

## Cabinet Paper

### Government Procurement Functional Leadership

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**OFFICES OF THE MINISTERS FOR ECONOMIC DEVELOPMENT  
AND STATE SERVICES**

The Chair

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

## **Government Procurement Functional Leadership**

### **Proposal**

1. This paper seeks Cabinet's approval of proposals to implement procurement functional leadership, detailing specific measures and actions to address deficiencies in commercial capability and practices in the State services.

### **Executive Summary**

2. This paper presents proposals to support agencies to lift procurement performance across the state services, with the Chief Executive of the Ministry of Business, Innovation and Employment leading Procurement Functional Leadership. These proposals are underpinned by two key principles:
  - individual Chief Executives remain accountable for their agency's performance in procurement; and
  - functional leadership does not mean centralisation of procurement activities, rather it means 'centre led activities' through greater collaboration.
3. The term 'procurement' covers all third party expenditure (except Payroll) encompassing the acquisition and delivery of goods, services and construction. It spans the whole life cycle from initial identification of need, to the end of the service provision, or the end of a products useful life, including any asset disposal. This equates to approximately \$30 billion of expenditure per annum across the state sector. Successful management of this spend is critical to every New Zealander and it has the potential lever to further increase economic development in support of the Business Growth Agenda.
4. In 2009 Cabinet initiated the Government Procurement Reform Programme (CAB Min (09) 17/3). Some \$353 million in cost savings have been identified to date, with initiatives to lift commercial capability, support business participation, improve practice and cut red tape in progress.
5. Procurement impacts all areas of service delivery to the public, if it goes wrong, then we as Ministers become rapidly frustrated that our priorities are not being delivered and/or that valuable resources are being wasted. Implementing higher value and more complex procurements can be a cause of worry and concern for some agencies. Finding the best commercial people to support these more challenging procurement exercises continues to be a challenge.
6. Most agencies are aware of "bad news" stories that emanate from poor procurement practices. The use of suppliers (including Non-Government Organisations) to provide services, goods or construction is essential to how agencies operate and deliver services. It is becoming ever more critical that we get the best from these providers. To stimulate this, we need to support agencies further to incentivise, engage proactively to encourage innovation and motivate providers to put their brightest and best onto key projects.

7. We believe it is time for a step change in commercial performance across the state service and to achieve this agencies need more support and assurance. There are a lot of myths about what is and isn't possible within the 'rules'. We see the Procurement Functional Leader as critical in cutting through negative perceptions, better supporting agencies to apply good commercial decision making and then providing "air cover" for them if needed.
8. We already anticipate \$353 million in cost savings through all-of-government contracts to date and we want more of that, but that is only one aspect. To support the Business Growth Agenda (BGA), we need agencies to better engage with businesses and to do this we need to build broad commercial capability to get the best results.
9. Procurement functional leadership through the actions proposed in this paper have the potential to save government a further \$180-\$300M per annum. This is on top of the \$353 million in savings already anticipated from the current All-of-Government contracts. The success however of functional leadership is predicated on culture change across state services agencies which may be difficult to achieve and will need strong central agency support.
10. MBIE's results, will however, be difficult to measure in absolute dollar terms, due to the mixed quality of current baseline data, capability in agencies and the unknown factor of what the agency would have delivered themselves without intervention. The Procurement Functional Leader will need to work with central agencies to ensure savings don't get double counted and the benefits of the programme are evident.

## **Background**

11. In November 2011 the *Better Public Services Advisory Group* reported that significant change is needed to improve the performance of the State sector. It requires transforming the sector from a group of individual agencies separately focused on singular objectives to a collaborative system dedicated to delivering the priorities set by government. This is a significant change management capability and a different style of leadership will be required from central agencies and functional leaders if we are to be successful.
12. As a result, on 14 May 2012, [CAB Min (12) 16/10] Cabinet agreed that the State Services Commissioner take responsibility and appoint functional leaders in the areas of ICT, procurement and property. The Chief Executive of MBIE is currently responsible for leading the development of procurement policy across government. He has now been appointed the Procurement Functional Leader (PFL) [SEC Min (12) 10/2].

## **What is procurement?**

13. Procurement has a branding problem, it can be incorrectly stereotyped as a back office function, buying routine things that are often kept away from anything considered important. In fact the exact opposite should be the truth, we need commercial experts focussed on core/strategic agency work, securing the best support from the private sector and Non-Government Organisations to provide services for us. We need to attract the best providers to our work, negotiate great deals and make sure they perform and improve their service, bringing innovation.
14. Procurement covers approximately \$30 billion of annual third party expenditure (except Payroll). It encompasses the acquisition and delivery of services, goods and construction. It spans the whole life cycle from initial identification of need, to the end of the service provision, or the end of a products useful life, including any asset disposal. Successful procurement is essential to delivery of all of our public services and is a mechanism to support economic growth of businesses in New Zealand.

