

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

**Procurement Functional Leadership Progress Report:
April 2016 to September 2016**

Proposal

1. This paper provides an update on the progress by the Procurement Functional Leadership programme from April 2016 to September 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 develop and implement system-wide initiatives to improve procurement practice across government.
3. Highlights since the last Cabinet update include:
 - **Significant Service Contracts Framework:** The Significant Service Contracts Framework (the Framework) provides agency and system-wide visibility of critically important contracts and standards of performance measurement. The Framework has been rolled out to Tier 1 investment agencies and it is expected that the first results will be submitted by December 2016.
 - **Procurement Capability Index:** The Procurement Capability Index is a self-assessment tool for agencies to drive development of commercial capabilities across government. It has been rolled out to the 27 agencies that participated in the 2015/ 2016 Benchmarking of Administrative and Support Services (BASS) report and will be implemented more widely in 2017.
 - **Social Services Procurement Capability team:** To improve procurement capability in the social sector and support the Government's priorities for services in the community, a social sector team has been established. This team sits within the New Zealand Government Procurement and Property branch and will work with the sector to build on good procurement practice in this area.
 - **Electric Vehicles:** The Ministry has worked to include electric vehicles (EVs) in its All-of-Government Vehicles solution to support the Government's goal of increasing the number of EVs registered in New Zealand to 64,000 by 2021. A Request for Proposal to add new EV suppliers to the All-of-Government Panel closed late September and the procurement process is nearing completion.
 - **The Establishment of the Government Property Group (GPG) as a Centre of Expertise in the Ministry:** The Government Property Group's Property Procurement Team has been appointed as a procurement Centre of Expertise (CoE) in the Ministry. This enables GPG to establish property-

related All-of-Government contracts and will improve efficiencies, increase consistency and deliver other benefits to government.

Background

4. 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 the progress of the Procurement Functional Leadership (PFL) programme on a six-monthly basis.
5. 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 developed system-wide initiatives to develop government's commercial skills and practice, improve supplier engagement and development, and deliver benefits through collaborative procurement.

Key Updates

Significant Service Contracts Framework

6. The Significant Service Contracts Framework (the Framework) provides agency and system-wide visibility of critically important contracts and standards of performance measurement. The Framework consists of a clear set of expectations for agencies around the management of Significant Service Contracts and good practice guidance to improve supplier relationship and contract management capability. It aligns with other government assurance initiatives including the Procurement Capability Index, the Treasury's Four Year Plans and the State Services Commission's Leadership Success Profile.
7. Agencies will report on what their significant contracts are, their estimated value, and how they are performing. This information will inform a central contract register providing visibility from the centre on significant service contracts held across government.
8. The Framework has been rolled out to Tier 1 Investment- Intensive Agencies, with initial reporting due by December 2016. These agencies were identified in consultation with Treasury as an ideal initial group with whom to test the reporting system due to the high likelihood of these agencies having significant service contracts. All 134 agencies covered by the Government Rules of Sourcing will be expected to report on a six-monthly basis from March 2017.
9. The Ministry will report on the results of the Framework through its six-monthly Procurement Functional Leadership update to Cabinet. The first set of results will be available for the next update.
10. While the Framework will provide greater visibility of significant service contracts and confidence that they are being well managed, it cannot guarantee that contract failures will not take place in the future but it is expected that the Framework should provide an early warning system and enable measures to be taken to prevent contract failure.

Procurement Capability Index

11. The Procurement Capability Index (PCI) is a self-assessment tool created by the Ministry to drive development of commercial capabilities across government

agencies. The index is composed of questions requiring evidence based answers, which allows agencies to identify their strengths and weaknesses, and develop and implement an improvement strategy that results in measurable improvements. The PCI covers eleven categories including: governance and organisation of the procurement function, strategic planning, and commercial leadership.

12. To provide confidence that the results are relevant and accurate, they will undergo a review and moderation process that includes peer review, external checks and supplier feedback. The PCI aligns with the Treasury's Four Year plans and investment decision making. It will also inform discussions on the State Services Commission's Leadership Success Profile and Senior Leadership Evaluation.
13. The PCI has been rolled out to the 27 agencies that participated in the 2015/2016 Benchmarking of Administrative and Support Services (BASS) report. All agencies covered by the Government Rules of Sourcing will be expected to have completed the PCI by December 2017.

