

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

**Procurement Functional Leadership Progress Report –
October 2015 to March 2016**

Proposal

1. This paper provides an update on progress with the Procurement Functional Leadership programme from October 2015 to March 2016.

Executive Summary

2. Over the last six months, the Procurement Functional Leadership (PFL) programme has continued to make good progress. A focus of the Ministry of Business, Innovation and Employment (the Ministry) has been to work collaboratively with other government agencies and businesses to further develop and embed existing projects and initiatives.
3. Highlights since the last Cabinet update include:
 - **Procurement Capability Index:** To drive the development of commercial expertise in agencies, a Procurement Capability Index (PCI) tool has been developed. This tool will enable agencies to self-assess their procurement effectiveness and develop clear plans for improvement. The PCI has been successfully piloted with 27 agencies and will be rolled out to agencies covered by the Government Rules of Sourcing in 2016/17.
 - **Supporting agencies with procurement planning:** A more proactive approach to supporting agencies with their procurement planning has been implemented. This new approach is more collaborative, enables earlier and more effective improvements to be made to procurement plans and has been welcomed by a number of agencies.
 - **Procurement facilitating health and safety reforms:** To support health and safety reforms, the Ministry is working with agencies to help them use their procurement practices to improve health and safety outcomes for their agencies, suppliers and New Zealand. The Ministry has facilitated the sharing of good practice across government, developed procurement guidance and updated its suite of templates to support the objectives of the new legislation.
 - **Government Property Group transition:** On 1 April 2016 the Government Property Group (GPG), previously known as the Property Management Centre of Expertise, transferred from the Ministry of Social Development (MSD) to the Ministry. This transfer will promote closer connections and

alignment between GPG and the Ministry's portfolio of work, support synergies between GPG and the Procurement Functional Lead (currently part of the Ministry), and enable the Chief Executive of MSD to focus on changes in the social sector.

- **Significant managed service contracts:** The Ministry has undertaken research on significant managed service contracts across government, those deemed to be high risk and strategically critical to the delivery of an organisation's business. The research indicates that more can be done to improve oversight and management of these types of contracts. A framework is currently being developed that will provide both agency and system-wide visibility of significant service contracts, as well as assurance and accountability that these contracts are being appropriately managed. It is anticipated that the framework will be implemented by September 2016.
 - **Increase in forecasted savings:** All-of-Government (AoG) contracts continue to deliver significant benefits. There are currently 896 agencies, including all local authorities and 519 schools, participating in at least one AoG contract. Total forecast savings over the life of the existing AoG contracts have increased from \$699 million reported in November 2015 to \$740 million.
4. The PFL programme is also increasingly engaging in wider issues across government and adding value to other sectors. In addition to its core functions and initiatives, PFL and procurement is now assisting other agencies across government with a number of projects relating to infrastructure, skills development and Better Public Services (BPS) Result Area 9.

Background

5. 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.
6. 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, the Ministry has worked collaboratively with other government agencies and businesses to implement initiatives to develop government's commercial skills and practice, improve supplier engagement and development, and deliver benefits through collaborative procurement.

Improving Skills and Practice

Procurement Capability Index

7. A Procurement Capability Index (PCI) tool has been developed to encourage the development of commercial expertise in agencies and improve supplier engagement. This self-assessment tool allows agencies to measure their procurement effectiveness, develop plans for improvement and benchmark their performance against other agencies. The assessment is based on a capability maturity model covering 11 categories, such as strategy and outcomes, governance and contract management.
8. The Ministry of Business, Innovation and Employment (the Ministry) has been working with Treasury and the State Services Commission to ensure that the PCI aligns with Four Year Plans, Investor Confidence Ratings and other related initiatives. Work is also being progressed to develop and implement:
 - an external moderation process to support robust and transparent self-assessment including moderations from outside government; and
 - a framework for taking supplier feedback into account.
9. The PCI was successfully piloted with the 27 agencies required to produce a 2014/2015 Benchmarking Administrative and Support Services (BASS) report and it is expected that all other large agencies will have completed it by the end of 2016. It is intended that from 2017 onwards all agencies covered by the Government Rules of Sourcing will be completing the PCI annually and that the results will be published online.

Supporting agencies with procurement planning

10. The Ministry currently supports government agencies through its Sector Procurement Team by providing peer review on procurement plans for high value and high risk projects. However, the focus is shifting from reviewing agency procurement plans to proactively engaging with agencies before the procurement process has been determined and providing early and valuable advice. This new approach is more collaborative, enables earlier and more effective improvements to be made to procurement plans and has been welcomed by a number of agencies.

