

Group procurement

Value for Money (s17A) Review 2018

15 May 2018

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Scope: procurement covers the processes for buying goods and services to deliver on the council's objectives

This review covers all entities in the Auckland Council Group (the Group) and checks whether the provision and delivery of procurement is cost-effective, and contributes toward the Group's mutual long-term goals.

What is procurement?¹

Procurement covers all the business processes associated with buying the goods/services/works used to run the Auckland Council business and deliver its organisational objectives.

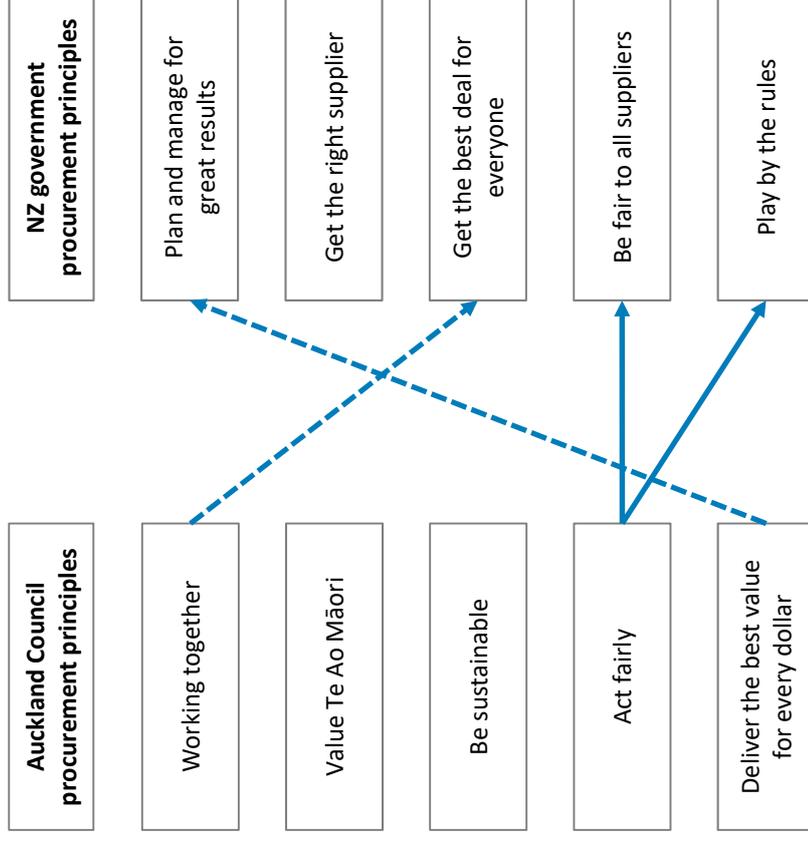
Procurement involves identifying needs, planning the best way to meet them, sourcing, managing the contract, and winding up the contract or assets at the end of their life. It includes the relationship management of suppliers.

The approach should be tailored to the value, complexity and risks involved. It should align with the council's Procurement Policy.

This review does **not** include operational purchasing on contracts negotiated by procurement or accounts payable which will be subject to future reviews.

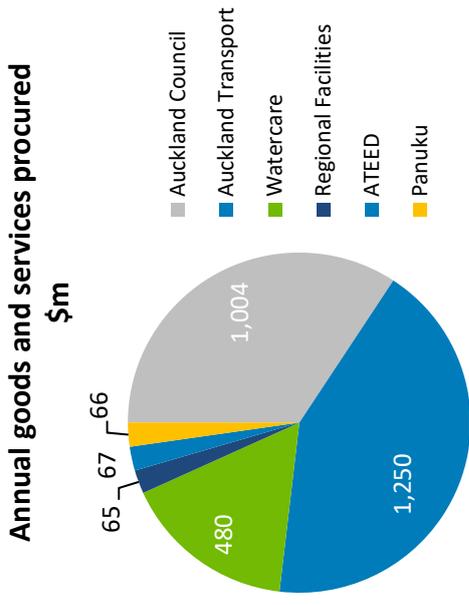
The Group Procurement Policy is a principles-based policy and has been adopted by all group entities.

The procurement principles take a wider value perspective than the NZ government procurement principles.

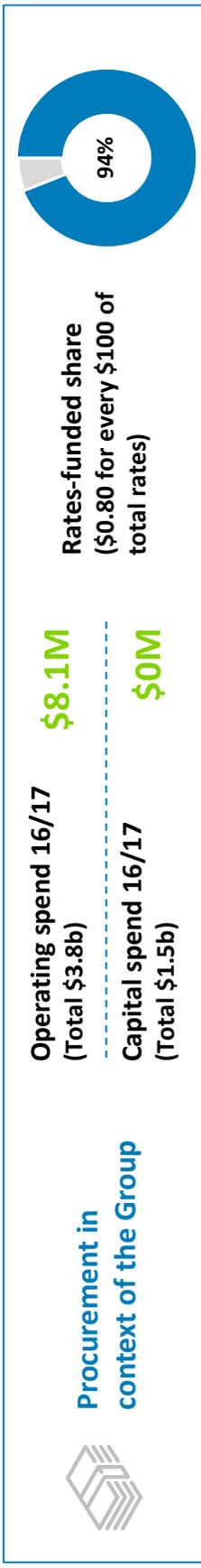


Council invests \$8.1m annually to procure \$2.9bn of goods and services

The following metrics² provide context of procurement at Auckland Council Group



Auckland Transport winner of the **Sustainability Project of the Year (CRL)** with Auckland Council finalists in other awards at New Zealand Procurement Excellence Awards 2017



Executive summary

Procurement capability and outcomes are improving

There has been a significant shift from traditional transactional procurement to more strategically-focused activity. This is encouraging. For procurement to be effective, the procurement staff, council and CCO department staff and suppliers must work cohesively and share common objectives.

Group procurement occurs but the results are inconsistent

The Group Procurement Policy advocates a collaborative approach and the Group is well-placed to aggregate spend across the Group and leverage the collective capacity, capability and scale. However, it needs a strategy and a requirement to use to enable success.

Standardise where practical to remove duplication and achieve greater efficiency while maintaining the effectiveness

Auckland Council (parent) provides procurement services for its departments, ATEED and Panuku. Auckland Transport, Watercare and RFA all have their own procurement teams

While the cost of, and number of FTEs in, procurement is reasonable compared to benchmarks, there are opportunities for rationalisation. There is some duplication in procurement support functions which standardisation of processes may reduce.

The council can do more to leverage its size, but should take care to maintain procurement effectiveness and proximity to their customers.

Procurement is cost-efficient but are we investing enough

Compared to benchmarks procurement is cost-efficient. Given the scale and complexity of the future Long-term Plan (LTP) capital programme, the level of investment in procurement capability should be monitored. In order to deliver the outcomes required different contracting approaches are required.

Benefit delivery can be better

Benefit delivery is a key measure of procurement effectiveness, particularly hard budgetary savings. Benefits are measured, but we observed (particularly with the parent) that cost savings were not routinely pursued. For example, we observed good practices as part of the Project 17 procurement for parks and facilities maintenance. However, the commercial outcome was to deliver increased levels of service for the same cost, rather than same levels of service for reduced cost.

The council parent has the target for the Group Source activities in its performance dashboard and updates are reported to the Strategic Procurement Committee. At the end of Q2, only \$32m of a targeted \$70m of benefit had been achieved and there was no forecast position to the end of the financial year.

For any metrics that are off-target, a "go to green" plan should be developed identifying what actions need to be taken, when they will be completed and by whom, to get the activity back on target. If the target is not going to be achieved, a forecast position at the end of the year should be reported. This concept could be applied wider than procurement.

Executive summary

Different technologies are a barrier to efficiency

Different technologies are used across the Group.

The future alignment of technologies with the same data standards will improve the customer and supplier experiences, and improve procurement effectiveness as better data will highlight spend consolidation opportunities.

Procurement is reliant on good data

Spend analysis for Group activity is provided by an analysis tool developed by a consultancy. There are a number of known challenges with data accuracy and the council parent is planning to use SAP Ariba for future requirements.

Effectiveness will be improved if it includes all the Group's data (future and historic). It is important to have a single source of the truth if the mutual benefit is to be identified.

Focus on customer experience

Procurement has been working on providing a consistent customer experience which should continue. However, customer satisfaction could be improved, for Auckland Council in particular.

Auckland Transport doesn't currently measure customer satisfaction, and should do this in the future.

Manage risk effectively

We have seen a "belt and braces" contracting approach being used with large and small suppliers alike, regardless of risk. This includes transferring most of the risk to the supplier. This increases the cost to the supplier and therefore the cost to the council. Procurement is often engaged too late in the process to be effective.

Risks should be managed by the organisation best positioned to do so.

Proactively work with suppliers

A productive working relationship with suppliers can create a win-win for both the council and supplier. This happens when the parties better understand each other's business and values.

Supplier Relationship Management (SRM) is at its infancy for the Group, with each entity managing their own suppliers.

The council needs to remain aware of market dynamics such as maintaining competition, sustainability, and where and by whom risks are best managed.

Cost of doing business is an issue for suppliers

Suppliers are generally happy dealing with the Group but find the cost of doing business high due to complex administrative processes and controls.

The council recently implemented SAP Ariba, a supporting technology that should improve the supplier and user experience and reduce complexity in processes. Auckland Transport is planning to implement it, and Watercare is considering whether to implement.

It is desirable, as part of the Group policy, that tools like SAP Ariba are implemented across the Group to deliver a consistent customer and supplier experience (and to facilitate analysis to drive future value). However, this does rely on tools performing.

We received mixed feedback from users on the performance of SAP Ariba and the lack of involvement of the CCOs in the decision to select SAP Ariba.

Recommendations to Appointments, Performance Review and Value for Money Committees

It is recommended that the council's chief executive collaborate with the chief executives of the CCOs to:

Consolidate spend to deliver benefits to the Group

Develop a Group strategy to outline which activities will be Group activities and which should be the responsibility of each individual organisation.

This would then inform the annual procurement work programme. This can help eliminate wasteful duplication and deliver improved value.

Recommendations

1. Design and implement a procurement operating model to effectively enable the Group Procurement Policy and participation from the council and all its CCOs. It is anticipated that this will include:
 - key guiding principles
 - mandate to participate and use
 - consideration of appropriate operating models including centres of expertise and other shared arrangements
 - an agreed position on what procurement activities and spend categories should be collaborative Group procurement and which should be the responsibility of each entity
 - an agreed approach to develop procurement capability across the Group
 - an assessment of the most effective way to procure infrastructure
 - a plan for optimising duplicated functions such as contract management, spend analysis, reporting, technology, learning and development
 - a standard approach to monitoring, measuring and reporting.

Lift SRM capability to mutually lower the cost of supply

Build effective and productive working relationship with suppliers that create a win-win for both the council and supplier.

A consistent SRM framework across the Group for the key suppliers (who supply multiple entities) will create the opportunity for innovation and unlock further value and benefit.

Recommendations

2. Design and implement a consistent, Group-wide SRM framework for identifying and managing key strategic supplier relationships, and consider assigning ownership of these to the Group's executive teams.

Recommendations (cont...)

A more effective assessment of risk is required

Develop a consistent methodology for measuring and managing risk across the Group (noting that each entity will have different risk tolerances).

Forward planning and business units engaging Procurement earlier, will enable better risk assessment. The best risk management approach can be determined given the project, supplier market and contracting approach.

Recommendations

3. Design and implement a consistent, Group-wide procurement risk management framework for identifying, assessing and treating risks to allow the most appropriate procurement and financing approach to be adopted. This would acknowledge each entity's differing risk profiles and governance structures.