## **Mandate for Procurement Functional Leadership**

15. To drive a step change in procurement performance, the Chief Executive of the Ministry of Business, Innovation and Employment (MBIE) has been given functional leadership for Government Procurement to:
  - strengthen and accelerate the current government procurement reform programme – providing stronger and broader uptake of initiatives;
  - introduce stronger leadership based on a centre-led model;
  - provide clear accountability for delivery of procurement commercial results;
  - support greater collaboration across state services agencies; and
  - improve oversight and support for agency procurement.
16. This approach will not usurp Chief Executives' accountability or their responsibility to manage their own procurement activities. We do however, intend to make sure that agencies are able to access more support, that Chief Executives are made aware of any potential risks associated with their current resources, planned procurement activities, opportunities for collaboration, potential shared resourcing and where requested provide them access to hands-on expert support to help.
17. The PFL will work to engage agencies, to effectively communicate the benefits of participation, in order to maximise the level of involvement and uptake of initiatives. Following changes to the Crown Entities Act 2004 (amendments to which are now before Parliament) the Ministers of State Services and Finance will have the option of using whole of government directions to secure the participation of State services agencies.
18. The challenge present is that until changes are made to legislation there is no technical mechanism to drive state services agencies to participate in this programme. However, our intentions could not be clearer, state services collaboration and support to the PFL are essential. We anticipate that Chief Executives will therefore see the direction of travel, appreciate the increased support offered and will fully engage with all aspects of this work prior to the proposed amendments to legislation.

## **Expectations of central agencies**

19. The creation of functional leaders and state services collaboration will require a major change in culture. This is the purview of central agencies and the State Services Commissioner specifically – MBIE cannot deliver this change on its own and strong, aligned support from central agencies is critical.
20. We expect the PFL to engage collaboratively with agencies and for Chief Executives to reciprocate. If however, there are issues that cannot be resolved between the PFL and an agency, we expect the State Services Commissioner, supported by other central agencies to resolve them. We as Ministers will get involved as needed, to further support collaboration and the success of this work.

## **What has Government Procurement Reform Delivered to date?**

21. Cabinet instigated the Government Procurement Reform Programme in 2009 [ECC Min (09) 8/3]. This programme was initiated with \$3 million of seed funding and to date it has been provided with a further \$9.6 million of repayable capital injections. With this resource and our support to drive culture change, some of the highlights delivered to date are:

- \$353 million in projected savings from All-of-Government contracts that accrue over the contract life;
  - Over 300 agencies participating in one or more All-of-Government contract, including local government who have joined the deals due to how good they are;
  - 7 agencies have had their procurement capability assessed and have now instigated specific commercial improvement programmes;
  - Over 100 State sector staff now studying for internationally recognised post graduate procurement qualifications; and
  - Delivery of a revised, comprehensive, joined-up procurement policy framework
22. More importantly, this programme has shown that government agencies can collaborate, it has built credibility and has delivered tangible results. This means that Chief Executives are now starting to understand the value good commercial procurement can bring and its value is becoming evident.
23. However, in some areas, participation from agencies is lower than expected and this needs to be challenged. To highlight this MBIE will continue to report quarterly on agency uptake and participation so we can monitor progress and intervene as needed.

[1][2]

24. [1], [2]

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27.

### **PFL Programme of Work**

28. We believe that the PFL needs to implement a set of procurement reform actions that develops the right commercial culture and capability, supports the BGA and delivers Government more value for money. In support of this, a set of proposed actions are detailed in appendices 2, 3 and 4 across the following three themes:
- Increase performance, add value and maximise results – creates right culture and capability (appendix 2);
  - Create an environment for New Zealand Businesses to succeed – supports better BGA results (appendix 3); and

- Unlock cost savings – delivers more value for money (appendix 4).

