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Using “functional leadership” to improve government procurement



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Using “functional leadership” to improve government procurement

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Auditor-General's overview

E ngā mana, e ngā reo, e ngā karangarangatanga maha o te motu, tēnā koutou.

We estimate that public organisations spend about \$42 billion each year on procurement. To get the best outcomes for taxpayers and ratepayers, it is critical that public organisations successfully manage this spending. They need high-quality procurement and capability to effectively and efficiently deliver services, innovate, and achieve public value.

Since 2012, New Zealand Government Procurement (NZGP), a business unit in the Ministry of Business, Innovation and Employment, has provided **procurement functional leadership** – that is, responsibility for leading improvements in government procurement.

NZGP has successfully laid the foundations for effective procurement functional leadership. NZGP has introduced rules, guidance, and activities that have helped public organisations improve their procurement practices and take a more consistent approach to procurement than previously. It has also done work to increase the number, and improve the quality of, procurement professionals in the public sector.

NZGP has shown that having a single public organisation lead improvements to government procurement has benefits. This is a significant achievement because cross-agency work is challenging and complex. However, public organisations now have higher expectations of NZGP's leadership, which NZGP is not yet meeting.

In introducing procurement functional leadership, Ministers wanted public organisations to regard procurement as a strategic activity. In my view, NZGP has made good progress in some areas, but its engagement with public organisations needs to be as a strategic partner to make this shift. This means that NZGP needs to provide closer and more nuanced support, be more responsive, and jointly set goals and priorities with public organisations.

NZGP needs to build on its goodwill and support to provide stronger leadership and strategic direction, do more to support collaborative working, and improve its communication with public organisations. We have identified some important areas for NZGP to focus on to further improve public sector performance and to be seen as the centre of excellence for procurement in the public sector.

NZGP needs to be clearer about how it is going to influence public organisations to see procurement as a strategic activity focused on achieving public value, rather than as a set of requirements to comply with.

Although cost savings are important, the public organisations we spoke to consider that NZGP has focused too much on making savings and not enough

on improving public sector procurement capability. This is needed to improve the quality of procurement decision-making, promote more mature and streamlined procurement, and promote innovation among public organisations.

NZGP has set clear goals for improving government procurement. It now needs to put in place the essential elements of good governance to provide transparency and accountability for improving government procurement, including monitoring and reporting of its planned national procurement strategy. Effective monitoring and reporting is needed to provide assurance that government procurement is continuing to improve.

The State Services Commission needs to clarify its role in setting expectations for procurement functional leadership and reviewing NZGP's performance. There are currently five functional leaders in the public sector, including NZGP. Although their mandates vary, sometimes considerably, we still expect that they:

- can clearly explain their leadership role;
- know who their stakeholders are and involve them effectively; and
- have in place the essential elements for providing transparency and accountability on performance to public organisations, Ministers, Parliament, and ultimately the public.

I am pleased to note that NZGP will use my report to support its work. It already has actions under way to address some of our recommendations. I have discussed my findings with the State Services Commission, which is considering the implications of this report for other areas of functional leadership in the public sector.

I thank the staff in the public organisations and suppliers involved in our audit for their support, co-operation, and openness.

Nāku noa, nā



John Ryan
Controller and Auditor-General

26 November 2019

Our recommendations

New Zealand Government Procurement and the State Services Commission need to work together to strengthen the framework that underpins the procurement functional leadership role.

Priorities, roles, and responsibilities need to be clearly understood, and more attention needs to be given to providing transparency and accountability for performance. Our report discusses matters we expect New Zealand Government Procurement and the State Services Commission to consider.

In particular, we recommend that:

1. New Zealand Government Procurement:
 - clearly define its leadership role and responsibilities for improving government procurement; and
 - identify its stakeholders and revise its approach to stakeholder engagement to work more collaboratively with public organisations and central agencies;
2. the State Services Commission clarify its oversight role for procurement functional leadership in the public sector;
3. the State Services Commission, as appropriate, clarify its oversight role for other functional leaders in the public sector; and
4. New Zealand Government Procurement:
 - put in place its planned national procurement strategy to give direction on priorities;
 - put in place performance indicators that would help it to monitor performance in improving government procurement; and
 - prepare and publish a regular report on government procurement.

1

Introduction

- 1.1 In this Part, we discuss:
- what we mean by procurement;
 - procurement functional leadership;
 - the agencies involved in improving government procurement;
 - the mandate for procurement functional leadership;
 - what we audited;
 - how we carried out our audit;
 - what we did not audit; and
 - the structure of this report.

What is procurement?

- 1.2 Procurement is more than just “buying something”. It includes all the processes and decisions involved in public organisations¹ acquiring goods, services, works, and construction from a supplier.² Procurement could be part of a wider commissioning process that could include in-house provision of services, co-designing services with stakeholders, joint ventures, or some other method for achieving public organisations’ strategic goals.

Procurement functional leadership

- 1.3 Procurement is the process that public organisations use to acquire different kinds of goods and services to support the work of local and central government. We want New Zealanders to get the best possible outcomes from the spending of public money by having a high-performing and accountable public sector.
- 1.4 The Ministry of Business, Innovation and Employment (MBIE) estimates that a public organisation spends an average of 39 cents of every dollar on procurement. Using 2015/16 financial data, we estimated that total procurement spending for local and central government in that year was \$42 billion.
- 1.5 In 2009, the Government started work on reforming the way that public organisations manage procurement. The main goals were to:
- increase performance, add value, and maximise results;
 - create an environment for New Zealand businesses to succeed; and
 - unlock cost savings.
- 1.6 Ministers wanted public organisations to treat procurement as a strategic activity focused on outcomes, rather than as requirements that they need to comply with.

1 Public organisations include government departments, Crown entities, schools and universities, district health boards, port companies, airport companies, State-owned enterprises, Crown research institutes, statutory bodies, licensing trusts, local councils, and council-controlled organisations.

2 Office of the Auditor-General (2018), *Introducing our work on procurement*, Wellington.

Cabinet's view was that good procurement practice at the start of a project meant public organisations could consider the full range of opportunities, maximising the potential of delivering the highest possible savings and value.

- 1.7 In September 2012, the Government introduced procurement functional leadership. Cabinet expected the Procurement Functional Leader to improve government procurement by collaborating with public organisations and taking a “centre-led” approach. Ministers expected that strongly aligned support from central agencies (particularly the State Services Commission and the Treasury) would be critical to achieving a major change in the way public organisations did procurement. Ministers said that, to be successful, central agencies and the Procurement Functional Leader would need to use a different style of leadership.³

Agencies involved in improving government procurement

- 1.8 The State Services Commissioner is responsible for functional leadership, which Cabinet defined as leadership aimed at:
- securing economies or efficiencies across departments;
 - improving services or service delivery;
 - developing expertise and capability across the Public Service; and
 - ensuring business continuity.
- 1.9 The **State Services Commission** supports the State Services Commissioner in their role. Cabinet authorised the State Services Commissioner to appoint functional leaders.⁴ The State Services Commissioner has appointed MBIE's chief executive as the Procurement Functional Leader since 2012.
- 1.10 The State Services Commissioner has also appointed functional leaders for:
- government property – also MBIE's chief executive;
 - occupational health and safety – Mr Ray Smith;⁵
 - Government Chief Data Steward – Statistics New Zealand's chief executive; and
 - Government Chief Digital Officer – the Department of Internal Affairs' chief executive.
- 1.11 In this report, we include the State Services Commissioner when we refer to the State Services Commission.
- 1.12 In 2012, MBIE set up **New Zealand Government Procurement** (NZGP) to have operational responsibility for improving government procurement. In this report,

³ Offices of the Minister for Economic Development and the Minister of State Services (2012), *Government procurement functional Leadership SEC (12) 90*, at procurement.govt.nz or www.ssc.govt.nz.