Hold Procurement and departments to account on delivering hard savings to contribute to efficiency targets in the LTP

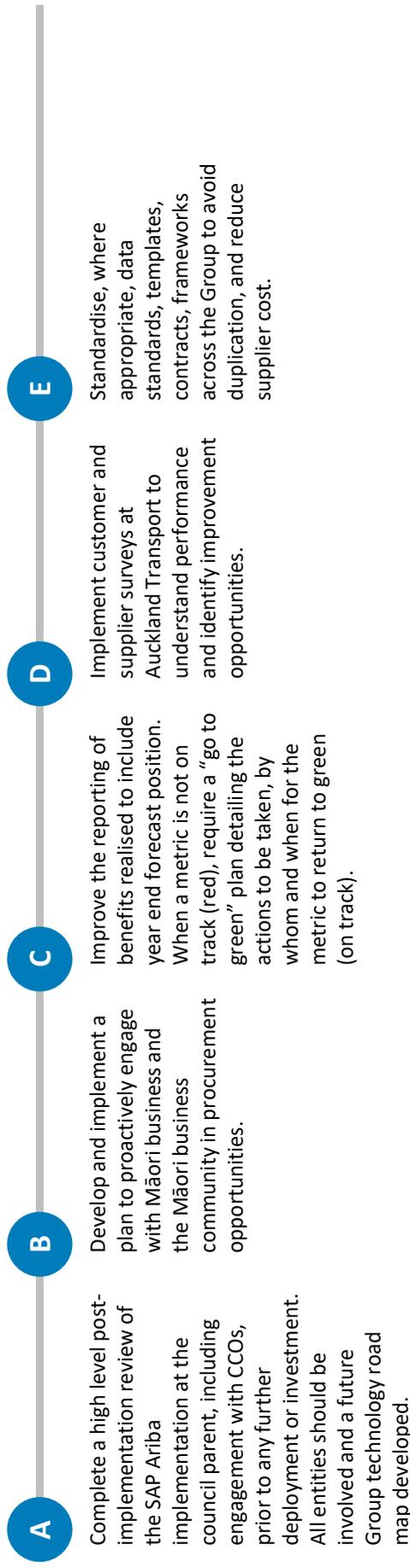
The levels of soft and hard benefits achieved (and realised) should be a key measure of procurement success, but a clear focus on setting ambitious hard savings and tracking performance to plan is especially important given the financial pressure facing the Group.

Recommendations

4. Require all entities in the Group to establish an annual hard savings target for procurement and include this in the LTP budget, to be implemented by 30 June 2018 including:
 - requiring Procurement to deliver this target, with a minimum of 4:1 return on the level of investment in procurement
 - developing an annual Group sourcing plan
 - implement a Group procurement strategy and operating model
 - regularly reporting on progress.

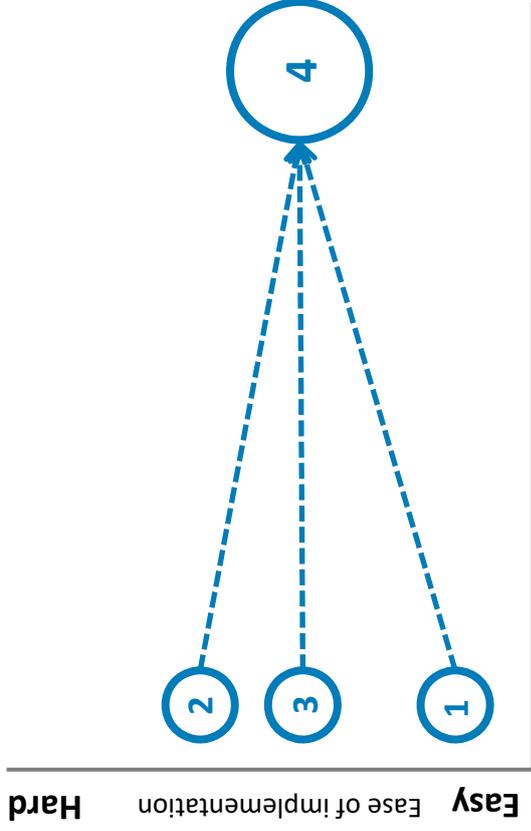
Quick wins

During the review we identified further unvalued tactical improvement opportunities that could be delivered quickly (less than six months to complete) as quick-wins. We suggest management evaluate these for implementation as part of business as usual.



Summary of potential value and dependencies

- Governance
- Funding
- Service Delivery



Key		NPV (10 years) \$m
1	Group procurement operating model	+ve not estimated
2	SRM	+ve not estimated
3	Risk management	+ve not estimated
4	Hard savings target	140
Total		140

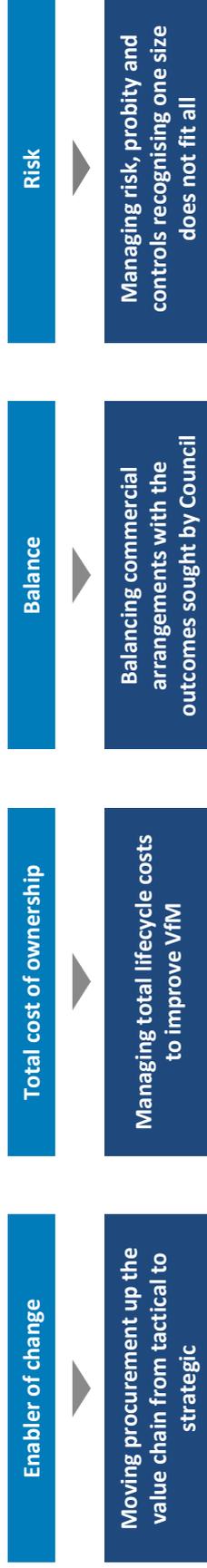
Notes

- Value propositions #1, #2 and #3 are key enablers for achieving the savings target in #4.
- Value proposition #4 is incremental procurement benefit over 10 years and **not** total procurement savings target. Making the target visible and reported against will improve procurement effectiveness.
- The estimates are cash releasing benefits. That means the council Group will improve their cash flow from implementing the opportunity
- Estimates are indicative of the order-of-magnitude of the opportunity, drawing on assumptions from the literature and experiences in other places. Their purpose is to establish the case for progressing options and associated business cases. In some cases, the evidence is strong; in others, the basis for assumptions is speculative.

Procurement supports delivery of council objectives

- Governance
- Funding
- Service delivery

Procurement is one means to an end – delivery of the council’s objectives. Good outcomes depend on good procurement – properly planned and effectively executed. We identified a number of value drivers for procurement.

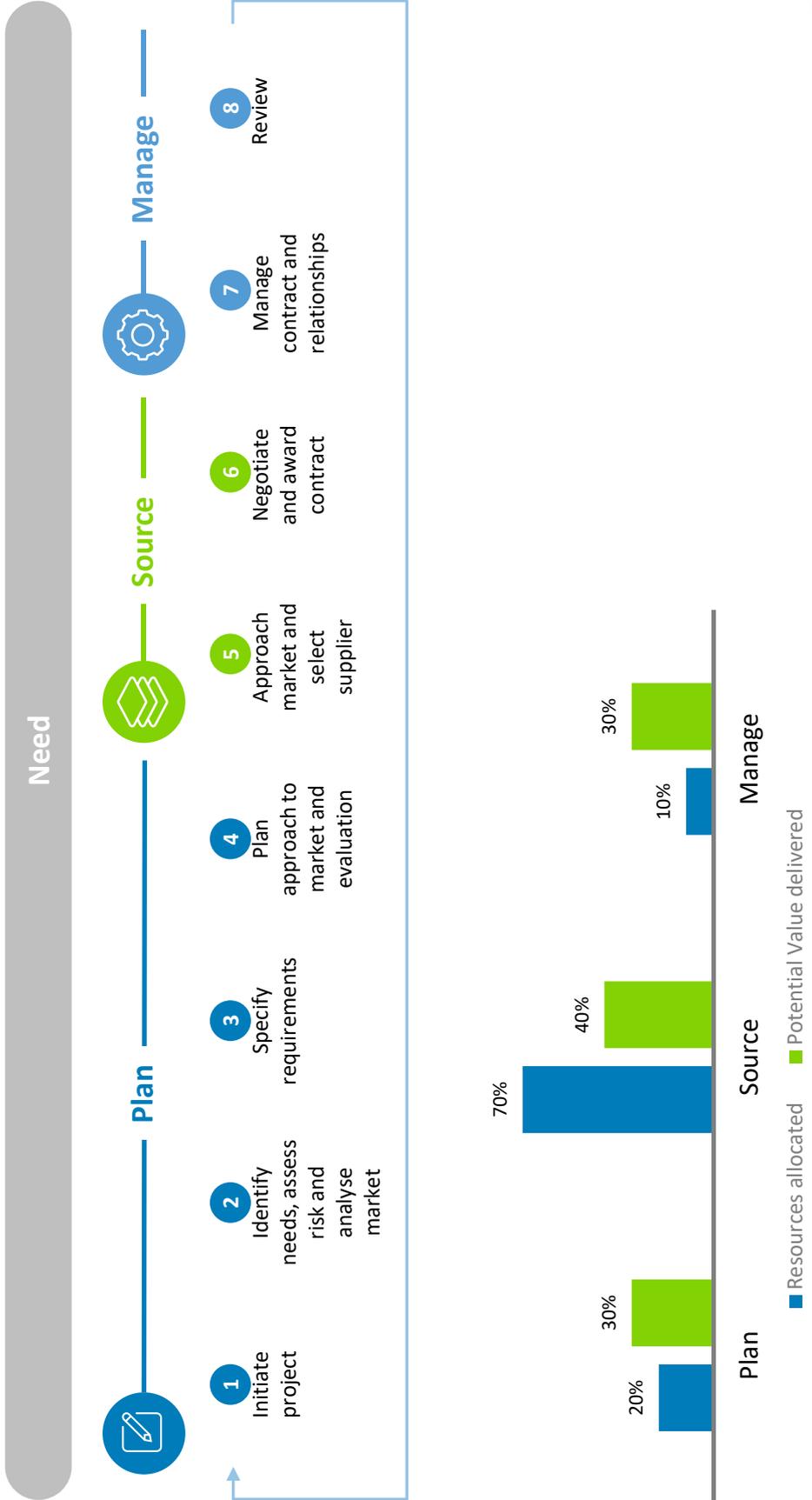


Key value questions

- | | |
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| <ul style="list-style-type: none"> ● Do the objectives of the Procurement service effectively support the delivery of Auckland Council strategic objectives? ● ● ● Are procurement processes operated in an efficient and effective manner (consistent, timely, minimising risk, and maximising impact)? ● Does Procurement understand the demands of the council businesses and their requirements for goods and services? ● Does Procurement have a good understanding of the marketplace and does it manage suppliers effectively? ● ● Are sustainable business practices considered in procurement? | <ul style="list-style-type: none"> ● Are procurements made in accordance with the principles of the Group procurement policy? ● Is Procurement viewed by its customers as a strategic business partner who supports the delivery of their outcomes? ● ● Are procurement processes agile enough to meet customer requirements and facilitate supplier innovation? ● ● How is the council using its scale to deliver good procurement outcomes? ● Is Procurement adopting appropriate practices to effectively manage risk? |
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Value chain shows resources are not aligned to the potential value drivers

The Group leverages the NZ Government procurement lifecycle – plan, source, manage³.

