

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

**Procurement Functional Leadership Progress Report:
October 2016 – March 2017**

Proposal

1. This paper provides an update on the progress by the Procurement Functional Leadership programme from October 2016 to March 2017.

Executive Summary

2. Over the last six months, the Procurement Functional Leadership (PFL) programme has continued to make good progress and deliver notable savings through All-of-Government contracts. A focus of the Ministry of Business, Innovation and Employment (the Ministry) has been on increasing value from current initiatives and capability development across the state services.
3. Highlights since the last Cabinet update include:
 - **Significant Service Contracts Framework:** Reporting against the Significant Service Contracts Framework (the Framework), first introduced in 2016, is starting to give the Ministry an overview of the contracts held across government that are critical to completing agency functions.
 - **Procurement Capability Index:** The Procurement Capability Index (PCI) is one of the cornerstone initiatives of the Ministry to achieve the goal of raising procurement capability across government. The PCI has been incorporated into the Investor Confidence Rating for Investment Intensive Agencies, and will be rolled out to all 134 agencies, covered under the Government Rules of Sourcing, later this year.
 - **Sector Procurement Team engagement on Better Business Cases:** The Ministry continues to increase its early engagement with agencies as a member of the corporate centre to review Better Business cases. By connecting with agencies undertaking large capital investments early in the process, the Ministry is able to provide input on whether the preferred investment option optimises value for money, is commercially viable and can be delivered successfully.
 - **Electric Vehicles (EVs):** Since the last report, the Ministry has added additional EVs to the All of Government catalogue, bringing the total number of EV models on the catalogue to 14. This will contribute to the government's overall goal of reaching 64,000 EVs registered in New Zealand by 2021.
 - **Air Travel:** 206 agencies are now participating in the new Air Travel solution. The Ministry returned to market in May 2016 to replace the All-of-Government Air Travel Services contracts and have since launched 11 new contracts (representing 14 airlines) effective 1 March 2017.

- **Guide to Buying and Managing Social Services published:** The recently-established Social Services Procurement Capability team has published guidance to improve capability when procuring social services, a high priority and large area of expenditure by 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 Ministry has received its first set of reports against the Significant Service Contracts Framework (the Framework). The Framework provides an unprecedented level of visibility of the contracts held across government that provide services critical for the functions of agencies. The Ministry worked collaboratively to create the Framework involving multiple agencies in its development and consulting with a large range of agencies on the Framework.¹
7. In 2016 the Framework was piloted with Tier 1 Investment Intensive agencies, due to the high probability these agencies would have significant service contracts. These agencies reported to the Ministry in December 2016.
8. The Ministry requested all 134 agencies covered under the Government Rules of Sourcing to complete their reports by 31 March 2017. To date, 79 agencies have submitted their reports to the Ministry, of which 26 agencies identified no significant service contracts. There were 408 significant service contracts reported on, which includes contracts held in common by multiple agencies. The total value of these contracts exceeds \$19 billion. The Ministry will continue to work with agencies to help them identify their significant service contracts and to submit their reports. Annex 3 provides the current summary of the results of the Framework reported to the Ministry.
9. Further analysis is needed to assess common themes throughout the contracts reported and the Ministry will continue to work with agencies that are yet to submit

¹ Consultation on the Framework included:

- Engaged the following agencies in the development of the Framework: Government Chief Information Officer, Treasury and the Office of the Auditor General.
- The following agencies were involved in the consultation period of the Framework: Ministry for Primary Industries, Accident Compensation Corporation, New Zealand Trade and Enterprise, Ministry of Justice, Ministry of Social Development, Police, Pharmac, The Treasury, Department of Corrections, Ministry of Education, New Zealand Defence Force, W2 Shared Services limited, Auckland Council, Inland Revenue Department, Housing NZ, Department of Conservation, Landcorp, Canterbury DHB, Department of Internal Affairs, Ministry of Foreign Affairs and Trade, Ministry of Health, Wellington Regional Council, Wellington Council.

their reports. However, initial results from the Investment Intensive agencies that reported in December and conversations with the other agencies prior to submitting their reports has identified some common areas where the Ministry can support agencies to improve:

- Benefits management and realisation
- Risk management, in particular business continuity plans
- Supplier relationship management – improving the consistency of practice across agencies and oversight by senior managers.