⁴ CAB Min (12) 16/10, *Better Public Services: Suite of seven papers*, at www.ssc.govt.nz.

⁵ Mr Smith is currently Director-General of the Ministry for Primary Industries. The functional leadership role stays with him.

when we refer to NZGP we include the relevant deputy chief executive and MBIE's chief executive because they authorise NZGP's work and decisions.

- 1.13 NZGP started with about 30 staff. In April 2016, MBIE's chief executive became responsible for government property functional leadership. This meant that new staff transferred to NZGP from the Ministry of Social Development, resulting in a larger group called **New Zealand Government Procurement and Property**.
- 1.14 In 2018/19, New Zealand Government Procurement and Property received nearly \$30 million in funding from public organisations and through Crown revenue. At 30 June 2019, it had 129 positions, including 14 staff working only on property functional leadership and seven procurement vacancies.
- 1.15 The four largest teams in New Zealand Government Procurement and Property are responsible for:
- all-of-government contracts,⁶ projects related to government property functional leadership, and a project addressing all-of-government risk financing and insurance (59 staff);
 - business systems and data; strategy, planning, reporting, and governance; communications and engagement with public organisations through account managers (21 staff);
 - improving procurement capability in public organisations (17 staff); and
 - providing procurement consultancy services to public organisations on a cost-recovery basis (15 staff).
- 1.16 The other 17 staff are responsible for management, procurement legal advice, and policy, including providing the procurement policy framework (government priorities, rules, guidance, and templates). In Appendix 1, we provide more information about New Zealand Government Procurement and Property's structure and activities, staffing, and funding.
- 1.17 **Public organisations** get goods, services, works, and construction from **suppliers**. Public organisations are responsible for their procurement decisions. Since 2013, chief executives must consider matters relating to the collective interests of government and stewardship of the Crown's medium- to long-term interests.⁷ This requirement supports the need to collaborate on procurement.

6 The procurement.govt.nz website describes an all-of-government contract as "a type of approved collaborative contract. [All-of-government contracts] establish supply agreements with approved suppliers for selected common goods or services purchased across government". About 3% of total government procurement spending is through NZGP's all-of-government contracts. There are 19 of these contracts for common goods and services such as electricity and gas, travel management, banking, office supplies, and rental vehicles. A full list of current all-of-government contracts is available at procurement.govt.nz.

7 The requirement was introduced through an amendment to the State Sector Act 1988. See State Services Commission (2013), *Annual report for the year ended 20 June 2013*, at www.ssc.govt.nz, page 11.

The mandate for procurement functional leadership

- 1.18 There are about 3600 public organisations. Of these public organisations, 135 are mandated public organisations as at 6 September 2019.⁸ Mandated public organisations must apply NZGP's procurement policy framework for all procurement. This includes complying with the specific rules for spending that is greater than specified dollar values. Mandated public organisations must use NZGP's all-of-government contracts unless there is a good reason not to.
- 1.19 **Mandated public organisations** include government departments, non-public service departments (such as the New Zealand Police and the New Zealand Defence Force), and Crown entities, including district health boards and Crown research institutes.
- 1.20 Cabinet did not set up NZGP to be a regulator. Although NZGP can influence mandated public organisations to comply with the procurement policy framework through its leadership and the State Services Commission's support, it cannot enforce compliance.
- 1.21 Non-mandated public organisations, such as local government organisations, are encouraged to apply the procurement policy framework because it is considered to be good practice and represents government policy.

What we audited

- 1.22 We audited procurement functional leadership to find out whether it is achieving benefits and is fit for purpose and to recommend improvements where relevant. We looked at whether:
- NZGP's strategic goals for improving procurement were clear;
 - NZGP's activities deliver on the strategic goals;
 - NZGP had suitable performance indicators to monitor its work and progress towards the strategic goals;
 - NZGP reports on performance in improving government procurement; and
 - NZGP and the State Services Commission review the system's effectiveness and efficiency.

How we carried out our audit

- 1.23 To carry out our audit, we looked at documents supplied by the public organisations involved in our audit, information on websites, and interviews. Our focus was on NZGP, but we also spoke to the Treasury, the Department of the Prime Minister and Cabinet, and six mandated public organisations of different sizes and types. The six public organisations we selected were the Ministry of

8 See the list of mandated public organisations at procurement.govt.nz.

Social Development, the Ministry of Education, Fire and Emergency New Zealand, the Ministry of Foreign Affairs and Trade, the Ministry for Culture and Heritage, and the New Zealand Antarctic Institute.

- 1.24 In Appendix 2, we provide more information about how we carried out the audit, including the people we spoke to and some of the international information we found useful.

What we did not audit

- 1.25 We did not audit:
- functional leadership for government property;
 - the adequacy of individual all-of-government contracts;
 - public organisations' management of contracts for significant services;⁹
 - the adequacy of the procurement policy framework, which is made up of the *Government Procurement Rules: Rules for sustainable and inclusive procurement* (4th edition 2019) and related guidance and templates (collectively, **the Rules**) or earlier versions of the Rules;
 - public organisations' application of the Rules; or
 - procurement for activities funded through the National Land Transport Programme.

Structure of this report

- 1.26 In Part 2, we discuss how NZGP performs its leadership role, stakeholder engagement, and the State Services Commission's role in supporting NZGP.
- 1.27 In Part 3, we discuss the essential elements for transparency and accountability for procurement functional leadership, including strategy, planning, monitoring, and reporting.
- 1.28 In Part 4, we discuss areas where NZGP needs to do more work to achieve the full benefit from the activities that it delivers.

⁹ The Auditor-General's 2019/20 annual plan discusses the further work we plan to do on contract management. See Office of the Auditor-General (2019), *Annual plan 2019/20*, Wellington.

Leadership of the government procurement system

2

- 2.1 In this Part, we discuss:
- NZGP's leadership role;
 - stakeholder engagement; and
 - the State Services Commission's role for overseeing procurement functional leadership.

Summary of findings

- 2.2 NZGP has demonstrated the benefits of having a single public organisation lead improvements in government procurement. This has included the benefits of central co-ordination and leadership, and how work performed centrally can lead to efficiencies. This is a significant achievement because cross-agency work is challenging and complex.
- 2.3 The estimated savings to the Crown from using all-of-government contracts have significantly outweighed the financial cost of running NZGP. Based on MBIE's 2017/18 data on its funding, spending through all-of-government contracts, and estimated savings, we calculate that, for every dollar New Zealand Government Procurement and Property received in revenue, public organisations achieved estimated savings of \$5.84 on about \$1.9 billion of spending through all-of-government contracts. In Appendix 4, we discuss the reliability of the savings estimates we used to make this calculation.
- 2.4 In our view, NZGP is at a critical stage. Public organisations have higher expectations of NZGP's leadership of government procurement, and NZGP is not meeting them.
- 2.5 Public organisations want NZGP to provide stronger leadership and direction, including supporting collaborative working and doing more to improve procurement capability. We agree that NZGP should address these areas.
- 2.6 NZGP would also need to review its internal capability for the next stage of its development to ensure that it is a centre of excellence for procurement.
- 2.7 NZGP would be more effective if it clearly defined its leadership role – for the entire public sector. NZGP needs to be clearer about how it will influence public organisations to see procurement as a strategic activity focused on achieving public value. It needs to think more strategically about how it can work with executive leaders and procurement professionals across the public sector.
- 2.8 The State Services Commission also needs to clarify its role for overseeing procurement functional leadership.

