

# **ADMINISTRATIVE AND SUPPORT SERVICES BENCHMARKING REPORT**

**PROCUREMENT PERFORMANCE FINDINGS  
FY 2011/12**

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# 1. COMMENTARY

John Ivil, General Manager, Government Procurement, Ministry of Business, Innovation & Employment

## Commentary

**Given the size of third party spend, we should improve our understanding of the performance of the Procurement function.** In FY 2011/12, procurement accounted for about \$30bn of total expenditure across the State sector. A high performing Procurement function can play an important role in finding savings and improving the value of each agency's third party spend.

**Ongoing data quality issues impede our understanding of the cost and efficiency of this function.** Because the procurement function is often dispersed across agencies, an accurate picture of its cost – and therefore efficiency – is difficult to capture. While BASS provides some guidance to agencies on how to measure this function consistently and in line with global leading practice, accurate cost measurement will likely be a challenge for some time. This is a challenge globally in both the public and private sectors.

**There are more opportunities for savings both through improved management of third party spend and in making the procurement function itself more efficient.** Even small improvements in the effectiveness of the procurement function can create significant gains in cost savings. The introduction of a Capability Maturity Model (CMM) in this report is an important step in realigning BASS metrics to measuring the things we can measure accurately and that agencies can change.

## Commentary

**The Procurement Reform Programme is supporting better management of third party spend.** To date, more than 300 agencies have participated in AoG contracts; more than 120 public servants are gaining subsidised procurement qualifications; and agencies are choosing to invest in building their procurement capability. In addition, revised procurement policy is in development including comprehensive tools and guidelines and government model contracts. The programme is aligned to support government priorities – i.e. BGA, BPS, Canterbury Rebuild and Better Services for Business.

**Procurement leaders are working with the Treasury to further refine BASS procurement metrics – with an emphasis on the quality of management of third party spend.** With these improvements, we look forward to providing a better picture of procurement function performance in next year's report.

**In particular, we want to better understand why the reported percentage of commodity spend channelled through syndicated procurement arrangement is low.** By other assessments, we understand agency take-up of syndicated procurement to be much higher than the 10.7 percent reported through the BASS exercise. This raises concerns about the accuracy of this measurement and possibly whether agencies have understood what this metric is intended to capture.

**We also want to understand the reported maturity levels better.** Independent reviews across nine agencies found that no agencies met minimum government standards. This suggests that the reported CMM results for FY 2011/12 look too optimistic. We need to understand agency self-perception of procurement maturity levels in order to drive capability forward.

## **2. HIGHLIGHTS**

## Highlights

**Ongoing data quality issues impede our understanding of the cost and efficiency of this function.** Because the procurement function is often dispersed across agencies, an accurate picture of its cost – and therefore efficiency – is difficult to capture.

While BASS provides some guidance to agencies on how to measure this function consistently and in line with global leading practice, accurate cost measurement will likely be a challenge for some time – as it has been globally in both the public and private sectors. Agencies reported a nominal spending decrease of \$7.8 million since FY2009/10, and strong efficiency, but cost data issues preclude conclusive findings.

**The introduction of a new capability maturity model this year reflects the priority of understanding how well agencies are managing third party spend.** In FY 2011/12, procurement accounted for \$30bn of total expenditure across the State sector. In telling the story of procurement performance, a better understanding of how well this function manages third party spend is more important than providing greater accuracy on the cost of the procurement function.

**The Procurement function has reported improved effectiveness, but there are opportunities for improvement.** The Procurement function reported being more effective since FY 2009/10, but remains less effective than international comparators. Feedback from the Procurement Reform Programme includes that agency effectiveness improvements – especially regarding use of aggregated procurement – are understated.

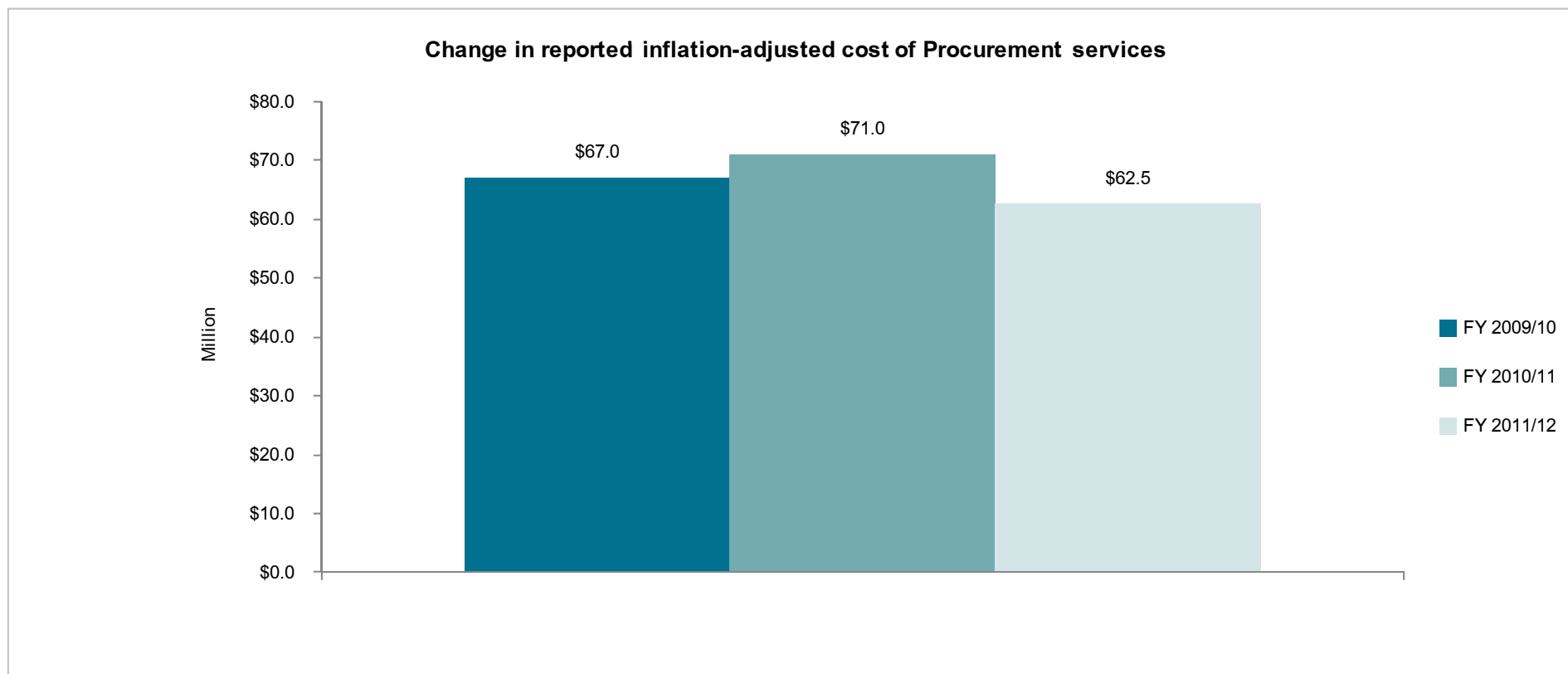
**Procurement leaders are working with the Treasury to further refine BASS procurement effectiveness metrics and data collection methods.** With these improvements, a better picture of procurement function performance will be possible in next year's report.

## **3. COST**

Cost findings include total spending overall and by cohort. This section also provides information about changes in spending since previous reporting periods both in nominal and inflation-adjusted terms.



