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Strategic
suppliers:
Understanding
and managing the
risks of service
disruption



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Strategic suppliers: Understanding and managing the risks of service disruption

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Contents

Auditor-General's overview	3
Our recommendations	6
Part 1 – Introduction	7
What are strategic suppliers?	7
Why we did our audit	10
What we looked at	11
How we carried out our work	11
Structure of this report	12
Part 2 – Public sector understanding and management of strategic supplier risks	13
There is no system-wide visibility of government strategic suppliers	14
Roles, responsibilities, and processes for assessing and managing strategic supply risks are unclear	17
There is no system-level reporting to Ministers	21
Part 3 – Public organisations' understanding and management of strategic supplier risks	22
Public organisations generally know which of their suppliers are strategic suppliers	22
Processes are in place for assessing and managing risk	25
Reporting on strategic supply risks is limited	29
Appendix – Understanding available information on strategic suppliers	31
Figures	
1 – The model some public organisations use to identify their strategic suppliers	23

Auditor-General's overview

E ngā mana, e ngā reo, e ngā karangarangatanga maha o te motu, tēnā koutou.

The public sector provides many public services that are important to New Zealanders. These include services that keep our towns and cities running (water supply and waste disposal), support people in need (income support and health services), build our skills (education), and help keep us safe (emergency services).

New Zealanders expect these public services to be available when they need them, particularly during personal or national emergencies. My staff carried out a performance audit that looked at how well placed the public sector is to meet New Zealanders' expectations when public services rely on third-party suppliers.

Strategic suppliers provide goods and services that are critical to the delivery of public services and are not easily replaced. Some strategic suppliers provide essential goods and services to many public organisations. An example is a large information, communication, and technology company that supports many public organisations' key information systems. We refer to these suppliers as government strategic suppliers. A significant failure of a government strategic supplier could affect many public services and thousands of New Zealanders.

We wanted to know how well the public sector understands and manages the risk of service disruption if a strategic supplier fails to deliver goods and services.

What we found

The public sector does not have a good understanding of which suppliers are government strategic suppliers. Public organisations are required to report their significant service contracts to the Ministry of Business, Innovation and Employment (the Ministry). This reporting is meant to provide visibility of critical contracts across government and within public organisations. It has given public organisations a better understanding of their strategic suppliers. However, there is still no system-wide visibility of government strategic suppliers.

There are several reasons for this. Reporting does not include all public organisations (for example, local government organisations) or all contracts with strategic suppliers. The information that is reported is incomplete and of variable quality. The Ministry does not carry out regular analysis of significant service contracts information, share it with other public organisations, or report strategic supply risks to the Government. This creates the risk that public organisations believe that there is a level of central oversight of significant service contracts when this is not the case.

Lack of system-wide visibility of government strategic suppliers means that the Government does not know how much it relies on any one supplier. It also does not have visibility of the risk of disruption to important public services if a government strategic supplier fails to deliver.

This creates a risk for the Government and New Zealand. Government strategic suppliers do not provide goods and services just to public organisations – they also supply community organisations, businesses, and, in some cases (such as telecommunications and power companies), New Zealanders directly. The potential impact of strategic supplier failure is far reaching.

The Ministry recognises the need to better understand which suppliers are government strategic suppliers. It has started a programme of work on supplier relationship management, which includes a focus on government strategic suppliers. The Ministry intends to identify and assess the Government's business with 50 to 100 strategic suppliers and then test a whole-of-government approach to managing the relationship with two strategic suppliers.

This initiative is a step in the right direction. However, the Ministry also needs to improve the process for reporting significant service contracts to improve the information available about strategic suppliers. If done effectively, this would help improve the visibility of government strategic suppliers and associated risks. Without this information on strategic suppliers, the Government will continue to be uninformed about some of the risks it faces.

There also needs to be greater clarity about roles, responsibilities, and processes for managing key strategic supplier risks and how these interact with processes for managing other nationally significant risks. Effective risk management requires a co-ordinated approach. This is so public organisations know what their role is, what others are doing, and how they need to work together to manage the risk of disruption to public services from strategic supplier failure.

We did not see any consolidated information on strategic suppliers in local government or processes for assessing or managing strategic supply risks. However, local government organisations are likely to rely on many of the same strategic suppliers as central government. I encourage local government and central government to work together to establish a better national understanding of risks and ensure that these are well-managed and co-ordinated.

We identified a need for better communication with government strategic suppliers about which public services should be prioritised after an emergency. We expect the public sector to proactively consider priorities as part of emergency response planning and to tell suppliers about them as soon as possible after an emergency, rather than leave those decisions to suppliers.

Most public organisations know which of their suppliers are strategic suppliers. However, in our view, some public organisations could improve the way they identify and manage strategic supply risks. Improvements include public organisations regularly assessing which suppliers are strategic suppliers and investing in effective relationship management. Senior leaders should require better reporting of strategic supply risks to them and to governing bodies to ensure that risks are well understood and managed.

