ADMINISTRATIVE AND SUPPORT SERVICES BENCHMARKING REPORT

PROCUREMENT PERFORMANCE FINDINGS
FY 2013/14

Contents

1. COMMENTARY

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

Commentary (1 of 2)

Maximising the value of the goods and services we purchase from third parties is an important aspect of delivering value to agencies and taxpayers. Each year across the Public sector the government spends approximately $39b with third party suppliers – accounting for approximately 18% of GDP. Effective procurement helps government agencies deliver better public services while realising value for money. How and what the government procures can also have a significant influence on economic growth. Government agencies often provide an important source of demand for business to build scale and experience before they supply to private customers or export markets.

The BASS report helps establish transparency for the performance and delivery of better public services of the procurement function.

There are more opportunities for improved value and performance in third party spend than there is in making the procurement function itself more efficient. Even a 1% improvement in value gained from third party spend would represent $200m annually. In comparison, a 10% reduction in the expenditure on the procurement function reported by agencies participating in this year's report would provide a gross annual saving of about $6m. Given the high levels of third party expenditure and sometimes low levels of procurement practice maturity in agencies, a greater investment in the procurement function capability would be a positive trend for many agencies.

The Procurement Functional Leadership Programme at the Ministry of Business, Innovation and Employment (MBIE) is supporting better management of third party spend. We establish all-of-government contracts to assist agencies with common procurement activities, while we help build their capability so that they can focus on their core objectives, support strategic projects and improve engagement with businesses

Commentary (2 of 2)

A primary focus of the programme is the building of procurement capability in agencies. To date, more than 700 agencies, including schools have participated in all of government (AoG) contracts; more than 103 Procurement staff across government are gaining subsidised procurement qualifications; and we see some agencies choosing to invest in building their procurement capability. In addition, revised procurement policy has been provided across agencies, including comprehensive tools and guidelines and government model contracts to support good practice in agencies. The Procurement Functional Leadership Programme is aligned with government priorities, including the Business Growth Agenda (BGA); Better Public Services (BPS); the Canterbury Rebuild; and Better Services for Business.

Due to changes in effectiveness metrics in FY 2012/13, this year's BASS report provides a better picture of procurement function effectiveness. MBIE's New Zealand Government Procurement Branch and procurement leaders across agencies worked with the Treasury to refine the BASS methodology. The report is now better aligned with the Procurement Functional Leadership Programme and its emphasis on the quality of management of third party spend. It should be noted that although results are still relatively low for the new metrics there have been some improvement since FY 2012/13. It can be expected that the metrics will continue to evolve to meet the growing expectations of government initiatives.

The Capability Maturity Model also provides a better picture of procurement practices within agencies and their alignment with leading practice. The introduction of a Capability Maturity Model (CMM) in FY 2011/12 has focused the BASS methodology on things we can measure more accurately and the outputs that agencies can change. The CMM has enabled more effective strategic conversations within agencies regarding capability and improvement priorities.

Better understanding of how agencies are using the new CMM measurement continues to be important. Separate from the BASS programme, independent procurement capability reviews across 20 agencies found that agencies often rated poorly against international benchmarks for government procurement. This suggests that the self-reported CMM results for FY 2013/14, which are higher than expected, are potentially overstated. We need to understand agencies' perception of their procurement maturity levels in order to identify opportunities for improvement and drive capability forward. It is intended that some form of moderation of the CMM results will be introduced to assist with this understanding and to drive consistent results.

2. HIGHLIGHTS

Highlights (1 of 3)

Third party expenditure by participating agencies for the reporting period was $9.87b. The vast majority (93%) represents expenditure in the mid-range and higher cohorts by total purchase value, and 66% of third party spend is concentrated in only five agencies within the higher cohort.

Given the high level of third party expenditure, new effectiveness metrics were developed in FY 2012/13 to give better insight into the effectiveness of the procurement function. These effectiveness measures are as follows:

- Percentage of spend managed by Procurement professionals
- Percentage of qualified Procurement employees
- Percentage of contracts >$100K with valid procurement plan
- Percentage of contracts >$100K reviewed annually

Agencies reported increased effectiveness against these metrics for FY 2013/14 when compared to FY 2012/13, however there is still much room for improvement.

Highlights (2 of 3)

Effectiveness as measured by use of pre-established contracts and collaborative procurement arrangements is similar to international comparators. Overall, these results are judged to be positive by Procurement Functional Leadership based on the frequency of requirements for one-off purchases and amount of third party spend covered by AoG contracts.

The number of qualified procurement staff rose from 5% in FY 2012/13 to 8.2% in FY 2013/14. This year 13 of 26 (50%) of participating agencies had qualified procurement staff, which is an improvement from last year where 63% reported having zero qualified procurement staff including three agencies with annual third party expenditure of $800m to $1.8b. While this is a substantial increase there is still room for improvement. Procurement Functional Leadership has indicated high aspirations for improvement against this metric and anticipates positive change in future reports based on the pipeline of staff undertaking subsidised procurement qualifications.

Effectiveness results regarding the percentage of contracts >$100K that have plans or business cases or that are reviewed annually also show room for improvement. The overall results for these are approximately 53% and 39% respectively, which is well below the level of adherence to good practice pursued in Procurement Functional Leadership.

Percentage of spend managed by Procurement professionals has increased since FY 2012/13. There has been a significant increase in the percentage of spend managed by procurement professionals since FY 2012/13 in the large agency cohort, while the 0% result for the small cohort reflects that there is currently only one agency with one qualified procurement professional within that cohort.

Highlights (3 of 3)

A capability maturity model (CMM) was first introduced in FY 2011/12 BASS report, and agencies have reported some change in overall maturity of their practices since. This is especially true for the large cohort.

Agencies reported aspirations to make significant improvements to Procurement practices. The three highest priority areas for improvement are the profile of procurement in the organization, procurement function engagement with agency stakeholders and alignment with policy and processes. Agencies aspire to make significant changes to a large range of procurement practices and reported having the greatest number of initiatives (>20) in progress in the following areas:

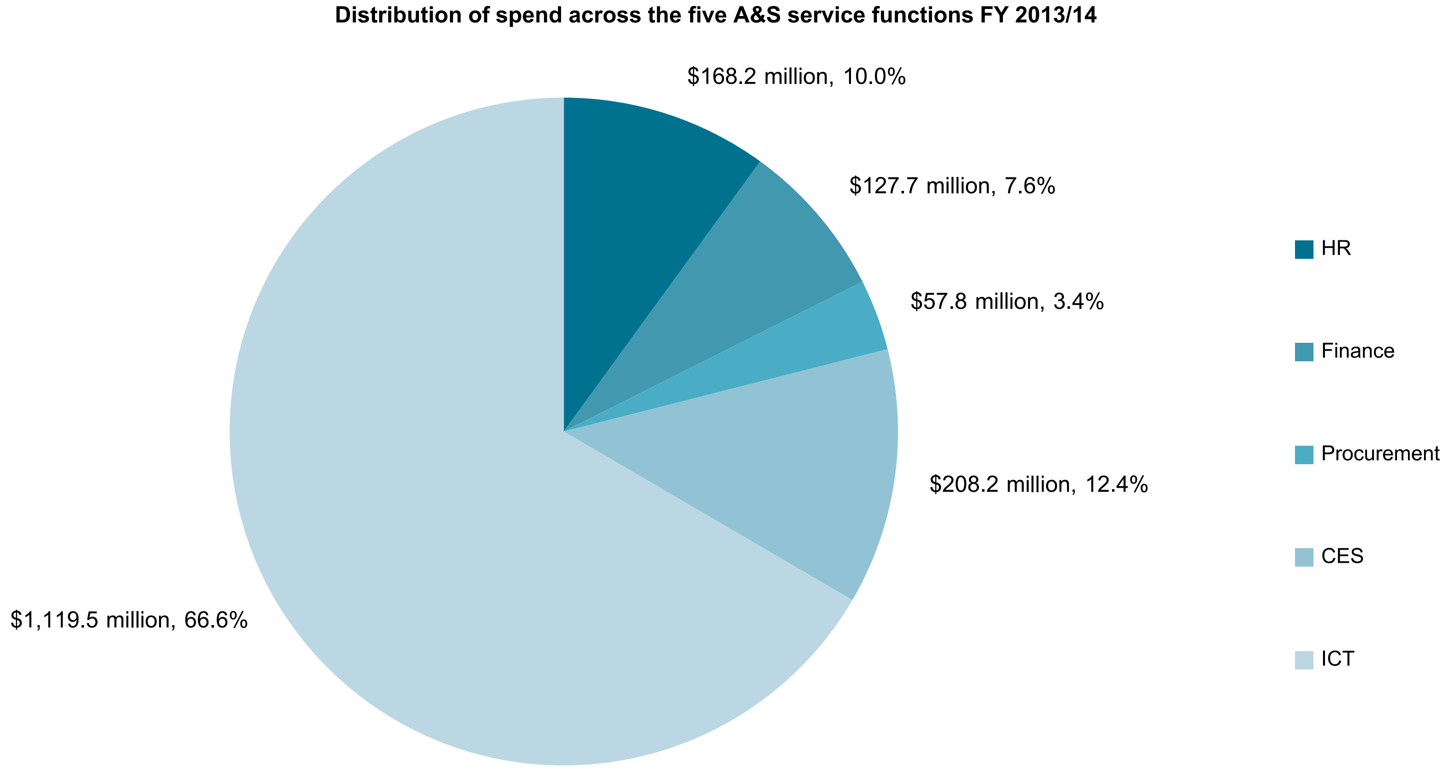
- Profile of procurement in the organisation
- Procurement function engagement with agency stakeholders
- Management of people skills and development
- Sourcing and collaboration
- Knowledge and performance management
- Alignment with policy and processes.

Agencies reported spending $57.8m on the procurement function in FY 2013/14 and very strong efficiency results, but cost data issues preclude conclusive cost and efficiency findings. As 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 agencies tailor their efficiency to their specific needs.. This is a common challenge globally in both the public and private sectors.

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 and the amount of third party expenditure for the reporting period.

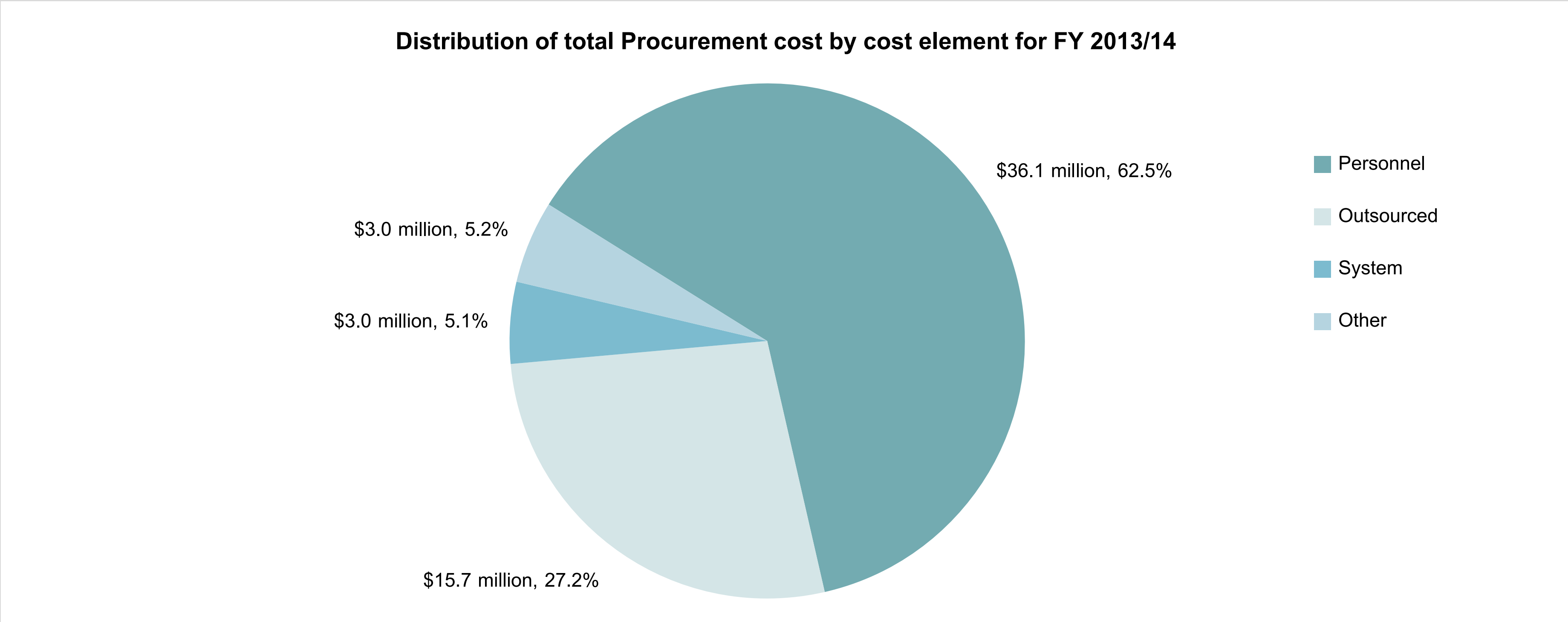
Agencies reported spending $57.8m on Procurement in FY 2013/14, but this cost is likely understated due to measurement challenges



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% 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% threshold.

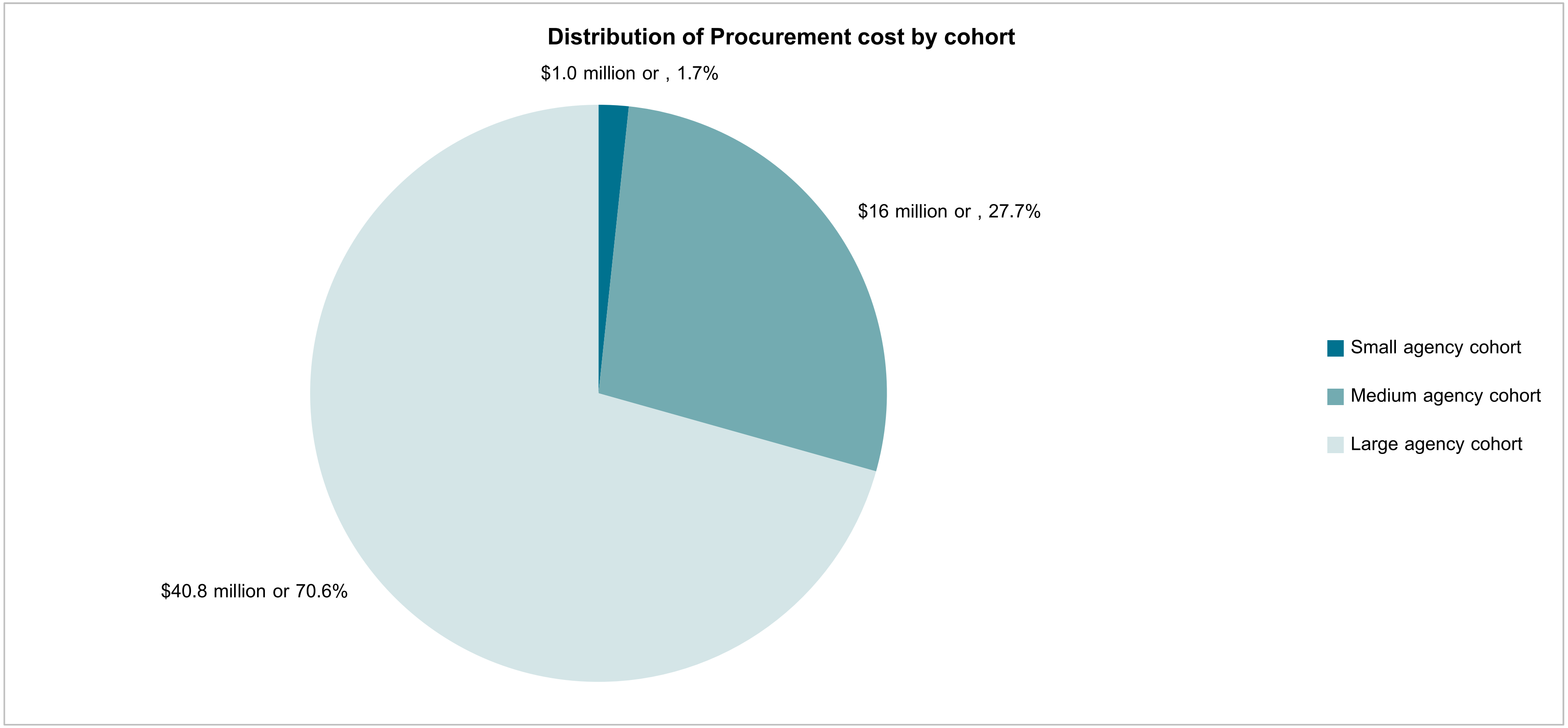
While BASS provides some guidance to agencies on how to measure this function in line with global practice, accurate cost measurement will likely be a challenge for some time. This is a common challenge globally in both the public and private sectors.

