

Chair
State Sector Reform and Expenditure Control Cabinet Committee

Procurement Functional Leadership Quarterly Report, January to March 2014

Proposal

- 1 This paper reports on the progress with the Procurement Functional Leadership programme from January to March 2014. It includes savings results from all-of-government (AoG) contracts as at 30 March 2014 and agency participation data as at 5 June 2014.

Executive Summary

Savings and efficiencies

- 2 There are now 14 all-of-government (AoG) contracts under management. Savings achieved through these contracts have grown by \$21.2 million this quarter taking the total savings achieved to date to \$128.5 million. This is a significant step and can be attributed to the number of agencies actively using the contracts. There are now 614 agencies, including 273 schools and 74 of the 78 local authorities, participating in at least one of the AoG contracts.

Strengthening Procurement Skills

- 3 The Procurement Academy continues to support public servants studying towards Chartered Institute of Purchasing and Supply (CIPS) qualifications. During the latest annual intake in March 2014, an additional 43 students were inducted into the Academy, bringing the total number of current members to 97.
- 4 Fifteen agencies have now undertaken a procurement effectiveness review. A repeat assessment with the first agency has shown improvement in their procurement capability over the three year period.
- 5 The NGO Streamlined Contracting work continues to progress well. All key government agencies who contract with Non-Government Organisations (NGOs) are updating their transition plans with the aim of getting more NGOs onto the new framework by 1 July 2014. A cross-agency Steering Group has been formed to improve co-ordination and performance from initiatives being undertaken by the social sector.

Coverage (e.g. extension of common capabilities across agencies)

- 6 AoG contracts are planned for: Banking Services, Consultancy Services, Media Buying, Media Design Services, Insurance and Risk Finance, and the timber and steel tranches of Building Materials. Over the past three months new syndicated contracts

have become available for: Drug Testing (lead agency NZ Defence Force) Bulk ground fuel (lead agency Solid Energy) and Aviation Fuel (lead agency NZ Defence Force).

Collaboration between functional leads

- 7 The Ministry and the Department of Internal Affairs (as ICT functional leader) are collaborating in a joint initiative to deliver Telecommunications as a Service (TaaS) across government.

Focus for the next period

- 8 The focus for the next period will remain on accelerating the development of public sector procurement capability, implementing new AoGs for Insurance and Media Buying, and the return to market for four of the original AoGs (Motor Vehicles, IT Hardware, Office Consumables, and Print Devices).

Unlocking cost savings

Current all-of-government contracts

- 9 Savings realised from the 14 AoGs contracts under management grew by \$21.2 million this quarter to a total of \$128.5 million. This is a significant step and can be attributed to the number of agencies actively using the contracts.
- 10 Savings projections have increased slightly from \$65.7 million to \$69.2m for the 2013/14 financial year. Similarly, the total forecast savings by 30 June 2014 (which is cumulative) has increased from \$143.3 million (as reported last quarter) to \$147.2 million.
- 11 There are now 614 agencies, including 273 schools and 74 of the 78 local authorities, participating in at least one of the AoG contracts. The biggest increases in participation have been with the Reticulated Gas and the External Recruitment Services (ERS) contracts. Mobile Voice and Data now has 221 agencies participating and has the highest participation of all AoG agreements by local authorities (61 of 78).

Reticulated Gas

- 12 Since October 2013 the Reticulated Gas AoG contract now covers approximately 65% of the total government gas consumption by volume. Participating agencies are realising an average saving of 12.4% for the first year of the contract. The majority of large gas users within government such as District Health Boards (DHBs), Department of Corrections, New Zealand Defence Force, and some local councils and tertiary institutions are now participating in the contract. The contract runs for 4-years with Genesis Energy as the single supplier.
- 13 The Ministry is also working with the Ministry of Education and Genesis Energy on a 'Gas for Schools' initiative. A marketing brochure was distributed to 400 North Island schools in mid-April. To date, 67 schools have signed the agreement and 41 schools have returned their current billing information. The Ministry and Genesis are currently calculating cost benefit statements for these schools; savings are, on average, around 25%. With the savings identified, the Ministry is expecting a high uptake from the

schools concerned.

Rental Vehicles

- 14 On 7 March 2014 the Ministry announced a panel of four Rental Vehicle suppliers. Agencies can achieve an average saving of 7% on vehicle hire rates and additional savings can be achieved through the removal of airport location fees, credit card merchant fees and one way fees. A price comparison calculator is available allowing agencies to easily compare their current rental vehicle costs with the AoG pricing.
- 15 Feedback from agencies that have already joined the Rental Vehicles agreement has been positive. One agency has reported a 20% saving will be achieved by transitioning to the AoG agreement.