## **Increase performance, add value and maximise results (Theme One)**

### ***Commercial capability building is the number 1 priority for the PFL***

29. We believe that the broad uplift of procurement capability is the highest priority for the PFL. Until this is dealt with, we as Ministers, agency Chief Executives and businesses will continue to be frustrated. We have invested in lifting capability over the last three years as follows:
- Independent reviews of agency procurement/commercial operations;
  - Training programme to lift commercial skills e.g. negotiation; and
  - Education programme to give access to professional procurement qualifications.
30. Historically State services agencies have never been expected to be totally commercially focussed and as a result have not been incentivised to do so. The focus in many state services agencies is not purely commercial and as a result many are not staffed with commercially experienced people, however, we now regularly expect them to deliver better commercial results. In some agencies people are not trained nor necessarily culturally aligned with this expectation, yet we continue to expect it to turn-up without changing something. The PFL will treat commercial capability as a priority.
31. A series of independent reviews of commercial and procurement capability in agencies (7 to date, including some of the largest/high profile agencies) has shown mixed results. These reviews have all resulted in agency management teams becoming aware of the opportunity and actions are being taken to lift performance. To further support commercial opportunities we strongly encourage [1] [3] [4] [1] [3] [4] to complete an independent assessment of their procurement capability in conjunction with the PFL.
32. Following capability reviews, the PFL will be better able to support agencies to optimise their performance and facilitate cross-agency collaboration so experience can be shared. We also propose that a procurement maturity index is developed so that Chief Executives can see how their agency is performing in comparison to other like agencies. To keep momentum, it is suggested that these capability reviews are undertaken every four years, with an interim review on progress in between.
33. Unfortunately, it is not cost effective to undertake an independent capability review on all 200 plus agencies across the state sector. So the PFL will be developing a simpler self-assessment method that can be used by small to medium sized agencies. The PFL team will support agencies to undertake self-appraisal – again we see this work informing the agency’s own commercial/procurement development programme.
34. To drive better commercial performance, the most senior person responsible for procurement or commercial issues in an agency is a critical appointment. It is proposed that the PFL supports agencies when they recruit their Heads of Procurement<sup>1</sup> by offering to be part of the interview panel and, further by having an input to the annual performance appraisal. This will ensure the agency has access to as much support as required to assist in making the right recruitment decision and supporting on-going technical procurement professional development.

### ***Establish a Deployable Commercial Pool of Procurers to Support Agencies***

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<sup>1</sup> Or whatever term is used by an agency, to describe their most senior procurement/commercial position.

35. Each year across government, we initiate large, complex, multi-million dollar procurement activities and unfortunately we do not always have access to the right commercial resources to execute them. These complex procurements come up irregularly for many agencies, so it is unrealistic to expect them to hold resources in reserve. It is therefore not surprising that when these agencies face delivery of a complex procurement that they are not always confident in their skills and are wary of making process errors – this can lead to risk aversion.
36. We believe that to provide more support that a small deployable pool of capable and experienced commercial procurement experts resourced from MBIE, but deployable into agencies as requested, would be extremely valuable and highly utilised by Chief Executives. This commercial pool will provide state services agencies with access to high quality, sound commercial advice and ‘hands on’ support (if needed).
37. We expect this pool would include a mix of commercial expertise (procurement, legal<sup>2</sup>, and project management) and would be scaled up or down in size dependent on demand. The team should comprise a mix of state services employees with some external specialists as required – this will also build institutional knowledge.
38. We envisage that people from this pool would be available to be deployed to support individual agencies with high value or high risk needs. This will help agencies to:
- gain a greater understanding of commercial imperatives;
  - develop better commercial acumen;
  - negotiate better deals;
  - meaningfully engage with the market and individual suppliers; and
  - achieve higher quality commercial results.
39. The team will ensure agencies have access, on a user pays basis, at a reasonable cost, to temporary support with expertise in government procurement and commercial acumen that is aligned with government priorities. We envisage that this pool will be used to develop talent that can then be used to assist agencies to fill vacancies in their own teams – with agency staff seconding into the team to support their own career development if appropriate (with back-fill available for them).
- PFL needs early insight into agencies procurement plans to support them***
40. We want the PFL to identify early, opportunities to improve the commercial approach of specific projects and work collaboratively with agencies to implement them. As we know, some agencies have a reputation for risk aversion and conservatism, the PFL needs to cut through that and provide reassurance “air cover” to more commercially savvy procurement approaches and opportunities for economic growth. The PFL will only be able to do that, if they have early oversight of what’s coming up, the agency’s proposed plan for execution and an opportunity to engage.

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<sup>2</sup> The *Lawyers & Conveyancers Act 2006* constrains in-house lawyers from providing certain services to anyone other than their employer. There is scope for in-house lawyers of government departments to provide legal services to other government departments or other parts of the Crown. This does not extend to advising any separate state sector entities that are not legally part of the Crown. Whilst, it will preclude MBIE officials from providing legal advice directly to other agency chief executives, it will not preclude the provision of commercial advice.