Defining the leadership role

- 2.9 NZGP's mandate is clear. It is the Government's lead on procurement policy. It is clear which public organisations are mandated to apply the Rules. The aims of functional leadership generally are clear. NZGP also has considerable flexibility in how it carries out its leadership role.
- 2.10 NZGP has successfully laid the foundations for effective procurement functional leadership, which has increased public organisations' expectations. They see the value in NZGP doing and co-ordinating more work to achieve even greater benefits.
- 2.11 NZGP would be more effective if it clearly defined its leadership role and communicated this to stakeholders. This would provide clarity to public organisations about what NZGP is accountable for and what public organisations are accountable for. NZGP and public organisations would then be able to hold each other to account.
- 2.12 In our view, NZGP has not put enough consideration into how it works with public organisations as strategic partners to improve procurement. NZGP needs to be clearer about how it will influence public organisations to see procurement as a strategic activity focused on achieving public value and not just a set of requirements they need to comply with.
- 2.13 NZGP needs to think strategically about how it can influence public organisations, including executive leaders and procurement professionals. NZGP should aim to have the widest possible influence with public organisations, including with local government and other non-mandated public organisations. This is important to get better outcomes from procurement in the medium- and longer-term interests of taxpayers, ratepayers, and the country as a whole.
- 2.14 NZGP prioritises working with mandated public organisations and large public organisations because they spend more on procurement. However, this approach overlooks the reputational and other risks smaller public organisations can face from poor procurement. Smaller public organisations often have less in-house procurement expertise.
- 2.15 Public organisations told us that NZGP had sometimes interpreted their requests for stronger leadership and direction as a need for new rules. They would prefer NZGP to exercise its leadership role and ask public organisations to work towards a particular goal or outcome and explain why it is important. Although rules are important, they are only one aspect of leadership.
- 2.16 We identified some areas where NZGP could show stronger leadership. These include:
- doing more to identify and promote examples of good procurement practice to reinforce the desired changes;

- evaluating innovative international good practice and encouraging their proper use in New Zealand;
 - working with procurement professionals, central agencies, other functional leaders, and/or heads of profession to produce a good-quality national data set on government procurement spending to support informed policy and procurement decisions; and
 - assessing important markets, such as telecommunications, to understand the risks to the Crown and consider how they could be addressed.
- 2.17 NZGP could also show stronger leadership in building capability in public organisations. For example, NZGP could assess international procurement competency frameworks and advise public organisations about their benefits or drawbacks. Public organisations suggested that NZGP could lead work to identify projected workforce needs during the next 10 years to inform its procurement capability development work.
- 2.18 NZGP also needs to review the level of internal procurement capability and learning and development capability that it needs for the next phase of its development. The public organisations we spoke to want NZGP to be a centre of excellence for procurement. They consider that NZGP needs to have more staff with senior experience and expertise to provide effective guidance and leadership on procurement.
- 2.19 In our view, NZGP should increase its internal learning and development expertise to:
- ensure that its activities fully achieve the expected benefits; and
 - provide advice and other support to help public organisations increase their procurement capability.

New Zealand Government Procurement's role in addressing poor procurement practices

- 2.20 Public organisations and suppliers sometimes want to bring procurement practices that are not consistent with the Rules to NZGP's attention without making a formal complaint.¹⁰
- 2.21 Public organisations and suppliers want NZGP to consider using the information they report to:
- intervene on a specific procurement to ensure consistency with the Rules before contracts are awarded;
 - help improve procurement capability in public organisations; or
 - use its influence to prevent similar situations from recurring by providing more guidance or education.

¹⁰ NZGP investigates formal complaints from suppliers. On average, it receives about 13 complaints a year.

- 2.22 Poor procurement practices can be unfair to suppliers and decrease trust and confidence in public organisations. NZGP's role in these situations needs to be clearer. This is an important part of NZGP clarifying its leadership role.
- 2.23 As we explained in Part 1, NZGP is not a regulator and cannot enforce mandated public organisations to comply with the Rules (which we discuss further in Part 4). Chief executives are responsible for their procurement decisions. This tension was built into the way that procurement functional leadership was set up. However, in our view, NZGP could make greater use of its position to provide advice and improve procurement practices when poor practices are brought to its attention.
- 2.24 NZGP could also share information with chief executives and suppliers about common types of issues, and what public organisations and suppliers have done, or need to do, to reduce the frequency of these issues. This could sit alongside NZGP's work to highlight good procurement practices.

Getting and addressing suppliers' comments

- 2.25 NZGP has proactively sought feedback from suppliers about their experiences of government procurement generally through an annual survey. In our view, suppliers' feedback was too general to enable NZGP to target quality improvement interventions by public organisation or type of procurement.
- 2.26 Suppliers suggested that NZGP provide a way for them to make comments on a public organisation's procurement while it is in progress. In 2019, NZGP responded by providing a facility for this through the Government Electronic Tender Service. Suppliers' use of this facility will depend on how much trust they have in NZGP and how NZGP uses the information suppliers provide to improve procurement. Nevertheless, we see this as a positive move.
- 2.27 NZGP can use the information and other data it collects to identify and address commonly occurring poor practices. It can also identify public organisations that need specific help to improve their procurement capability and practices.
- 2.28 In our view, NZGP could also tell suppliers how it uses their feedback. This would give suppliers confidence that NZGP understands their comments and is addressing the issues.

Stakeholder engagement

- 2.29 NZGP needs to identify its stakeholders and prepare an engagement strategy that makes it clear how it will inform, influence, or involve each stakeholder group. NZGP needs to more clearly define which groups it works with and how it expects to work with each of them.

- 2.30 NZGP works mostly with procurement professionals.¹¹ It works much less with executive leaders, even though they are often responsible for procurement decisions. NZGP mainly communicates with executive leaders in writing. Executive leaders have varying levels of interest in procurement and might not accept NZGP's invitations to attend procurement events.
- 2.31 It is important that NZGP works with procurement professionals because it is responsible for building the profession. However, NZGP needs to do more work with executive leaders to involve, inform, and influence them to get better outcomes from procurement. Executive leaders, for example, may decide how to invest in capability development and technological support for procurement.
- 2.32 Better information leads to better decision-making. NZGP could do more to promote the need for good-quality procurement data to executive leaders. For example, some of the public organisations involved in our audit were not able to quickly produce a report confirming that all spending that should have gone through an all-of-government contract had done so. We found that few public organisations could easily get answers to questions such as: What are we buying? From whom? How often? And how does this compare with earlier years? In Appendix 3, we explain in more detail why it is important to have easy access to procurement spending data for analysis.
- 2.33 What came through strongly in our conversations with public organisations and suppliers were issues about how much and how early NZGP collaborates and communicates. For example:
- Public organisations have to supply certain information, such as procurement capability assessments and planned procurements, to NZGP. NZGP is slow to give feedback to public organisations on this information and how NZGP uses the information. In some instances, NZGP does not provide any feedback.
 - NZGP involves stakeholders too late in its policy and planning and can be slow to consider or act on their comments.
- 2.34 Currently, NZGP decides its work programme within MBIE's regular business-planning arrangements. NZGP often seeks comments on its plans from public organisations and suppliers through various advisory groups.
- 2.35 Public organisations that are not part of advisory groups get little or no information about NZGP's plans, which limits their contribution. These public organisations said that they find out about NZGP's planned work in a piecemeal way. An exception to this was NZGP's approach to improving the procurement capability of public organisations that provide social services. This approach

11 We include in this group people who have other roles, such as chief financial officer or chief legal advisor, and who have lead responsibility in their organisations for procurement.

was developed with involvement from executive leaders and procurement professionals from the start.

- 2.36 To build on the good work NZGP has done on planning to improve procurement capability of public organisations that provide social services, we suggest that NZGP consider using co-design, partnership, or other collaborative approaches to defining problems and coming up with solutions for more of its work. These types of approaches would need to align with NZGP's stakeholder engagement strategy.
- 2.37 Improving the way it collaborates would further build NZGP's credibility with public organisations and should lead to better progress in improving procurement. This would also make it easier for executive leaders to support NZGP's work by influencing their organisations. NZGP would need to allow time to work collaboratively with public organisations and advise Ministers on the advantages of this approach.
- 2.38 NZGP's work has been managed within MBIE's regular line management arrangements. We suggest that NZGP consider adding other governance arrangements to support its cross-agency work, such as working with a representative group of chief executives.