Personnel costs of $36.1m made up 62.5% of total reported costs in FY 2013/14, but data quality issues suggest a higher proportion is likely

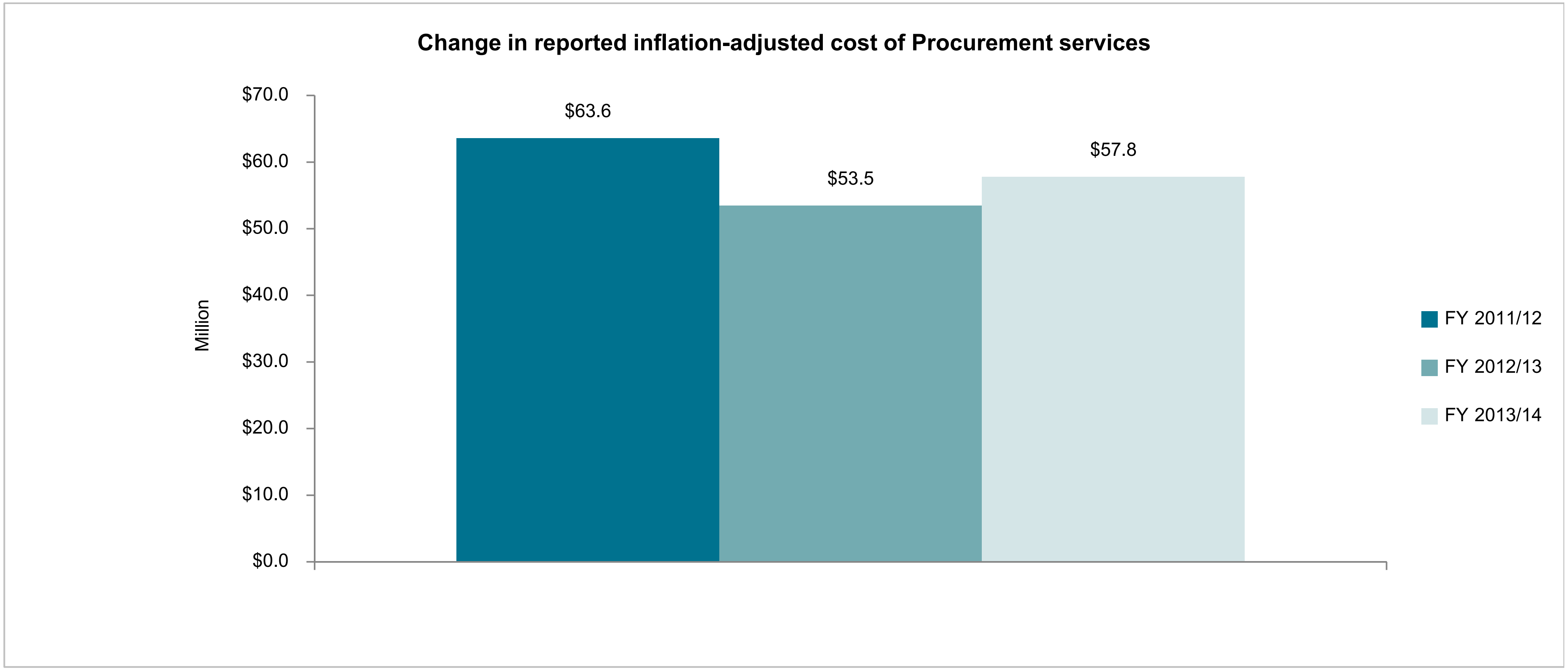


Data quality is low due to the highly devolved nature of the function in most agencies. In line with global benchmarking practice, the cost of procurement activity is only captured when activity makes up more than 20% of a staff member's time. In most agencies, the bulk of procurement activity is undertaken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

The medium and large agency cohorts make up 98.3% of reported procurement service expenditure



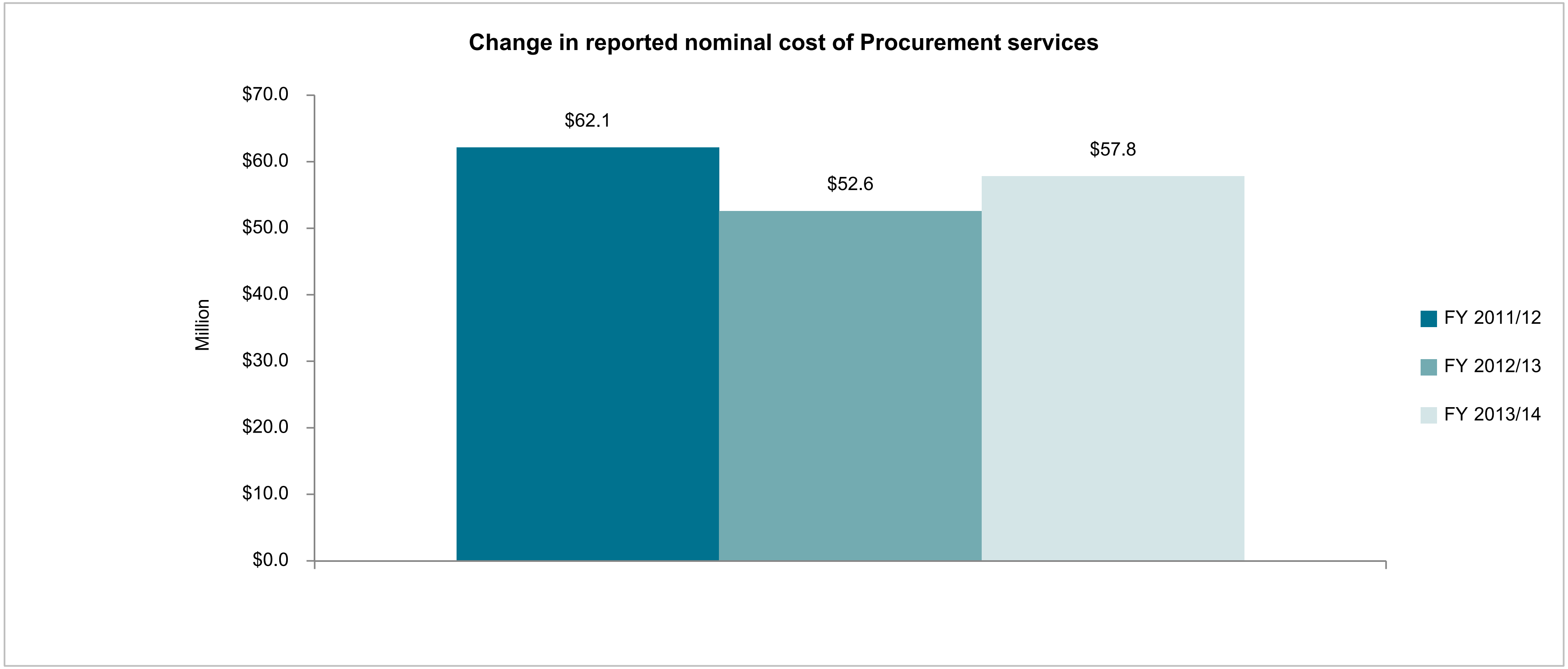
Agencies reported a spending increase of $4.3m (or 8%) since FY2012/13, but a spending reduction of $5.8m (or 9.1%) when adjusted for inflation, since FY 2011/12



Agencies reported spending $57.8m in FY 2013/14, up $4.3m (or 8%) from FY 2012/13, but a reduction of $5.8m (or 9.1%) since FY2012/13 when adjusted for inflation, however 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% 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% threshold.

Agencies reported a nominal spending increase of $5.2m (or 9.9%) from FY 2012/13 but a reduction of $4.3m (or 6.9%) since FY 2011/12.



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% 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% threshold.

A net reported increase of $5.2m results from 12 agencies reporting spending $1.3m less and 14 agencies reporting spending $6.5m more than in FY 2012/13

A net nominal spending increase of $5.2m between FY 20123/14 and FY 2012/13 results from 12 agencies spending $1.3m less and 14 agencies spending $6.5m more

What we learned from agencies that spent less this year

- Five of the 12 agencies reported $1m (or 77%) of the reported $1.3m decrease .
- Reasons cited for cost reductions were:

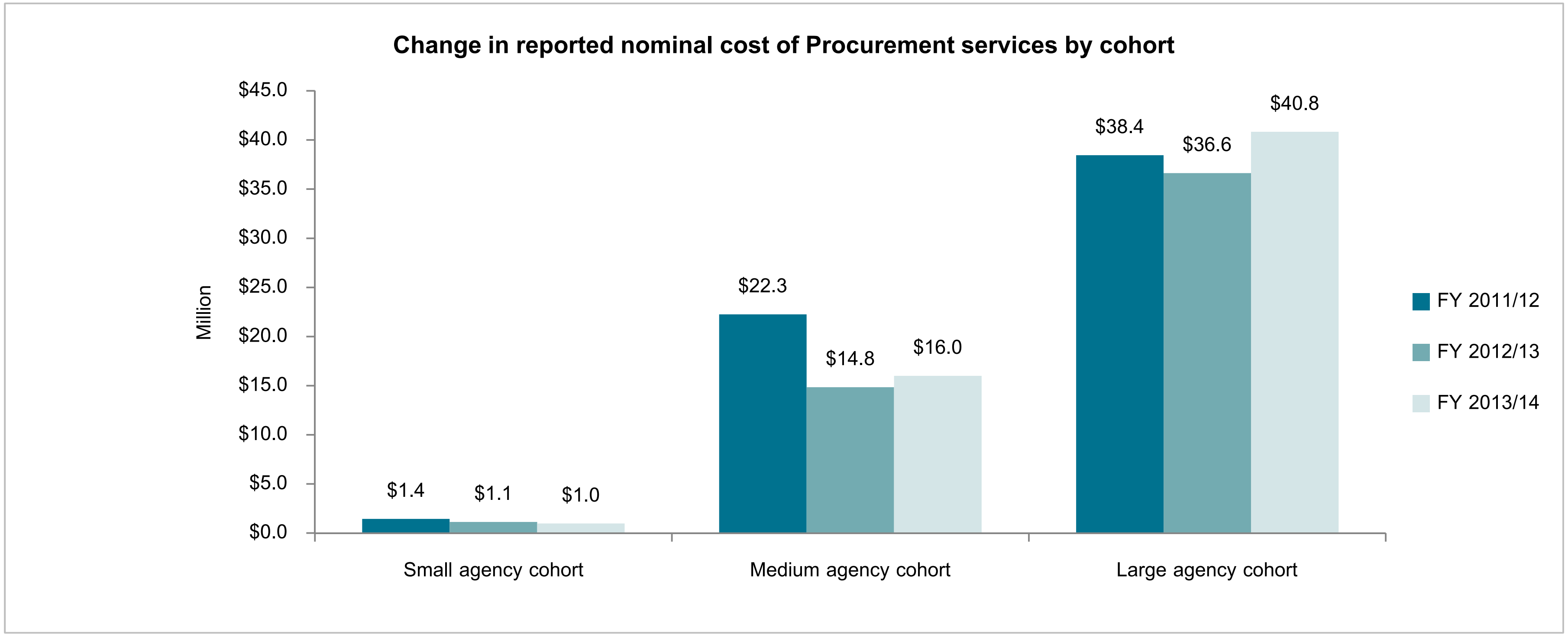
1. Decrease in number of contracts due to reduced capital work programmes and shifting to as a "service" common capabilities
2. Reductions in system costs and upgrades in comparison to previous years
3. Structural changes in corporate procurement leading to reduced FTEs and expenditure on consultants

What we learned from agencies that spent more this year

- Four of the 14 agencies made up $5.8m (or 89%) of the reported $6.5m increase
- Reasons were cited for cost increases were:

1. Investment in improved procurement processes to support more effective contract management
2. Increase in FTEs resulting from restructures and support for major reforms
3. Increases in the number of qualified procurement staff

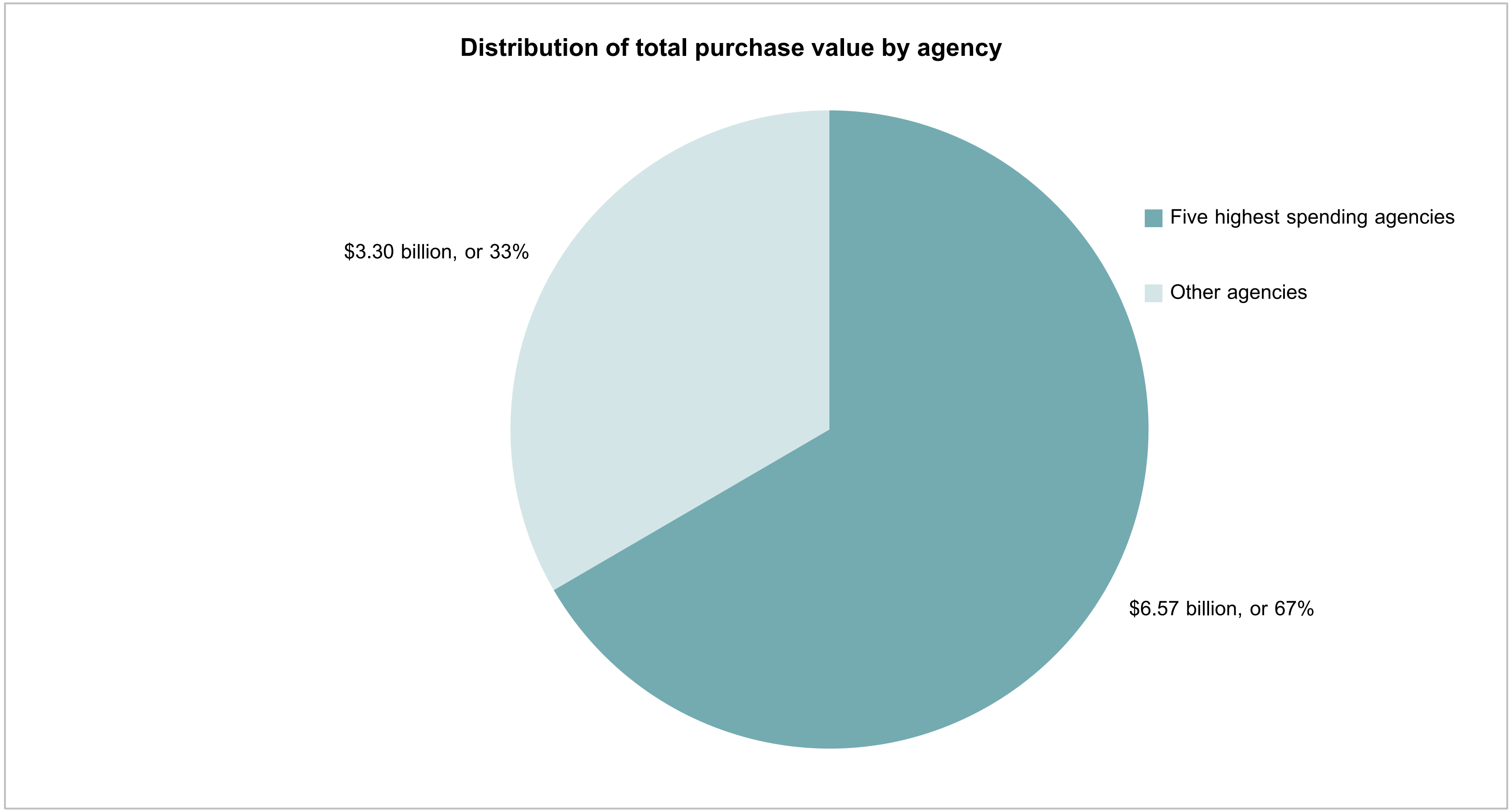
The small cohort reports small year-on-year reductions in overall Procurement expenditure since FY 2011/12 but costs have increased for the medium and large cohorts since FY 2012/13 reversing the previous trend



The medium and large agency cohort nominal procurement spend has increased $1.2m (or 8.1%) and $4.2m (or 11.5%) respectively from FY 2012/13. But, the nominal spend for the medium cohort has decreased $6.3m (or 28.3%) since FY 2011/12. The Large agency cohort has increased nominal spending by $2.4m (or 6.25%) since FY 2011/12.

