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Office of the  
Minister for Economic Development

**The Chair**  
Cabinet Economic Development Committee

## ENHANCING THE EFFECTIVENESS OF GOVERNMENT PROCUREMENT POLICY

### Proposal

- 1 This paper outlines the effectiveness of existing government procurement policy, particularly in how it supports participation of New Zealand suppliers in government procurement.
- 2 To enhance the value derived from government procurement, this paper proposes a coordinated and targeted approach to leveraging additional outcomes from government contracts.

### Executive Summary

- 3 Cabinet directed a report back on the effectiveness of government procurement policy (CAB-18-MIN-0044 refers). Of particular interest was whether the policy supports New Zealand businesses.
- 4 The New Zealand Government spends approximately \$41 billion each year buying goods and services from third-party suppliers and providers. Effective procurement helps to deliver better public services and realise value for money.
- 5 The government procurement policy framework in New Zealand consists of a combination of principles, rules and good practice guidance. The policy framework encourages procurement practice that delivers good commercial outcomes, ensures accountability and transparency, and reflects commitments made in New Zealand's free trade agreements.
- 6 The Government Rules of Sourcing (the Rules) ensure that New Zealand businesses are able to bid for government contracts and can expect that the bid will be assessed on its merits. The Rules also include a number of "business-friendly" provisions, such as minimum times for responding, visibility of the procurement pipeline, and permitting joint bidding. Available statistics indicate that the majority of government contracts are awarded to New Zealand-based businesses, but that collection and reporting of statistics could be improved.
- 7 While the government procurement policy framework is fundamentally "fit for purpose", I believe government contracts could be more explicitly leveraged to support the Government's economic strategy and broader outcomes. This aligns with international practice whereby governments are increasingly leveraging public contracts to achieve social, economic and environmental benefits that go beyond the immediate aim of purchasing goods, services and capital works.
- 8 I want to ensure that additional outcomes are leveraged and greater value derived from investments without unduly adding cost and complexity to government contracts. I therefore propose Cabinet agrees, in principle, to four priority outcomes that agencies collectively leverage in the first instance, namely:
  - 8.1 *Increase New Zealand businesses' access to government procurement.* This gives effect to the Labour – New Zealand First coalition agreement. It would have a

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particular focus on tailored support to specific types of firms that may find it more difficult to access government procurement opportunities or participate in the supply chain, and/or who are a government priority for inclusive growth (e.g. ICT, Māori, & Pacific firms, and firms in surge regions).

- 8.2 *Increase the size and skill level of the domestic construction sector workforce* and provide employment opportunities to targeted groups. Cabinet has already agreed that agencies will be required to leverage skills development in construction projects valued over \$10 million (DEV-18-MIN-0187). Employment opportunities for targeted groups (e.g. NEETs, women, Māori, Pacific people) are not explicitly leveraged, however, other initiatives of the Construction Skills Action Plan will support employment opportunities for these targeted groups within those contracts.
  - 8.3 *Improve conditions for workers and future-proof the ability of New Zealand business to trade.* Agencies would require suppliers in targeted industries to ensure their business, sub-contractors and domestic suppliers comply with employment standards and demonstrate good health and safety (H&S) practice. This priority aims to protect workers from unfair and unsafe behaviour, and incentivise well-performing firms while ensuring they are not undercut by firms who have reduced costs through adopting poor labour practices.
  - 8.4 *Support the transition to a net zero emissions economy and assist the Government meet its goal of significant reduction in waste by 2020.* Agencies would support low-waste and low-emissions goods and services and encourage innovation to reduce significantly climate and waste impacts from goods and services. Work is underway to reduce the emissions profile of the government fleet, reduce emissions from stationary heat, and support the phasing down of HFCs. Other options will be assessed and a procurement work programme will be developed with a focus on areas with the highest emissions and waste reduction impact. This would include consideration of the life cycle environmental benefits of timber reflecting the Think Timber policy currently being developed by the Ministry for Primary Industries.
- 9 We can't prioritise everything in every type of contract. I propose we start with a targeted approach, so we can focus on effectively leveraging a main outcome from specific industries and contracts, and then expand to additional outcomes and contracts over time. Targeting avoids overloading any one industry or government contract with too many additional requirements, and enables agencies to pilot and improve on new procurement approaches before scaling up.
- 10 Table 1 outlines where I propose we target our main focus initially. To give effect to priority 1, NZGP will also update the Government Rules of Sourcing to more explicitly and overtly support New Zealand business, and develop rules and guidance on how to optimise the use of New Zealand businesses in government procurement. Tailored support mechanisms will also be developed to increase the ability of specific types of firms to participate more generally in government procurement processes.

<b>Table 1.</b> The main outcome focus for targeted government contracts	
<b>Government contract</b>	<b>Main focus</b>
Construction contracts	Training (including H&S) (outcomes 2 & 3)
AoG vehicles	Reducing emissions (outcome 4)
Stationary heat in government buildings	Reducing emissions (outcome 4)
AoG office consumables	Reducing waste (outcome 4)

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ICT services/computer software	Innovation & local content (outcome 1)
Cleaning contracts	Employment standards (outcome 3)
Security contracts	Employment standards (outcome 3)
Forestry contracts	H&S and employment standards (outcome 3)

- 11 Agencies can continue to voluntarily leverage other outcomes but there will be a level of requirement and coordinated support for agencies to leverage the priority set within those targeted contracts.
- 12 Centralised monitoring and reporting will be necessary to track agency adoption and assess how effective the approach is in delivering on priority outcomes. I propose that agencies are required to annually report to New Zealand Government Procurement (NZGP) and then through to Cabinet as part of a wider reporting requirement to enhance centralised information of government procurement activity.
- 13 If Cabinet agrees in principle to the four priority outcomes, I will instruct the Ministry to work with agencies and stakeholders to undertake a more comprehensive assessment of the most appropriate contracts/and or industries to be targeted. This assessment will also include the level of requirement to place on agencies for each outcome, cost implications, reporting requirements and proposed changes to the procurement policy framework (including the Rules) to operationalise the approach. I will report back to Cabinet with this level of detail in February 2019.

### Background

- 14 On 19 February 2018, Cabinet directed the Ministry of Business, Innovation and Employment (the Ministry), Treasury and the Ministry of Foreign Affairs and Trade (MFAT) to report back to the Cabinet Economic Development Committee on whether existing procurement policies and processes are fit for purpose, particularly in supporting participation of New Zealand suppliers in government procurement (CAB-18-MIN-0044 refers).
- 15 Reforming government procurement is an agreed Cabinet Priorities Committee 2018 initiative to help deliver responsible governance with a broader measure of success.

