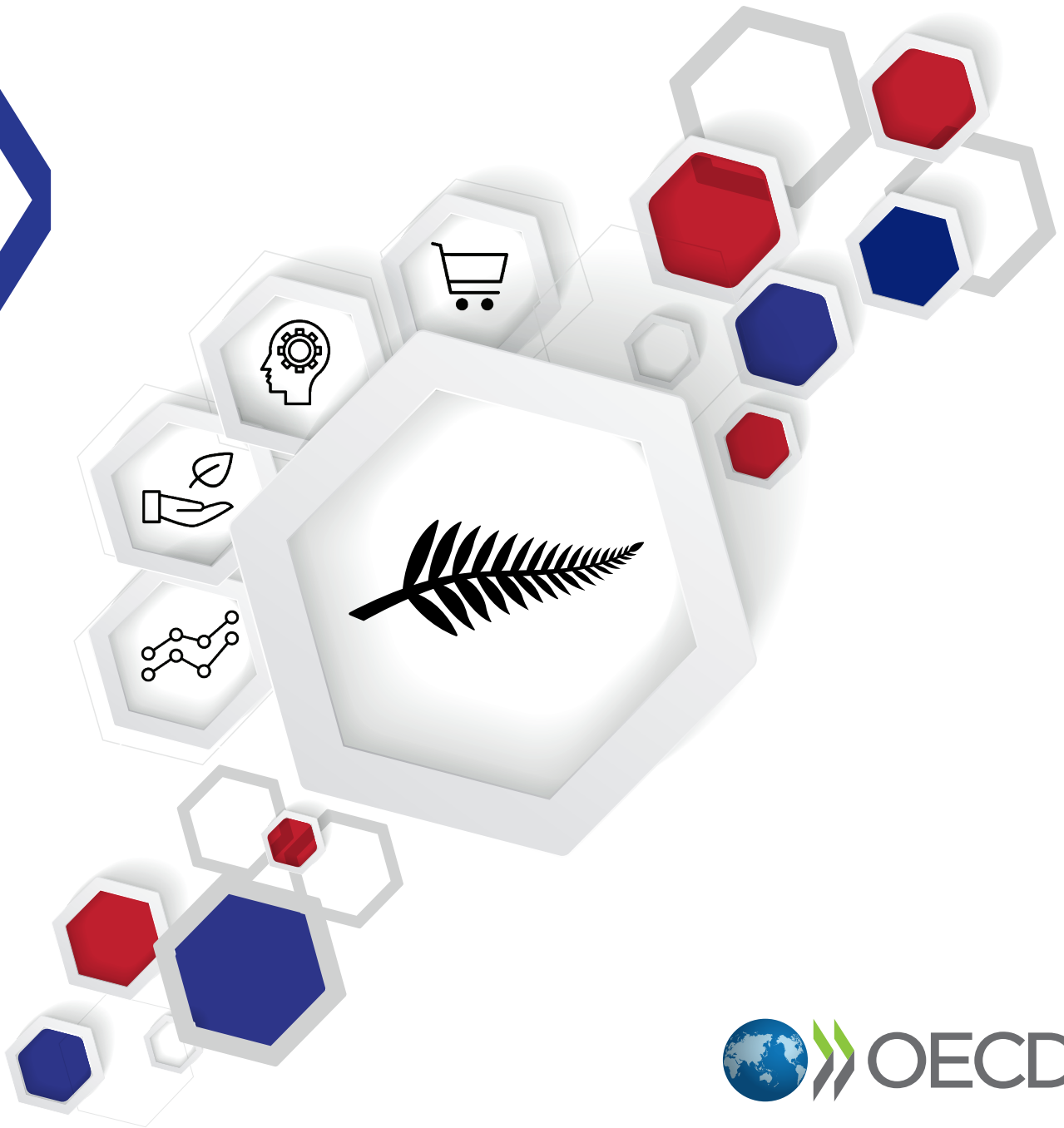


Procuring for Broader Outcomes

A Case Study of New Zealand:
Measuring the Impact of
Government Procurement
on Productivity and Well-Being



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This case study is part of a series of case studies on the measurement of the impacts of centralised purchasing bodies on procurement efficiency and productivity. It looks at procurement practices and strategies, assesses their impacts on the effectiveness of the procurement system and their influence on the economy at large. It further establishes linkages between procurement strategies and national well-being indicators. The case study also looks at the enabling factors that are critical to achieve a comprehensive measurement of the multi-dimensional impacts of strategic public procurement.

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Executive summary

Public procurement is gaining a higher political profile as administrations progressively realise that public procurement can steer the market to provide goods, services and works that deliver beneficial outcomes for societies and citizens. More and more, OECD countries use public procurement to meet many targets of the UN Sustainable Development Goals, to achieve a net zero carbon economy, and to support innovative, ethical and fair businesses. The pandemic has highlighted even to citizens the critical nature of public procurement in delivering essential public services such as health protection (for example, equipment, vaccines) or educational tools to facilitate distance learning.

More efficient public procurement can yield economic gains and a number of reports highlight significant room for improving procurement practices amongst OECD countries (OECD, 2019^[1]). Estimates suggest that making changes to how governments approach procurement could rationalise spending by between 7% and 35%, generating global savings of around US\$1.4 trillion (Guerry and Martins, 2018^[2]). Direct economic benefits aside, public procurement can also make positive contributions to sustainability, including social, economic and environmental goals.

These general trends of seeking both efficiency and positive societal outcomes push public procurement practitioners towards more complex and difficult-to-navigate territories, where procurement strategies need to effectively manage trade-offs, maximise the whole spectrum of values for public spending and provide opportunities to influence outcomes. In addition to meeting these objectives, practitioners are also increasingly expected to understand the impacts and measure the benefits of public procurement.

This report examines the procurement system in New Zealand and how the impact of procurement strategies on the procurement system's effectiveness is currently measured. It applies the OECD's framework for measuring productivity to procurement activity in New Zealand. In so doing, it illustrates the far-reaching, and at times multidimensional, effects of procurement strategies on the efficiency and the effectiveness of the country's procurement system in tackling issues and challenges identified at the highest political level.

The New Zealand Cabinet affirmed its commitment to leveraging public procurement to pursue broader outcomes in October 2018. Since then, the coronavirus (COVID-19) pandemic has had significant repercussions on the economy and people's well-being globally, bringing with it the greatest recession of modern times. It is clear that the pandemic has underscored the importance of strategically using public procurement to support broader social, economic and environmental outcomes.

Building on previous studies on Finland and Chile, this report highlights the value of a structured measurement framework to better understand and demonstrate public procurement's contribution to the economy and national well-being outcomes more broadly.

Key findings:

- New Zealand is leading the way in placing well-being at the centre of public policy. The combination of procurement functional leadership and a focus on well-being initiatives could provide an opportunity to demonstrate the impact of procurement strategies on well-being.
- In a devolved system where accountability and responsibility for procurement decisions rest with individual public agencies, New Zealand Government Procurement and Property (NZGPP)¹, the central purchasing body, is more of an influencer than an enforcer. Its responsibilities include collaborative purchasing, leading policy development, providing advisory services and supporting the development of capability across government.
- Government procurement can bring about multiple impacts; yet measurement frameworks generally tend to focus on processes and outputs rather than outcomes, which are likely to be more difficult to quantify as they are often less tangible. Obtaining a system-wide view and objective data to support analysis in a devolved system where the government procurement rules are not mandatory for all public agencies can create additional challenges.
- The use of technology can generate the necessary data for indicators that can predict the performance of the procurement system. E-Procurement systems covering the whole procurement lifecycle, or similar platforms with advanced reporting capabilities, provide this digital backbone. To address expectations from the government on the role of public procurement and to minimise reporting burdens for individual agencies, New Zealand could invest in upgraded technology that would give NZGPP greater visibility on major trends and government procurement patterns in the country.
- Contract award notices published in New Zealand's national e-procurement system could be a source of good information on procurement activity; however, these published notices account for only around 1% of total annual procurement spending, well below the OECD average. While there are a range of reasons for this, including low compliance levels by agencies, a greater visibility of procurement spending would contribute to the achievement and measurement of government priorities. For example, this information could be used to demonstrate whether or not there has been an increase in access to public contracts by New Zealand businesses. The government, together with NZGPP, could consider strategies to improve compliance with requirements to provide information on awarded public contracts.
- Collaborative procurement instruments such as All-of-Government contracts (AoGs) are effective at generating efficiencies and savings for public agencies – in essence, connecting procuring entities with the market. They can also help mainstream broader outcomes. Designing measurement frameworks that capture purchasing behaviour of individual agencies under this type of agreement would provide additional transparency and insights on the influence of centre-led procurement strategies on end users in public agencies.
- NZGPP could use the reporting framework for Significant Services Contracts to gather insights on benefits achieved by public agencies when procuring critical goods, works and services. The framework was developed for the 138 mandated agencies required to comply with the Government Procurement Rules. Designed around a risk-based approach to contracts, this reporting framework is seen by agencies as a useful tool bring procurement conversations to the attention of senior management. NZGPP could build on this widespread acknowledgment of the usefulness of the tool to mainstream a more benefits-based approach to assessments. Doing so would allow agencies to conduct deeper analyses on benefits achieved through their most influential contracts.

¹ In 2021, New Zealand Government Procurement and Property was divided into two separate business units, New Zealand Government Procurement and Government Property Group. The information in this report deals primarily with the activities of New Zealand Government Procurement.

It would also provide NZGPP with an additional aggregated view of outcomes targeted and achieved by agencies outside the AoG contracts.

- Increasing the collective level of procurement skills and competencies in public agencies – by providing self-assessment tools or lending procurement expertise in specific projects – offers NZGPP additional means to influence procurement outcomes.

The use of the OECD “procurement productivity” measurement framework demonstrates the impact of public procurement strategies in achieving the government’s objectives. In New Zealand, the application of the framework has highlighted the potential positive impacts of government procurement. For example, strategies to reduce CO₂ emissions of the government’s fleet, have quantifiable environmental benefits. This framework could serve as a launch pad to measure procurement performance more systematically. There may also be an opportunity to incorporate elements into this framework that would provide information on the impact of functional leadership in a devolved environment.

1. Introduction

Faced with longstanding common challenges such as an ageing population and budget pressures, especially in the OECD area, governments now have also to work in an extremely uncertain and volatile context caused by the COVID-19 pandemic. Over the world, countries are unfolding unprecedented amounts of fiscal and social stimulus to address the immediate economic consequences of the crisis as well as trying to achieve long-term sustainability objectives. These factors result in an increased role for governments to support a sustainable and inclusive economic recovery.

Representing almost one third of total government expenditure, public procurement has traditionally focussed on maximising the efficiency and the effectiveness of public spending. Yet, for more than a decade now, countries are progressively incorporating broader policy objectives into procurement strategies such as promoting environment-friendly policies, supporting innovation or encouraging sustainable practices in supply chains. In the particular context of the COVID-19 crisis and given the scale of public investments and the influence of demand-driven procurement strategies on the private sector, governments further use this policy tool firstly to react to it, and, secondly, to support those particularly affected by the crisis.

While public procurement is often seen as an administrative function with no real value but to allow public entities to sign contracts with the private sector to just get the goods, services, works and infrastructure that are needed for normal operations, the current crisis highlighted how much it is integral to well-functioning public services. Confronted with a general shortage of supply in critical areas such as medicines or personal protective equipment, procurement practitioners had to implement innovative sourcing techniques, to closely monitor supply chains resilience and to design complex networks of collaboration. Addressing the dire consequences of the crisis and implementing strategies to rebuild economies and societies will not rely less on public procurement. Yet, with an increased global understanding of the importance of public procurement in delivering public services comes heightened expectations on the capacity of procurement strategies to provide lasting results, which will influence the economy at large and the well-being of citizens.

Demonstrating the impact of public procurement strategies on broader and multiple policy objectives and outcomes requires understanding how those strategies are designed, implemented and how they compare with alternative scenarios. For over a decade, there is an increasing trend to leverage public buying power to contribute to other policy objectives such as growing productivity, better environmental performance, fostering innovation or promoting more responsible business practices. All OECD countries have strategies or policies in place highlighting the role public procurement can play in achieving these objectives (OECD, 2019^[1]). Yet, measuring the impacts of procurement practices is a far more complex endeavour.

In the last two years, the OECD engaged with front-runners to define measurement frameworks that would be able to capture the impact of centralised purchasing bodies (CPBs) on the efficiency of the procurement system and its role in lifting productivity, as part of a wider exercise on civil service effectiveness. The frameworks seek to take advantage of improvements in e-procurement systems and data analytics by developing indicators that will support policy-makers to assess the performance of their public procurement systems. The concept was first tested on two OECD member countries, Finland and Chile, to validate its

applicability to different contexts. While measurement of national procurement systems cannot take a ‘one-size-fits-all’ approach, the framework creates a common understanding that will enable governments to identify and then operationalise their measurement priorities with a degree of flexibility.

One commonality between Finland and Chile is that their procurement systems are, to varying degrees, centralised. This is not the case of New Zealand, which features a significantly different procurement environment. Applying this framework to a different institutional context could further sharpen the identification of elements common to most procurement systems and highlight variations depending on country context.

2. Aligning procurement strategies with policy priorities and institutional context

This chapter discusses the current priorities of the government of New Zealand and how the COVID-19 pandemic influenced the national policy agenda. It describes the catalyst role played by government procurement to channel public funds and depicts the overall structure of the New Zealand procurement system. The chapter further analyses how procurement strategies have contributed to address challenges brought by the pandemic and their potential to support a stronger recovery.

Governments across the world are dedicating a significant share of public investment in buying goods, services and works that allow administrations to deliver public services. Since more than a decade, countries are looking at maximising the efficiency of this spending, not only by raising economic efficiency of public investment but also by leveraging the buying power to achieve broader policy objectives and to advance their political agenda. This trend illustrates the imperative of aligning procurement strategies with government priorities.

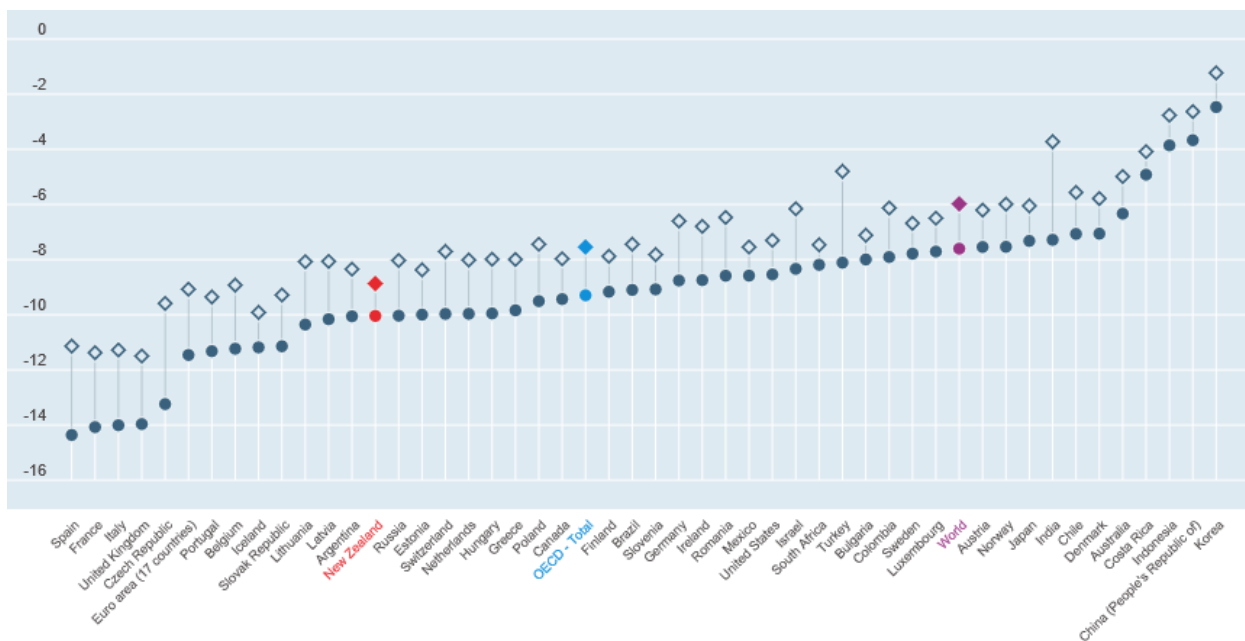
2.1. Government priorities are focusing on inclusive growth and well-being of New Zealanders while dealing with the consequences of the COVID-19 pandemic

As reaffirmed in its strategic intentions 2020-2021 to 2023-2024 (Department of the Prime Minister and Cabinet, 2020^[3]), the government of New Zealand is actively pursuing three priorities: shaping an economy that is growing and working for all citizens, improving the well-being of New Zealanders and their families, making New Zealand proud. Because of the Covid-19 pandemic, economies have been put at stop globally but the pandemic is also affecting people’s social connectedness, their trust in institutions, their jobs and incomes, as well as imposing a huge toll in terms of anxiety and worry.

2.1.1. An urgent call to support those most affected by the crisis

Similar to almost all countries around the globe, New Zealand faced an economic downturn with the consequences of the COVID-19 pandemic. While, unlike other countries, New Zealand managed to limit the economic effects of the pandemic, the country still experienced a 2.2% decline in GDP over the year to September 2020, the largest annual decline recorded in GDP series (Stats NZ, 2020^[4]). As others, it needed to find ways to minimise the scale of the downturn and identify opportunities to swiftly recover from the crisis.

Figure 2.1. Real GDP forecast, double-hit scenario / single-hit scenario, annual growth rate (%), 2020



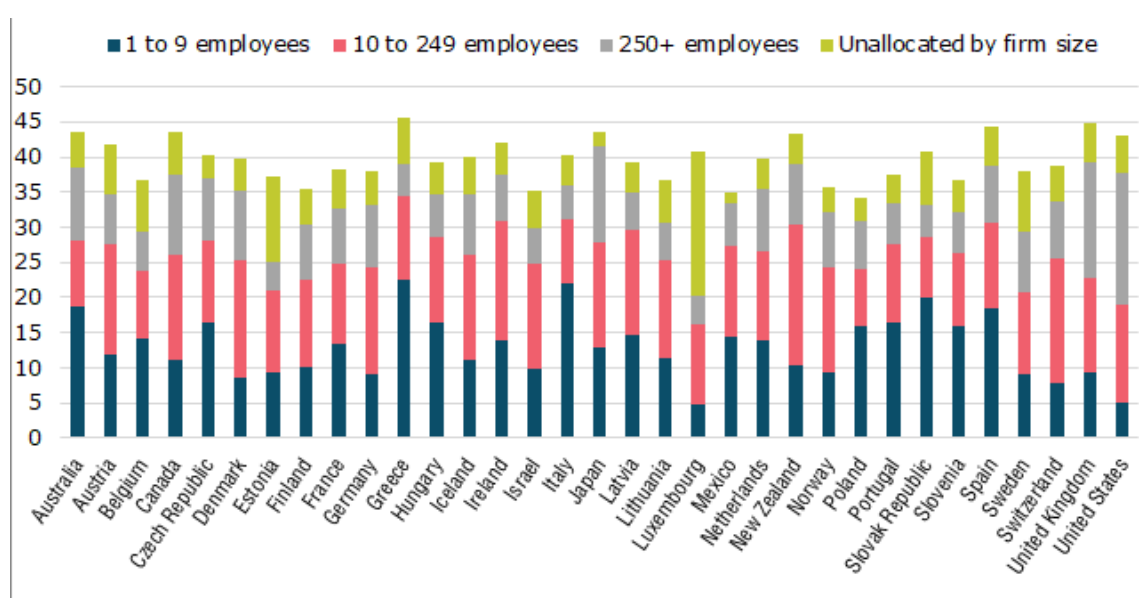
Source: (OECD, 2022^[5]) (Accessed on 02 November 2020)

The above situation affected the entire New Zealand economy, hapu (*communities*) and families. It put significant strains on businesses, affecting both large and small firms. However, the effect on SMEs was especially severe, particularly because of higher levels of vulnerability, lower resilience related to their size, and sectors within which they operate.

Indeed, in addition to this already worrying scenario, there is an above average representation of SMEs in sectors particularly affected by the crisis. They notably include: transport manufacturing, construction, wholesale and retail trade, air transport, accommodation and food services, real estate, professional services, and other personal services (OECD, 2020^[6]). Recent OECD data show that, whereas in the business economy at large, SMEs account for over 50% of employment across OECD countries, in these sectors the share of SMEs in employment is 75% on average across OECD countries (OECD, 2020^[6]).

Figure 2.2. Smaller firms dominate in the most affected sectors

Share of total employment in the most adversely affected sectors by firm size (%), 2018 or latest available year

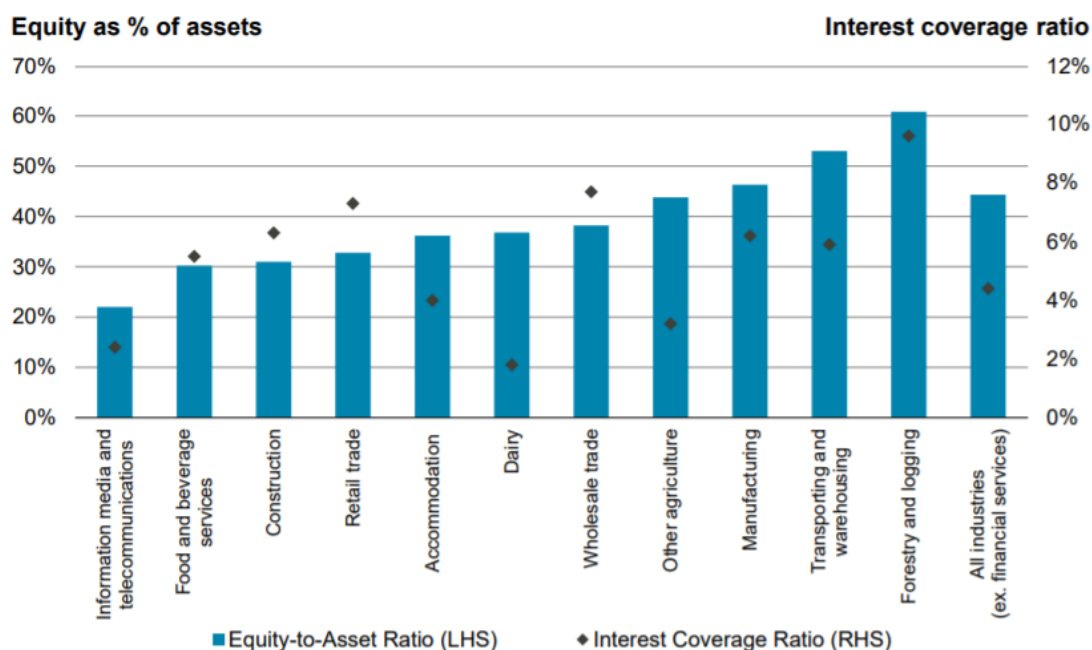


Note: Economic sectors are defined using the ISIC rev.4 classification: manufacturing of motor vehicles and other transport equipment (29-30); construction (41-43); wholesale/retail trade and repair of motor vehicles (45-47); air transport (51); accommodation and food service activities (55-56); real estate activities (68); professional, scientific and technical activities (69-75); arts, entertainment and recreation (90-93); and other service activities (94-96). The latter two are grouped together as other personal services in the Figure.