Note Caveat : The Ministry of Business, Innovation and Employment (MBIE) merger had an impact on the comparative metrics across cohorts, with Department of Building and Housing (DBH) moving out of the small agency cohort, and Department of Labour (DOL) and Ministry of Economic Development (MED) out of the medium agency cohort, to now all be included in the large agency cohort as MBIE. Note that the significant lower cost for the large cohort, and higher costs for the small and medium cohorts in FY2011/12 relate to this merger DBH, DOL and MED spent $112,000 , $279,000 and $323,000 respectively on Procurement in FY2011/12. If these costs ($714,000) were reflected in the large cohorts costs for FY2011/12 the relative cost would be $39.1m. Please see the data quality section of this chapter for more detail.

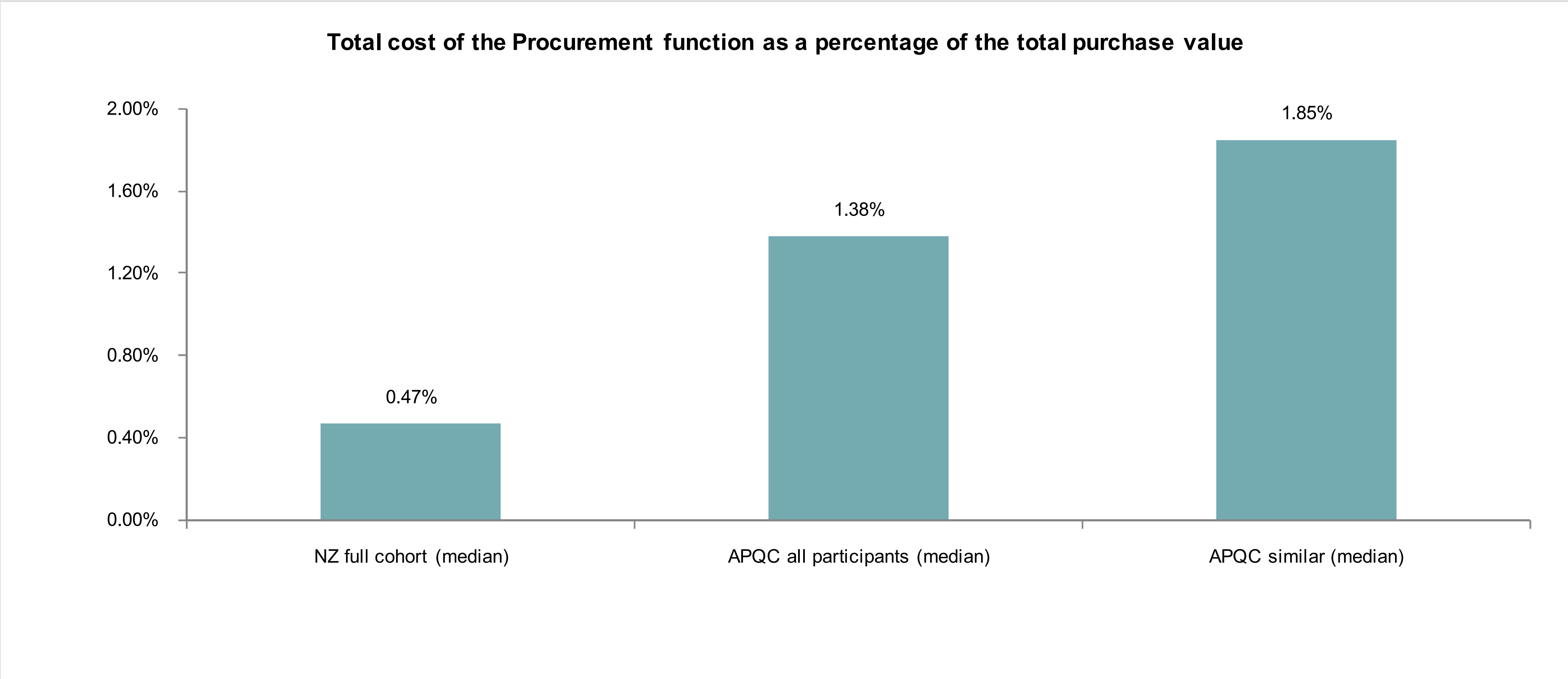
Approximately 67% of third party expenditure ($6.57b) is concentrated in aproximately 20% (five) of the participating agencies, being 2% higher then FY 2012/13



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 one metric; the total cost of Procurement as a percentage of the total purchase value, where a lower number is considered more efficient.

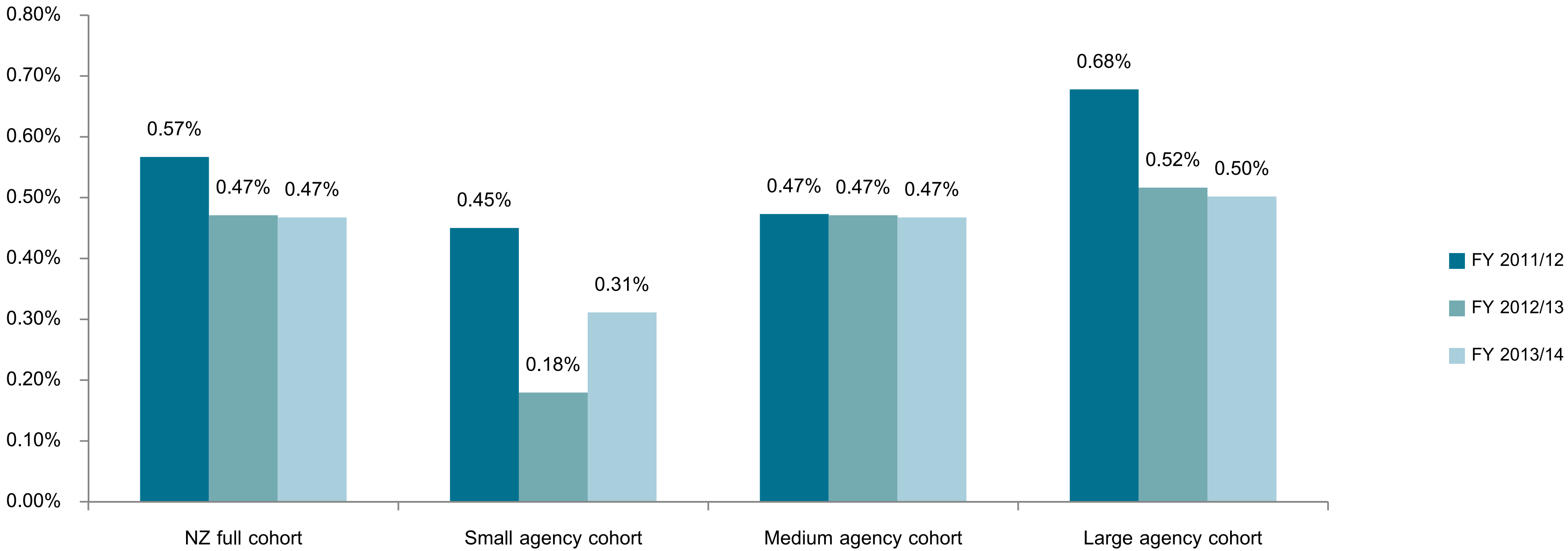
It is very likely that understated procurement function costs have led to overstated levels of efficiency



The NZ full cohort shows a significantly higher reported total cost of procurement as a percentage of total purchase value than international comparators. But due to data quality issues as outlined earlier, this report does not conclude that NZ full cohort agencies are significantly less efficient than comparator organisations.

The medium cohort's costs as a percentage of total purchase value has remained flat since FY 2011/12, whereas the small and large cohorts have reported increases in efficiency since FY 2012/13

Change in median total cost of the Procurement function as a percentage of the total purchase value by cohort



There has been variable change across the cohorts, with the small agency cohort total cost increasing by 0.13% , the medium agency cohort unchanged at 0.47% and the large agency cohort decreasing by 0.2 % since FY2012/13. It is important to note that due to data quality issues cited throughout this report, reported cost and efficiency should be viewed with caution.

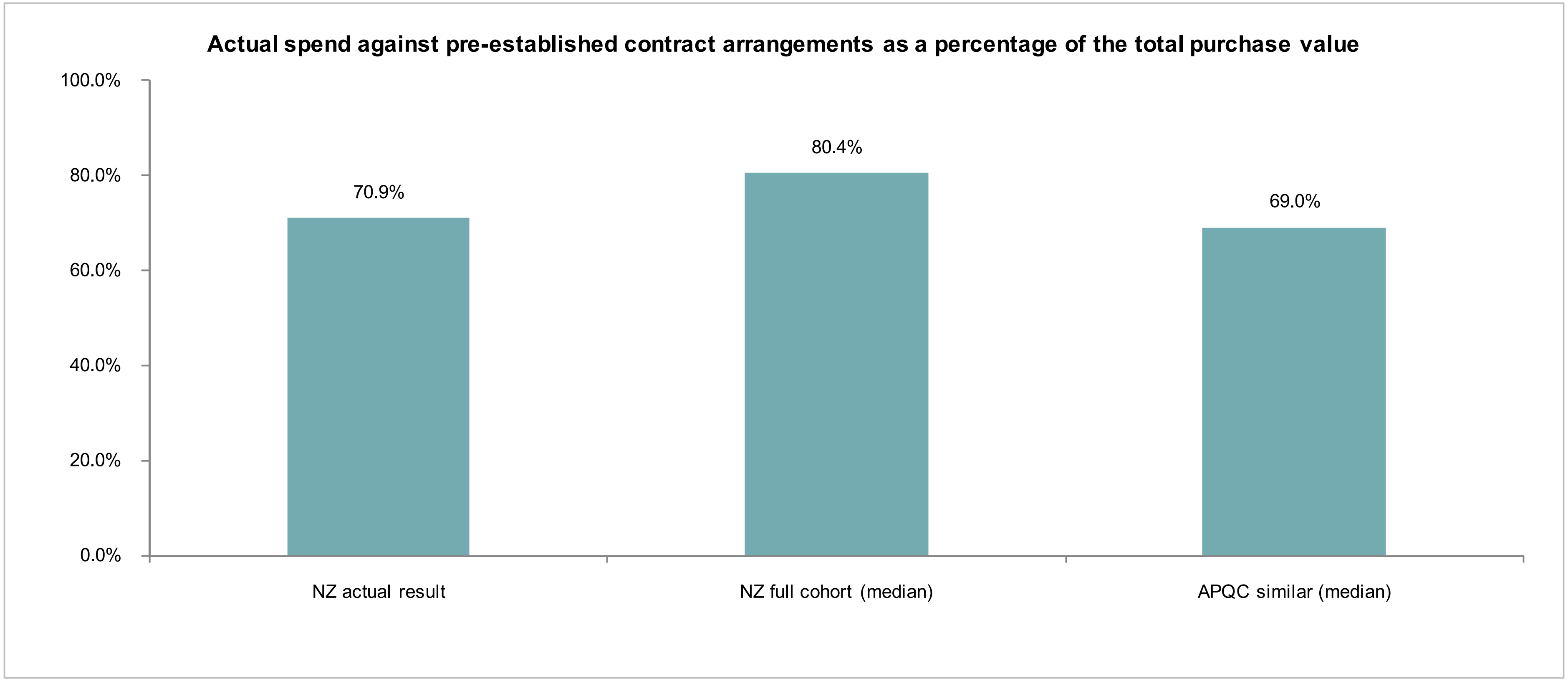
5. EFFECTIVENESS

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

Procurement effectiveness findings are based on six metrics:

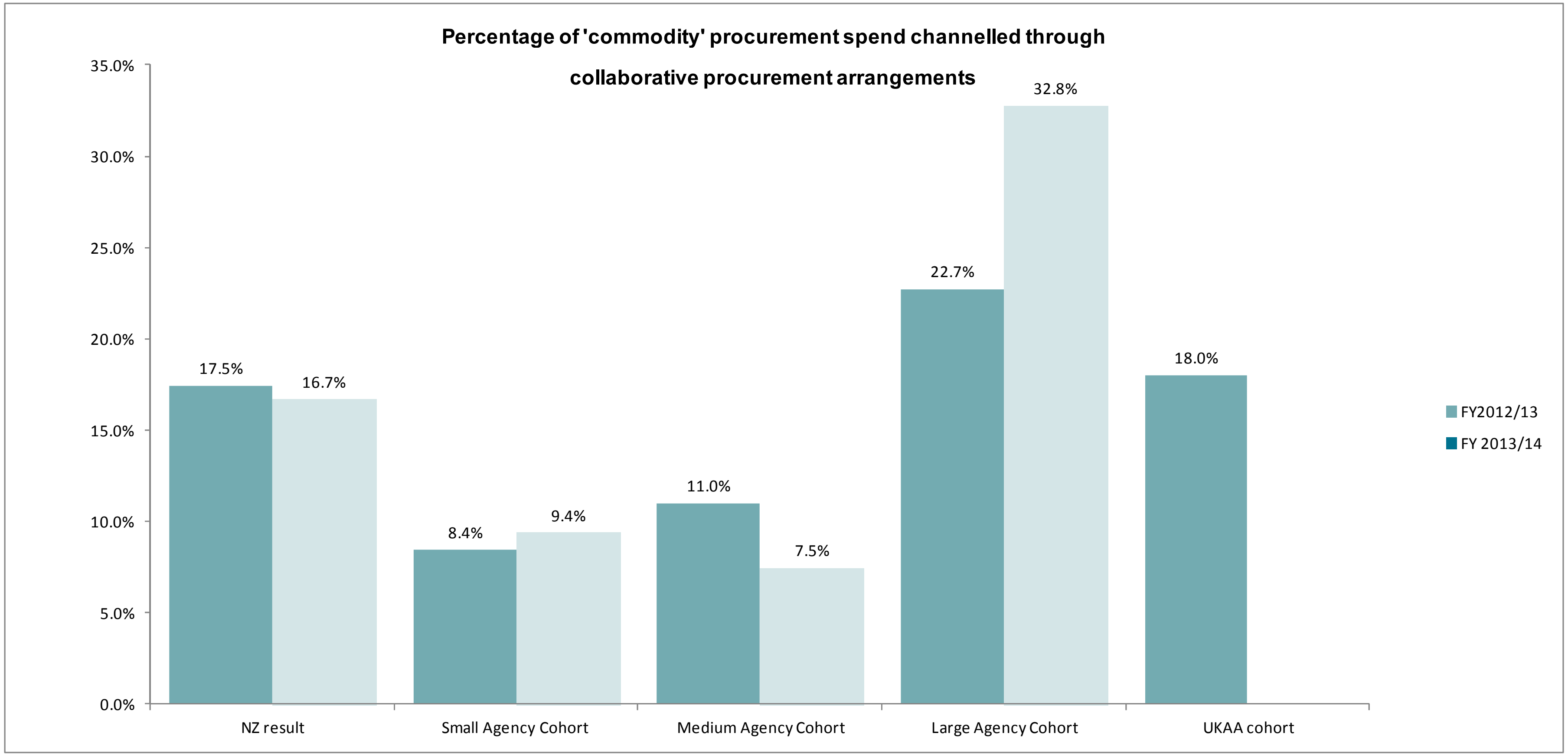
1. Actual spend against pre-established contract arrangements as a percentage of the total purchase value, where a higher percentage is considered more effective.
2. Percentage of Spend under management by Procurement Professionals
3. Percentage of ‘commodity’ Procurement spend channelled through collaborative Procurement arrangements, where a higher percentage is considered more effective.
4. Percentage of qualified Procurement employees where a higher percentage is more effective.
5. Percentage of contracts >$100K with valid procurement plan where a higher percentage is more effective.
6. Percentage of contracts >$100K reviewed annually where a higher percentage is more effective.
7. The Capability Maturity Model, which enables agencies to indicate current and future levels of maturity, their priorities and any initiatives in progress.

