

**The Chair
Cabinet State Sector Reform and Expenditure Control Committee**

**Procurement Functional Leadership Progress Report –
April 2015 to September 2015**

Proposal

1. This paper provides an update on progress with the Procurement Functional Leadership programme from April 2015 to September 2015.

Executive Summary

2. The Procurement Functional Leadership (PFL) programme continues to deliver significant benefits. Since its establishment in October 2012, PFL has generated greater value for government and New Zealand by implementing initiatives to improve supplier engagement and development, develop government's commercial skills and practice, and deliver benefits through collaborative procurement.
3. In August 2015, the Ministry of Business, Innovation and Employment (the Ministry) finalised New Zealand's accession to the World Trade Organisation's (WTO) Agreement on Government Procurement. This provides New Zealand companies with guaranteed access to bid for government contracts, valued at USD \$1.7 trillion per year, in 44 WTO member countries. New Zealand businesses are already reporting that they have won contracts as a result of our membership.
4. Work is underway to improve the engagement between government agencies and New Zealand businesses. For example, the Ministry is working with an inter-agency group, Regional Business Partners and GrowWellington to develop a resource to help local businesses tender for government contracts. It will also seek to make key agency contact details more readily available, improve constructive market engagement and build on other related government initiatives.
5. For the first time in more than 25 years, the Government banking contract has been put out to tender. The new All-of-Government (AoG) Banking Services solution offers estimated financial benefits of approximately \$120 million over 8 years and will enhance agency productivity. The solution ensures that banking services are fit for purpose, provide value for money and enable innovation in Banking Services for government.
6. With the significant use of consultancy services across government, the Ministry has been working on an AoG solution that will deliver greater efficiencies for both agencies and suppliers. The first tranche of the AoG Consultancy Services solution provides flexibility and choice for agencies and introduces an efficient and effective

management system. For providers, the contract and reporting requirements are proportionate to the size and complexity of the contract.

7. To drive the development of commercial expertise in agencies, a Procurement Capability Index (PCI) tool has been piloted and will be launched in mid-2016. This tool will enable agencies to self-assess their procurement effectiveness and develop clear plans for improvement. The results will also be used to help to inform an agency's Investor Confidence Rating and assist the Treasury with investment decision making.
8. As the procurement of social services makes up approximately 22% of government's procurement spend, there is an opportunity to provide better services for New Zealanders through better practices in this sector. To support government's social investment objectives, the Ministry has launched a number of initiatives to improve government's engagement with NGOs and procurement performance in the social sector.
9. AoG contracts continue to deliver significant benefits. There are currently 1544 agencies, including all local authorities and 1179 schools, participating in at least one AoG contract and total forecast savings over the life of the existing AoG contracts have increased from \$415 million in June 2015 to \$699 million. The increase in savings is largely due to improved supplier engagement, greater efficiencies and the implementation of new AoG contracts.

Background

10. 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.
11. The PFL programme was implemented in October 2012 with the primary aims of creating an environment where New Zealand businesses can succeed, improving government's procurement capability and performance, and delivering better value through its procurement activity. To achieve these goals and generate greater value for New Zealand, a number of PFL initiatives have been implemented to improve supplier engagement and development, develop government's commercial skills and practice, and deliver benefits through collaborative procurement.

Supplier Engagement and Development

World Trade Organisation (WTO) – Agreement on Government Procurement (GPA)

12. New Zealand's accession to the GPA, which was led by the Ministry, came into effect on 12 August 2015 and provides New Zealand companies with guaranteed access to bid for government contracts in 44 WTO member countries, including the US, Canada, Japan and the 28 European Union countries. Government procurement in these markets is valued in excess of USD \$1.7 trillion per year and it is expected that

this number will grow as other WTO members such as China and Australia accede to the GPA over time.

13. New Zealand companies are already benefiting from this deal. For example, the software development company Orion Health was a part of a group that won a US Department of Defense contract to help modernise their healthcare data system. Similarly, ikeGPS teamed up with an American IT solutions business to secure a major contract with the US government to provide a smartphone measurement solution. As a result of New Zealand's accession to the GPA, ikeGPS is now able to sell products manufactured at their New Zealand facility directly to the US government keeping those manufacturing jobs in New Zealand.