Source: OECD Annual National Accounts and Structural Business Statistics databases, OECD calculations

In New Zealand, firms in the tourism, accommodation and hospitality sectors have been particularly affected by income drops arising from the Covid-19 pandemic, and are likely to face longer recoveries as border restrictions affect sales and operating models. Compounding these difficulties, firms in these sectors often hold relatively low financial buffers. Some sectors are also more vulnerable to losses of income than others, as their debt servicing costs, as measured by interest coverage ratios, are high relative to profit margins (New Zealand Treasury, 2020^[7]). Firms in some sectors, such as retail trade, food service and construction, went into the crisis with relatively better debt serviceability positions, but are still exposed to failure due to the severe drops in income they have experienced. Firms in these sectors also tend to be more leveraged, with few tangible assets with which to secure ongoing funding, putting them at risk of insolvency during a prolonged downturn (see Figure 2.3).

Figure 2.3. Firms balance sheet and debt servicing vulnerability by sector



Note: The figure shows the historical average from 2013 to 2018. Equity-to-assets ratio is calculated as shareholders' funds or owners' equity divided by total assets. Interest coverage ratio is calculated as the total income less total expenditure (excluding interest and donations) divided by interest and donations using aggregate industry values.

Source: (Bank of New Zealand, 2020^[8])

Beyond pressures put on all firms, it had been found that the COVID-19 crisis is affecting significantly more ethnic minorities. A recent study (McKinsey, 2020^[9]) reveals that minority-owned small businesses in the US are even more vulnerable than SMEs in general, because of their smaller size and lack of access to credit, but also because of their high prevalence in strongly affected industries.

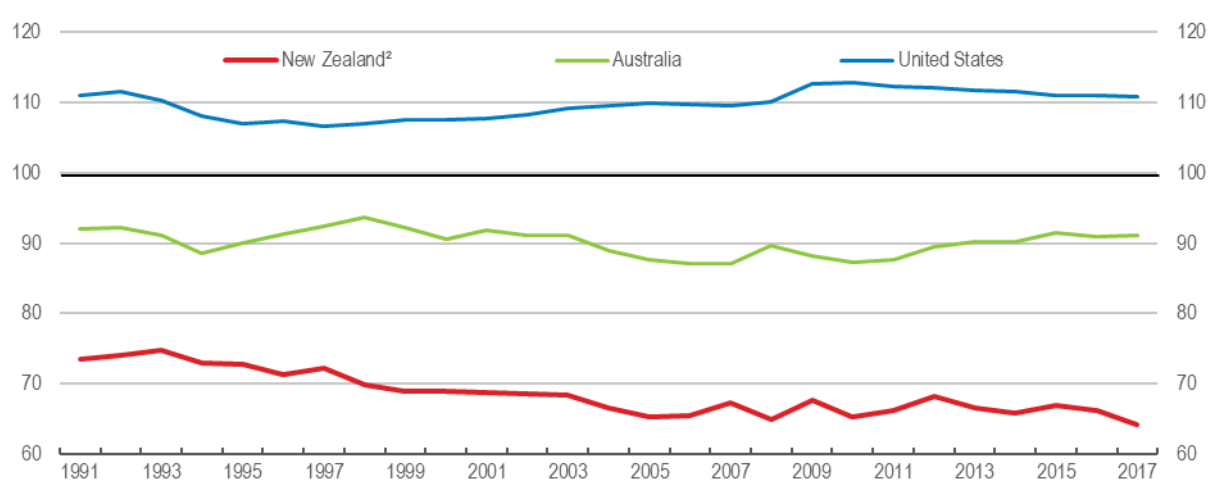
Māori and Pasifika economic development has been identified as a key domestic driver of the New Zealand economy over the next decade (Chapmantripp, 2017^[10]) (NZ Treasury, 2018^[11]). The Māori economy alone is estimated to be worth over NZD 50 billion, while Pasifika individuals and businesses contribute NZD 8 billion to New Zealand's annual GDP with approximately 1,500 Pasifika business employers currently operating in New Zealand.

The combination of these factors is already putting the NZ economy on a tight rope. On top of these, there are mounting concerns over a potential K-shaped economic recovery which would see a major divide in recovery between firms and industries that are prone to innovation and digitalisation and those that are not. This puts further pressure on governments to effectively support SMEs and the most affected industries. Public expenditure is expected to ramp up due to greater outlays in the central government's budget 2020 aimed at supporting the New Zealand economy through the COVID-19 induced recession. For example, capital expenditure by the public sector is forecasted to increase by 6.2% in 2020-21, to NZD 15.4 billion (IBISWorld, 2020^[12]). The budget 2020 forecasts significant funding for a range of projects, including rail network expansion, Inter-islander ferry upgrades, school and hospital upgrades, and several other outlays.

2.1.2. To deliver sustainable results, New Zealand is looking beyond GDP growth and the characteristics of its procurement system can help

One commonly accepted lever to support economic growth is about increasing productivity. Yet, on this front, New Zealand performs relatively worse than the OECD average. Economic growth from productivity improvements contributes to welfare through increasing the income that can be earned from each hour worked, providing individuals with the option to work less or consume more goods and services. It also allows societies to honour commitments to the elderly in the form of pensions, to those on low incomes in terms of avoiding poverty and to youth by way of investments in high-quality education. Despite high labour utilisation, reflecting high participation and low unemployment, GDP per capita in New Zealand is below the OECD average due to low productivity (OECD, 2019^[13]).

Figure 2.4. Labour productivity has failed to catch up with leading OECD countries



Source: (OECD, 2019^[13])

Amongst a range of policy actions to improve productivity, links between productivity of firms and access to public contracts have been evidenced in a number of empirical studies. A study of a sample of firms in the United States investigating the nexus between public procurement and capital investment found that sales to the government relaxes financial constraints, permitting firms to increase capital investment by 7 to 11% (Hebous and Zimmermann, 2016^[14]). Another study on a large dataset in Brazil shows that winning a government contract through reverse auctions increases overall employment growth of the firms concerned and add a 2.2% economic growth of the firm compared to those not having won the contract (Ferraz, Finan and Szerman, 2015^[15]). The influence of public procurement strategies on productivity of firms is therefore well documented and the link between productivity and GDP signals the powerful contributions of public procurement to economic growth.

Yet, looking at economic recovery in New Zealand by only focusing on GDP-related metrics would only partially reflect the impact of public policies.

An emphasis on GDP growth, economic efficiency, and managing fiscal pressures can mean that the wider impacts of policies on people's lives - including household living standards, social and environmental outcomes - are often less systematically quantified and assessed. The sustainability of outcomes over time, and their distribution across the population, also often get less focus than shorter-term and aggregate outcomes. This is one of the careful balancing acts induced by the crisis: combining short-term economic measures with longer-term sustainable outcomes. Indeed, GDP growth is no longer directly correlated with improvements in wellbeing. There is an increased understanding that people's sense of a fulfilled and

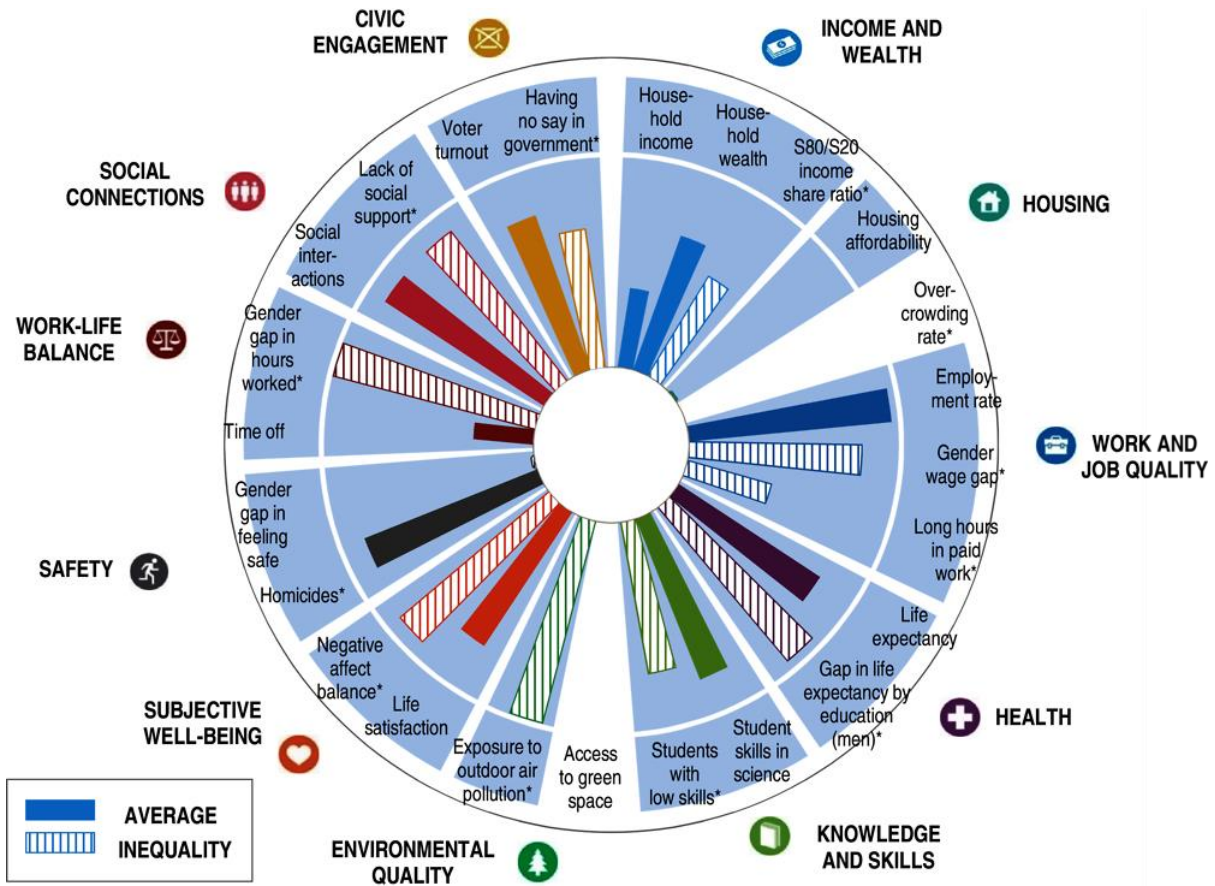
flourishing life comes also from a wide variety of other factors: from the security and satisfaction they experience in work; their physical and mental health, social networks and personal and family relationships; and from social goods such as the levels of crime and trust in society, and the quality of public services such as health and education.

As the usefulness to capture dimensions beyond economic growth started to emerge, many countries and international organisations have engaged in defining more complex measurement frameworks and looking at new economic approaches (OECD, 2020^[16]). This is why broader well-being measurement frameworks have been developed in the last decade. The OECD Framework for Measuring Well-Being and Progress offers a framework for monitoring progress and prosperity in a broader sense. This means considering a wide range of factors. As the OECD describes it, “well-being is multidimensional, covering aspects of life ranging from civic engagement to housing, from household income to work-life balance, and from skills to health status”.

The majority of indicators are based on objective data, used to capture aspects of people’s living conditions today and the four capitals (financial and physical, natural, social and human) that help to sustain well-being over time. Well-being indicators show New Zealand being amongst the top performers in many dimensions of current and future well-being. However, indicators linked to natural and financial capitals show systemic weaknesses.

Figure 2.5. On average, New Zealand performs well on several OECD How's Life? Indicators

A. Current well-being



B. Capitals for future well-being

Natural Capital	Economic Capital	Human Capital	Social Capital
Greenhouse gas emissions per capita 3 ↗	Produced fixed assets 2 ↗	Educational attainment of young adults 2 ↗	Trust in others 1 ...
Material footprint 2 ↘	Financial net worth of government 1 ↔	Premature mortality 2 ↔	Trust in government 1 ↔
Red List Index of threatened species 3 ↘	Household debt 2 ↔	Labour underutilisation rate 2 ↗	Gender parity in politics 2 ↔

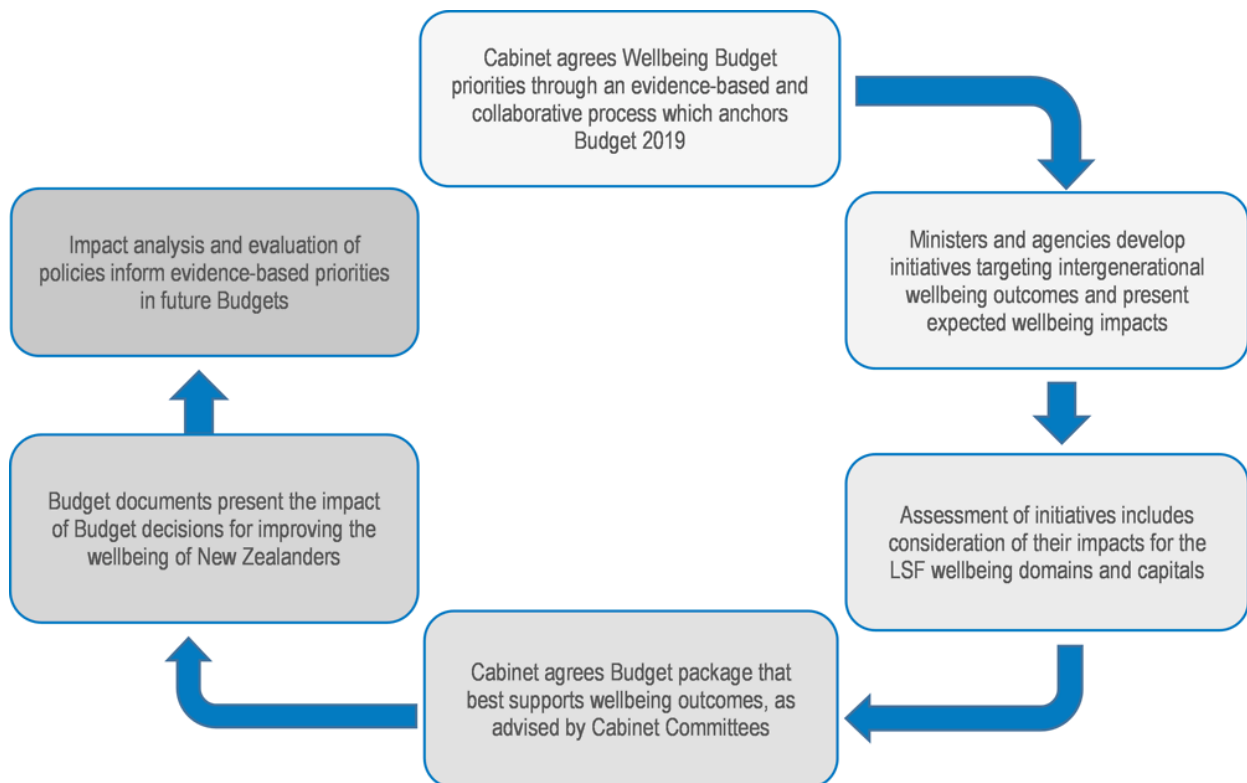
Note: This chart shows New Zealand's relative strengths and weaknesses in well-being compared to other OECD countries. Longer bars always indicate better outcomes (i.e. higher well-being), whereas shorter bars always indicate worse outcomes (lower well-being) – including for negative indicators, marked with an *, which have been reverse-scored. Inequalities (gaps between top and bottom, differences between groups, people falling under a deprivation threshold) are shaded with stripes, and missing data in white. For the future well-being dashboard: (1)=top-performing OECD tier, (2)=middle-performing OECD tier, (3)=bottom-performing OECD tier. ↗ indicates consistent improvement; ↔ indicates no clear or consistent trend; ↘ indicates consistent deterioration, and “...” indicates insufficient time series to determine trends since 2010. For methodological details, see the Reader's Guide of How's Life? 2020.

Source: (OECD, 2020_[17])

Inspired by OECD's well-being framework, New Zealand revamped in 2018 its national well-being framework: the Living Standards Framework. This edition of the framework makes a conceptual distinction between individual well-being outcomes "today" and the broader systems and means to sustain these over time. In December 2018, the Treasury further released its Living Standards Framework Dashboard, which operationalises the conceptual framework through a concrete set of indicators.

However, measuring well-being is not the end goal in itself for the New Zealand government. For well-being indicators to contribute to improved living conditions, assessments should contribute to shape policy decisions. A significant advance made in using the Living Standards Framework to influence policy decisions is the implementation of the first well-being budget in 2019. As depicted in the figure below the LSF frames budget discussions throughout the budget cycle.

Figure 2.6. Well-being budget lifecycle



Source: (New Zealand Treasury, 2018^[18])

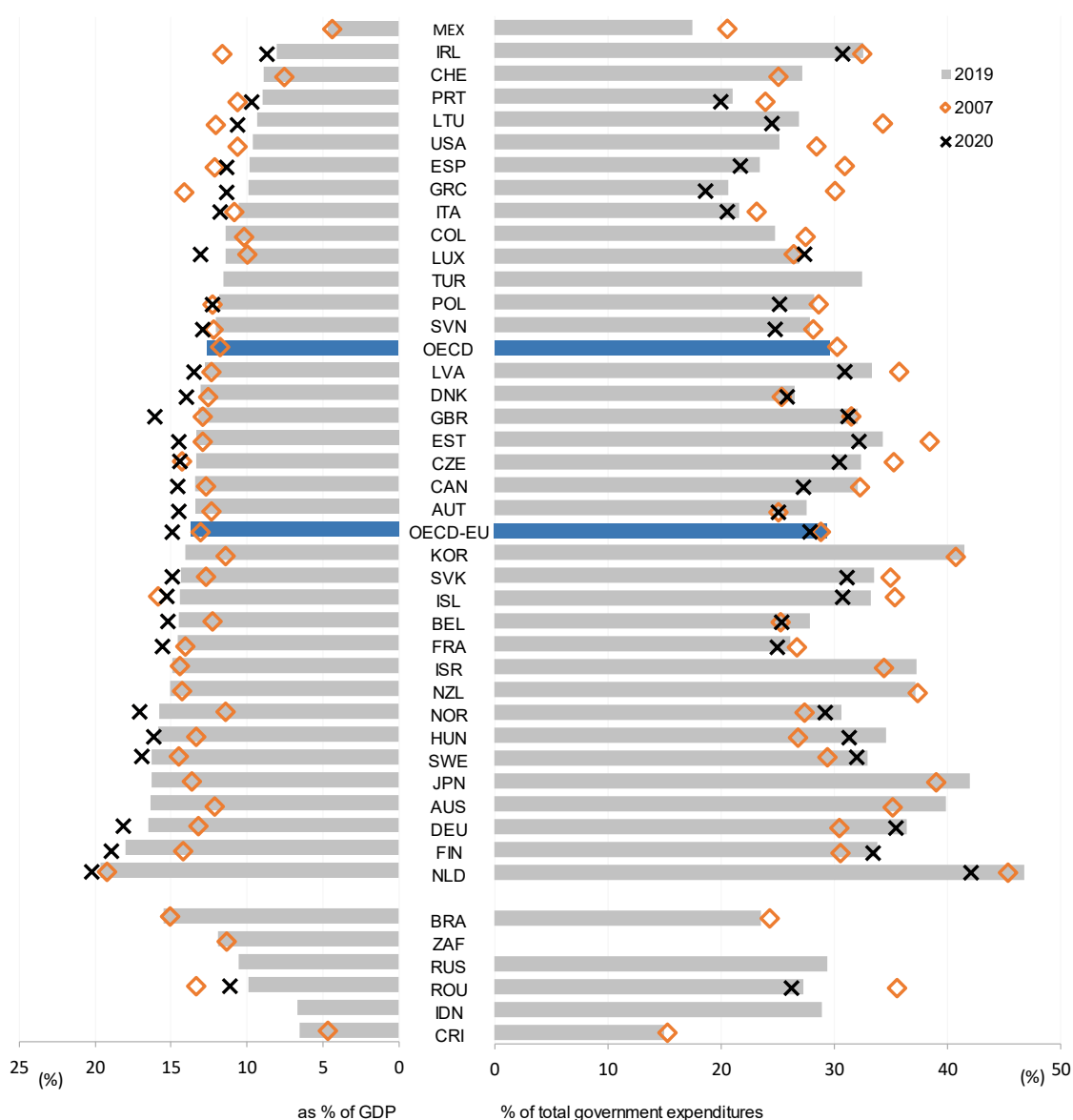
Building on the 2019 exercise, the statement on the 2020 well-being budget confirmed the five priorities for designing, selecting and approving budget bids. Considering the consequences of the current pandemic, the final budget 2020 package is focussed on maintaining critical support for existing public services and supporting key infrastructure investments. Yet, illustrating the balancing act needed to tackle the crisis while ensuring long-term benefits, proposals should still contribute to address the following objectives:

- Just Transition – Supporting New Zealanders in the transition to a climate-resilient, sustainable and low-emissions economy
- Future of Work – Enabling all New Zealanders to benefit from new technologies and lift productivity through innovation
- Māori and Pacific – Lifting Māori and Pacific incomes, skills and opportunities
- Child Wellbeing – Reducing child poverty and improving child wellbeing

- Physical and Mental Wellbeing – Supporting improved health outcomes for all New Zealanders.

Once approved, well-being budgets need to be executed in a way that attains government's expectations and policy decisions. A major delivery mechanism through which national budgets are executed is public procurement, representing in OECD countries an average of 12.9% of GDP and amounting to 29% of total government expenditure. As shown in the below figure, New Zealand's procurement expenditure, amounting to 15.1% of GDP is relatively higher than the OECD average and contrary to general trends observed in OECD countries, this share has further increased in the last decade.

Figure 2.7. General government procurement spending as a percentage of GDP and total government expenditures, 2007, 2019 and 2020



Note: Data for Australia are based on a combination of Government Finance Statistics and National Accounts data provided by the Australian Bureau of Statistics. Data for Chile are not available. Data for Republic of Türkiye and are not included in the OECD average because of missing time series. A large share of general government procurement in the Netherlands is spent on social transfers in kind via market producers (via scholastic grants and mandatory health insurance systems). Data for Japan and Brazil and Russia are for 2018 rather than 2019. Source: (OECD, 2021^[19])

A specific feature of New Zealand's procurement expenditure is that the amount of procurement carried out at sub-national level is well-below the OECD average. In fact, New Zealand was in 2019 the OECD country with the highest share of procurement expenditure carried out at central level which amounted to 81.77% (OECD, 2021^[19]).

These trends are likely to continue in the years to come especially with the large financial package designed to address the immediate consequences of the crisis and to pursue longer-term objectives. For example, the national 2020 budget clearly supports increased capital expenditure for specific sectors such as health through greater budget allocation to District Health Boards (Treasury, 2020^[20]).

2.2. A procurement system built on influence rather than compliance

Yet, this high concentration of procurement spend at central level does not mean that New Zealand's public procurement system is highly centralised. Indeed, the New Zealand procurement ecosystem is a devolved system where, except for some limited categories of goods and services that are procured centrally, individual government agencies conduct their own procurement for their own needs. Each agency is responsible and accountable for its decisions relating to the purchase of goods and services.