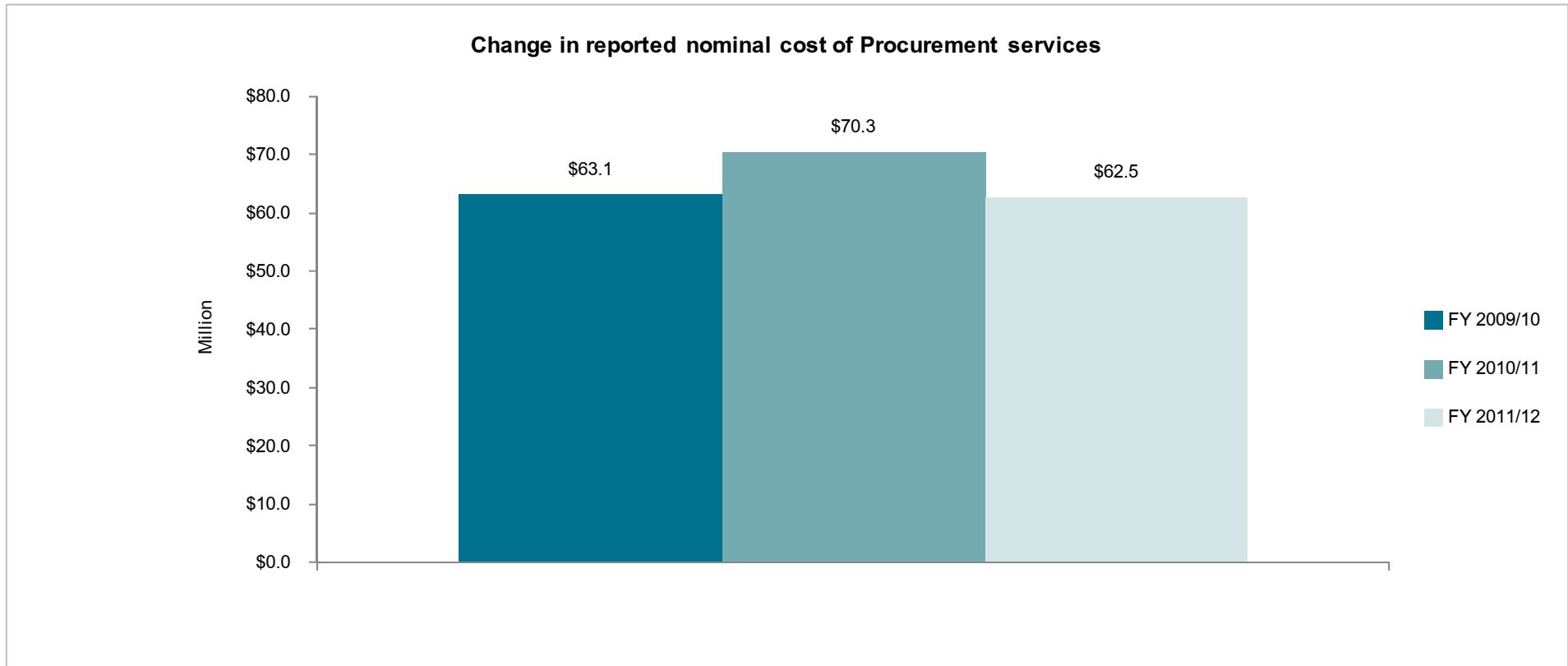
## Agencies have reported a 7 percent spending reduction since FY 2009/10 when adjusted for inflation, but data quality issues preclude clear findings



Agencies reported spending \$62.5m in FY 2011/12, down \$4.5m (or 7.1 percent) from FY 2009/10 when adjusted for inflation, but this finding should be treated with caution.

Cost data quality is low due to the highly devolved nature of the function in most agencies. In line with global benchmarking practice, the cost of procurement activity is only captured when activity makes up more than 20 percent of a staff member's time. In most agencies, the bulk of procurement activity is undertaken by a wide range of staff at less than the 20 percent threshold.

## Agencies reported a nominal spending reduction of \$7.8m (or 11.1 percent) since FY 2010/11, but data quality issues preclude clear findings

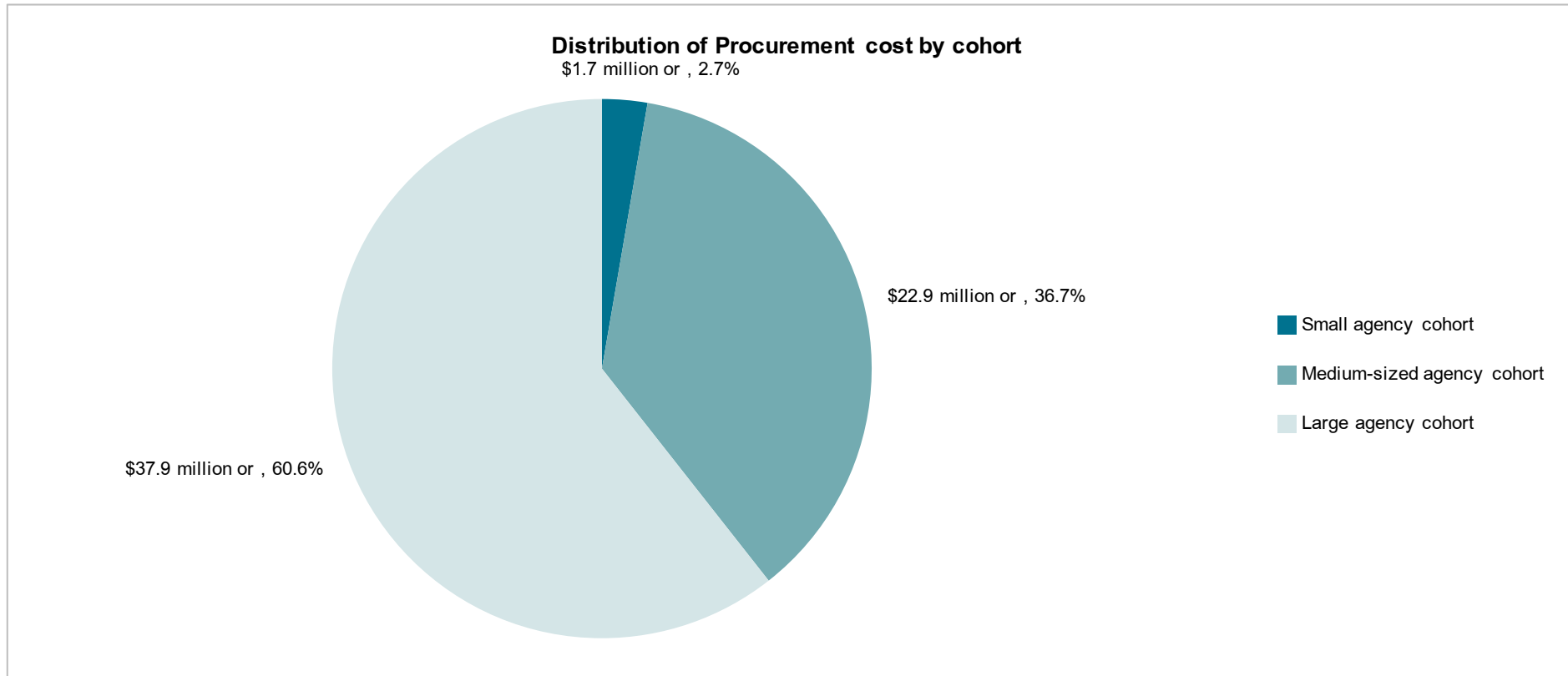


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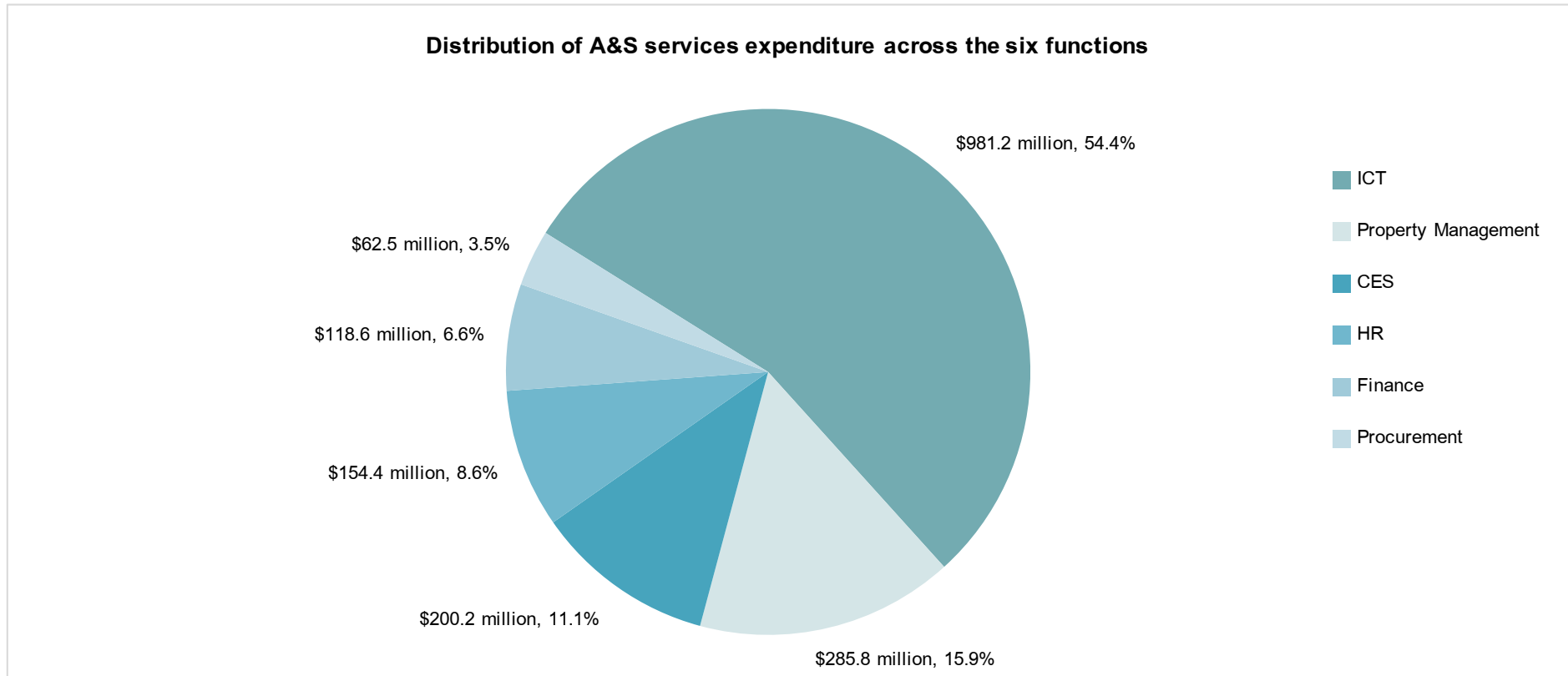
## **A net reduction of \$7.8m results from 16 agencies reporting spending \$10.2m less and 13 agencies reporting spending \$2.4m more than in FY 2010/11**

- 16 agencies reported a collective reduction of \$10.2 million. Four of these reported a reduction of \$8.8 million (or 86 percent) of the total reported reduction.
  - Agencies that reported the most significant reductions in spend on procurement cited reasons including: the AOG contract programme led to reductions in corporate spend across common contracts; structural changes in corporate procurement led to reduced FTEs; and agency drives to reduce costs of contractors.
- 13 agencies reported a collective contributed increase of \$2.4 million. Two of these agencies contributed \$1.8 million to the increase. The key reasons cited by these agencies were costs associated with large one-off procurement projects for the organisation.