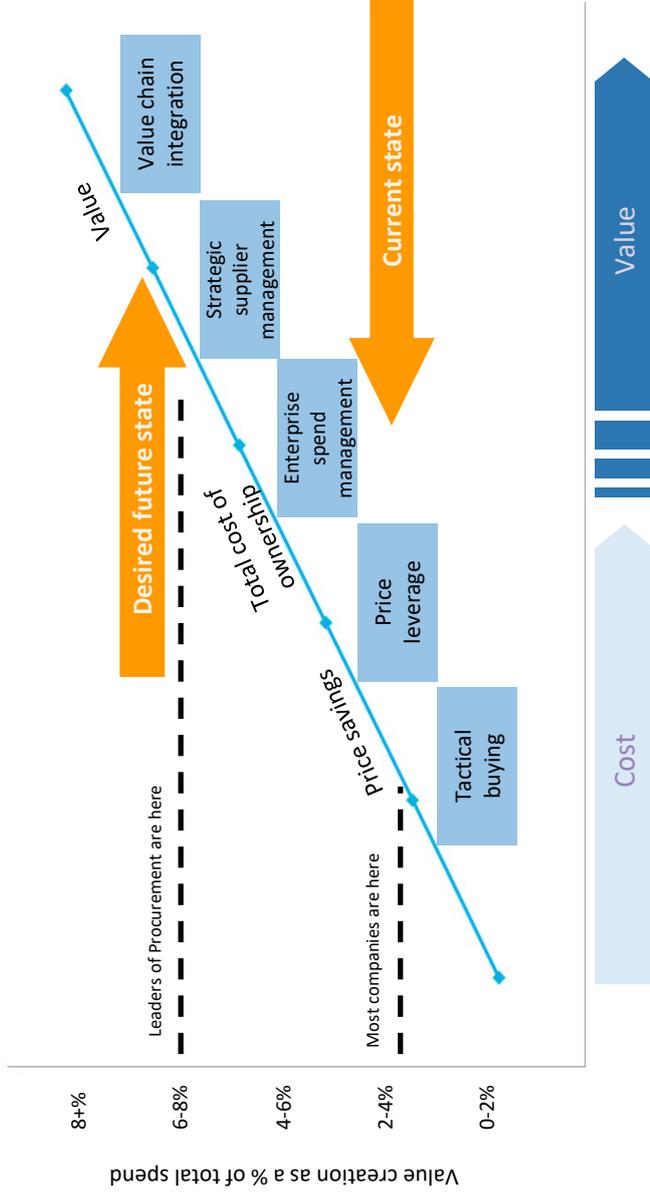


Current state assessment

What is leading effective procurement practice and where is the Group currently?

The traditional approach to procurement is to view it as an administrative function. The strategic approach to procurement emphasises its role in understanding and achieving organisational outcomes while delivering overall Value for Money (VfM).

The council procurement function is increasingly involved in strategic conversations at an early stage and in providing commercial expertise to the business to secure the best suppliers and business outcomes.



Effectiveness is improving

Procurement is on the right track but the current capability (e.g. staff, processes, templates, technology) is spread across the Group.

This Group capability should be shared and further developed for procurement to become an effective strategic lever.



Are procurement processes operated in an efficient and effective manner?



Does Procurement understand the demands of council businesses and their requirements for good and services?



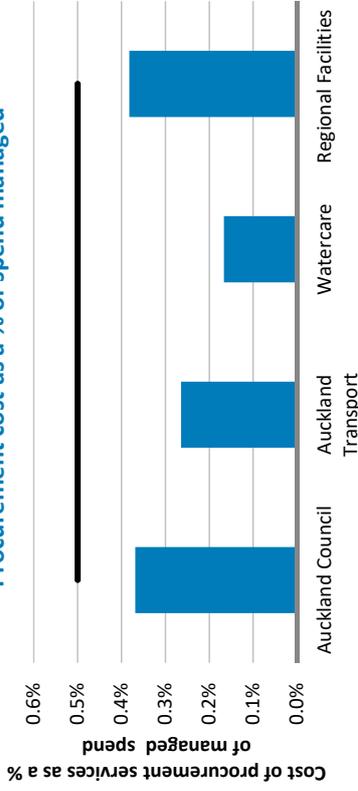
Is Procurement viewed by its customers as a strategic business partner who supports the delivery of their outcomes?

Procurement has seven key levers to deliver benefits. All are being used to some extent

Value lever	Description	Assessment	Comment
Challenge	Question the need, specific requirements and sourcing strategy.	●	Procurement must balance political and business requirements with commercial outcomes.
Contest	Test the current supply arrangements of a contract renewal by going to market.	●	
Negotiate	May include (but is not limited to) rates, service levels, cost avoidance.	●	
Work smart	Drive productivity through problem solving to find efficiencies in supply effectiveness.	●	There have been initiatives to improve procurement efficiency. Opportunities exist for standardisation.
SRM	Proactively manage ongoing arrangements to develop mutual benefit.	●	SRM is in its early stages within the council Group.
Rationalisation	Supplier and product consolidation.	●	Large number of suppliers used. Potential for further optimisation.
Technology	Using technology effectively to improve procurement and business efficiency.	●	Different technology in use across Group.

Procurement costs compare well to external benchmarks

Procurement cost as a % of spend managed

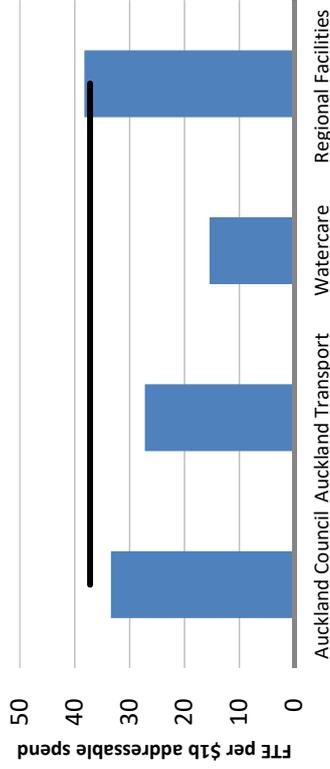


Efficient compared to benchmarks

Overall, the Group is performing well compared to the NZ Government cost (BASS benchmark) when comparing the cost of the service to the total spend managed by Procurement.

The BASS benchmark report notes that compared to international benchmarks, the NZ government has underinvested in procurement and the council result could suggest that further investment is required.

FTEs extrapolated to number per \$1bn of spend



FTEs under benchmark

To provide a like-for-like comparison, we extrapolated Procurement FTE numbers to the same basis - FTE per \$1bn of managed spend.

All performed well against this benchmark (APQC benchmark data).

RFA only have 2.5 FTE who also perform other functions.

No of staff (FTE)	35	32	7.4	2.5
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Are we spending enough on procurement?

Procurement is cost-efficient when compared to benchmarks but are we investing enough?

Auckland Council, Auckland Transport and RFA have increased investment in the procurement service over the last three years. During this same period, the cost of the Watercare service has only increased to meet inflationary cost pressure.

In 2014, RFA established its own procurement team to provide greater focus on its needs and improve risk management. This service was previously being provided under the shared services agreement with Auckland Council. Procurement is involved in wider commercial activity, in particular revenue contracts for the RFA business.

The VFM review did not assess the capabilities of the procurement teams. However, as procurement moves “up the value chain” and becomes more strategic, the skill mix of these teams will need to adapt. Over the next 10 years there will be \$30bn of capital expenditure and a range of contracting approaches will be required.

MBIE believes there has to be increased investment in developing procurement capability in NZ and it is encouraging that the council supports the MBIE graduate programme.

The Group should continue to work together and share procurement resource and consider with appropriate business case justification further investment to develop its procurement capability as a group.

Inconsistent measurement makes it difficult to assess effectiveness from a customer perspective

There is an inconsistent approach across the Group to measuring customer, supplier and staff satisfaction. Only the council and Watercare measure all three consistently. Good procurement outcomes can only be achieved by having procurement staff, (internal) customers, and suppliers working constructively together with aligned objectives.

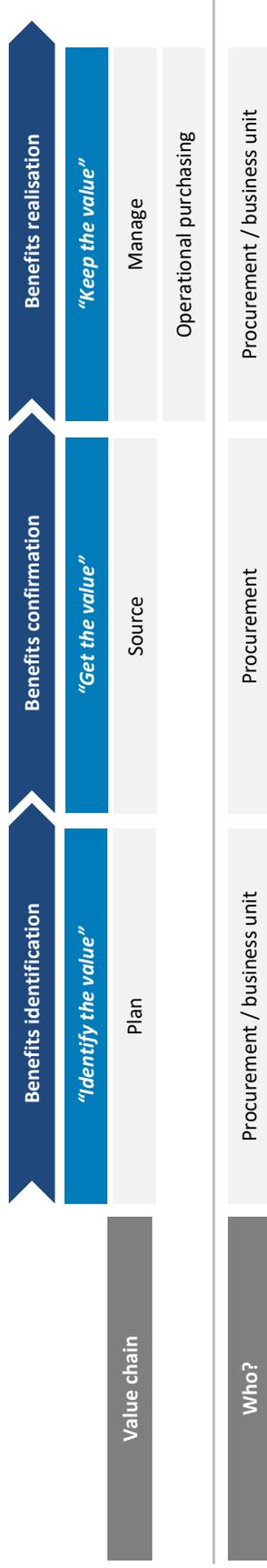
Auckland Council Procurement surveys customers annually and only 48% of customers are satisfied with its performance (consistent with the prior year). Only 26% of customers thought Procurement was adding value.

A current focus area is to provide a consistent procurement experience to help suppliers and customers understand how to work successfully with Procurement.



Realising the benefits and keeping the value

Procurement creates the benefit opportunity but the business units realise the benefit through their use of the contract. The Group has developed a benefit identification and quantification framework⁴ aligned to the MBIE approach to benefits management. The current benefit framework does not include post-contract benefit realisation monitoring. This is essential for effective cost management. This is an improvement opportunity with responsibility sitting with council departments which have day-to-day contract management responsibility.



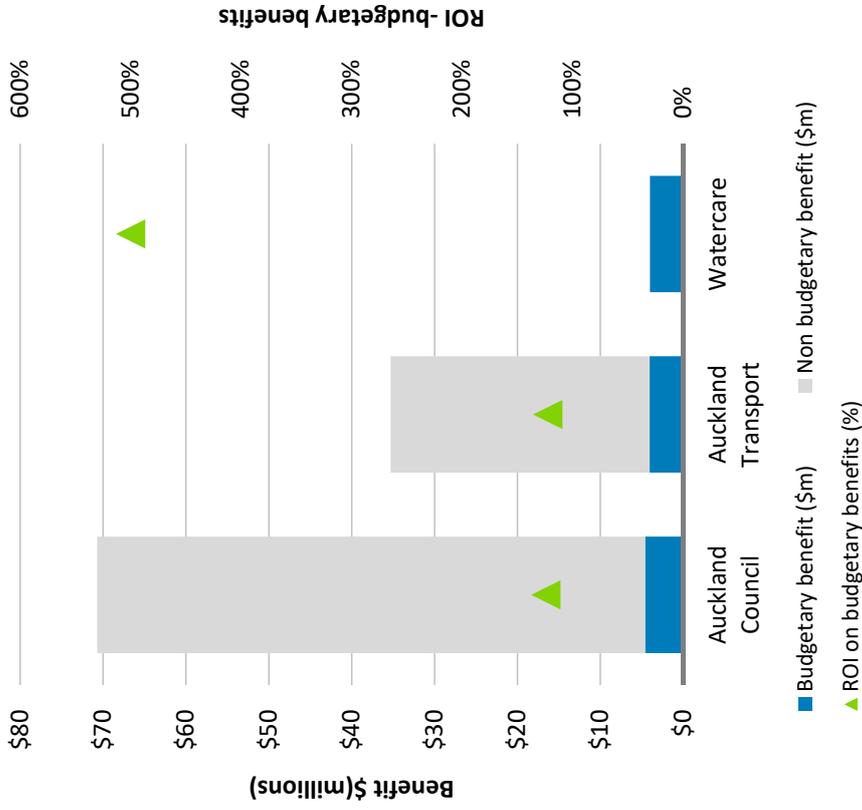
Benefits

- Budgetary benefits (hard savings), such as price reductions or capital savings, which generate cash or an underspend that can be re-allocated.
 - Non budgetary benefits (soft savings), such as improved service levels, which don't release cash or budget for reallocation.
- The council parent has a benefit target of \$75m in the 2017/18 financial year with a \$15m (20%) hard savings target. We support this approach which if achieved would provide an ROI of over 3:1.
- Benchmarking benefit performance is difficult with different circumstances affecting the market conditions and the maturity of the procurement function that each procurement service operates in.
- Industry good practice suggests procurement typically generates a ROI of 3-4 times the cost of the procurement service in respect of hard savings on operating costs, and at least seven times the cost for capital procurement. We reviewed a number of benchmarks which ranged from 3-9 times' return.

Auckland Transport has a target of \$33.5m (but no hard savings target) and Watercare has a hard savings target of \$10m which if achieved would be an ROI of 12.5:1.