While authority and accountability are decentralised, New Zealand features central roles in the public administration: functional leads. They are tasked with developing and improving a designated relevant policy area or business function across government that merits this recognition. The Public Service Commissioner delegates these roles to specific chief executives.

The government, through the Public Service Commission, created functional leaders in 2012 in the areas of procurement, ICT and property with the aim to improve the effectiveness and reduce the overall costs to government of common business functions. More specifically, the functional leadership programme was created for procurement to drive performance across the state services through:

- Improving the capability (commercial skills) of agencies
- Making it easier to do business with government
- Delivering better value for money through collaborative contracting.

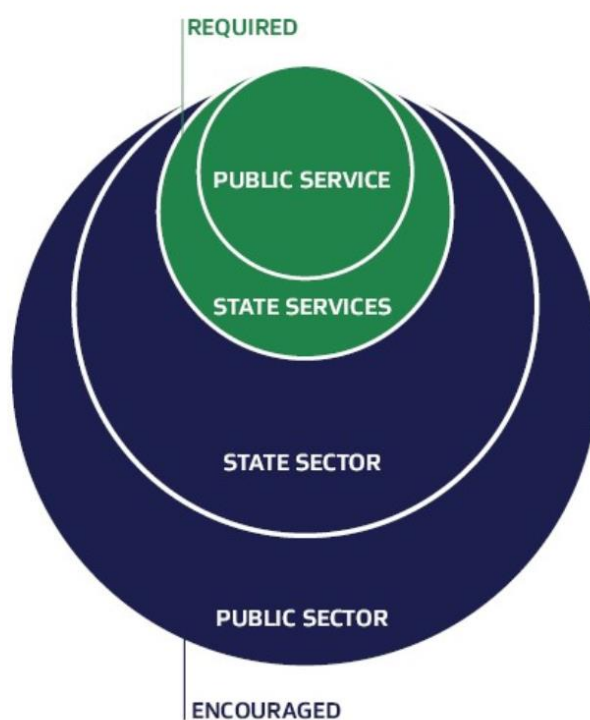
Currently, functional leadership roles have been given to five chief executives to drive performance across the state services:

- The Chief Executive of the Department of Internal Affairs/Chief Government Information Officer, responsible for ICT
- The Chief Executive of the Ministry of Business, Innovation and Employment (MBIE), responsible for Government procurement
- The Chief Executive of the Ministry of Business, Innovation and Employment, responsible for Government property
- The Chief Executive of Statistics NZ for data and analytics across the government
- The Chief Executive of the Ministry for Primary Industries as the Government Health and Safety Lead

The Chief Executive of MBIE is the functional lead for procurement. New Zealand Government Procurement and Property, a part of the Ministry, is responsible for delivering the programme of work. New Zealand Government Procurement and Property (NZGPP) implements functional leadership. It is a central purchasing body with responsibilities for centralised purchasing of some categories of goods and services, government procurement policy development and improving procurement capability across government agencies. It takes a centre-led as opposed to centralised approach to its activities.

There are about 3600 public organisations in New Zealand, of which over 2500 are school boards of trustees. Among them, 135 are mandated public organisations as of 6 September 2019. Mandated public organisations must apply NZGPP's procurement policy framework for all procurement. This includes complying with the specific rules for procurement spending that is greater than specified dollar values. However, while NZGPP can influence mandated public organisations to comply with the procurement policy framework through its leadership and the Public Service Commission's support, it cannot enforce compliance.

Figure 2.8. Application of Government Procurement Rules across public institutions



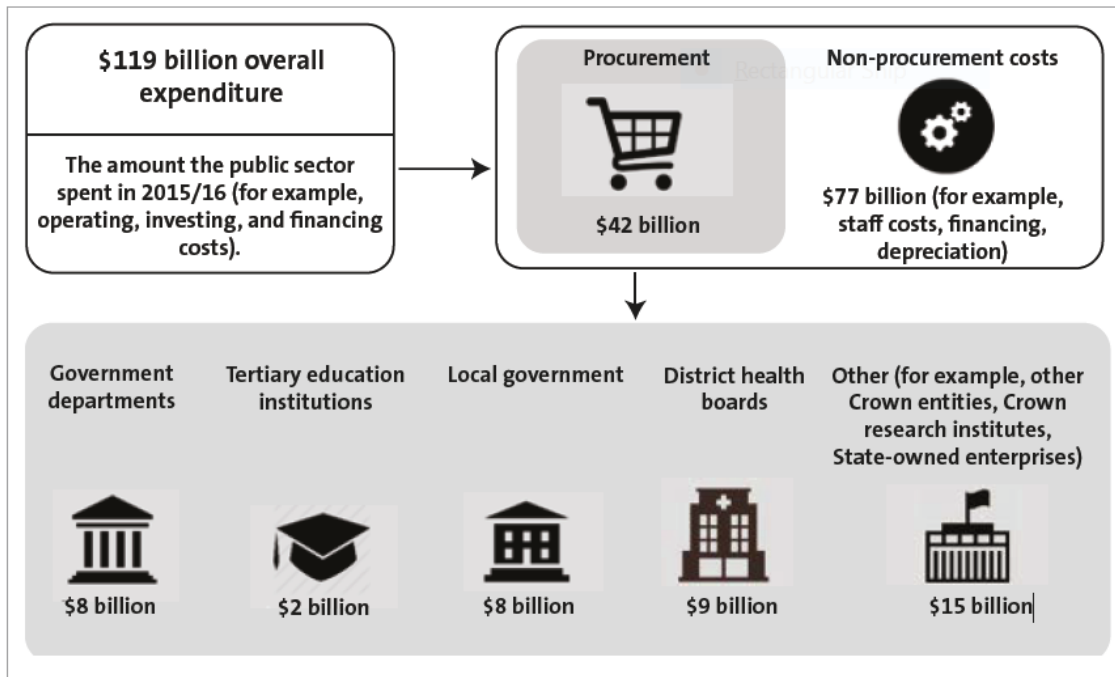
Source: (Ministry of Business Innovation and Employment, 2020^[21])

Mandated public agencies include government departments, non-public service departments (such as the New Zealand Police and the New Zealand Defence Force), and Crown entities, including DHBs. Non-mandated public organisations, such as local government organisations, tertiary education institutions and state-owned enterprises, are encouraged to apply the procurement policy framework because it is considered good practice.

In late 2020, MBIE undertook a public consultation to understand the potential benefits, opportunities, and other impacts of extending the Rules to a wider set of government entities in the New Zealand public sector (Ministry of Business Innovation and Employment, 2020^[21]). At time of writing, no decisions have been made.

Altogether, these public agencies routinely spend approximately NZD \$42 billion every year in public procurement while recently the total procurement spend peaked at NZD \$51.5 billion, almost 20% of GDP (New Zealand Government Procurement and Property, 2021^[22]). While it is challenging to obtain a more granular view of procurement, the Office of the Auditor General analysed the financial statements of local and central government and identified major elements of agencies' spending structure.

Figure 2.9. Composition of procurement expenditure in 2015/2016



Source: (New Zealand. Office of the Auditor-General, 2018^[23])

According to the above estimates, mandated agencies, on which NZGPP has a greater influence through the direct application of the procurement policy framework (the Government Procurement Rules), concentrate the majority of procurement spend. Through its different remits, NZGPP can therefore steer the efficiency and productivity of the NZ procurement system and impact the economy at large. To support public agencies and the overall objective of procurement functional leadership, NZGPP has a mature and stable organisation mainly organised around the different roles, which come under its responsibility.

The table below shows the structure of 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 both procurement and property functional leadership. This structure was put in place in July 2017.

Table 2.1. Structure of New Zealand Government Procurement and Property

Unit	Role	Number of staff
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 Procurement Capability Index (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

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
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
Senior 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

Source: Information provided by Ministry of Business, Innovation and Employment

Besides the 129 permanent staff, NZGPP also implemented a graduate programme where recently graduated university students are placed in public agencies across the government and receive support and training on procurement over a two-year programme. Graduates change assignments every six months. There are currently 18 persons enrolled in this programme.

To support this structure, in 2018/19, New Zealand Government Procurement and Property received nearly NZD 30 million in funding from public organisations and through Crown revenue (Controller and Auditor-General, 2019^[24]). Funding of NZGPP comes from three different sources:

- Administration levies paid by agencies purchasing from All of Government (AoG) contracts.
- Appropriation from government
- Revenue from commercial services (procurement assistance to agencies) on a cost recovery basis

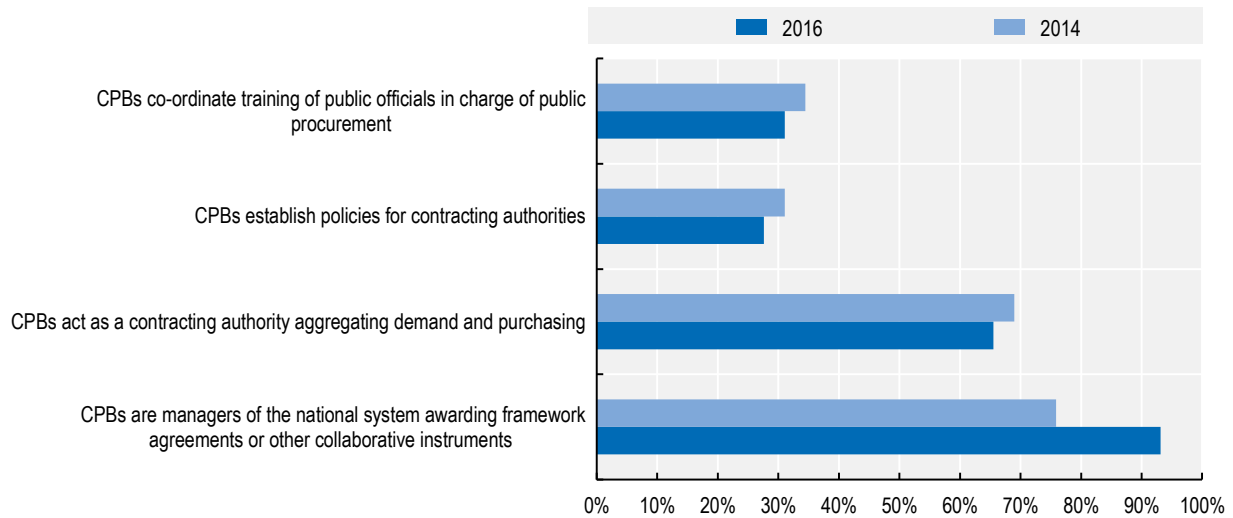
In the 2018/2019 fiscal year, revenues from administration levies represented approximately 68% of NZGPP's budget while fees paid by agencies for commercial services support from the Commercial Pool only represented 4% (Controller and Auditor-General, 2019^[24]). These revenue sources have remained constant over the years.

The administration levy is defined depending on the characteristics of each AoG contract but typically ranges from 0.5 to 1.5% of the amount of orders placed with suppliers. In 2018/2019, the average administration fee was at 0.8% across the AoG programme. Administration levies are added to the invoice sent to public agencies by suppliers, however they do not represent an additional cost to public agencies. Indeed, overall, the cost of operating NZGPP is more than offset by the amount of savings benefiting public agencies when buying through AoG contracts. Calculations made by the Controller and Auditor-General in a recent report estimated that for every dollar received in revenue by NZGPP, public organisations save 5.84 NZD (Controller and Auditor-General, 2019^[24]).

2.2.1. An expanded outreach thanks to a broad mandate

Traditionally, central purchasing bodies in OECD countries are first and foremost implemented to generate economies of scale by increasing collaborative buying power, reduce red tape by aggregating similar needs of individual contracting authorities and provide centralised procurement expertise. However, in some countries, including New Zealand, the CPB's role includes activities beyond collaborative purchasing.

Figure 2.10. The role of central purchasing bodies



Source: (OECD, 2019^[1])

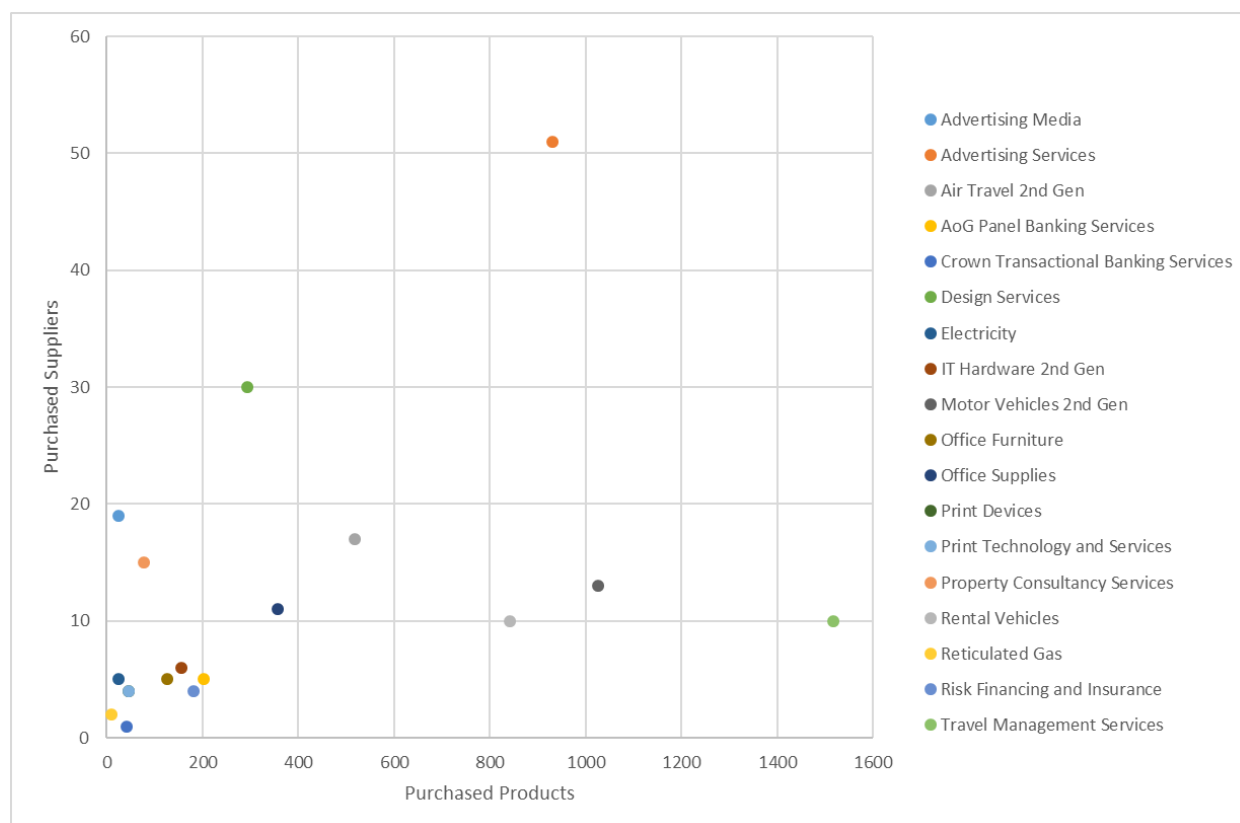
In addition to traditional aggregation functions, few CPBs in the OECD, like those in Ireland, Chile or the UK, are also policy makers. This role entails developing the policy framework applicable to contracting authorities and providing additional guidance in specific topics. In other countries, CPBs (e.g. Denmark, Canada, Austria) are responsible for co-ordinating training on public procurement. In New Zealand, NZGPP combines all these mandates and in fact is one of the five OECD countries cumulating these different functions.

In administering All-of-Government contracts, NZGPP connects the dots between agencies and the market

Government Procurement Rule 58 defines an all-of-government (AoG) contract as “a type of approved collaborative contract”. AoG contracts establish supply agreements with approved suppliers for selected common goods or services purchased across government. They are comprised of both open and closed panels, therefore mirroring the options existing in Europe with the so-called framework agreements and dynamic purchasing systems.

Totalling in 2018/2019 NZD \$2.36 billion, AoG contracts represent about 3% of the total government procurement spending. There are contracts for common goods and services where multiple suppliers are available to public agencies to satisfy their needs. Analysis from transactional data from AoG contracts reveals a great variety of purchasing patterns, both in terms of suppliers and products, depending on the characteristic of the product category.

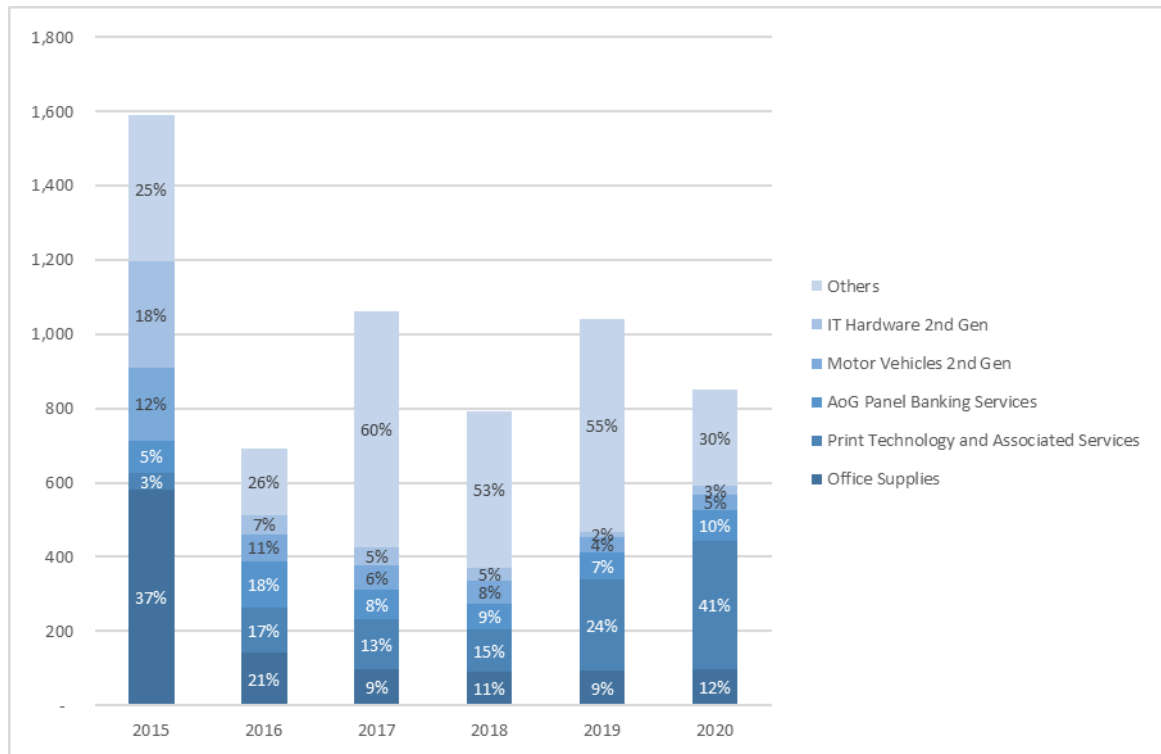
Figure 2.11. Transacted suppliers and products by product category, 2019-2020



Note: Several outliers have not been included in the graph: External legal services (5,118 products bought from 69 suppliers), External recruitment services (14,976 products bought from 88 suppliers), and Consultancy services (1,696 products bought from 425 suppliers).
Source: Information provided by NZGPP

While the above graph shows a widespread use of AoG contracts, they are not *de facto* available to mandated and non-mandated agencies. While mandated agencies are required by policy (i.e. the Government Procurement Rules) to use AoG contracts, there is no law that compels them to do so. Therefore, participation in AoG contracts requires the contracting agency to sign a Memorandum of Understanding with NZGPP outlining roles and obligations of the parties. Once a contracting agency has signed the MoU, it is generally required to purchase from the AoG contract where it has a need for the relevant goods and services. The figure below shows the number of MoUs signed each year with individual contracting agencies to access the offering of selected AoG contracts.

Figure 2.12. Signed Memorandum of Understandings with agencies



Source: Information provided by NZGPP

Mandated public organisations must use AoG contracts unless they are able to provide a valid reason such as the different nature of their needs or the existence of on-going contracts. NZGPP records the reasons some mandated public organisations do not use some all-of-government contracts.

The Government Procurement Rules also state that mandated public organisations wanting to opt out of an AoG 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. To date, the State Services Commissioner has not been required to decide the matter in any of these instances.

Before deciding on implementing a new AoG contract or renewing an existing one, NZGPP conducts a detailed needs analysis and designs a comprehensive commercial strategy. The analysis of needs from contracting agencies involves the creation of a Client Advisory Group composed of mandated and non-mandated agencies. These steps not only assess needs and potential benefits for using an AoG contract – both from the perspective of agencies and NZGPP – they also allow for a review of market trends and supplier concentration. This helps ensure that procurement processes are designed to meet the expected outcomes. The example of the AoG contract for rental vehicles offers an interesting case in point (see Box 2.1).

Box 2.1. Rethinking car rentals in New Zealand

The first generation All-of-Government (AoG) Rental Vehicles contract (Gen One contract) was established in 2014 and was due to expire in March 2019. To prepare for the next procurement, New Zealand Government Procurement and Property (NZGPP) experts carried out a detailed needs analysis and designed a comprehensive commercial strategy.

Analysis of trends and historical spend in the first generation contract suggested a higher-than-average participation of mandated and non-mandated agencies, substantial savings for agencies and a high level of satisfaction with the proposed solution. These elements therefore suggested that a mere renewal of the offering with refreshed rates following competition among suppliers would have delivered the objectives being sought in implementing AoG contracts.

Yet, further analysis of the market and engagement with contracting agencies revealed opportunities to rethink the whole strategy behind rental vehicles. First, data analysis evidenced a significant concentration of needs. The duration of vehicle rental was overwhelmingly short with estimates of more three-quarters of all hires being for 1 to 3 days rentals. In addition, the 'compact' category of vehicle concentrated 51% of the total hires annually. Secondly, engagement with agencies indicated an unmet need of less-than-one-day rentals. Lastly, recent market developments suggested a growing interest in car-sharing solutions which attracts smaller suppliers than the multinational rental companies focusing on traditional rental and also favour low-emissions vehicles.

Based on this analysis, NZGPP designed a procurement strategy for the second generation of the rental vehicle AoG contract, entering into force on March 2019, that looked at maximising the benefits and users' experience with traditional rental offering, expanding the solution's coverage by introducing less-than-one-day propositions and favouring the use of low-emissions vehicles.

Source: Based on information provided by NZGPP

The initial aim of AoG contracts was to achieve efficiency gains (both in terms of commercial outcomes and administrative efficiencies) but over time public value has become more important, including delivering on government priorities and targeting broader outcomes. Beyond economic efficiency, other factors considered in the decision making include matters such as the extent to which there is a competitive market, the impact on the market, and any other potential gains from a collaborative approach. Cost savings are usually estimated prior to deciding to proceed with an AoG contract. The amount of savings forecast varies from contract to contract (there is no minimum savings target for a contract to proceed) and the cost savings model used varies accordingly.

However, once AoG contracts are implemented and because of the devolved nature of the procurement system, NZGPP is left with little visibility on orders placed by participating agencies. In fact, several stakeholders suggested during interviews that some public agencies themselves do not find it easy to retrieve comprehensive understanding of their own internal spend. Second-stage competition, or secondary procurement process, in AoG is recommended as a good practice but is not mandated for agencies. Therefore, the additional economic efficiencies (and sometimes quality improvements), which generally stem from second-stage competition, might not be fully realised when agencies are using AoG contracts, hence hampering the total level of savings.