### Government procurement in New Zealand

#### *Overview of procurement responsibilities*

- 16 The New Zealand Government spends approximately \$41 billion each year buying goods and services from third-party suppliers and providers, accounting for around 18 percent of New Zealand's GDP.
- 17 In 2012, a functional leadership programme was created for procurement to drive performance across the state services through:
  - a. improving the capability (commercial skills) of agencies
  - b. making it easier to do business with government
  - c. delivering better value for money through collaborative contracting.
- 18 The Chief Executive of the Ministry 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.
- 19 Government procurement in New Zealand is centre-led as opposed to centralised. Each agency is responsible for its decisions and practices relating to the purchase of goods and services. Although the Ministry has established a range of all-of-government

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contracts for commonly used goods and services that agencies purchase, these contracts only account for approximately 3.8 percent of government's annual procurement spend.

### ***Government Procurement Policy Framework***

- 20 The government procurement policy framework in New Zealand consists of a combination of principles, rules and good practice guidance. It aims to support and encourage procurement practice that delivers good commercial outcomes. In contrast, some other international frameworks, such as in the European Union, have very prescriptive rules which result in procurement practices that are more compliance-driven.
- 21 The key objectives of the government procurement policy are to:
- a. strengthen accountability for how government agencies spend taxpayers' money
  - b. enable agencies to obtain value for money in their procurement activities
  - c. facilitate the participation of New Zealand businesses in domestic government procurement
  - d. provide greater access to, and facilitate the participation of New Zealand businesses in, foreign government procurement markets.
- 22 There are five Principles that apply to all government agencies when buying goods and services and that are the foundations for good procurement practice:
- a. plan and manage for great results
  - b. be fair to all suppliers
  - c. get the right supplier
  - d. get the best deal for everyone
  - e. play by the rules.
- 23 The Government Rules of Sourcing (the Rules) support, and build upon, the Principles and are flexible enough to be applicable to all types of procurement, from common goods and services through to complex social services. The Rules 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.
- 24 The Rules (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 value for money, not the cheapest price. The Rules 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. The Principles and Rules are complemented by a number of good practice guides that assist both government agencies and suppliers in the practical aspects of procurement.
- 25 The Rules are mandatory for public service departments and some Crown entities - approximately 135 agencies in total. The remaining State Services agencies, as well as those in the state sector and public sector, are either expected or encouraged to apply the Rules as good practice. More specifically, school Boards of Trustees, universities, state-owned enterprises and local government are encouraged, but not required, to apply the Rules.
- 26 New Zealand is generally internationally perceived as having an exemplary government procurement framework and as being open, fair and transparent. In the World Bank's

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*Benchmarking Public Procurement 2017* report, New Zealand scored highly on the quality of its tender processes and is highlighted as having effective and efficient payment and complaints systems<sup>1</sup>.

### **Agency procurement capability contributes to the quality of practice**

- 27 While the government procurement policy framework sets the environment within which government agencies must conduct their procurement, the quality of government's procurement activity will depend on the procurement capability of agencies and the staff that undertake procurement activities.
- 28 Considerable work is underway in improving procurement capability across government. The Ministry has developed a number of training courses, guidelines and tools, as well as launching a graduate programme, subsidising procurement study and developing a tool for agencies to assess their procurement functions. Improving agency procurement capability will remain a key focus of the procurement functional leadership programme. This includes training and guidance on implementing the priority outcomes that are discussed later in this paper.

### **Is Government Procurement Policy working for New Zealand businesses?**

#### **Business views**

- 29 Businesses can be, and often are, critical about government procurement. They have been most vocal about large contracts being awarded to offshore suppliers – such as the Christchurch Convention Centre contract, which was awarded to an Australian-based supplier that then engaged its own supply chain, rather than hiring local firms, to do the sub-contracting work. Some New Zealand businesses would like to see New Zealand take the *Buy Australian, Hire Australian* approach of some Australian states and territories.
- 30 Businesses also comment on a range of other government procurement practices including:
- the length of time that tenders are open for response;
  - poorly written tenders that either “under describe” or “over prescribe” requirements so as not to allow for innovation;
  - failure to manage panel contracting arrangements to ensure that the successful panel suppliers get a reasonable amount of work;
  - inconsistency in providing a good debrief to unsuccessful tenderers so that they learn what needs to be done differently to succeed in the future; and
  - the perception that contracts are awarded on the basis of lowest price even though the Rules clearly specify “best value for money over whole of life”.

#### **Do the Rules support New Zealand businesses?**

- 31 Under the policy framework, businesses (New Zealand-based and offshore) are able to access all government contracting opportunities, and can expect that their bid will be assessed on its merits, not country of origin.
- 32 The Rules require mandated government agencies to openly advertise contracting opportunities that are over a value threshold of \$100,000. These opportunities are advertised on the Government Electronic Tenders Service (GETS), a web portal that is well-known in New Zealand and subscribed to by approximately 45,000 organisations.
- 33 In addition, the Rules:

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<sup>1</sup> <http://bpp.worldbank.org/~media/WBG/BPP/Documents/Reports/Benchmarking-Public-Procurement-2017.pdf>

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- permit internationally-recognised methods of assisting SMEs, such as joint bidding, dividing contracts into lots, and minimum time periods to respond;
- require agencies covered by the Rules to provide visibility for government of the pipeline of procurement opportunities by publishing information on their forward procurement plans;
- require agencies to provide suppliers with information on why their tender was not successful; and
- encourage agencies to engage with suppliers, particularly in the planning stages of the procurement.

### ***Data on New Zealand business participation***

- 34 There are various pieces of information/data to indicate the level of participation in government procurement and contract awards to New Zealand businesses. However, as the information gathered centrally is limited, there is no government-wide picture of government procurement activity.
- 35 The information that is available indicates that the majority of government contracts are awarded to businesses with a New Zealand address.
- 36 Since July 2014, 98 percent of all government contracts and 96 percent of the declared value went to a supplier with a New Zealand address<sup>2</sup>. Although not all of these businesses would be New Zealand-owned, their New Zealand presence implies that many of the benefits (e.g. employment, taxes) would accrue within New Zealand.
- 37 These statistics do need to be viewed with some caution as the quality of procurement information is variable across government, only a portion of data is reported in GETS centrally, and agencies do not tend to explicitly record information on the profile of successful suppliers.
- 38 More broadly, the results of the Business Operations Survey 2017 conducted by Statistics New Zealand show that many New Zealand businesses supply to government. Of businesses with at least six employees, approximately 10 percent state that government is their main customer, and nearly a third say that they supply to central government in some capacity (either as their main or as a secondary customer). Sixteen percent reported that they are subcontractors in government contracts.
- 39 Although current procurement information provides a proxy of the current state of play, it is incomplete and does not provide sufficient detail to give a system-wide view. I propose that a more detailed view of government procurement activity is collected, applying consistent terms for defining and interpreting data. This includes an agreed definition of a New Zealand business in the context of government procurement.