Social Services Procurement Capability

14. The Streamlined Contracting with non-governmental organisations (NGOs) project, which aimed to improve procurement practices within the social sector, concluded in June 2016. In summary, the Ministry:
 - implemented the social services contract register, through which most participating agencies have now included data in the system;
 - surveyed providers who indicated that the outcome agreement templates, which have been implemented in most social sector agencies, improve the contracting process and the relationship between the parties;
 - hosted training, attended by over 1200 people, on the Streamlined Contracting framework and Results Based Accountability framework, resulting in an increased awareness of these frameworks and how to best utilise them;
 - saw the Streamlined Contracting Framework implemented by three District Health Boards with a small number of mental health and addiction services.
15. To expand on the work done in the Streamlined Contracting Project the Social Services Procurement Capability team has been established. The team will help build the capability of agencies to deliver better outcomes in the Social Sector. A core part of the team's role will be to ensure investment thinking is carried into procurement practice by emphasising the need for evidence based decision-making, data collection and evaluation. Future work may include a focus on provider capability and guidance on engagement with providers and service users, and service delivery models. The work programme for 2016/17 includes:
 - publishing Social Services Procurement Guidance, a source of good practice for agencies and providers. This work was recommended by the Productivity Commission's *More effective social services* report;
 - seeking Cabinet agreement in early 2017 to adopt the Streamlined Contracting templates as a Government Model template;
 - [WITHHELD]
 - improving social sector contract management by driving streamlined and effective practice.

Electric Vehicles

16. To support the Government's goal of increasing the number of electric vehicles (EVs) registered in New Zealand to 64,000 by 2021, the Ministry is working to include EVs in their All-of-Government (AoG) Vehicles solution. The Ministry is working to stimulate demand and encourage the uptake of EVs in both the public and private sectors.
17. A Request for Proposal (RFP) to add new EV suppliers to AoG Vehicles panel was released in late August and closed in late September and the procurement process is nearing completion.
18. To gain a better understanding of the current market and work with the private sector to design a procurement strategy, the Ministry engaged with AoG panel and non-panel EV suppliers, as well as key stakeholders from both the public and private sectors. The strategy will see existing panel members encouraged to add their EVs to the AoG vehicle catalogue as well as create an open panel for EV suppliers to allow them to join when they are in a position to supply EVs.
19. Further to this, the strategy will have the Ministry assume responsibility for aggregating public and private sector demand on a periodic basis through a series of tranches. It is expected that this will harness the potential volume that both sectors combined represent and encourage suppliers to respond with competitive offers. The Ministry will work with an aggregator from the private sector to take a consolidated volume to the panel providers after which point the private sector will be expected to place their own orders and deal directly with suppliers.

Improving supplier relationship management

20. The Ministry has developed tools and guidance that will support agencies to enhance their relationships with suppliers and achieve better outcomes across government. The tools will be released later this year in conjunction with the Significant Service Contracts Framework to help agencies implement the Framework more effectively.
21. The tools consist of a classification mechanism to help agencies identify the relative importance of each of their suppliers, updated guidance on supplier relationship management and a template guide for agencies who have no supplier management policy. These tools were developed with support from other agencies such as the Accident Compensation Corporation and the Department of Internal Affairs.

Government Procurement Business Survey

22. 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 complete and a report of the findings was published online in August 2016.
23. The survey found that agencies have made improvements from last year, particularly in contract management. Results suggest an improvement in the performance of government's contract managers and the overall quality of how government manages contracts. However, there is still a need for agencies to improve their supplier relationship management and overall procurement processes.
24. Actions taken by the Ministry to improve the experience of businesses include:

- guidance on contract management;
- guidance on supplier relationship management;
- guidance on construction procurement;
- and the implementation of the Procurement Capability Index, which will be a crucial tool for the Ministry to develop and measure agencies' capabilities in the areas marked for improvement.

International Engagements

25. Since New Zealand's accession to the WTO Agreement on Government Procurement (GPA) in 2015, two other countries have acceded (Moldova and the Ukraine) and others are actively engaging in the accession process. Of particular interest to New Zealand are the accessions of China (which is progressing slowly) and that of Australia (which is advancing steadily).
26. In addition to these accessions, New Zealand is actively engaging in various GPA work programme activities, including taking a leading role in the discussions on good practices in respect of small and medium sized enterprises. We have also actively contributed to government procurement sessions of the OECD's Leading Procurement Practitioners working group.
27. To make the most of our GPA accession, the Ministry, together with MFAT and NZTE have created an informal group to gather information on non-tariff barriers relating to government procurement. The group is also working on creating greater awareness of the opportunities available from the GPA and the government procurement commitments in other free trade agreements.