We expected a greater focus on delivering hard savings which is a core expectation of procurement

Procurement benefits 2017



Benefit Delivery

- Benefit delivery is a key procurement effectiveness measure.
- While recognising the value of broader outcomes, particularly the management of risk, that procurement provides, we expected a greater focus on budgetary or hard cost savings impacts with targets included in the LTP budget and future Statements of Intent.
- Watercare is the only organisation with a consistent focus on achieving hard savings and this focus should be extended across the Group.



How is Auckland Council using its scale to deliver good procurement outcomes?

Group activity is evident, but results have been mixed

The Group procurement model was first introduced in 2015 via project Hari Hari which reported delivering \$105m of benefits during its 18-month duration. Prior to that, entities largely focused on their own needs.

Group Source is a collaborative arrangement and is a positive first step to the Group working more together.

While Procurement has made significant improvements over the past three years, we question whether the rate of change has been quick enough, without a clear strategy and operating model for Group Source procurement.



March 2017

Project Hari Hari
This was initiated in September 2015 as a three-year change programme between the council, Auckland Transport and Watercare with EY providing support. It was designed to leverage the Group’s capability, resources and buying power to deliver value to the council and ratepayers. The approach was a collaborative model which we are advised had mixed success.

Hari Hari introduced new ways of working in terms of reporting, KPIs, planning, spend analytics and delivered significant benefits. Successes included recruitment (\$1.6m benefits) across all CCOs, engineering professional services (\$4m benefits) across the council, Auckland Transport and Watercare, and mobile (\$150k benefits) across council and Auckland Transport.

However, during our review we also found examples where CCOs were engaged in a procurement process but then withdrew their participation later in the process. It appeared that contracting objectives and requirements were not aligned between all entities which is critical in successfully implementing any operating model to support Group procurement.

Group Source procurement

The Group Source programme is currently focused on

Objectives	Accelerate the delivery of procurement benefits	Transition to a leading-practice procurement function		
Foundations	Collaborative pan-council procurement	Core focus on benefit delivery	Consistent benefit measurement and reporting	Strategic customer relationships pipeline build
Enablers	Enhanced analytics and project management tools			

Auckland Council, Auckland Transport and Watercare participate.

Governed by a steering group of CFOs and Procurement Managers of Group entities.

All entities have adopted the Group Procurement Policy and consistent reporting will be adopted by the Group Source participants in the 2017/18 financial year.

We identified some collaborative lessons that could be applied

There are various grouping approaches in procurement, with the primary focus on aggregating buying power, including collaborative buying groups (e.g. LASS), shared services (such as MBIE) and organisational group procurement.

We expected a greater maturity of the council's Group procurement function, given it is seven years since amalgamation. The council, Auckland Transport, RFA and Watercare all have their own procurement functions. ATEED and Panuku currently receive procurement services from the council under a shared services arrangement.

Case studies from the health sector can help with understanding greater Group co-ordination. Pharmac, the government's drug buying agency, procures on behalf of all district health boards (DHBs) and has delivered savings and efficiencies over the past 20 years. healthAlliance provides shared services to the northern region DHBs.

healthAlliance

healthAlliance is jointly owned by the four northern region DHBs and provides shared services to its owners and other DHBs. Each shareholder can appoint a director to the healthAlliance board which provides a clear mandate to operate.

The DHBs use the same instance of Oracle financial system which supports procurement and other shared services.

Operational oversight provided by the DHB CFOs and roles and responsibilities are clearly defined.

The operating model for procurement is hub-and-spoke where planning, systems, process development, analytics and benefit measurement are centralised along with the majority of the sourcing function, with the balance of that team located near to their customers.

While this model has had some challenges, procurement has continued to deliver budgetary (hard) savings at a ROI exceeding 4:1 (excluding capital savings) against annual costs of the service.

Lessons for Auckland Council from healthAlliance

Governance in place with clear accountabilities and responsibilities defined ●

Standardisation of systems and processes underpins successful procurement delivery and consistent customer experience ●

Standardisation of goods and services where practicable with opportunities forgone reported on ●

Procurement becoming the catalyst for change and becoming involved at the strategic assessment of business case opportunities ●

Focus on benefit delivery ●

“All of Government” procurement arrangements are used, but there may be further opportunities

The Government formed the Government Procurement Centre of Excellence (CoE) in 2012 with the CEO of MBIE responsible for developing the procurement framework³. Local government is encouraged to participate in All of Government (AoG) procurement which includes panel contracts, tools and templates. This provides the opportunity to use All of Government (AoG) contracts when it makes commercial sense to do so.

Council Group organisations have adopted a number of AoG contracts arrangements. The commercial terms generally improve with each refresh of the AoG panels, and the Group should assess which to participate in.

Organisation	Advertising media	Advertising Services	Air travel	Banking Services	Consultancy Services	Transactional Banking	Design Services	Electricity	External Legal Services	External Recruitment
Auckland Council		Red		Green	Red	Yellow	Red	Green	Red	Green
Auckland Transport				Green	Red	Yellow	Green	Green	Red	Green
Watercare		Yellow		Green	Red	Yellow	Red	Green	Red	Red
Organisation	IT Hardware	Mobile voice and Data	Motor Vehicles	Office supplies	Print Devices	Print Technology	Rental Vehicles	Reticulated Gas	Risk Financing and Insurance	Travel Management
Auckland Council						Red	Green	Green	Red	Green
Auckland Transport						Red	Green	Yellow	Red	Green
Watercare		Red					Green	Yellow	Red	Green

Group entities participate in AoG contracts where it makes commercial sense to do so. There are also opportunities to participate in syndicated procurement agreements put in place by other public sector organisations and technology contracts arranged by the Department of Internal Affairs as lead agency.

Participation in AoG contracts is encouraged but only if the total cost of ownership is less than what the Auckland Council Group could achieve. In areas where there is low cost of change, a more frequent contract cycle may be appropriate, to support innovation.

Key	
Participating in All of Government (AoG) Contract	Green
Not Participating	Red
AoG Contract is not relevant to Agency Requirements	Yellow



Technologies are duplicated across the Group

Investment in technology can support procurement by streamlining and automating repetitive tasks such as contract management and running market processes. This in turn frees up resources to focus on activities that deliver the greatest value. Technology also supports compliance and benefit realisation by controlling buyer behaviour.

Different technologies are used by each Group entity. Auckland Council, Auckland Transport and Watercare all use SAP, but being different versions of the same product there is wasteful duplication (and cost).

Group collaboration will operate most successfully where there is “one system, one process”, i.e. standardisation is a key driver in reducing future operating costs.

Procurement

Entity	Core Finance system	Procurement support system	Comment
Auckland Council	SAP	SAP Ariba	Panuku and ATEED use same versions as the council
Auckland Transport	SAP		Plan to implement SAP Ariba subject to business case.
Watercare	SAP		To undertake a review of SAP Ariba’s fit with business requirements
RFA	Ungerboeck		No current plans to implement SAP Ariba
ATEED	SAP	SAP Ariba	Council version, Ariba being rolled out
Panuku	SAP		Council version

Implementing SAP Ariba

The council implemented SAP Ariba in July 2017 to support procurement.

A key aspect of the business case was to “keep the value” of benefits previously delivered through improving buying behaviours and contract management practices. Contract management is distributed in business units and Audit New Zealand reported in 2016 that improvements were required in this area.

The supplier survey finds that suppliers are generally happy dealing with the Group but that the cost of doing business is high. SAP Ariba should assist in improving the supplier experience, the internal control environment, and in keeping the value of procurement benefits.

Only the council has implemented SAP Ariba. Uptake by the rest of the Group is desired, but we have heard mixed feedback on performance and that there was no Group approach to selecting SAP Ariba as the preferred solution.

This risks undermining procurement benefits, buy-in on Group-wide initiatives, and supplier experience. We recommend a post-implementation review be completed prior to any further investment.

Accurate data is key to procurement effectiveness

There are consistency and accuracy issues with the historical spend data. Our review highlighted different data standards and inconsistent application across the Group.

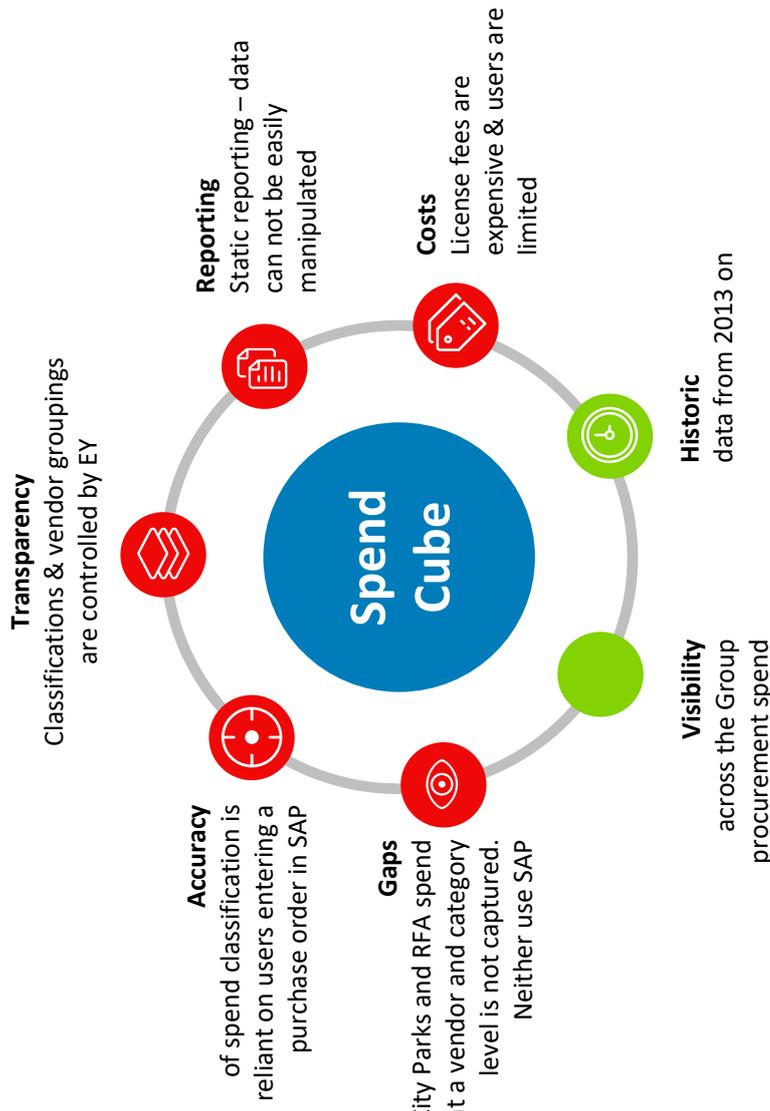
As part of Project Hari Hari, EY developed a “spend cube” to consolidate all Group procurement data. While this provides an indication of spend, there are known accuracy issues.

Auckland Council is planning to use SAP Ariba as the future spend analysis tool but it will only be effective from a Group perspective if it includes all Group spend data and addresses some of the known limitations of the current spend cube.

For effective Group procurement, a single source of the truth is required.

● Negatives ● Positives

Observations on spend data





Does Procurement have a good understanding of the market place and does it manage suppliers effectively?



Are procurement processes agile enough to meet customer requirements and facilitate innovation?