### ***Exporting to Government procurement markets***

- 40 Trade and exporting are highly important to the New Zealand economy. Government procurement markets are sizeable in most countries – they represent about 15 to 20 percent of GDP in most OECD countries. It is estimated that the world's government procurement market is valued between US\$7.6 and US\$11.4 trillion a year<sup>3</sup>, a huge potential market for New Zealand businesses. There are also some domestic industries, such as medical and defence technologies, which supply predominantly to governments here and abroad.
- 41 In order to ensure that New Zealand businesses have access to these markets, New Zealand aims to negotiate comprehensive government procurement provisions in its free

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<sup>2</sup> Data obtained from the Government Electronic Tenders Service (GETS) on 28 November 2017. Note that these figures are indicative only, as it relies on agencies to input the information into the GETS system.

<sup>3</sup> Figure represents 10-15% (the average procurement spend by GDP) of the World Bank's figure for Gross World Product for 2016 (US\$75.8 trillion)

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trade agreements<sup>4</sup>. A high quality government procurement agreement will include comprehensive commitments for specifically-named agencies to conduct covered procurement in certain ways. More recently, government procurement chapters have also started to include measures relating to sustainability, labour standards and facilitating participation by micro, small and medium-sized enterprises.

- 42 However, even in the most comprehensive agreements, negotiated commitments do not usually apply to all of New Zealand's procurement activity. Whether a specific procurement activity is covered by an agreement will depend on what types of commitments have been agreed to, the entity doing the procurement, the value of the procurement, and whether any relevant exemptions or exclusions apply.
- 43 As a general principle, this access is reciprocal and we need to reflect this openness in our own procurement practice. Our commitments to our trading partners prohibit "buy local" requirements for certain procurement. However, there is much that agencies can do within the framework of, and consistent with, our international obligations to make it easier for New Zealand businesses to compete and win government contracts.
- 44 The value of trade agreements that include government procurement is illustrated by the experience of ARANZ Medical, a producer of medical scanners exported to the United States. Prior to New Zealand's accession to the WTO Agreement on Government Procurement (GPA), ARANZ Medical was not able to sell its products directly to the US Government. It outsourced its manufacturing to Australia as a workaround, taking advantage of the US-Australia FTA. After New Zealand's accession to the GPA, ARANZ Medical can now export products from New Zealand and has since moved its Australia-based manufacturing back to Christchurch, keeping jobs in New Zealand rather than offshore.

### **Conclusion**

- 45 Overall, New Zealand's government procurement policy framework is effective. It treats businesses fairly, is open and transparent, and encourages good procurement practice. It promotes the use of simplified processes and documentation, early engagement with the supply market, and early notice of opportunities. It supports New Zealand's exporters as tender responses are assessed on the basis of merit rather than country of origin. This enables New Zealand businesses to compete for government contracts in our trade partner countries on the same basis. I note that the Ministry will continue to work with agencies to improve procurement practices.

### **Enhancing the policy framework to deliver greater value from procurement**

#### ***Procurement can support the Government's economic strategy***

- 46 While the government procurement policy framework is fundamentally "fit for purpose", I believe government contracts could be explicitly leveraged to support the Government's economic strategy and broader outcomes. However we need to give clear direction on the priority outcomes we want to leverage, and match those with appropriate types of government contracts.
- 47 Governments internationally are increasingly leveraging public procurement to achieve social, economic and environmental benefits that go beyond the immediate aim of purchasing goods and services. While New Zealand's current procurement policy framework provides a strong platform to enable this approach, public sector practice is modest compared to many countries. However, interest is growing and agencies, stakeholders and Ministers have identified a large number of outcomes they wish to

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<sup>4</sup> New Zealand FTAs which contain government procurement provisions include: New Zealand Australia Closer Economic Relations; the Australia New Zealand Government Procurement Agreement; Singapore/New Zealand Closer Economic Partnership; Thailand/New Zealand Closer Economic Partnership; Trans-Pacific Strategic Economic Partnership; Hong Kong, China/New Zealand Closer Economic Partnership; Korea/New Zealand FTA; World Trade Organisation Agreement on Government Procurement; and Comprehensive and Progressive Trans-Pacific Partnership (subject to implementation).

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leverage through procurement. This includes the recent Cabinet decision to leverage training in construction contracts as part of the Construction Skills Strategy Action Plan (DEV-18-MIN-0187).

### ***Prioritising a set of outcomes would increase impact and better manage costs***

- 48 I want to ensure that additional outcomes can be leveraged from procurement and greater value derived without unduly adding cost and complexity to government contracts. Price will always be relevant, and not all objectives can be prioritised in any one procurement contract. I therefore propose Cabinet agree to a set of priority outcomes that agencies are collectively required to leverage in targeted contracts. If this is not done, the broad and varied objectives for government will be difficult to implement and there will be less accountability for the outcomes we want.
- 49 Taking a prioritised and coordinated approach better enables government to:
- target effort where the greatest benefits can be leveraged;
  - harness the public sector's collective purchasing power into influencing certain markets;
  - embed the procurement lever into broader strategies for delivering those priority outcomes; and
  - create support systems for cost effective implementation.
- 50 Based on the criteria set out in Annex 2, I propose the following four outcome priorities:
- 50.1 *Increase New Zealand businesses' access to government procurement.* This gives effect to the Labour – New Zealand First coalition agreement. It would have a particular focus on tailored support to specific types of firms that may find it more difficult to access government procurement opportunities or participate in the supply chain, and/or who are a government priority for inclusive growth (e.g. ICT, Māori, & Pacific firms, and firms in surge regions).
- 50.2 *Increase the size and skill level of the domestic construction sector workforce and provide employment opportunities to targeted groups.* Cabinet has already agreed that agencies will be required to leverage skills development in construction projects valued over \$10 million (DEV-18-MIN-0187). Employment opportunities for targeted groups (e.g. NEETs, women, Māori, Pacific people) are not explicitly leveraged however other initiatives in the Construction Skills Action Plan will support employment opportunities for these targeted groups within those contracts.
- 50.3 *Improve conditions for workers and future-proof the ability of New Zealand business to trade.* Agencies would require suppliers in targeted industries to ensure their business, sub-contractors and domestic suppliers comply with employment standards and demonstrate good health and safety practice. This priority aims to protect workers from unfair and unsafe behaviour, and incentivise well-performing firms while ensuring they are not undercut by firms who have reduced costs through adopting poor labour practices.
- 50.4 *Support the transition to a net zero emissions economy and assist the Government to meet its goal of significant reduction in waste by 2020.* Agencies would support low-waste and low-emissions goods and services and encourage innovation to significantly reduce climate and waste impacts from goods and services. Work is underway to reduce the emissions profile of the government fleet, reduce emissions from stationary heat, and support the phasing down of HFCs. Other options will be assessed and a procurement work programme will be developed with a focus on areas with the highest emissions and waste reduction impact. This would include consideration of the life cycle environmental benefits of



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timber reflecting the Think Timber policy currently being developed by the Ministry for Primary Industries.

51 The rationale, approach, targeted industries and implications for each proposed outcome are outlined in detail in paragraphs 60 - 92.

***There will be level of requirement and coordinated support for agencies to leverage the priority set of outcomes***

52 Each outcome will be initially targeted at specific industries/government contracts and may then be applied to additional areas through a sequenced approach. We will learn from, improve upon, and expand the practice over time.