Improving the engagement between agencies and SMEs

14. The Ministry has established an inter-agency group and is working with New Zealand Trade and Enterprise and Regional Business Partners to improve the engagement between agencies and Small and Medium-sized Enterprises (SMEs). The group aims to develop a resource with GrowWellington for Regional Business Partners to use with local businesses to help them tender for government contracts. It will also seek to make key agency contact details more readily available, improve constructive market engagement and build on other government initiatives.
15. Agencies are also considering alternative processes for using procurement to stimulate innovation and generate new solutions. An information pack on a variety of different market engagement processes has been developed and provided to agencies to 'road-test'. If it proves useful, it will be made more widely available.
16. The Ministry and the Department of Internal Affairs (DIA) have been working on how to progress innovation and small business involvement in government procurement. A workshop facilitated by NZ Rise with the ICT sector was recently held to investigate the challenges businesses faced when bidding for government contracts, as well as how engagement could be improved. NZRise will continue to support the sharing of best practice and growing the overall capability of the profession in government.

Increasing consistency in procurement practice

17. The Ministry is currently piloting a suite of tender templates which aim to simplify and standardise tendering across government, increase the consistency of government practice and apply terms and conditions that are fairer to both parties. This will make government easier to do business with and improve engagement with businesses. Officials advise that businesses have welcomed the use of standardised tender documents. The Ministry is consulting with government agencies and suppliers and it is anticipated that the final versions of the templates will be released in early 2016.

Construction guidance

18. The Ministry has published construction procurement guidance for agencies in response to feedback from the industry and variable agency performance in the area. The guidance is modelled on international good practice and has been shaped by

feedback from the construction industry and government agency experts. It will support government agencies when planning and delivering construction projects and enhance government's engagement with businesses by encouraging a common understanding between stakeholders when working together on construction projects. The guidance has been well received by the construction industry.

Signalling government's forecasted procurement activities to the market

19. One of the ways the Ministry is making it easier for businesses to respond to government tenders is to provide earlier information to the market on planned procurement activities. This signalling to the market gives businesses more time to plan and respond to tenders and helps to address a common criticism from businesses that government does not provide enough advanced warning on what it intends to purchase.
20. Information on planned government procurement activities is sourced via Annual Procurement Plans (APPs) and Extended Procurement Forecasts (EPFs) that agencies bound by the Government Rules of Sourcing are required to complete. Information gained from APPs is published online to provide advanced notice to the market, whereas information gained from EPFs is not published and used to identify collaborative opportunities across government. An overview of the agencies which have and have not submitted them can be found in Annex 1.
21. The Ministry is working with the Treasury to increase visibility of future infrastructure investment opportunities for government. Other methods of signalling government's forecasted procurement opportunities to the market are also being investigated.

Social sector

22. The procurement of social services is one of government's largest categories by spend, at approximately 22%, and there is an opportunity to improve engagement and practice in this area. The Ministry is supporting the Social Services Procurement Committee, a group of Tier 2 managers from the social sector, to set the strategy for improving performance and engagement with providers of social services. This is a key enabler to supporting government's social investment objectives.

Social services procurement guidance

23. The Ministry has established a cross-government working group and leads a project to develop procurement guidance for social services. This was a key recommendation to emerge from the New Zealand Productivity Commission's *More effective social services* report. It will seek to improve engagement with social service providers, reduce costs for both agencies and NGOs and lead to better services for New Zealanders.

The Streamlined Contracting with NGOs project

24. The Streamlined Contracting with NGOs project, established in 2013, is in its final year and will conclude in June 2016. There are early signs that NGOs are seeing

reductions in the duplication of reporting, monitoring and auditing activities due to the implementation of outcome agreements by agencies. In the remaining months of the project, the following will occur:

- a. the social sector contract register will be implemented to support agencies collaborating to reduce duplication of contract management activities;
- b. the outcome agreement will be embedded as an Approved Government Model Template, subject to Cabinet approval, meaning its use will be mandatory;
- c. work will progress on implementing the streamlined contracting framework with District Health Boards; and
- d. training offerings will be extended to providers and refreshed to address continuing capability gaps.