Improving services

- 16 The Ministry has been reviewing the operation of the AoG contracts to ensure the reliability and enhancement of the savings data and to identify opportunities for ongoing improvement. While Audit NZ has reviewed and commented that aspects of the AoG contracts are best practice, improving the way the Ministry collects performance information from suppliers and reports to the same agencies will help reduce transaction costs for suppliers and demonstrate the value agencies are receiving from AoG participation.

Return to Market

- 17 Four original AoG contracts (Motor Vehicles, IT Hardware, Office Consumables, and Print Devices) are due to expire in 2015. Savings of \$83.3 million have been realised to date from these contracts and \$125.6 million in savings is forecast over the full period of the contracts. This is above the \$112 million initially forecast, when the contracts were established in 2010.
- 18 The contract for Print Devices is due to expire on 30 August 2014 with an option of a one year renewal term. The Ministry is considering whether to renew the contract and, if so, what changes to make to it, or whether to take the category back to the market. Alignment with the Department of Internal Affairs as the ICT Functional Leaders Strategy will be incorporated into the return to market plan.
- 19 The IT Hardware contract is due to expire in 2015. The Ministry is working to improve its understanding of market developments and how best to align with the ICT Strategy, and identify options for agencies going forward.
- 20 The Office Consumables contract will expire in July 2015 with no further renewal options. Work is already underway to understand how the office consumables supply market has changed since the contract was originally let. This includes engagement with suppliers to consider the potential scope and structure of a new contract.
- 21 The Motor Vehicles contract will expire on 30 June 2015. The Ministry has agreed to work with NZ Police to establish a single AoG motor vehicles contract, including Police frontline vehicles which account for approximately 10% of government spend on

vehicles. Given that Police require significant time (estimated 6 months) to evaluate frontline vehicles including the prototype of fit out requirements (lights, sirens etc.), the Ministry and Police are approaching the return to market in two phases. Phase 1 will be a request for proposals (RFP) for Police needs only. Phase 2 will be a RFP for the other classes of vehicles that agencies require.

New AoG contracts

Media Buying and Design Services

- 22 A new contract was released to market on 19 May 2014 for Media Volume Incentive Discounts covering government purchase of advertising media placement. This will complement the existing AoG Advertising contract which covers the creation and management of services. The aim is to bring the existing contracts in line with current best practice government processes to ensure innovation, efficiency and cost saving benefits to all agencies. In advance of an AoG contract, the Ministry will extend the current arrangements in place with media providers which was previously managed by the Department of Prime Minister and Cabinet.
- 23 Design services for government agencies have previously been offered through a syndicated contract managed by the Ministry of Social Development (MSD). This contract expires in October 2014. In July 2014, with the support of MSD, design services will be tendered as an AoG contract. The contract will be managed alongside the current advertising services contract. The Ministry plans to establish a panel of design providers that can provide competitive rates and benefits to government agencies when purchasing design services.

Insurance and Risk Financing

- 24 An AoG solution for insurance and risk financing will leverage agencies' combined purchasing by aggregating and presenting improved risk profiles to the market. A two tranche approach is intended. In the first tranche, the Ministry will work with agencies to cluster them into groups with similar risk profiles and risk appetites. The Ministry will initially go to market between October and December 2014. A second tranche will involve packaging a selection of existing insurance purchasing clusters into 'super clusters' which will then be marketed to the global insurance and reinsurance industry as a single account. The first 'super cluster' approach to market will take place in July to September 2015.

Other AoG contracts

- 25 The Ministry will go to market in mid-2014 for steel and timber and will have contracts in place in the second half of 2014. Other building materials subcategories will be initiated over 2014/15. Ministers have written to their agencies seeking their support and participation. Communicating significant agency support to the market presents a more compelling value proposition to the industry.
- 26 The Ministry continues to work closely with the Treasury on the development of AoG solutions for banking services. The Ministry will go to market in June 2014 with a contract being established by the middle of 2015. The solution will be focused on the

following areas of banking business: Transactional banking services, merchant services and domestic payments, card services and foreign exchange transactions (low value).

- 27 The Ministry is also working towards the release of a tender for consultancy services in June 2014, with a solution being in place early to mid-2015. The first tranche will cover a distinct number of areas: audit and assurance, accounting, procurement/logistics, taxation, finance and economics. The open panel solution being sought will emphasis ease of implementation, transparency of information and quality feedback.