53 I propose placing a greater level of requirement on agencies to leverage this priority set of outcomes. The form of requirement would vary between outcomes and a degree of flexibility will be provided. Placing requirements on agencies will be necessary because of the devolved nature of the procurement system and because international experience suggests agency adoption is relatively low when national policies are voluntary or lack strong guidance.

54 I anticipate that any new requirements arising out of these priority outcomes will be included in the government procurement policy framework. This will also include amending relevant provisions in the Government Rules of Sourcing which will require consultation with affected parties.

55 Table 2 outlines potential targeted areas for each outcome and the potential level of requirement that would be placed on agencies. Targeted areas and the level of requirement will be further developed in consultation with agencies and stakeholders.

<b>Table 2. Proposed targeted contracts and agency requirements</b>			
<b>Priority outcome</b>	<b>Contracts/areas to target</b>		<b>Potential requirements</b>
<b>1. Increase New Zealand businesses' access to government procurement</b>	Main focus	ICT services/computer software contracts Guidance on optimising the use of NZ businesses in government procurement Targeted support initiatives for Māori & Pacific firms & firms in surge regions to better take part in government procurement processes	Consider use of less traditional approaches to ICT procurement Engage with a wider mix of potential suppliers when undertaking early market engagement
<b>2. Increase the size and skill level of the domestic construction sector workforce</b>	Main focus	Construction contracts in excess of \$10 million	Requirement to include skills development as weighted criteria and include mechanisms for ensuring transparency of numbers of apprentices or trainees
	Subsequent focus	Other contracts where supply market has skill shortages e.g. forestry	
<b>3. Fair work:</b> • <b>employment standards</b>	Main focus	Cleaning and security services contracts, forestry contracts	Requirement that suppliers ensure that employment standards are met by employees, sub-contractors & domestic supply chain
	Subsequent focus	Construction contracts	
• <b>health &amp; safety</b>	Main focus	All contracts (as required by legislation) but focussed support to lift performance in high risk areas, starting with forestry & construction (the later as part of the construction training priority)	Existing requirement to ensure mitigation of Health & Safety risk in contracting chain

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<b>4. Transition to a net zero emissions economy &amp; assist the Government to meet its goal of significant reduction in waste by 2020</b>	Main focus	Government fleet (emissions) Stationary heat (emissions) AoG office consumables (waste)	Requirements for agencies to demonstrate vehicle emissions reduction. Seek waste reductions in office consumables contract.
	Subsequent focus	Think Timber , office equipment efficiency, energy efficient buildings and sustainable building materials (emissions)	Requirements for agencies to consider goods and services that meet minimum levels of energy and carbon performance, use available rating tools, and to measure and report total emissions. Requirements for agencies to consider businesses who are proactively seeking environmental benefits including participating in voluntary and mandatory product stewardship schemes, having credible sustainability standards and implementing circular economy approaches to designing out waste.

- 56 We will need to design and deliver more innovative and inclusive approaches to procurement processes and I want to ensure that additional requirements are manageable for government agencies and businesses alike. NZGP will work with agencies and business stakeholders to develop the best procurement approach to leverage each outcome and will provide detailed training, guidance and support to agencies and firms. Changes to government procurement policies and processes will also need to be well signalled and communicated to the business community in advance.
- 57 Agencies can continue to voluntarily leverage other outcomes from their procurement, some of which would be relevant only to their specific investments, for example the consideration of universal design, timber solutions or energy efficiency in KiwiBuild homes.
- 58 The procurement lever will be embedded into broader government strategies for delivering each priority outcome. This is the approach taken in the Construction Sector Skills Action Plan where leveraging training in construction projects is supported by the other strands of Action Plan, including wrapping active labour market programmes around government construction projects. Combining procurement with other policy levers will increase impact whilst ensuring support systems are in place to help agencies and suppliers meet the new requirements.
- 59 I propose that a centralised monitoring and reporting framework be created to track agency adoption and the outcomes being achieved as part of a broader approach to improving data on procurement activity. This will include assessing whether targets should be set for some outcomes. The framework will incentivise agency adoption, assess the effectiveness of the approach, and improve on practice. Agencies would be required to report to NZGP on their performance annually, which would then be collectively reported to Cabinet.
- 60 If Cabinet agrees in principle to the proposed priority outcomes and targeted procurement areas, the Ministry will undertake further work in consultation with government agencies and stakeholders to determine:
- 60.1 options for collecting data to provide a system-wide view of business participation in government procurement and for establishing a monitoring and reporting framework on leveraging broader outcomes;
  - 60.2 details on implementing the priority set of outcomes, following stakeholder consultation; and

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60.3 proposed amendments to the Government Rules of Sourcing.

### Proposed priority outcomes in detail

#### ***Priority 1: Increase New Zealand businesses' access to government procurement***

61 This gives effect to the Labour - New Zealand First Coalition Agreement commitment - *reform government procurement rules to give New Zealand companies greater access*. Whilst available data indicate that many New Zealand firms supply to government, there is scope to improve access to government contracts for New Zealand businesses. It will also help give effect to other government priorities, for example those related to regional economic development, growing the digital economy and from adding value to volume (e.g. stimulating the market for innovative timber construction products and wool products where appropriate).

#### *Approach*

62 The current policy framework of principles, rules and good practice guidance ensures fair access to government procurement opportunities and enabling conditions for all firms.

63 This priority would continue to build upon those enabling conditions. It would set clear expectations on what government expects from agencies, update the Government Rules of Sourcing to more explicitly and overtly support New Zealand business, and develop rules and guidance on how to optimise the use of New Zealand businesses in government procurement, for example using New Zealand-based suppliers for goods and services under a certain contract value threshold and identifying and removing barriers for Māori, and Pacific firms and regionally-based suppliers.

64 The priority would also focus on tailored support to specific types of firms that find it more difficult to access government procurement opportunities, and/or who are a government priority for inclusive growth. It would also include a focus on procurement processes that enable innovative solutions to improve services or solve difficult problems.

65 This is likely to include ICT, Māori and Pacific firms, and firms in surge regions. Tailored support will be provided through NZGP but will also be delivered through related government programmes. For example Department of Internal Affairs' (DIA) recently launched Digital Market Place creates better access for ICT firms and will help drive innovation for New Zealand. DIA also plans to develop an online social procurement market as part of the Social Enterprise Sector Development programme, which would provide support to social enterprises. Auckland Council's He Waka Eke Noa initiative, supported by TPK and MPP, will link Māori and Pacific firms with public and private clients.

#### *Potential Implications*

66 The approach taken needs to align with New Zealand's trade agreements, I am aware that some businesses and sectors, including Māori enterprises, would like to see preferential policies but I would prefer to start with an approach that addresses the barriers faced by enterprises in bidding for government contracts and support them to become competitive and productive. I will however ask the Ministry to investigate preferential purchasing policies including their relative effectiveness compared to other approaches and their trade implications.