Second stage competition can foster the strategic use of AoG contracts, particularly if NZGPP provides appropriate support and guidance on how to conduct this stage efficiently, fairly, transparently and effectively. This stage often conveys additional possibilities on the application of broader principles relating to strategic procurement in concrete parameters, such as need specifications or award criteria, which were

usually applied by skilled and professional procurement officials in the first competition stage (coming from a CPB, in this case NZGPP). Yet, this exercise in the second stage may be carried out by officials with heterogeneous procurement skills, depending on the nature of the organisation, the frequency of their purchasing activities and on their complexity.

In an audit report released by the Office of the Auditor General in November 2019 (Controller and Auditor-General, 2019^[24]), generally, public organisations said that AoG 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, as discussed before, AoG contracts only represent a small fraction of procurement activities across the country. This does not mean that NZGPP has no influence over contracting agencies beyond their use of collaborative procurement instruments.

Through its functional leadership NZGPP shapes the central procurement system with a strategic policy framework

The government procurement policy framework in New Zealand consists of a combination of principles, expectations, rules and good practice guidance. It aims to support and encourage procurement practice that delivers good commercial outcomes.

The key objectives of the government procurement policy are to:

- strengthen accountability for how government agencies spend taxpayers' money
- enable agencies to obtain public value in their procurement activities
- facilitate the participation of New Zealand businesses in domestic government procurement
- provide greater access to, and facilitate the participation of New Zealand businesses in, foreign government procurement markets.

There are five Principles that apply to all government agencies when buying goods and services and that are the foundations for good procurement practice:

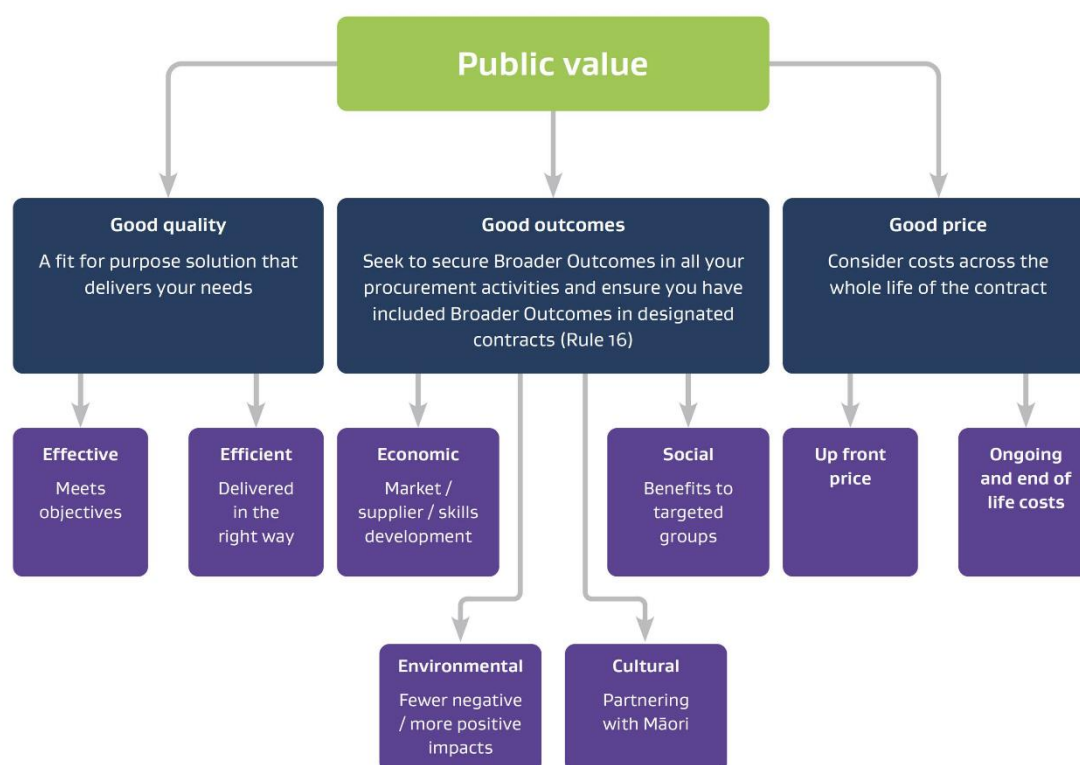
- plan and manage for great results
- be fair to all suppliers
- get the right supplier
- get the best deal for everyone
- play by the rules.

The Government Procurement Rules (GPR) support, and build upon, the Principles and are applicable to all types of procurement, from common goods and services through to complex social services but are mandatory for only 138 public entities, which however concentrate the majority of procurement spend. The GPR require agencies to apply minimum standards to their procurement activities, including requirements to openly advertise contracting opportunities, to give interested bidders sufficient time to respond, to evaluate supplier responses on their merits rather than on the place of origin of the supplier, and to publish contract award information.

The GPR (along with the Principles) promote open competition where New Zealand suppliers can expect to be given full and fair opportunity to compete and win government contracts where they offer best public value. GPR encourage agencies to use strategic approaches when procuring, manage risks appropriately, engage early with the market to stimulate competition, and work with suppliers to develop better solutions. They are complemented by a number of good practice guides that assist both government agencies and suppliers in the practical aspects of procurement. Rule 3 of the Government Procurement Rules sets the requirement that all suppliers must be given an equal opportunity to bid for contracts and be treated no less favourably than New Zealand suppliers.

In October 2018, the government recognised that its procurement activities offer a unique opportunity to achieve broader cultural, economic, environmental and social outcomes for New Zealand. These broader outcomes redefined value for money in procurement processes going beyond the traditional understanding of the concept as shown in the figure below.

Figure 2.13. Going beyond traditional value for money by integrating broader outcomes



Source: Ministry of Business, Innovation and Employment, Presentation to Parliament, 2019

Of these broader outcomes, the Government identified four priority outcomes² for agencies to focus on:

1. **Increasing access for New Zealand businesses:** Increasing access to government procurement contracts for New Zealand businesses, with particular focus on those less able to access opportunities and those working in priority sectors (such as ICT, Māori and Pasifika businesses and businesses in the regions).
2. **Construction skills and training:** Increase the size and skill level of the domestic construction sector workforce and provide employment opportunities to targeted groups.
3. **Improving conditions for New Zealand workers:** Improve conditions for workers and future-proof the ability of New Zealand business to trade.
4. **Reducing emissions and waste:** Support the transition to a zero net emissions economy and reduce waste from industry by supporting innovation.

² From October 2021, a further priority outcome that requires agencies to consider how they can create quality employment opportunities will come into effect.

Considering the relevance of public procurement and the major role it will play in the broader outcomes overall strategy and implementation phase, those were incorporated in the GPR and the overarching policy framework in June 2019. The Rules now mandate government agencies to achieve these four specific priority outcomes when buying from designated contract areas. Agencies must also consider, and incorporate where appropriate, broader outcomes when purchasing other goods, services or works. They are also required to conduct reasonable due diligence and manage the contract to ensure incorporated priority outcomes are delivered.

To maximise the effects of pursuing these priorities, the government chose to ‘designate contracts or sectors’ where one or more of the priority outcomes must be implemented. For example, the All-of-Government motor vehicles contract is a designated contract for the priority relating to the transition to a net zero emissions economy. This means that agencies must take this priority into account when purchasing new vehicles and assess the environmental benefits of the offering.

A reporting framework has also been established under the broader outcomes programme, in order to obtain a system-wide view of government procurement activity. This included establishing a baseline and tracking what outcomes are being achieved across government. This framework sets out how the government will monitor and report on procurement activity and outcomes across the system. This will support the improvement of procurement practices across the New Zealand public sector and enables the procurement system to generate greater public value.

The key principles behind the framework are to:

- automate collection of information, where possible
- use current data sources, where possible
- make sure that information requested from agencies link to the objectives of the framework
- make sure insights and usable data are shared with agencies
- introduce a common data standard for efficient and aggregated reporting.

Further, the Government agreed in September 2020 on a new rule that when procuring goods or services, 138 mandated departments and agencies must consider how they can create quality jobs, particularly for displaced workers and traditionally disadvantaged groups such as Māori, Pasifika, people with disabilities and women. In addition, Cabinet agreed that when constructing new buildings, mandated departments and agencies will be required to assess greenhouse gas emissions resulting from the materials and construction processes used. Agencies should choose those that have the lowest upfront carbon emissions.

Embedding additional dimensions in procurement processes such as reducing emissions and waste, supporting the development of the construction industry or increasing access to public contracts for New Zealand businesses will put the country at the forefront of a strategic use of public procurement but this may imply more complex processes and strategies. It requires conducting extensive market analyses, developing clear specifications, incorporating criteria assessing various dimensions and designing contract management strategies allowing those benefits to materialise. All the above extensively rely on a skilled and competent workforce. Therefore, building capabilities of the procurement workforce is integral to an effective and productive NZ procurement system.

Lifting capabilities in contracting agencies is a major endeavour of NZGPP

A central tenet of the procurement functional leadership held by NZGPP is to lift procurement capabilities of the public sector. Over the years, NZGPP introduced several initiatives contributing to this endeavour. While they all contribute to building capability in contracting agencies, they take different approaches. Some initiatives are aiming at providing hands-on support to individual agencies while others allow assessing and supporting capability development.

As witnessed in other OECD countries like Finland, there is an increasing trend where CPBs are offering ad-hoc support to contracting authorities to carry out their most complex procurement processes. These services can support a broad range of sectors such as property, construction, ICT and social services. A dedicated team in NZGPP – the Commercial pool – carries out these services. They are implemented upon request of contracting agencies and charged on a cost recovery basis. As experienced by Hansel in Finland, this type of service provides a diversification of sources of revenues and increase the value proposition of CPBs by lifting capabilities in the public sector.

NZGPP commercial pool works alongside existing teams within government to deliver high spend strategic projects. Their commercial and procurement advice spans the whole project's lifecycle to ensure their effective delivery. Services provided by the commercial pool could focus on the following dimensions:

- developing effective business cases
- designing high-level strategy
- creating and implementing project plans
- providing expert commercial and procurement advice
- sourcing suppliers
- representing agencies on advisory groups and governance panels
- implementing contracts
- undertaking stakeholder communication

In addition to the commercial pool, the Advisory Services team (placed within Capability Services) provides free support to government agencies – ad-hoc procurement advice, procurement plan and policy reviews, risk mitigation, data and insights and workshops to help agencies develop their commercial acumen. Additional services provided by the Advisory Services team typically focus on the following dimensions:

- assisting agencies in articulating and implementing Broader Outcomes
- providing commercial expertise to the Treasury Better Business Cases
- peer reviews of agency's procurement plans, typically high risk/high value
- guidance and implementation of the Government Procurement Rules
- assisting agencies to foster early engagement and procurement planning
- facilitating Demystifying Procurement workshops
- engaging agencies to assist with their social services procurement capability

Aside from ad-hoc advisory and support services, NZGPP has developed capacity-building tools, which are available to all agencies. One of the most important initiatives supporting capability assessment and development is the Procurement Capability Index (PCI). The PCI is a self-assessment tool for public organisations to assess their procurement capability.

Public organisations assess themselves once a year and provide a report to NZGPP by 1 October each year. The PCI tool has 27 questions arranged around 8 categories covering the entire procurement cycle: Strategy and Outcomes, Commercial and Social Outcomes, Governance and Assurance, Risks and Benefits, Planning and Sourcing; Managing for Results; People Strategy; Building Capability. This index helps agencies to assess and improve their organisational capability to use public procurement as a strategic governance tool. However, it does not provide capability assessment of individuals. In other OECD countries, frameworks have been developed to support the professional development of procurement officials and the European Commission recently designed a harmonised competency framework to be used by all member states.

Box 2.2. The European Competency Framework for Public Procurement Professionals

ProcurComp^{EU} is a tool designed by the European Commission to support the professionalisation of public procurement. By defining 30 key competences, ProcurComp^{EU} provides a common reference for public procurement professionals in the European Union and beyond. It recognises and supports public procurement as a strategic function that delivers public investment for sustainable growth.

The competences are structured against core procurement competences and soft skills covering the whole procurement cycle. Different levels of maturity in each of these competences can then be self-assessed. ProcurComp^{EU} is meant to be a multi-purpose competency framework which can be used by:

- Individuals to identify competences they can develop further and design a personal development and career path
- Organisations to assess and enhance the capability of their procurement function to respond to the organisation's policy priorities
- Training providers to develop comprehensive training and study programmes.

ProcurComp^{EU} comprises a competency matrix which gives individuals and organisations the structure to define the knowledge and skills they should have to perform different public procurement functions. It also includes a self assessment tool providing individuals to assess their individual competences and organisations to assess the overall level of proficiency and maturity of their procurement function. Finally it integrates a training curriculum to identify relevant trainings for improving existing competences or developing new ones.

ProcurComp^{EU} enables procurement professionals to play a pivotal role in facing current and future challenges in delivering high value investment and services for the citizens.

Source: European Union, European Competency Framework for Public Procurement Professionals, 2020

Beyond capability assessment of public organisations, NZGPP also supports capability building for individuals by providing training programmes. Since 2019, NZGPP operates an externally facing Learning Management System named Hīkina, which provides government agencies support in the form of online training and face-to-face workshops.

The platform includes 18 individual training modules, plus resources and videos structured around general procurement themes such as the GPR, early market engagement or debriefing suppliers. It further focuses on the implementation of broader outcomes in procurement strategies. Hīkina has 751 registered users from government agencies, including District Health Boards and Local Governments,. Among these, 532 users have taken at least one of these training courses.

These capability-building initiatives, both at organisational and individual levels, provide for a holistic approach to lifting procurement capabilities in New Zealand. Ultimately, they should contribute to achieving greater outcomes from the implementation of procurement strategies.

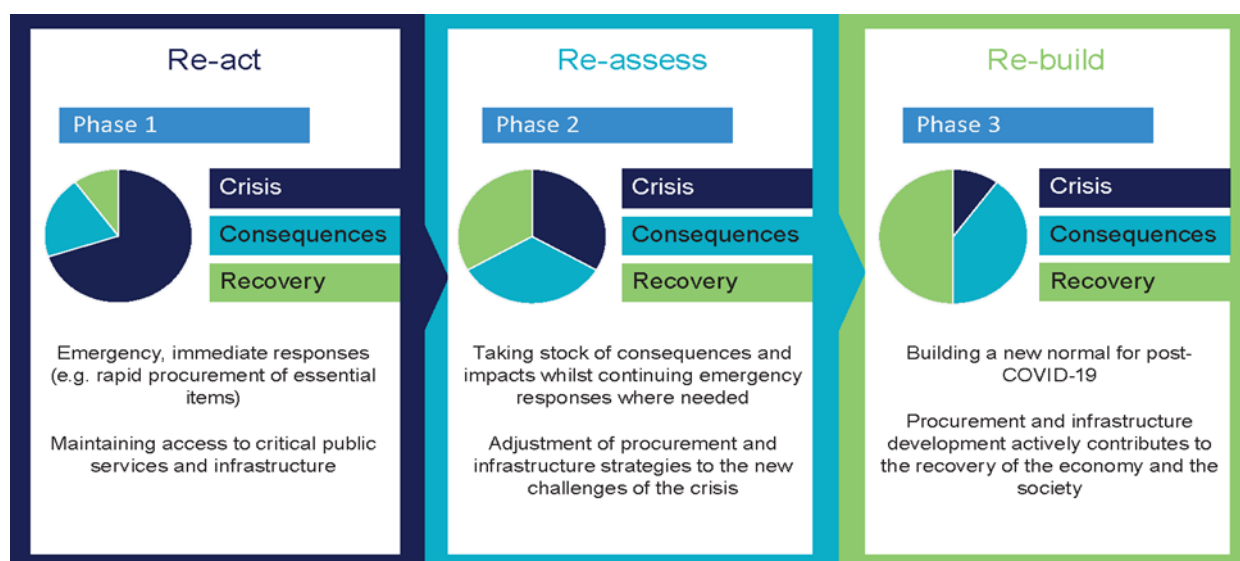
2.2.2. Procurement strategies are enshrined in the government response to the Covid-19 outbreak and will support recovery

As for all countries around the world, the COVID-19 crisis has brought unparalleled challenges for governments to ensure not only the health of their citizens but also public service continuity. In response to the crisis, governments have simultaneously taken extraordinary steps to ensure the safety of their countries, such as general lock-down of the population and large-scale shutdown of economic activity. Such disruptions are affecting the way governments plan and conduct their procurements and manage

their ongoing contracts, not only for health products and services needed to tackle the coronavirus, but also for goods and services necessary to provide essential public services to citizens (including, for example, digital tools to ensure wide scale remote office operations and extended online services in the public sector).

Beyond its critical role in the immediate reactions to the crisis, public procurement, as a significant vehicle for public investment, will serve as a catalyst for economic recovery through tailored strategies. As shown in the infographic below, the management of the crisis could be divided into three stages in which procurement responses have to be adapted to changing conditions.

Figure 2.14. COVID-19 crisis phases



Source: (OECD, 2020^[25])

An immediate procurement response taking a whole of government approach

With very low numbers of infected people, hospitalisation in intensive care units and ultimately death, the outbreak of the coronavirus has not affected New Zealand as much as Europe or the United States. However, this does not mean that New Zealand government remained silent during the outbreak. Public procurement had an important role to play in ensuring that the government had the goods and services it needed to address immediate COVID-19-related issues, and that public money continues to flow through the economy and maintaining healthy supply markets over the medium and long term.

NZGPP developed advice and guidance supplementing existing materials on emergency procurement to support public agencies with rapid responses to urgent procurement needs. With thematic notes, they provided advice and guidance to agencies, suppliers and other stakeholders on sourcing and contract management issues, such as options to consider whether a contract has come to term and encouraging agencies to show leniency in contract management, for example if a supplier is unable to deliver due to the lockdown.

Further, NZGPP developed COVID-19 supply chains pressure reports. These weekly reports looked into pressures agencies faced within their suppliers supply chains. Insights emerged from information collected by NZGP staff in their daily engagements with public agencies. The reports helped identify areas for escalation, issues in supply chains and central agency involvement. Once the government lowered the alert level of the country below level 4, these reports were discontinued.

In September 2019, central government agencies were set a target to pay 95% of domestic invoices within 10 business days. This target was due to take effect from June 2020. However, with many businesses suffering significant hardship resulting from the coronavirus, the Prime Minister announced the introduction of the 10-day payment processing target with immediate effect on March 2020.

In addition to these efforts, the government embedded NZGPP procurement expertise in COVID-19 response teams to manage the supply of critical health materials, such as personal protective equipment or sanitiser, assist with temporary accommodation and support managed isolation and quarantine. Other teams were formed to ensure the efficient movement of essential products or services such as laptops for students into and around New Zealand so that organisations do not fail during the lockdown period. The response to the COVID-19 crisis also built on a recent initiative conducted by the Ministry of Health (see box below). Last, it further supported the redeployment of non-essential public sector workforce to emergency response activities, such as call centres.

Box 2.3. Addressing the digital divide with the Sponsored Data Initiative

In 2019, the Ministry of Health in New Zealand engaged with telecommunication operators in a pilot project to support digital inclusion. It included the provision of free to the consumer mobile phone data for some online health resources, in order to evaluate the value and impact of removing the cost of data for consumers to these resources.

For some New Zealanders, the cost of mobile data can be a barrier to accessing essential health and wellbeing information and digital health services. Those who cannot access information and services are often those with the highest needs.

The COVID-19 pandemic accelerated the implementation of the Sponsored Data initiative (also known as zero-rated data) which provided free access to key health sector websites for anyone using the mobile networks of the participating telecommunication operators. All mobile data charges for content hosted on these websites are automatically charged back to the Ministry of Health.

The focus of the Sponsored Data initiative is on websites that provide key health information, support mental health and wellbeing of New Zealanders, or allow to access digital health services. The Ministry of Health regularly identifies additional websites that align with health priorities and meet the technical requirements for the initiative.

Source: (Ministry of Health, 2020^[26])

At times of writing, work is underway on the development of a national procurement strategy. This Strategy is intended to link Government's expectations of government procurement to implementation by government agencies. It will aim to set a clear direction for agencies to consider how best to deliver on the collective interests of government alongside their own priorities and stewardship of the Crown's interests.

An enabler for the implementation of industrial policy supporting economic sustainable recovery?

Because of the size and the breadth of the economic shock stemming from the current pandemic, including lasting consequences that are likely to affect specific sectors, some countries are refreshing their industrial policies. In recent years, there has been a fundamental shift in policy thinking in this space, provoked in part by the failure of austerity measures to tackle the long-lasting negative effects of the financial crisis of 2008.

In July 2020, MBIE proposed a refreshed Industry Strategy as part of the Government's economic response to COVID-19 (Ministry of Economic Development, 2020^[27]). The proposed framework aims at supporting industries in transition in response to both near-term disruption caused by COVID-19 and long-term challenges such as the shift to a low emissions economy. It further suggests actions for transforming industries to lift aggregate productivity and enable the scaling up of highly productive and internationally competitive clusters in areas where New Zealand has a comparative advantage. In the past, other countries, such as Canada, have leveraged on procurement to support industrial policies and territorial development.

Box 2.4. Canada's National Shipbuilding Strategy (NSS)

On June 3, 2010, the Hon. Rona Ambrose, then-minister for Public Works and Government Services, announced that the government "made the decision to support the Canadian marine industry, to revitalize Canadian shipyards and to build ships for the Navy and Coast Guard here in Canada." The critical issue in 2010 was a recognition that Canada needed to avoid the boom-and-bust cycle that has plagued Canadian shipbuilding in the past and create the circumstances for a viable, sustainable shipbuilding industry. Beyond modernising Canada's fleet, the NSS also aimed at providing economic benefits and jobs.

The strategy allows the government and the shipyards to make significant investments in Canada's marine industry, such as developing and maintaining expertise and creating sustainable employment across the country. It further brings predictability to federal vessel procurement and aims to eliminate the boom and bust cycles of vessel procurement that slowed down Canadian shipbuilding in the past.

The strategy is focused on 3 pillars:

- Construction of large vessels (more than 1,000 tonnes of displacement)
- Construction of small vessels (less than 1,000 tonnes of displacement)
- Vessel repair, refit and maintenance projects

Following a competitive, fair, open and transparent process, the government established long-term strategic relationships for the construction of large vessels with two Canadian shipyards: Seaspan's Vancouver Shipyards in British Columbia, and Irving Shipbuilding Inc. in Halifax, Nova Scotia. Under the third pillar of the strategy, opportunities are available for Canadian shipyards and businesses across the country for small ship construction, maintenance repair and refit.

Overall contracts related to the Strategy between 2012 and June 2019 are estimated to contribute CAN 13 billion to Canada's gross domestic product, and create or maintain nearly 12,000 jobs in the Canadian economy annually during the period of 2012 to 2022. The Greater Halifax Partnership assessed the economic benefits for the shipyard in Halifax and found that, on an average annual basis, the combat vessels fabrication project would generate an estimated CAN 661 million in gross domestic product and about 8,500 jobs.