Other collaborative contract opportunities

- 28 A successful summit was held in Wellington in May 2014 to discuss the benefits, challenges and the potential future of syndicated contracts. It was attended by Chief Procurement Officers and procurement managers. There was a common consensus that syndication still has part to play in government. This will be a key driver for collaboration across government where common items/services are purchased, and will generate better use of taxpayers money which in turn creates better value for money. A follow-up summit will be held in June 2014.
- 29 Several syndicated and common capability contracts^[1] are currently being progressed. Over the past three months the following new syndicated contracts have become available to agencies:

Category	Lead agency	Scope
Bulk ground fuel	Solid Energy	Bulk ground fuel (diesel only) will be delivered to an agency's fixed storage facilities or collected by the agency's vehicles or contractors from the supplier's terminal.
Drug Testing	New Zealand Defence Force	Provision of drug tester training and testing supplies for onsite drug testing
Aviation Fuel	New Zealand Defence Force	Providing aviation fuel to agency sites

- 30 Annex 1 provides an update on other collaborative contracts under development.

Increasing performance, adding value and maximising results

Business Feedback

- 31 The Ministry conducted the inaugural annual Government Procurement Business Survey between December 2013 and February 2014. This survey was designed to create a baseline of government's interaction with businesses through its procurement activity. Six hundred and sixty six businesses responded to the survey, the majority of which were New Zealand based.

^[1] Syndicated contracts involve a lead agency establishing a contract that can be accessed by other government agencies. 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.

- 32 Fifty five percent of businesses indicated that government business was extremely important for their organisation and 63% of businesses felt confident they could effectively bid for government contracts. However, 58% of businesses indicated that doing business with a government agency did not compare favourably with their other general customers. Businesses critiqued the quality of tender documentation, contract management and feedback, provided by government agencies.

Model tender documents project

- 33 The Ministry is currently developing model RFX templates. It aims to support more consistent and effective government procurement by providing a suite of practical, simple, plain English, tender templates that covers the common types of approaches to market. This will improve consistency in tendering and make it easier for businesses to understand requirements. The model templates will initially be launched as a pilot for 12-18 months as agencies will need time to deploy the template. The templates will be reviewed at the end of the pilot period and following consultation.

Strengthening Procurement Skills

- 34 The Ministry continues to progress the procurement effectiveness reviews of departments. Draft reports for Ministry of Health and Department of Conservation have been produced and final versions are in development. An effectiveness review for Ministry of Primary Industries is currently in progress.
- 35 Fifteen agencies have now undertaken the procurement effectiveness review. These are all larger agencies. A repeat assessment with the first agency has shown improvement in their procurement capability over the three year period.
- 36 The Ministry has reviewed 24 Significant Business Cases since October 2013. The Ministry's feedback has been well received by agencies. Effective conversations are starting to develop supporting agencies in further developing their procurement planning practices.
- 37 The Procurement Academy continues to support public servants studying towards Chartered Institute of Purchasing and Supply (CIPS) qualifications. During the latest annual intake in March 2014, an additional 43 students were inducted into the Academy, bringing the total number of members to 97. This will start addressing the low levels of qualified procurement employees identified in the BASS (Administrative and Support Services Benchmarking) report; 59 of these students are in agencies covered by the report. Also, in March CIPS trialled an exam period in Wellington and 33 students sat 38 exams.

Commercial Pool Initiatives

- 38 The Commercial Pool is currently working on 20 projects. Detail on some of these projects is provided in Annex 1.

Commissioning Capability

- 39 On 4 February 2013 Cabinet directed the Ministry, in conjunction with the Treasury,

the State Services Commission, and the Government Chief Information Officer, to provide advice on the robustness of commissioning capability and the management of commercial arrangements in the wider State Services in light of the Novopay implementation problems [Cab (13) 2/11 refers].

- 40 The current interventions and support for commissioning and managing commercial arrangements in the State Sector have been mapped and the project had generated a number of suggestions on what is required to increase the success rate of State Sector projects and deliver the confidence sought by Chief Executives and Ministers. I will be receiving in June 2014 advice and recommendations on potential improvements.

Telecommunications as a Service (TaaS)

- 41 The Ministry and the Department of Internal Affairs (as functional leader for ICT) are collaborating on a joint initiative to deliver Telecommunications as a Service (TaaS) across government. TaaS is intended to expand the current range of ICT services available across government to include a broad integrated range of telecommunications and managed security capabilities such as video, voice, mobile, data, call centres and managed security). TaaS is expected to deliver a more competitive, contestable and innovative telecommunications marketplace, whilst also enabling collaboration and sharing of information. An early estimate of annual savings from TaaS programme is around \$30 million per annum by 2017.