For FY 2013/14 the mean and median spend against pre-established contract arrangements as a percentage of total purchase value continues to be higher than international comparators

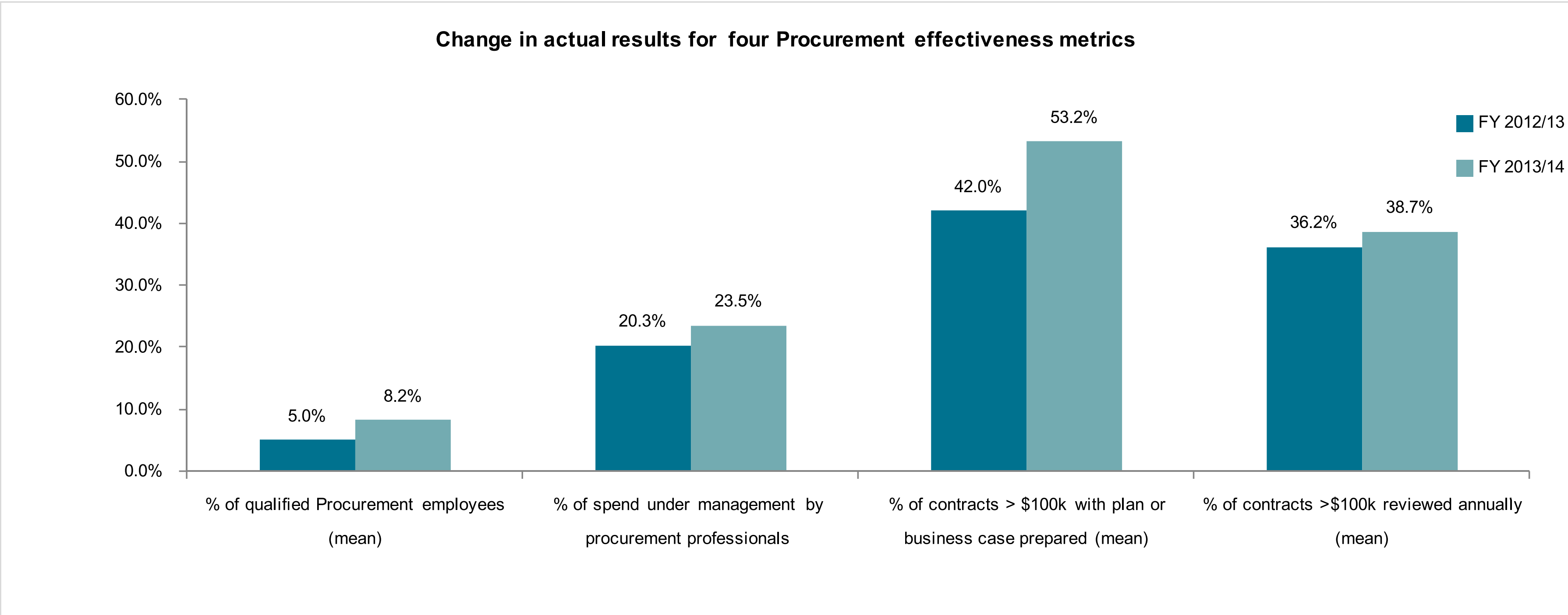


An agency can reduce inefficient spending by improving the level of preferred spend while reducing the level of off-contract or 'maverick' spend. The Procurement function can establish panel contracts for common areas of spend and monitor and control off-contract spend, but agency staff must understand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

The reported use of collaborative procurement arrangements is similar to international comparators for FY 2013/14

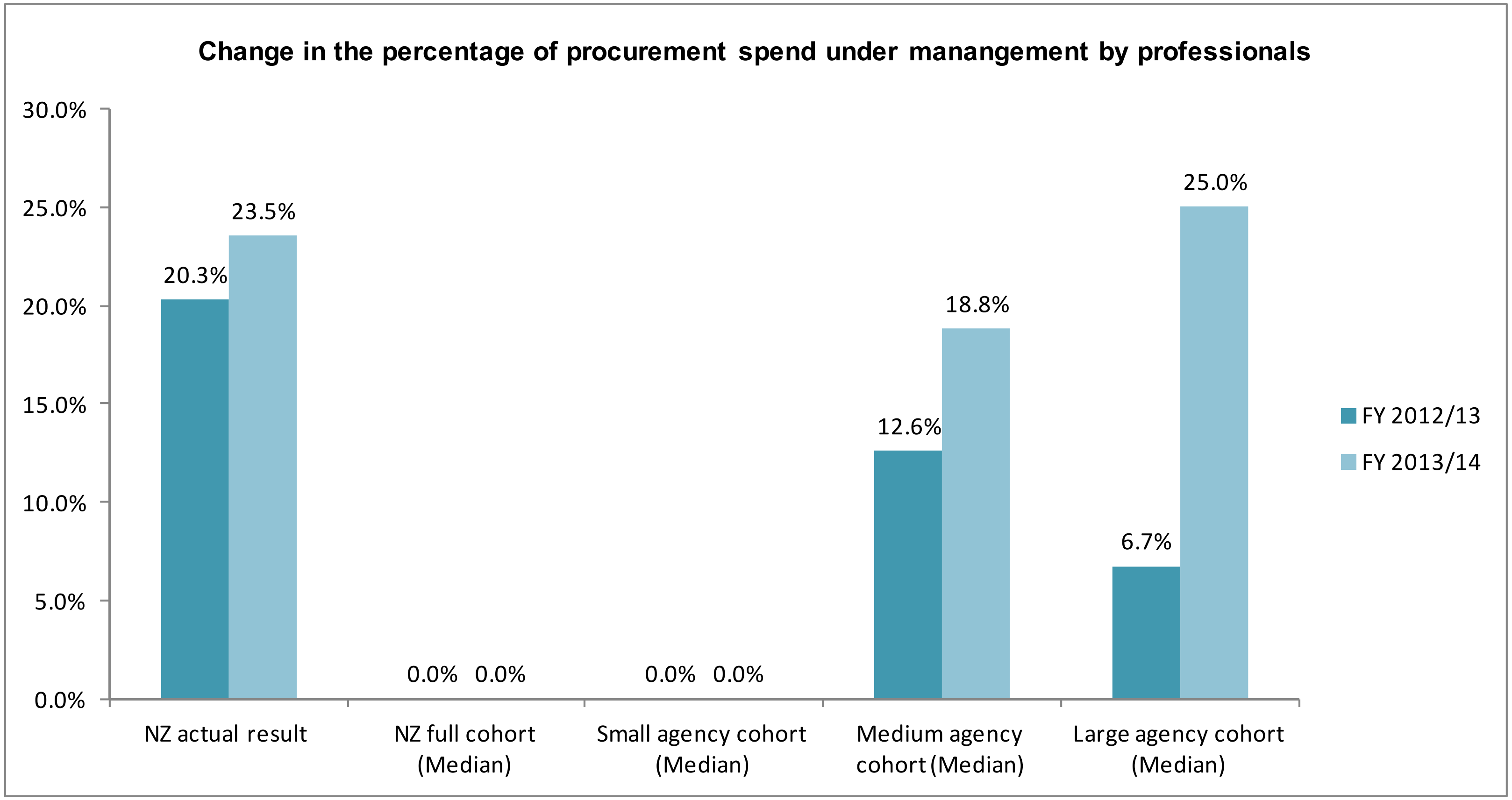


Agencies reported increased effectiveness in procurement practices since FY 2012/13



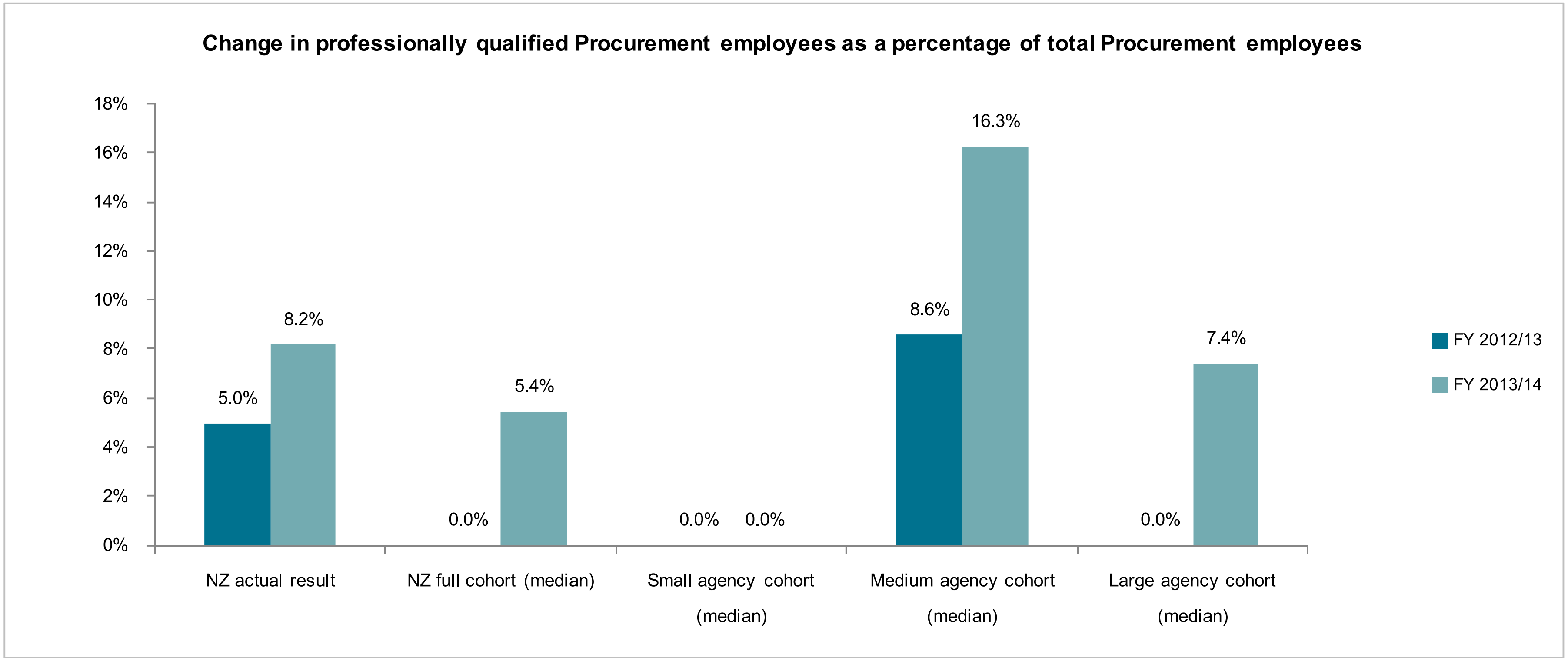
These metrics were introduced in FY 2012/13 , the results for FY 2013/14 show improvements, in all areas with the mean percentage of contracts over $100k with a business plan in place increasing by 10.2% .

Overall, the percentage of spend under management by procurement professionals has increased by 3% since FY 2012/13



There has been a significant increase in the percentage of spend managed by procurement professionals since FY 2012/13 in the large agency cohort, while the 0% result for the small cohort reflects that there is currently only one agency with one qualified procurement professional within that cohort.

The overall result of 8.2% of procurement staff being qualified and a closer look at individual agency results, shows significant room for improvement

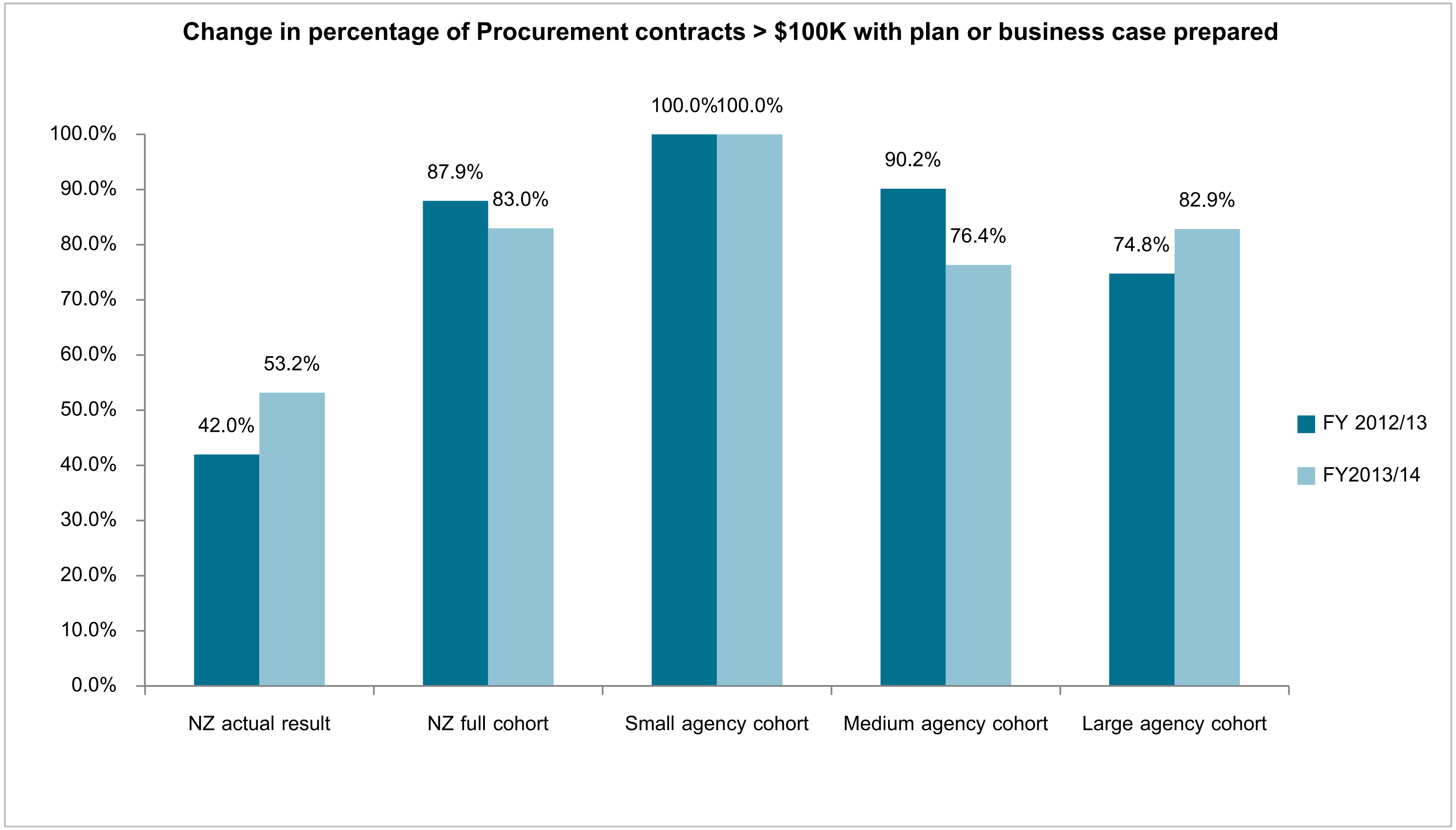


The number of qualified procurement staff rose from 5% in FY 2012/13 to 8.2% in FY 2013/14.