## The medium-sized and large agency cohorts make up 97.3 percent of reported procurement service expenditure



## Procurement makes up 3.5 percent of reported A&S service spending, making it the smallest function by reported expenditure

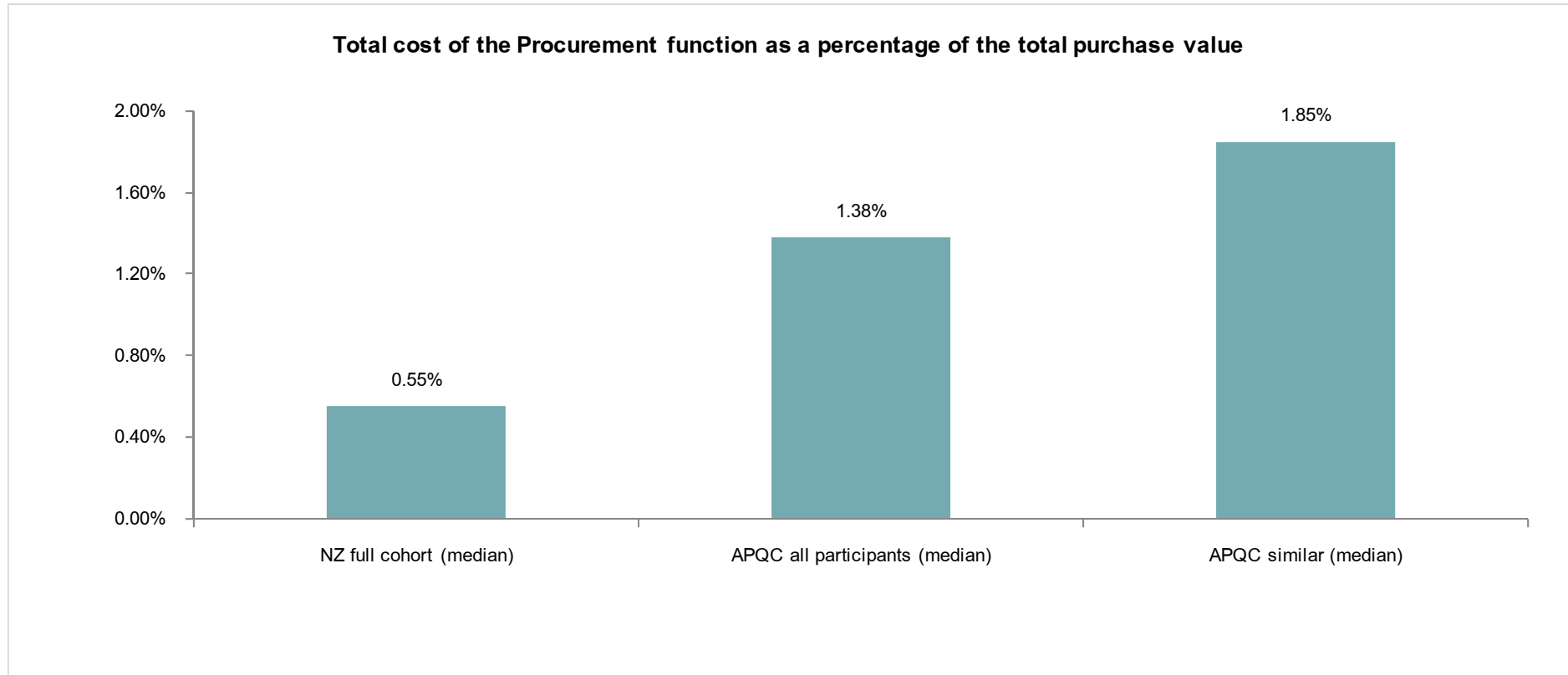


Data quality is low due to the highly devolved nature of the function in most agencies. In line with global benchmarking practice, the cost of procurement activity is only captured when activity makes up more than 20 percent of a staff member's time. In most agencies, the bulk of procurement activity is undertaken by a wide range of staff at less than the 20 percent threshold.

## 4. EFFICIENCY

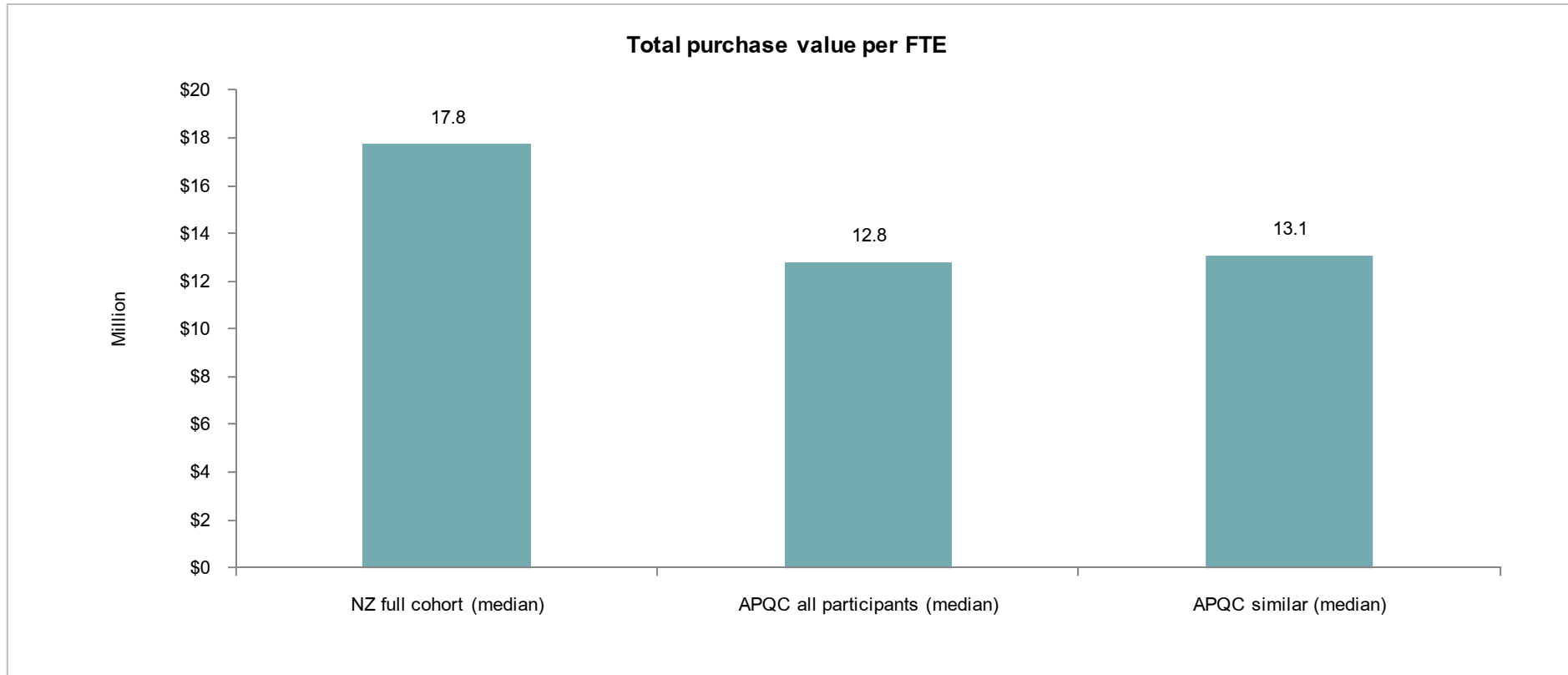
Efficiency findings report on the ratio of input to output (or the use of resources in a manner that minimises cost, effort, and time) as well as opportunities for efficiency gains and their implications for gross savings. This section also compares cohort efficiency with an international comparator (American Productivity and Quality Center (APQC)) and examines changes in efficiency since the previous reporting period. Efficiency findings are based on two metrics: the total cost of Procurement as a percentage of the total purchase value, where a lower number is considered more efficient and the total purchase value per Procurement function FTE, where a higher number is considered more efficient.