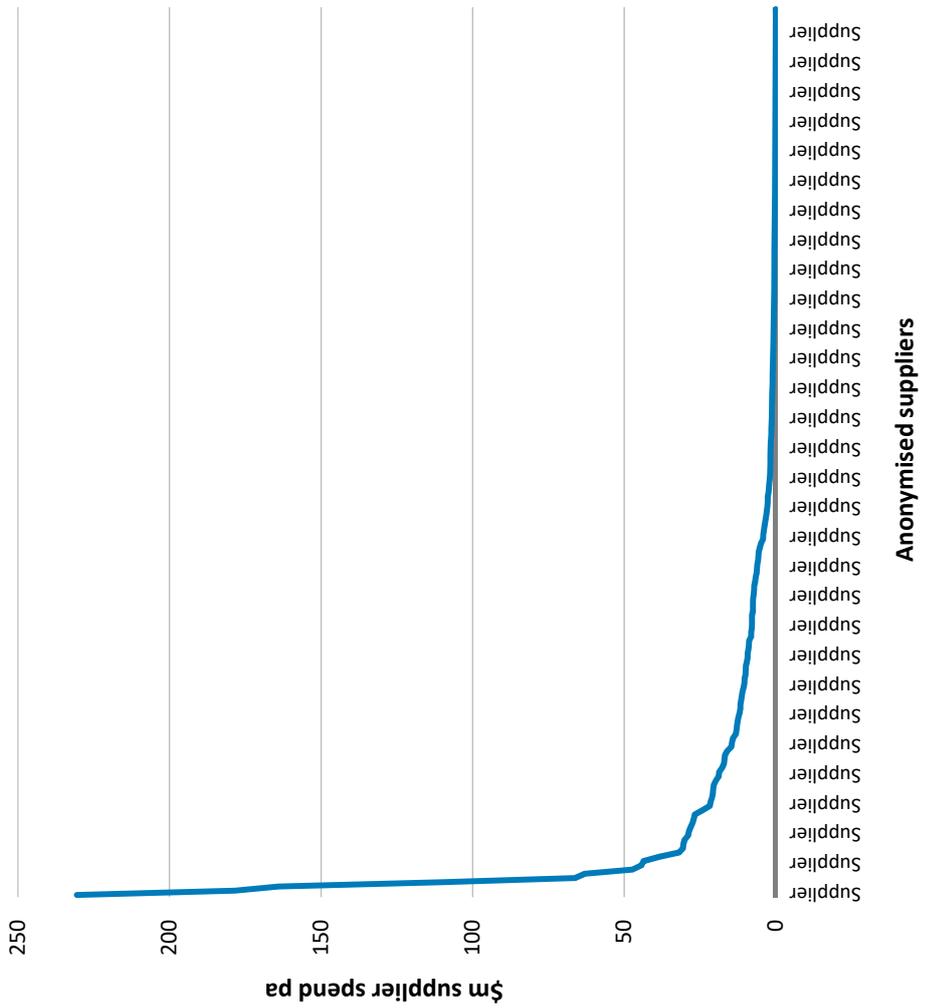
The Group uses 10,000 suppliers, but 80% of procured value is from 20% of suppliers

Potential consolidation of suppliers

Spend is fragmented with multiple suppliers supplying the same product or service, suppliers having multiple contracts (with each council entity) and multiple invoice processes.

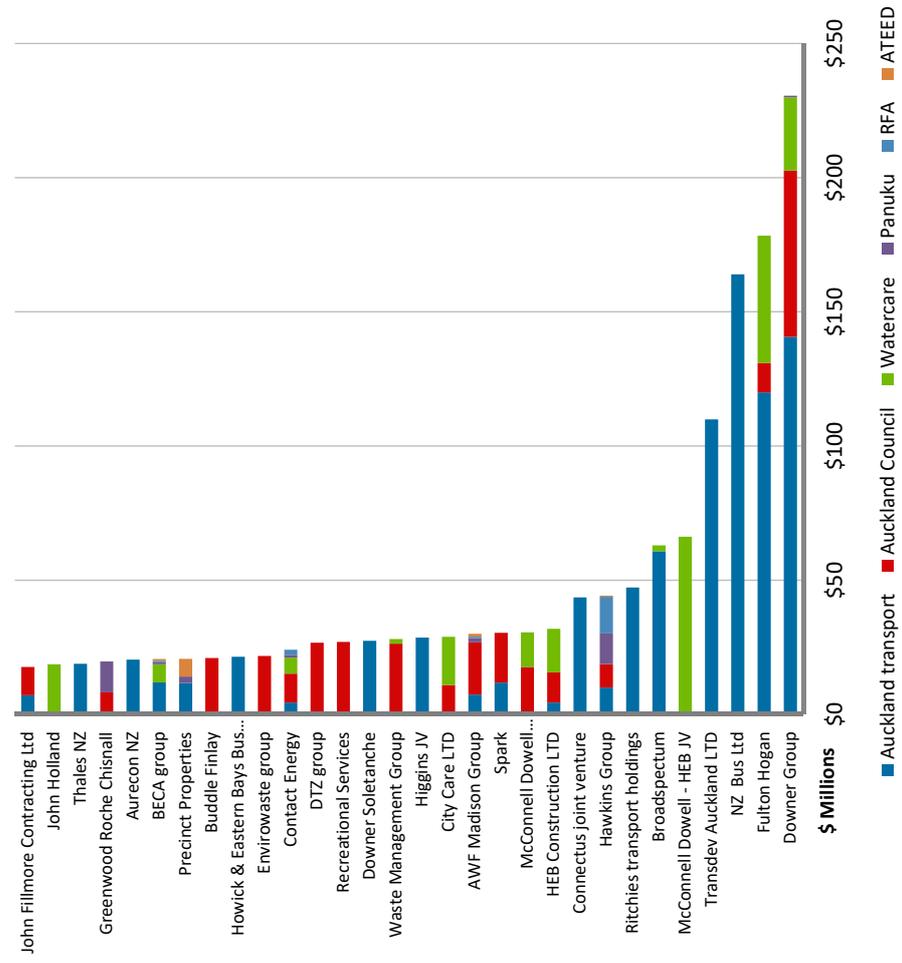
Overall, the value of spend under contract is encouraging with a reasonable benchmark of having 80% of spend contracted which is largely being achieved by the larger entities.

There is an administrative burden to managing all these contracts and relationships which can be assisted by the effective use of technology.



There is value in taking a Group approach to managing suppliers

Top 30 suppliers across the Auckland Council Group



Supplier Relationship Management (SRM)

SRM is emerging in the council Group with evidence of “partnering” meetings with key suppliers. An effective SRM framework – where the focus is on creating value and opportunity for both the supplier and the council – can deliver significant additional value and encourage innovation.

We reviewed the top 100 suppliers by spend and while most have a single Group relationship, a Group-wide SRM approach may still deliver future value by encouraging joined up conversations with suppliers.

This would require Group executive management sponsorship and would be a new way of working compared to today.





Are sustainable business practices considered in procurement?



Are procurements made in accordance with the principles of the Group procurement policy?

Sustainability is reflected in supplier arrangements

The Local Government Act 2002 requires local authorities to take a sustainable approach when procuring goods, services and capital works. The Group Procurement Policy¹ aligns with the act and we identified examples of sustainable procurement practices.

A framework has been developed for sustainable (Smart) procurement which has positive environmental, community and economic impacts on a whole-of-life basis and creates value.

We are positive about the approach being taken, but encourage procurement teams to remain aware of the costs and trade-offs of selecting one solution over another.

Examples of sustainable procurement

Auckland Council

- Working with Te Waka Angamaau to deliver a pilot on engaging small/medium Māori enterprises in our procurement.
- Uses sustainability performance measures to evaluate suppliers, e.g. Project 17 contracts measures environmental standards, employment and diversity.
- The fleet contract is linked to emissions targets.

Auckland Transport

- Has adopted CO² emission reduction targets which are being embedded into the procurement assessment process.
- City Rail Link is requiring suppliers to commit to a zero waste objective.

RFA

- Procurement supports the sustainability programme of Auckland Zoo. To date it has implemented palm oil-free across the business including its supplier contracts, and Procurement is actively supporting the goal of being carbon neutral.

Watercare

- At the Mangere and Rosedale wastewater treatment plants, Procurement supported achieving energy efficiency gains of 8 GWh by end of 2018 and energy neutrality at by end of 2025.
- Introduction of electric vehicles into the vehicle fleet.

More needs to be done in applying the Te Ao Māori principle from the Procurement Policy

Value Te Ao Māori is a principle of the Procurement Policy but the council also has legislative obligations to contribute to Māori capacity, enable and promote Māori wellbeing, and recognise Māori cultural values, amongst others.

Procurement must consider:

- potential to engage and enable Māori
- delivering Māori customer-friendly services
- making our size work for, and with, Māori
- where appropriate, working with Māori-focused organisations.

While there are examples of social procurement that generates social benefits beyond the goods and services required, there is no consistency around proactive engagement with Māori in procurement.

Case study – Auckland Transport and The Southern Initiative



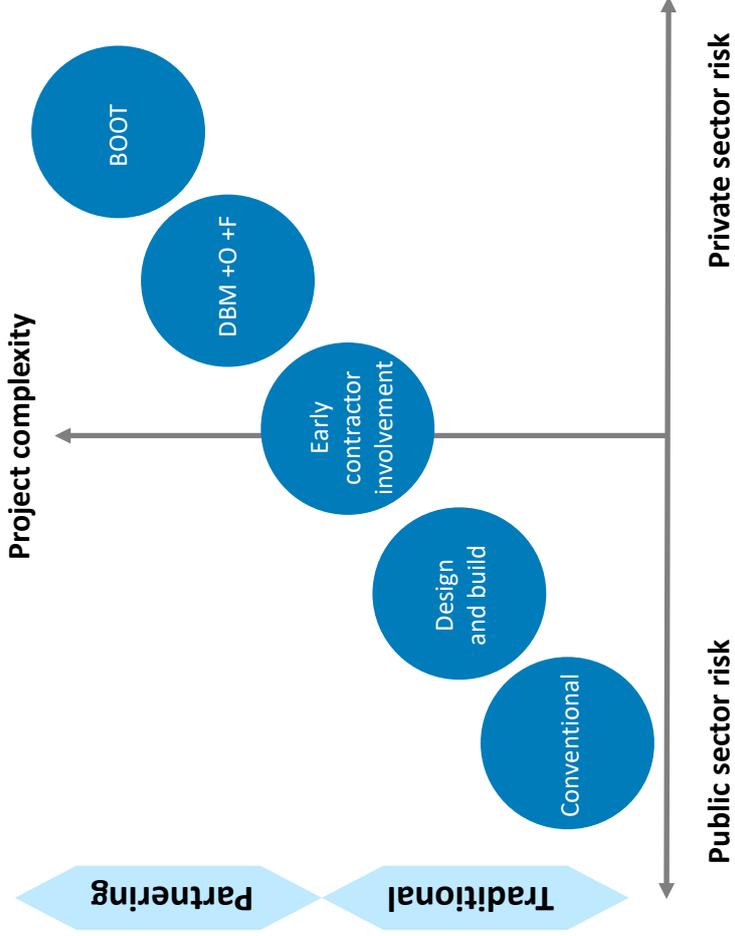
The Southern Initiative (TSI) is a place-based regeneration programme established in the Auckland Plan. Auckland Transport and TSI worked together tendering for the Manukau bus station and introduced both economic and social outcome criteria. Tenderers were required to submit a targeted recruitment and development plan that would provide employment opportunities to south Auckland candidates.

TSI helped trainees prepare for employment, resulting in employment opportunities helping some employees into apprenticeships.



Is Procurement adopting appropriate practices to effectively manage risk?

A number of contracting options exist depending on the risk profile of a project



Each procurement has a different risk profile and is assessed to determine the procurement approach.

Most contracting approaches are conventional in nature, although no data is kept of approach. Early contractor involvement, including Alliances, are used and the council is party to BOOT contracts, generally from legacy arrangements.

Conventional procurement should be used where there is less risk, or where risks are known.

Where there are high risks, or where risks are unknown, more collaborative contracts are used e.g. early contractor involvement. For example, the outcomes-based contracts for Project 17 uses a risk-sharing approach.

The DMB and BOOT options include aspects of PPP or AFV arrangements.

- DBM:** Design Build Maintain. Can also include Operate and Finance
- BOOT:** Build Own Operate Transfer
- PPP:** Public Private Partnership
- AFV:** Alternative Financing Vehicle

Successful procurement helps the council manage risk

Each entity has its own governance structures (Governing Body, local boards) and must determine its individual risk appetite. However, we believe there is value in establishing a common view in how risk is determined and shared with the private sector.

The LTP forecast debt position is within the council's treasury policy guidelines. However, Public Private Partnerships (PPP) or Alternative Financing Vehicles (AFV) could help the council deliver needed growth infrastructure and assist in sharing and managing risk. We understand the government is considering how Crown Infrastructure Partners may help the council in this respect.

Risk assessment

In assessing procurement risk, a number of aspects are considered:

- business continuity
- impact the public directly
- are a rare or one-off purchase for the organisation
- are likely to have high media or political interest
- may have probity or conflict of interest concerns
- may have a high risk of failing
- delivered by only one supplier
- the party in the best position.