Recommendation 1

We recommend that New Zealand Government Procurement:

- clearly define its leadership role and responsibilities for improving government procurement; and
 - identify its stakeholders and revise its approach to stakeholder engagement to work more collaboratively with public organisations and central agencies.
-

The State Services Commission's role

- 2.39 Cabinet expected the State Services Commission to support the Procurement Functional Leader by:
- communicating government expectations to public organisations in the State services;
 - helping it engage the wider public sector;
 - helping it engage with Ministers on significant organisation-level issues; and
 - where necessary, taking a hands-on role in helping resolve issues that arise between the Procurement Functional Leader and public organisations.¹²

¹² Offices of the Minister for Economic Development and the Minister of State Services (2012), *Government procurement functional Leadership SEC (12) 90*, at procurement.govt.nz.

- 2.40 The State Services Commission routinely discusses procurement functional leadership with MBE's chief executive through the usual processes it uses for working with chief executives.
- 2.41 However, the State Services Commission's role in setting expectations for procurement functional leadership and reviewing its performance is not clear. There needs to be greater clarity about the State Services Commission's role for overseeing procurement functional leadership.
- 2.42 For example, the State Services Commission could:
- require NZGP to have a suitable framework for achieving transparency and accountability for procurement functional leadership (such as a national work plan, indicators, and reporting); and
 - with NZGP, periodically review the effectiveness of procurement functional leadership.
- 2.43 We expect that a periodic review would:
- involve other central agencies,¹³ public organisations, and suppliers to get their perspective on achievements, challenges, and barriers to progress;
 - consider wider matters, such as the effectiveness of relationships between NZGP and relevant functional leaders (such as the Government Chief Digital Office¹⁴) or heads of profession; and
 - consider whether NZGP's mandate is fit for purpose for the next period (for example, the next five years) and whether refinements could be worthwhile.

Recommendation 2

We recommend that the State Services Commission clarify its oversight role for procurement functional leadership in the public sector.

Recommendation 3

We recommend that the State Services Commission, as appropriate, clarify its oversight role for other functional leaders in the public sector.

- 2.44 The State Services Commission told us that it accepts the need for greater transparency of functional leadership roles and plans to address this by updating the mandate letters for functional leaders and in the work being done to reform the State sector.

¹³ For example, the Treasury is well placed to identify improvements in procurement capability and decision-making through its reviews of *Better Business Cases* for significant investment.

¹⁴ The Government Chief Digital Office manages all-of-government contracts for information and communications technology.

3

Essential elements for transparency and accountability

- 3.1 In this Part, we discuss:
- having clear strategic goals for government procurement;
 - having a national work plan to achieve the strategic goals;
 - having indicators to monitor the implementation of the national work plan and progress in achieving strategic goals; and
 - reporting on performance in improving government procurement.

Summary of findings

- 3.2 NZGP has been slow to put in place the essential elements for providing transparency and accountability for improving government procurement. It has begun to remedy this situation. For example, NZGP has clarified the strategic goals of government procurement in 2019.
- 3.3 In our view, the next steps are for NZGP to:
- prepare a prioritised national work plan to achieve the strategic goals that:
 - clarifies the roles of public organisations and NZGP; and
 - is endorsed by executive leaders;
 - prepare a suitable performance framework to monitor:
 - implementation of the national work plan; and
 - progress towards the strategic goals; and
 - publicly report on the performance indicators to:
 - public organisations, which provide 68% of NZGP’s total annual funding;
 - suppliers; and
 - Parliament and the public, who need assurance that procurement is well-managed and delivers the expected outcomes.
- 3.4 Putting these elements in place will help NZGP meet public organisations’ expectations of its leadership. It will also support good governance, which is important given NZGP’s public-sector-wide responsibilities and influence.

Strategic goals for improving procurement

- 3.5 The 2019 edition of the Rules states that the strategic goal for government procurement is to achieve public value. The Government Procurement Charter is included in the Rules. It sets out national priorities for improving public value. This is the first time NZGP has brought the strategic goals for improving government procurement together in one document.
- 3.6 Before this, public organisations did not consistently understand the strategic goals. People we spoke to broadly agreed that the strategic goals were: saving

costs, building public organisations' procurement capability, and making it easier for suppliers to do business with public organisations. However, people did not always agree on a definition of value for money. Some people we spoke to thought that value for money meant achieving strategic outcomes at a good price and others thought it meant prioritising cost savings before other goals.

Planning to achieve the strategic goals

- 3.7 At the date of writing this report, NZGP has not published a single national work plan to direct its work and the work of public organisations. Since 2012, tasks listed in Cabinet papers directed NZGP's work programme, and NZGP launched projects when it saw a need for action. This has sometimes meant that the rationale for NZGP's work and how it links to strategic outcomes was not always clear.
- 3.8 For example, NZGP set up the Commercial Pool to provide procurement consultancy services to public organisations that did not have adequate internal procurement capability to help improve their capability.¹⁵ The public organisations we spoke to said that knowledge transfer can be limited because they sometimes used the Commercial Pool because they were short on staff.
- 3.9 NZGP has recognised the need for a national work plan. It plans to introduce a national procurement strategy to fill this gap. NZGP plans to consult public organisations on the draft procurement strategy in late 2019. In our view, NZGP should consult with more than the mandated public organisations.
- 3.10 NZGP's national procurement strategy should:
- describe priorities and, as a consequence of these, the sequence of work;
 - make clear what work NZGP will co-ordinate or do and set clear expectations for what public organisations should do;
 - explain how NZGP will monitor and report on the strategy's implementation;
 - explain how NZGP will report on public organisations' progress in achieving the Government Procurement Charter; and
 - show how NZGP co-ordinates its resources to achieve its priorities.
- 3.11 The public organisations we spoke to said that they sometimes found out about NZGP's work and plans in a piecemeal way, which affected their ability to plan their work efficiently. NZGP needs to regularly review the strategy and update it in response to progress and as circumstances change.
- 3.12 Stakeholder engagement will be critical to the strategy's success. The strategy needs to have the widest possible influence and include all public organisations

¹⁵ The Commercial Pool prices its services to recover costs, including overhead costs. NZGP told us that the Commercial Pool competes with private firms for work. However, we are aware, because it is part of NZGP, that public organisations sometimes contact only the Commercial Pool for services. This means that private firms do not get an opportunity to bid for the work. This is not good practice.

whether they are mandated or not. The strategy also needs to reflect NZGP's leadership role.

Indicators to monitor progress

- 3.13 Effective monitoring is needed to report on implementation and progress towards achieving strategic goals. This is important where work is being done throughout a system and where the visibility of success, challenges, and barriers is critical to achieving progress. Monitoring helps to confirm whether strategic goals and activities are right or should be revised.
- 3.14 After the national procurement strategy is finalised, NZGP needs to identify a set of performance indicators to monitor progress against it. The indicators need to link to the overall goal of public value and the Government Procurement Charter.
- 3.15 MBIE reports NZGP's performance against its performance indicators in its annual report. In 2018/19, two indicators were about all-of-government contracts, and one indicator reported on suppliers' assessments of public organisations' procurement practices.
- 3.16 These provide only a narrow picture of improved procurement. For example, there are no indicators for improved procurement capability. In Appendix 4, we discuss the performance indicators in more detail, their reliability, and their usefulness in guiding further improvements.

