



Discussion Document: Proposed Sector Leadership Model for Government Procurement

Ministry of Business, Innovation and Employment (MBIE)

Hīkina Whakatutuki – Lifting to make successful

MBIE develops and delivers policy, services, advice, and regulation to support economic growth and the prosperity and wellbeing of New Zealanders.

MORE INFORMATION

Information, examples and answers to your questions about the topics covered here can be found on our website: www.mbie.govt.nz or by calling us free on: 0800 20 90 20.

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How to have your say

New Zealand Government Procurement (NZGP), a part of the Ministry of Business, Innovation and employment (MBIE), is seeking views on the proposed introduction of a new sector leadership approach to government procurement by 14 April 2023.

Your submission may respond to any or all the proposals set out in this document.

You can make your submission before 14 April 2023 by:

- Sending a completed [submission form](#) template to procurementforthefuture@mbie.govt.nz. Please have 'Sector leadership submission' as the email subject heading.
OR
- Mailing a written submission to:
Sector Leadership Project
Policy Team, New Zealand Government Procurement
Ministry of Business, Innovation and Employment
PO Box 1473 Wellington 6140 New Zealand

Please direct any questions that you have in relation to the submissions process to procurementforthefuture@mbie.govt.nz.

USE OF INFORMATION

The information provided in submissions will be used to inform MBIE's policy development process regarding a sector leadership model of government procurement. We may contact submitters directly if we require clarification of any matters in submissions.

RELEASE OF INFORMATION

MBIE may upload PDF copies of submissions received. MBIE may also refer to submissions or parts of submissions in any summary of submissions. By making a submission, MBIE will consider you to have consented to this uploading and/or referencing of submissions, unless you clearly specify otherwise.

If your submission contains any information that is confidential, or you otherwise do not wish us to publish, please:

- indicate this on the front of the submission, with any confidential information clearly marked within the text; and
- provide a separate version excluding the relevant information, for publication on our website.

Submissions remain subject to requests under the Official Information Act 1982. Please set out clearly in the cover letter or e-mail accompanying your submission if you have any objection to the release of any information in the submission and which parts you consider should be withheld, together with the reasons for withholding the information. MBIE will take such objections into account and will consult with submitters when responding to requests under the Official Information Act 1982.

PRIVATE INFORMATION

The Privacy Act 2020 establishes certain principles with respect to the collection, use and disclosure of information about individuals by various agencies, including MBIE. Any personal information you supply to MBIE in the course of making a submission will only be used for the purpose of assisting in the development of policy advice in relation to this review. Your personal information or any other identifiable information will only be published where we have sought and received your consent to do so.

Purpose of this consultation

NZGP is seeking feedback on the proposed introduction of a sector leadership approach to how government manages strategic procurement in key sectors of the economy.

The government procurement system is delivering value to New Zealanders. However, aspects of the current system are not realising their full potential. Current accountabilities create silos between agencies, which prevent the government from 'working together as one' and acting as a smart, client of choice. This results in government competing against itself for the same suppliers, spreading specialist procurement expertise too thin, and limiting the impact public spending can have on delivery, developing market capabilities and resilience, and achieving government priorities.

Sector Leadership is an approach to supporting agencies to work together across significant areas of common expenditure. A key feature will be the appointment of new Sector Leads to work alongside agencies within certain sectors to coordinate some procurement activity, provide a sector voice, and connect stakeholders with shared interests. Effective sector leadership would flow through to better operational delivery, innovation within sectors, risk management, and market capability and resilience.

NZGP is consulting on the proposed high-level design features of a Sector Leadership model:

- Sector Lead core functions
- six initial sectors which should have a Sector Lead
- sector leadership governance arrangements
- initial implementation approach.

This document provides a commentary on the proposed changes and poses specific questions we seek your thoughts on. We also welcome any other feedback on the proposals.

The information you provide will be used to help refine the model and provide further advice to the Government.

PROCESS AND TIMELINE

Following this consultation, we will analyse feedback, submissions, and any other evidence before providing further advice to the Government on a sector leadership model.

Subject to the Government's agreement, the changes are expected to be progressively introduced and further information about the timelines will be communicated to the public at that time.

Summary of proposed changes

NZGP is developing a high-level government procurement sector leadership framework.

In collaboration with procurement professionals, policy experts, and business representatives, NZGP is developing a high-level government procurement sector leadership framework. This includes core functions, sectors which should have a lead, and governance arrangements.

