring and assessment tools to support the development of improved procurement practices in the public sector.
20. There is evidence that improvements are being made, with more procurement practitioners becoming qualified with the CIPS (Chartered Institute of Purchase and Supply) professional qualification, and agency procurement effectiveness reviews showing improvements in agencies' procurement processes. Notably the Ministry of Primary Industries (MPI) has achieved silver standard in its initial review and Ministry of Education (MoE) achieved a silver standard on its second review reflecting the substantial effort by both agencies to lift procurement performance.
21. There is a need to widen the reach and accelerate the pace of capability development within agencies. Agencies need to better invest in their procurement and commercial capability and focus it on their core business objectives and our result areas. I have asked the Ministry to consider how best to incentivise agencies to:
 - invest in procurement capability development, including for part-time, non-specialist, procurement staff;
 - lead collaborative activity; and
 - support other agencies.

Secondment of procurement staff

22. Skills exchanges between agencies are being actively promoted. The Ministry is developing a programme for secondments, mentoring and shadowing as part of PFL. Overall there has been positive feedback from agency procurement leaders to the proposed implementation of a formal secondment programme. However, some reservations have been expressed about losing seconded staff to other agencies, and the Ministry is working with agencies to address these issues.

Agency clustering

23. Clustering of agencies, such as that demonstrated by the transport agencies, should be further encouraged as it enables the sharing of skills, practices and knowledge, and leadership within sectors. The transport cluster will be the first group of agencies to undergo a procurement-effectiveness review as a cluster.
24. Clusters for other service areas could develop due to shared needs and collaborative procurement projects. Progress is being made in the social services area through the Social Sector Purchasing Steering Group. A similar approach could be applied in other sectors such as the health sector.
25. The reforms to procurement in the health sector are generating significant challenges. There is a real need for increased focus on the procurement activity and collaboration within the health sector. The Ministry is working to engage more effectively with the key stakeholders in the health sector to better support the change process.

Procurement Planning

26. Annual Procurement Plans (APPs) and Extended Procurement Forecasts (EPFs) assist agencies with planning, help the Ministry identify collaborative contract opportunities, and provide advance information to potential suppliers. Benefits of this approach include: improved agency practices; suppliers better able to prepare for and invest in

order to bid for government contracts, and cost-savings and productivity gains.

27. Agencies covered by the Government Rules of Sourcing are required to submit APPs and EPFs to the Ministry for publication. As there has been a low response, the Ministry is currently following up with agencies to remind them of the requirements. A list of which agencies have provided APPs is attached in Annex 2.

Identifying new solutions to policy and operational issues

28. Greater awareness is also needed in agencies' policy development, operational delivery and senior management levels regarding how procurement can assist with the identification of new solutions to policy and operational issues. Early identification of where new solutions are sought enables a more open proactive market engagement that could help develop new solutions to public policy issues.
29. The Ministry has had specific engagement with CEOs, CFOs and senior procurement staff of government agencies highlighting how procurement can assist with agencies' strategic and collaborative objectives. There has been a very good response from agencies' leadership teams, and the Ministry will continue to engage with them.

Competitive Dialogue

30. We introduced a new procedure through the Rules of Sourcing called Competitive Dialogue so that agencies can take a flexible approach when procuring new solutions. Competitive Dialogue is a type of open procurement process often used where there is no known solution in the market place. It involves a structured dialogue phase with each shortlisted supplier to develop possible solutions to meet the agency's needs.
31. The Commercial Pool, a Ministry team specifically established to help agencies with complex commercial activities, has now assisted six agencies with competitive dialogues. Through a structured market engagement, agencies have achieved a better understanding of what solutions are possible, risks have been reduced, and a step-change in contract outcomes have been identified. Each engagement was tailored (right-fitted) for the agency, market, and the outcome sought. Projects undertaken so far include:
 - Establishment, with Te Puni Kōkiri, of a new delivery model for the delivery of Whānau Ora through three non-government organisation commissioning agencies with a North Island, South Island and Pacific focus;
 - Selection, with Counties-Manukau DHB/Health Innovation Hub, of a Strategic Health Information and Communication Technology Partner for co-investment, development and commercialisation of innovative and disruptive technologies to improve healthcare;
 - Providing strategic advice to Inland Revenue on the procurement approach for the selection of a Design Partner for their Business Transformation programme; and
 - Assisting with the selection of a development partner for the delivery of affordable housing under the Christchurch Housing Accord.