Reporting on performance

- 3.17 NZGP is not required to separately report on improvements in government procurement.
- 3.18 Other than the three performance indicators described in paragraph 3.15, MBIE's annual reports have not produced a consistent picture of NZGP's work and improvements in government procurement. NZGP has separately published reports analysing suppliers' comments from its annual survey.
- 3.19 NZGP should publish a regular report on government procurement, which would provide greater transparency and accountability to its various stakeholders. The report could comment on achievements, challenges, and barriers to progress. It could provide the foundation for the periodic reviews of procurement functional leadership discussed in Part 2. NZGP told us that it planned to publish a report on government procurement in 2019.

3.20 Public organisations said that they would appreciate getting a report on opportunities for improvement in government procurement because they want to understand the changes that are happening at the system level. The reports would recognise NZGP's and public organisations' combined successes, provide further encouragement where needed, and highlight any barriers to progress that need addressing. Public organisations also want to know how NZGP uses the administration levies it collects through the all-of-government contracts (see Appendix 1).

Recommendation 4

We recommend that New Zealand Government Procurement:

- put in place its planned national procurement strategy to give direction on priorities;
 - put in place performance indicators that would help it to monitor performance in improving government procurement; and
 - prepare and publish a regular report on government procurement.
-

4

Getting more benefits from New Zealand Government Procurement's work

- 4.1 In this Part, we discuss:
- the *Government Procurement Rules: Rules for sustainable and inclusive procurement* (4th edition 2019) and related guidance and templates (collectively, the Rules);
 - reporting on public organisations' planned procurements;
 - all-of-government contracts;
 - the significant service contracts framework; and
 - building procurement capability.

Summary of findings

- 4.2 The Rules and NZGP's actions have helped public organisations take a more consistent approach to procurement. However, NZGP still needs to make improvements to improve efficiency and effectiveness. In particular:
- make it clearer how activities link to strategic goals;
 - use the information it collects more effectively;
 - communicate better with individual public organisations and the wider public sector on the information it collects; and
 - assess the implementation of actions to ensure that they are successful.

The Government Procurement Rules

- 4.3 The Rules provide a consistent framework for managing procurement, defining the overall goal for procurement (that is, public value), and setting out government priorities. Mandated public organisations must apply specific rules for procurements that are more than specified dollar values. They may apply these rules to procurements of lesser value because it is considered good practice. Other public organisations should consider applying the Rules because it is considered good practice.
- 4.4 Two areas where NZGP needs to focus on are social services procurement and local government procurement.
- 4.5 Social services procurement can be complex. In 2015, the Productivity Commission highlighted issues that needed addressing to improve the effectiveness of social services procurement.¹⁶
- 4.6 Public organisations that provide social services said that the Rules are not always suitable for social services procurement. They said that it was common for them to opt out of the Rules.

- 4.7 NZGP has recognised that social services procurement can be different from other sorts of procurement. For example, social services procurement might use relational contracting¹⁷ more than other types of procurement. NZGP has prepared sector-specific guidance to help public organisations apply the Rules. It is not clear how widely public organisations use and understand the guidance. NZGP needs to continue to work with public organisations that provide social services to support effective social services procurement.
- 4.8 We did not speak to local government organisations for our audit. However, we are aware, through our other work, that some local government organisations consider that the Rules do not necessarily support their social procurement goals (such as supporting local businesses). Local government organisations do not have to apply the Rules, but they apply aspects of the Rules that they consider useful. NZGP has appointed an account manager to work with local government organisations, which we understand has been beneficial. NZGP needs to continue working with local government organisations to identify how it can better support their procurement.
- 4.9 We understand from public organisations that they consult both the Rules and our *Procurement guidance for public entities*¹⁸ to support their decision-making. Some officials consider that there should be one set of guidance on procurement for the public sector. We plan to review our procurement guidance in 2020/21, including how that guidance sits alongside the Rules.

Reporting on public organisations' planned procurement

- 4.10 Mandated public organisations must send NZGP an annual report on their planned procurements for the coming year. They must review and update the reports at least every six months. NZGP collates the information into a spreadsheet, which it makes publicly available online to enable:
- suppliers to find out about planned procurements and invest in their capacity; and
 - public organisations to identify opportunities for collaborative procurement.
- 4.11 Suppliers welcome the information but can be cautious about using it for decision-making because public organisations' procurement timelines can be delayed. Public organisations support having planned procurements publicly available, but they said that the current system is not useful. This is because the information can become out of date between reports, which limits its usefulness.
- 4.12 Public organisations would prefer an online system that would allow them to update their planned procurements as often as needed. They want a system

¹⁷ A relational contract is based on a relationship of trust between the parties. The explicit terms of the contract are just an outline, as there are implicit terms and understandings that determine the behaviour of the parties.

¹⁸ Available on our website, at oag.govt.nz.

where they can easily see other public organisations' planned procurements so they can collaborate where practicable.

- 4.13 Public organisations want NZGP to use the information that they provide to connect relevant public organisations. For example, public organisations said that they would welcome NZGP bringing public organisations together for mutual benefit, including discussing the potential for collaborative procurement.
- 4.14 NZGP needs to enable more timely information sharing and provide leadership in facilitating co-ordination and collaboration between public organisations.

All-of-government contracts

- 4.15 Mandated public organisations must use all-of-government contracts unless there is a good reason not to. NZGP records the reasons some mandated public organisations do not use some all-of-government contracts. NZGP gave us this data, which was dated 26 March 2019:
 - In 340 instances, NZGP accepted that a mandated public organisation had no business need for an all-of-government contract.
 - In 11 instances, NZGP did not accept a mandated public organisation's reason for not using an all-of-government contract. The Rules state that mandated public organisations wanting to opt out of an all-of-government contract must get approval from the Procurement Functional Leader. If a public organisation and the Procurement Functional Leader fail to agree to an opt-out, the State Services Commissioner will make a decision. We understand that NZGP has not asked the State Services Commissioner to make a decision for these instances.
 - In 1709 instances, NZGP accepted that a mandated public organisation had existing contracts in place and so could not use an all-of-government contract or was considering whether it would benefit from using an all-of-government contract. These instances also include instances where NZGP has not yet determined public organisations' reasons for not using a contract.
- 4.16 Generally, public organisations said that all-of-government contracts are worthwhile and produce savings for the Government as a whole. Having standard terms and conditions saves time and money and helps a consistent approach to managing liability risks. However, public organisations consider that NZGP has focused too much on cost savings and not enough on innovation and improving outcomes.
- 4.17 From 2019, NZGP is working differently with suppliers and public organisations to maximise the value from all-of-government contracts. It is too early to know whether this different approach will help address public organisations' concerns about the lack of focus on innovation and outcomes.

- 4.18 There is also a general view that all-of-government contracts are more effective for goods than for services. For example, public organisations raised several issues with the all-of-government contracts for recruitment and consulting services. These issues included too many suppliers on the panels, a lack of information on suppliers' performance, lack of transparency on how the contracts function, and that the contracts prevent innovation. There is also scepticism about whether the contracts have delivered reduced business rates.
- 4.19 There appear to be opportunities to improve the effectiveness of each all-of-government contract and take-up, and therefore savings.
- 4.20 Some public organisations want NZGP to introduce more all-of-government contracts. At the time of our audit, NZGP did not have plans to do so.
- 4.21 In Part 1, we stated that about 3% of total government procurement spending is through all-of-government contracts. The other 97% is spent on a wide range of goods and services – from tyres through to health and social services and construction of major assets. The lack of easily available national-level procurement spending data makes it difficult to identify when new all-of-government contracts could be worthwhile. Nevertheless, we consider that opportunities for new all-of-government contracts should be explored and the conclusions of that work reported to public organisations, suppliers, and the public.
- 4.22 Some public organisations wanted the management of all-of-government contracts to be more automated to make it easier to sign up to them and buy from catalogues. NZGP is aware that greater use of technology could improve efficiency. For example, NZGP is working with the Government Chief Digital Office to make the construction consultancy all-of-government contract available through the Government Chief Digital Office's online Marketplace. NZGP told us that, if this pilot is successful, it would consider transferring other all-of-government contracts into the online Marketplace.
- 4.23 The New Zealand Government Procurement and Property Group and the Government Chief Digital Office have a joint Digital Procurement Governance Group. One of the group's tasks is to determine and monitor the strategic direction of digital procurement platforms. Increased automation would likely produce efficiencies, freeing up staff in public organisations and functional leadership positions to focus on higher-value work.