On May 22, 2019, Prime Minister Justin Trudeau announced major investments in the coast guard and said that a third shipyard was going to be added to the shipbuilding strategy.

Source: Adapted from (Public Services and Procurement Canada, n.d.^[28]) and (Canadian Global Affairs Institute, 2019^[29])

Focusing on eleven sectors being particularly affected by the crisis and whose contributions to the economy are significant, the proposal intends to better align the industry strategy with New Zealand environmental sustainability objectives. Among other levers, the proposal suggests that the government uses public procurement to support the implementation of this strategy.

Interventions will focus on ensuring these sectors continue to enable the economy in a way that protects the environment, supports the transition to a low emissions future, and provides good jobs to New Zealanders.

3. Developing measurement frameworks to understand the role of NZGPP in delivering public value

This chapter discusses current initiatives in New Zealand to measure the impact of procurement strategies on the effectiveness of the procurement system and on the achievement of broader outcomes. This chapter considers potential avenues for leveraging existing reporting frameworks and addressing challenges in data availability.

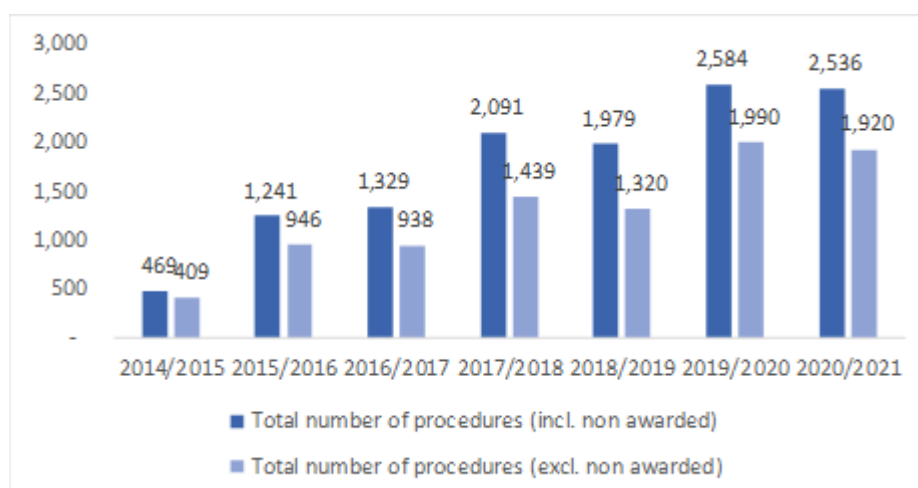
3.1. Shifting from information on processes to evidence on outcomes: the impact of reporting

3.1.1. Expanding digital tools and reporting frameworks to gather procurement intelligence

One critical underpinning of effective measurement frameworks is the underlying digital infrastructure. Without relevant data, performance cannot be assessed and future decisions cannot be informed by evidence. The overarching tool hosting procurement information nation-wide is the Government Electronic Tenders Service (GETS) platform. It acts as the national e-Procurement system and hosts information on future opportunities, on-going call for tenders and closed ones. It mainly allows contracting authorities and suppliers to exchange information during the tendering phase of a procurement process.

According to the below graph, there has been a steady increased use of GETS in terms of number of procedures published and awarded. In addition, the number of active suppliers per year also increased by almost 30% from 2017 to 2019.

Figure 3.1. Number of awarded procedures in GETS by fiscal year



Source: (MBIE, n.d.[30])

Despite these positive trends, the national e-Procurement platform *seems* to be under used by public agencies. Based on contract award data published in GETS, the total awarded value of public contracts advertised in GETS amounts to approximately 1% of the total annual estimated procurement spend (see Table 3.1). This picture is primarily the result of the low rates of compliance with requirements to publish contract award information rather than low rates of open competition, but would also include other factors such as agencies that are not required to publish contract award data, below threshold procurements, and purchasing done under AoG and other panel contracts.

Table 3.1. GETS Awarded tender by fiscal year

Awarded by fiscal year	Awarded amount (NZD)
2016/2017	\$395,453,949
2017/2018	\$542,808,064
2018/2019	\$598,141,636

Source: Information provided by NZGP

New Zealand is not the only OECD country suffering from low publication rates. For example, Germany exhibited in 2015 a value of public tenders listed on Tenders Electronic Daily, the European tender platform where tenders above EU thresholds have to be published, representing just 1.1% of Germany's GDP, or 6.4% of public expenditure (excluding utilities) (European Commission, 2016^[31]). It compared with a European average of 3.2% of GDP, or 19.1% of public spending. As stated by the European Commission, a reduced use of e-Procurement systems not only prevents from having a clear understanding of procurement practices across public agencies thereby hindering accountability, it also limits opportunities for businesses to bid for public contracts.

Box 3.1. Collecting procurement information in Germany

In 2015, Germany ranked the lowest European country in terms of publication rate of public tenders above the EU threshold. At 1.1% of GDP, or 6.4% of public expenditure (excluding utilities), Germany registered the lowest values of contracts published under EU rules. The average value of contracts published under EU procurement Directives amounted to 3.2% of the GDP or 19.1% of public expenditure.

To address this systemic challenge Germany took steps to reform its procurement framework so that more procurement information could be gathered. While implementing the EU directives on public procurement into German federal law, the German government sought to go beyond the implementation of electronic tender processes. In doing so, the government sought to establish measures that allowed for tender data to be collected centrally for further analysis. Subsequently, Germany passed in April 2016 the Ordinance on Public Procurement Statistics (VergStatVO) to mandate the collection of procurement-related data.

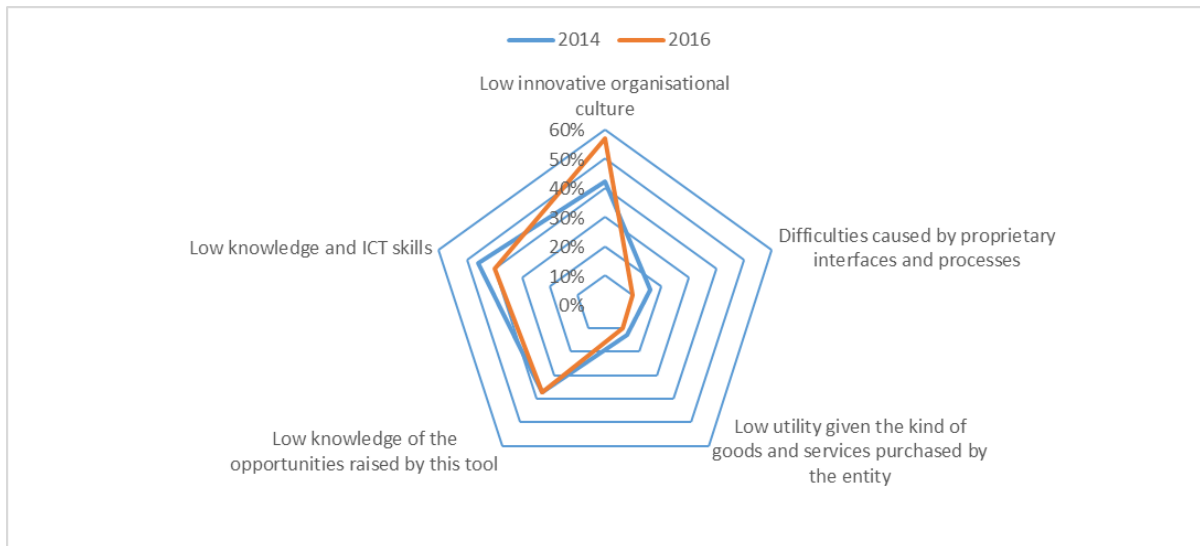
The VergStatVO conveys upon all contracting authorities the obligation to submit information on their procurement activity. All tenders over EUR 25 000 conducted by contracting authorities at the federal, state and local level are compelled to submit a comprehensive suite of information related to the tender (such as the tender value, the type of procedure used, evaluation criteria and a range of information related to the contracting authority and the economic operator). Given the radical changes implied by this legislative reform notably on a greater uptake of e-Procurement systems, VergStatVO included a transition period.

The VergStatVO entered into force on October 1st, 2020. For the first time in Germany, basic data on public contracts are statistically recorded nationwide. Such data is critical to be able to better assess the economic importance of the award of public contracts and concessions. For the first time, it will be possible, for example, to reliably determine the annual procurement volume of the federal, state and local governments and their distribution among delivery, service and construction contracts.

Source: Adapted from (OECD, 2019^[32]) and (Bundesministerium für Wirtschaft und Energie, 2020^[33])

In 2016, the OECD conducted a survey to understand the challenges linked to the use of e-Procurement systems with the view to better design policy responses addressing this issue. The survey found that contracting authorities are facing a great variety of challenges. They included notably an organisational culture that was not as innovative as it could be, a limited ICT knowledge and skills and limited familiarity with the economic opportunities that e-Procurement systems can offer.

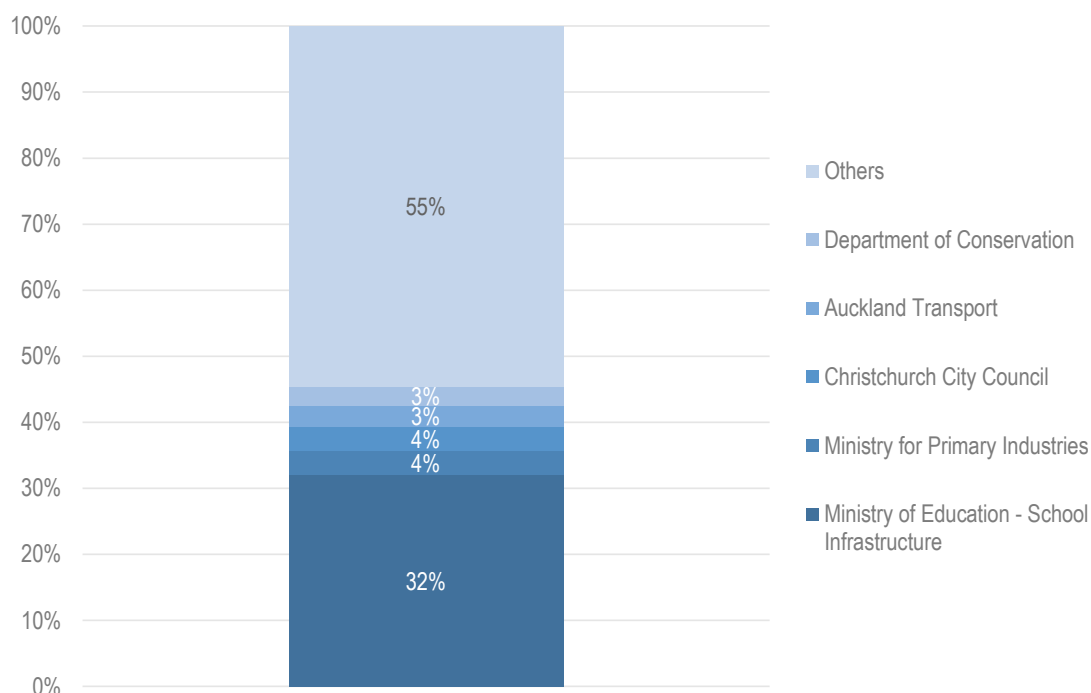
Figure 3.2. Challenges facing contracting authorities using e-procurement in OECD countries



Source: (OECD, 2019^[32])

Currently GETS covers the sourcing part of the procurement process: issuing tenders, managing questions and answers, receiving bids and publishing contract award information. There is no cost to purchasers or suppliers in using GETS. The information published through GETS regarding contract award notices is reported to the public as open data. When looking at the data, beyond the number and value of awarded tenders, analysis shows that the top fifteen agencies publishing tenders on GETS concentrate most of the activity on the platform. From the fiscal year 2014/2015 until 2020/2021, the number of procedures awarded by the top fifteen agencies represented 59% of the total procedures awarded in GETS and even within this cluster, one can observe a significant concentration among few agencies (see Figure 3.3). This trend is even more significant when analysing publication of award notices based on amounts. In 2019-2020, the top fifteen agencies represented 92% of the total value of award notices published in GETS.

Figure 3.3. Number of awarded procedures by the top fifteen public agencies (2014-2021)

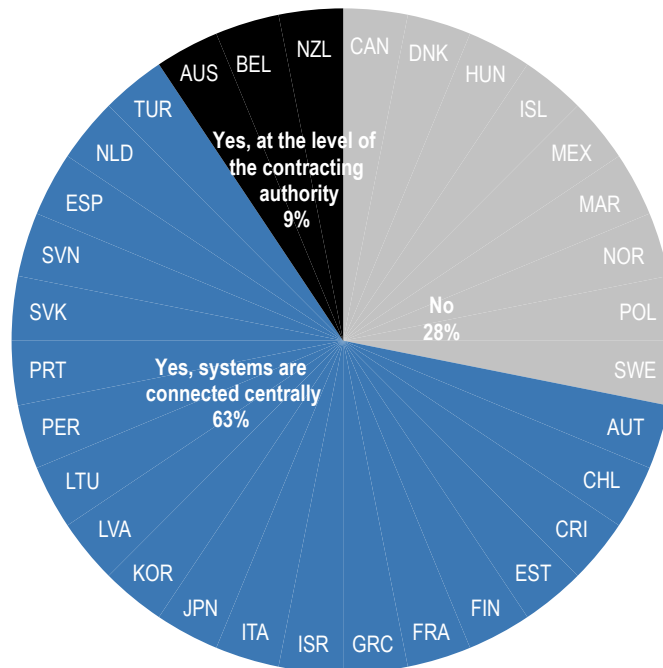


Source: (MBIE, n.d.^[30])

GETS has a tender box facility allowing suppliers to submit their bids online. While its use is not mandatory, this functionality is widely used in public tenders since 83% of the tenders were proposing this feature in 2020. Exploiting the widespread use of this functionality could provide enhanced reporting capabilities, such as intensity of competition, lead-time for tender response, etc.... While this analysis could provide trends on the attractiveness of published tender opportunities, these insights are yet to be systematically collected and analysed.

Similar to GETS, national e-Procurement systems are often platforms for exchanging tender documents (both call for tenders and bids submitted by suppliers), providing reporting capabilities on the tendering phase. However, they do not capture activities carried out in the pre-tendering phase or in the post-award stage. This is why, OECD countries are increasingly integrating their e-procurement systems with other government IT systems, such as budgeting interfaces, business and tax registries, social security databases, public financial systems and enterprise resource planning (ERP) systems.

Figure 3.3. Is your e-Procurement system integrated with other government IT systems?



Source: (OECD, 2019^[11])

While GETS is connected with ERPs of contracting authorities (i.e. used in parallel via sharing of links), it only exchanges information that are relevant for the tendering phase. The GETS database recently connects with the New Zealand Business Number (NZBN), which provides business registration information. Aside from easing costs of suppliers to participate in tenders by removing the need to re-submit this information, the connection between those two databases would provide additional benefits in terms of reporting. Indeed, while the NZBN holds Primary Business Data which include basic information about suppliers, it also provides additional functionalities such as the identification of Maori businesses or the size of companies. When coupled with information from GETS, it could then support the measurement of some priority areas such as the increased access to public contracts for New Zealand and Maori businesses. Further, information on suppliers' profiles such as number of employees would help to disaggregate analysis carried out on the intensity of competition by type of suppliers.

The New Zealand Strategy for a digital public service, published in March 2020, envisions systemic changes in the ways citizens and the government interact. Among the different initiatives included in the strategy, a specific focus is made on revamping the e-Procurement platform to introduce a more integrated, transactional tool that would be able to capture information beyond the tendering phase. This initiative is somehow similar to efforts led by the Finnish government in 2019 to revamp the national e-Procurement landscape through a programme named Handi. The programme focusses on e-procurement in particular, while also touching on the roles played by processes and governance. The transition to a new way of working was meant to emphasise that procurement is more than just buying, and includes contract lifecycle management, ordering and payment, and evaluation and management of data (OECD, 2019^[34]).

Similar efforts in New Zealand could significantly increase NZGPP's visibility on procurement spend by agencies and provide opportunities to measure the contribution of public procurement to national policy objectives, namely the Broader Outcomes. Indeed, a more developed e-Procurement system allows South Korea (see box below) to capture many dimensions linked to procurement activity and its outcomes.

Box 3.2. Monitoring the impact of green public procurement in Korea

The Republic of Korea is a frontrunner in using and linking electronic procurement systems and platforms for GPP implementation and monitoring. The early implementation of the Korean Online E-Procurement System (KONEPS), KONEPS e-shopping malls and KEITI's Green Procurement Information System (GPIS-I), combined with the most recent developments of the public procurement data system, enable the automatic collection and reporting of GPP data for all government levels, making the Republic of Korea's GPP monitoring system a world-leading example. Chile alone is implementing a similar product data-tracking approach through its e-procurement platform ChileCompra Express.

An important GPP feature in the Republic of Korea is the evaluation system of procuring entities against GPP records. The Republic of Korea is one of the few countries that provides fiscal incentives for GPP implementation. While high-performing local governments are rewarded with a larger budget, public institutions receive a performance bonus. A somewhat similar approach was introduced in France for a period of several years to promote environmental monitoring and performance, but for the central government alone. The concept of economic rewards has also been extended to citizens in the Republic of Korea through the Green Credit Card, which rewards environmentally-conscious consumers with economic incentives based on their green purchases. This is another key element in the promotion of eco-labelled products and a green lifestyle.

The Republic of Korea also promotes supplier engagement and green procurement in the private sector, through voluntary agreements, Eco-Expo Korea and so on, as the expansion of green markets and of companies of the Republic of Korea to the global market is one of the green industry policy goals.

Regarding impact estimation, the Republic of Korea is, together with Japan, one of the few countries to annually measure environmental outcomes of GPP. Apart from those countries, the factsheets in the 2017 Global Review of Sustainable Public Procurement report one-off estimations of environmental benefits in Denmark on the basis of case studies, one-off evaluation exercises from the Netherlands and the state of Berlin, and indirect evaluations through the environmental performance of government facilities and operations in the case of the United States of America and Spain.

Source: (United Nations Environment Programme, 2019^[35])

NZGPP currently relies on AoG suppliers to capture transactional data

Aside from tendering information collected through GETS, NZGPP endeavours to capture transactional data on the use of AoG contracts, primarily to calculate savings generated through this instrument and to verify the administration fee for implementing and managing AoG contracts. This information is captured from mandatory reporting of suppliers. Details about reporting requirements, frequency and objectives are provided in the tender documentation for each AoG contract.

NZGPP monitors AoG contract spend via quarterly reporting, enabling breakdown and analysis at agency, supplier and product levels. It usually includes product or service purchased, spend, volume per product and purchasing agency. Data is submitted from suppliers via agreed reporting templates and stored in a centralised data warehouse. Aggregating quarterly reporting allows NZGPP to understand purchasing patterns of government agencies under AoG contracts. Analysis reveals in several product categories a significant concentration of spend with few suppliers (see Table 3.2).

Table 3.2. Spend under AoG contracts with top 3 suppliers, 2017-2020

	Number of suppliers	Total spend in NZD	Share of top 3 suppliers
Advertising Media	18	2 4317 434	67%
Advertising Services	41	74 995 782	59%
Air Travel 2nd Gen	12	196 396 896	95%
AoG Panel Banking Services	6	1 175 927 639	100%
Crown Transactional Banking Services	1	2 203 075	100%
Design Services	24	7 265 157	44%
Electricity	5	186 036 102	98%
External Legal Services	63	81 456 873	42%
External Recruitment Services	83	857 491 368	32%
IT Hardware 2nd Gen	6	199 875 752	80%
Motor Vehicles 2nd Gen	11	129 940 219	76%
Office Furniture	5	36 723 731	94%
Office Supplies	10	61 483 878	97%
Print Devices	4	2 320 521	93%
Print Technology and Associated Services	4	40 213 858	90%
Property Consultancy Services	12	3 210 495	92%
Rental Vehicles	9	11 147 267	91%
Reticulated Gas	2	20 869 642	100%
Risk Financing and Insurance	4	45 584 829	89%
Travel Management Services	10	58 1376 794	80%

Source: Information provided by NZGPP

Relying on suppliers to provide data on performance of AoG contracts, especially for the purpose of reporting savings, has been subject to scepticism from agencies. According to a report from the Auditor-General, in depth-reviews of spending in specific product categories found systematic discrepancies between reported spend by suppliers and accounts records from public agencies (Controller and Auditor-General, 2019^[24]).

Leveraging on other reporting frameworks

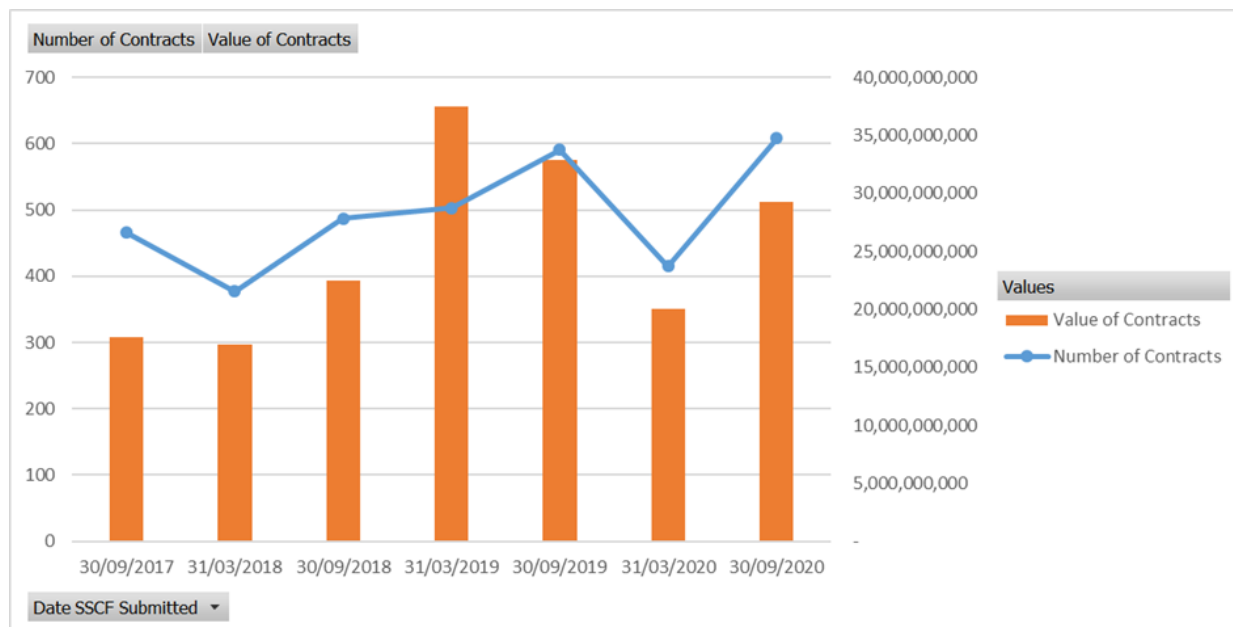
Existing reporting frameworks for major contracts already provide NZGPP with insights on decentralised procurement activities. Rule 71 of the GPR details the Significant Service Contracts Framework (SSCF) requirements. Significant service contracts are the most important contracts that mandated agencies manage. These contracts are services that are critical to the delivery of business objectives of an agency and pose a significant risk and/or significant impact in the event of supplier failure. The reporting framework therefore provides a snapshot of government procurement activities related to these contracts.