## Quality issues with cost data suggest reported efficiency levels (total cost as a percentage of total purchase value) are overstated



The NZ full cohort shows a significantly lower reported total cost of procurement as a percentage of total purchase value than international comparators. But due to understated agency procurement costs, this report does not conclude that NZ full cohort agencies are significantly more efficient than comparator organisations.

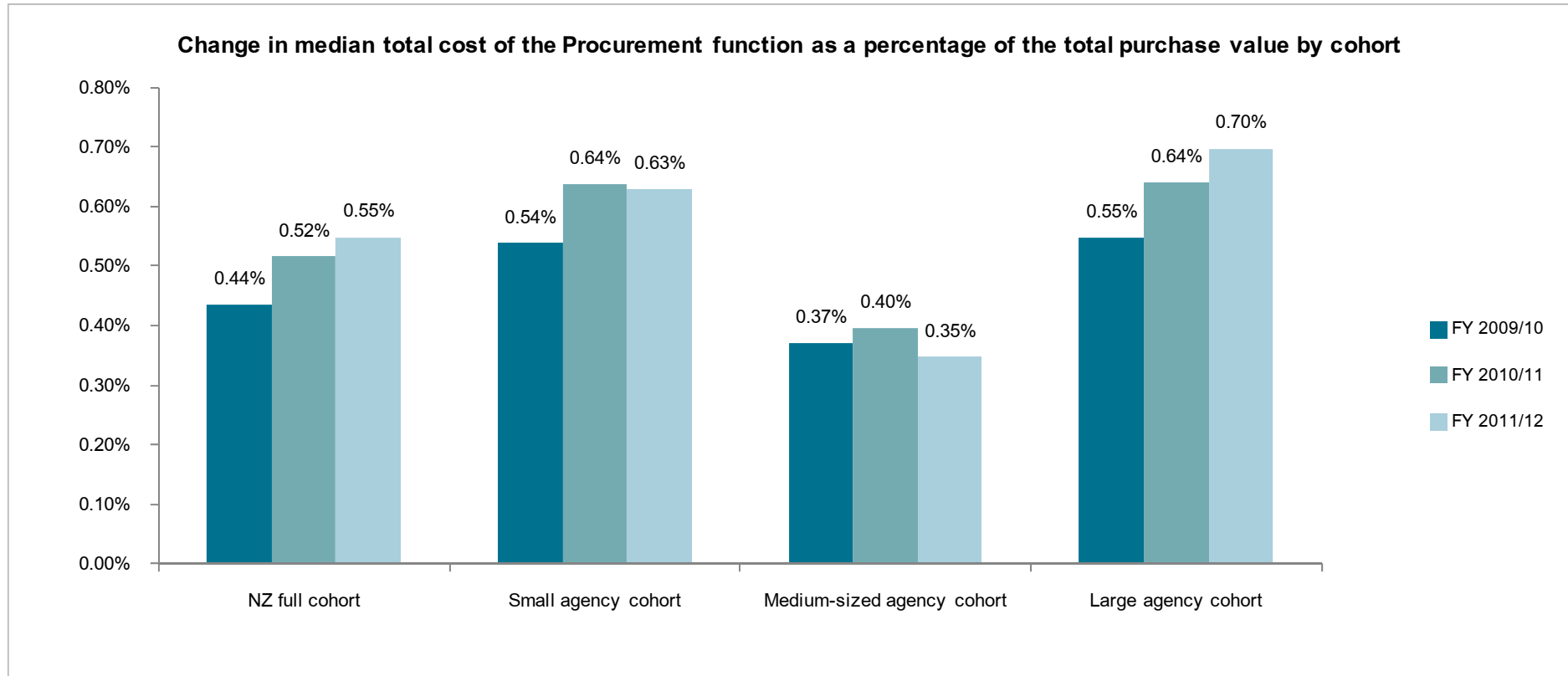
## Quality issues with FTE data suggest positive reported efficiency levels (purchase value per FTE) are overstated



The reported total purchase value per FTE (\$17.8m) is significantly higher than international comparators. Due to understated agency procurement FTEs, this report does not conclude that NZ full cohort agencies are significantly more efficient than comparator organisations. In NZ agencies, the procurement function is more dispersed than commonly found, and only collecting staffing information for those individual staff who spend >20% of their time on procurement means FTE data is understated.



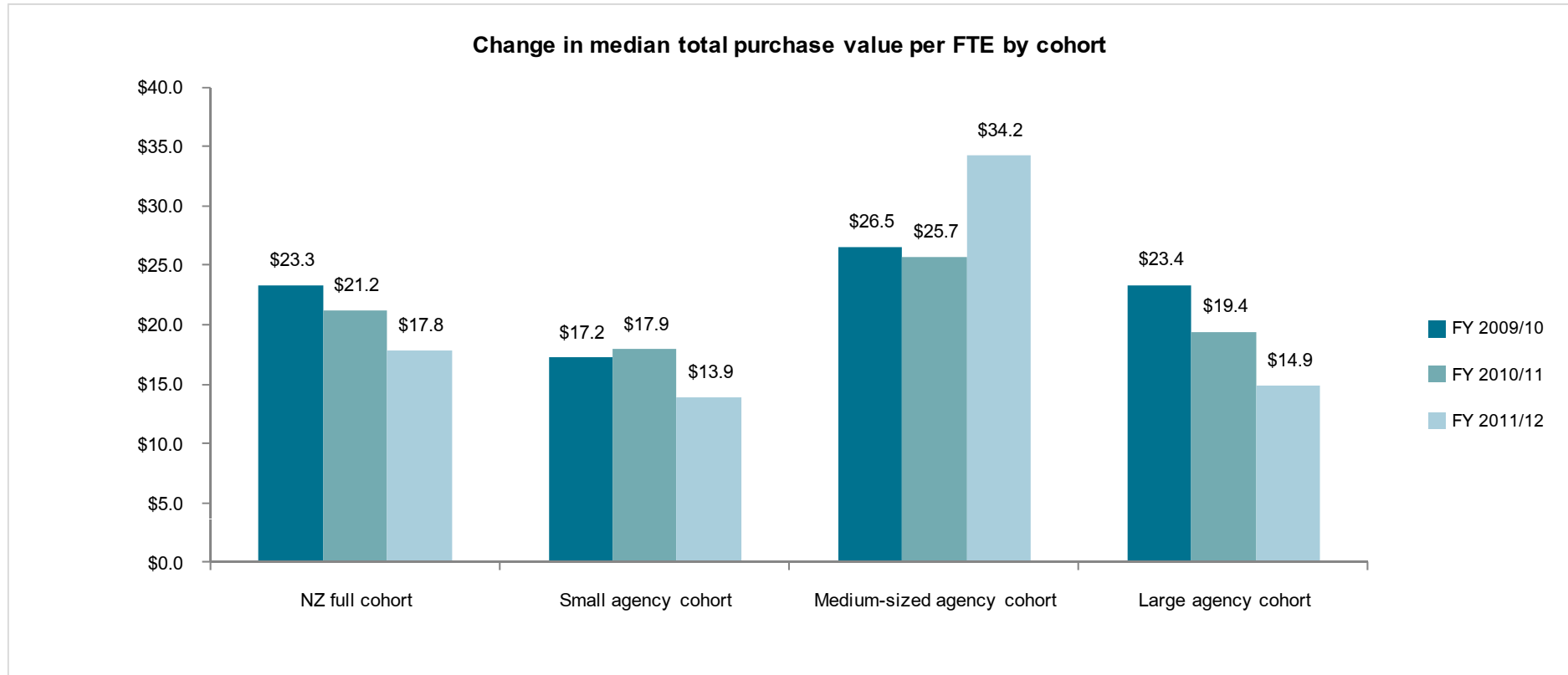
## The reported increase in the cost of procurement as a percentage of total purchase value likely reflects more complete cost data than previous years



There have been small changes across all cohorts, with the small agency cohort total cost reducing by 0.1 percent, the medium-sized agency cohort reducing by 0.05 percent and the large agency cohort increasing by 0.06 percent since FY2010/11.

For reasons cited earlier in this document, reported cost and efficiency should be viewed with caution.