Procurement supporting business growth

Request for Tender (RFx) templates launched

32. The Ministry has launched a suite of tender templates to simplify and streamline tendering across government and make tendering easier for suppliers. Stakeholders, including business groups, were consulted in the development of the model RFx templates. Suppliers (especially small businesses) have asked for a reduction in the complexities and compliance costs associated with tendering for businesses.
33. The RFx templates completed the suite of core procurement templates, covering the procurement lifecycle, but there is still work to be done to ensure that agencies are making the best use of these resources.

Effectively involving New Zealand businesses

34. Discussions have been underway with agencies on how, within the scope of the Government Rules of Sourcing, agencies can more effectively involve New Zealand businesses in procurement processes. The key is for agencies to have early and proactive engagement with the supply market to make sure that New Zealand businesses are aware of upcoming procurement activity and are equipped to respond. There are also opportunities for agencies to work more actively with their prime contractors and encourage them to engage local suppliers.
35. The Ministry recently supported the Ministry of Defence and New Zealand Defence Force to consider how they could optimise local industry engagement in their procurement activity. This was in response to a request by the then Minister of Defence. The two agencies are now looking to alter their practice so that they provide clearer signals of upcoming procurement and research and development activities to the market, assess the whole of life cost of a contract, and ask prime contractors about potential involvement of New Zealand businesses in their supply chains.
36. There is an opportunity for other government agencies to take a similar approach. I invite other Ministers to ask their agencies about how they could better involve New Zealand businesses through their procurement activity.

Supplier Relationship Management

37. There is a need to improve supplier and contract management capability within government agencies. There are significant benefits available to suppliers and agencies through active and co-ordinated contract management. However, supplier management has been an area consistently rated as "emergent" or "bronze" through the 20 agency procurement capability reviews undertaken to date. Contract management was also highlighted as an area of weakness by suppliers in the 2014 Government Procurement Businesses Survey, with only 26% of suppliers reporting that they had regular contract review meetings.
38. The Ministry has led a pilot to see how the government could better engage its strategic suppliers. While there have been difficulties coordinating the activity, the pilot has revealed that there is strong interest from government agencies and suppliers in a supply management model. There is an opportunity to make supply management model(s) available to government agencies and for the Ministry and some agencies to lead some coordinated engagement with strategic suppliers and wider industry engagement.

Collaborative Procurement

Agency benefits

39. AoG contracts have achieved significant benefits since their establishment. Participation by government agencies within the AoG contracts continues to grow. There are now over 720 agencies, including all the DHBs, 371 schools, and 76 of the 78 local authorities participating in at least one of the AoG contracts. Annex 3 provides a summary of agency participation in AoG contracts.
40. Total forecast savings over the life of all AoG contracts has increased from \$348m to \$415.1 million. This growth is in large part due to increasing utilisation over the last year of the External Recruitment Services AoG contract and an improved Air Travel contract with Air New Zealand.
41. The Ministry is introducing a series of improvements to ensure that the reports provided to agencies on the value of AoG contracts are regular, accurate and easy-to-understand. This is crucial to achieve wider and ongoing participation in the contracts. The savings methodology, which builds on the previous methodology that was regularly audited and considered good practice, has been refreshed to ensure savings better reflect changed market conditions and agency spending patterns. The refreshed methodology compares AoG contract pricing to regularly reviewed baseline market prices and provides a more robust comparison against the best rates available in the market. In 2015 the Ministry will implement a new reporting solution which will provide agencies with better access to spend and savings information.
42. The Ministry is also seeing an increasing willingness by agencies to collaborate in the establishment of syndicated contracts. The Ministry itself is now leading the establishment of five syndicated contracts. Agencies are achieving value from aligning business requirements and engaging the market in a co-ordinated manner, producing economies of scale and efficiency improvements. While agencies are benefiting from participation in the syndicate contracts being implemented, there are costs for the lead agency. Consideration is being given to how the lead agency costs can be better met.
43. There is also strong support by agencies for the re-tendering of expiring AoG contracts. These contracts not only provide savings for agencies but also reduce transaction costs and enable agencies to focus on the mission-critical procurement specific to their agency.