This year's result establishes a baseline of 13 of 26 (50%) of participating agencies having zero qualified procurement staff. This is an improvement from FY2012/13 where 17 out of 27 (63%) Agencies had zero qualified procurement staff, including three agencies with annual third party expenditure of $900m to $1.8b.

Procurement Functional Leadership has indicated high aspirations for improvement against this metric and anticipates positive change in future reports based on the pipeline of staff undertaking subsidised procurement qualifications.

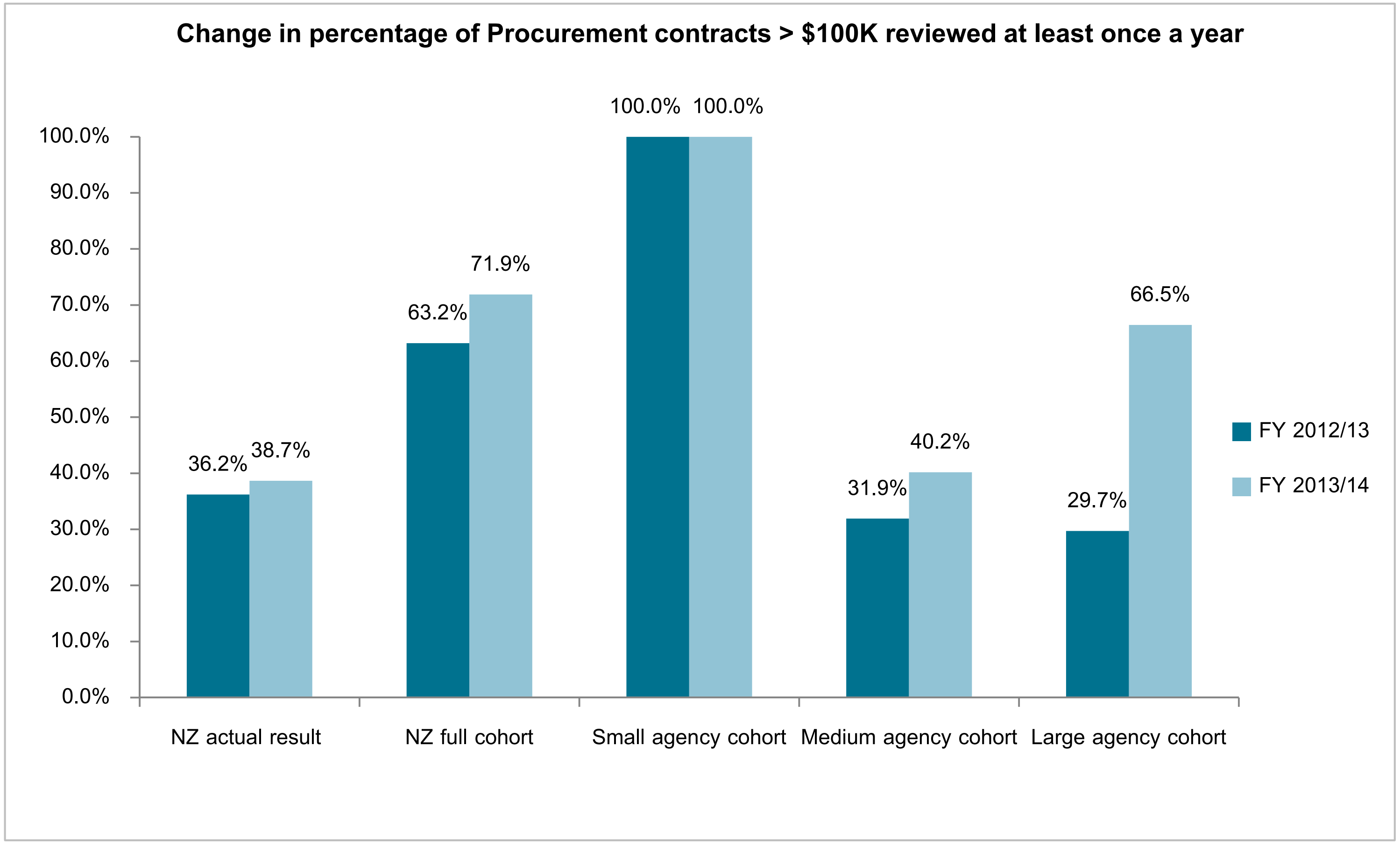
The small agency cohort reports a higher median percentage of Procurement contracts > $100k having plans or cases than the other cohorts



The New Zealand actual result is significantly lower than the cohort results, due to one agency in the medium agency cohort that has reported a significant number of contracts without plans or business cases in place.

This metric was introduced in FY 2012/13 and it is positive to see an increase of 11.2% in Procurement contracts with plans or business cases prepared in place for the NZ Actual result when compared to FY2012/13.

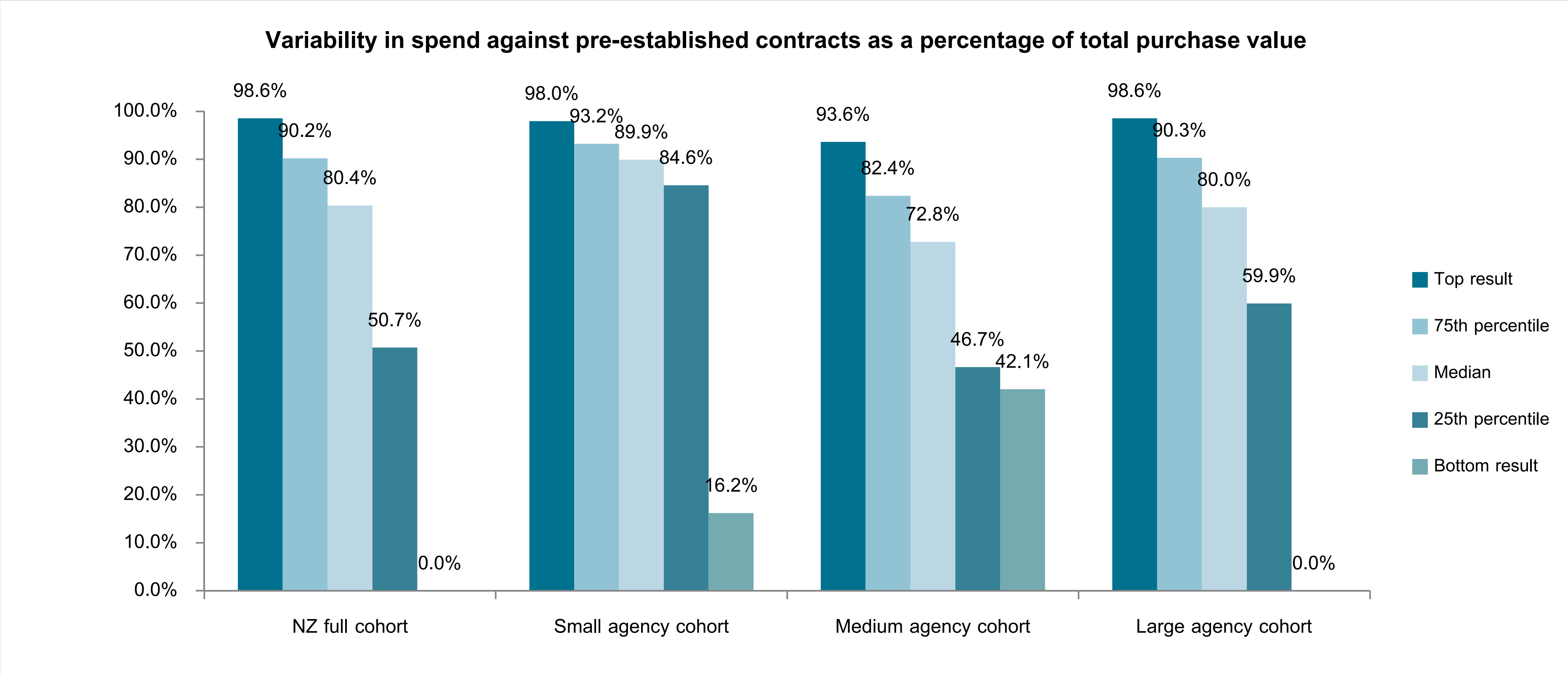
The small agency cohort reports a significantly higher median percentage of contracts > $100k being reviewed annually than the other cohorts.



However, both medium and large agency cohorts have increased by 8.3% and 36.8% respectively since FY 2012/13.

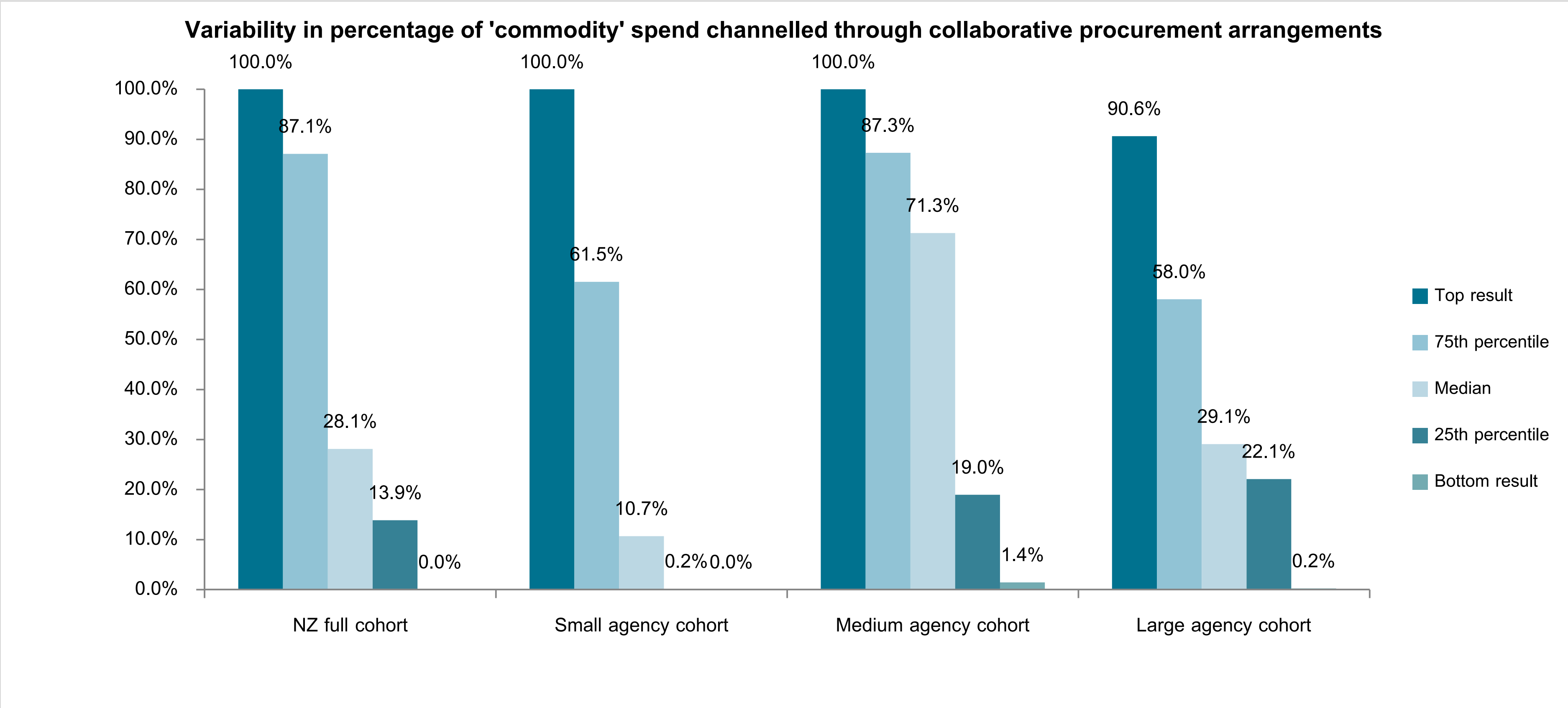
This was a new metric in FY 2012/13. It is easier for agencies within the small agency cohort to review all contracts over $100k due to the lower number of contracts within that level. It is also noted that only one agency in the small agency cohort records having any professionally qualified staff available to review these contracts.

High variability in the use of pre-established contracts within cohorts shows opportunities for agencies to learn from each other, regardless of size



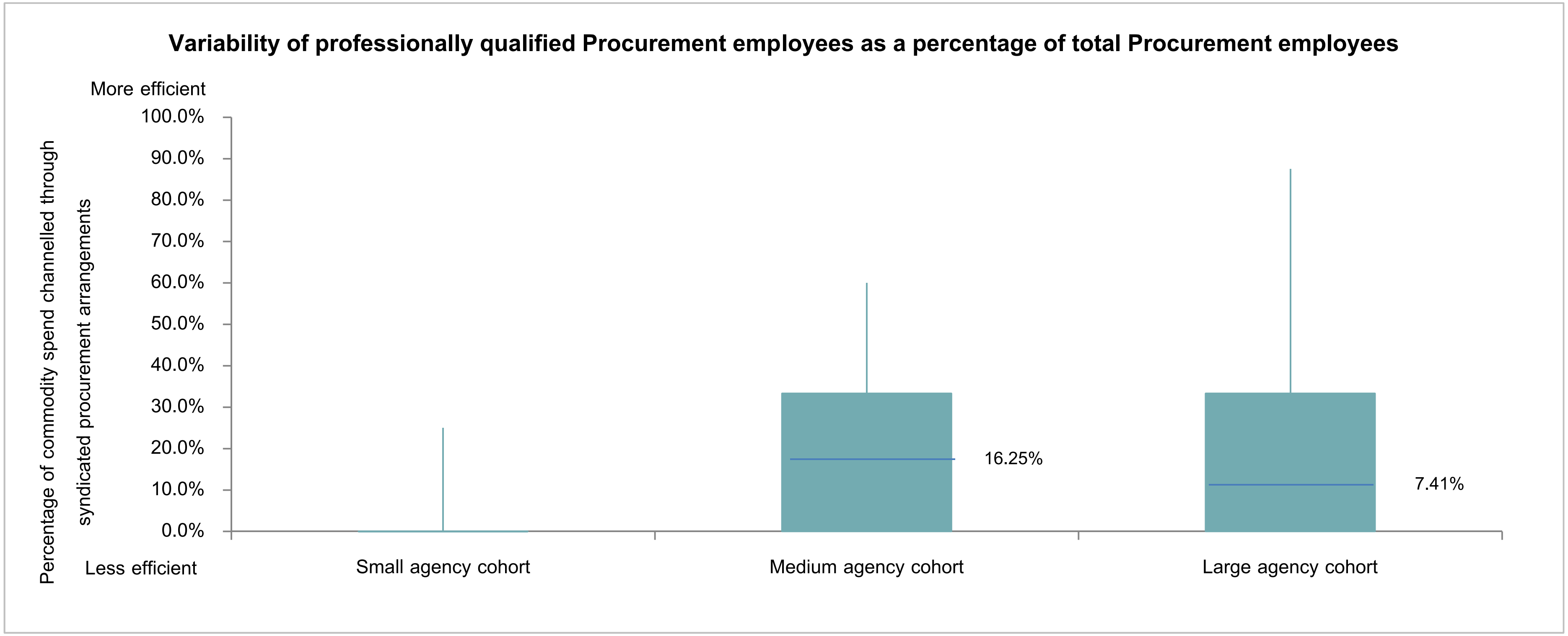
There is substantial variability between the bottom and top results across all cohorts. However, the median is high and relatively consistent across the cohorts.