41. We propose that from 1 November 2012 that all state services agencies be expected, and agencies in the wider public sector be encouraged to provide the PFL with a comprehensive Procurement Forecast (detailing areas of forecast potential procurement activities, accepting that these may not yet have been fully approved) on a confidential basis, of all proposed procurement initiatives that fall into the following criteria:
- have an estimated total contract value of NZD\$5 million or greater; or
  - pose significant risk to either the agency or the state due to the abnormal nature of the procurement; or
  - have potential for cross government collaboration (aggregation of spend) or resource sharing.

***Review procurement business cases and drive improved performance***

42. In order to gain an insight into agencies' plans for large individual procurement activities we propose that all State services agencies be expected, and agencies of the wider state sector be encouraged, to provide the PFL with a copy of procurement business cases for all procurements that fall into the same criteria as detailed in paragraph 41 above.
43. Simply, if we want to hold MBIE to account for procurement excellence, then we need to give them the opportunity to see what's coming up in agencies. That way, the PFL can support the agency as needed and if required provide access to commercial resources to assist them. We also anticipate the PFL providing 'air cover' for agencies that opt to take non-traditional procurement approaches that are commercially savvy.

***Avoid duplication and align with other governance initiatives***

44. The PFL and central agencies must ensure that procurement policy initiatives and processes continue to align with *Better Business Cases*, *Gateway* and other government initiatives. This is to prevent agencies being required to provide the same information to more than one agency, for example we see, a procurement falling under the oversight of *Better Business Cases* is not required to provide business cases to the PFL for additional review.
45. MBIE will instead liaise directly with central agencies in order to have oversight of these procurements. Central agencies already collect information sets which will be of assistance to the PFL. These include the Risk Profile Assessments received from agencies by the Major Projects Assurance team at SSC.

**Create an environment for New Zealand businesses to succeed (Theme Two)**

46. The government's BGA aims to build a stronger economy by creating conditions for businesses to be more productive and internationally competitive. The *Better Public Services Advisory Group Report* emphasises the need for government procurement to be less reliant on over-complicated rules and procedures and better able to engage with private sector commercial partners.
47. Whilst implementing the Procurement Reform Programme, MBIE has received feedback from businesses on a number of barriers to more effective government procurement, including:
- limited opportunities for businesses to effectively engage with an agency, before and during a tender process;



- a risk averse culture leading to a rigid focus on complying with tender process; and
- limited opportunities to present innovation or new ideas.

### ***PFL Initiatives***

48. To unlock the best results from our suppliers, we need to make government a 'customer of choice'. We need to earn a positive reputation as a trusted partner and it needs to be easy for suppliers to do business with agencies. Appendix 3 details the specific actions we propose to undertake to support "Create an environment for New Zealand businesses to succeed".

### ***Improving Supplier Performance – encouraging innovation, driving efficiency productivity and increasing competitiveness***

49. Suppliers need to believe that it is worthwhile seeking government business and rewarding to innovate and continuously improve. This involves changing how the state services views and values suppliers.
50. Many agencies perceive they can only engage with the market during a tender process. This is a myth that is causing businesses frustration and impacts on the quality of results achieved. We believe that more reassurance, guidance and support are needed for agencies, on how to engage early and effectively with the market when planning a procurement activity.
51. For small businesses, some government contracts are simply too large and complex to bid for alone. We believe that the PFL needs to implement actions that help New Zealand suppliers to participate in government procurement opportunities either as prime-contractors or sub-contractors. [1] [2]

[2] [3]

- 52.

### **Unlock cost savings (Theme Three)**

53. A significant change pioneered by the Procurement Reform Programme was the introduction of All-of-Government contracts (AoG)<sup>3</sup>. AoG contracts establish a single supply agreement between the Crown and approved suppliers for specific goods and services which are commonly purchased by most agencies.
54. To date AoG contracts have estimated \$353 million in savings over the contract life – if agency commitment to using them is comprehensive. All agencies that are part of the New Zealand Public sector are eligible to buy from these contracts.

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<sup>3</sup> All-of-Government contracts have been established for office consumables, passenger vehicles, laptop/desktop computers, single & multi-function print devices, external legal services (in conjunction with crown law) travel energy management services, electricity, and mobile telephony. Work is underway for external recruitment services, industrial consumables and advertising.

55. The AoG contracts have 'stress tested' agencies ability to collaborate. This initiative has delivered substantial savings with no reduction in quality,  
[1]
56. [1][3][4]

### ***PFL Initiatives***

57. We believe that strengthened leadership will reduce inefficient government spend and unlock further costs savings for government. Agencies must be encouraged by central agencies and the PFL to collaborate more.
58. However, there is a balance required in the pursuit of cost reductions so that they don't result in the generation of perverse incentives, negative behaviours and poor quality outcomes. The PFL will be charged with the responsibility of monitoring and reporting back to us on maintaining this balance. Appendix 4 details the specific actions we propose to undertake to support "unlocking cost savings".