67 There is potential that by removing barriers to participation, for example by making it easier for small firms to obtain government contracts, we could inadvertently reduce incentives for firms to invest in order to become more productive and competitive.

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### ***Priority 2: Increase the size and skill level of the domestic construction sector workforce***

68 This priority has been agreed to by Cabinet as part of the Construction Skills Action Plan (DEV-18-MIN-0187). Its intent is to use Government procurement as a lever to encourage suppliers to invest in workforce development and training. Agencies will be required to give consideration and a weighting to skills development and training in the tender process of construction projects valued over \$10 million. Other initiatives of the Action Plan will also support employment opportunities for targeted groups (e.g. NEETs, women, Māori, Pacific people) within those government construction projects.

### ***Priority 3: Improve conditions for workers and future-proof New Zealand businesses' ability to trade***

69 This priority protects workers from unsafe and unfair behaviour by rewarding and incentivising better labour market players over non-performers who may be unfairly undercutting their competitors in government contracting. It also ensures the government is not made complicit in breaches or poor performance in labour standards through its contracts.

70 The government procures goods and services from industries that either have higher health and safety risks (e.g. forestry, construction) or have higher incidences of employment standards breaches (e.g. cleaning and security services, forestry). Industry stakeholders have raised concerns that some firms are cutting their health and safety performance in order to compete on cost in government contracts while there are cases where firms who have breached employment standards hold public sector contracts.

71 Providing evidence that New Zealand firms are meeting labour rights will also become increasingly important for New Zealand's ability to trade on our sustainability and integrity credentials, particularly in light of increasing implementation of modern slavery legislation by trading partners.

#### *Approach*

72 For health & safety, the aim is to lift the performance of procuring agencies in meeting an existing requirement to ensure health and safety risks are managed across the contracting chain of their procurement contracts. The procuring agencies have a duty to eliminate health and safety risks so far as is reasonably practicable to the extent to which they can influence and control the risks (s 30 HSWA). The procuring agencies will have a strong ability in most cases to influence and control the risks (along with liability for failure to do so).

73 Forestry and construction are two of New Zealand's highest risk sectors when it comes to work-related injuries and fatalities. These sectors also employ high ratios of at-risk workers, for example Māori in forestry and migrant workers and labour hire workers in construction. Labour shortages in construction are already driving increased reliance on migrant workers (particularly those originating from countries with lower health and safety practices than New Zealand) and labour hire workers.

74 The additional scale of activity generated in these two sectors by One Billion Trees and KiwiBuild furthers the need to improve procurement practice by government agencies in regard to health and safety requirements and significantly lift the health and safety practices in those sectors. A traditional procurement approach typically results in health and safety being compliance-driven through expectations laid out by the client in the contract and left to the contractor to manage. This approach represents a lost opportunity for client agencies to work in close partnership with major contractors to jointly influence and improve health and safety practices and outcomes in a more widespread, consistent, and impactful way.

75 Government procurement in both sectors has the potential to influence future practices in the industry. Construction contracts will help provide a base to iron out peaks and

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troughs that undermine better employment practices. The forestry planting and development work completed now will provide a base for an effective and productive sector in the future that in turn supports better wages and conditions. Health and safety considerations throughout the lifespan of a project are an important consideration: Planted trees must be harvested and the choice of terrain that they are planted on will make a big difference to the safety of the workers felling them.

- 76 For employment standards, government contractors in targeted industries would be required to undertake risk assessment and due diligence to ensure their business, sub-contractors and domestic suppliers are complying with employment standards.
- 77 The sectors identified as the main initial focus (cleaning, security and forestry) are the most appropriate sectors to focus on for employment standards. Construction would be a subsequent focus in order to avoid overloading too many outcomes on construction contracts. The Labour Inspectorate regularly identifies employment standards breaches in these sectors. The Inspectorate considers that these sectors demonstrate some of the underlying characteristics associated with employment standards breaches, e.g. business models that rely on contracting and casualisation, which can predispose them to this result. Within those business models the Inspectorate observes that some of the non-compliance tends to exploitation. The details of this approach would be developed with agencies and industry stakeholders including, for example, whether contract value thresholds should apply and how external accreditation schemes, including audits, could be incorporated. The procurement lever would be integrated into the programmes the Ministry has underway to lift the performance of targeted industries.

### *Potential Implications*

- 78 Ensuring that health and safety risks are managed across the domestic contracting chain is an existing requirement, therefore there will not be additional cost to well-performing agencies, or to suppliers that are already meeting requirements. For larger projects, while requiring improved health and safety practices may require additional investment down the contracting chain, reduced harm, increased productivity, and lower costs for the ACC system and public health sector should offset some of those costs, although those benefits won't necessarily accrue to the procuring agency.
- 79 WorkSafe and ACC have developed some useful tools that will assist with the procurement process. Furthermore, a new health and safety procurement guideline to support agency adoption is under development.
- 80 For many businesses, ensuring employment standards compliance throughout their supply chains will introduce additional costs, which may be passed on to government contracts. However, there will be less cost to well-performing businesses and industry bodies with good supply chain management systems. To illustrate, the Ministry's consultation within the horticulture industry suggests adding employment standards into their existing audits will add an average two hours per audit every two years. There could, however, be significant administrative costs to procuring agencies, and the Ministry will provide training and support to agencies to manage this.

### **Priority 4: Support the transition to a net zero emissions economy and assist the Government meet its goal of significant reduction in waste by 2020.**

- 81 This outcome supports the Labour - Green Confidence & Supply agreement, and government priority, to transition to a net zero emissions economy<sup>5</sup>, including the commitment for the government's vehicle fleet, where practicable, to become emissions-free by 2025/26<sup>6</sup>. Government should do its part in transitioning, both in leading by example and in supporting business to change. Business is already leading in this space. For example, the new Climate Leaders Coalition has committed to measuring

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<sup>5</sup> Labour - Greens Confidence & Supply Agreement.

<sup>6</sup> Labour - New Zealand First Coalition Agreement commitment.

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and reporting their greenhouse gas emissions and working with suppliers to reduce emissions.

- 82 Reducing waste supports other environmental goals (e.g. water quality and biodiversity) and increases resource efficiency. Reducing vehicle emissions supports air quality and urban public health outcomes.