Procurement Capability Index

10. The Procurement Capability Index (PCI) is a self-assessment tool created by the Ministry to drive development of commercial capabilities across government agencies. The PCI is an index composed of questions that require evidence based answers, which allows agencies to identify their strengths and weaknesses, and develop and implement a capability strategy that results in measurable improvements.
11. The PCI will be completed by all 134 agencies covered under the Government Rules of Sourcing by the end of the 2017 calendar year. While all agencies will report annually, there will be different processes to moderate and review the self-assessments based on an agency's size and other factors.
12. In collaboration with the Treasury, the Ministry has worked to incorporate the PCI for the 26 Investment Intensive Agencies into the Treasury's Investor Confidence Rating (ICR). The PCI will have a 5 percent weighting in the ICR and will be reviewed every two years as a part of this process to provide confidence that the results are relevant and accurate for these high investment agencies.
13. This approach has the dual benefit of decreasing the administrative burden for these agencies by combining their reporting and ensuring that procurement capability is recognised as a significant area for commercial leadership.

Updated Estimate of Government Procurement Expenditure

14. The Ministry has updated the estimate of Government Procurement Expenditure from approximately \$39 billion (for the year of 2012) calculated in 2015 to approximately \$41 billion (for the year of 2014) calculated in 2017. The estimate includes the procurement of all goods and services as well as the purchasing of fixed assets, such as infrastructure, across central and local government agencies as well as State-Owned Enterprises.
15. This increase is representative of virtually year on year growth in Government Procurement Expenditure; however, the percentage of Government Procurement Expenditure to Gross Domestic Product remains unchanged at 18%. This confirms the Ministry's understanding of the importance of developing procurement capability to leverage this spend and achieve the best value for New Zealand.

Improving Skills and Practice

Assisting with major government projects

16. The Ministry provides procurement and commercial advice to agencies undertaking complex, high-risk and strategically important or innovative projects through the New Zealand Government Procurement Commercial Pool. The existence of this

pool of procurement experts ensures agencies are able to access high quality advice while building skills and knowledge within agency teams. Some of the major projects that the Commercial Pool is currently working on include:

- **New Zealand Housing Infrastructure Fund:** The Ministry is continuing its support through planning the evaluation framework, operational design and administration of the Housing Infrastructure Fund (HIF). HIF will assist high growth councils by financing infrastructure required to unlock residential development. Eligible councils submitted HIF proposals on 31 March, and the Commercial Pool is facilitating the evaluations.
- **Ministry of Foreign Affairs and Trade:** The Ministry is assisting MFAT with two New Zealand Aid Programme projects: renewable energy infrastructure in the Pacific and providing Commercial and Contract Management skills to the Government of Tuvalu. The Ministry has also been working jointly with MFAT and NZTE on planning New Zealand's attendance at the 2020 world expo in Dubai.
- **Health Services:** Recently the Ministry has supported the Waitemata, Auckland and Counties Manukau District Health Boards across a number of complex initiatives. This includes market approaches for mental health and addiction services, home care and community services, and after hours medical support. The Ministry is also working with PHARMAC to update their application system to a more efficient and user-friendly online solution.
- **Front Counter Safety Project:** The Ministry is supporting Police and the Front Counter Safety Project with strategy and planning options for potential upgrades to Police stations across the country.
- **Cell Broadcast Alerting:** The Ministry is assisting with the procurement of a Cell Broadcast Alerting service. Cell broadcast alerts will enable government agencies to send alerts to all cell phones in affected locations in the event of an emergency. Evaluators are currently reviewing the submissions to select a supplier to create the web-based system that will enable authorised government users across multiple agencies to author and send the geo-targeted alerts.