Significant service contracts framework

- 4.24 NZGP introduced the significant service contracts framework to provide a consistent approach for mandated public organisations to report contracts that:
- are critically important to delivering the organisations' business goals; or
 - pose a significant risk and/or adverse outcome in the event of supplier failure.
- 4.25 Mandated public organisations must review and update the reports at least every six months (by 1 March and 1 October).
- 4.26 Mandated public organisations said that the significant service contracts framework has been worthwhile. The framework enables procurement professionals to engage with executive leaders about certain contracts. In some instances, executive leaders gave greater attention to getting better outcomes from significant service contracts and improving their risk management. To the extent that this happens, the framework has been worthwhile.
- 4.27 Public organisations are required to send reports to NZGP. However, because NZGP does not comment on the reports, individually or collectively, public organisations view this requirement as a compliance exercise. Public organisations said that, without advice to the contrary, they assume that NZGP approves of their mitigation strategies for the significant service contracts. NZGP needs to provide timely and proactive responses to individual public organisations to "close the loop".
- 4.28 NZGP is slow to analyse the public organisations' reports and does not share its analysis of all the reports with the organisations. For example, NZGP's analysis of the reports for October 2018 and March 2019 was not finalised in early August 2019. Public organisations were due to submit their next annual report by 1 October 2019.
- 4.29 Public organisations said that they were keen to understand from NZGP whether other public organisations had reported similar issues with the same contracts. They wanted NZGP to connect public organisations with similar issues. This would allow public organisations to learn from each other and, where practical, work collaboratively together and with suppliers to address problems. NZGP needs to better manage and use the information it gets on significant service contracts risks to improve service delivery and manage risks to the Crown.

Building procurement capability

- 4.30 NZGP and public organisations each have a role in improving government procurement. Building public organisations' procurement capability is crucial for improving procurement. It includes:
- increasing the number of procurement professionals and improving their quality;
 - building the capability of staff who have occasional or part-time responsibility for aspects of procurement as part of their main role; and
 - ensuring that executive leaders know the sorts of questions that they could ask to get good advice from procurement professionals to help them achieve their strategic goals.
- 4.31 NZGP has introduced a range of initiatives aimed at improving procurement capability. However, the public organisations we spoke to consider that NZGP has prioritised achieving cost savings through all-of-government contracts over improving procurement capability. Public organisations want NZGP to prioritise improving procurement capability, which they need to improve the quality of procurement decision-making, promote more mature and streamlined procurement, and promote innovation.
- 4.32 Public organisations look to NZGP to create initiatives that allow them to increase capability efficiently. Some public organisations said that the lack of a clear national direction for training and development, including what work NZGP would do or co-ordinate, had slowed their progress in upskilling staff.
- 4.33 NZGP's approach to training and development has been inconsistent. For example, NZGP initially provided subsidised procurement training for public organisations' staff because the public organisations would not pay for the training. NZGP also ran popular classes on demystifying procurement but stopped them. The course is now online. Public organisations told us that they valued the classes because they provided a place for shared learning and would welcome their return.
- 4.34 NZGP's inconsistent approach has meant that some public organisations have held off commissioning procurement courses from training providers. They said that NZGP is better placed to identify common training needs across the public sector and, for example, commission work on suitable course outlines. Providing courses that meet these training needs would help recruitment and induction when staff change organisations. Public organisations said that they would base their in-house procurement training on these course outlines. To complement in-house training, they would welcome opportunities for shared learning.

- 4.35 NZGP has done some good work with public organisations that provide social services to produce a training strategy for their staff (the **social services training strategy**).¹⁹ NZGP has also provided research that establishes a baseline for assessing the strategy's implementation.²⁰ The strategy shows a thorough understanding of adult learning and development requirements. To make it even more effective, the strategy could also:
- address the learning needs of leaders who are responsible for strategic procurement decisions but do not come from an operational background; and
 - develop further the thought-leadership ideas introduced in the strategy.
- 4.36 Public organisations we spoke to generally support the social services training strategy. However, the relative lack of priority that line managers give to training staff and providing funding for training has slowed the strategy's implementation.
- 4.37 The **graduate programme** is an example of how NZGP and public organisations can work together to increase the number of procurement professionals and improve their capability. NZGP employs graduates for up to two years. Some graduates are employed by a host organisation before they complete the two-year programme. Graduates work at a different public organisation every six months. Larger organisations tend to host the graduates because they are able to accommodate them more easily and meet their learning needs.
- 4.38 NZGP has also established a **Developing Leaders Group**. However, there are no clear criteria that participants need to get into that group (for example, procurement experience and/or qualifications). There are also no clear learning goals for participants and assignments aimed at achieving them. Some of the assignments that we reviewed appeared to have limited relevance to developing procurement leadership.
- 4.39 NZGP plans to procure an electronic **Learning Management System** for procurement to deliver online educational material. It will be available to all public organisations and their staff. It will provide a learning record for individuals and public organisations and enable users to provide feedback on the materials.
- 4.40 In 2015, NZGP introduced the **Procurement Capability Index (PCI)** – a self-assessment tool for public organisations to assess their procurement capability. Public organisations assess themselves once a year and provide a report to NZGP by 1 October each year.²¹

19 New Zealand Government Procurement (2018), *Social services procurement: Training strategy 2018-21*.

20 New Zealand Government Procurement (2017), *Measuring success: Establishing a baseline*.

21 The PCI replaced intensive procurement capability assessments that NZGP had commissioned in the first two to three years of its operation. Public organisations received a written report of the assessment, including recommendations. The assessments were expensive, and only a few public organisations could be reviewed each year.

- 4.41 It has been difficult to identify trends in procurement capability because the PCI's questions have changed each year since 2015. The tool was revised in response to public organisations' comments. NZGP intends the 2018 version, which is now online, to continue unchanged. The PCI provides a status report on how each public organisation manages its procurement. Eventually, only large public organisations will use the current PCI. In 2018 and 2019, NZGP piloted a different PCI for small and medium-sized public organisations. So far, fewer than 10 public organisations are using it.
- 4.42 Public organisations we spoke to said that they want, but do not get, comments from NZGP on their annual self-assessments. Public organisations want NZGP to recognise their achievements, tell them where NZGP wants them to improve, and (as needed) advise them where they can get help to improve. It is important that NZGP provides timely feedback to public organisations to support improved procurement capability. NZGP's feedback could be more rounded by including in its assessment any comments from suppliers (see paragraphs 2.25-2.28) and any other information about the public organisation's procurement capability.
- 4.43 Public organisations do get feedback on their PCI when a third party, such as NZGP, validates it. Public organisations' can request to have their PCI assessments validated by NZGP. NZGP can also initiate a validation process. The 25 investment-intensive public organisations involved in the Treasury's Investor Confidence Rating (ICR) have their most recent PCI validated as part of the three-yearly ICR because PCI scores make up part of the ICR.
- 4.44 Cabinet expected that NZGP would share the PCI results with chief executives so that they would know where they stood compared to their peers. This has not yet happened. NZGP told us it planned to share its analysis of the October 2018 PCI results in late 2019 and to release a version of the report to the public. Public organisations were required to submit their 2019 self-assessments by 1 October 2019.
- 4.45 It takes time to produce a change in procurement capability to the extent that it would produce a materially different self-assessment. In some respects, the PCI is similar to the ICR, which assesses selected public organisations' investment management capability and performance. The ICR is done every three years because it takes time for changes in performance to come into effect. We suggest that NZGP reconsider how often it requires public organisations to complete the PCI. For example, the frequency of assessments might depend on public organisations' scores and how long it would take them to implement any improvement plans.