## The reported decrease in total purchase value per FTE likely reflects more complete FTE data than previous years



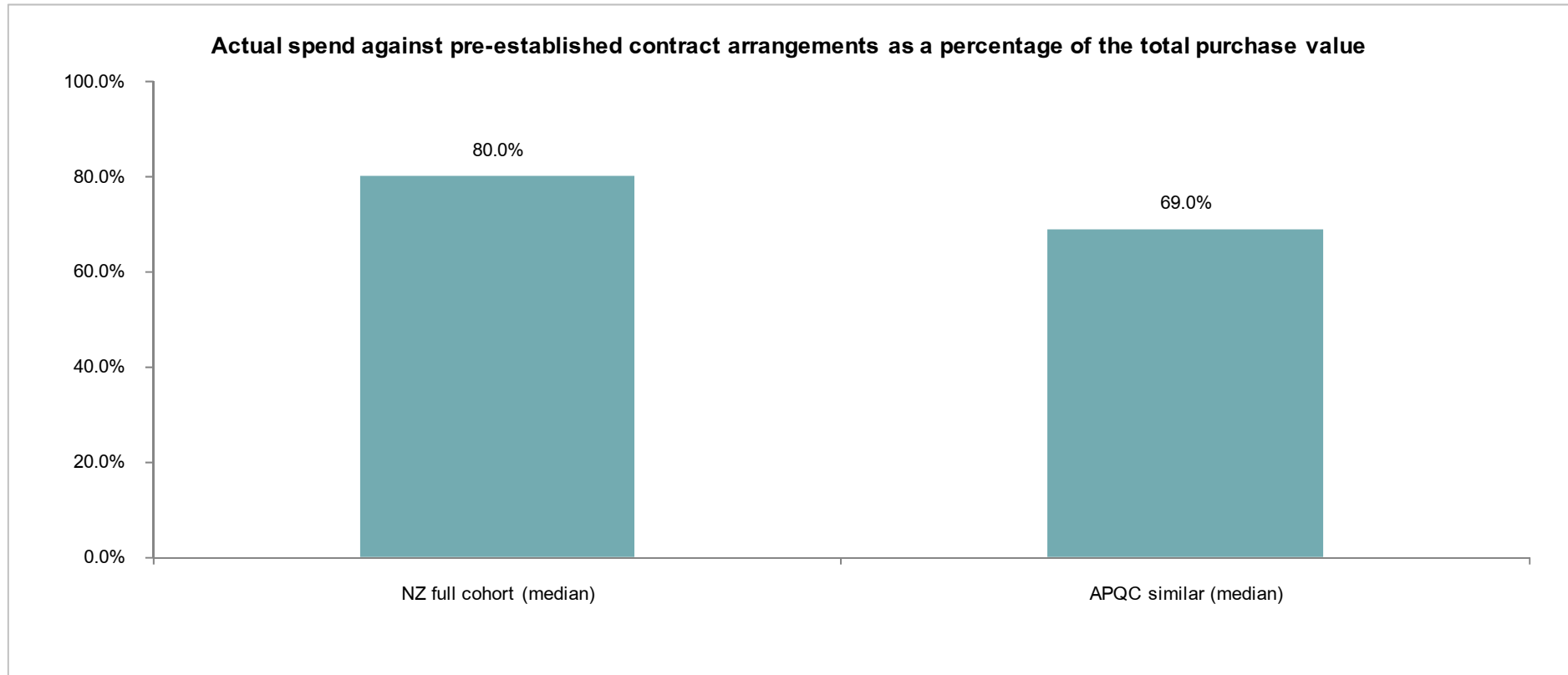
# 5. EFFECTIVENESS

Effectiveness findings report on the extent to which procurement activities achieve intended or targeted results. This section also compares NZ agency effectiveness with international comparators and examines changes in effectiveness since previous reporting periods.

**Procurement effectiveness findings are based on three metrics:**

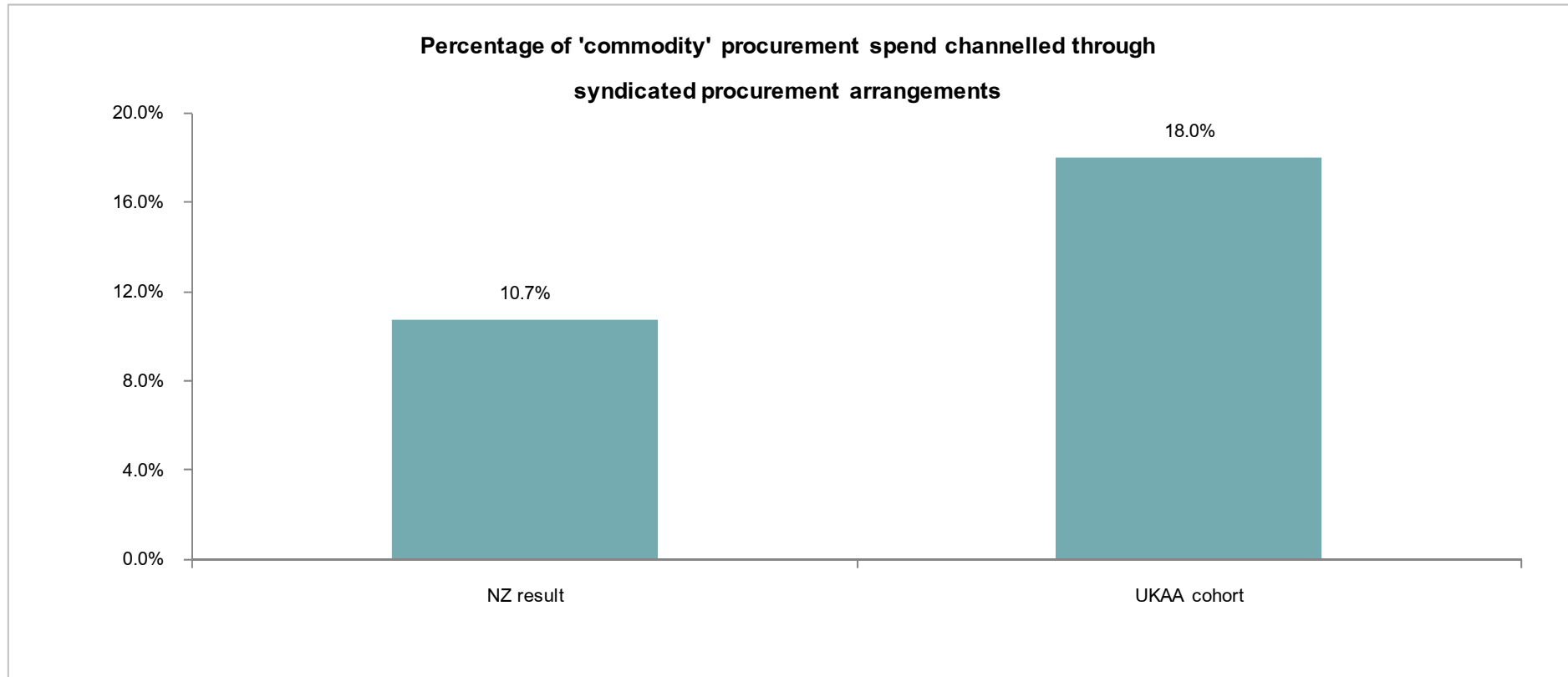
1. Actual spend against pre-established contract arrangements as a percentage of the total purchase value, where a higher percentage is considered more effective.
2. Percentage of 'commodity' Procurement spend channelled through syndicated Procurement arrangements, where a higher percentage is considered more effective.
3. The Capability Maturity Model, which enables agencies to indicate current and future levels of maturity, their priorities and any initiatives in progress.

## Reported spend against pre-established contract arrangements as a percentage of the total purchase value is higher than the international comparator