Social Services Procurement

17. The newly established Social Services Procurement Capability team has recently published the Guide to Buying and Managing Social Services. The guide was developed in response to a recommendation in the Productivity Commission's *More Effective Social Services* report.
18. By promoting good practice, the guide fosters better relationships between government agencies and providers, leading to better outcomes for service users. The guide clarifies the application of the Government Rules of Sourcing to social services, highlights good contract and provider relationship management, and emphasises the benefits of contracting for outcomes and collaborating with other agencies.
19. The team is also developing contract management training for agencies. This work is in response to previous business surveys and engagement with social sector suppliers and agencies which has identified contract management capability as an area for focus. The training package will be developed by the end of the current financial year, with the aim of commencing implementation of the training in the 17/18 financial year.

Better Business Case engagement

20. As a part of the Corporate Centre, the Ministry's Sector Procurement team provides commercial and procurement advice on Better Business Cases (BBC). Since October 2016 the Ministry has engaged early with agencies, the Treasury and the Corporate Centre to provide tailored and pragmatic advice on 32 business cases.
21. The Ministry's functional leadership accountabilities align well with the BBC methodology which examines the Strategic, Economic, Commercial, Financial, and Management cases of a proposed investment. In particular the Sector Procurement team review the Commercial Case, which contains the procurement aspects of an investment, to see if the preferred investment option optimises value for money, is commercially viable and can be delivered successfully.

Procurement Graduate Program

22. This year the procurement graduate program welcomed its fourth intake of graduates. The program established in 2014 works to raise the profile of the procurement profession and develop the future procurement leaders by providing graduates with a range of procurement experience and professional development opportunities.
23. The program creates links across government agencies with graduates completing four six-month long rotations in different agencies in Wellington or Auckland. The range of agencies graduates can be placed in allows them to experience different areas of procurement.
24. The program is continually growing and currently has 21 agencies including Auckland District Health Board, the New Zealand Defence Force and a private sector business Fulton and Hogan. The Ministry will be undertaking recruitment again in April 2017 with the intention of four graduates starting in August 2017 and eight new graduates starting in February 2018. This will bring the total to 18 graduates in the programme from August 2017.

Tupu Tai Pasifika Summer Internship Program

25. The Ministry is investigating the possibility of bringing procurement into the Ministry's Tupu Tai Pasifika Summer Internship program by having one intern in the 2017/2018 programme.
26. Joining the internship program will raise the profile of the procurement profession among university students and go towards enhancing the diversity of the procurement profession and the public service more generally.

Creating an Environment for New Zealand Businesses to Succeed

Government Procurement Business Survey

27. The Ministry published the fourth Government Procurement Business Survey on 8 March 2017. The survey was open for one month and the Ministry received its highest response rate to date, with 2,095 businesses completing the survey. Analysis of the survey results is currently underway and a report outlining the findings will be published on the New Zealand Government Procurement website in mid-2017.

28. The results serve as a performance measure for the Ministry to determine the effect procurement reform is having system-wide and help identify areas for future interventions.

Procurement Generating Wider Benefits

29. While the Government Rules of Sourcing already encourages the making of 'balanced decisions' covering the environmental, social, and economic benefits, there is an opportunity to stimulate greater consideration of these benefits in appropriate cases. In most cases, this consideration should take place at the planning stages of a procurement in order to be effectively implemented.
30. As a start, the Ministry has collaborated with the Treasury to seek its agreement to include 'triggers' in Better Business Case and Benefits Management guidance to prompt agencies to consider wider benefits as business cases are developed. This will enable those benefits to be included in the economic case and procurement strategies, so agencies can signal earlier to industry and employers what wider benefits the government is seeking. As a result, the market will have time to develop a response, and support agencies (The Ministry of Social Development, Tertiary Education Commission, Industry Training Organisations, and training organisations) will be able to work with suppliers on suitable support packages.
31. This has been re-enforced by including the securing of wider benefits in the Procurement Capability Index and Significant Service Contract Framework and Social Services guidelines.