### ***Expand All-of-Government Contracts***

59. We want to build on the success of the AoG contracts, MBIE are currently collating spend data across the state sector to identify future initiatives. [1]

### ***Use Syndicated Contracts to Collaborate More***

60. Collaborative contracts within the state services are executed as either AoG contracts or syndicated contracts (where a few agencies join-up to go to market for similar needs). We intend to use the enhanced information provided through improved procurement forecasting and expect many more opportunities for syndicated contracting to arise.

### ***Improve performance and get better value from our key suppliers/providers***

61. There are a few key suppliers and providers that support a range of cross-cutting services that are essential to the performance of government work. It is common in most jurisdictions that spend with a few key suppliers will equate to billions of dollars of expenditure on our higher profile activities.
62. To get the best results from key suppliers, the PFL needs to support a more collective approach to working with these organisations and create more of a one to one relationship between Government and them. We need to streamline engagement processes for these organisations to reduce their costs of supporting us. Following an analysis of State sector spend, the PFL intent is to identify key suppliers/providers and initiate, collaboratively with agencies, a strategic supplier relationship programme to reduce engagement costs and lift performance.

## **What Benefits can we expect from Procurement Functional Leadership?**

63. If all of the proposed actions detailed in appendices 2, 3 and 4 are initiated, we are confident that the following benefits will be delivered:

- drive better value for money through achieving economies of scale;
  - \$180 million to \$300 million per annum in cost savings are possible<sup>4</sup>, assuming we can lever 3-5% savings on at least 20% of our annual \$30 billion spend;
  - address capability issues to secure better commercial outcomes; and
  - align agency processes and systems to facilitate greater collaboration.
64. In addition to the existing objectives of procurement reform successful PFL aims to:
- provide stronger leadership across government procurement activities;
  - accelerate the improvement of state services commercial acumen, procurement capability and capacity;
  - deliver better procurement results for government resulting in better services and value for money;
  - reduce duplication through collaboration and consolidation;
  - improve the use of technology (such as e-tenders, e-auctions), in procurement activities;
  - establish a culture of continuous improvement and innovation through agency procurement approaches; and
  - provide better oversight, data quality and information on government procurement.
65. The exercising of the functional leadership mandate will commence immediately, with the completion and implementation of plans for savings initiatives and benefit realisation. In parallel, the PFL will develop the detailed processes, plans, and benefits calculations with a report back in March 2013 to State Sector Reform Ministers. It is proposed that a quarterly progress report thereafter will be provided to State Sector Reform Ministers.

## Consultation

66. The following agencies have been consulted on the proposals in this paper: the Treasury, State Services Commission, the Department of Prime Minister and Cabinet, the Office of the Auditor General, the Ministry of Social Development, the Ministry of Education and the Department of Internal Affairs.
67. There has been informal communication on the broad issues raised (but not on detailed actions) with a range of stakeholders including Business New Zealand.
68. The Procurement Reform Programme Strategy Group (made up of senior business leaders and senior officials) has been consulted and has indicated support for the proposals. The Procurement Reform Group (made up of the heads of procurement and commercial leaders from a number of agencies to advise on the government procurement reform programme) has been consulted and has indicated broad support for the proposals.

## Fiscal Implications

69. Government procurement activities fall into two categories:
- Core procurement policy work, including negotiation of procurement aspects of Free Trade Agreements – Crown funded, \$1.041 million per annum.

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<sup>4</sup> This will be difficult to accurately measure, however we believe a 5 to 10% target is conservative.

- Government Procurement Reform Programme, an initial four-year transformation programme of activities – Levy funded (initially supported by repayable capital injections).
70. The Government Procurement Reform Programme is a self-funding activity, currently supported by repayable capital injections – a total of \$9.6 million so far. To eventually repay these capital injections, a (up to 1.5%) levy is charged to agencies buying from All-of-Government contracts. This levy is used to fund the development and management of All-of-Government contracts, support to business growth and initial procurement capability building activities.
71. MBIE will repay the capital injections once there is enough money in the memorandum account to do so and still continue to fund operating costs. The first capital injection of \$5.6 million will be repaid in 2013/14 and the second of \$4.0 million in 2014/15.
72. Detailed below is the levy income for the programme so far and projected income to the future, this shows the programme remains on target as follows:

	<b>Income \$m</b>	<b>Opex (net of Crown PFL Funding) \$m</b>	<b>Programme Surplus (Deficit) \$m</b>	<b>Net Memo Account Position \$m</b>
2010/11	\$0.900	\$5.300	-\$4.400	<b>-\$4.400</b>
2011/12	\$2.900	\$5.400	-\$2.500	<b>-\$6.800</b>
2012/13	\$6.800	\$7.700	-\$0.800	<b>-\$7.700</b>
2013/14	\$11.100	\$10.400	\$0.700	<b>-\$7.000</b>
2014/15	\$13.600	\$10.400	\$3.200	<b>-\$3.800</b>
2015/16	\$14.500	\$10.400	\$4.100	<b>\$0.300</b>
2016/17	\$15.300	\$10.400	\$4.900	<b>\$5.200</b>
2017/18	\$15.300	\$10.400	\$4.900	<b>\$10.100</b>
<b>TOTAL</b>	<b>\$80.400</b>	<b>\$70.300</b>	<b>\$10.100</b>	

***Proposed additional funding for functional leadership***

73. To progress Procurement Functional Leadership and a correspondingly wider programme of work, MBIE will need a higher appropriation. This new appropriation should mainly be funded through user charges, we expect this to be a self-funding programme in the main.
74. Initially, additional Crown funding of \$1.9 million, reducing to \$1.7 million per annum will be required to support an expansion of activities to support agencies to further improve their commercial performance, see Appendix 2.

75. The activities requiring Crown funding include an expansion of the independent reviews of procurement operations in [1][3][4] to support agencies to develop their own procurement improvement programmes. Secondly, funding for staff to review procurement plans, programmes and approaches of circa 160 State services agencies to identify improvement opportunities or the potential to collaborate and provide support to agencies as needed.
76. An additional \$400k, rising to \$5.9 million of appropriation will be required to deliver the actions detailed in appendix 3 and 4. This appropriation will be funded through revenue from user pays charging and levies on agencies using expanded All-of-Government contracts.

## Human Rights

77. There are no human rights implications arising from the paper.

## Legislative Implications

78. There are no legislative implications arising from the paper.

## Regulatory Impact Analysis

79. As there are no regulatory impacts arising from this paper, a Regulatory Impact Statement has not been prepared.

## Publicity

80. We anticipate significant interest from agencies and industry in the future direction of government procurement and we intend to release communications as required, in consultation with State Sector Reform Ministers. This may include the proactive release of this paper and corresponding Minute, subject to consideration of any redactions that would be justified if the information had been requested under the Official Information Act 1982 (CO Notice (09) 5). Further consultation and communication with departments will occur during implementation. Publicity and communication requirements relating to the reorganisation of procurement capability will be reviewed as proposals are developed.

## Recommendations

81. It is recommended that the Committee:
1. **Note** that the two key principles that underpin the Procurement Functional Leadership (PFL) mandate are:
    - individual Chief Executives remain accountable for their agency's performance in procurement; and
    - functional leadership does not mean centralisation of procurement activities, rather it means 'centre led activities' through greater collaboration.
  2. **Direct** the State Services Commissioner, acting as Head of State Services, to support and assist the work of the PFL by communicating government expectations to agencies in the State services, supporting the PFL in engaging the wider State sector, supporting the PFL in engaging with Ministers on significant agency-level issues, and where necessary taking a hands on role in helping resolve issues that arise in the interaction of PFL and agencies.

3. **Note** that a range of actions have been developed to:
  - Increase Performance, Add Value and Maximise Results (Appendix 2);
  - Create an Environment for New Zealand Businesses to Succeed (Appendix 3); and
  - Unlock Cost Savings (Appendix 4).
4. **Note** MBIE as PFL will implement the proposed actions as appropriate as detailed in appendices 2, 3 and 4 to continue procurement reform;
5. **Agree** that independent capability reviews should be undertaken for all the agencies detailed in Appendix 1;
6. **Note** there is a shortage of commercial procurers in New Zealand and this is impeding agencies in delivering results and value;
7. **Note** that MBIE will establish a deployable commercial pool of capable and experienced commercial experts to provide state services agencies with high quality, sound commercial advice on a user pays basis;
8. **Invite** the Minister of Economic Development and Minister of State Services to release this paper and resulting Cabinet Minute, along with those relating to the functional leadership of ICT and property, in consultation with the State Sector Reform Ministerial Group;
9. **Direct** the functional leader for procurement to provide a quarterly progress report tracking benefits realisation to State Sector Reform Ministers, with the first report in March 2013;
10. **Agree** to increase expenditure to provide for costs associated with procurement functional leadership, with the following impact on the operating balance:

	\$m – increase/(decrease)				
Vote Economic Development	2012/13	2013/14	2014/15	2015/16	2015/16& Outyears
Operating Balance Impact	1.900	1.700	1.700	1.700	1.700
No Impact	0.400	5.900	5.900	5.900	5.900
<b>Total</b>	<b>2.300</b>	<b>7.600</b>	<b>7.600</b>	<b>7.600</b>	<b>7.600</b>