Appendix 1

New Zealand Government Procurement and Property

When it was first set up in 2012, NZGP had about 30 staff. It has grown over time. In April 2016, NZGP was renamed New Zealand Government Procurement and Property after the staff working on property functional leadership were transferred into MBIE. In this Appendix, “NZGPP” refers to New Zealand Government Procurement and Property.

From a functional leadership perspective, they have separate names:

- New Zealand Government Procurement; and
- Government Property Group.

New Zealand Government Procurement and Property’s structure and staffing in 2018/19

Figure 1 shows the teams that make up NZGPP, summarises their responsibilities, and reports the staffing headcount as at 30 June 2019. Some teams (such as the Legal, Policy, and Enabling Services teams, and Other) support procurement and property functional leadership. The current structure was put in place in July 2017.

Figure 1
Structure of New Zealand Government Procurement and Property, summary of responsibilities, and staff numbers, as at 30 June 2019

Teams	Summary of responsibilities	Staff numbers
Delivery Services	Develop commercial strategies, market engagement, sourcing activities, and contract and supplier relationship management for all-of-government contracts. Property, planning, and advisory services, and key property projects. All-of-government risk financing and insurance.	59
Capability Services	Manage the PCI, significant service contracts framework, graduate programme, social services procurement capability, and other capability development work aimed at improving commercial acumen within public organisations. Provide advice and support to public organisations on significant procurement plans and collaborative contracting arrangements.	17
Enabling Services	Manage business systems and data. Public organisation engagement through account managers, strategic stakeholder engagement, and communications. Strategy setting, business planning, reporting, and governance.	21

Teams	Summary of responsibilities	Staff numbers
Commercial Pool	Provide commercial and procurement support to public organisations on a cost-recovery basis. The Commercial Pool focuses on public organisations carrying out complex, risky, and strategically important procurements.	15
Policy	Provide policy advice to Responsible Ministers. Manage public sector procurement and property policy frameworks, including the Rules. International engagement on public sector procurement policy and practice. Support the Ministry of Foreign Affairs and Trade in trade negotiations.	8
Other	NZGPP management. Provide advice and support to the general manager, teams, and public organisations. Manage external advisory groups that help with thought and strategic leadership on functional leadership activities.	5
Legal	Provide legal advice and support to NZGPP on policy and operational matters, and to public organisations on procurement and property matters. Lead cross-agency practice groups that drive the agenda for procurement and property for the public sector legal community.	4
Total		129
Capability Services	Graduates, who work at a different public organisation every six months.	18
Total		147

Notes: Figure 1 includes 14 staff working only on property functional leadership, seven procurement vacancies, and four property vacancies. The figure excludes three procurement contractors.

“Other” staff are executive assistant, chief advisor procurement, chief advisor property, principal advisor, and the general manager.

As needed, NZGPP gets support from the wider organisation (for example, some corporate services) and contributes to the wider organisation’s work where it relates to procurement (for example, MBIE’s Business Policy Unit). We did not ask NZGPP to quantify this support.

Source: Ministry of Business, Innovation and Employment.

Actual revenue and spending for 2018/19

Figure 2 shows NZGPP's actual revenue and spending for 2018/19.

Figure 2
New Zealand Government Procurement and Property's actual revenue and spending, year ended 30 June 2019

The table shows revenue from administration levies was about 68% of NZGPP's total revenue.

Revenue	\$	Percentage of total revenue (rounded)
Delivery Services procurement and property: administration levies paid by public organisations buying goods and services through all-of-government contracts	20,338,731	68
Delivery Services procurement and property: other	143,066	1
Appropriation for implementation of improvement in public sector procurement (Crown and Government Electronic Tender Service)	4,610,851	15
Commercial Pool	1,158,298	4
Government Property Group operations	3,537,607	12
Total revenue	29,788,553	100
Actual spending	25,201,307	85
Accumulated surplus from unspent administration levies	6,651,857	-

Note: MBIE transfers revenue from administration levies that exceeds spending to a memorandum account. The balance of the memorandum account was \$14,526,231 at 30 June 2019. NZGP told us that it plans to review the amount of the administration levies and how it could use the accumulated funds. NZGP also told us that higher volumes are increasing operational support requirements and it expects that costs will increase, which would result in a reduction in the memorandum account balance from 2018/19.

Source: Ministry of Business, Innovation and Employment.

How the administration levies from all-of-government contracts were spent in 2018/19

Figure 3 shows how MBIE spent the administration levies from all-of-government contracts for 2018/19.

Figure 3
How the administration levies for all-of-government contracts were spent in 2018/19

The table shows a breakdown of spending; the total is \$14.9 million.

Category	Description	\$
Salaries	Sourcing, supplier relationship management, all-of-government contracts administration teams, director Delivery Services, manager commercial operations, and support staff.	4,957,360
MBIE overhead allocations	Corporate overheads, including health and safety, information and communications technology, property, finance, legal, and human resources.	3,359,797
Enabling Services	See Figure 1.	2,512,286
Building, Resources and Markets and NZGPP management and support costs	Other, legal, portfolio management office (project management).	2,281,409
Information and communications technology and communication	Maintaining and enhancing: <ul style="list-style-type: none"> • the Government Electronic Tender Service; • the procurement.govt.nz website; • the Online Panel Directory; and • the client relationship management portal used to manage relationships with public organisations. 	736,701
Contractors and consultants	Backfill support and expert advice.	635,938
Other	Predominantly other staff costs such as KiwiSaver, training, and Accident Compensation Corporation costs.	363,619
Travel	Attendance at conferences and participating in meetings with suppliers and public organisations, including attendance at World Trade Organisation Government Procurement Agreement, and Organisation for Economic Co-operation and Development activities.	88,061
Total spending		14,935,171

Appendix 2

How we carried out our audit

How some public organisations helped us before the audit started

When we were planning the audit, we met with senior leaders from several public organisations²² to get their thoughts on how we should approach the audit. The staff held roles such as chief financial officer, general manager, and head of procurement. Their comments helped us to decide on the focus and scope of the audit. We thank them for their contribution.

Audit fieldwork and analysis: New Zealand Government Procurement, central agencies, Oranga Tamariki, and suppliers

We analysed documents the public organisations provided and documents we got from their websites.

We interviewed:

- 26 NZGP staff to check and clarify our understanding of the documents and to supplement the documentary evidence;
- two people from the Treasury's Investment Management and Asset Performance team and one person from its Social Sector team;
- two Assistant State Services Commissioners involved in chief executives' performance reviews (including for MBIE's chief executive) and staff working on public sector reforms; and
- the general manager commissioning, Oranga Tamariki, because this person had been involved in NZGP's work on social sector procurement capability.

Other MBIE staff gave us presentations on some of the electronic systems, such as the Government Electronic Tender Service and the Online Panel Directory.

We met with members of the Business Reference Group (an advisory group set up by NZGP), which had members who mainly represent suppliers' umbrella organisations. We asked for their comments on achievements since 2012, any gaps that should be addressed, and any improvements that they would find worthwhile.

Audit fieldwork and analysis: The six public organisations

We analysed documents the public organisations gave us and documents we got from their websites. We wanted to get an overview of how the public organisations manage procurement and ask about their experience of using NZGP's services. We asked them for their views on achievements since 2012,

²² The public organisations were Fire and Emergency New Zealand, the Inland Revenue Department, Institute of Geological and Nuclear Sciences Limited, Intelligence Community Shared Services for the Government Communications Security Bureau and New Zealand Security Intelligence Service, and Wellington City Council.

any gaps that should be addressed, and any improvements that they would find worthwhile.