NGOs accessing government contracts pilot programme

25. To further improve government's engagement with NGOs and to help build their commercial capability, a pilot programme is being developed which will assess the benefits of NGOs accessing some government Collaborative Contracts. The pilot will also seek to build their commercial capability by encouraging them to complete a modified Procurement Capability Index (see paragraph 26) and consider adopting procurement tools and templates when appropriate. This will inform which medium-term initiatives would be of most benefit to improving engagement with NGOs and procurement outcomes.

Improving Skills and Practice

Procurement Capability Index

26. A Procurement Capability Index (PCI) tool has been developed to encourage the development of commercial expertise in agencies and improve supplier engagement. This tool is based on self-assessment and allows agencies to assess their procurement effectiveness and develop plans for improvement. The results will also be used to help inform an agency's Investor Confidence Rating and assist the Treasury with investment decision making.
27. The PCI has been piloted with those agencies required to complete a Benchmarking Administrative and Support Services (BASS) report in 2014/2015. Work is currently being progressed to develop and implement:
 - a. an external moderation process to support robust and transparent self-assessment including moderations from outside government; and
 - b. additional clarity and guidance as to the evidence required to support the self-assessment process.

28. It is expected that from 2016 onwards the PCI will be completed as a separate process, with the results published online. It is intended that the PCI will be completed at least annually by all agencies covered by the Government Rules of Sourcing.

Developing leaders programme

29. A developing leaders programme has been established to improve the individual capability and skills of those identified as future leaders in government procurement. This programme has brought together approximately 20 younger procurement professionals to identify opportunities and generate innovative solutions to improve practice across government. The group has been established to operate collaboratively across agencies using a business accelerator approach to implementing change with assistance from the R9 Accelerator.

Assisting with major government projects

30. The Ministry provides high quality procurement and commercial advice to agencies undertaking complex, risky and strategically important projects through the New Zealand Government Procurement Commercial Pool. In addition to providing support, this assistance helps with immediate capability and capacity issues and builds skills within agency teams. Some of the major projects the Ministry is providing commercial expertise and support to include:
- a. **IRRS Housing Services Auckland:** Led by the Ministry of Social Development, this project seeks to provide additional social housing places and help housing shortages in the high demand Auckland market.
 - b. **Identifying further opportunities for social housing:** The Ministry is assisting the Treasury reform the social housing system so that it can improve outcomes for tenants.
 - c. **Housing development on vacant and underutilised Crown land in Auckland:** This project is being led by the Ministry and aims to identify vacant and underutilised Crown-owned land in Auckland available for housing development.
 - d. **Canterbury construction:** The Ministry is supporting a number of initiatives included in the Canterbury rebuild, such as the development of Christchurch's Justice Precinct.
 - e. **Cloud marketplace:** The Ministry is also supporting DIA to consider how to develop a marketplace for cloud solutions. This has the potential to meet government's changing needs as well as improve participation by small New Zealand businesses within government's ICT activity.

Online procurement training

31. An online procurement course was launched in October on www.procurement.govt.nz. The online training is free of charge and enables those

unable to attend face-to-face workshops to develop their procurement knowledge and skills in their own time. Based on content from the Ministry's *Demystifying Procurement* workshop, the online course is comprised of four modules and provides an introduction to the procurement tools and techniques required to undertake good procurement practice.

Developing individual's skills and knowledge

32. A number of other new initiatives are underway to develop individual's skills and knowledge. Small-scale trial mentoring and shadowing programmes have been launched that will be available to procurement practitioners across the public sector when fully launched in early 2016. These programmes will increase individuals' knowledge and skills, improve work performance and further develop the procurement community.
33. A related initiative is the Procurement Graduate Programme, established in early 2014 to increase procurement capability and capacity across government. A total of eight graduates were recruited as a part of the first two intakes in 2014 and 2015, with the first of these now leaving the programme to take up a full time role in an agency. It is anticipated that an additional eight graduates will be recruited in early 2016 as demand for places in the programme has far exceeded the number of positions available. Reviews of the programme indicate that it is helping alleviate the shortage of commercial procurers in the public sector, creating a structured pathway into the profession for graduates and raising procurement's profile as a viable career option amongst university students.