11. **Approve** the following changes to appropriations to provide for fund procurement functional leadership:

<b>Vote Economic Development</b> <b>Minister for Economic Development</b>	\$m – increase/(decrease)				
	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2015/16&amp; Outyears</b>
Departmental Output Expense:					
Policy Advice and Sector Leadership – Firm Capability, Sectoral and Regional Development (funded by revenue Crown)	1.900	1.700	1.700	1.700	1.700
Policy Advice and Sector Leadership – Firm Capability, Sectoral and Regional Development (funded by revenue other)	0.400	5.900	5.900	5.900	5.900
<b>Total Operating</b>	<b>2.300</b>	<b>7.600</b>	<b>7.600</b>	<b>7.600</b>	<b>7.600</b>

12. **Agree** that the proposed changes to appropriations for 2012/13 above be included in the 2012/13 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply.

**Hon Steven Joyce**  
**Minister of Economic Development**

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**Hon Jonathan Coleman**  
**Minister of State Services**

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**APPENDIX 1** [1] [3] [4]

[1] [3] [4]



## APPENDIX 2 - ACTIONS TO INCREASE PERFORMANCE, ADD VALUE AND MAXIMISE RESULTS (THEME ONE)

No.	Actions across the State Services	2012/13	2013/14	On-going
1	Identify and support opportunities for smaller agencies to benefit from any of procurement shared services, 'buddy up' with another agency for procurement support, or utilise a third party service provider		X	X
2	Identify common areas of spend that may be suitable for sector agency clusters (spend that is common to a few agencies, but not all of government), support those agencies to collaborate and undertake a joined-up approach to the market. For example, agency groupings within each of the following sectors could become clusters; health, justice, defence, education, welfare, transport etc	X	X	X
3	Identify common areas of spend that may be suitable for category clusters (spend that is common across government e.g. construction, but that doesn't lend itself to an All-of-Government contract, but may lend itself to an All-of-Government approach) and establish Centres of Expertise to develop and lead a joined up approach to our engagement with the market e.g. construction, property, ICT, materials for Canterbury rebuild, NGO contracts etc	X	X	X
4	To give businesses a 'heads-up' extend the requirement for all agencies to provide MBIE with an Annual Procurement Plan of forecast procurements that have an estimated total value of \$5million or more, or pose significant risk to either the agency or the State due to abnormal nature of the procurement or have the potential for cross government collaboration or resource sharing (review thresholds and approach annually)	X	X	X
5	All agencies to provide MBIE at early stage (prior to any market engagement) with business cases for projects/procurements that have an estimated total value of \$5million or more, or pose significant risk to either the agency or the State due to abnormal nature of the procurement or have the potential for cross government collaboration or resource sharing (review thresholds and approach annually). Note – if the project is subject to Gateway/Better Business Cases then those processes/systems take precedent and MBIE will liaise with central agencies managing those systems to ensure sign-off and avoid duplication.	X	X	X

**APPENDIX 2 - ACTIONS TO INCREASE PERFORMANCE, ADD VALUE AND MAXIMISE RESULTS (THEME ONE) Continued**

No.	Actions across the State Services	2012/13	2013/14	On-going
6	Improve out-year planning (long term “heads-up” for business) MBIE to target agencies who have undertaken capability reviews [1] develop 3 to 5 years outlook of procurement activities. MBIE will then examine outlooks to examine opportunities for collaboration or for opportunities for New Zealand businesses to compete. [2] [4]	X	X	X
7	MBIE to utilise the Procurement Review Group to undertake peer review of agencies Annual Procurement Plans, Business Cases and 3-5 year outlooks and scrutinise/advise those agencies how to best engage with the market to gain the best value and manage risks. This group will ensure modern and appropriate procurement practices are enacted, providing “air cover” to agencies if needed when more innovative approaches to procurement are warranted.	X	X	X
8	MBIE to establish a deployable pool of highly skilled commercial resources, that are available to be hired by agencies at a reasonable rate, to support them to: <ul style="list-style-type: none"> <li>• Inject pace/commercial resources into projects of high minister priority</li> <li>• Do big/complex procurement projects, delivering best commercial outcomes</li> <li>• Support in-house procurement capability building</li> <li>• Develop broad commercial acumen</li> <li>• Provide support to peaks in workload/unexpected absences</li> <li>• Reduce reliance on procurement contractors/reduce procurement contractor costs</li> </ul> Note: This pool will start small and ramp-up over 12 months, flexing the resource in the commercial pool depending on uptake and demand	X	X	X