Sector leadership functions

A sector leadership model is intended to achieve the following objectives:

- strengthen collaboration between agencies that are procuring similar goods and services
- provide sector-specific accountability between agencies and the centre
- make better use of procurement expertise within sectors.

Sector leads should be focussed on achieving these objectives. We propose Sector Leads are responsible for:

- setting sector-specific procurement-related strategies
- centrally coordinating some procurement activities where significant benefits can be realised
- providing sector-specific advice to Ministers, agencies, and suppliers/providers
- connecting stakeholders with shared interests
- building agencies' sector-specific procurement capability
- driving accelerated delivery of government priorities.

Sectors which should have a Sector Lead

Sectors Leads should be introduced in sectors where there is room to significantly improve outcomes for New Zealand by improving the resilience, productivity, and sustainability of the sector through better use of procurement spend. We propose that a Sector Lead is established in the following sectors:

- Construction/Infrastructure
- Information communication technology (ICT)
- Corporate goods and services
- Social services
- Health services,
- Education services.

Governance arrangements

It is important that sector leadership fits within the wider government procurement system and that appropriate governance arrangements are in place.

We propose that a single procurement board is established that is chaired by the Procurement System Leader. Sector Leads would report to this board.

Implementation approach

The next step is to develop the operational design. In other words, to turn the high-level sector leadership framework into something that can be practically implemented.

The operational detail will be developed by focusing on the construction/infrastructure sector. It is a high spend sector with significant scope for agencies to act as one government and to drive greater efficiency through collaborative initiatives.

NZGP will work with infrastructure stakeholders to design how sector leadership will work in practice for the construction/infrastructure sector. It is expected that this design work will be completed in mid-2023.

Context

Our vision is for New Zealand’s government procurement to be fair, transparent, inclusive, and efficient, so that it delivers more value to New Zealanders and responds to changing government priorities.

PROCUREMENT FOR THE FUTURE STRATEGY

Our vision is for New Zealand’s government procurement to be fair, transparent, inclusive, and efficient, so that it delivers more value to New Zealanders and responds to changing government priorities.

With an annual spend upwards of \$51.5 billion, we're using our procurement levers to drive real and progressive change, from supporting climate change goals, to providing work for a more diverse range of businesses supplying to Government, to lifting wages for some of our most poorly paid workers. But there is more work to be done to deliver greater public value in this area.

Cabinet directed NZGP to implement a new strategy, to realise a vision where Government procurement supports people, communities, and businesses to thrive and grow, as they aspire to.

[Procurement for the future Strategy](#) is aimed at repositioning our procurement system – by focusing on improvements in three interrelated strategic focus areas:

- **Data and transparency** – improving visibility of procurement activities across the system by driving capability and consistency in out collection, management & analysis of data.
- **Working Together as One** – improving accountability, collaboration & delivery, incentivising agencies to work together as one unified government procurement system.
- **Unlocking value** – attract, develop, and maintain the capability of people while developing closer relationships with our suppliers.

Each focus area has short term priorities which will be our focus over the next six and 24 months. These priorities are setting up for longer term ambitions to 2030.

Sector leadership will introduce a new approach to how government agencies work together to manage strategic procurement in key sectors of the economy

Sector leadership is a key initiative of the ‘working together as one’ strategic focus area.

Current accountabilities create silos between agencies, which prevent the government from ‘working together as one’ and acting as a smart, client of choice. This results in government competing against itself for the same suppliers, spreading specialist procurement expertise too thin, and limiting the impact public spending can have on delivery, developing market capabilities and resilience, and achieving government priorities.

Sector Leadership is an approach to supporting agencies to work together across significant areas of common expenditure. A key feature will be the appointment of new Sector Leads to work alongside agencies within certain sectors to coordinate some procurement activity, provide a sector voice, and connect stakeholders with shared interests. Effective sector leadership would flow through to better

operational delivery, innovation within sectors, risk management, and market capability and resilience.

The objectives of the sector leadership model are:

- strengthen collaboration between agencies that are procuring similar goods and services
- provide sector-specific accountability between agencies and the centre
- make better use of procurement expertise within sectors.

How have we been developing our thinking on this new approach?

NZGP established a Procurement Sector Leadership Working Group to help develop the high-level proposals for how sector leadership could be implemented. The Working Group was made up of procurement practitioners from key agencies, policy experts, and business representatives.

Over a series of workshops, the Working Group explored Sector Lead responsibilities, barriers to success, and areas where sector leadership would be beneficial. This work led to the proposals outlined in this discussion document.