High variability in the use of collaborative arrangements within cohorts also shows opportunities for agencies to learn from each other



This was a new metric in FY 2012/13 as the definition was changed to include all collaborative arrangements rather than syndicated procurement arrangements. The high variability between the bottom and top results indicate there is opportunity for agencies to take better advantage of collaborate procurement arrangements. The Medium cohort has the highest percentage of collaborative arrangements in place.

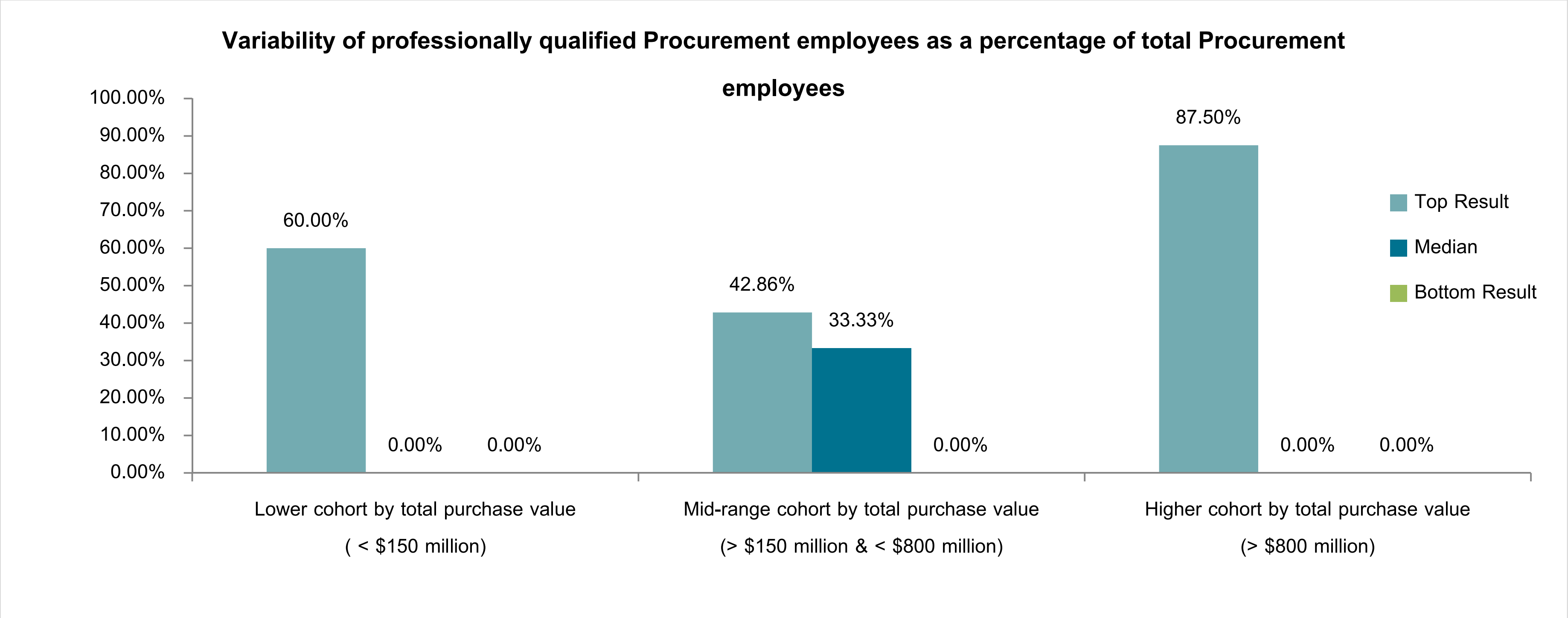
The percentage of qualified Procurement employees is variable within the medium and large agency cohorts, and there are none in the small cohort



The medium and large agency cohorts have median results of 16.25% and 7.41% respectively, whereas the small cohort result is zero. The number of qualified employees remains low, and there is only one agency that reports having professionally qualified employees in the small cohort.

Procurement Functional Leadership is supporting agencies to improve in this area.

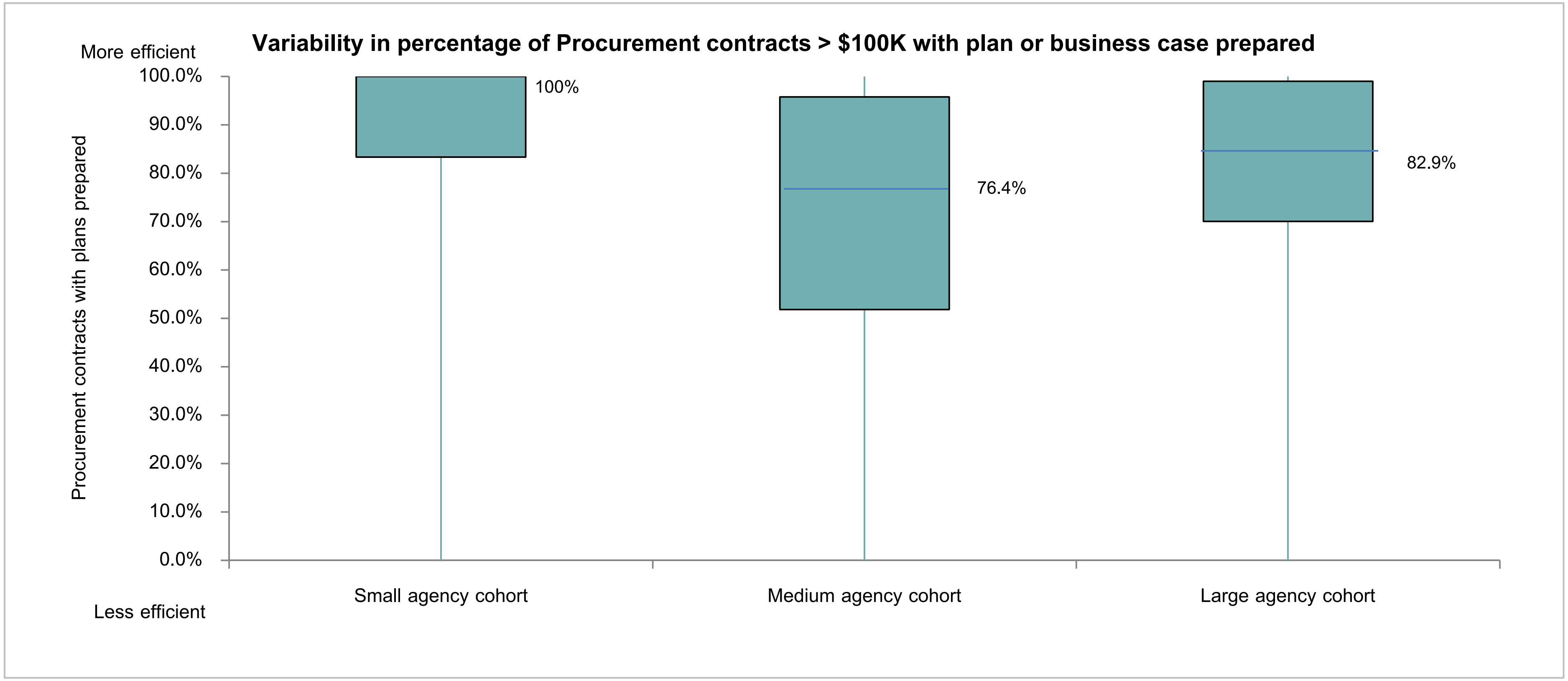
Variability regarding the percentage of qualified Procurement employees persists even when agencies are grouped into different cohorts with similar levels of third party spend



For this graph, agencies are grouped into cohorts based on size of third party expenditure (TPE):

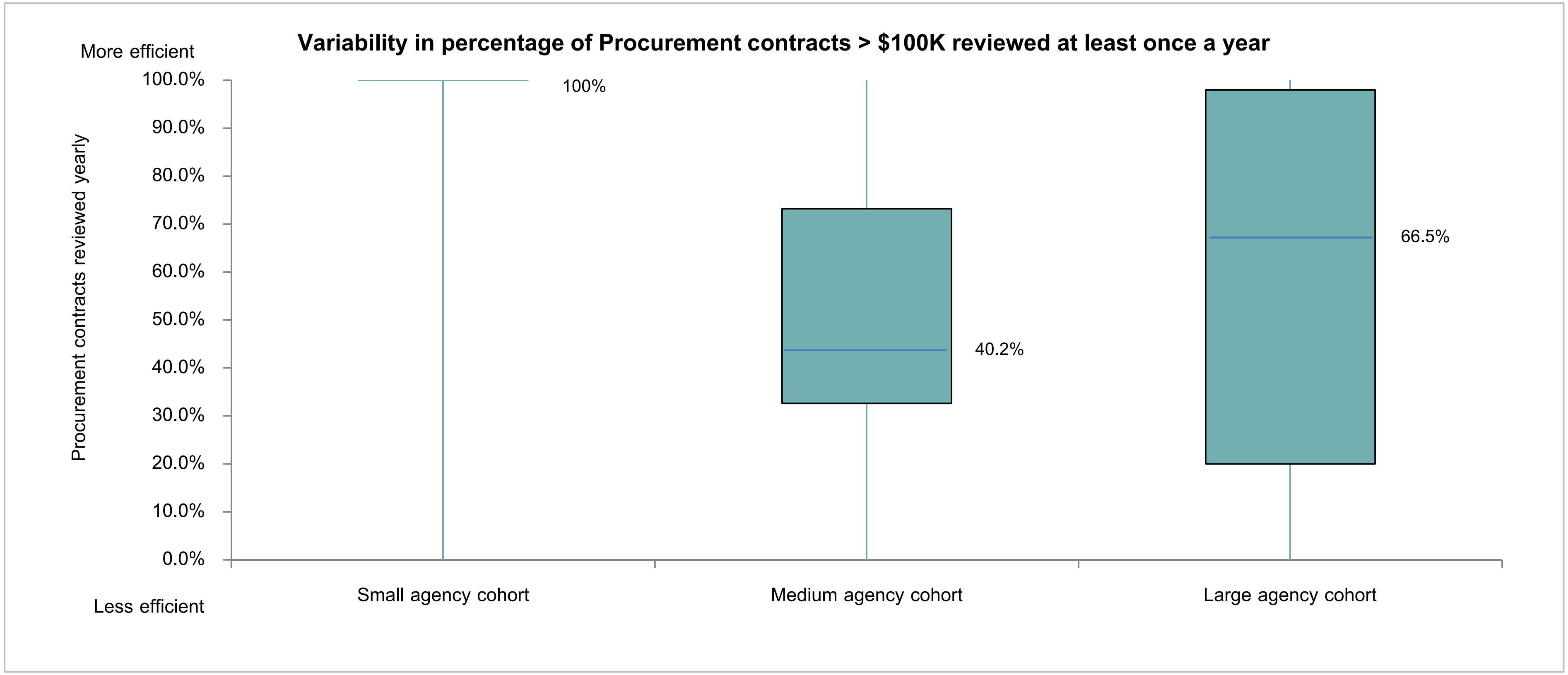
- The lower TPE cohort is made up of 12 agencies that individually have <$150m in TPE annually. Collectively, this group represents approximately 7% of total TPE
- The mid-Range TPE cohort is made up of nine agencies that individually have >$150m but <$800m in TPE annually. Collectively, this group represents approximately 27% of total TPE
- The higher TPE cohort is made up of five agencies that individually have >$800m but <$1.9b in TPE annually. Collectively, this group represents approximately 66% of total TPE.
- There has been significant improvement within the mid-range cohort with the median result increasing from 3.85% to 33.3% from FY 2012/13 to FY 2013/14.

There is a high level of variability in the percentage of Procurement contracts >$100k with business cases prepared within each cohort



The variability across cohorts indicates that agencies are not consistently following guidance from Procurement Functional Leadership. However, there has been an overall increase in the percentage of contacts over $100k that have business cases or plans in place when compared to FY2012/13. Variability between the upper and lower quartiles in the large cohort has also reduced significantly , with the lower quartile result in FY 2013/14 being 70.05% compared to 9.96% in FY 2012/13.

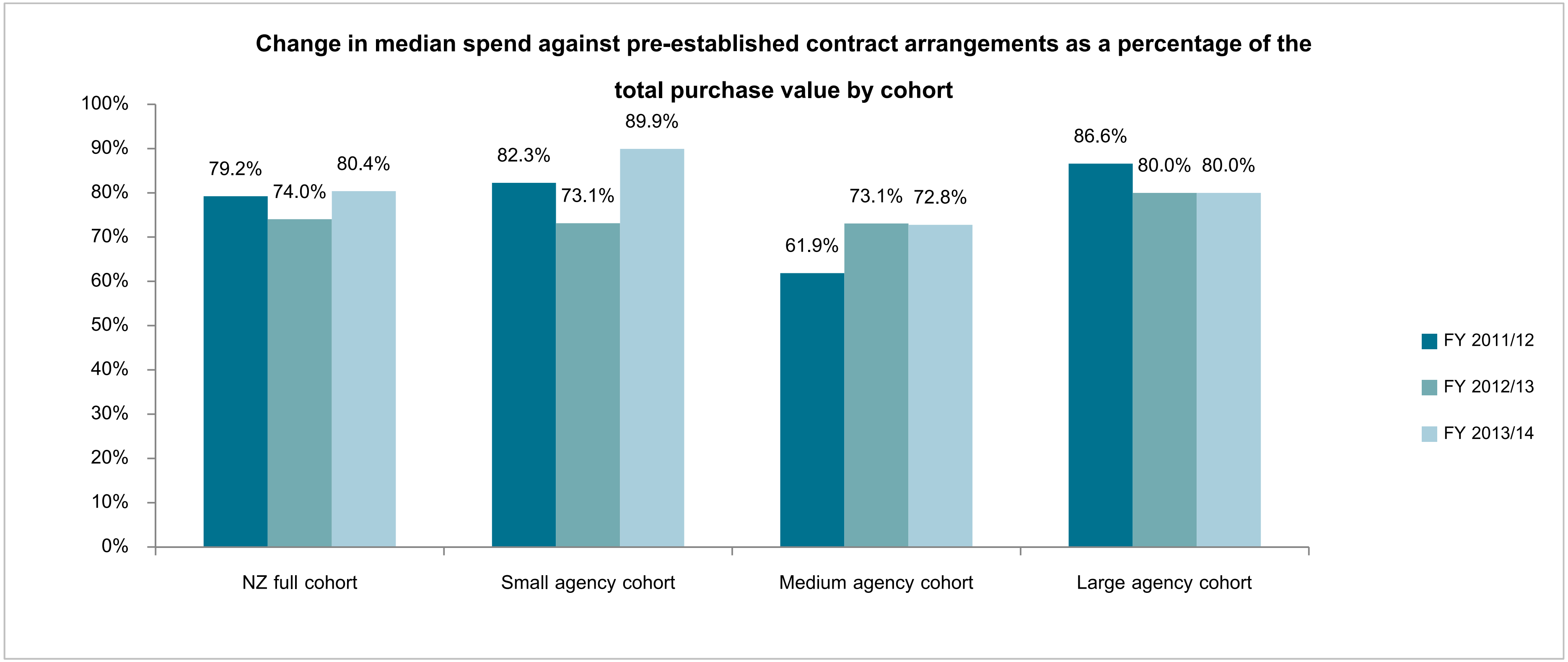
There is also a high level of variability in the percentage of Procurement contracts >$100k reviewed annually within each cohort



The variability across cohorts indicates that that agencies are not consistently following guidance from Procurement Functional Leadership.

