Annex E.

New Zealand: Procurement capability index

Context

In 2012, the New Zealand Government introduced the Procurement Functional Leadership (PFL) programme to build on initiatives and momentum gained from the preceding procurement reform programme. PFL places a greater focus on building procurement effectiveness across the public sector. The Chief Executive of the Ministry of Business, Innovation and Employment was appointed Procurement Functional Leader to:

- Provide stronger leadership across government procurement activities.
- Accelerate the improvement of state services’ commercial acumen, procurement capability and capacity.
- Deliver better procurement results for government, leading to better services and value for money.

The October 2012 cabinet paper, Government Procurement Functional Leadership, stated that: “commercial capability building is the number one priority for the PFL” and that actions should: “…stimulate procurement capability building, develop and implement a procurement maturity index to measure and track procurement performance of all State Services agencies…and report results to Cabinet on an annual basis”.

The resulting Procurement Capability Index (PCI) is a priority project for the New Zealand Government Procurement agency (NZGP). The PCI was developed and piloted in 2015, and will be rolled out to agencies in 2016/17.

Objectives

The PCI is a self-assessment tool that government agencies can use to measure and track their commercial skills, develop improvement plans, and benchmark their performance against other agencies. It poses a range of questions linked to a rating system that are used to evaluate an agency’s commercial capability against a scale of strong, well-placed, needing development, or weak.

The PCI is designed to work in harmony with other central New Zealand government agencies, such as the Treasury and the State Services Commission, to jointly drive improved commercial practices. PCI results will help to inform and assist the Treasury with investment decision making. It will also inform senior leadership performance evaluations conducted by the State Services Commission.
Implementation

Agencies will be required to annually complete and submit a PCI assessment and provide supporting metrics. The results will be reported to cabinet ministers and published on the NZGP website. The assessment is based on a capability maturity model that consists of 42 questions covering 11 categories, which are:

1. Strategy and outcomes: Strategic planning for commercial outcomes
2. Strategy and outcomes: Procurement strategy alignment with agency key result areas
3. Commercial leadership: Commercial leadership to drive outcomes
4. Stakeholder engagement: Procurement function engagement with stakeholders
5. Governance: Governance and organisation of the procurement function
6. Policy and practice: Alignment with policy and processes
7. Suppliers and providers: Sourcing and collaboration
8. Supplier and provider relationships: Supplier relationship management
9. People: Management of people and skills development
10. People: Knowledge and performance management
11. Technology: Use of technology processes and tools

The PCI self-assessment will be supported by review and moderation processes to ensure confidence in the results and to drive consistency across the agencies. The moderation process allows for a mix of supplier and provider feedback, and peer and external reviews.

Impact and Monitoring

The PCI concept is focused on promoting improvements in commercial skills and procurement capability over time. Performance improvement is expected to happen as insights gained through the self-assessment process are captured, discussed and acted on within and across agencies. In other cases, insights will come from the reflections of an advisory group, who will look across the results of all agencies. The insights will help agencies focus their collective efforts on improving commercial expertise and procurement effectiveness.

For each agency, a report will be produced that summarises the key issues, opportunities and impacts identified for that agency. An executive summary of the agency’s results will also be produced and published on the NZGP website, along with an overview report that identifies findings that impact multiple agencies.

Challenges and risks

There is a risk of inconsistency in results given the variance in commercial capability across the 100+ agencies that will participate in the programme. This will be managed using a mix of peer reviewers and oversight from an advisory group made up of chief procurement officers from a range of agencies. Where agency scoring is either high or
low, external experts will be engaged to review the evidence used to support the agency’s self-assessment. Such reviews will include:

- Interview with the Tier 3 procurement manager
- Spot checks of the agency’s supporting evidence
- Assessment of the level of confidence in the agency’s evidence.

Another major risk involves establishing credibility in the eyes of both suppliers and the public in general. It would be easy for the integrity of the PCI review and moderation process to be damaged if assessments were deemed to be a case of government agencies rating themselves too highly without good reason.

To mitigate this, the PCI process allows for supplier feedback from a range of sources, including:

- Industry groups, such as business reference groups and social sector umbrella groups
- Compliments and complaints from suppliers and providers
- Supplier and provider feedback gained through reviews and surveys
- Annual surveys undertaken by NZGP

**Key lessons learned**

The views of stakeholders are critical in establishing an evaluation programme with integrity. Review and moderation processes in particular must be able to stand up to scrutiny if the programme is to have the credibility to be taken seriously by the public, suppliers and government leaders.