Our approach for refining and establishing this new model

Our plan is to adopt an iterative and incremental approach to implementation. Six candidate sectors have been selected to be part of the eventual implementation of sector leadership.

The sector leadership operational detail and implementation plan will be developed by focussing initially on the construction/ infrastructure sector.

Proposed Sector Lead functions

We propose that Sector Leads play a coordinating role, provide a sector voice, and connect stakeholders with shared interests.

A sector leadership model is intended to achieve the following objectives:

- strengthen collaboration between agencies that are procuring similar goods and services
- provide sector-specific accountability between agencies and the centre
- make better use of procurement expertise within sectors.

Sector leads should be focussed on achieving these objectives. While core functions should apply to all sectors, it is important that they can be implemented differently in different sectors depending on the way they operate and the challenges they face. For example, all sector leads should support collaboration, but how that is implemented may be different in the construction/infrastructure sector when compared to the social services sector.

We suggest that the core functions of a Sector Lead should include the following:

- **Strategy:** Develop a procurement vision and direction that fits with the sector's broader strategy and market resilience. A sector procurement strategy should seek to address key sector-related issues and provide a high-level roadmap for achieving the vision. Sector leads are responsible for tracking progress against the strategy and updating it when necessary.
- **Coordination:** Centrally coordinate some procurement activities where significant additional value and benefits can be realised.
- **Advice:** Provide a sector voice and sector-specific procurement advice to Ministers, Procurement System Leader, agencies, and suppliers/providers. Is seen as a credible authority within the sector that provides informed and evidence-based advice. May contribute to the formulation of advice on broader issues, such as supply chain issues or emerging market trends. May provide specialist advisory services to agencies that require it.
- **Stakeholders:** Connect stakeholders with shared interests and bring the sector community together. For example, linking up agencies with similar needs or to help address capability gaps. Connecting stakeholders could include the establishment of agency and supplier/provider forums.
- **Data and insights:** Collate and share sector level data and insights with ministers, agencies, and suppliers/providers. The purpose is to inform stakeholders of how the sector is functioning and improving procurement decision-making and overall outcomes. Existing data sources should be used and maximised where possible (e.g., GETS, StatsNZ, industry bodies).

- **Practices and capability:** Strengthen sector-specific procurement practices and build sector-specific capability in agencies. This may include the implementation of sector-specific capability initiatives in conjunction with New Zealand Government Procurement. Improving supplier/provider capability could also be considered.
- **Government priorities:** Support delivery of government priorities. This includes driving broader outcomes and other specific government policies that are relevant to a particular sector. For example, reducing emissions and waste in building and construction and increasing access to government contracts for New Zealand businesses.

Why are these functions proposed?

We considered various possible sector lead functions ranging from purely advisory services (e.g., issuing guidance, providing advice) to more hands-on activities or strengthened oversight.

Based on feedback from the Procurement Sector Leadership Working Group, the functions listed above best align with the objectives of improved collaboration, accountability and use of expertise. They also align with the research we conducted on comparable leadership models domestically and internationally (e.g., the United Kingdom's Crown Commercial Service and the Queensland Government's Category Councils).

QUESTIONS WE SEEK YOUR VIEWS ON:

- **Q1: What do you think the core functions of a Sector Lead should be?**
- **Q2: Which functions do you think would be the most beneficial to the procurement system and sectors?**

Proposed six initial sectors

We are proposing that six initial sectors be established in the areas of Construction/Infrastructure, ICT, Corporate Goods and Services, Social Services, Health Services, and Education Services.

We propose that a Sector Lead is established in the following sectors:

- **Construction/Infrastructure:** Goods and services related to the creation, renovation, repair, or extension of physical assets in the form of buildings (vertical) and engineering constructions such as roads and bridges (horizontal).
- **ICT:** Goods and services related to information processing and communication by electronic means. Physical assets (e.g., computers and machinery) and intangible assets (e.g., software and business processes) are both included.
- **Corporate Goods and Services:** Goods and services commonly purchased by organisations that relate to their daily operational needs (e.g., legal services, recruitment services, motor vehicles, office supplies). ICT goods and services are not included.
- **Social Services:** Services aimed at improving the wellbeing of communities, whānau, and individuals. This includes social care, health, employment, and community services where the core purpose is improving social outcomes.
- **Health Services:** Goods and services related to medical treatment or care for the public by health professionals. This includes diagnostic equipment, medication, and other physical medical goods, as well as physiotherapy, aged care, disability, mental health, and pathology services delivered by GPs, medical specialists, nurses, or other health workers.
- **Education Services:** Goods and services across primary, secondary, tertiary, and vocational levels related to achieving educational outcomes for the public (e.g., educational consultancy/professional services).