Only two agencies in the small cohort did not have a100% result. The medium agency cohort lower quartile result increased form 4.96% in FY 2012/13 to 32.61 in FY 2013/14. There was significant increase in both the medium and large agency cohort upper quartile results being 29.71% to 66.45% and 82.63 % to 97.99% respectively .

Overall, the spend against pre-established contract arrangements since FY 2011/12 across the New Zealand full cohort has been relatively consistent



Compared with FY 2012/13 the medium and large agency cohorts are reasonably consistent whereas the small cohort has increased by 16.8%

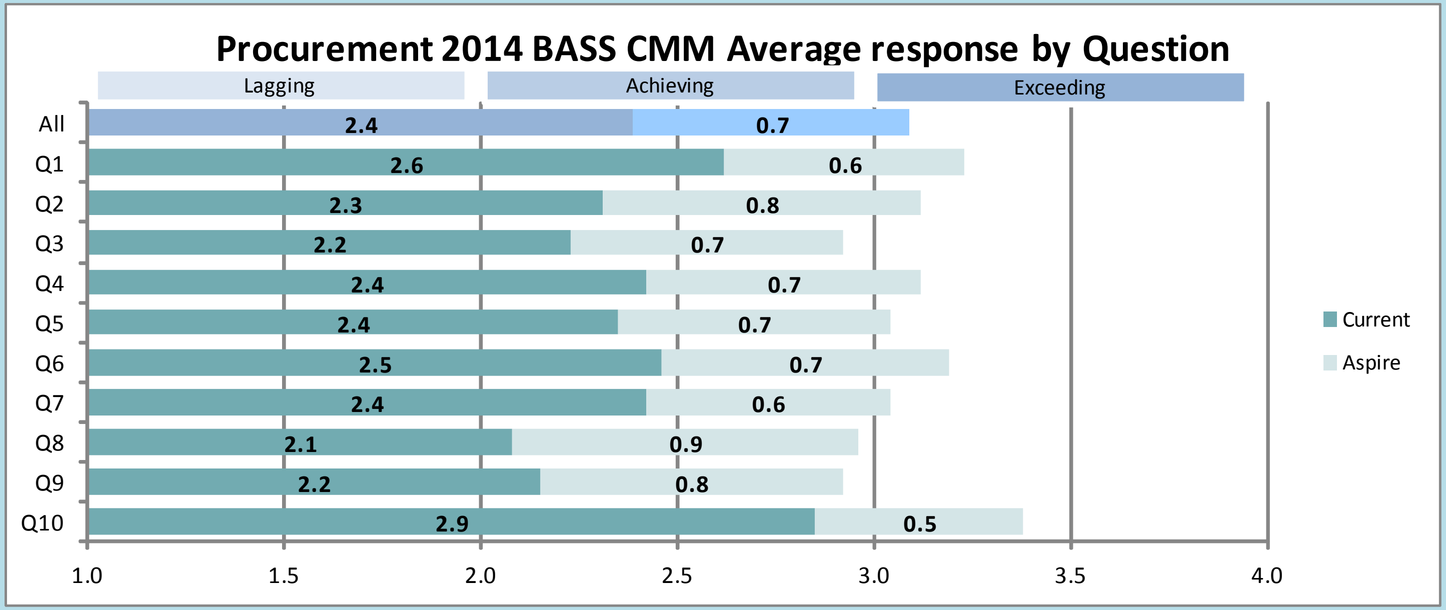
The Procurement Capability Maturity Model (CMM) was introduced in FY 2011/12 to improve the effectiveness measurement of the Procurement function

The CMM framework enables agencies to indicate current and future assessments of their procurement maturity, their priorities and any initiatives in progress.

Agencies were asked to respond to ten questions with a rating of 1-4 for both their current and aspirational state, where 1 = lagging, 2 = achieving, 3 = exceeding, 4 = leading.

The model is based on methodology from The Hackett Group.

Overall, agencies aspire to significantly improve the maturity of their procurement practices over the next two years



Q1: The profile of procurement in the organisation?

Q2: Supplier relationship management

Q3: Procurement strategy alignment with agency key result areas

Q4: Procurement function engage with agency stakeholders

Q5: Management of people and skills development

Q6: Governance and organisation of the procurement function

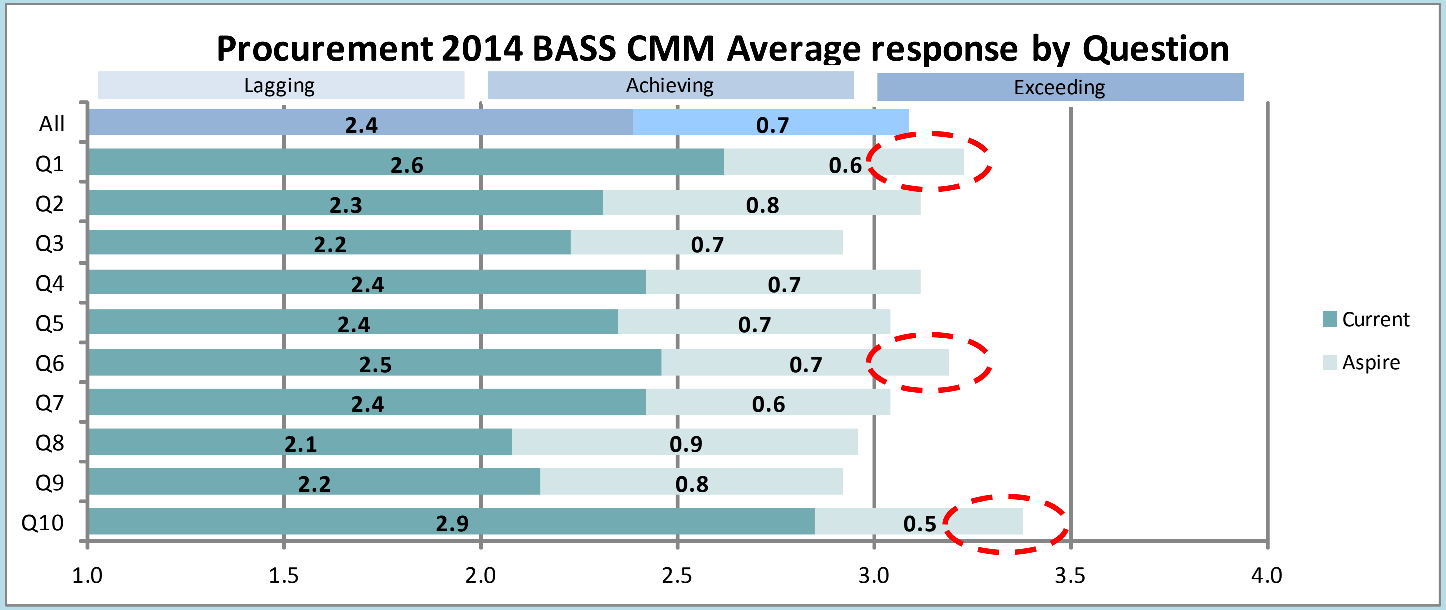
Q7: Sourcing and collaboration

Q8 Use of technology processes and tools

Q9: Knowledge and performance management

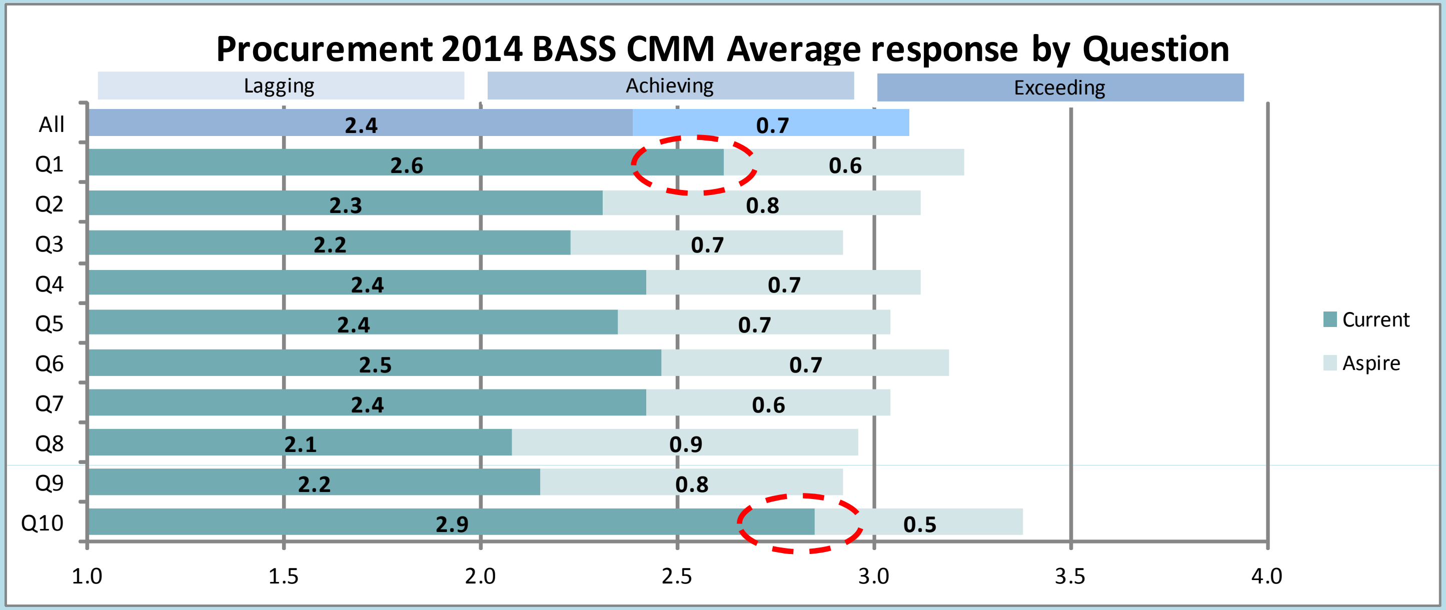
Q10: Alignment with policy and processes

Across agencies, the profile of procurement in the organisation(Q1), Governance and organisation of the procurement function(Q6), and alignment with policy and processes(Q10) have the highest level of aspiration



Q1: The profile of procurement in the organisation?
Q2: Supplier relationship management
Q3: Procurement strategy alignment with agency key result areas
Q4: Procurement function engage with agency stakeholders
Q5: Management of people and skills development
Q6: Governance and organisation of the procurement function
Q7: Sourcing and collaboration
Q8 Use of technology processes and tools
Q9: Knowledge and performance management
Q10: Alignment with policy and processes

Agencies also rated the profile of procurement in the organisation (Q1) and Alignment with policy and processes (Q10) as their most mature practices



Q1: The profile of procurement in the organisation?

Q2: Supplier relationship management

Q3: Procurement strategy alignment with agency key result areas

Q4: Procurement function engage with agency stakeholders

Q5: Management of people and skills development

Q6: Governance and organisation of the procurement function

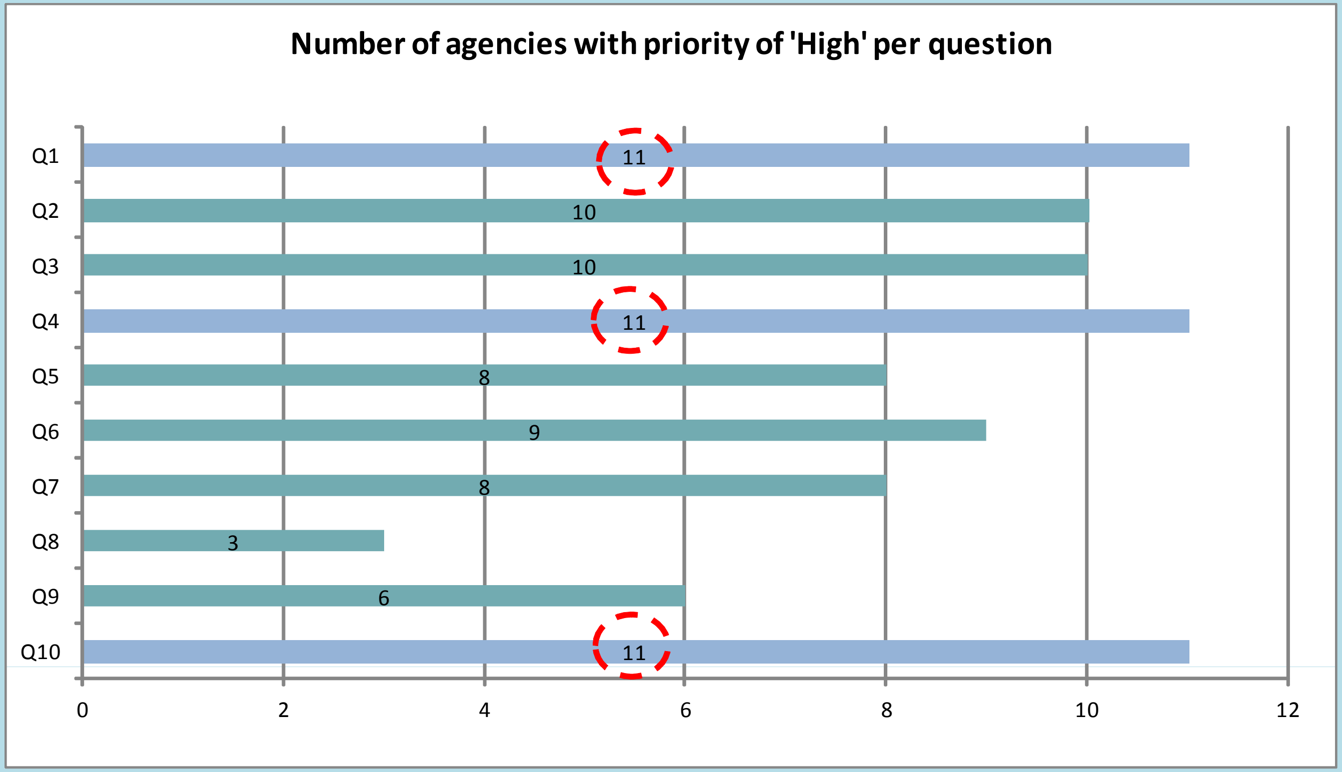
Q7: Sourcing and collaboration

Q8 Use of technology processes and tools

Q9: Knowledge and performance management

Q10: Alignment with policy and processes

The three highest priority areas for improvement are the profile of procurement in the organisation (Q1), procurement function engagement with agency stakeholders (Q4), and alignment with policy and process (Q10)



Q1: The profile of procurement in the organisation?