We interviewed at least three staff from each public organisation, including an executive manager who had direct oversight of procurement spending or procurement staff. The job titles of the people we interviewed included:

- chief executive or acting chief executive;
- chief financial officer;
- chief legal advisor;
- commercial manager;
- general manager;
- head of internal audit or equivalent; and
- head of procurement or equivalent.

Towards the end of our fieldwork, we held a three-hour workshop to discuss and clarify aspects of the system to improve procurement. Staff from all six public organisations attended and more than one person came from some organisations. The attendees were mainly procurement staff because they held the most detailed knowledge of NZGP's services and their organisations' interaction with NZGP.

Other sources of information

We collected information about procurement management during our wider financial audit and performance audit work. We used relevant information for our audit, including comments public organisations provided to us for our work on panels of suppliers.

Two of our own reports informed our findings:

- *Reflections from our audits: Governance and accountability* (2016).
- *Sustainable development: Implementing the Programme of Action* (2007), in which we discussed the elements needed for effective cross-agency work.

We reviewed reports from other audit offices on procurement-related topics. Of particular interest were:

- Victorian Auditor-General's Office (2018), *State purchase contracts*, www.audit.vic.gov.au.
- Queensland Audit Office (2016), *Strategic procurement: Report 1: 2016-17*, www.qao.qld.gov.au.
- National Audit Office (2013), *Improving government procurement*, www.nao.org.uk.

Appendix 2

How we carried out our audit

Other reports we found useful were:

- Institute for Government (2018), *Government procurement: The scale and nature of contracting in the UK*, www.instituteforgovernment.org.uk; and
- The Australia and New Zealand School of Government (2019), *Today's problems, yesterday's toolkit: Restoring trust in government by reinventing how the public service works*, www.anzsog.edu.au.

We looked at what information other countries publicly report on government procurement spending. Our search was not exhaustive. The website of Western Australia's Department of Finance publishes annual reports on procurement spending that are user friendly. The reports are *Who Buys What and How* (see www.finance.wa.gov.au). In May 2019, we discussed these reports in a blog.²³

²³ Office of the Auditor-General (2019), "Do you know how much New Zealand's public agencies spend on procurement?", blog post, at oag.govt.nz.

Appendix 3

Improving procurement spending data

Cabinet papers from 2009, 2012, and 2018 expressed concern at the lack of good-quality, consistent, and easily available information about government procurement spending that can be used to inform decision-making.

New Zealand falls behind some other jurisdictions in being able to answer these questions:

- How much money is the Government spending through procurement?
- What is the Government buying?
- How many contracts are there, and of what value and length?

There is a cost in collecting this information, but there are also costs in not having the information.

As procurement becomes a more strategic function in a public organisation, analysing spending is a fundamental technique that procurement professionals can use to guide executive leaders and budget holders in maximising public value. Analysing procurement spending provides data that can be used as a baseline to measure improvements and provide reliable data for deciding strategies to realise short-term and long-term savings.

Analysing spending is important for proactively identifying savings opportunities, managing risks, and optimising buying power. Public organisations vary in their ability to easily analyse their spending. For example, not all the public organisations involved in our audit could easily produce a report confirming that all spending that should have gone through its all-of-government contracts has done so. This means that executive leaders do not necessarily have a comprehensive understanding of their spending.

Executive leaders should know the answers to these questions:

- What are we buying?
- Who are we buying from?
- Who is buying?
- How often do we buy?
- When did we buy?
- How much did we pay?
- Are we getting what we had been promised?
- What location were the items delivered to?
- How does the data compare with previous years?

Appendix 4

Performance indicators, data reliability, and usefulness

In this Appendix, we discuss NZGP’s performance indicators in more detail, their reliability, and their usefulness in guiding further improvements.

Cost savings

The performance indicator for assessing costs savings is: “Savings target across public sector public organisations identified through the Government Procurement Reform agenda for the financial year”.

The indicator reports on the estimated annual savings from the all-of-government contracts. Figure 4 shows MBIE’s data for 2016-19, which reports that the targets were exceeded.

Figure 4
Estimated cost savings from all-of-government contracts for the years ended 30 June, 2016 to 2019

The table shows actual estimated savings ranging between \$128 million and \$186 million during the four years.

Year ended 30 June	Savings target across public sector public organisations identified through the Government Procurement Reform agenda for the financial year	
	Target	Actual
2016	\$88 million	\$128 million
2017	\$90 million	\$152 million
2018	\$90 million	\$146 million
2019	\$90 million	\$186 million

Source: Ministry of Business, Innovation and Employment.

In 2012, Cabinet recognised that there would be scepticism about the extent of the savings because of problems with the data used to estimate savings. We found that public organisations and suppliers are sceptical about the extent of the savings.

Issues with the reliability of the procurement data used to estimate savings and the methodology used to estimate savings contribute to scepticism about the reliability of the estimates. Through our annual audits of MBIE, we have examined both of these issues.

MBIE relies on supplier-reported information about spending through the all-of-government contracts. This is not ideal and risks overstating the savings that all-of-government contracts achieve. Estimates of savings would be more reliable if NZGP had direct access to public organisations’ information.

The process for collecting the information is also prone to error. At our request (through the annual audit), MBIE included a note on the reliability of the estimated savings in its annual reports:

The Ministry relies on information provided by suppliers to calculate savings. The Ministry reviews information provided for reasonableness, but cannot confirm the accuracy of the information.

NZGP uses the data to estimate savings using standard published methods for goods and services.²⁴ These methods have their limitations, but NZGP calculates estimates consistently from year to year, and the result is based on the best available information.

NZGP periodically commissions a firm to review spending on selected all-of-government contracts for a small sample of public organisations. The work involves trying to match three sets of information:

- the amount that public organisations' records show has been paid to a supplier;
- the amount that suppliers' records show they have been paid by public organisations; and
- the amount that suppliers report to NZGP as having been spent by the selected organisations.

In most instances, the data cannot be reconciled easily. In the reports we saw, the amounts reported to NZGP compared with the other amounts had differences ranging from a few hundred dollars to hundreds of thousands of dollars. Mostly, suppliers' reports to NZGP over-reported spending, but not always, and the reasons for the differences could not be easily explained.

Public organisation satisfaction with all-of-government contracts

The indicator for assessing public organisations' satisfaction with the value that all-of-government contracts deliver is "Percentage of participating public organisations satisfied or very satisfied" (see Figure 5).

²⁴ Ministry of Business, Innovation and Employment (2018), *Standard reporting methodologies: All-of-government contracts*, at procurement.govt.nz.

Figure 5
Percentage of public organisations satisfied or very satisfied with all-of-government contracts, 2014 to 2019

The table shows that the target has been achieved since it was reduced from 75% to 70% in 2016.

Year ended 30 June	Target %	Actual % public organisations satisfied or very satisfied	Variance from target %
2014	75	69	- 6
2015	75	64	-11
2016	70	74	+4
2017	70	75	+5
2018	70	71	+1
2019	70	71	+1

Note: In 2018/19, the survey was sent to 859 participating public organisations. NZGP received 223 valid responses – a response rate of 26%.

Source: Ministry of Business, Innovation and Employment.

For the responses that are received, the data reported is reliable but is not useful because it is a peak indicator. It does not show what aspects of the all-of-government contracts are satisfactory and not satisfactory. However, the detailed survey results are available online at procurement.govt.nz.

Business survey of suppliers

The indicator for assessing improvements in procurement capability is “Year on year improvement in business feedback about the quality of government procurement practice from the annual government procurement business survey”.

The business survey started in 2013/14 and asks for suppliers’ comments on their experiences of government procurement generally. The survey measures improvements in procurement capability because it assesses public organisations’ quality of procurement.

MBIE reports whether the indicator is “achieved” or “not achieved”. The indicator was achieved from 2016 to 2019. The indicator is not useful because it does not indicate the extent of change or the baseline that change is measured from. However, the detailed survey results are available online at procurement.govt.nz.

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