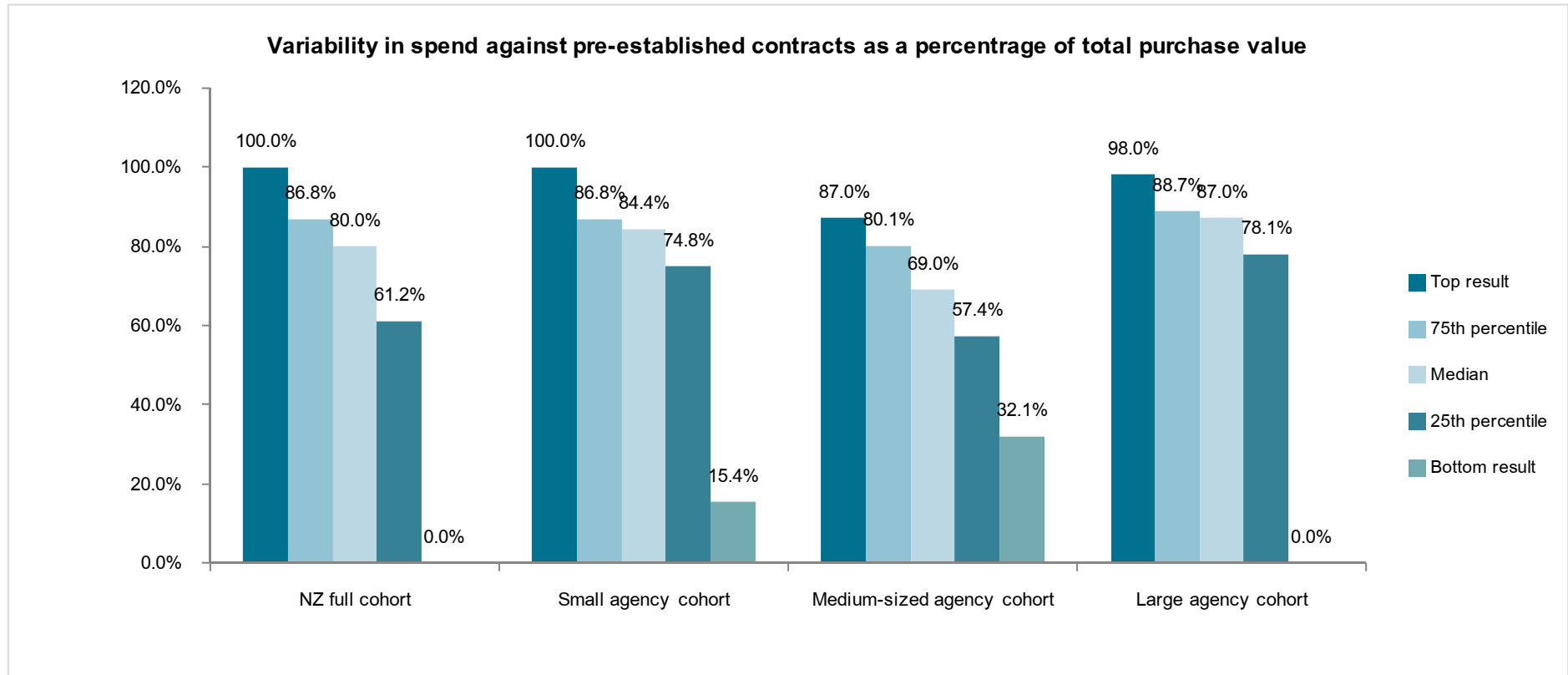


An agency can reduce inefficient spending by improving the level of preferred spend while reducing the level of off-contract or 'maverick' spend. The Procurement function can establish panel contracts for common areas of spend and monitor and control off-contract spend, but agency staff must understand how to access existing contracts to procure goods and services.

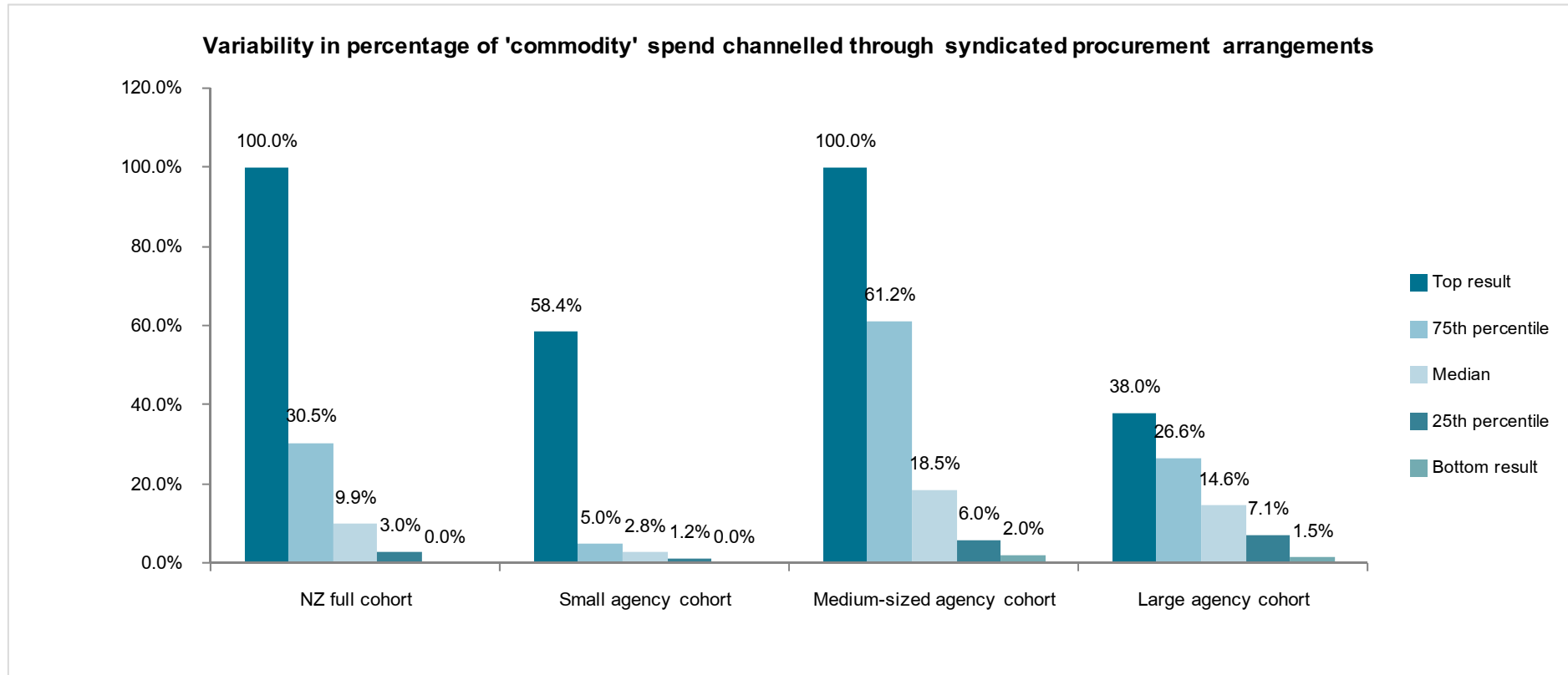
## The reported use of all-of-government contracts and syndicated arrangements is significantly below that of international comparators



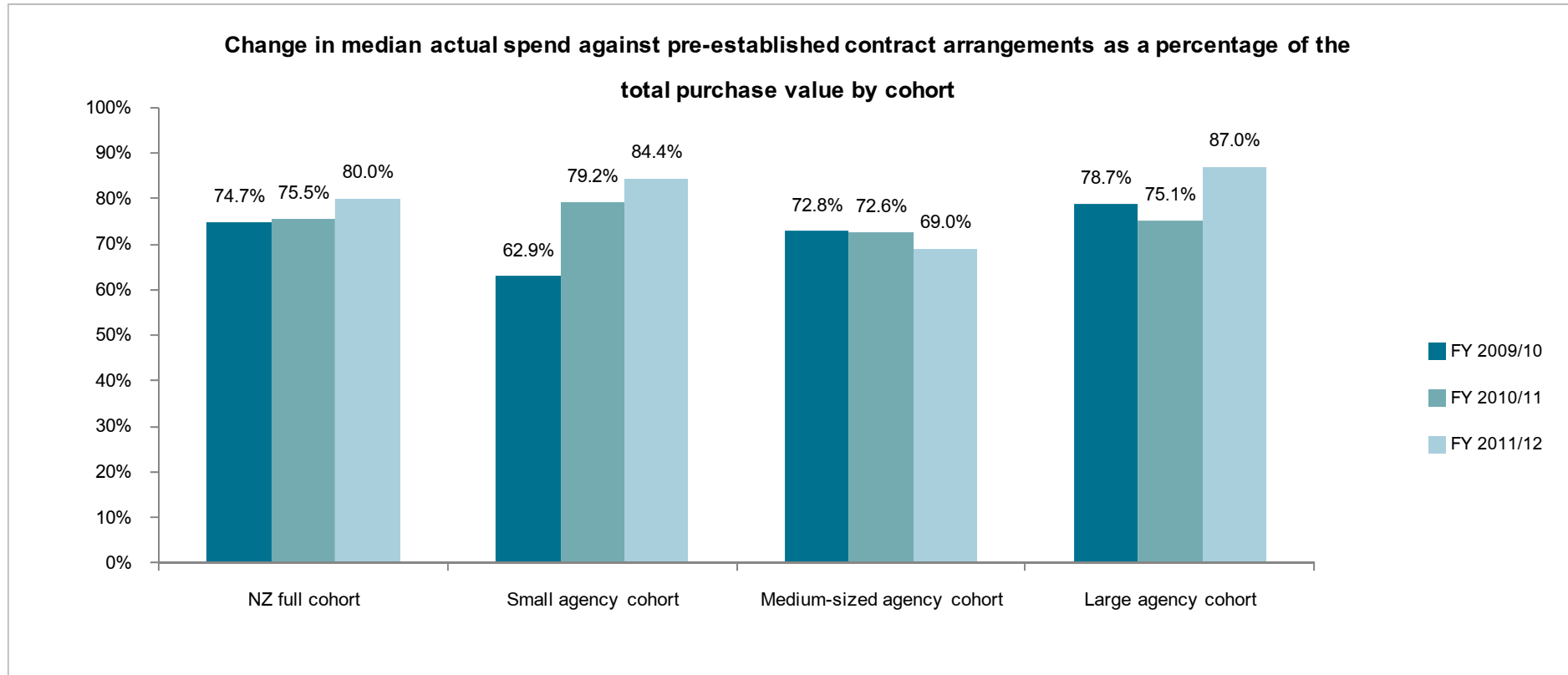
## Variability in the use of pre-established contracts shows opportunities for agencies to learn from each other