Assisting with major government projects

11. 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 Commercial Pool are providing commercial expertise and support to include:

- **Major Projects Monitoring:** Assisting with the preparation of Treasury's Tri-Annual Major Projects Monitoring report and providing agencies with advice from strategy to delivery.
- **Department of Corrections construction projects:** Supporting a number of construction projects managed by the Department of Corrections which aim to increase the capacity of existing correctional facilities.
- **Ministry of Business, Innovation and Employment activities:** Leading and providing support on a number of procurement activities, including External Integrated Print Solutions, Global Impact Visas, Employment Mediation Services and Auckland Crown Land projects.
- **Education Resourcing System:** Led by the Ministry of Education, this project seeks to implement a flexible resourcing system to help with the management of investment decisions.
- **Canterbury construction:** The Ministry is supporting a number of Canterbury rebuild initiatives, such as the Metro Sports Facility project.

Developing procurement leaders programme

12. The developing procurement leaders programme, which seeks to develop the individual skills of those identified as future leaders in government procurement, is progressing well. It has been established to operate collaboratively across agencies using a business accelerator approach to identify opportunities and generate innovative solutions to improve practice across government. The group is currently investigating a number of areas for improving procurement practice across government.

Cross-agency Procurement Graduate Programme

13. The Ministry established a Procurement Graduate Programme in early 2014 to increase procurement capability and capacity across government. A key feature of the two-year programme is the six-month rotations that graduates spend at different government agencies. From four agencies in 2014, a total of 15 government agencies in Auckland and Wellington are now participating in the programme and taking on graduates.
14. This highly collaborative programme is achieving great outcomes. The profile of procurement as a profession amongst university students has increased, the pool of junior procurement practitioners has grown and all of the graduates from the first intake have transitioned into public sector procurement roles.

Procurement facilitating health and safety reforms

15. To support health and safety reforms, the Ministry is working with agencies to help them use their procurement practices to improve health and safety outcomes for their agencies, suppliers and New Zealand. The Ministry has:

- established a cross-agency group to share good practices, learn from agency experience and increase consistency across government;
 - been developing guidance for agencies, with a particular focus on high-risk sectors such as construction and social services;
 - contributed to the WorkSafe newsletter to Chief Executives on the health and safety reforms by providing guidance on how investment in procurement can help senior leaders achieve their agencies' health and safety outcomes;
 - reviewed relevant government procurement templates and made changes to support the objectives of the new legislation; and
 - been updating all existing All-of-Government contracts to ensure alignment with the new requirements.
16. The Ministry is also working with the New Zealand Transport Agency to investigate the merits of establishing a Major Clients Group. This group would be comprised of both public and private organisations that procure high-risk physical works and share best practice, collaborate and learn from each other. Engagement with relevant stakeholders is required to determine whether a new group is required or whether existing industry groups could be utilised instead.

Supplier Engagement and Development

Improving supplier relationship management

17. The Ministry, in conjunction with other agencies such as the Accident Compensation Corporation and the Department of Internal Affairs, is developing a new supplier relationship management framework. This will enhance relationships with suppliers and help to achieve good procurement outcomes across government. It is anticipated that the framework will be released in the coming months and work is underway to develop a version suitable for social sector agencies contracting with not-for-profit organisations.

Improving government's management of significant service contracts

18. The Ministry has undertaken research on significant managed service contracts, those which are deemed to be high risk and strategically critical to the delivery of an organisation's business. This research has indicated that there is a clear gap in central agency visibility of what significant service contracts exist and how delivery against the contract is being managed by agencies. It also suggests that although agencies generally have contract management practices in place, some may not be according contract and supplier relationship management the priority it deserves.
19. Officials are of the view that more can be done to improve oversight and assurance over significant service contracts. They are currently developing a framework that will provide both agency and system-wide visibility of significant service contracts, as well as assurance and accountability that these contracts are being appropriately

managed. It is anticipated that the framework will be implemented by September 2016.

International trade agreements

20. The Ministry has been actively involved in a number of cross-agency initiatives that focus on helping New Zealand businesses benefit from international trade agreements. It recently supported the Ministry of Foreign Affairs and Trade by presenting on government procurement at a series of events held across the country on the Trans-Pacific Partnership Agreement. This was similar to a series of roadshows coordinated by New Zealand Trade and Enterprise that the Ministry assisted with on the World Trade Organisation's Agreement on Government Procurement in late 2015.

International engagement

21. The Ministry is becoming increasingly involved in and collaborating with the international procurement community. Considered to be forward-thinking in the procurement field, New Zealand is often invited to share its procurement approaches with other countries. For example, the OECD provided funding for an official to travel to Chile in December 2015 in order to review their public procurement system and suggest a roadmap for improving performance.

Increasing consistency in procurement practice

22. The Ministry has developed and piloted 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.
23. Formal consultation with agencies and businesses has concluded and final versions of the templates are being developed with the assistance of a cross-agency working group. It is the Ministry's intention to make the tender templates mandatory for agencies covered by the Government Rules of Sourcing once finalised and will be seeking Cabinet approval in mid-2016.