Market engagement

44. The Ministry is commencing reviews and early market engagement for the Energy Management Services (EMS) and Travel Management Services (TMS) AoG contracts for which the first contract periods are due to expire in mid-2015. The Ministry is in discussions with Energy Efficiency and Conservation Authority (EECA) about the possibility of moving the EMS contract to EECA so that it is better aligned with their energy conversation strategy.

Banking Services

45. The Ministry is pleased with the level of responses it has received for each of the four subcategories being tendered for as part of the Banking Services AoG solution when the RFP closed in October 2014. The comprehensive approach will help the Ministry to identify modern and innovative banking solutions for government agencies. The

evaluation phase of the RFP is expected to conclude early next year and the Ministry is on track to award contracts by mid-2015.

Office Supplies

46. The RFP for the new solution to the Office Supplies AoG contract closed on 22 October and is now in evaluation phase. The new solution looks to offer a more flexible approach to participation with specialist and regional suppliers able to bid for four of the five categories. The new solution will replace the current contract from July 2015.

Vehicles

47. The Passenger and Light Commercial Vehicles (Vehicles) AoG contracts are due to expire on 30 June 2015. The existing solution is working well and has the support of over 200 agencies.
48. The proposed Vehicles AoG contract will continue to provide savings and efficiencies for agencies, while encouraging best practice fleet management. There are some areas for further improvement that will be considered in the solution. The Ministry has worked closely with Department of Internal Affairs and the NZ Police to bring their unique needs (Ministerial limousines and operational police vehicles) into the scope of the AoG solution.
49. [REDACTED] s (9)(2)(d) [REDACTED] s (9)(2)(d) However as there is broad variance in agency fleet management practice and utilisation, the Ministry proposes to realise additional savings for government by lifting agency fleet management practice over the next contract term.

Consultancy Services

50. Significant market analysis and feasibility work has been undertaken to ascertain the viability of an AoG solution for Consultancy Services. Following consultation with agencies and suppliers, a tiered approach to the structure of the solution has been developed. The tiered solution addresses the market's requirements by fitting suppliers into three distinct tiers. Each tier has differing attributes relating to negotiations, reporting, supplier engagement, performance targets and supplier value proposals. This open-panel model will provide significant efficiencies by allowing all willing suppliers who agree core terms and conditions to better promote their consulting capabilities to government.
51. Given the broad scope of consulting, a tranching model for solution establishment is being utilised. The RFP for Tranche 1 covers Accounting, Audit, Assurance, Finance and economics, Taxation and Procurement and logistics services. The tender was released on GETS on 28 October 2014 and will close on 5 February 2015. The Ministry is working with GCIO and Treasury who propose to use the Assurance panel from the Consultancy AoG contract to establish smaller sub-panels of assurance providers. This is a good example of the benefits for government and suppliers from being able to leverage a single contract with agreed terms, conditions and pricing to address the multiple needs of individual and central agencies.

Risk Financing and Insurance AoG contracts

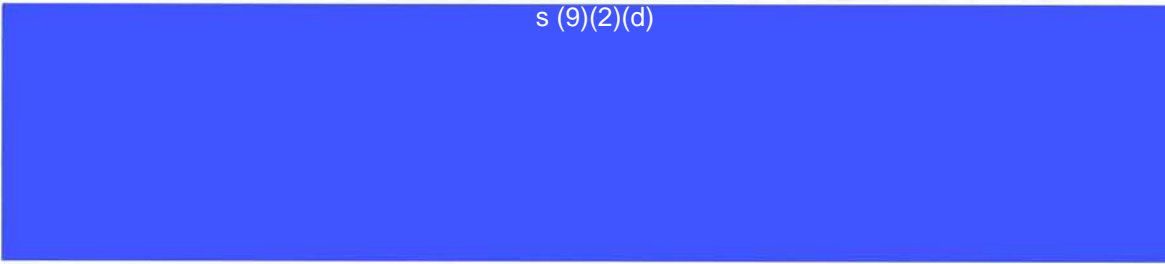
52. The Ministry is establishing a two-stage procurement model for the supply of risk financing and insurance to government agencies. It released an open RFP to the market