## Variability in the use of syndicated arrangements shows opportunities for agencies to learn from each other

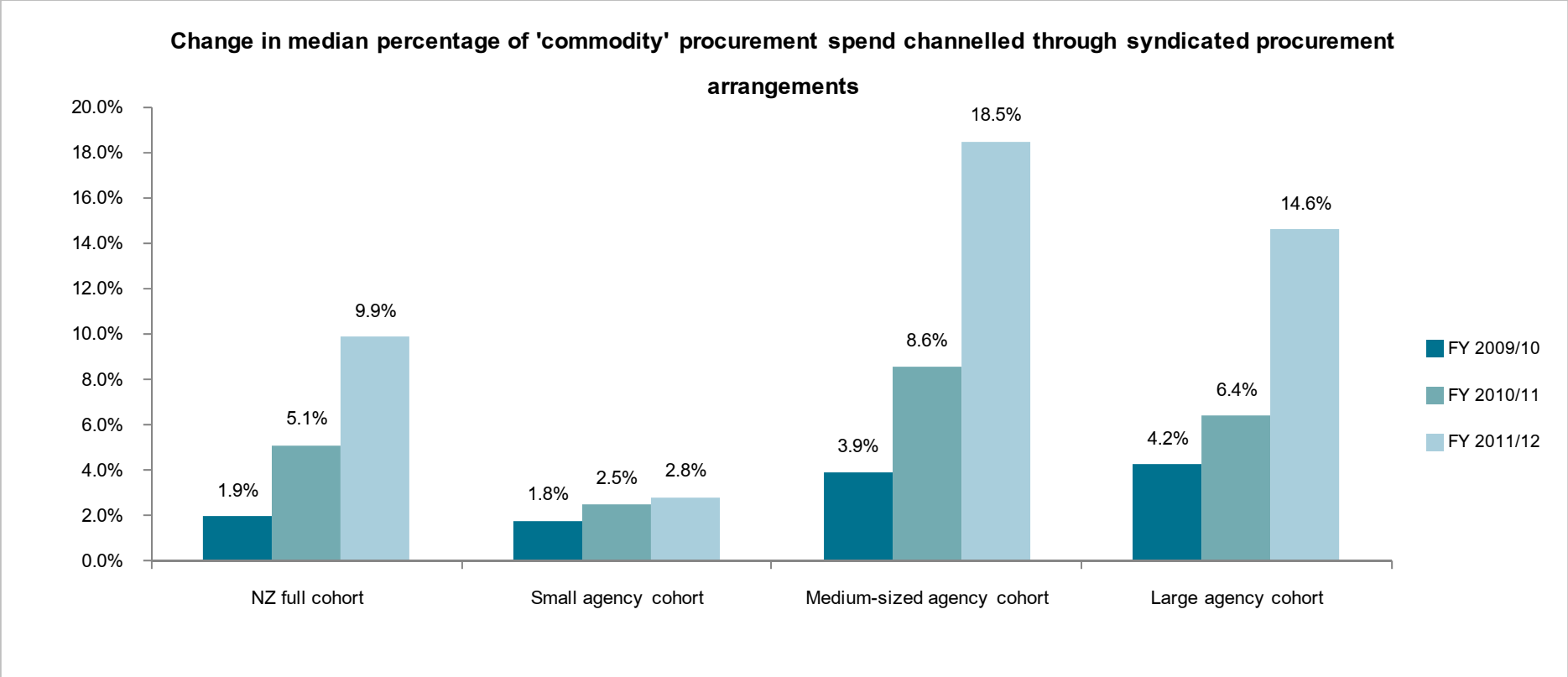


## The large and small agency cohorts reported increases in spend against pre-established contract arrangements since FY 2009/10



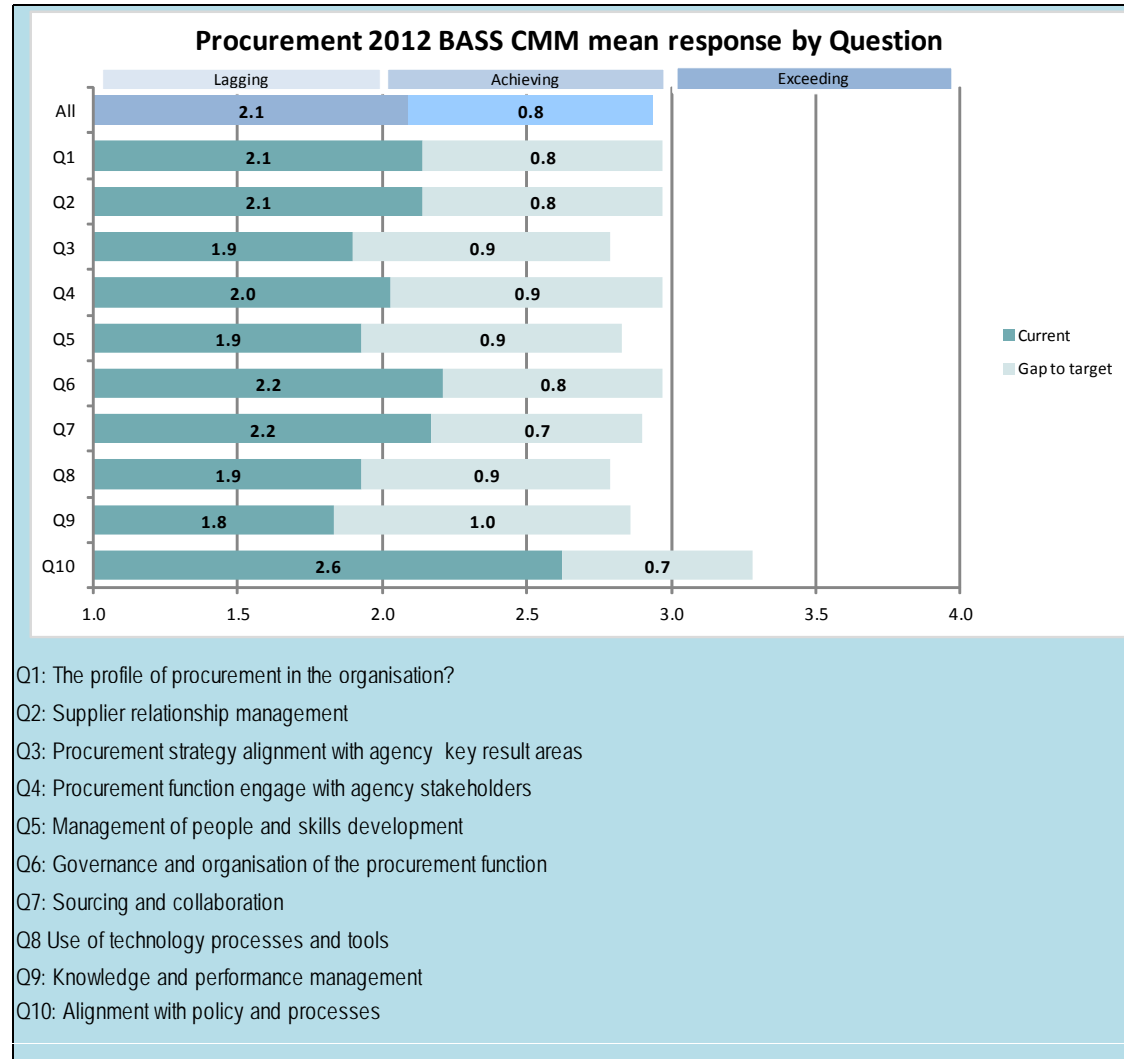


# Overall, and for each cohort, there have been reported increases in the percentage of commodity spend through syndicated procurement arrangements