### *Approach*

- 83 There are multiple opportunities to reduce public sector emissions and waste and for adaptations to climate change to support the transition to a low emissions economy. Energy spend in the public sector is around \$1 billion per year with emissions of nearly 1.9 million tonnes of CO<sub>2</sub>. There is significant potential to reduce energy use and emissions by investing in energy efficiency and switching to renewable energy. This will require a range of levers, including procurement.
- 84 The area where procurement levers can have the greatest potential impact in the shortest period of time is in reducing the emissions profile of the government vehicle fleet. The government fleet is a significant emitter and, as vehicles are replaced fairly quickly, we can make a big difference in a relatively short amount of time.
- 85 I intend to accelerate action on the government fleet before changes to the Rules of Sourcing take effect. I propose Ministers send the letter attached in annex 3 to their Chief Executives which outlines our expectation that when their agency purchases replacement vehicles, they purchase vehicles with emission profiles substantially below their agency's current fleet average. I believe this can be achieved at no significant increased capital cost, with lower opportunity costs. I am not proposing fee-bates.
- 86 Public sector procurement is just one of the levers we have available in reducing overall transport emissions. The Associate Minister of Transport is reporting to Cabinet later in the year on a package of initiatives that are sequenced to occur between now and December 2020 for the non-government transport fleet.
- 87 A wider work programme on low carbon/low waste procurement needs to be developed and prioritised with a focus on a small number of high impact areas. EECA and the Ministry are writing a paper to the Minister of Energy and Resources in early October that will analyse the highest impact areas in relation to emissions reduction in the state sector. Officials will use the information in this paper to make recommendations on the next areas of focus for this procurement priority outcome. There are likely to be gains to be made in heating and further opportunities in a wider range of areas such as such as ICT and lighting.
- 88 Officials are also working in a range of areas that will support this outcome including phasing out hydrofluorocarbons, introducing standards to reduce the range of plastics used, investigating green building ratings across public service office buildings, and increasing uptake of "green" options in all-of-government contracts such as low waste options in the all-of-government office consumables contract.
- 89 To assist the government meet its goal of a significant reduction of waste to landfill by 2020, procurement criteria could also be weighted towards businesses proactively seeking environmental benefits such as: participating in voluntary and mandatory product stewardship schemes; having credible sustainability standards; and implementing circular economy approaches to designing out waste.
- 90 The consideration of the life cycle benefits of timber is another area reflecting the Think Timber policy currently being developed by the Ministry for Primary Industries. The aim of this policy is to build demand and industry capability for innovative wood building products and by doing so support regional development, employment and environmental outcomes. Procuring agencies may also be able to support innovation and knowledge transfer in construction methods.

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- 91 More generally, agencies would be encouraged to support innovation for developing low carbon, low waste solutions through the procurement process and to support more sustainable and long-term business practices.

### *Potential Implications*

- 92 Transitioning to a low emissions economy will impose shorter-term costs in a range of ways along with longer-term benefits. The costs are already widely recognised, with work programmes underway to support groups, industries and regions over the transition. Specific costs include, for example, the higher upfront costs of lower emission vehicles compared to conventional vehicles.
- 93 The Ministry intends to consider how whole-of-life costs could be factored into value-for-money objectives as part of its work to implement the four priority outcomes. Many of these costs can be further reduced for example by agency travel management plans reducing the number of vehicles/trips required.

### **Giving effect to other relevant Coalition Agreements commitments**

- 94 Three other Coalition Agreement commitments are relevant to leveraging procurement for broader outcomes in this paper:
- a) *Reform government procurement rules* to give New Zealand companies greater access (Labour - New Zealand First Coalition Agreement): This is reflected in priority outcome 1.
  - b) *Investigate growing KiwiBank's capital base and capabilities* so that it is positioned to become the Government's banker when that contract is next renewed (Labour - New Zealand First Coalition Agreement): KiwiBank had been a contracted provider of banking services under the all-of-government banking contract until recently, when it decided to withdraw from the all-of-government banking solution.
  - c) *Solar panels on schools* will be investigated as part of the transition to 100 per cent renewable electricity goal (Labour - Green Coalition Agreement): Solar panels in schools will be prioritised in outcome 4 depending on the advice of the Interim Climate Change Committee (ICCC). The ICCC has been tasked with preparing evidence and analysis to inform recommendations on how we move towards 100 per cent renewable electricity. Its terms of reference provide that it should have regard to links to innovation and emerging technologies, including the potential contribution solar panels on schools could make. We intend to follow the advice of the ICCC in this matter.
- 95 There is a further coalition agreement to re-examine the Defence procurement programme within the context of the 2016 Defence Capability Plan budget. This is being managed within the Defence portfolio.

### **Consultation**

- 96 The assessment of the effectiveness of government procurement policy has been prepared together with the Treasury and the Ministry of Foreign Affairs and Trade.
- 97 The Treasury, Inland Revenue Department, Ministry of Defence, Ministry of Foreign Affairs and Trade, Ministry for the Environment, Ministry for Primary Industries, Ministry of Social Development, Department of Corrections, EECA, Environmental Protection Agency, Crown Law Office, Department of Internal Affairs, Department of Conservation, Ministry of Health, Government Communications Security Bureau, Ministry of Justice, Land Information New Zealand, Ministry for Culture & Heritage, Serious Fraud Office, Statistics New Zealand, Te Puni Kōkiri, Ministry of Transport, Department of Prime Minister & Cabinet, New Zealand Customs Service, New Zealand Defence Force, Housing New Zealand Corporation, Education Review Office, Ministry of Education, Ministry for Pacific Peoples, New Zealand Security Intelligence Service, State Services

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Commission, Ministry for Women, New Zealand Transport Agency, Pike River Recovery Agency, Social Investment Agency, and Oranga Tamariki were consulted on this paper.

- 98 A number of agencies noted that leveraging broader outcomes is likely to add cost to contracts and complexity to procurement processes and operationalising the approach would need to minimise those costs. This has been covered in the implications discussion.
- 99 Several agencies have asked for additional outcomes or targeted areas to be prioritised;
- 99.1 The Ministry for Primary Industries proposes alignment of this proposal's priority outcomes with the Think Timber policy currently being developed by the Ministry for Primary Industries. In response, the Think Timber proposed policy has been added to the list of potential areas for priority four.
- 99.2 The Treasury proposes that government suppliers be encouraged to adopt diversity and inclusion workforce policies and for those firms with boards – policies that support diversity of board members. The Ministry for Women have proposed that a gendered expectation of a minimum percentage investment across-government be included in all contracts.
- 99.3 Te Puni Kōkiri proposes the paper explores the possibility of preferential purchasing to support Māori firms or other demand side options within free trade rules and explain how the Government's progressive trade agenda may lead to changes to the way New Zealand considers how procurement is dealt with in free trade agreements in the future.
- 99.4 The Government Communications Security Bureau and New Zealand Security Intelligence Service propose that security must be a guiding principle for government procurement decisions. In response, it is already planned that the next iteration of the Rules will have a reference to protective security requirements and protocols.

### Financial Implications

- 100 Adding additional outcomes to a government contract can add additional contract costs, as well as the additional resource demands on agencies to assess and monitor these requirements. If any increased costs do affect individual agencies, prioritisation would be required either within the agency's own financial parameters or as part of the Budget process.
- 101 Quantifying the additional costs that suppliers might add is not possible at this stage and can only be assessed for each individual contract. If Cabinet agrees in principle to the priority set of outcomes, the Ministry's consultation with affected stakeholders will include seeking what information it can on the potential additional costs.
- 102 The Treasury's Better Business Case process which covers projects over \$15 million can include anticipated projected costs, which means that there will be some transparency for large contracts.
- 103 Targeted firms such as Māori and Pacific enterprises may require complementary support over and above using the procurement lever to enable them to access procurement opportunities. I will consider whether further funding should be sought through the 2019 Budget process to provide for that.