NGO Streamlined Contracting

- 42 The NGO Streamlined Contracting work continues to progress well. All key government agencies who contract with NGOs are updating their transition plans with the aim of getting more NGOs onto the new framework for 1 July 2014. The Ministry has also engaged ANGOA (Association of Non-Government Organisations of Aotearoa) to deliver a provider awareness programme to prepare them for the transition.
- 43 In addition, the Ministry continues to provide training for government agency staff who are transitioning contracts onto the new contracting framework. The Ministry will support agencies during their transition, and is looking to share lessons learned from the early transition activity to improve future transition activity.
- 44 To further improve procurement practice by social sector agencies, a cross-agency steering group has been formed. This group is chaired by the Ministry for Social Development and includes members from the following agencies: Health, Education, Corrections, Maori Development, Justice, and Treasury. As an initial focus the steering group has developed common oversight and information sharing of current procurement initiatives, such as: streamlining NGO contracts, developing common business viability standards, a common audit and approval regime, and social bonds. The steering group will look to develop a medium term work programme focussed on lifting overall effectiveness of procurement of social services. This will likely include a focus on agency capability, a common approach to building provider capability, better understanding the provider market, and improved measurement of

outcomes. The Ministry is providing support to consider how the tools and models developed through procurement functional leadership can help in a social service context.

Create environment for New Zealand businesses to succeed

New Zealand Trade and Enterprise

- 45 When we established Procurement Functional Leadership we wanted the Ministry to not only lift procurement capability across government and realise further savings, but also to enable opportunities for New Zealand businesses to succeed. As such there has been a focus on ensuring the overall rules framework helps businesses navigate and engage government, and to improve links with government procurement in export markets. However more could be done to help businesses to bid for and win government contracts. New Zealand Trade and Enterprise (NZTE) is best place to work directly with businesses.
- 46 NZTE's Better by Procurement team, the refocused Industry Capability Network, is working with the Ministry to develop an on-line resource centre to help businesses to improve their tendering capability. It will go live in June 2014 on www.procurement.govt.nz. The Better by Procurement team has also released a new service called 'Assessing Tender Responses', which includes an assessment of customers' tender responses in comparison to the tender documents the buyer had issued, and provides recommendations for improvement. The service follows a pilot that was completed with fifteen NZTE customers last year. In the pilot, only one of the customers was considered to have achieved an acceptable international standard for tendering. The pilot received very high customer satisfaction ratings. The service is also being made available to regional partners through the 'Accelerate Success' website. Training modules are currently being piloted as a follow up.

Next Generation Government Electronic Tender Service (GETS)

- 47 The Government Electronic Tenders Service (GETS) is a free service provided by the Ministry on behalf of the government. It is designed to promote open, fair competition in the New Zealand Government market and meet international trade agreement commitments to provide information about New Zealand Government business opportunities.
- 48 GETS currently operates on an aged legacy platform. In June 2013, the Ministry entered into an agreement to develop a replacement. The planned go live date for the next generation GETS is 30 June 2014. The system is currently undergoing full testing of performance and security to ensure the application will meet the detailed functional and non-functional requirements defined in the contract.

Future Reports

- 49 In 2012 Cabinet directed [Cab Min (12) 35/4D, refers] the functional lead for procurement to provide a quarterly progress report tracking benefit realisation to State Sector Reform Ministerial Group, with the first report due in March 2013.

50 I support the change to the six-monthly reporting period as proposed by the Functional Leadership Oversight Group as the procurement reform programme is maturing and becoming more embedded, and quarterly reporting has proven too short a timeframe to demonstrate material incremental change in a single reporting period.

Consultation

51 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

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

Regulatory Impact Analysis

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

Publicity

54 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 by \$21.2 million to \$128.5 million by March 2014;
- 2 **Direct** the Ministry for Business Innovation and Employment to initiate a return-to-market for the all of government contracts for: Motor Vehicles, IT Hardware, Office Consumables, and Print Devices;
- 3 **Agree** that, subject to negotiations, all-of-government contracts for: Media Buying, Media Design Services, and the timber and steel tranches of the Building Materials, be approved for signing by the Chief Executive of the Ministry of Business, Innovation and Employment as Procurement Functional Lead;
- 4 **Note** that Cabinet has previously invited the Minister for Economic Development to report on the Procurement Functional Leadership programme quarterly [Cab Min (12) 35/4D, refers]; and
- 5 **Invite** the Minister for Economic Development to move reporting on the progress with the Procurement Functional Leadership programme from a quarterly to a six monthly basis.

Hon Steven Joyce
Minister for Economic Development