Under the framework, agencies are required to report twice a year – by 1 March and by 1 October – on the contracts that are critical for achieving their business goals. As stated in the SSCF Reporting guidelines (Ministry of Business Innovation and Employment, 2016^[36]), relevant and specific information is collected to provide appropriate visibility of the contracts, the existence of relevant assurance and risk measures. The data includes the contract length and number of renewals, start and end dates, contract value, expenditure management, performance management, benefits realisation, risk management, business continuity and contingency planning, supplier relationship management, and overall health of the contract.

Since its implementation, the SSCF and associated reporting have been increasingly popular amongst mandated agencies (see figure below). Benefits that were reported by agencies during interviews in using this reporting framework are mainly related to the fact that it helps to elevate procurement conversations

at the senior management level. This gives increased visibility over procurement strategies and reinforces the understanding of suppliers' participation to agencies' core activities and missions.

Figure 3.4. Number and value of significant services contracts reported by agencies

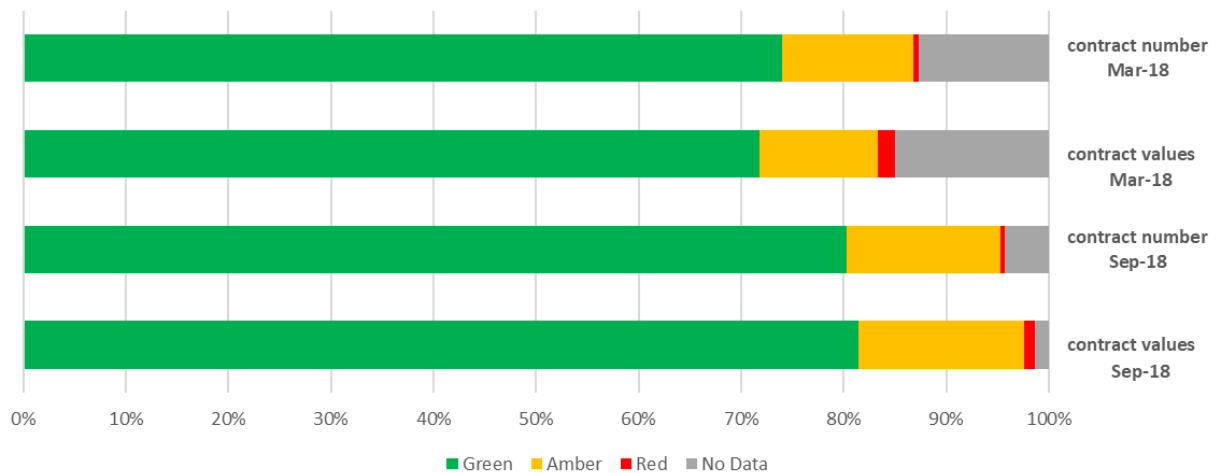


Source: Information provided by NZGPP

The reporting framework for significant services contracts provides structured information, which allows not only understanding of the performance of individual contracts but also to gather insights across government agencies. Indeed, a number of fields in the reporting tool are controlled text, meaning that agencies can only select information based on a drop-down list. This feature, which eliminates the error-prone nature of free text, gives a wide range of possibilities for developing procurement intelligence. For example, by aggregating reports on significant services contracts, it is possible to understand and compare how suppliers engaged by different agencies are performing across all the contracts they hold. It is also possible to understand how many of these contracts have benefits realisation plans in place. However, extended visibility on trends and patterns across agencies' portfolio of significant contracts is only available to NZGPP.

While agencies have access to detailed information on their own portfolio, they have limited visibility on the portfolio of other agencies. Interviews with a number of stakeholders confirmed agencies' willingness to be provided with aggregated information on the performance of these significant services contracts. In fact, NZGPP publishes a summary of the top 10 providers of contracts that their lead agencies consider significant by value of the contracts and by the number of contracts.

Figure 3.5. Dashboard of overall health of significant services contracts



Note: Refers to reporting period of March and September 2018

Source: Information provided by NZGPP

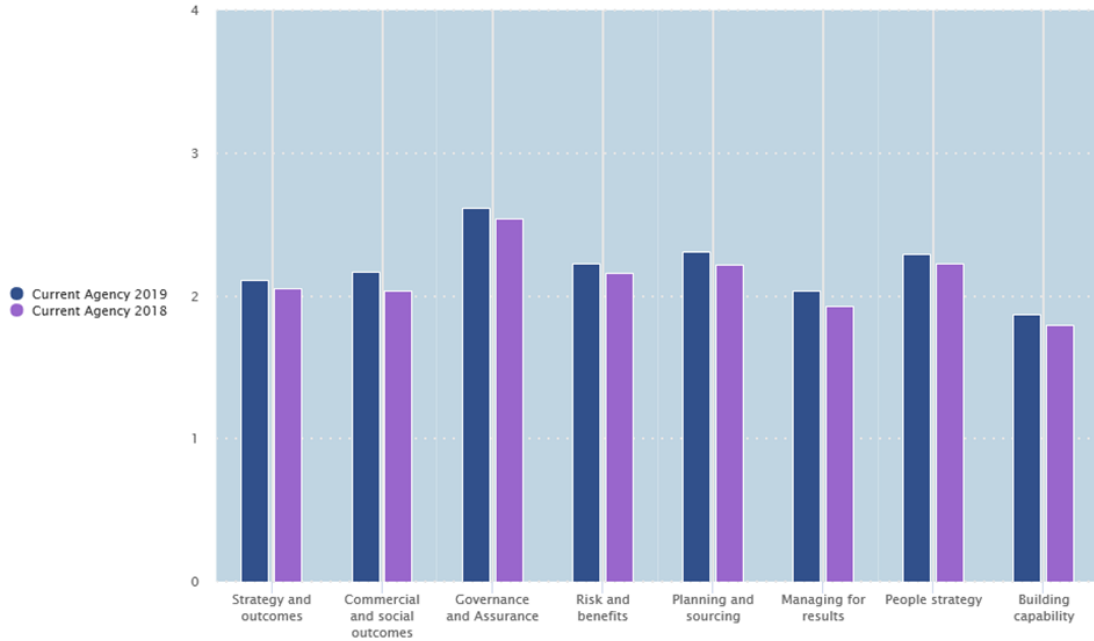
Primarily, the framework is designed around a risk-based approach to contracts, since it is meant to identify and monitor contracts that pose a significant risk to agencies' activities in case of failure. Yet, given the reporting capabilities of the SSCF, this tool could be leveraged to also include a more benefits-based approach. Doing so would allow agencies to conduct deeper analyses on benefits achieved through their most influential contracts. It would also provide NZGPP with an additional aggregated view of outcomes targeted by agencies outside the AoG contracts so long as there is no erosion of the primary purpose of the tool.

Measuring organisational capability

Given that the Procurement Capability Index is accessible online, agencies have access to a tool with built-in analytics and are able to measure their current capability, as well as to set targets for each of the 27 elements and monitor development of procurement capability over time. Assessments also need to be submitted to NZGPP to provide visibility of agency procurement capability at a system level.

The PCI Index tool allows agencies to self-assess against four levels of procurement practice ('limited', 'moderate', 'well-placed' and 'strong'). A range of agencies with different profiles and needs uses the tool but scores are not weighted to reflect this. Therefore, a rating of 'moderate' may be fine for a smaller agency while a higher rating is expected for an agency with more complex procurement activity. For this reason, and the fact that it is based on self-assessment rather than externally validated results, NZGPP has not openly identified or communicated information about the top/bottom performing agencies. Based on the 2019 online submissions, 22% of agencies assessed their procurement capability as 'strong' and only 5% (5 agencies) rated their capability as 'limited'. The PCI results feed into the Investor Confidence Rating programme, which is administered by The Treasury. Self-assessments submitted by the sub-set of agencies who are part of this programme are validated by a panel of external reviewers.

Figure 3.6. Aggregate performance under the Procurement Capability Index assessment 2019



Source: Information provided by NZGPP

The structure of the self-assessment questionnaire changed over time preventing longer time series comparisons. However, moving forward, the reinforced stability of the PCI will allow measuring the evolution of agencies’ procurement capabilities.

In addition, NZGPP collects information on agencies satisfaction with AoG contracts through users’ surveys.

Table 3.3. Agency satisfaction with All-of-Government contracts

Questions	Overall scores 2017/2018	Overall scores 2018/2019	Year On Year change
Agency satisfaction with range of products and services included in scope meeting agency needs	82.15%	83.60%	1.77%
Agency satisfaction with the quality of service from the team managing the AoG contracts.	61.50%	65.85%	7.07%
Information about the AoG contract is easy to access and meets needs.	58.10%	71.65%	23.32%

Source: (Ministry of Business Innovation and Employment, 2020_[37])

While agency satisfaction is increasing overall, agencies identified several areas for improvements. These suggestions included an improvement in customer service delivery, feedback mechanisms and reducing the complexity of communications.

Aside from satisfaction in using AoG contracts, NZGPP receives users’ feedback on services provided by the commercial pool. This feedback helps to better understand the extent of the value proposition provided by this service and to measure it against pre-defined key performance indicators. Overall, the analysis shows a significant level of satisfaction.

The role of oversight bodies in assessing procurement performance

Oversight bodies play a significant role in public procurement systems since they have the mandate to audit public institutions and assess their compliance with the public procurement framework. They oftentimes go even further by evaluating the performance of public institutions in carrying out procurement processes. This type of audit received increased interest because it is directed towards the performance, efficiency, thrift and productivity of public administrations, and it covers not only specific aspects of administration, but also managerial activity, which includes organisational and managerial systems (Hossain, 2010^[38]).

The Office of the Controller and Auditor General is the Supreme Audit Institution in New Zealand. The Auditor-General's work is carried out by about 420 staff in two business units: the Office of the Auditor-General (OAG) and Audit New Zealand. The Auditor-General's work can be described into two main functions: monitoring compliance and assessing performance of public institutions. OAG carries out appropriation audits of government departments. Appropriation audits are designed to provide assurance that spending by government departments and Offices of Parliament is lawful and within the scope, amount, and period of the appropriation or other authority. It supports the important constitutional principle that the Government cannot spend, borrow, or impose a tax without Parliament's approval.

In addition, Audit New Zealand carries out annual audits of information reported by public organisations about their performance. Annual audits of public organisations are at the core of the work of Audit New Zealand, accounting for nearly 85% of its resources. These result in issuing about 3300 reports on public institutions' financial statements each year. Audit New Zealand also issues reports to those charged with governance on how the public organisations' control environment, performance and reporting could be improved. Annual audits fundamentally support the integrity of the financial and performance reporting of public organisations.

Audit New Zealand also carries out other assurance work. This work is generally focused on reviewing procurement and contract management, project management, asset management, risk management, governance arrangements, and conflicts of interest.

Further, Audit New Zealand undertakes performance audits and special studies. These audits and studies assessing public sector performance and accountability enable it to delve more deeply into particular matters than in annual audits, and make recommendations for improving public sector performance. Audit New Zealand also monitors public organisations' progress in implementing the recommendations from previous performance audits.

In its Strategic Intentions to 2025 (Auditor-General, 2020^[39]), the Auditor-General indicated four strategic shifts for the work of his Office in the five years to come:

- Focus more on examining how well the public sector achieves positive change for New Zealanders
- Help New Zealanders become better informed about public sector performance and accountability
- Be more active in sharing insights about what "good" looks like
- Help improve the public sector accountability system

One of the main focus of this programme is to better understand and demonstrate how public sector organisation's performance influence better outcomes for New Zealanders. The Office's work plan for 2020-2021 operationalises this agenda by proposing concrete work that will look at how well public institutions are spending public money to improve outcomes for citizens. The quality and the effectiveness of the management of procurement processes is integral to many of the areas of focus of the Auditor-General's work plan.

In fact, in 2018, the Auditor-General launched a comprehensive programme looking at procurement strategies and practices in New Zealand (New Zealand. Office of the Auditor-General, 2018^[23]). This three-

year programme touches upon issues covering the whole procurement cycle and focuses on procurement that is critical to improving outcomes for New Zealanders. Audits are looking at the governance, management, and effectiveness of procurement in procurement-intensive public organisations and in high-spending areas. They will also look at procurement approaches that intend to achieve increased efficiency and innovation, including the use of all-of-government contracts, panels of suppliers, and public private partnerships.

Besides identifying common challenges in the way public institutions are carrying out procurement processes, the work of the Auditor-General could prove insightful to understand performance measurement frameworks and how they apply to procurement strategies since auditors have access to greater source of information and data than NZGPP could have. In particular, auditors can access information covering the whole budgetary cycle from appropriation to execution and reporting, providing an integrated approach to the analysis of procurement performance.

3.2. Understanding the performance of a centre-led procurement system

A centre-led procurement system such as in New Zealand is linked to its devolved public management system where each government agency is responsible and accountable for its own operations, including procurement. Given the diverse mandate of NZGPP, developing a performance measurement framework requires to look at specific activities and assess their impacts on the procurement system.

3.2.1. Increasing efficiencies when using AoG contracts

One of the core functions of NZGPP is to manage and implement AoG contracts. Transactional information relating to this procurement instrument is not gathered automatically from an IT platform but rather provided by suppliers through quarterly reporting of agencies' spend under these contracts. This reporting provides details about ordering under these contracts, but does not, for example, provide NZGPP with insights on maverick buying from agencies. This reporting fulfils a dual objective of providing necessary data to calculate administrative fees paid to NZGPP and to define savings obtained from the use of these contracts. As previously mentioned, administrative fees vary with product categories covered by AoG contracts but is limited to 1.5% of the value of the purchases made under the contract. In 2019, the average administrative fee was at 0.8% of contract value (Ministry of Business Innovation and Employment, 2020^[37]).

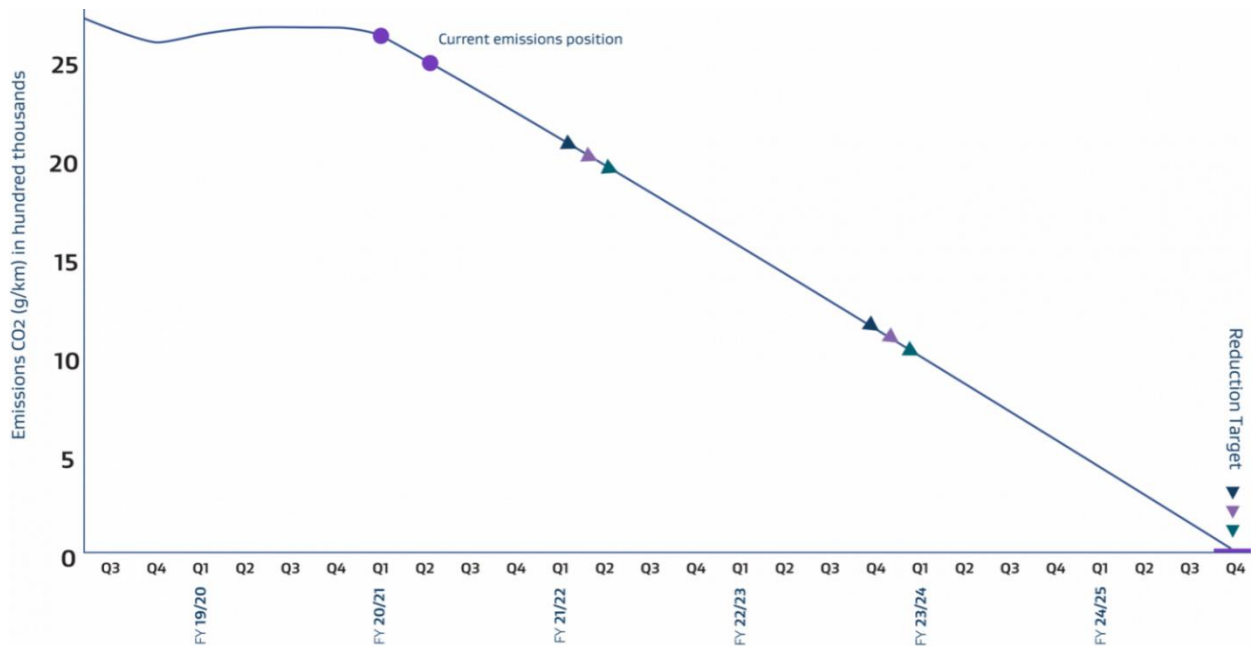
Traditionally, the aim of establishing AoG contracts was to generate economies of scale by aggregating similar needs from contracting agencies and to engage with the market on greater volumes. This inherently translates into hard savings generated from these collaborative procurement instruments. The first four AoG contracts were precisely set up to demonstrate whether savings could be achieved for government in four categories of common use goods. The basis for the savings methodology is the calculation of the price difference between what an individual contracting authority could realistically expect to pay to a supplier (the baseline market price) and the benefits of an aggregated AoG contract price for the same item. Suppliers provide data with a total savings amount calculated according to the value of spending in the contract.

According to the latest report published by NZGPP (Ministry of Business Innovation and Employment, 2020^[37]), the total savings achieved from the use of AoG contracts until June 2019 amounts to NZD 855 million. Over time, savings have positively increased with the increased coverage and participation in AoG contracts.

However, the savings generated by the use of AoG contracts provides only part of the overall picture of tangible benefits brought by increasing the use of this specific procurement instrument. Indeed, factors other than prices could be integrated within the variables identified to award AoG contracts to suppliers. In

fact, some might even have an influence on prices listed in these contracts, increasing upfront costs but lowering either life-cycle costs or total cost of ownership. This is particularly the case in product categories incorporating the priorities identified in the broader outcomes strategy. As an example, the Government set a goal that, where practicable, its fleet should be emission free by 2025/2026. Procured under an AoG contract, NZGPP collects sales data on the government's fleet and uses estimates of carbon dioxide emissions provided by the New Zealand Transport Agency. Doing so, allows NZGPP to estimate the total government's fleet emissions and assess progress towards meeting the 2025/2026 target.

Figure 3.7. Progress towards net-zero emissions in NZ government's fleet



Source: (New Zealand Government Procurement and Property, 2021^[40])

Aside from calculating hard savings generated by the use of AoG contracts, this type of instrument also provides for 'soft savings' linked with the decreased time and efforts necessary to award a contract to a supplier included in the AoG contract.

In Finland, studies (Karjalainen, 2009^[41]), (Karjalainen, 2011^[42]) have assessed the process costs to be approximately four-fold higher in case of centralised processes. Yet, the much lower number of centralised tenders to be conducted as opposed to decentralised tenders for the same goods and services clearly outweigh the initial larger cost of conducting a centralised process. It could be interesting for a wider understanding of the benefits of AoG contracts, to develop accurate estimates on these costs, in partnership with universities or research centres.

Apart from lowering administrative costs for government agencies, AoG contracts could also further decrease costs for suppliers by reducing the number of procurement opportunities in which they are bidding. In 2016, NZRise, a business association of some NZ-owned IT companies, issued a survey to its members to understand suppliers' costs for responding to Request for Information (RFI) and Request for Proposals (RFP) (NZRise, 2017^[43]). Results showed an average cost of 8,332 NZD per company for responding to a RFI and of 23,500 NZD per company for responding to a RFP but no further analysis or information supporting the results reported were produced.

By providing to suppliers a long-term and stable source of revenues, AoG contracts could also increase the attractiveness of procurement procedures. While NZGPP has information on competition intensity in

respect of AoG contracts, using GETS data to assess competition intensity in respect of other procurements run by agencies could provide NZGPP with additional insights on the level of competition for contracts. The literature (Estache and Iimi, 2008^[44]) reveals that enhanced competition is positively linked with economic efficiency.

Besides quantifying efficiencies gained from using AoG contracts, NZGPP measures the level of satisfaction of contracting agencies. While this gives good indications on soft benefits achieved by implementing AoG contracts, it does not provide in-depth analysis of trends and patterns of contracting agencies' management of orders placed under AoG contracts.

Figure 3.8. Agency satisfaction with All of Government contracts



Source: (Ministry of Business Innovation and Employment, 2020^[37])

However, the current limitation of the IT systems held by NZGPP to support the management of the use of AoG contracts by participating agencies inhibits additional insights on the effectiveness of contract execution. For example, it is not possible for now to have a comprehensive picture of the extent of second-stage competition carried out by agencies in AoG contracts or the average time taken by individual contracting agencies to pay suppliers' invoices for goods and services satisfactorily delivered.

Government recently introduced an expectation that government agencies pay valid invoices within 10 days of receipt. A commonly accepted mean to increase reporting capabilities on contract execution is the introduction of e-invoicing facilities. In Europe, this is now mandated for all contracting authorities since 18 April 2020. In other jurisdictions, like Australia, the approach taken is to incentivise the use of e-invoicing in government procurement by introducing an interest charge on late payments. New Zealand is also on the e-invoicing journey jointly with Australia and has become a Pan European Public Procurement Online (PEPPOL) authority with the responsibility to oversee e-invoicing implementation.

Box 3.3. Incentivising e-invoicing in public contracts in Australia

The *Supplier pay on time or pay interest* policy came into effect on 1 January 2020. The policy introduces five day payment terms where Pan-European Public Procurement On-Line (PEPPOL) compliant e-Invoicing capability exists.

The Non-Corporate Entities (NCE) must make all payments to a supplier under a contract valued up to A\$1 million (GST inclusive) within the maximum payment terms, following the acknowledgement of the satisfactory delivery of goods or services and the receipt of a correctly rendered invoice.

The maximum payment terms are:

- 5 calendar days for electronic invoicing (e-Invoicing), where an NCE and a supplier both have the capability to deliver and receive e-Invoices through the Pan-European Public Procurement On-Line framework and have agreed to use this method of invoicing; or
- 20 calendar days for all other invoices, unless shorter maximum payment terms are agreed between an NCE and a supplier.

When an NCE has not made payment in full within the maximum payment terms, it must calculate interest and pay that interest to the supplier if the amount accrued is more than A\$100 (GST inclusive).