Why these six proposed initial sectors?

Our criteria for determining these initial sectors related to the extent to which there was an opportunity to significantly improve outcomes for New Zealand from procurement opportunities. More specifically, we believe sector leads should be established in sectors where:

- government spend makes up a significant percentage of the domestic market and there is continuity of spend

- goods or services are procured frequently and by many agencies, and there is a long-term need for them
- there is scope for significantly more innovation and co-investment
- the sector is mature, resourced and capable, and there is some level of support to a sector-level approach to procurement.

We developed the proposed six sectors based on analysis against these criteria.

QUESTIONS WE SEEK YOUR VIEWS ON:

- **Q1: Do you agree with the chosen six sectors? Why, or why not?**
- **Q2: If sector leadership is rolled out in a phased approach, do you have any suggestions for which sectors would benefit from being introduced earlier than others?**

What are the pros and cons of this governance model?

Our initial analysis of this potential governance structure has identified several potential benefits and disadvantages:

Potential advantages	Potential disadvantages
<ul style="list-style-type: none"> • The introduction of a single board strengthens agency accountability and collective responsibility, provides a forum for sector leader to engage with one another and key agency chief executives, and means that the same group has oversight of all sectors. • This approach aligns with system leadership and would mean that the Procurement System Leader would be better informed on procurement-related issues. 	<ul style="list-style-type: none"> • Administrative burden and costs of an additional board. • There may be an existing board that could be amended to serve this function.

What other considerations are we exploring?

Overall, further work and consultation is needed on the option of establishing a procurement board. We will need to consider whether a board’s sector-specific focus could be expanded to include system-level advice. We will also investigate whether a new group needs to be established in the first place or other governance arrangements could be used or adapted. If a new board is required, we will develop options for how it could operate such as board membership, how often it meets, and when it is established.

In addition, future work will continue to focus on defining how sector leadership interacts with system leadership. We are working to ensure that Procurement System Leadership and sector leadership are mutually supportive, with a focus on clarifying areas of overlap. We will also be considering in detail how sector leadership aligns and overlaps with other system leadership areas, such as Digital System Leadership.

QUESTIONS WE SEEK YOUR VIEWS ON:

- **Q1: What parts of the proposed governance structure do you support? Why?**
- **Q2: What changes or additions would you make to the proposed governance structure? Why?**
- **Q3: What suggestions do you have for how the proposed governance arrangements could be optimised?**

Proposed initial implementation approach

We are developing the sector leadership operating model by focusing on construction/infrastructure.

The next step is to develop the operational design. In other words, to turn the high-level sector leadership framework into something that can be practically implemented.

We plan to focus on one sector initially and work with key stakeholders within that sector to develop the detailed operational design. This allows for a more focused approach to the detailed design and will facilitate options development and analysis by making issues more tangible and concrete rather than conceptual.

We will regularly engage with stakeholders from other sectors to test how the construction/infrastructure model that is being developed fits with other areas. This will help identify key differences that need to be considered to ensure the operational design can be rolled out to other sectors without significant redesign.

We propose focusing on construction/infrastructure to develop the operational design

A key question is which sector should be used to help develop the operating model. As it is likely that it would also be the first to be implemented, we developed the following criteria to help identify this sector:

- a. Improved delivery across the sector
- b. Efficiency gains across the sector
- c. Relative feasibility to establish a sector lead
- d. Learnings can be applied to other sectors.

We then analysed each of the six sectors against these criteria. For example, we looked at how a sector lead could result in improved delivery and effectiveness gains and then provided each sector with a rating from 0 (no or little effectiveness gains) to 2 (significant effectiveness gains).

Based on this analysis, we identified Construction/Infrastructure as our preferred candidate. It is a high spend sector with significant scope to drive greater efficiency through collaborative initiatives. It can also align with and leverage existing initiatives, such as the Construction Sector Accord.

It is expected that this design work will be completed in mid-2023.

QUESTIONS WE SEEK YOUR VIEWS ON:

- **Q1: What comments do you have on the approach to develop the operational design?**
- **Q2: What further comments do you have on the proposed sector leadership model?**