Improving Skills and Practice

Assisting with major government projects

28. Through the New Zealand Government Procurement Commercial Pool, the Ministry provides high quality procurement and commercial advice to agencies undertaking complex, risky and strategically important projects. In addition to providing support, this builds skills and consistency within agency teams. Some of the major projects currently being assisted by the Commercial Pool include:
 - **New Zealand Housing Infrastructure Fund:** The Ministry is establishing the governance arrangements, operational design and administration of the Housing Infrastructure Fund (HIF). HIF will assist high-growth councils finance infrastructure needed to unlock residential development. Eligible Councils are required to submit HIF proposals by mid-2017.
 - **Emergency Housing:** The Ministry is helping to establish a panel of providers for Emergency Housing Accommodation services throughout New Zealand. This will provide safe, secure, suitable accommodation for those with an immediate need (up to 12 weeks), while wraparound services are put in place to allow the user to move in to sustainable (long term) accommodation.
 - **DHB Projects - Youth Services and Maternity Services:** The Ministry is assisting both Auckland and Waitemata DHBs in the approach to and provision of integrated health services for youth aged 12 – 24, and primary maternity services.

- **Cyber Credentials:** The Ministry is working with the Department of the Prime Minister and Cabinet to increase awareness of cyber security and ensure that SME business owners have the capability to implement security protection.
- **Canterbury Construction:** The Ministry is working with Treasury to combine the monitoring work of both parties in the Treasury Major Projects Monitoring Report. The first iteration of this work, for data to the end of June 2016, has now been completed and planning is underway for the next reporting cycle.
- **Global Impact Visa:** The Ministry is working on an innovative visa policy focused on encouraging new entrepreneurs and start-ups into New Zealand. This required an innovative procurement approach, to create an agreement that would foster joint development and be appropriate for providers who were not-for-profits.

Review of the Government Rules of Sourcing

29. A general refresh of the Government Rules of Sourcing is under way. The Rules were established in 2013 with the expectation that they should be periodically reviewed to ensure they remain up-to date and provide clear best practice guidance for agencies. No substantive changes or new obligations are envisaged. We expect to publish the 4th edition of the Rules in mid-2017.

Annual Procurement Plans

30. An Annual Procurement Plan (APP) is a rolling list of procurements that are planned to be initiated by an agency within the next 12 months. This year for the first time all 20 District Health Boards submitted their APPs, reflecting the work the Ministry has done to engage with the Health Sector.
31. The Ministry collates all APPs into a master spreadsheet which is available to both agencies and suppliers on the New Zealand Government Procurement and Property website. APPs facilitate cross-government procurement planning and give suppliers advance notice of possible contract opportunities. Annex one provides a list of APP returns by agencies.

Procurement Competency Framework

32. A project to update the Procurement Competency Framework commenced in mid-2016. The competency framework works to identify a common standard for procurement professionals and build capability across the procurement profession at the individual level. The Ministry has been working with Inland Revenue and the Ministry for Primary Industries to confirm that the competencies align with current needs and requirements across government.
33. It is anticipated that this framework will be released early 2017 and will increase procurement capability by raising and creating an understanding of standards of competency in the profession. The next step will be to redevelop the training needs and analysis tool to align with the competency framework, so that the tool can be used to support individuals to assess their training requirements.

Smart Procurement Planning Methodology

34. The Smart Procurement Planning Methodology has been updated and is available to agencies upon request. The methodology provides a step-by-step process to support agencies to undertake effective procurement planning for large or complex procurements. Planning is a critical stage where procurement can be used to drive innovation and engage with markets more effectively. The next stage will be to train facilitators of the workshop so that agencies are able to fully operate the methodology and maximise the best outcomes.

Award Winning Procurement

35. The Ministry was recognised multiple times in May for its performance. The New Zealand Procurement Excellence Awards, sponsored by Ernest and Young, recognise procurement excellence in the private and public sector. The Banking Centre of Expertise was awarded both the Procurement Team of the Year and went on to win the New Zealand Procurement Excellence Supreme Award. Additionally a member of the team, Emma Hillman, took home the Young Procurement Professional of the Year Award.
36. The New Zealand Government Procurement and Property legal team was presented with the New Zealand Law Society In-House Legal Team of the year award. The award recognises excellence in the provision of legal services for public, private and not-for-profit organisations.

Collaborative Procurement

Participation and benefits from collaborative contracts

37. All-of-Government (AoG) contracts continue to achieve significant benefits. There are currently 993 agencies, including all local authorities and 615 schools, participating in at least one AoG contract.
38. Total forecast savings over the life of the existing AoG contracts is estimated to be \$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.
39. Annex 2 lists savings and agency participation in AoG contracts and Annex 3 provides a dashboard summary of the PFL progress.
40. The Ministry continues to focus on actively managing AoG contracts, such as ensuring that providers are fit for purpose and can effectively deliver services to agencies. This was highlighted by recent publicity on the viability of an AoG provider and the contractual relationships they had entered into with schools outside of AoG. The story reinforced the value and protection that AoG contracts provide to agencies and schools.