International engagements

32. To maximise the benefits of New Zealand's existing Free Trade Agreements with government procurement provisions the Ministry has continued its work with MFAT and NZTE. This cross agency group is working to identify and overcome the various non-tariff barriers that prevent New Zealand businesses from successfully supplying to overseas governments.
33. An emerging issue is the impact on New Zealand exporters of Australian policies that are increasingly requiring the use of local labour or demonstration of other benefits to the Australian local economy as a tender evaluation criteria. Unless New Zealand businesses have a presence in Australia, it will typically be difficult to score well on such criteria. Officials have registered concern and sought an opportunity to discuss these concerns further with the relevant Australian jurisdictions.

Annual Procurement Plans

34. The current round of Annual Procurement Plans (APPs) was due March 1 2017 and the Ministry has received plans from 121 agencies. Annex 4 details which agencies have returned their APPs.
35. APPs are collected by the Ministry with the aim to give suppliers advance notice of possible upcoming opportunities to assist with their planning. The Ministry collects APPs from the 134 government agencies, covered under the Government Rules of Sourcing, in March and October every year.

Collaborative Procurement

Participation and benefits from collaborative contracts

36. All-of-Government (AoG) contracts continue to achieve significant benefits. There are currently 1,076 agencies, including all local authorities and 690 schools (compared to 993 agencies, including all local authorities and 615 schools reported in the last update), participating in at least one AoG contract.

37. Total forecast savings over the life of the existing AoG contracts has increased from \$740 million to \$770 million. This figure is based on all current AoG contracts in place and does not include forecast savings for the AoG contracts in development.
38. Annex 1 provides a dashboard summary of the PFL progress, and Annex 2 lists agency participation in AoG contracts.

Supplier Survey

39. The Ministry conducts an annual survey of its AoG suppliers to assess how satisfied they are with the contracts. This year it received 195 responses from suppliers across 16 contracts. Given the launch of five new contracts with large supplier panels the results were difficult to compare with the previous survey.
40. The Ministry notes that satisfaction remains steady in most areas and there was an increase in supplier satisfaction with agency participation in the contracts, and the communications they received about the contracts. The survey also identified areas for improvement in contract management and the level of value supplier's feel they receive as part of the contract and Ministry is working on recommendations to progress this.

Recently established contracts

Air Travel

41. The Ministry returned to market in May 2016 to replace the AoG Air Travel Services contracts. The decision to return to market was based on a recognition of the changing market and feedback from agencies seeking a different air travel solution. This resulted in attractive offers from most respondents. The Ministry launched 11 new contracts (representing 14 airlines) effective 1 March 2017, and continue to negotiate with one respondent to support the Pacific region. 206 agencies are already participating in the new solution.

Electric Vehicles

42. The Ministry has added additional electric vehicles (EVs) to its existing AoG Vehicles solution, bringing the number of EVs on the panel to 14, to support the Government's goal of increasing the number of EVs registered in New Zealand to 64,000 by 2021. The Ministry has commenced work with government agencies and the private sector to generate pledges to procure EVs.

Contracts in progress

Risk Finance and Insurance

43. The Ministry is leading a separate secondary procurement process for the AoG Risk Finance and Insurance solution for a cluster of agencies with lower value insurance requirements. The Ministry released a Request For Proposal for this cluster and responses from the panel suppliers are currently being evaluated, with a recommendation expected in the third quarter of 2017.
44. Evidence from other jurisdictions has indicated that an alternative approach to Risk Finance and Insurance, involving multiagency collaboration, could be more cost efficient and raise the standards of Risk Management across government. The Ministry has received seed funding from the Treasury to assess possible approaches and an advisory group has been formed and Independent Quality Assurers have been appointed to peer review the group's recommendations.