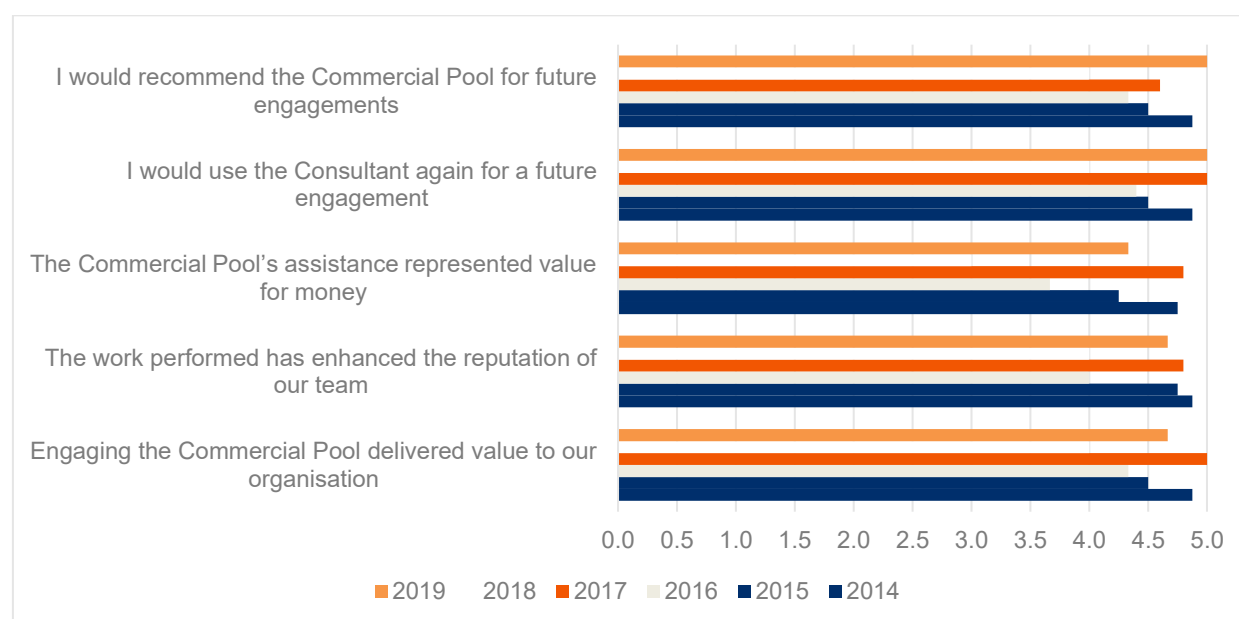
Interest is payable at the general interest charge rate available on the Australian Taxation Office's website, calculated for each calendar day from the day after payment was due up to and including the day that payment was made. If the maximum payment terms fall on a non-business day, payment is not due until the next business day.

Source: (Australian Department of Finance, 2020^[45])

3.2.2. Increasing outcomes effectiveness in individual procurement and lifting capabilities

Through the work of its commercial pool, NZGPP contributes to improve the efficiency and effectiveness of individual procurement processes, thereby impacting their outcomes. Services offered by the commercial pool span a range of activities from the definition of procurement strategies and market analysis to the design of award criteria.

To better understand the impact these services had on individual procurement processes and on relationships with public agencies, NZGPP developed an engagement evaluation form. This form provides clients with the possibility to evaluate NZGPP staff who were providing procurement services.

Figure 3.9. Satisfaction survey on the commercial pool

Source: Information provided by NZGPP

While this framework is useful to understand customer satisfaction, as such, it does not capture the influence of the Commercial Pool's services on individual procurement outcomes. Arguably, it could be challenging to disentangle the impact of inputs provided by NZGPP experts (particularly where they are supplied in accordance with the customer's requirements) from the overall outcomes achieved by specific procurement strategies implemented. Yet, some proxies could provide (at least for support covering the design and issuance of tenders, noting that this is only one type of service that the commercial pool provides) a more granular picture of the role played by the commercial pool in achieving better outcomes in individual procurement.

Since the principles underpinning all procurement processes in New Zealand are aiming at supporting genuine and fair competition, additional evidence could be collected on the level of competition in tenders supported by the pool. The tender box facility existing in GETS, which allows suppliers to submit electronic bids and whose usage is widespread among contracting agencies, could provide readily available information on the number of bids received in response to tenders. Further, by assessing the ratio of bids submitted which are meeting prequalification requirements, NZGPP could extract evidence-based insights on the influence of the commercial pool to align procurement needs with market capacity.

Capturing how NZGPP contributes to lift procurement capabilities across New Zealand could also rely on analysis of the use of training services in the online portal, Hikina. In August 2019, NZGPP launched a new online training and skills development system for government procurement and property professionals. Hikina – Learning for Government Procurement and Property - is a learning management website for government agency staff to help build public sector knowledge in procurement and property.

It is composed of modules focusing on general procurement principles and the GPRs, on the implementation of broader outcomes and on procurement capability for social services. The modules are then structured around courses which can be either general introductions to concepts, practical trainings or panel discussions.

Access to the portal involves a registration process where information is entered about the public agency in which the individual works as well as personal information. Provided personal data is anonymised,

extracts from this platform could provide detailed insights about nation-wide capability building efforts in public procurement. It can identify trends and patterns in terms of outreach to government agencies, number of staff trained within agencies and nature of the courses followed.

3.2.3. Measuring the impact of strategic public procurement in New Zealand

With the introduction of broader outcomes in 2019, a cabinet paper stated that monitoring and reporting will be critical for accountability and will help lift the procurement performance of agencies by improving transparency. A monitoring and reporting framework has been developed to track the extent to which broader outcomes are being implemented across government and to evaluate the impacts of these reforms.

The initial focus of the framework is on the priority outcomes identified in the Government Procurement Rules. Over time, it will incorporate further procurement reporting. Data is primarily collected using current information, or information that can be collected automatically through current systems. Agencies are required to report to NZGPP every six months, on the below Key Performance Indicators (KPIs).

Table 3.4. Reporting framework and key performance indicators for broader outcomes

Priority Outcome	Key Performance Indicator
Increase New Zealand business access to government procurement	Increase in the number of contracts being awarded to New Zealand businesses
	Increase in the value of contracts being awarded to New Zealand businesses
	Increase in the number of New Zealand businesses being awarded contracts, at an increasing value
Increased size and skill of construction sector workforce	Increase in number of workers in construction
	Increase in number of construction workers receiving formal and informal training
	Increase in employment opportunities for targeted worker groups
Improve conditions for workers and future proof ability of New Zealand business to trade	Reduction in notifiable events in government contracts (compared to national average) (in regards to health & safety)
	Increase in contractual mechanisms regarding employment standards
	Increase in monitoring activities being undertaken
	Reduction in number of government suppliers appearing on government stand down list
Support transition to zero emissions economy and assist the Government to significantly reduce waste	Reduction in average vehicle emissions from the government fleet
	Reduction in emissions created by government owned buildings
	Reduction in consumption of 'single-use' items (i.e. plastic pens, paper etc.)

Source: Information provided by NZGPP

Data to feed the above-mentioned indicators is extracted from various sources, including GETS, the NZBN database and customer relationships management tools used by NZGPP or agencies. While the underlying principle of the reporting is that it should be based on automated data collection from existing database, the third priority area above requires manual reporting from contracting agencies. To do so, NZGPP developed a reporting template that allows mandated agencies to provide information in an harmonised fashion.

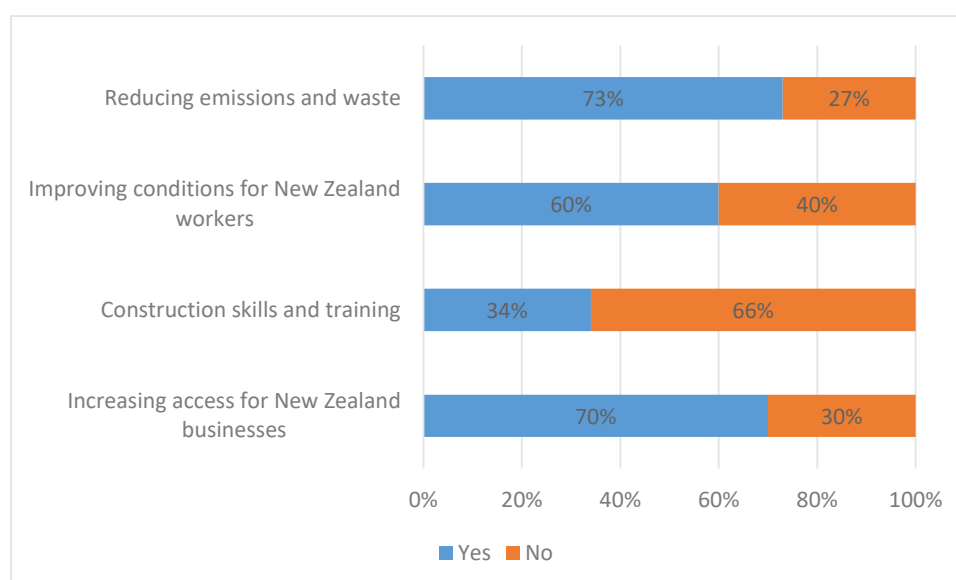
On 15 June 2020, the Cabinet instructed mandated agencies subject to the Rules to report back to their responsible Minister, as appropriate, before 30 June 2020 on their implementation of the new Rules incorporating the broader outcomes.

The report back requested information on the implementation of broader outcomes, as well as the measures mandated agencies have undertaken to use procurement to:

- enable the redeployment of displaced workers;
- support training and education opportunities for workers;
- encourage the employment of local workers and cohorts who traditionally have poorer outcomes, such as Māori and Pasifika; and
- identify opportunities that enable a wider range of businesses to access government procurement opportunities, specifically supporting participation by small to medium enterprises and Māori and Pasifika businesses.

The report back highlighted a significant uptake in the incorporation of priority outcomes in procurement processes carried out by agencies.

Figure 3.10. Implementation of priority outcomes by public agencies



Source: Ministry of Business, Innovation and Employment

While the above statistics evidence that priority outcomes have been widely implemented across public agencies in a relatively short period of time, they do not provide a sense of where initiatives took place and what were the quantifiable impacts.

In addition to efforts undertaken to assess how mandated agencies are implementing broader objectives into their procurement practices, other techniques have also been developed such as case studies to show impact of policy interventions. These case studies highlight achievements reached by public institutions in concrete initiatives. Aside from these examples of successful integration of broader outcomes, NZGPP provides on its website a wealth of concrete information on how participating agencies in AoG contracts could define options which are aligned with achieving broader outcomes.

4. Towards the development of a scalable Productivity framework

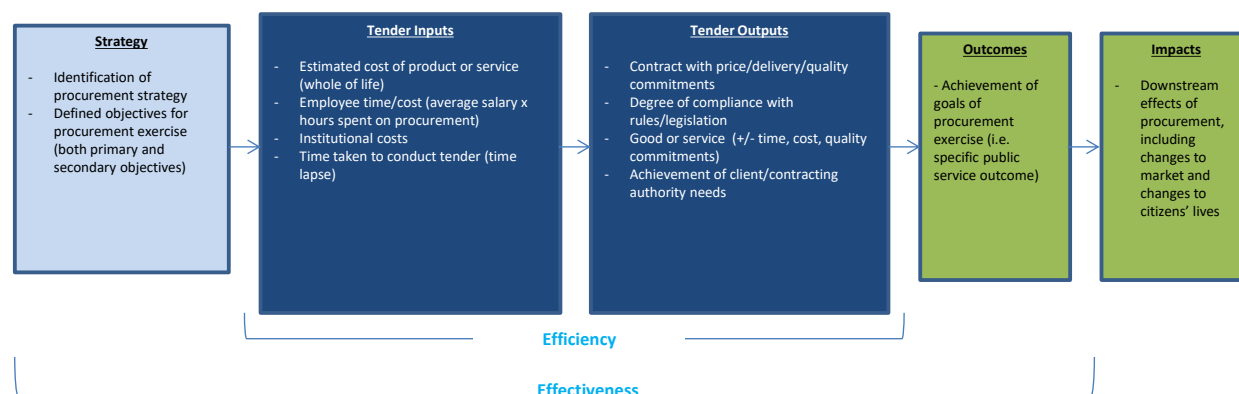
Applied to public procurement, the OECD's framework for measuring productivity considers procurement efficiency as the relationship between inputs and outputs, and effectiveness as the use of public funds for delivering outcomes. This chapter applies this tailored framework to procurement activity in New Zealand and extracts lessons from its use in different country contexts. It further discusses the impacts of central procurement leadership, which are not captured by the framework.

4.1. Assessing public procurement impact on productivity and well-being in New Zealand

Measuring productivity in procurement requires an understanding of various factors such as inputs, outputs, outcomes that together form the procurement system. However, these factors vary for each national system, making it very difficult to develop a standardised framework that works across multiple national procurement ecosystems. Yet, when systems are underpinned by indicators which capture inputs, outputs and outcomes, it may be possible to identify the indicators that are common across multiple jurisdictions.

It is also important to understand that there must be different ways of measuring the productivity of a single tender exercise compared to the productivity of an entire procurement system. Scholars have developed increasingly sophisticated models to measure the outputs of procurement exercises, such as efficiency/cost, total cost of ownership, on-time deliveries, accuracy, quality, innovation, sustainability, internal customer satisfaction, and professionalism (Patrucco, Luzzini and Ronchi, 2016^[46]). These outcomes will be dependent on the intended objectives of a particular tender exercise. For example, Figure 4.1 below demonstrates how the productivity framework can be applied to measure the efficiency and effectiveness of a single tender exercise.

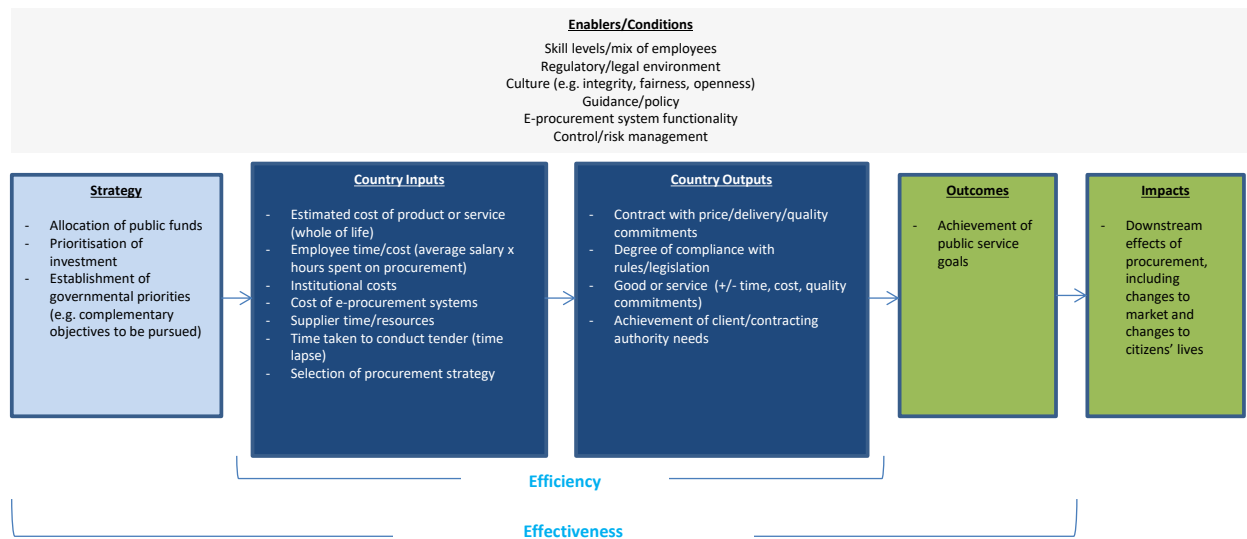
Figure 4.1. Illustrative structured performance assessment of a single tender exercise



Source: Based on productivity framework from (Phillips, 2018^[47])

Measuring the productivity of an entire procurement system is genuinely more complex than measuring a single tender and requires analysis of a number of factors. Not only do the scale of inputs and outputs grow exponentially, but a number of other factors must be taken into account which cannot strictly be classed as inputs or outputs. This becomes increasingly difficult (and depending on the structure of government, potentially impossible) within federal systems, where the central government's visibility and control over sub-national spending is restricted. In Figure 4.2 below, the additional factors that determine how the system functions are labelled 'Enablers/conditions', as they represent the many considerations that impact the performance of the procurement system. Depending on the scope of their work, CPBs often target many of these considerations in order to improve the performance of the procurement system. As discussed above, the degree to which these factors influence the overall system will vary across countries.

Figure 4.2. Illustrative structured performance assessment of a national procurement system



Source: Based on productivity framework from (Phillips, 2018^[47])

Given the factors by which individual tenders and national procurement systems are different in nature, measurement of a national system is not as simple as aggregating the assessments of a multitude of individual tenders. To illustrate this, each of the areas that have been used in the performance assessment of national systems is discussed in more detail below. Further, elements which have a direct contribution to the achievement of the broader outcomes expected by the New Zealand government are identified.

The below table maps inputs and outputs which have been identified in the previous case studies with Finland and Chile and discusses the availability of the necessary data in New Zealand. It identifies elements which are required to evaluate the productivity of NZGPP and of the national public procurement system as against the OECD framework.

Table 4.1. Applicability of the framework to the New Zealand public procurement system

	Objective	Data requirements		Applicability in New Zealand
Measuring CPB Performance in New Zealand				
Economic impacts	Inputs – General			
	Overall inputs required of CPB	Staffing levels; cost of running CPB; breakdown of time spent on different activities	✓	Internal data on staffing can be used to establish overall CPB inputs, and division of inputs by activity
	Inputs – All-of-Government contracts (AoG)			
	Cost of establishing AoGs	Cost and time of staff (inside and outside of CPB) spent on establishing and managing AoG contracts	✗	Direct costs and employee time spent by NZGPP staff establishing and managing AoG contracts can be established from existing data. However, direct costs and employee time spent by staff in agencies using AoG contracts is not captured
	Increased competition in AoGs	Numbers of bids submitted for different stages of each AoG contracts (including call-off stage)	✓	Data held internally on bids received for the award of AoG contracts over time. Requires data on call-off phase participation from contracting agencies where required. This is likely to be captured with the digital marketplace in development
	SME participation in AoG tender	Number of bids submitted for different stages of each AoG contracts by businesses categorised as SMEs	✓	Can be established, provided information on call-off phases is available and size of business is captured in the NZBN database
	Inputs – Capability building and consulting services			
	Spend/time on advisory services and resources	Staffing levels related to advisory services; additional costs for providing such resources and tools	✓	Direct costs and employee time spent delivering consulting/advisory services to agencies can be established from existing data
	Training spend	Cost of providing training courses, and amount of employee time consumed in delivering training	✓	Direct costs and employee time spent delivering training to agencies can be established from existing data
	Outputs – AoG contracts			
	AoGs hard savings	Cost of goods and services agreed in AoG contracts (or cost paid by agencies in second stage) versus market rate or centrally agreed rate, depending on methodology	✓	Savings methodology already developed and applied by NZGPP
	AoGs time savings	Average time spent by agencies' personnel to run a tender and establish a contract for the relevant good or service	✗	There is currently no estimate of average time spent by agencies to conduct and run a tender.
	AoGs customer satisfaction	Survey results from users of FAs from within CAs	✓	Customer satisfaction surveys on AoG contracts and services provided by the commercial pool are already in place. It could be complemented by surveys on other capacity building activities (e.g. PCI assessment, Hikina, etc...)
Efficiency in second-stage AoGs processes/ through dynamic purchasing system (DPS)/other instruments – businesses	Assessment of time taken for businesses (averaged across several business profiles) to compete in initial and call-off stages of tender with and without efficiency tools such as DPS	✓	A survey of NZ Rise assessed average costs of businesses to respond to tenders. However, data relating to the assessment of costs for call-off stages	

	Objective	Data requirements		Applicability in New Zealand
	Efficiency in second-stage AoG processes/DPS/other instruments – CAs	Assessment of time taken for contracting authorities (averaged across several CA profiles) to conduct call-off stages of tender with and without efficiency tools such as DPS	✘	Data is not currently held on the time taken by contracting authorities to purchase from AoG contracts or by using DPS or other efficiency tools
	SME success	Ratio of SMEs that are successful in AoG tender. For multi-stage AoGs, assessment of success at 1) initial tender stage and 2) call-off stage (and number and value of contracts awarded to SMEs)	✔	Can be established, provided information on call-off phases is available and size of business is captured in the NZBN database
	Increase New Zealand business access to government procurement	Ratio of New Zealand businesses that are successful in AoG tender. For multi-stage AoGs, assessment of success at 1) initial tender stage and 2) call-off stage (and number and value of contracts awarded to NZ businesses)	✔	Can be established, provided information on call-off phases is available and origin of business is captured in the NZBN database
	Innovative procurement	Ratio of goods and services purchased that meet innovation criteria (e.g. purchased through PCP, first introduction into domestic market etc).	✘	Currently there is no target for the procurement of innovation or measurement of how much procurement is targeting innovative solutions.
	Outputs – Capability building and consulting services			
	Spend under advisory services	Information on contracting agency projects (e.g. type of procurement, spend level) that have received support from CPB	✔	Data already held internally by NZGPP on value of projects supported through the commercial pool
	Satisfaction with advisory services	Survey response from relevant contracting agencies	✔	Survey already conducted of agencies' satisfaction with advisory services
	Qualified/certified personnel	Levels of certification in procurement professionalisation of workforce versus overall workforce numbers	✘	No register of qualifications or certification for procurement personnel, although NZGPP administers the Hikina online training platform.
Environmental impacts	Reduction in energy consumption	Comparison between energy consumption of historical goods and services from AoGs and new goods and services selected using energy consumption as criteria	✘	Data on impacts on energy consumption of historical/new goods and services is not currently held
	Reduction of CO ₂ emissions	Comparison between CO ₂ emissions from historical goods and services from designated contracts areas under AoGs (light vehicles, office supplies, stationary heating and new buildings) and new goods and services selected using emissions as criteria	✔	Can be established for agencies' fleet of light vehicle based on New Zealand Transport Agency Motor Vehicle Registry and average emissions provided by Rightcar. However it cannot be reported for other designated contracts areas.
	Improvement in air/water quality	Comparison between impacts on air/water quality of historical goods and services from AoGs and new goods and services selected using environmental considerations as criteria	✘	Data on impacts on air/water quality of historical/new goods and services is not currently held
Social impacts	Transparency in use of AoG contracts	Proportion of AoGs tender documents that are shared openly in a format allowing review and analysis	✔	Data from GETS allow to understand the share of AoGs tenders documents which are openly disclosed
	Open and inclusive procurement	Proportion of centralised tenders (and second-stage processes) that use open procedures as opposed to restricted or closed tenders	✘	All centralised tenders use open and inclusive processes but information on second-stage call off processes is not available.
	Stakeholder perception and involvement	Survey responses from different segments of society (e.g. businesses, civil society, NGOs) related to AoG contracts performance	✔	Surveys are issued annually to mandated agencies to understand their level of satisfaction in using AoG contracts. Regular surveys are issued

	Objective	Data requirements		Applicability in New Zealand
	Use of social criteria in AoG contracts	Ratio of AoGs pursuing social objectives (and where possible, aggregation of social outcomes secured through AoGs)	✓	to businesses. The reporting framework for achieving broader outcomes should allow for the identification of AoG contracts including social objectives (improved health and safety, contractual mechanisms relating to employment standards)
	Skills/jobs creation	Number of jobs/training courses/qualifications generated through AoGs (note: specifically generated through contract clauses)	✓	In designated contract areas, information collected on job creation/training programmes.
Measuring National Procurement System Performance in New Zealand				
Economic impacts	Inputs			
	Cost and time of procurement processes	Time taken (and any associated overt costs, not including employee salaries) by government personnel, including non-procurement roles, to undertake procurement activity	✗	Data not currently available on cost and time for conducting tenders beyond NZGPP activity; measuring total inputs will require an estimation of total cost and time across the system
	SME participation	Number of bids submitted for government tenders by businesses categorised as SMEs	✓	While there is no official definition of SMEs in New Zealand, the Small Business Council recommends to classify small businesses those having less than 20 employees and medium businesses those having less than 50 employees. Registration fields in GETS give companies the possibility to indicate the number of employees.
	Business perceptions on cost and time of participating in government tenders	Survey responses, including quantitative results, on time taken (and resources engaged) in responding to government tenders	✓	NZGP annual business survey, and surveys issued by NZGPP on business perceptions in participating in AoG contracts.
	Overall inputs of national procurement system	Data/estimates on number of personnel in each agency engaged in procurement activity, and value of procurement spend at each agency	✗	While GETS includes fields in buyer registration allowing for the identification of users in each agency, it only covers above threshold procurement and does not account for other personnel involved
	Business participation and competition	Average number of bidders per tender; ratio of tenders that are open procedures versus limited tenders and direct awards	✓	Information on central-level procurement is available from GETS (including number of downloaded tenders, number of bids, number of bids meeting prequalification requirements)
	E-procurement inputs	Direct costs for purchasing, upgrading or maintaining e-procurement system; personnel costs associated with system management and maintenance	✗	No information is available on agencies e-procurement systems and personnel costs associated with system management and maintenance
	Outputs			
	Government customer satisfaction	Survey results from teams within agencies that use procurement services on service/efficiency/effectiveness provided by public procurers	✓	AoG and Commercial Pool agency satisfaction surveys are conducted regularly
	SME success	Ratio of SMEs that are successful in government tenders, and number and value of contracts awarded to SMEs	✓	Registration fields in GETS give companies the possibility to indicate the number of employees.
Increase New Zealand business access to government procurement	Ratio of New Zealand businesses that are successful in tenders.	✓	Can be established, provided information on origin of business is captured in the NZBN database	