Agency Satisfaction Survey

41. The Ministry conducted an AoG 2015/2016 survey to assess how satisfied agencies are with the services offered through AoG contracts. A total of 378 individual responses from 229 agencies were received. The Ministry has improved over all key metrics including a 10% improvement in agency satisfaction with the value they are receiving. Overall agencies see the model as saving time and money and representing good value.

Market Engagements

Advertising Media

42. The AoG Advertising Media solution issued a Request for Proposal in December 2015 for an annual intake, resulting in nine new providers joining the panel in July 2016. The panel was established in December 2014 with the intention that additional intakes would occur on an annual basis providing new entrants to the advertising market an opportunity to join the panel and government an opportunity to review the solution.

Contracts in progress

Consultancy Services Tranche 2

43. Evaluations have been completed for the AoG Consultancy Services Tranche 2 which subject to negotiations will add 392 new providers to the Panel in late 2016. Tranche 2 will form the second half of the Business and Finance category and provide five new subcategories of services for agencies to use.

Air Travel

44. The Ministry returned to market in May 2016 to replace the AoG Air Travel Services contracts. The approach to market was well timed, with high levels of competition and capacity resulting in attractive offers from most respondents [WITHHELD]

It is anticipated that participating agencies will be able to purchase air travel services from the new AoG solution from 1 March 2017.

Electricity

45. The Ministry leads separate secondary procurement processes for the AoG Electricity contract solution in order to accommodate different agency and sector requirements across government. As part of a secondary procurement process on behalf of approximately 100 government agencies, AoG panel suppliers were invited in August 2016 to submit pricing for the aggregated demand. The process remains on target and the results and recommendations were sent to the participating agencies for their consideration on 14 October 2016.

Upcoming collaborative procurement activity

46. To achieve greater benefits for government, the Ministry will return to market for [WITHHELD] and External Recruitment Services
47. Work is underway to determine how the three advertising contracts, Advertising Services, Advertising Media and Advertising Design, will be best managed in future. [WITHHELD]

The Establishment of the Government Property Group as a Centre of Expertise

48. The Government Property Group's (GPG's) Property Procurement Team has been appointed as a procurement Centre of Expertise (CoE) in the Ministry, pursuant to Rule 55 of the Government Rules of Sourcing. This appointment allows GPG, which now sits within the Ministry, to establish property-related AoG contracts. The benefits of this appointment include:
- a. Securing additional economies, efficiencies and other 'soft' benefits for government as AoG contracts have a wider mandated reach than Common Capability contracts (and a greater profile with government agencies).
 - b. Increasing consistency and reducing confusion for agencies and suppliers regarding their collaborative contracting obligations through a standardised AoG procurement process and contract structure.
 - c. Creating greater alignment and consistency between GPG and New Zealand Government Procurement processes and collaborative contracts.
 - d. Ensuring that all collaborative contracts produced by the Ministry (excluding GPG's leasing and related contracts) use the same administration fee construct and have the same brand ('AoG'), an aligned mandate and a comparable structure.

Facilities Maintenance

49. GPG has undertaken significant market analysis and stakeholder engagement to ascertain the viability of an AoG solution for Facilities Maintenance. The results of this work indicate that a Facilities Maintenance solution would introduce a proactive approach to the management of property and facilities, maximising cost efficiency and maintaining productive environments for staff across government. It would also encourage consistent facilities maintenance practices across the public sector, make it easier for suppliers to do business with government and improve relationships between government and suppliers. It is intended that a Request for Proposal will be released to the market by early 2017 as an AoG solution.

Cleaning Services

50. GPG is also exploring a collaborative approach for Cleaning Services. Originally a part of the facilities maintenance project, market analysis revealed that a better outcome would be achieved by going to the market separately for cleaning services. This solution will increase savings for government and enhance relationships with suppliers. It is anticipated that a Request for Proposal will be released in November 2016 as an AoG solution.

Consultation

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

55. **Note** the progress made towards developing and implementing system-wide initiatives to improve procurement practice across government, including the:
- a. launch of the Significant Service Contracts Framework to increase system wide visibility of significant service contracts and ensure they are appropriately managed;
 - b. implementation of the Procurement Capability Index for agencies to self-assess their procurement effectiveness and develop improvement plans;
 - c. establishment of a social sector team to improve procurement capability in the social sector and build on the work achieved by the NGO streamlined contracting project; and
 - d. work to include electric vehicles (EVs) in the All-of-Government Vehicles solution to support the Government's goal of increasing the number of EVs in New Zealand.
56. **Direct** the Ministry of Business, Innovation and Employment to proceed with developing All-of-Government solutions for Cleaning Services and Facilities Maintenance; and
57. **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 Facilities Maintenance and Cleaning Services.

Authorised for lodgement

Hon Steven Joyce

Minister for Economic Development

Annex 1: Annual Procurement Plans returns by agency

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

Annex 3: Dashboard summary of PFL progress