Advertising Services, Advertising Media and Design Services

- 45. Planning is underway to determine how the three advertising contracts, Advertising Services, Advertising Media and Design Services, will be best managed in future. This is to reflect the changes in the market and in agency buying needs since the contracts were established in 2013/2014.

External Recruitment Services

- 46. A replacement AoG solution in progress. The evaluation process is now underway, with a new solution expected to be in place later this year

External Legal Services

- 47. A replacement AoG solution is in progress, with the Ministry planning to issue a tender to the market in the second quarter of 2017. A new solution is expected to be in place later this year.

Consultancy Services

- 48. The AoG Consultancy Services Tranche 2 panel went live in December 2016 with 392 new providers of Business and Finance services across five new subcategories.

Electricity

- 49. The Ministry leads separate secondary procurement processes for the AoG Electricity contract solution in order to accommodate different agency and sector requirements across government. Approximately 100 government agencies participated in a cluster to seek aggregated pricing from AoG panel suppliers, with 89% of agencies now receiving electricity through the AoG solution.

Facilities Management

- 50. In the last six-monthly update to Cabinet, the Ministry was directed to proceed with an AoG Facilities Management solution. This was the result of significant market analysis by the Government Property Group that indicated that a Facilities Management solution would introduce a proactive approach to the management of property and facilities and maximise cost efficiency. The Ministry is preparing to release an RFP to the market in the second quarter of 2017 and an AoG solution is expected to be in place in the first quarter of 2018.

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Upcoming collaborative procurement activity

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Consultancy

54. A strategy is being considered for a 3rd consultancy tranche focusing on delivering construction consultancy services to agencies.

Syndicated Contracts

55. The Ministry holds responsibility for reviewing new Syndicated Contracts. Syndicated Contracts are formed when agencies having identified a common need for goods or services go to market collectively in order to streamline their procurement, create efficiencies and secure a better price.
56. In the last six months three new approved syndicated contracts have been established covering data publishing, courier services and (non-construction) property consulting.

Property Consultancy Services Common Capability Contract

57. The Ministry released an RFP in April 2016 to create common capability solutions for property consultancy services. The Ministry has now established a panel of 15 suppliers to provide property-related consultancy services including: property management and advisory, market valuations, other valuations, property planning, workplace strategy and workplace change management services. Design and construction-related consultancy services are excluded from this common capability contract. All government agencies are eligible to participate in this new contract that was effective from 20 March 2017.

Consultation

58. 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

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

Regulatory Impact Analysis

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

Publicity

61. 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:

62. **Note** the work the Ministry has completed to maximise value out of current initiatives that are improving procurement practices across government:
 - a. The first set of reports for the Significant Service Contracts Framework has been collected by the Ministry and full analysis is underway.
 - b. The Guide to Buying and Managing Social Services has been published setting a clear best practice guide for social sector agencies and providers.

- c. The increased work the Sector Procurement team has done on the Better Business Cases to ensure there is consideration around how large investments can leverage spend to maximise value to New Zealand.
- 63. **Note** that the total forecast savings over the life of the existing All-of-Government contracts have increased from \$740 million reported in November 2016 to \$770 million;
- 64. **Note** the that the Ministry has signed contracts for the following All of Government solutions:
 - a. Air Travel
 - b. Consultancy Tranche 2
- 65. **Endorse** the Ministry's return to market for the following All-of-Government solutions:
 - a. External Legal Services
 - b. External Recruitment Services
 - [REDACTED]
 - d. Advertising Services, Advertising Media and Advertising Design.

Authorised for lodgement

Hon Simon Bridges

Minister for Economic Development

Annex 1: Dashboard summary of PFL progress

Annex 2: Savings and agency participation in AoG contracts March 2017

Annex 3: Significant Services Contract Framework report

Annex 4: Annual Procurement Plans returns by agency