Streamlined Contracting with NGOs project

24. The Streamlined Contracting with NGOs project will conclude in June 2016. As a part of the project, a suite of templates have been implemented and feedback from NGOs indicates a reduction in the duplication of reporting, monitoring and auditing activities. Key updates include:
 - the social sector contract register will be implemented to support agency collaboration and reduce duplication of contract management activities;

- the outcome agreement will be embedded as an Approved Government Model Template, subject to Cabinet approval, meaning its use will be mandatory;
- work is progressing with three District Health Boards focussing on mental health and addiction services; and
- the final round of training in the Streamlined Contracting framework and Results Based Accountability is underway.

25. In 2016/17, New Zealand Government Procurement plans to continue this work by establishing a team of up to 3 FTE to support agencies building social services procurement capability.

Procurement guidance for the social sector

26. 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. The guidance seeks to improve engagement with social service providers, reduce costs for both agencies and NGOs and encourage collaboration between agencies and providers. It is anticipated that the guidance will be published in August 2016.

Government Procurement Business Survey

27. The Ministry runs an annual online survey to obtain feedback from businesses on government procurement practices. A total of 1,983 businesses participated in the 2016 business survey, an increase from 277 responses in 2015. Analysis of the results is underway and a report of the findings will be published online in mid-2016.

R9 Accelerator

28. A team, TenderChat, has been selected for the R9 Accelerator 2.0 to focus on transforming the tender feedback system in a way that will drive improvements in government agencies' practices and the feedback that businesses receive on tenders. Improving the feedback system will save businesses time and money by enabling them to be more targeted and precise in their tender responses. The team is just starting on its work and will be presenting its proposal at the Demo Day in June 2016. Following the Demo Day, a decision on whether to progress with the proposal will be made.

Collaborative Procurement

Participation and benefits from collaborative contracts

29. All-of-Government (AoG) contracts continue to achieve significant benefits. There are currently 896 agencies, including all local authorities and 519 schools, participating in at least one AoG contract.

30. The number of agencies reported as participating in at least one AoG contract is lower than that cited in previous reports. This is not due to a real reduction in the number of participating agencies, but rather reflects a change in the way this number is calculated.
31. Previously, the AoG Advertising Media contract was included when calculating this total. However, it is a unique contractual construct which differs from all of the other AoG contracts offered. Agencies are able to purchase from the contract without joining it and an administration fee is not charged. It is believed that excluding the AoG Advertising Media contract when calculating the number of agencies participating in AoG contracts produces a more accurate total and so will no longer be included.
32. The Ministry's efforts to implement new AoG contracts and increase contract participation numbers have resulted in significant increases in savings. Total forecast savings over the life of the existing AoG contracts have increased from \$699 million reported in November 2015 to \$740 million. This figure is based on all current AoG contracts in place and does not include forecast savings for the AoG contracts in development.
33. Annex 1 provides a dashboard summary of the PFL progress, and Annex 2 lists savings and agency participation in AoG contracts.

Market Engagements

Recently established contracts

Telecommunications as a Service

34. Contracts were awarded in November 2015 for the Telecommunications as a Service (TaaS) contract, a collaborative initiative between the Department of Internal Affairs (DIA) and the Ministry. This solution 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. The Ministry is supporting agencies as they transition from the AoG Mobile Voice and Data solution to TaaS and working closely with DIA during this transitional period.

Risk, Financing and Insurance

35. When the AoG Risk, Financing and Insurance solution was established in April 2015, it was intended that the Ministry would facilitate secondary procurement processes for government agencies. A contract with a provider for the first of these secondary procurements, for a cluster of 11 agencies with similar needs, was awarded in April 2016. Ten of the agencies have signed up to the new solution, with the eleventh expected by the end of April 2016. The solution is expected to result in average insurance premium savings of approximately 37% compared to existing spend, with some agencies anticipating savings in excess of 50%.

Contracts in progress

Advertising Media

36. The AoG Advertising Media solution was established in December 2014 as an open panel with the intention that additional intakes would occur on an annual basis. This provides new entrants to the advertising market an opportunity to join the panel and government with an opportunity to review the solution. Negotiations for the latest intake have concluded and it is expected that contracts will be finalised and signed by the end of May 2016.

Consultancy Services tranche two

37. The Request for Proposal (RFP) for Consultancy Services tranche two was released in February 2016 and includes subcategories relating to Business and Finance consultancy services. This solution will provide a more efficient and effective management approach, greater flexibility and choice for agencies, and reduce the reporting and contract management burden for smaller providers. The RFP closed on 8 April 2016 and it is anticipated that contracts will be awarded in the third quarter of 2016.