	Objective	Data requirements	Applicability in New Zealand	
	E-procurement time savings	Assessment of time taken for contracting authorities and businesses to conduct tender procedures with and without use of different digital procurement functionalities	✘	Measuring total inputs will require an understanding of e-procurement platform used by agencies and an estimation of total cost and time across the system
	Use of whole of life costing	Ratio, value and number of contracts awarded following a procedure containing life-cycle costing award criteria	✘	Rule 46 requires contract awards to be made on the basis of, inter alia, best public value over whole of life. But no specific information/data is collected on this.
	Cost and time reduction resulting from process simplification	Measurement of time taken by government and business personnel to complete tender procedures both before and after efforts to improve or simplify processes (e.g. use of model contracts)	✘	Model tender documents and model contracts are available to agencies to standardise and simplify procurement processes, but no information is collected on the time saved from their usage.
Environmental impacts	Reduction in energy consumption	Comparison between energy consumption of historical goods and services bought by government and new goods and services selected using MEAT or other criteria	✘	Requires understanding of energy usage of previous goods and services throughout lifecycle, as well as usage of current goods and services (e.g. electricity required to power incandescent lightbulbs versus LED lightbulbs)
	Reduction of CO ₂ emissions	Comparison between CO ₂ emissions from historical goods and services bought by government and new goods and services selected using emissions as criteria	✔	The reporting framework for achieving broader outcomes should allow for the identification of reduction of CO ₂ emissions (notably vehicles and government owned buildings)
	Improvement in air/water quality	Comparison between impacts on air/water quality of historical goods and services bought by government and new goods and services selected using environmental considerations as criteria	✘	Requires understanding of impacts of previous goods and services on air and water quality, as well as impact of current goods and services
Social impacts	Transparency in government contracting	Proportion of government tender documents that are shared openly in a format allowing review and analysis	✔	Data available on extent to which information on government tenders is shared publicly, versus amount of spending that does not gain public visibility
	Open and inclusive procurement	Proportion of government tenders that use open procedures as opposed to restricted or closed tenders	✔	Data available in GETS on how many procedures are conducted by open/restricted/closed procedures
	Stakeholder perception and involvement	Survey responses from different segments of society (e.g. businesses, civil society, NGOs) related to public procurement	✔	Regular business surveys issued by NZGPP, include NGO and social enterprises. However other stakeholders (civil society) are not surveyed.
	Use of social criteria in government contracts	Ratio of public contracts pursuing social objectives (and where possible, aggregation of social outcomes secured through public contracts)	✔	The reporting framework for achieving broader outcomes should allow for the identification of contracts including social objectives (improved health and safety, contractual mechanisms relating to employment standards)
	Skills/jobs creation	Number of jobs/training courses/qualifications generated through public procurement (note: specifically generated through contract clauses)	✔	The reporting framework for achieving broader outcomes should allow for the identification job created and training courses taken through public contracts. However, it only concerns the construction sector

Note: Light blue denotes impacts that are the focus of the broader outcomes

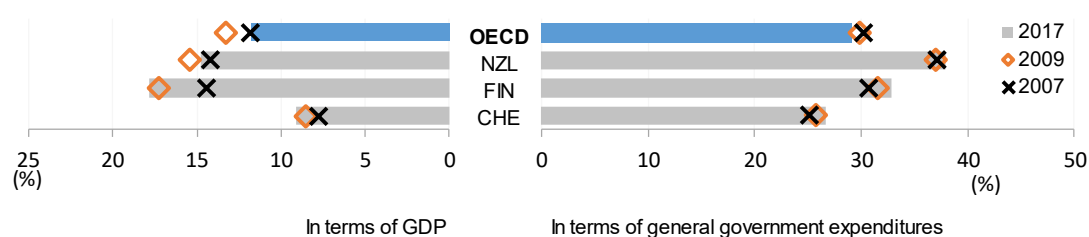
Source: Based on data provided by NZGPP and (OECD, 2019^[34]).

4.2. Lessons learned from the application of a productivity framework in different procurement contexts

Previous experiences with Finland and Chile in developing a productivity framework to measure the efficiency of centralised public procurement revealed that such a framework needs to be agile enough to adapt to different parameters, which influence the objectives of measurement initiatives and the way in which they are carried out.

Finland, Chile and New Zealand all provide very different institutional settings, procurement ecosystems and different broad policy objectives that are pursued by leveraging public procurement. First, as shown in the below figure, the size of public procurement in those countries is very different, with New Zealand having the greatest share of GDP channelled through public procurement while Chile is the country with the lowest share, well below the OECD average.

Figure 4.3. General government procurement spending as a percentage of GDP and total government expenditures, 2007, 2009 and 2017



Source: OECD National Accounts Statistics (database)

Second, the amount of concentrated spend in collaborative procurement instruments, traditionally the main tool to influence the way national procurement systems contribute to broader outcomes, significantly varies across countries. Public agencies in Finland spent in 2019 USD 1.06 billion under Framework Agreements (Hansel, 2020^[48]), in New Zealand spend under AoGs in 2019 amounted to USD 1.61 billion (Ministry of Business Innovation and Employment, 2020^[37]) and in Chile public expenditures channelled through Convenios Marco reached USD 2.59 billion in 2019 (ChileCompra, 2020^[49]). When compared to the total government procurement expenditure, the difference is even more striking with Chile managing almost 25% of total spend under collaborative procurement instruments while New Zealand and Finland have a corresponding share between 2 to 3% of total procurement expenditure.

The three CPBs have further different structures and are servicing a client base that greatly differs from one entity to another. The table below summarises some key statistics for these CPBs.

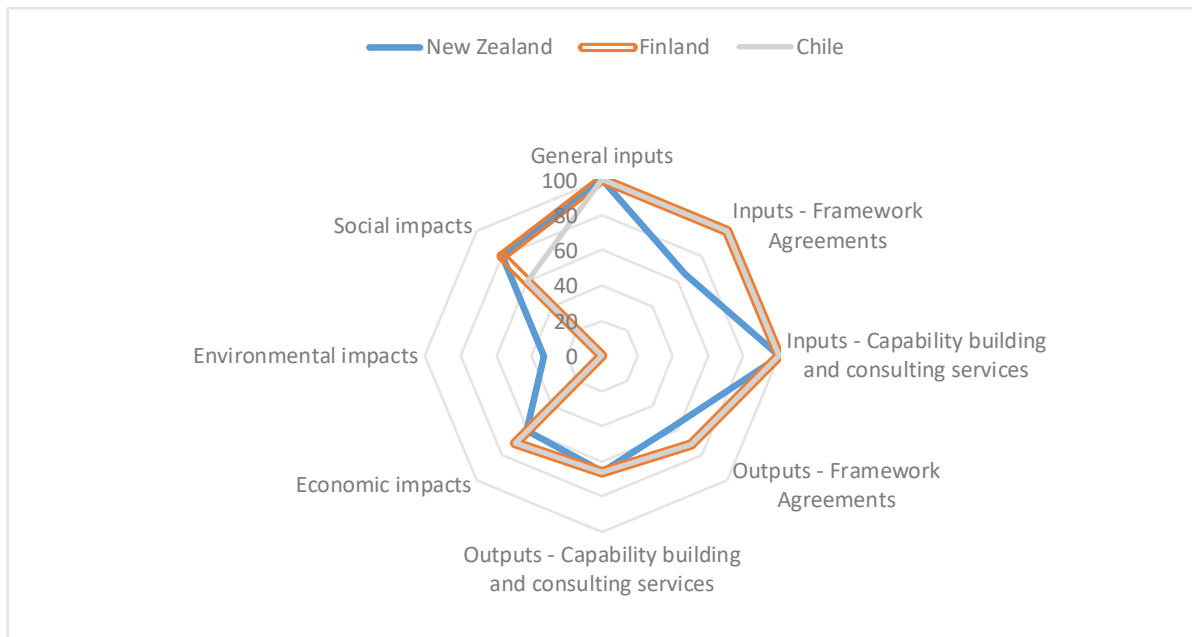
Table 4.2. Key statistics for CPBs in Finland, Chile and New Zealand, 2020

	Hansel	ChileCompra	NZGPP
No. of employees	113	137	129
No of contracting authority customers	2400	906	Approx. 3000
Value of FAs	USD 1.08 billion	USD 2.17 billion	USD 1.61 billion
No of suppliers	640	9,628	1893

Source: (Hansel, 2021^[50])

Altogether, these features play a critical role in driving procurement performance and assessing the influence of CPBs on the efficiency and productivity of the system. Yet, the application of the productivity framework in different contexts allows to identify common themes and disparities in terms of data collection ability. The below figure represents the extent to which New Zealand, Finland and Chile are capable of collecting evidence on the different dimensions of the above productivity framework.

Figure 4.4. Ability to measure CPB performance against the productivity framework in New Zealand, Finland and Chile



While measurement capabilities among these countries are relatively aligned, variations highlight the different nature of institutional settings and the main broader objectives pursued by governments. For example, New Zealand fares less well than its peers in being able to collect required information on the various inputs and outputs relating to the use of AoG contracts. This is probably because of the devolved nature of its procurement system and the absence, unlike Finland and Chile, of technology solution such as a fully integrated e-Procurement system, which could allow gathering extensive insights on the use of AoG contracts and other collaborative contracts by participating agencies.

On the contrary, a greater alignment of reporting capabilities with some dimensions integrated in the broader outcomes strategy can be witnessed. For example, among the three countries, New Zealand is the only one where the reduction in CO₂ emissions stemming from the CPB's procurement activities can be somehow captured. This situation is probably explained by the priority given within the broader outcomes to the reduction of emissions of the government's fleet. However, it needs to be noted that the capacity to measure this output is only limited to the designated priority areas and cannot, for now, expand beyond.

To further discuss the applicability of the productivity framework to New Zealand in more detail, some considerations could be given to elements of the framework. These considerations can also provide, where relevant, potential avenues to enhance performance measurement in each area.

4.2.1. Strategy

As discussed in section 2, New Zealand has developed an overall well-being strategy, which informs all phases of the policy cycle. Unlike Finland and Chile, the government, by implementing the broader

outcomes strategy, made a clear link between the country's development and public procurement practices. Taking an incremental approach to achieve broader policy objectives through public procurement also supports a gradual implementation of strategies and gives some space to develop measurement frameworks, which would report on the contributions of public procurement to broader outcomes.

4.2.2. Inputs

NZGPP holds a reasonable amount of data on the cost and time applied to its own work, including a breakdown by activities. However, much less information is held on wider inputs across the national procurement system, including on cost and time for participating agencies to use AoG contracts. This may change should technological upgrades of the electronic platform supporting these instruments be implemented.

Further, no research exists on the impact of centralisation brought by AoG contracts on the efficiency of public procurement in New Zealand. This would provide an opportunity to conduct a benchmarking exercise to identify the time and cost required to issue a tender. This could give an indication of the efficiencies that can be gained for government from reducing the number of procurement procedures carried out, but would need to be carefully balanced against the impact on the supply market of increased centralisation of purchasing.

The NZRise survey (NZRise, 2017^[43]) on the costs incurred by suppliers when responding to public tenders gives an initial indication on the inputs required from the private sector and could be a reference point for assessing various procurement strategies, especially those aiming at lowering entry barriers for SMEs. However, the sample is relatively limited and the survey focused only on a specific segment, the IT procurement. NZGPP could leverage on the existing business perception survey and include additional elements, which would allow to capture inputs required from suppliers when participating in public tenders.

4.2.3. Outputs

With quarterly reporting from suppliers, NZGPP have access to detailed data on the direct outputs of centralised tender activity, including an indication of the savings achieved. With surveys sent to participating agencies, NZGPP further have a good indication of agencies' satisfaction with NZGPP's products and customer service. AoG contracts consumption is measured in detail, however the reporting scheme in place and which is based on suppliers' information does not capture the extent of maverick buying by participating agencies. This has been identified by NZGPP as an area that requires refinement.

There are other outputs influenced by NZGPP, such the outputs obtained from advisory services and hands on support led by the commercial pool. Beyond measuring the total value of procurements supported by these services and the customer's satisfaction with the service (both of which are currently measured by NZGPP), outcomes from these services, such as improved risk management, the development of skills or the transfer of knowledge, are mostly intangible and as such, it is difficult to quantify the benefits that these services deliver.

Beyond procurement activities influenced by NZGPP, understanding outputs produced by tenders carried out by individual agencies is currently facing one major challenge: the heterogeneity of accounting practices across public institutions. Interviews with stakeholders suggested that one major issue preventing the collection and assessment of government-wide procurement expenditure lies with accounting codes used to track procurement spend. As these accounting codes differ from one agency to another, any aggregation of spend data across agencies requires an extensive manual collation of this data. While it might be possible to send some form of official communication to chief executives in mandated agencies to encourage them to revise and harmonise these accounting codes, the cost of this additional one-off effort for public agencies should be cautiously assessed and there may be other, more effective strategies.

4.2.4. Outcomes

Given the high political attention on results produced by public procurement with the adoption of the broader outcomes national strategy, measuring the outcomes of public procurement activity is a topical issue in New Zealand.

The prioritisation exercise where areas have been identified as specific targets for the implementation of these broader outcomes certainly helped NZGPP to develop a tailored reporting framework and indicators which would allow to understand outcomes achieved by public procurement strategies.

Case studies developed by NZGPP serve as a useful starting point for communicating the impact and benefits of initiatives delivering broader outcomes. For them to take root more broadly, these efforts must be systematically measured, and their implementation supported beyond NZGPP's central activity.

However, focusing on targeted areas only might reduce attention on the overall impact of public procurement in delivering public services. From the data that is currently held centrally, it is not possible to build a connection between public procurement activity and the impact that the activity has on the delivery of public services. It is a challenging exercise, regardless of data availability, but is only possible through the development of a methodology that connects public procurement to the services it delivers.

4.2.5. Impacts

Efforts to expand the digitalisation of procurement activity and the inter-connectedness of systems across government are needed to provide the government with the ability to measure the longer-term impacts of government broader outcomes policy across multiple areas. The impacts of multiple policy areas can be challenging to disentangle, which emphasises the need for enhanced analytics through Business Intelligence tools. Reviewing this data in isolation can result in an incomplete view of impacts. Therefore, it is vital that data is shared across different parts of government to ensure that the full effects of government policy can be assessed.

4.2.6. Enablers/Conditions

Some factors determine how the New Zealand procurement system operates. Beyond ICT investment, which would provide public institutions with a technology solution such as a fully-fledged transactional e-Procurement system, efforts in lifting the capability of the public procurement workforce may be seen as inputs. Yet, they provide lasting impacts on the efficiency and the effectiveness of the procurement system.

As discussed below, the strategic policy framework is also shaping how public procurement is conducted in New Zealand and the results it is expected to bring. Measuring the influence of this framework on procurement operations would allow a greater understanding of productivity in public procurement.

4.3. The new frontier: measuring central leadership in New Zealand

While the OECD productivity framework depicted earlier can evidence the impact of centralised activities carried out by NZGPP, it does not address the functional leadership of NZGPP. In a devolved environment where contracting agencies are given procurement autonomy, albeit abiding by the GPR, this leadership plays a critical role in shaping the contribution of the national procurement system to the economy and to the well-being of citizens. This leadership would be further enhanced should the proposal to expand the outreach of NZGPP to public sector entities be implemented.

The CPB of New Zealand is also responsible for procurement policy development and, as discussed in section 2, shapes the strategic procurement framework under which public agencies operate. Being responsible for monitoring the implementation of the broader outcomes strategies, NZGPP has the

mandate to steer the procurement system towards the achievement of better outcomes. As discussed in section 1, New Zealand further stands out as one of the leading countries to put well-being at the centre of its public policies and to allocate public funds based on the impact public initiatives would have on the well-being of New Zealanders. The combination of procurement functional leadership and the centrality of well-being initiatives could provide an opportunity to further demonstrate, as it is the case in Scotland, the impact of procurement strategies on well-being. As mentioned in the box below, this exercise in Scotland is facilitated by the introduction in the procurement framework of a legal requirement for contracting authorities to produce procurement strategies impacting well-being and to report against them.

Box 4.1. Scotland's annual procurement report and links with the National Performance Framework

The Scottish government's National Performance Framework was first published as part of the 2007 Spending Review, providing a 10 year vision for Scotland which uses an outcomes-based approach to measuring government's achievements measuring national and societal well-being, rather than inputs and outputs. It sets out Scotland's purpose through 5 strategic objectives and also Scotland's values, supported by national outcomes and performance indicators. The National Performance Framework forms the basis of performance agreements with public service delivery bodies, and is used to monitoring their effectiveness.

After a decade of being in place, it was due for an update. Scotland revised its NPF in consultation with the public, practitioners and experts who were asked what kind of Scotland they would like to live in. As a result, 11 revised National Outcomes were developed to reflect a more contemporary vision as well as align with United Nation's Sustainable Development Goals, a set of internationally agreed upon goals for development. Performance against these are tracked through 81 refreshed national indicators.

The Scottish Government identified procurement as one of the levers to help achieve the national outcomes identified in the NPF. The Procurement Reform Act 2014 (the Act) introduced a sustainable procurement duty on the Scottish public sector to "improve the economic, social, and environmental wellbeing of the authority's area, facilitate the involvement of small and medium enterprises, third sector bodies and supported businesses in the process, and promote innovation" throughout the procurement process. It also includes a legal requirement in respect to driving community benefits through procurement and enabling innovation.

The Act requires public organisations with an estimated annual regulated spend of GBP £5 million or more (excluding VAT) to develop, review and publish a procurement strategy setting out how public organisation plan to use their procurement spend and influence to deliver sustainable outcomes, reviewing it annually and publishing any updates. Every year, organisations must report progress against their strategy in individual published annual procurement reports.

Scottish Procurement clustered the NPF outcomes in four key themes, seeking outcomes through procurement that are:

- Good for businesses and their employees;
- Good for places and communities;
- Good for society; and
- Open and connected

Every individual annual report is analysed to produce a consolidated annual Ministers Report on Procurement Activity across Scotland. The annual Ministers Report helps demonstrate the impact procurement spend across the public sector in Scotland has on the NPF, grouped by the four themes above. The report features key economic impact metrics, for example, in respect to contribution to GDP, jobs, improved incomes and SME engagement.

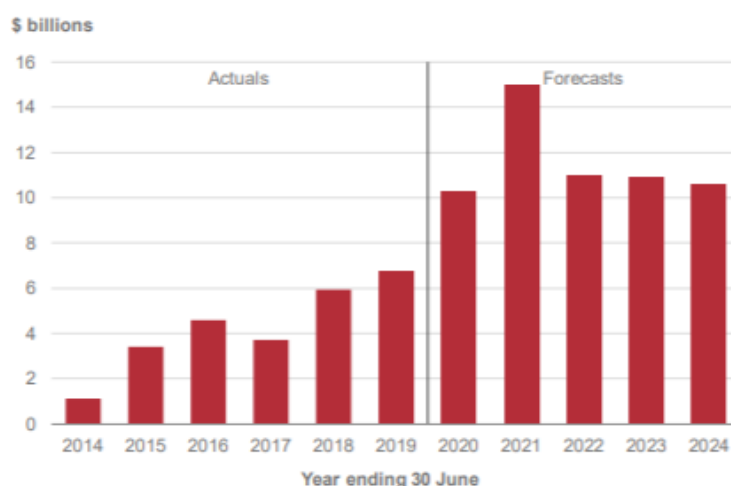
Public bodies are supported in achieving compliance with the sustainable procurement duty and associated statutory guidance by a suite tools and guidance developed in collaboration with the wider public sector in Scotland.

Source: (Exton and Shinwell, 2018^[51]) and (Scottish Government, 2019^[52])

Making the link between the broader outcomes and well-being objectives would require conducting further analysis from procurement activities. However, with some triangulation of different datasets it could be possible to demonstrate the impact of procurement strategies on well-being indicators. It would provide the occasion to highlight the multi-dimensional nature of results brought by public procurement activity, since the Living Standards Framework dashboard also identifies relationships between different well-being domains.

For example, priority 2 in broader outcomes relates to increasing the size of and the skills in the construction sector. This industry is a major contributor to the New Zealand economy and to total employment. It employs over 272.000 workers and almost 71.000 firms in the country (Ministry of Economic Development, 2020^[27]). Further, the industry is ethnically diverse, supporting also strategies to improve living conditions for Maori and Pacific people. As a response to the COVID-19 pandemic, the 2020 budget forecasts lasting investment in construction activities for public buildings and other infrastructure assets. The 2020 budget will invest NZD 3.6 billion of the multi-year capital allowance, in addition to the NZD 10.4 billion allocated in the 2019 budget and the NZD 8 billion already committed through the New Zealand Upgrade Programme.

Figure 4.5. Net capital spending



Source: (Treasury, 2020^[20])

The indicators Aotearoa New Zealand, which inform the measurement of well-being in the country, encompass many indicators relating to economic self-determination, including some on disposable income or the quality of infrastructure. Data allowing measuring broader outcomes under the priority 2 (jobs created in the construction industry, capacity building programmes, etc...) could contribute to the development of such well-being indicators.

In another domain, priority 3 in broader outcomes looks at improving conditions for workers and future proof the ability of New Zealand business to trade. To measure the implementation of this priority, agencies have to look at the number of notifiable events regarding health and safety with the view to demonstrate a decrease in numbers. This priority is first being implemented in three designated contract areas: cleaning, security services and forestry.

The indicators Aotearoa New Zealand include a specific indicator on injury prevalence. By understanding the share of injuries caused at work and the size of employment in these areas, which were awarded a public contract, further links could be made between this procurement strategy and its influence on selected national well-being indicators.

These concrete examples provide an illustration of how the impact of public procurement activities could influence well-being indicators in New Zealand. By doing so, procurement practitioners in New Zealand would not only advance the objectives of the broader outcomes strategy but also be able to demonstrate the direct contribution of public procurement practices to economic and well-being development in the country. It will take New Zealand forward in the strategic public procurement journey.

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