### Legislative Implications

- 104 No legislative implications have been identified in this paper.

### Human Rights Implications

- 105 No human rights implications have been identified in this paper.



## Gender Implications

106 No gender implications have been identified in this paper.

## Disability Perspective

107 No disability issues have been identified in this paper.

## Regulatory Impact Analysis

108 A regulatory impact analysis is not required.

## Publicity

109 There are no publicity implications arising from this paper.

## Recommendations

110 The Minister for Economic Development recommends that the Cabinet:

- 1 **Note** that the existing government procurement policy framework is fit for purpose and supports participation of New Zealand suppliers in government procurement, both domestically and as an export market.

### *Further development of policy framework*

- 2 **Note** that while our free trade commitments prohibit “buy local” requirements, there is an opportunity to be more explicit in supporting New Zealand business and to use procurement to support additional outcomes, thereby deriving greater value from government investment.
- 3 **Note** that by prioritising a set of outcomes for agencies to leverage from procurement, Government could have greater collective impact and better manage additional costs and complexity in contracts.
- 4 **Agree** to place a certain level of requirement on agencies to leverage those priority outcomes and provide guidance and support for agencies to implement those requirements.
- 5 **Agree** in principle to the proposed set of four priority outcomes, subject to further investigation and consultation, namely to:
  - 5.1 increase New Zealand businesses’ access to government procurement;
  - 5.2 increase the size and skill level of the domestic construction sector workforce and provide employment opportunities to targeted groups;
  - 5.3 improve conditions for workers and future-proof the ability of New Zealand business to trade; and
  - 5.4 support the transition to a net zero emissions economy and assist the Government to meet its goal of significant reduction in waste by 2020.
- 6 **Agree** that agencies will initially be asked to target specific contracts for these four outcomes; namely

Construction contracts	Training (including H&S) (outcomes 2 & 3)
AoG vehicles	Reducing emissions (outcome 4)
Stationary heat in government buildings	Reducing emissions (outcome 4)
ICT services/computer software	Innovation & local content (outcome 1)
AoG office consumables	Reducing waste (outcome 4)

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Cleaning services	Employment standards (outcome 3)
Security services	Employment standards (outcome 3)
Forestry contracts	Employment standards & H&S (outcome 3)

- 7 **Agree** that if the approach proves effective this will, where applicable, be extended to other industries and contracts over time.
- 8 **Note** that Forestry Minister Shane Jones will be bringing forward a Think Timber paper to DEV to encourage the use of wood in government-funded building projects.
- 9 **Note** that Think Timber will support multiple priority outcomes, particularly numbers 1 and 4, and is line with the Government's sustainable, inclusive and productive economic strategy which was considered on 19 September 2018 (DEV-18-MIN-0222).
- 10 **Note** that agencies can continue to voluntarily leverage other outcomes from their procurement.
- 11 **Agree** to send the letter (annex 3) to your Chief Executives which outlines the expectation that when their agency purchases replacement vehicles, they purchase vehicles with emission profiles significantly below their agency's current fleet average.
- 12 **Direct** the Ministry of Business, Innovation and Employment (the Ministry) to develop a monitoring and reporting framework to obtain a system-wide view of government procurement activity, including establishing a baseline and tracking what outcomes are being achieved across government. This would be reported to the Economic Development Committee Cabinet annually, and findings would be used to inform improvements in design and practice.
- 13 **Note** the Ministry will undertake work to develop an agreed definition of a New Zealand business for the purposes of the monitoring and reporting framework.
- 14 **Invite** the Minister for Economic Development to report back to the Cabinet Economic Development Committee by February 2019 on:
  - 14.1 options for collecting data to provide a system-wide view of business participation in government procurement and for establishing a monitoring and reporting framework on leveraging broader outcomes;
  - 14.2 details on implementing the priority set of outcomes, following stakeholder consultation; and
  - 14.3 proposed amendments to the Government Rules of Sourcing.

Authorised for lodgement

Hon David Parker  
**Minister for Economic Development**

Date:

## Annex 1. Leveraging a priority set of outcomes from government procurement

### Procurement can help leverage a more productive, sustainable and inclusive economy

Governments are increasingly leveraging public procurement to achieve social, economic and environmental benefits that go beyond the immediate aim of purchasing goods and services. New Zealand's practice is modest compared to many countries but interest is growing, and agencies, stakeholders and Ministers have identified a large number of outcomes they wish to leverage through procurement.

### Prioritising a set of outcomes to leverage would increase impact and better manage costs

I want to ensure that additional outcomes can be leveraged by agencies and greater value is derived from procurement without unduly adding cost and complexity to government contracts. I propose Cabinet prioritise a set of outcomes that agencies collectively focus on in the first instance. This better enables us to: target effort where the greatest benefits can be leveraged; harness our collective purchasing power; embed the procurement lever into broader strategies for delivering priority outcomes; and create systems for cost effective implementation.

### Placing requirements on agencies will be necessary

Agencies can continue to voluntarily leverage other outcomes but I recommend that there be a level of requirement and coordinated support for agencies to leverage the priority set. The form of requirement would vary between outcomes and would be targeted (eg to specified industries or contracts).

#### Outcome selection. The following criteria were applied to identify four priority outcomes;

- 1. Consistent with Government priorities.** Areas where significant change is desired and where government can lead change through its purchasing decisions, or where outcomes from current procurement practice are at odds with government priorities.
- 2. Deliver goods and services in a fair, safe and lawful manner.** We want to reduce the risk that firms reduce their regulatory performance in order to cut costs to win contracts, potentially undercutting firms with good regulatory practice.
- 3. Large impact on market.** We have targeted industries where there is significant government spending as this creates greater ability to leverage a desired outcome (eg the construction and commercial cleaning sectors).
- 4. Costs/complexity to contracts are balanced against benefits** which consider a whole of government perspective, whole of life costs, and the long-term as well as short-term impacts.

In addition the outcome must be **consistent with New Zealand's trade obligations**. In most instances it would be how the procurement activity is undertaken and not the outcome itself that leads to inconsistencies with commitments in trade agreements.





### Implementation Steps

- 1. Consult with agencies and stakeholders.** For each outcome agreed to in principle by Cabinet, the Ministry of Business, Innovation and Employment (MBIE) will work with agencies & stakeholders to identify potential implications, the appropriate level of requirement to place on agencies, and the best approach to operationalise each outcome.
- 2. Develop support systems.** MBIE would update the Rules of Sourcing & develop guidance and support mechanisms.
- 3. Monitor and report.** MBIE would develop a monitoring and reporting framework to track agency adoption and outcomes being achieved. This would be reported to Cabinet annually & findings would inform improvements in practice.