Improving supplier relationship management

34. Good supplier relationship management is critical to achieving good procurement outcomes across government. The Ministry is launching new supplier relationship management training over the coming months and will investigate other methods to improve supplier and contract management in the public sector. A new Strategic Supplier Relationship Management framework will also be introduced by the Ministry in late 2015 to further improve engagement with suppliers to All-of-Government contracts.

Procurement facilitating Health and Safety reforms

35. To support the health and safety reforms, the Ministry is working with agencies to help them use their procurement practices to improve health and safety outcomes within their agencies and their suppliers. In addition to engaging with agencies, the Ministry has:
 - a. released Planning Construction Procurement: A guide to health and safety and employment standards at work;
 - b. included health and safety questions as part of the Procurement Capability Index, which will help identify areas for performance improvement;

- c. initiated a review of procurement guides and templates to ensure they support the reforms; and
- d. actively engaged with the WorkSafe Board on the Ministry's initiatives and work plan.

Agency award

36. Land Information New Zealand (LINZ) has won the award for 'Best Supplier Relationship Management' at the Chartered Institute of Procurement and Supply (CIPS) Australasia Awards 2015. The LINZ team received the award for how it transformed an existing supplier relationship with Boffa Miskell, a NZ-based environmental planning and design consultancy, into a more strategic partnership build on trust, the freedom to innovate and mutual goals and benefits. This was achieved by simplifying requirements to outcomes-focused service definitions, shifting the focus from contract performance to partnership success, and introducing an innovation fund where both parties make annual contributions towards exploring new technologies, systems and methodologies. This award confirms that the PFL programme has contributed to the development of procurement capability and good practice in the New Zealand government.

Collaborative Procurement

Participation and benefits from collaborative contracts

- 37. All-of-Government (AoG) contracts continue to achieve significant benefits. There are currently 1544 agencies, including all local authorities and 1179 schools, participating in at least one AoG contract.
- 38. The Ministry's efforts to implement new AoG contracts and improve efficiencies and supplier engagement have resulted in significant increases in savings. Total forecast savings over the life of the existing AoG contracts have increased from \$415 million in June 2015 to \$699 million. This figure is based on all current AoG contracts in place and does not include forecast savings for the AoG solutions in progress.
- 39. Annex 2 provides a dashboard summary of the PFL progress, and Annex 3 lists savings and agency participation in AoG contracts.

Market Engagements

Recently renewed contract

- 40. The AoG contract for 'External Legal Services' has been renewed following reviews and positive feedback from participating agencies and suppliers.

Return to market

- 41. The Ministry successfully retendered the Vehicles, IT Hardware, Office Supplies and Print Devices contracts following the conclusion of their original terms. Improvements

were made to the contracts to provide additional options and greater potential savings for agencies.

Recently established contracts

Banking Services

42. For the first time in more than 25 years government's banking services have been put out to tender. The Ministry awarded contracts for the AoG Banking Services solution in September 2015, with a total of six banks being selected to provide services in the following categories: Crown Transactional Banking; Foreign Exchange Transactions; Payment Services; and Card Services.
43. The services offered under the AoG Banking Services solution are fit for purpose, provide value for money and enable innovation in Banking Services for government. It offers estimated benefits of approximately \$120 million across the whole solution for its eight-year life and significant productivity gains. For example, extensive use of the card and expense management offering will enable most agencies to drastically reduce the amount of low value cash and manual expense transactions needed and save on administration costs.

Consultancy Services, first tranche

44. The first tranche of the AoG Consultancy Services solution was established in early November 2015. The first tranche (estimated spend \$125M pa) includes the following subcategories: Accounting; Assurance; Audit; Finance and Economics; Procurement and Logistics; and Taxation.
45. A phased approach for the solution, where tranches of subcategories are taken to market over time, is being implemented due to the scope of the solution and size of the market. Tranches will also ensure a breadth of high-quality services to government.
46. To streamline supplier engagement once implemented, the first tranche was horizontally divided into three tiers based on the size, capability and capacity of the supplier. This provides flexibility and choice for agencies and suppliers, and enables efficient and effective management of the solution. It also ensures a wide range of providers have the opportunity to provide consultancy services to government and reduces the reporting and contract management burden for smaller providers.