Online panel directory for the Consultancy Services solution

38. On 4 April 2016, the online panel directory for the AoG Consultancy Services solution went live. This is an online directory which agencies access through their intranet sites. Suppliers can update aspects of their own profiles, ensuring the most up to date information is available to government agencies. The directory represents a new and fully digital way for agencies to access relevant contract and supplier information, as well as improve efficiencies in the engagement between government and businesses.

Forecasted collaborative procurement activity

Air Travel

39. The Ministry will be returning to market for the AoG Air Travel Services solution in May 2016. A review of the current contracts and market indicated that retendering this contract is likely to result in improved services and pricing, as well as a solution which will better meet agency requirements. It is expected that new contracts will be awarded by December 2016.

Consultancy Services

40. The first tranche of the AoG Consultancy Services solution was established as an open panel and it is the Ministry's intention to conduct the first annual refresh of the solution in mid-2016. This provides new entrants to the consultancy market an opportunity to join the panel. The status of existing suppliers is unchanged and they are not required to re-apply.

Utilities

41. The Ministry leads separate secondary procurement processes for the AoG Electricity and Reticulated Gas contracts in order to accommodate for different agency and sector requirements across government. Feedback from both agencies and suppliers indicate that these solutions improve efficiencies and typically results in agencies achieving average market savings of 6% [WITHHELD]

PFL contributing to other projects and sectors

42. The PFL programme is engaging in wider issues across government and adding value to other sectors. In addition to its core functions and initiatives, PFL and procurement more generally is increasingly being recognised as an important lever for achieving government's outcomes in a diverse range of areas.

Government Property Group transition

43. On 1 December 2015 Cabinet agreed (CAB 15 Min 0276 refers) for the Government Property Group (GPG), previously known as the Property Management Centre of Expertise, to be transferred from the Ministry of Social Development (MSD) to the Ministry. This transfer would promote closer connections and alignment between GPG and the Ministry's portfolio of work, support synergies between GPG and the Procurement Functional Lead (currently part of the Ministry), and enable the Chief Executive of MSD to focus on changes in the social sector.
44. The transition successfully occurred on 1 April 2016. GPG, alongside New Zealand Government Procurement (NZGP), forms a part of the newly established New Zealand Government Procurement and Property branch within the Ministry. The work programmes for both GPG and NZGP will continue to operate business as usual.

CERA functions transferring to MBIE

45. As part of the CERA transition of functions, the Ministry is now responsible for the function of the Strategic Procurement and Performance team which monitors and reports on the delivery of the public sector rebuild in Christchurch. This involves monitoring 11 public sector agencies responsible for 60 rebuild projects totalling \$6.834 billion and reporting on a quarterly basis to the Ministers of Finance, Economic Development and Earthquake Recovery.

Assistance with other projects and sectors

46. PFL has been providing assistance to a number of other projects and sectors, notably working with:
- Treasury's National Infrastructure Unit on the BGA Infrastructure Report action investigating options for improved governance of infrastructure projects;

- Ministry of Social Development on the BPS Result Area 1 by investigating options to improve skills development in capital projects;
- MBIE regarding Better Public Services (BPS) Result Area 9, such as with the development of practices and support material for the version 2.0 of the Accelerator; and
- Regional Business Partners to develop a package of material to help local businesses to identify government procurement activity in the regions, and what they would need to do if they decide to participate in government procurement.

Consultation

47. The Treasury, State Services Commission and Department of Internal Affairs ICT Functional Lead have been consulted in the preparation of this paper.

Financial Implications, Human Rights and Legislative Implications

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

Regulatory Impact Analysis

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

Publicity

50. 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 progress made towards accelerating the development of commercial skills across government, including the:
 - a. development and plans to launch the Procurement Capability Index for agencies to self-assess their procurement effectiveness and develop improvement plans;
 - b. implementation of a more proactive approach to supporting agencies with their procurement planning that is more collaborative and effective; and
 - c. guidance and support provided to agencies to help them use their procurement practices to improve health and safety outcomes for their agencies, suppliers and New Zealand;

2. **Note** the work underway to improve supplier engagement and development, including the:
 - a. development of a new supplier relationship framework for agencies;
 - b. project to improve the performance and oversight of significant managed service contracts; and
 - c. initiatives to improve engagement with NGOs;
3. **Note** the value Procurement Functional Leadership is adding to other projects and sectors relating to infrastructure, skills development and Better Public Services (BPS) Result Area 9;
4. **Note** that the total forecast savings over the life of the existing All-of-Government contracts have increased from \$699 million reported in November 2015 to \$740 million; and
5. **Endorse** the Ministry's return to market for the All-of-Government Air Travel Services solution.

Hon Steven Joyce
Minister for Economic Development

Annex 1: PFL Progress Dashboard

Annex 2: Savings and agency participation in AoG contracts April 2016