on 28 October 2014, seeking risk financing and insurance intermediary 'brokerage services' to government. A supplier panel of risk financing and insurance intermediaries will be formed in May 2015. Over 100 agencies (and all schools) have provided the Ministry with detailed insurance and asset information to enable the identification of clusters of government agencies with similar insurance needs. The Ministry will then sequentially undertake secondary procurement activities to select suppliers from the panel as the intermediary to source appropriate insurance options for the cluster of agencies.

Media and Design Services

53. In May 2014 the Ministry released a RFP for Advertising Media. Contracts are currently being negotiated with providers covering a wide range of media. The contracts will offer baseline discounts of up to 40% to government agencies (whether purchasing advertising media directly or via a third party (e.g. advertising agency). These contracts will be commence in mid-November 2014.
54. In July 2014 the Ministry, in conjunction with the Ministry of Social Development, released a RFP for Design Services. The contracts will offer beneficial rates to government agencies for these services. Contracts are currently being negotiated with a range of providers, with contract commencement expected to be end-November 2014.

Extension of existing AoG contracts

55.  s (9)(2)(d)
56. The IT Hardware AoG contract has been renewed for the final year and will expire on 24 September 2015. The Ministry has started work on the design of the future IT Hardware AoG solution, which is likely to include an updated pricing and catalogue structure and a broader range of ancillary services. They are working with Ministry of Education as part of the return to market to expand the successful Laptops for Teachers scheme (TELA), including potentially broadening the managed services for wider utilisation in schools and small agencies.
57. The Print Devices and Print Device Management Services AoG contract has also been renewed for the final year and will expire on 30 August 2015. The Ministry has started work on the design of a future Print AoG solution. The proposed solution has a greater emphasis on better utilising agency multi-function print technology as a 'digital on-ramp' accelerating the adoption of digitalised workflows and reducing reliance on paper based forms, records and processes. Greater electronic capture, validation and input of data has the potential to reduce back office head count, reduce printing and storage costs, and improve the public's experience when dealing with agencies.
58. The Ministry is renewing the Mobile Voice and Data All-of-Government contract for a further 12 months in line with the contract terms. The contract has achieved value with over 200 agencies participating within the first three year term and realising \$9.9m in savings (as at 30 Sept 2014). The contract will be incorporated in Telecommunication as a Service (TaaS) contract being established in conjunction with the Department of Internal Affairs (DIA).

Consultation

59. The Treasury, Department of Social Development Property Management Centre of Expertise and Department of Internal Affairs Government ICT Supply Management Office have been consulted in the preparation of this paper.

Financial Implications Human Rights and Legislative Implications

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

Regulatory Impact Analysis

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

Publicity

62. 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** the extensions to the AoG contracts for: External Recruitment Service, IT Hardware, Multi-Functional Print Devices, and Mobile Voice Data Services;
2. **Note** that the Ministry for Business Innovation and Employment is initiating early market engagement regarding a possible extension of the existing AoG contracts for Energy Management Services and Travel Management Services;
3. **Agree** that, subject to negotiations, the Chief Executive of the Ministry of Business Innovation and Employment, as Procurement Functional Lead (or delegate), signs All of Government contracts for:
 - Banking Services;
 - Office Supplies;
 - Passenger and Light Commercial Vehicles;
 - Consultancy services; and
 - Risk Finance and Insurance Services.

Hon Steven Joyce
Minister for Economic Development

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Annexes

- Annex 1 - PFL Dashboard
Annex 2 - List of Agencies which have, and have not, provided Annual Procurement Plans and Extended Procurement Forecasts
Annex 3 - Summary of Agencies participating in All-of-Government contracts