Contracts in progress

Telecommunications as a Service (TaaS)

47. The tendering process for Telecommunications as a Service (TaaS), a collaborative initiative between the Department of Internal Affairs and the Ministry, is nearing completion. This solution will create a new operating model for government that supports increased interconnectivity to facilitate Better Public Services objectives. It will result in a sustainable reduction in government's annual spend on telecommunications, improve government's security risk profile and provide a more

competitive and contestable marketplace for telecommunications and managed security services.

48. The TaaS RFP closed in February 2015 and final negotiations are currently underway with the shortlisted respondents. It is expected that contracts will be awarded and an announcement made by mid-November 2015.

Advertising media

49. The AoG Advertising Media solution was established in December 2014 as an open panel and with the intention that a second intake would be conducted in late 2015. The purpose of another intake is to provide new entrants to the advertising market an opportunity to join the panel and government with an opportunity to review the solution.
50. A total of 13 new suppliers responded to the Request for Proposal (RFP) and tender evaluations are currently underway. Negotiations will then be held and it is anticipated that new contracts will be awarded by December 2015.

Risk, Financing and Insurance

51. The Risk, Financing and Insurance solution was implemented in May 2015 and has been received positively by both agencies and suppliers. When established, it was intended that the Ministry would facilitate some secondary procurement processes for government agencies. The first secondary procurement for 11 government agencies was launched with the release of a closed RFP to panel members in early September 2015. This will establish a solution for agencies identified as high risk and without a suitable arrangement already in place and is expected to be announced in March 2016.

Forecasted collaborative procurement activity

Consultancy Services, tranches two and three

52. An RFP for the second tranche of the AoG Consultancy Services solution will be released in early 2016 and comprise of subcategories relating to Business and Finance consultancy services.
53. It is anticipated that the second tranche will be in place by the third quarter of 2016. Initial procurement planning for a third tranche, expected to include subcategories related to property and construction, will commence in early 2016.

Future collaborative contracts

54. The Ministry identified a number of categories which may be suitable for AoG contracts when the Government Procurement Reform Programme was established in May 2009. As the majority of these have now been investigated and delivered with success, it is timely that a revalidation of the strategy for AoG contracts occurs. The Ministry intends to examine the learnings gained from the AoG programme to date and consider the potential AoG contracts that could be implemented in the future.

Consultation

55. The Treasury, State Services Commission, Ministry of Social Development Property Management Centre of Expertise and Department of Internal Affairs ICT Functional Lead have been consulted in the preparation of this paper.

Financial Implications, Human Rights and Legislative Implications

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

Regulatory Impact Analysis

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

Publicity

58. A version of this paper with appropriate redactions will be published on the Ministry's website.

Recommendations

I recommend that Cabinet State Sector Reform and Expenditure Control Committee:

1. **Note** the work underway to improve supplier engagement and development, including the:
 - a. accession to the World Trade Organisation's Agreement on Government Procurement, which provides New Zealand companies with guaranteed access to bid for government contracts in 44 WTO member countries;
 - b. initiatives to make it easier for SMEs to bid for government contracts and to build their tendering capability;
 - c. launch of construction procurement guidance; and
 - d. initiatives to improve engagement with NGOs, such as projects to develop guidance for agencies and a pilot programme for NGOs to access some government Collaborative Contracts;
2. **Note** the progress made towards accelerating the development of commercial skills across government, including the:
 - a. development and piloting of the Procurement Capability Index for agencies to self-assess their procurement effectiveness and develop improvement plans;
 - b. launch of a developing leaders programme to improve the individual capability and skills of those identified as future leaders in government procurement;
 - c. commercial and procurement advice provided to agencies undertaking complex, risky and strategically important projects; and

- d. release of online procurement training modules;
3. **Note** the establishment of AoG contracts for:
- a. Banking Services; and
 - b. Consultancy Services (first tranche).

Hon Steven Joyce
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Annex 1: APP and EPF returns by agency

Annex 2: PFL Progress Dashboard

Annex 3: Savings and agency participation in AoG contracts