For Group procurement to be successful, we need a consistent approach to risk assessment to manage risk.

Contracting approach

A number of standard contracts have been agreed with the private sector for conventional procurement, particularly for professional services and physical works.

These contracts are being used where applicable.



Procurement operating model

The current operating model has some sharing of services but most are locally focused



Panuku & ATEED procurement service currently provided by the council and included in Auckland Council in this diagram

Each organisation has a procurement function to meet their own needs, foregoing benefits from grouping

	How is service delivery organised?	How is it funded?	How is it governed?	Observations
	<ul style="list-style-type: none"> Procurement sits in a department organised into three category teams (physical works and technical services; operational; and ICT and corporate) and procurement excellence & capability build. Direct report to CFO. Contract administration, transactional purchasing (and accounts payable) managed by other teams. Contract administration. 	<p>Rates</p> <p>No significant commercial revenues</p>	<p>Strategic procurement committee (sub-committee of Finance and Performance committee).</p> <p>Supports the CEO in delivering work programme.</p>	<ul style="list-style-type: none"> Centre-led or hub-and-spoke operating model. Procurement team organised around entities operating requirements. Customer satisfaction 48% - consistent with prior year; outlining opportunity to continue working on consistent customer experience.
	<ul style="list-style-type: none"> Procurement sits in a department organised into three category teams (infrastructure; operational and business technology; and corporate) and procurement excellence. Contract administration part of procurement team but transactional purchasing (and accounts payable) managed by other teams Direct report to CFO. 	<p>Rates, user charges and NZTA levy</p> <p>No significant commercial revenues</p>	<p>Delegation framework with contracts over CEO delegation approved by board.</p>	<ul style="list-style-type: none"> Centre-led or hub-and-spoke operating model. Procurement team organised around entities operating requirements.

Procurement services (cont'd)

	How is it funded?	How is it governed?	Observations	
 <p>Watercare An Auckland Council Organisation</p>	<p>How is service delivery organised?</p> <ul style="list-style-type: none"> • Procurement sits in a department organised with three category leads (infrastructure; service delivery; and corporate and retail) and procurement excellence. • Contract administration, transactional purchasing (and accounts payable) managed by other teams. • Direct report to CFO. 	<p>How is it funded?</p> <p>User charges</p>	<p>How is it governed?</p> <p>Delegation framework with contracts over CEO delegation approved by board. Contracts over \$100k reported to board and publicly.</p>	<p>Observations</p> <ul style="list-style-type: none"> • Centre-led or hub-and-spoke operating model. • Small focused team based on operating requirements. • Supply chain management crucial for some critical supplies (chemicals). • Customer survey planned for November 2017.
 <p>Regional Facilities Auckland An Auckland Council Organisation</p>	<p>How is service delivery organised?</p> <ul style="list-style-type: none"> • Small procurement team. • Reports to Manager Finance who reports to CFO. 	<p>How is it funded?</p> <p>Rates and commercial revenue</p>	<p>How is it governed?</p> <p>Delegation framework with contracts over CEO delegation approved by board</p>	<p>Observations</p> <ul style="list-style-type: none"> • Centre-led or hub-and-spoke operating model. • Procurement at lower level in organisation than in other council entities. • Small team established in past two years in response to not receiving appropriate services from the council (as shared service) and managing control environment effectively. • Has moved from SAP financial system to event management system.

Procurement services (cont'd)

	How is it funded?	How is it governed?	Observations
 <p>Auckland Tourism, Events and Economic Development An Auckland Council Organisation</p> <ul style="list-style-type: none"> Receives procurement services as shared service from Auckland Council. CFO responsible for maintaining shared service relationship. 	Rates and commercial revenue	Delegation framework with contracts over CEO delegation approved by board.	<ul style="list-style-type: none"> Operates within shared service environment but at times requires a higher level of service and more active participation from Auckland Council procurement team.
 <p>Panuku Development Auckland An Auckland Council Organisation</p> <ul style="list-style-type: none"> Receives procurement services as shared service from Auckland Council. CFO responsible for maintaining shared service relationship. 	User charges	Delegation framework with contracts over CEO delegation approved by board.	<ul style="list-style-type: none"> Operates within shared service environment but at times requires a higher level of service and more active participation from Auckland Council procurement team. Undertakes some specialised procurement (outsourced) which potentially could be leveraged across the council Group.

Challenges and issues in realising further value

Challenges

All organisations have approved the Group Procurement Policy (September 2017) but this has yet to be enabled across the Group

Collaboration is the mode of operation to manage common expenditure across the Group which can create difficulties if consistency is needed or if risk needs to be managed on a Group basis

Each entity in the Group operates largely independently in managing suppliers, with an emphasis on meeting each entity's own needs and having entity procurement decision rights

Having separate procurement functions (decentralised in each organisation) may result in higher operating costs than if there was an alternative operating model (e.g. centralised, centre led)

The procurement functions and the businesses they support may be at different levels of procurement capability

Council under pressure to deliver greater VfM increases pressure on Procurement to deliver more procurement savings

Different procurement processes are in operation across the Group resulting in a different procurement experience for suppliers who supply across the Group

Procurement has to balance competing demands of delivering value, being agile and meeting probity and control requirements

Issues

Entities take an individual entity rather than a Group perspective to procurement

The collaborative model has had mixed results in terms of engagement, participation and results

Council organisations can be in the market at the same time for the same products which increases cost

Potential to deliver the same outcomes with a reduced level of investment in procurement if it were a single service

Procurement may not be seen as a business partner and resigned to a more traditional transactional focus

Benefit targets including budgetary (hard savings) and non-budgetary (soft savings) must be established, supported by a pipeline of procurement activity focused on delivering a positive ROI

Suppliers have different processes to follow depending on the council organisation they are supplying, making it harder to do business

Too much focus on any single area can result in Procurement not delivering sufficient value to the business units they support



Case studies

Case study: Council for Infrastructure New Zealand delegation to Canada ⁷

Context	Action	Results	Implication
<p>This case study provides an overview of the council for the Infrastructure New Zealand 2015 delegation to Canada in 2015 and the potential implications for Auckland Council.</p> <p>The delegation considered the Canadian approach to major project procurement which involved establishing a number of specialised agencies to deliver procurement.</p> <p>Canadian infrastructure was viewed as better quality than NZ (World Economic Forum data) and has made significant progress working with the private sector in delivering infrastructure projects.</p>	<p>The delegation reviewed case studies across a variety of projects to assess whether they may be applied to a New Zealand context. Canada uses specialist publicly-owned procurement agencies (e.g. Partnerships British Columbia, Infrastructure Ontario and PPP Canada) to deliver procurement for complex major projects. This approach is designed to deliver better VfM, achieved through efficiencies for agencies and improvements to the supplier market place as the procurement agencies build expertise by delivering more projects more often.</p> <p>Infrastructure New Zealand noted that monitoring of conventional project delivery is generally weak outside PPP procurement.</p>	<p>A 2015 New Zealand Treasury report suggested that there could be significant improvement across government. Currently, New Zealand Infrastructure procurement (and major programme delivery is fragmented across many participants).</p> <p>Infrastructure New Zealand concluded that specialised public procurement (in much the same way as the Canadian model) could add significant value to our public sector.</p> <p>There could be an opportunity for Auckland Council to create a centre of expertise for infrastructure procurement to leverage procurement expertise across the Group.</p>	<p>Opportunity to create a centre of expertise for infrastructure procurement to leverage procurement expertise across the council Group.</p>

Case study: Economic benefit of improved procurement practices in Australia⁸

Context	Action	Results	Implication
<p>In 2015, Deloitte Access Economics considered the “Economic benefits of better procurement practices”. This review focused on the professional services component of infrastructure projects.</p> <p>Australian investment in infrastructure is around A\$43bn per annum and generates significant economic activity. Professional services (architects, engineers, consultants, etc.) is approximately 10% of the infrastructure spend.</p> <p>Auckland Council Group has a similar proportion of professional services. Approximately \$150m is spent annually on professional services out of a total annual infrastructure spend of NZ\$1.5bn.</p>	<p>The review found the some elements of the current government procurement practices were inefficient and added unnecessary cost to infrastructure projects. It highlighted examples of unclear project objectives, failure to guarantee accuracy of information provided, inefficient risk management and disproportionate liability clauses.</p>	<p>Deloitte estimates inefficient procurement practices added almost 6% to the cost of the professional services associate with infrastructure.</p> <p>The report recommended seven key steps to shift the direction of procurement:</p> <ol style="list-style-type: none"> 1. Establishing procurement teams with the right mix of skills. 2. Reallocating resources to better focus on project objectives. 3. Removing contract clauses that do not stack up. 4. Developing and applying limited liability guidelines. 5. Verification of brief information provided to suppliers. 6. Streamlining compliance processes. 7. Evaluating and adapting procurement frameworks to encourage innovation. 	<p>Auckland Council spends \$150m per annum on infrastructure-related professional services. Based on the findings of the study there could be up to \$9m per annum additional cost to infrastructure procurement.</p>

Case study: Facilities Management procurement (Project 17)

Context

There were 23 open space and facilities maintenance contracts across the city with different contract terms. Project 17 introduced a new way of contracting for the council and led to full facilities maintenance contracts across five geographic areas.

Action

- Procurement managed a two-stage procurement process to identify and select suppliers.
- Standard service levels were established across the city.
- Procurement encouraged participation from suppliers not currently operating in Auckland and there were new entrants to the market.

Results

- Good procurement practices included good engagement with the customer (the council and local boards) to understand requirements, with a two-stage competitive market process. A key objective was to reduce the number of suppliers providing facilities maintenance services and to move from a prescriptive contracting model to outcome-focused contracts.
- The result was a contract for increased levels of service within the same funding envelope of \$28m. A whole-of-life pricing model provides budget certainty for the council, although the suppliers will have factored risk into their pricing.
- We understand that local boards were a key driver of increased service levels, so this outcome reflects responsiveness to local boards.
- But it is not clear how the choice between hard savings (for the same service level) and no hard savings (but increased service levels) was made. This lack of transparency can weaken procurement performance.

Implication

New entrants were introduced into the Auckland market to replace incumbent suppliers. There have been contractor performance issues but these are being managed. There are lessons for the future on how to manage a change in suppliers.

The targeting and realisation of benefits requires clear objectives and procurement approach. A clearer decision-making and prioritisation process set out in a tendering strategy would provide clear direction on the benefit identification and transparency on trade-off decisions.

Options analysis

Value proposition #1: Consolidate spend to deliver shared benefits across the Group

IF

... we have an effective group procurement operating model to achieve collaborative procurement in accordance with the Group Procurement Policy ...

By

- Developing, building on the collaborative approach in the Group Procurement Policy to implement:
 - a procurement strategy balancing customer needs and procurement category expertise with the benefits of collaboration
 - the appropriate operating model to deliver efficient and effective procurement services which support both the Group Procurement Policy and individual business unit requirement.
- Including as a minimum in the strategy:
 - key guiding principles such as contestability, sustainability, innovation and risk management
 - an agreed list of mandatory spend categories for Group activity and which are best left to each entity to manage
 - a plan to develop procurement capability across the Group
 - assessing the most effective way to procure infrastructure
 - a plan for optimising duplicated functions such as contract management, spend analysis, reporting, enabling technologies, and procurement learning and development
 - a standard approach to reporting, measuring and monitoring
 - developing a consistent customer and supplier experience
- Establishing the appropriate governance and providing a mandate to implement the operating model in future CCO Statements of Intent and in council policies

Then we will achieve

- A coordinated, consistent and joined-up approach to procurement which delivers service in accordance with Group Procurement Policy.
- Combining procurement competencies so they can be focused on higher value activity across the Group.
- A consistent procurement experience for customers and suppliers.

Net estimate	+ ve (not estimated), see VP#4
Ease of implementation	Moderate
Timing	<6 months
Overall rating	Must do

Value will be delivered from improved alignment of procurement across the Group so that scale can be leveraged and duplication eliminated. In the short-term (first three years) any cost savings should be reinvested into higher value procurement activity, assuming that every \$1 invested in procurement activity continues to deliver \$4 in benefit.