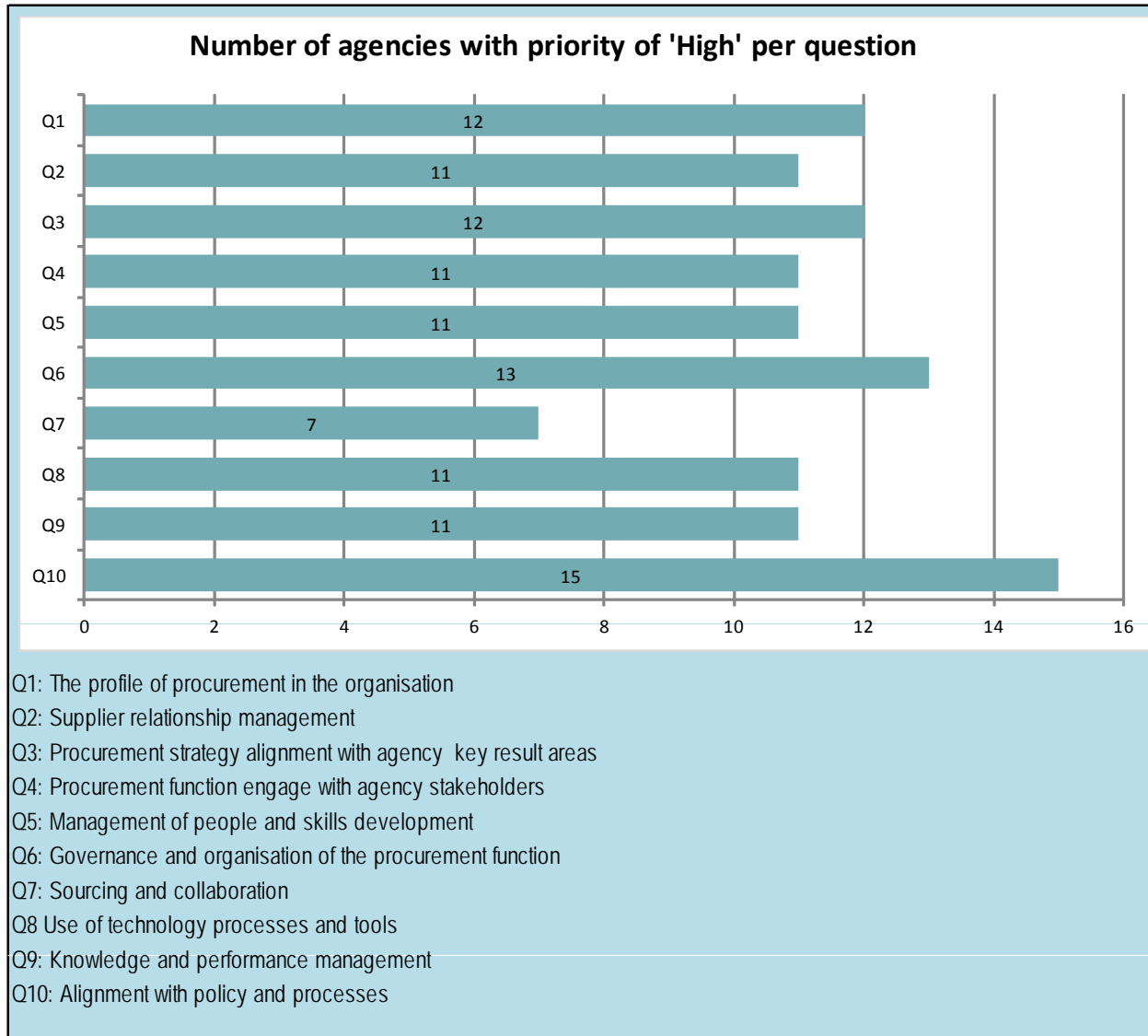
Some agencies in the medium-sized and large agency cohorts with the most significant increases in 'commodity' procurement spend channelled through syndicated procurement arrangements cited reasons including the AoG contract and syndicating significant new contracts.

## Overall, Procurement management practices lag leading practices and agencies have aspirations to improve

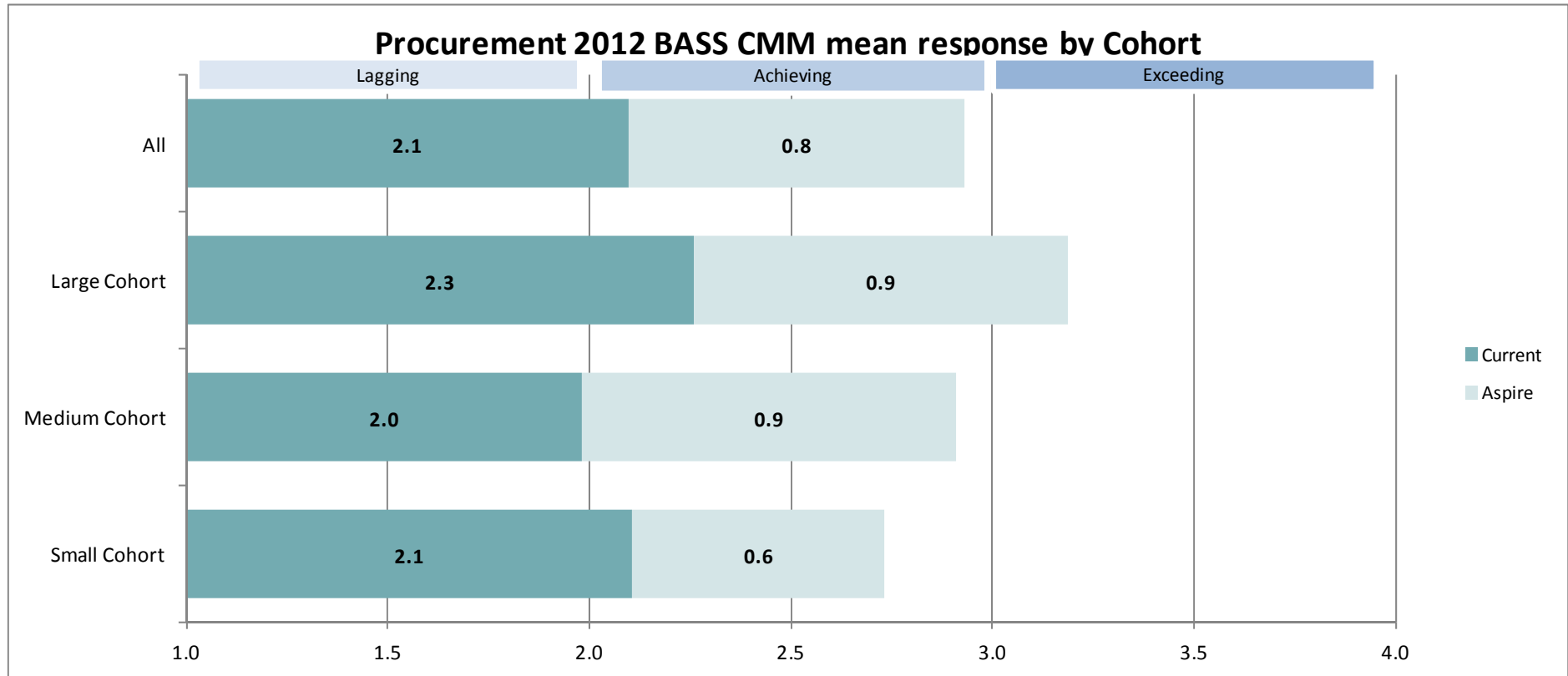


Overall, agencies rated their most mature areas of the procurement function as: alignment with policy and process (Q10)

## The two highest priority areas for improvement are aligning with policy and process and better governance and organisation of the function



## Agency size is not a factor for the current and desired maturity levels



## **6. QUALITY OF MANAGEMENT INFORMATION**

These findings report on known Procurement data quality issues, limitations of the indicator set in providing insight into Procurement service performance, and opportunities for improvement. The introduction section in the summary BASS report includes common quality of management information findings across all functions that are not repeated in this chapter.

## Quality of Management Information

**There are concerns with the quality of management information for the Procurement function.** The highly devolved nature of the Procurement function makes it hard to measure costs and FTEs consistently because measurement only captures costs where procurement activities make up more than 20 percent of a person's time. Therefore, it is expected that the cost of the Procurement function in New Zealand agencies is understated and less reliable for comparison between agencies and over different reporting periods.

**The quality of information on effectiveness in managing third party spend will improve over time.** Improvements have been made to the effectiveness measures for FY 2011/12. The Procurement MPI has been amended to the Procurement Management Capability Maturity Model (CMM), moving from a straight 'yes/no' assessment to a framework that enables agencies to indicate current and future levels of maturity, their priorities and any initiatives in progress. Given this is the first year of results, quality of data may vary due to self-assessment and self reporting. No peer review was undertaken in FY 2011/12.

## Quality of Management Information

**Procurement leaders are working with the Treasury to further refine BASS procurement metrics – with an emphasis on the quality of management of third party spend.** With these improvements, the Treasury looks forward to providing a better picture of procurement function performance in next year's report.

**While results are broadly comparable, they need to be understood within the context of each organisation.**

Care should be taken when comparing agency results and caution is warranted for three reasons:

- Cost information is likely to be inaccurate for measurement reasons outlined earlier in this chapter
- Agencies that submit more complete procurement cost information may appear to be less efficient than agencies with less complete procurement cost information
- The Procurement function varies according to the primary role of the agency and the nature of its third party spend. For example, the nature of the Procurement function in agencies with large capital procurement programmes is considerably different to the Procurement function in a policy agency.

## More information

A glossary of terms, definitions and source material can be accessed via the main report, available on the Treasury website: <http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2011-12>

A full set of BASS data can also be accessed via the Treasury website:  
<http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2011-12>

Questions about the findings in this report should be directed to [BASS@treasury.govt.nz](mailto:BASS@treasury.govt.nz)