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Q5: Management of people and skills development

Q6: Governance and organisation of the procurement function

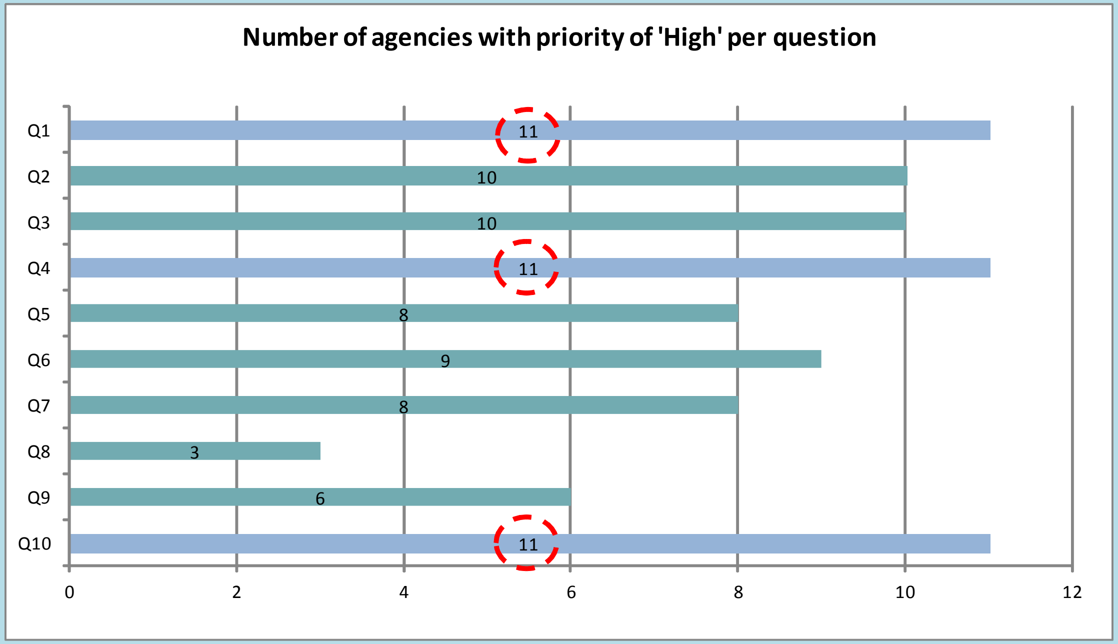
Q7: Sourcing and collaboration

Q8 Use of technology processes and tools

Q9: Knowledge and performance management

Q10: Alignment with policy and processes

...and the three areas with the most improvement activity are the profile of procurement (Q1), management of people and skills development (Q5), and alignment with policy and processes (Q10)

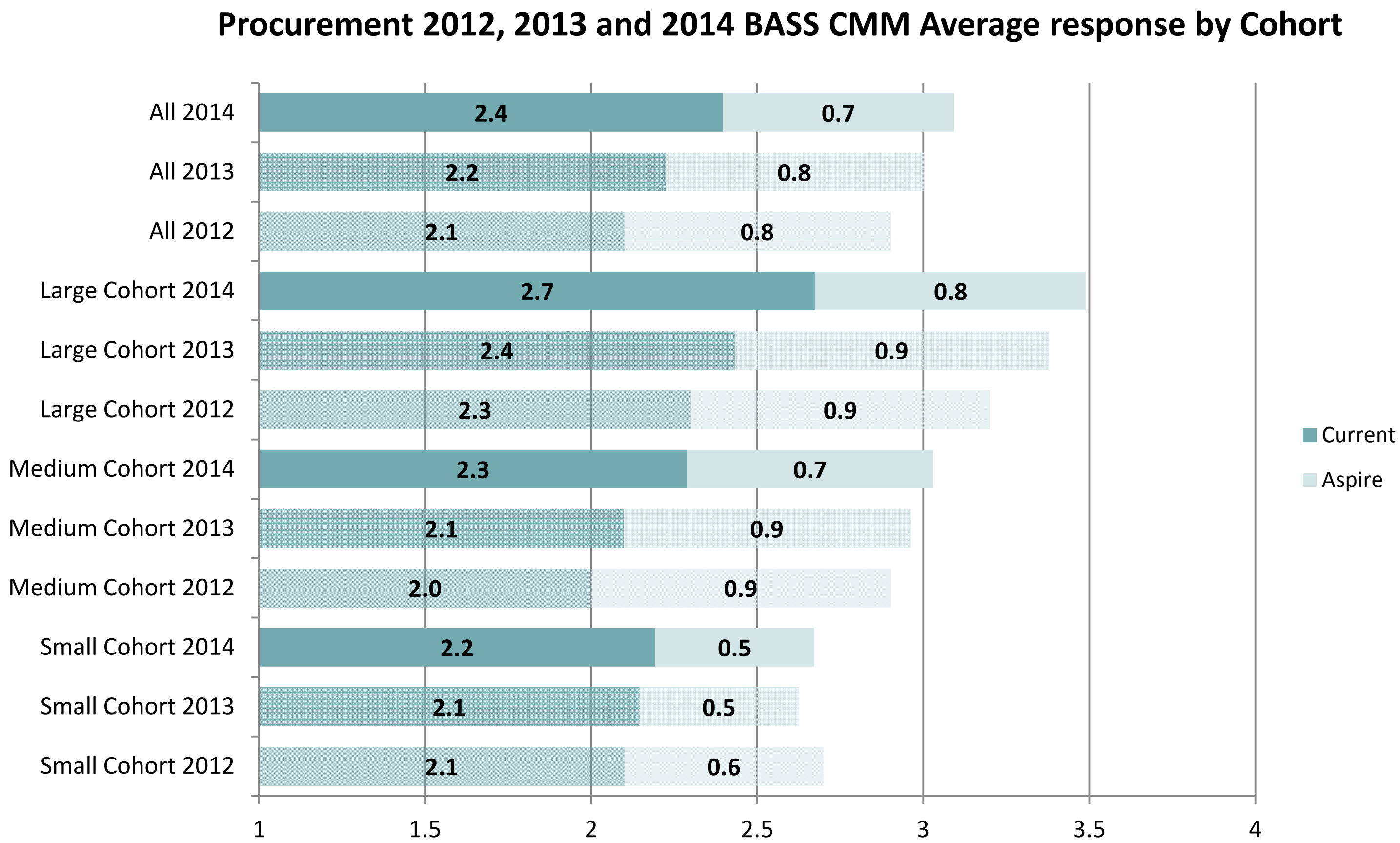


Number of Agencies with Initiatives in Progress

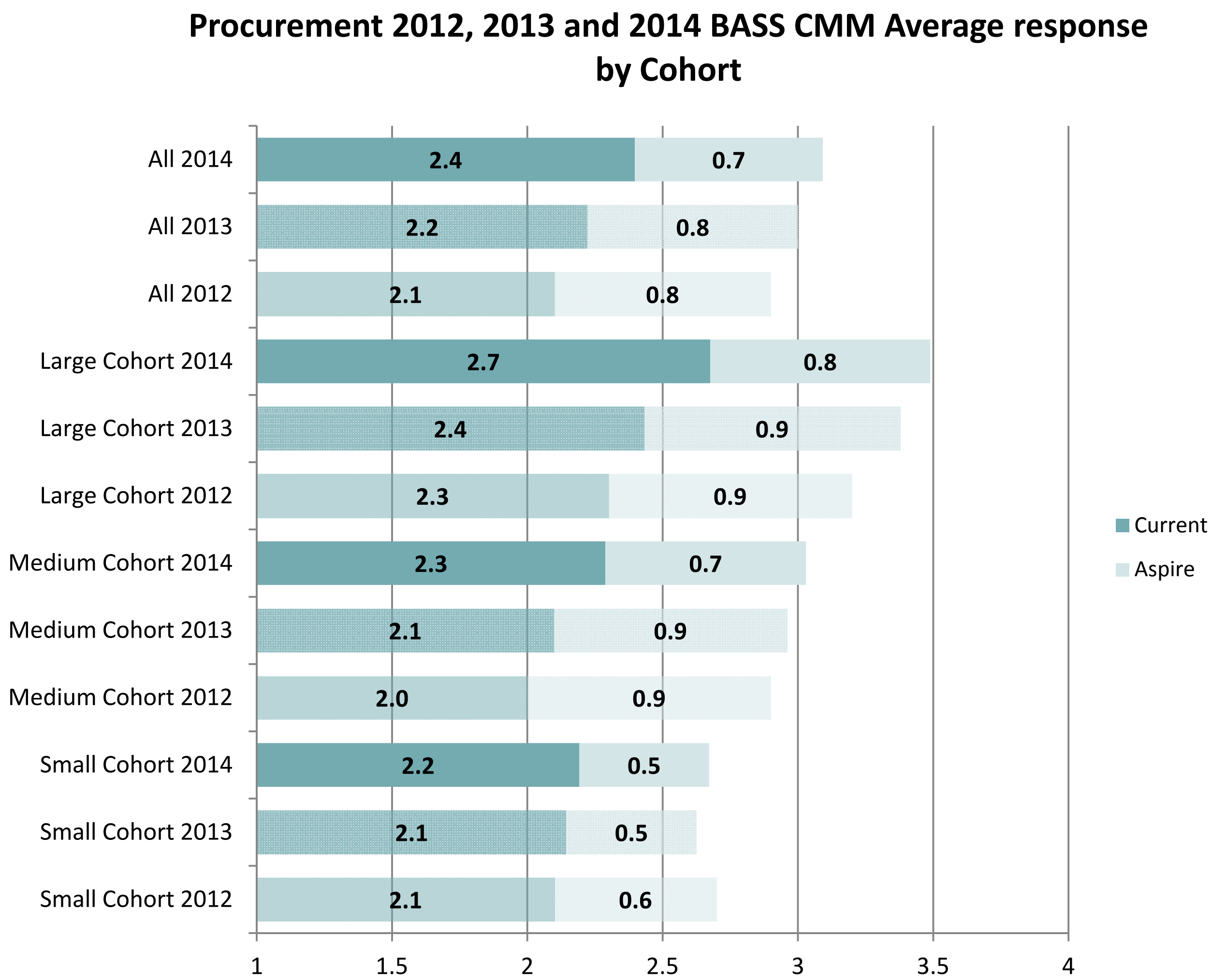
Q1 - 23
Q2 - 17
Q3 - 15
Q4 - 20
Q5 - 23
Q6 - 19
Q7 - 21
Q8 - 18
Q9 - 20
Q10 - 23

Q1: The profile of procurement in the organisation?
Q2: Supplier relationship management
Q3: Procurement strategy alignment with agency key result areas
Q4: Procurement function engage with agency stakeholders
Q5: Management of people and skills development
Q6: Governance and organisation of the procurement function
Q7: Sourcing and collaboration
Q8 Use of technology processes and tools
Q9: Knowledge and performance management
Q10: Alignment with policy and processes

All cohorts reported small improvements in their practice maturity levels since FY 2012/13, with the large cohort reporting the biggest improvement



The future aspiration has increased for the large cohort since FY 2012/13, whereas the other cohorts have remained relatively unchanged



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.

Benchmarking of Administrative and Support Services is guided by five principles:

1. **Metrics are selected with practitioners across government.** Selection is based on three criteria:
    - Metrics reflect performance – they provide meaningful management information that can support business decisions.
    - Results can be compared – they are comparable across New Zealand agencies and comparator groups.
    - Data is accessible within agencies – the measurement costs are reasonable.
2. **Methods and results are transparent.** The Treasury makes its metric calculation methods and underlying definitions publicly available along with the results of individual measurement agencies to promote transparency, facilitate discussion and debate, and to support collaboration with other jurisdictions undertaking similar exercises.
3. **Performance results should be understood within the operational context of each agency.** While agencies have common features, each has their own unique functions and cost drivers that need to be considered when interpreting results. For example, results can be expected to differ depending on whether an agency is asset intensive, has large service delivery activities, has a wide range of activities (eg, multiple votes) or is supporting significant non-departmental activity. Accordingly, benchmarking results are only a guide to relative performance, and conclusions regarding efficiency and effectiveness should be made in light of each agency's operational context, with comparators chosen according to which function within a particular agency is being reviewed.
4. **Results should be used constructively, not punitively.** In leading practice organisations, performance information supports discussion, decision making, and learning.
5. **The quality of management information should improve each year.** Metric sets and data collection methods are refined and improved year-to-year based on lessons learned.

Quality of Management Information (1 of 3)

There are concerns with the quality of cost 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. The introduction of the Procurement Management Capability Maturity Model (CMM) in FY 2011/12 has enabled agencies to indicate current and future levels of maturity, their priorities and any initiatives in progress. Improvements were made to the effectiveness measures in FY 2012/13 to better measure procurement practices aligning with Procurement Functional Leadership to measure the behaviors and practices sought to improve the effectiveness of the procurement function. This is the second year of reporting for these metrics and it has resulted in more accurate reporting processes by agencies and improving results. However, the quality of data may continue to vary due to self-assessment and self-reporting. No peer review has been undertaken across the time series.

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 has been able to provide a better picture of procurement function performance in this year's report, and look forward to further improvements in future years.

Quality of Management Information (2 of 3)

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 may be considerably more mature or aspire to higher levels of maturity than a small policy agency.

Measurement practice across agencies and international comparator groups. Agencies use common definitions and data collection practices, and these definitions and practices are aligned with those used by three main sources of comparator data: UKAA, APQC, and The Hackett Group. Nevertheless, results will be influenced by judgements necessary in applying these definitions and the management information systems used by agencies to support data collection.

Caveat to previous year's data: At the submission of data each year for the current reporting period, agencies have the opportunity to make reflective adjustments to the previous year's submitted data. As a result there may be a small difference between prior year figures in this report when compared with past years published figures.

Quality of Management Information (3 of 3)

Caveat to time series: The Ministry of Business, Innovation and Employment (MBIE) merger, which was effective from 1 July 2012, had an impact on the comparative metrics across cohorts. The significant lower cost for the large cohort, and higher costs for the small and medium cohorts in FY2011/12, related to the merger of the Department of Building and Housing (DBH), Department of Labour (DOL), Ministry of Economic Development (MED) and the Ministry of Science and Innovation (MSI) to form the Ministry of Business and Innovation and Employment (MBIE). DBH, DOL, and MED were previously in the small, medium and medium cohorts respectively. MSI did not previously participate in BASS. DBH, DOL and MED spent $112,000 , $279,000 and $323,000 respectively on Procurement in FY2011/12. If these costs ($714,000) were reflected in the large cohort for FY2011/12 the relative cost would be $41.1m.

Where there are concerns with data quality, the underlying problems are based in the maturity of measurement methods and are common in the private and public sectors around the world. For example, agencies are asked to only include function activity costs for staff that spend more than 20 percent of their time on the relevant function. The implication of this data collection practice is that, if agencies have highly devolved processes for a function, the true cost of the activity is likely to be understated as the data excludes line managers' time and effort.

Management Practice Indicator (MPI) and Capability Maturity Model (CMM) scores are self reported. It should be noted that MPI and CMM scores are self reported by agencies, and the responses have not been moderated across agencies for consistency. In these instances, the focus should be on the reported score for an agency and how this has changed over time, rather than comparison of scores across agencies.

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/2013-14

A full set of BASS data can also be accessed via the Treasury website:
http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2013-14

Questions about the findings in this report should be directed to performance.info@treasury.govt.nz