Assessment

Criteria	Comment
Strategic fit ●	Aligns with a formal strategic plan Supports doing more with less Improved VfM will be achieved from: <ul style="list-style-type: none"> • central co-ordination with local implementation • joint outcomes and aligning each organisation's focus on consistent performance measure(s) and monitoring framework • greater consistency, removal of duplication and sharing of resources • volume savings through leveraging scale
Value for money ●	
Equity ●	Value from an efficient and effective procurement service benefits all ratepayers
Feasibility ●	No barriers Funded from current budgets. Should savings be made through removing duplication, these should be redeployed to higher value procurement activity
Affordability ●	
Competency ●	Collective Group strategic planning management resources and capabilities are used

Results

Summary of financial costs and benefits

Costs

- External assistance may facilitate development of the procurement strategy and approach to operating model development.

Benefits

- Key enabler of the quantitative benefits included as part of VP#3.
- Unquantified qualitative benefits include:
 - aligned approach that supports the delivery of procurement services – central co-ordination, local implementation
 - consistent measurement and reporting framework across the group
 - improved benefit realisation through leveraging group scale
 - consistent user experience
 - resources can be redeployed to higher value procurement activity. Currently, there are 30 FTE across the Group performing procurement enabling activities, some of which could be reduced over time.
- Lessons from the Canadian case study show benefits can be made in infrastructure procurement by creating centres of expertise.

Key risks and constraints

- One size does not fit all and local implementation is crucial to success.
- Depends on having a formal arrangement as collaborative or voluntary models unlikely to deliver outcomes.
- Risk of value being lost if there is no requirement to use collaborative procurement services.
- Risk of talent loss through change process and that appropriately skilled staff cannot be found.
- Risk of resistance to change or later rogue behaviour can erode benefits.
- Watercare's efficient and effective operations obligation means that, when assessing proposals for co-ordination and integration of procurement, the proposal must assist (or at least be neutral) in keeping the costs of water supply and wastewater services to customers at efficient and effective levels.
- The role of Procurement in achieving good procurement outcomes must be balanced with the governance responsibilities of Auckland Council and each CCO board.

Key assumptions

- The operating model will be jointly developed by Procurement leadership, supported, if required, by external resource and be jointly beneficial to each participating organisation.
- The Group CFO will sponsor the work and each organisation's CFO will be part of the procurement governance arrangements.
- There are some limited and clearly defined opt-out clauses, e.g. to meet legal obligations (such as Watercare being able to opt out where doing so would lower the cost of water supply and wastewater services to consumers).
- The appropriate operating model is established to attract and retain appropriate talent, a customer-centric focus and benefit targets. A change in skill mix may be required.
- The approach is flexible enough to allow the right procurement approach to be selected – one size does not necessarily fit all.
- The procurement approach will operate under the principle "central co-ordination, local implementation."

Value proposition #2: Lift SRM capability to mutually lower the cost of supply

IF ... we introduced a consistent SRM framework across the Group for identifying and managing key strategic relationships ...

By

- Developing a group approach for managing the supplier market covering:
 - how suppliers are identified across the group to be subject to SRM approach
 - the lead agency in the relationship
 - outcomes sought by the council (wider outcomes, beyond procurement objectives).
- Assigning ownership of each supplier relationship to members of the Group's executive teams.
- Gathering intelligence on key supplier markets.
- Using the relationships to encourage innovation, new ideas and increased value to both the council and the supplier.

Then we will achieve

- An opportunity to encourage supplier innovation.
- Reduced transaction costs for suppliers and the council.
- Improved project specification through engaging with key suppliers earlier in the project lifecycle.
- A consistent Group perspective in managing the supplier relationship, rather than this being driven by individual entity perspective.
- Group management of supply side risks (concentration, service or provider failure, capacity and capability) to avoid adverse impact to the council's services.
- Reduce costs to suppliers and, therefore, to the council.

Net estimate	+ ve (not estimated), see VP#4
Ease of implementation	Moderate
Timing	<1 year
Overall rating	Must do

Supplier relationship management is a comprehensive approach to managing interactions with suppliers of goods and services. By focusing on the key (not necessarily the largest) suppliers, further value opportunities can be achieved.

Assessment

Criteria	Comment
Strategic fit	<ul style="list-style-type: none"> Aligns with a formal strategic plan Supports doing more with less
Value for money	Will increase through early supplier engagement, innovation and reduced transaction costs
Equity	Equitable to ratepayers
Feasibility	Feasible to implement, but needs clear aligned objectives to deliver results
Affordability	Improves affordability
Competency	May require external support to develop framework and undertake initial partnering with suppliers. Expertise should be developed in council teams

Results

Summary of financial costs and benefits

Costs

- External consultancy may be required to develop the framework and help with initial partnering with suppliers. This should be funded by re-prioritising existing budgets.

Benefits

- Quantitative benefits included as part of value proposition #4.
- Qualitative benefits include:
 - aligned objectives with key suppliers
 - improved risk management
 - a better understanding of how each supplier operates their business and the impact (cost implications) that the council's actions have on suppliers' businesses
 - encouragement of innovation.

Key risks and constraints

- One size does not fit all and local implementation is crucial to success.
- Depends on having a formal arrangement as collaborative or voluntary models unlikely to deliver outcomes.
- Risk that key suppliers do not wish to support the initiative.
- Watercare's efficient and effective operations obligation means that, when assessing proposals for co-ordination and integration of procurement, the proposal must assist (or at least be neutral) in keeping the costs of water supply and wastewater services to customers at efficient and effective levels.
- The role of Procurement in achieving good procurement outcomes must be balanced with the governance responsibilities of Auckland Council and each CCO board.

Key assumptions

- The approach will be jointly developed by Procurement leadership, supported, if required, by external resource and be jointly beneficial to each participating organisation.
- The Group CFO will sponsor the work and each organisation's CFO will be part of the procurement governance arrangements.
- There are some limited and clearly defined opt-out clauses, e.g. to meet legal obligations (such as Watercare being able to opt out where doing so would lower the cost of water supply and wastewater services to consumers).
- The approach is flexible enough to allow the right procurement approach to be selected – one size does not necessarily fit all.

Value proposition #3: A more effective assessment of risk

IF

... we developed a common and consistent framework for the assessment of risk...

By

- Developing a group approach for managing risks in the supply of goods and services
 - testing current risk tolerances applied to projects and programmes of work
 - developing risk assessment criteria
 - apply Kraljic Matrix to supply categories and suppliers (assessment of supply risk and financial implications)
 - noting that each entity has own governance structures and therefore accountability for risk management.
- Improving planning and scoping of projects to understand the aspects that most contribute to the suppliers' risk and early engagement of Procurement in the process.
- Assess projects against risk criteria and determining appropriate procurement/financing approaches to share risk with suppliers.

Then we will achieve

- Increased confidence that supply risk is appropriately managed across the Group.
- The ability to accept more risk or for the supplier to accept more risk and clearly understanding the cost implications of that risk.
- A better understanding of the cost implications from different risk management approaches.

Net estimate	+ ve (not estimated), see VP#4
Ease of implementation	Moderate
Timing	<1 year
Overall rating	Must do

There are risks associated with every activity the Council undertakes and by understanding the supply risk the Council has the opportunity to either accept more risk or transfer that risk to the supplier while fully understanding the cost implications.

Assessment

Criteria	Comment
Strategic fit ●	Aligns with council risk management approach
Value for money ●	Allows for better understanding of the pricing of risk from suppliers
Equity ●	Equitable to ratepayers
Feasibility ●	Feasible to implement, but needs clear aligned objectives to deliver results. Governance structures and each entity's risk appetite need to be considered
Affordability ●	Improves affordability
Competency ●	External support may be required to develop framework. Expertise should be developed in council teams

Results

Summary of financial costs and benefits

Costs

- External consultancy may be required to develop the framework. This should be funded by re-prioritising existing budgets..

Benefits

- Quantitative benefits included as part of value proposition #4.
- Qualitative benefits include:
 - aligned objectives with suppliers
 - improved risk management
 - better understanding of supplier and impact the council's actions have on suppliers and, therefore, cost
 - improves ease of doing business with the council.

Key risks and constraints

- Each entity has their own governance structures, risk appetite and risk framework which must be considered.
- One size does not fit all and the council must manage its supply base sustainably.
- Implications of insurance on procurement approach (and cost).
- Watercare's efficient and effective operations obligation means that when assessing opportunities, the proposal must help (or at least be neutral) in keeping the costs of water supply and wastewater services to customers at efficient and effective levels.

Key assumptions

- The council has the necessary capability or can acquire the capability to develop the risk framework, training and assessments.
- An assessment of the implications on council insurance cover (and assessment of total cost of insurance).
- The council understands their suppliers and the markets within which they operate.
- The council maintains a competitive market place.

Kraljic Matrix in the council context

The Kraljic Matrix⁶ is an effective approach to assess suppliers and categories and determine the most appropriate procurement solution.

Categorising products and suppliers

High	<p>Leverage suppliers</p> <ul style="list-style-type: none"> • Many competitors • Commodity products 	<p>Strategic suppliers</p> <ul style="list-style-type: none"> • Market leaders • Specific know-how 	High
	<p>Leverage products</p> <ul style="list-style-type: none"> • Alternative sources of supply • Substitution available 	<p>Strategic products</p> <ul style="list-style-type: none"> • Dependence on supplier • Long term availability 	
Low	<p>Routine suppliers</p> <ul style="list-style-type: none"> • Large supply • Many suppliers with dependent position 	<p>Bottleneck suppliers</p> <ul style="list-style-type: none"> • Technology leaders • Barriers to entry 	High
	<p>Routine products</p> <ul style="list-style-type: none"> • Large product variety 	<p>Bottleneck products</p> <ul style="list-style-type: none"> • Scarcity 	
		Supply risk	
	Low		High

Supplier impact on financial results

Potential operation for Council Group

High	<p>Capital programme (local)</p> <p>Central co-ordination with local implementation</p>	<p>Centre of expertise</p> <p>Capital programme (infrastructure)</p> <p>80% of operating spend Central management with local implementation</p>	High
Low	<p>SAP Ariba</p> <p>Shared services – common processes and systems 80% of transactions</p>	<p>Effective panel management</p> <p>Central co-ordination with local implementation</p>	High
		Supply risk	
	Low		High

Supplier impact on financial results

Value proposition #4: Hold Procurement and departments to account on delivering hard savings to contribute to efficiency targets in the LTP

IF	... we introduced a requirement that all entities establish an annual hard savings target for procurement which is included in the LTP budget, and challenge procurement to deliver this target we will improve performance and deliver increased value ...
By	<p>Then we will achieve</p> <ul style="list-style-type: none">• Requiring the procurement function to target hard savings and deliver a minimum of a 4:1 ROI in procurement.• Developing an annual Group sourcing plan which includes:<ul style="list-style-type: none">• details of procurement opportunity• procurement approach and timetable• range of potential benefits expected to be achieved• sensitivity as to likelihood of achieving benefit.• Implementing the other identified improvement opportunities in the VfM review:<ul style="list-style-type: none">• Group procurement strategy and operating model• supplier relationship management framework across the Group.• Regularly reporting progress against achieving the benefits target. <p>Then we will achieve</p> <ul style="list-style-type: none">• Incremental hard savings of \$197m (net present value \$140m) over next 10 years.• Consistent approach to assessing future and potential additional investment in procurement service.• Improved focus on procurement being an enabler of cost efficiency for the council Group.

Net estimate	NPV \$140m over 10 years
Ease of implementation	Moderate
Timing	< 6 months
Overall rating	Must do

Improving the visibility and transparency of procurement savings targets will improve the assessment of procurement effectiveness. Over the next 10 years, Auckland Council Group will spend approximately \$38bn with suppliers and the savings target in that context represents a modest target. In that context, we believe this is additional to procurement savings targets identified in previous VfM reviews.