**APPENDIX 2 - ACTIONS TO INCREASE PERFORMANCE, ADD VALUE AND MAXIMISE RESULTS (THEME ONE) Continued**

No.	Actions across the State Services	2012/13	2013/14	On-going
9	To stimulate procurement capability building, develop and implement a procurement maturity index to measure and track procurement performance of all State Services agencies (and MBIE's own procurement functional leadership team) and report results to Cabinet on an annual basis	X		
10	Identify <sup>[1]</sup> and initiate independent capability reviews of their procurement operations	X	X	X
11	Develop a procurement capability model <sup>[2]</sup> for use in smaller agencies that uses a combination of MBIE staff and evidence based self-assessment and implement across the State Services (where an independent capability review is not warranted)		X	X
12	MBIE to work with agency chief executives to establish the most appropriate procurement support for their agency needs – ensuring that any appointees to Heads of Procurement roles are appropriately empowered, skilled, experienced and qualified professionals.	X	X	X
13	MBIE to support agencies in recruitment and selection of Heads of Procurement/most senior procurement role in agencies	X	X	X
14	MBIE to offer input to the annual performance assessments of Heads of Procurement/most senior procurement role in agencies to support on-going technical procurement professional development.	X	X	X
15	Develop and implement a development programme to further lift procurer capability, support them to build their knowledge and confidence – implement a competency framework, training needs analysis, expand procurement academy, enact mentorship schemes, secondments/internships, awards for excellence and a graduate programme.	X	X	X

### APPENDIX 3 - ACTIONS TO CREATE AN ENVIRONMENT FOR NEW ZEALAND BUSINESSES TO SUCCEED (THEME TWO)

No.	Actions across the State Services	2012/13	2013/14	On-going
1	Pilot a “mentorship” programme with business, with procurers providing mentor support to NZ businesses bidding for international government contracts – procurers can assist making the bids, procurer friendly		X	
2	Analyse agencies Annual Procurement Plans (forecast plans) to identify opportunities for businesses, in support of the Business Growth Agenda – including identification of sub-contracting opportunities	X	X	X
3	Initiate “Meet the Buyer” events annually to give businesses opportunities to quickly and efficiently meet with a range of agency decision makers to discuss opportunities (funded through sponsorship where possible)	X	X	X
4	Produce and launch alternative procurement approaches (not just tenders) that support early engagement with business and more collaborative working e.g. competitive dialogue	X		
5	Expand the use and coverage of Government Model Contracts to standardise and simplify procurement engagements with business/NGO's and other third parties	X	X	X
6	Develop and implement a simple, plain English, but comprehensive set of guides, tools and templates for government procurement, including common, business oriented Request for Proposals (tender document)	X		
7	Hold regular business briefings on government procurement changes, work with industry groups in two-way, open dialogue	X	X	X
8	Identify and implement electronic business solutions such as electronic tenders and e-auctions to streamline processes	X	X	X
9	Implement the replacement of the Government Electronic Tenders Service (GETS) in a manner that supports streamlined procurement – examine options with Business New Zealand for potential pre-qualification information to be held on businesses to save time repeatedly providing to government agencies	X		

#### APPENDIX 4 - ACTIONS TO UNLOCK COST SAVINGS (THEME THREE)

No.	Actions across the State Services	2012/13	2013/14	On-going
1	MBIE to coordinate across the State sector a bi-annual data collection of key areas of spend/suppliers, analyse and produce a set of reports that explains simply “what government spends its money, on and with whom?” – Identifying opportunities for improvement and reporting this to Cabinet for discussion.	X		X
2	MBIE to monitor pricing trends and advise agencies (if appropriate Cabinet) on any pricing trends that need to be planned for – or where procurement action may be needed to mitigate cost rises ☹		X	X
3	MBIE to identify opportunities for further All-of-Government contracts and present proposals to Cabinet to agree future contract areas	X	X	X
4	MBIE to promote participation in All-of-Government contracts and update Cabinet on progress.	X	X	X
5	Agencies are now expected to participate in approved syndicated contracts (cluster arrangements or contracts that have an option for other agencies to use them) that can be proven to meet agency needs.		X	X
6	MBIE to produce ‘buyer behaviour’ reports for agency’s to identify opportunities they might like to take to improve savings.		X	X
7	MBIE will identify key common suppliers/providers to Government ☹ and initiate, in conjunction with appropriate agencies a collaborative approach to management of the relationship. Examine opportunities to establish a 1-2-1 contract with these major providers and instigate a two-way improvement programme to lift performance and optimise value for both parties.		X	X