### Potential implications

- Additional cost and complexity in contracts.** Contract costs could rise and will likely accrue to the procuring agency while the benefits may fall more broadly across government. Some additional requirements will increase the complexity of procurement processes and contracts, adding compliance costs to agencies and firms. Small firms have indicated they already struggle with meeting existing procurement requirements.
- A step change in practice will be required from some industries.** For example the employment standards supply chain requirement in priority 3 will demand changes in practice from industries like forestry which currently pass regulatory risks & responsibilities on to sub-contractors. MBIE will work with industries & agencies on solutions that minimise risks in achieving the outcomes.
- Additional expertise required within the procurement function.** Agency procurement teams will need additional expertise to make judgements on, for example, the relative environmental performance of different goods or whether a construction firm is providing quality workforce training. MBIE will work with agencies to develop that capability.
- Risk to firm competitiveness.** There is potential that by making it easier for small business to obtain government contracts (priority outcome 1,) there may be less incentive for firms to become more productive and competitive. Building firm capability in tendering processes versus preferential purchasing policies will help mitigate that.

### The four proposed priority outcomes

- 1. Increase New Zealand businesses' access to government procurement.** This gives effect to the Labour NZ First Coalition agreement. It would have a particular focus on tailored support to specific types of firms that may find it more difficult to access government procurement opportunities or participate in the supply chain, and/or who are a government priority for inclusive growth (eg ICT, Māori, & Pacific firms and firms in surge regions). 
- 2. Increase the size and skill level of the domestic construction sector workforce and provide employment opportunities to targeted groups.** Cabinet has already agreed in principle that agencies will be required to leverage skills development in construction projects valued over \$10 million. Employment opportunities for targeted groups (e.g. NEETs, women, Māori, Pacific people) are not explicitly leveraged however other strands of the Skills Construction Action Plan will support employment opportunities for those targeted groups within those contracts. 
- 3. Improve conditions for workers and future-proof the ability of New Zealand business to trade.** Agencies would require suppliers in targeted industries to ensure their business, contractors and domestic suppliers, comply with employment standards and demonstrate good health and safety practice. This priority aims to protect workers from unfair and unsafe behaviour, and incentivise well-performing firms while ensuring they are not undercut by firms who have reduced costs through poor labour practices. 
- 4. Support the transition to a net zero emissions economy and assist the Government to meet its goal of significant reduction in waste by 2020.** Agencies will support low-waste and low-emissions goods and services and encourage innovation to significantly reduce climate and waste impacts from goods, services and capital works. Work is underway to reduce the emissions profile of the government fleet, reduce emissions from stationary heat and support the phasing down of HFCs. Other options will be assessed and a procurement work programme will be developed with an initial focus on areas with the highest emissions and waste reduction impact. This would include consideration of the life cycle environmental benefits of timber reflecting the Think Timber policy currently being developed by the Ministry for Primary Industries. 

### Outcomes will be targeted to specific contracts then expanded over time

We want to avoid loading too many outcomes on any one industry or contract in the first instance. Each outcome will be initially targeted at specific industries / government contracts and will then be applied to additional areas through a sequenced approach. We will learn from, improve upon and expand the practice over time. The table below outlines initial proposed target areas.

Priority outcome	Potential contracts/areas to target	
<b>1. Increase New Zealand businesses' access to government procurement</b>	Main focus	ICT contracts, increased guidance on optimising the use of NZ firms in government procurement Targeted support initiatives for Māori and Pacific firms & firms in surge regions to better take part in procurement processes
	Subsequent	Other contracts where supply market has skill shortages eg forestry
<b>2. Increase the size and skill level of the domestic construction sector workforce</b>	Main focus	Construction contracts in excess of \$10 million
	Subsequent	Other contracts where supply market has skill shortages eg forestry
	Subsequent	Other contracts where supply market has skill shortages eg forestry
<b>3. Fair work:</b> • employment standards • health & safety	Main focus	Cleaning & security services & forestry
	Subsequent	Construction
	Main focus	All contracts as required by legislation but focussed support to lift performance in high risk areas starting with forestry and construction (the later as part of the training priority)
<b>4. Transition to a net zero emissions economy &amp; design waste out of system</b>	Main focus	Government fleet (emissions) Stationary heat, AoG office consumables (waste)
	Subsequent	Think timber, office equipment efficiency (emissions), energy efficient buildings and sustainable building materials

## Annex 2. Criteria for prioritising outcomes

The following four criteria were used to identify the outcome priorities:

1. **Consistent with Government priorities.** We have focussed on priority areas where significant change is desired from firms and industries and where government could lead change through its purchasing decisions, or where outcomes from current procurement practice are at odds with government priorities.
2. **Deliver goods and services in a fair, safe and lawful manner.** There is a risk that the government's recent focus on driving down procurement costs may have, in some situations, reduced the regulatory performance of some sectors where firms have cut costs to win contracts, potentially undercutting firms with good regulatory practice. We need to ensure government's procurement and regulatory levers are well aligned, good regulatory performance is incentivised, and government is not made complicit in regulatory breaches.
3. **Large impact on market.** We have targeted industries where there is significant government spending as this creates greater ability to leverage a desired outcome (eg the construction and commercial cleaning sectors).
4. **Costs/complexity to contracts are balanced against benefits** which consider a whole of government perspective, whole of life costs, and the long-term as well as short-term impacts.

In addition the outcome must be **consistent with New Zealand's trade obligations**. In most instances it would be how the procurement activity is undertaken and not the outcome itself that leads to inconsistencies with commitments in trade agreements.

**IN CONFIDENCE**

**Annex 3. Letter for Ministers to send to Chief Executives**

XX October 2018

Respondent

Respondent's address

Dear [Name/Title]

*Immediate changes to the procurement of low emission vehicles.*

As the Minister responsible for [this agency / the board of this Crown Entity] I am writing to you to inform you of the Government's expectations in respect to the procurement of low emission vehicles.

Government has the opportunity to significantly reduce the emissions profile of the government light vehicle fleet. It is a goal of this Government for the government's vehicle fleet, where practicable, to become emissions free by 2025/26. Transitioning to a net zero emissions economy by 2050 is also a government priority.

Currently under the Government Rules of Sourcing, your agency is required to purchase their motor vehicles from the All of Government (AoG) motor vehicle contract. In addition to any broader travel and mobility initiatives underway in your organisation, it is my expectation that when your agency comes to purchase replacement vehicles from this AoG Motor Vehicles contract, that you purchase vehicles with emission profiles substantially below your agency's current fleet average.

The average emissions profile of each agency's fleet will be displayed on an emissions dashboard on the New Zealand Government Procurement website. This dashboard will become publically accessible in 2019, and will be regularly updated to track the emissions reductions of each agency. In the interim, agencies can contact New Zealand Government Procurement ([procurement@mbie.govt.nz](mailto:procurement@mbie.govt.nz)) for more information on their fleet's emissions profile.

Collectively, the public sector can begin the transition to a net zero emissions economy through our procurement decisions. I ask that you please ensure that everyone in your agency is aware that the procurement of lower emission vehicles is expected.

Yours sincerely

Name

Title