Assessment

Criteria	Comment
Strategic fit	● Aligns with Group Procurement Policy
Value for money	● Will assist in the demonstration of the council delivering VfM
Equity	● Should deliver best value by having efficient and effective procurement service
Feasibility	● Feasible to implement with existing strategic planning resources
Affordability	● Funded from current budget
Competency	● Resources and expertise exist. External support required

Results

Summary of financial costs and benefits

Costs

- Cost included in existing resources.
- Resource may need to be redeployed from lower value activity.

Benefits

- Net estimate reflects the additional benefit (over 2017 levels) by assuming a 4:1 return. This is an achievable target given the total expenditure over the next 10 years. Caution is needed to avoid double counting from other VfM reviews.
- The collaborative approach and supplier relationship management framework are key enablers to delivering increased benefit.
- Hard savings targets were set for 2017 and the 10-year target includes these numbers:
 - Auckland Council (\$15m) 4:1 return
 - Watercare (\$10m) 12.5:1
 - Auckland Transport – none set
 - RFA – none set.

Key risks and constraints

- Tension between procurement savings objectives and business unit service level objectives.
- Insufficient procurement capability to realise additional benefits.
- Risk that customer satisfaction decreases due to the changed focus.

Key assumptions

- Work programme is developed to identify annual savings opportunities and operationalised in accordance with VP#1.
- Capability exists (or can be developed) within procurement function to achieve the required level of benefits.
- Support will be provided to procurement by Group CFO and entity CFOs in determining trade-off decisions where the business unit objective and procurement objective are not aligned e.g. procurement savings v level of service increase.
- There is sufficient capacity in the Group cost base that savings in the required magnitude can be achieved, at least in the short-term.
- Procurement savings will become a key performance indicator for all entities.

Benefit ROI calculation

10 year total	\$m
Cost of procurement	99
Current ROI	2 : 1
Forecast benefit at current ROI	197
Proposed ROI	4 : 1
Forecast benefit in proposed ROI	394
Incremental benefit	197
NPV (6% discount rate)	140

Appendices

Value for money

This review delivers on the section 17A of the Local Government Act 2002 requirement, to:

“ ... review the cost-effectiveness of current arrangements for meeting the needs of communities within its district or region for good-quality local infrastructure, local public services, and performance of regulatory functions ...

... consider options for the governance, funding, and delivery of infrastructure, services, and regulatory functions...”

These reviews must be undertaken at least every six years.

The **purpose** of this internal strategic review is to identify strategic opportunities to improve value for money (VfM).

The value propositions developed in this report indicate the potential value from undertaking certain actions. It provides orders-of-magnitude estimates of this value. The propositions do not explicitly include the costs of implementation. The value propositions have been designed to inform council decisions whether to invest in more detailed investigation, including business case development and consultation on options.

VfM, or cost-effectiveness, considers both the cost and the effectiveness (a measure of value) of local government services.

The Office of the Auditor-General, in its 2008 Procurement guidance for public entities publication, defined VfM as:

“ ... using resources effectively, economically, and without waste, with due regard for the total costs and benefits of an arrangement, and its contribution to the outcomes the entity is trying to achieve. In addition, the principle of value for money when procuring goods or services does not necessarily mean selecting the lowest price but rather the best possible outcome for the total cost of ownership (or whole-of-life cost).”

We define value from the viewpoint of the customers of the services. Depending on the service, customers might be specific groups of individuals, households or businesses, or they might be the Auckland public in general.

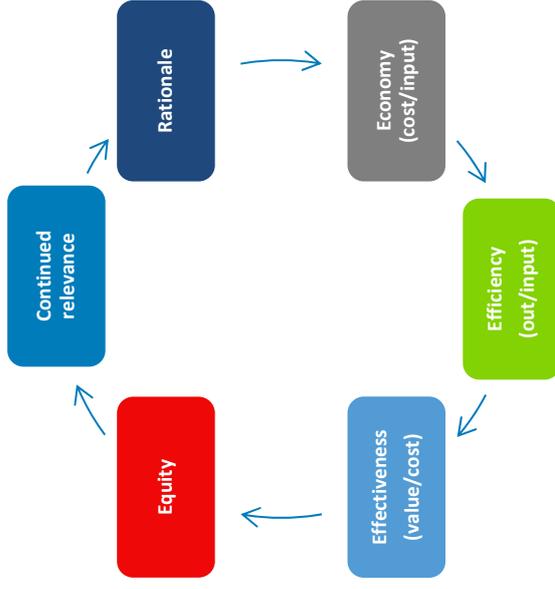
When we consider VfM, we also look at the public policy reason for the council’s current role and whether that role will continue to be appropriate in the future, given changes in factors like technology, customer expectations, the environment, legal framework, etc.

Our methodology uses a fact-based approach

The review involves testing current service arrangements, as well as asking if the rationale is still sound and fit for the future. We focused on specific challenges, issues and opportunities that we found most relevant for service delivery in the future.

Questions

<p>What</p>	<ul style="list-style-type: none"> • What is the service and how big is it? • How is it delivered, funded, governed, regulated? • What is its place in the value chain? • What is the current and future context?
<p>Why</p>	<ul style="list-style-type: none"> • What is the service trying to achieve? • What are its strategic or statutory drivers? • What is the public policy rationale for local government role?
<p>Performance</p>	<ul style="list-style-type: none"> • What are the cost and value drivers? • Cost: economy (cost of inputs) and efficiency (service delivery) • Effectiveness: economic, environmental, social impacts • Cost-effectiveness • Equity
<p>Implications</p>	<ul style="list-style-type: none"> • Does current performance indicate good VfM? • Do incentives/controls give confidence about achieving future value? • What are the areas of risk and uncertainty affecting VfM? • Continued relevance in light of likely changes in context? • What funding, governance, delivery options for improvement?



Approach to current state assessment

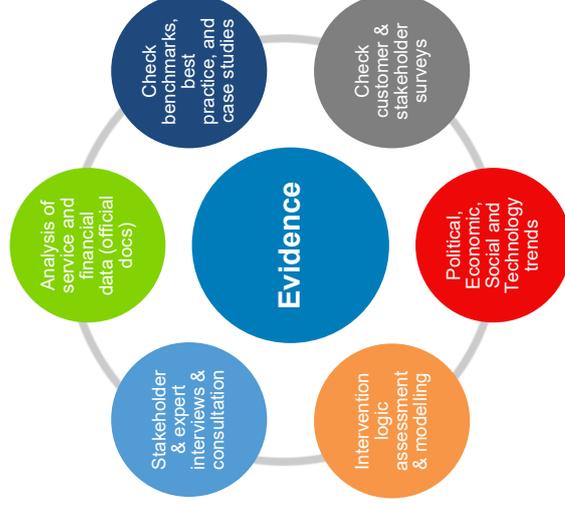
We use a clear methodology seeking to understand the current operating approach and framework.

We assess the current drivers of value, and the issues and the challenges in delivering the services to identify and document value delivered and any improvement opportunities.

We undertake VFM reviews in three parts, starting with a current state assessment:



As part of our evidence-based approach we draw on a range of sources:



What we do:

- Engage with relevant staff for their operational and strategic knowledge, and access to data and expert reports
- Review business plans, financial reports and selected literature
- Test the intervention logic
- Draw on international literature and reviews of international practices
- Test our thinking with subject matter experts and other agencies involved in investment attraction and international relations

The current state assessment effort leads to a list of challenges, issues and opportunities for further testing during the second part of the review.

Approach to options analysis

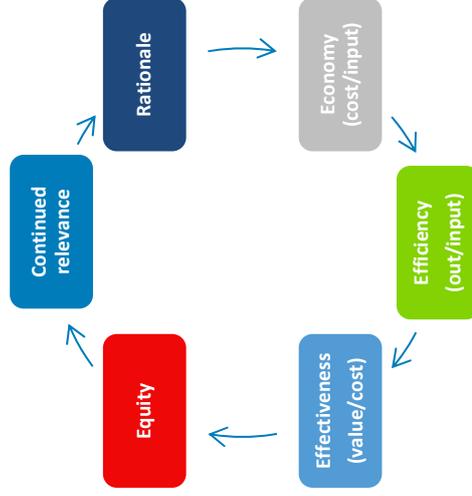
In the second stage of the review we identify and evaluate improvement opportunities. Findings follow feedback on the assessment and options.



In the second part of the review, we analyse opportunities to improve value for money.

We evaluate the ongoing relevance of governance, funding and service delivery arrangements and alternative options.

We outline the action required to deliver value, and provide orders-of-magnitude estimates of the potential future value.



Our critical success factors draw on the Better Business Case framework

Strategic fit (strategic case)	Does the option progress the outcomes the council is pursuing, and fit with the council's role?
Value for money (economic case)	Do benefits to Aucklanders exceed costs? Does the option provide: <ul style="list-style-type: none"> • clear accountability • transparency • compatible incentives • risk allocation to where best managed • proportional admin and compliance costs
Equity (social case)	Does the option promote a strong inclusive and equitable society, and share costs appropriately?
Feasibility (commercial case)	Can the option be commercially viable?
Affordability (financial case)	Do options fit Auckland Council's financial objectives and constraints?
Competency (management case)	Has the council the competencies to execute?

Glossary

Term	Definition
Alliances	An agreement between 2 or more entities outlining how they will work together to achieve a common goal
Alternative Financing Vehicle (AFV)	A type of Private Public Partnership where private sector finance is used to fund infrastructure rather than public sector finance
APQC	Global performance benchmarking company based in USA. Used by consultancies to provide performance comparisons
ATEED	Auckland Tourism, Events and Economic Development
Auckland Council (the council)	Auckland Council
BASS	A Treasury publication of benchmarking administration and support services
Gross operating expenditure	Total without deductions for depreciation and finance costs
Group Procurement Plan	Collective plan to manage or co-source third party suppliers
Infrastructure	The fixed, long-lived structures that facilitate the production of goods and services and underpin many aspects of quality of life. Infrastructure refers to physical networks, principally transport, water, energy, and communications
Local boards	There are 21 local boards which share responsibility for decision-making with the governing body. They represent their local communities and make decisions on local issues, activities and facilities
Local Government Act 2002 (LGA 2002)	Legislation that defines the powers and responsibilities of territorial local authorities such as Auckland Council
Long-term plan (LTP)	This document sets out the council's vision, activities, projects, policies, and budgets for a 10-year period. Also commonly referred to as the LTP/ the 10-year budget
Panuku Development Auckland (Panuku)	A new CCO combining Waterfront Auckland and ACPL to work as a single outward facing entity in the development of the region
Public Private Partnership (PPP)	A co-operative arrangement between two or more public and private entities, typically long term
Rates	A charge against the property to help fund services and assets the council provides
ROI (Return on investment)	Measures the gain or loss generated on an investment relative to the amount of money invested. ROI enables a comparison of the efficiency of different investments
RFA	Regional Facilities Auckland
Targeted rates	A targeted rate is a rate set to fund activities where greater transparency in funding is desired or where the council considers the cost should be met by particular groups of ratepayers, as they will be the prime beneficiaries of the activity
Value for Money (VfM)	Using resources effectively, economically, and without waste, with due regard for the total costs and benefits of an arrangement, and its contribution to the outcomes the entity is trying to achieve
Watercare	Watercare Services Limited

Footnotes

1. P2, P31: Group Procurement Policy, Auckland Council, 2017
2. P3: Key facts are derived from a number of sources provided during the review. Caution must be exercised with all spend data. Spend data is correct in total but individual classification is known to include errors. The spend analysis tool is being migrated to SAP Ariba
3. P24: Guide to Government procurement, MBIE, 2015
4. P19: Benefit identification and quantification framework, Auckland Council, 2017
5. P34: Mayoral position paper on Public Private Partnerships, EY, 2013
6. P56: Purchasing must become supply management, Peter Kraljic, HBR, 1983
7. P43: Best Practice Project Procurement: Findings from an NZCID delegation to Canada, New Zealand Infrastructure, 2015
8. P44: Economic benefits of better procurement practices, Deloitte Access Economics, 2015

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The review also used a variety of internal documentation, some of which is commercially sensitive. These include:

- procurement category plans
- evaluation frameworks
- decision to appoint vendors.

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Josie Robinson	Procurement Communications & Support Advisor
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EY	
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