Covid-19 has highlighted New Zealand's vulnerability to global supply chains, as well as the need for the public sector to strengthen the resilience of service delivery. Understanding and managing strategic supply risks is an important part of that. Strategic supplier management is only one aspect of ensuring that services to New Zealanders are not interrupted. I also expect public organisations to consider more broadly their preparedness for shocks to ensure that important public services continue to be delivered in an emergency.

The current state of strategic supplier management across the public sector is concerning. Important public services will remain vulnerable to unexpected failure unless the public sector makes improvements to the way it manages strategic suppliers.

I thank the many people who contributed to this audit and took the time to talk with my staff, including suppliers and public organisations in both local and central government.

Nāku noa, nā



John Ryan
Controller and Auditor-General

2 June 2021

Our recommendations

We recommend that:

1. the Ministry of Business, Innovation and Employment:
 - improve the reporting tool for significant service contracts to improve the information available on these contracts and government strategic suppliers; and
 - regularly analyse, share, and report to the Government on this information;
2. the Ministry of Business, Innovation and Employment, the Department of Internal Affairs, the Department of the Prime Minister and Cabinet, the Treasury, the National Emergency Management Agency, and other agencies as appropriate:
 - consider how the public sector, including local government, can build on existing initiatives to ensure that strategic supply risks affecting important public services are well understood, managed, and co-ordinated; and
 - work with Te Kawa Mataaho Public Service Commission to ensure that roles and responsibilities are clearly assigned;
3. the Ministry of Business, Innovation and Employment provide further guidance to help public organisations identify their significant service contracts and strategic suppliers;
4. public organisations regularly assess which of their suppliers are strategic suppliers, the resilience of these suppliers, and how they manage their relationships with them, both in normal circumstances and in emergencies; and
5. public organisations have adequate processes in place for reporting strategic supply risks to their senior leaders and governing bodies.

Introduction

- 1.1 In this Part, we describe:
- what strategic suppliers are;
 - why we did our audit;
 - what we looked at;
 - how we carried out our work; and
 - the structure of this report.

What are strategic suppliers?

- 1.2 Public organisations often rely on third-party suppliers to provide goods and services to enable the delivery of services to New Zealanders. In 2018, we estimated that the public sector spends about \$42 billion each year on procuring goods and services.¹
- 1.3 Some suppliers are “strategic suppliers”. Strategic suppliers provide goods and services that are critical to delivering public services. These are often highly specialised goods and services that are not easily sourced elsewhere. If a strategic supplier fails to meet its contractual commitments, this could disrupt important public services.
- 1.4 Some strategic suppliers provide goods and services for only one public organisation or type of organisation. For example, the company that electronically monitors offenders is a strategic supplier for the Department of Corrections. The New Zealand Blood Service is the only supplier of life-saving blood products and is, therefore, a strategic supplier for district health boards.
- 1.5 In this report, we refer to suppliers that provide essential goods and services to multiple public organisations, and play an important role in supporting the delivery of multiple public services, as “government strategic suppliers”. Some examples of government strategic suppliers include:
- The Government has one main banking provider, which provides banking services to many public organisations.
 - Many public organisations rely on a few large information, communication, and technology (ICT) companies to supply and maintain their information systems. This includes information systems that hold important client details (such as benefit entitlements).
 - There are only a few companies in New Zealand that can deliver major projects, such as big roading projects or large buildings such as prisons and hospitals. Both central and local government organisations rely on these suppliers.

1 Office of the Auditor-General (2018), *Introducing our work about procurement*, Wellington.

- 1.6 Over time, public organisations can develop long-standing contractual relationships with their strategic suppliers. This enables strategic suppliers to develop a good understanding of the public organisations they work with and what they need to deliver high-quality public services. It also increases public organisations' reliance on these suppliers. Therefore, public organisations must be alert to, and prepared for, the possibility of a strategic supplier failing to deliver.

Roles of agencies in managing strategic supply risks

- 1.7 Public organisations are each responsible for assessing and managing supplier-related risks of the public services they deliver. However, no public organisation has responsibility for managing strategic supply risks across the public sector.
- 1.8 The Ministry of Business, Innovation and Employment (the Ministry) is the government lead for procurement. Its role is to influence and provide guidance to public organisations on procurement good practice. It administers the *Government Procurement Rules*² but does not have a mandate to require public organisations to comply with them.
- 1.9 The Ministry also manages the Government Electronic Tenders Service and 20 all-of-government contracts. All-of-government contracts are central contracts for goods and services commonly bought by public organisations. As the lead agency, the Ministry is responsible for preparing and negotiating each contract, monitoring supplier performance, and contract management.
- 1.10 Te Kawa Mataaho Public Service Commission's role is to ensure that there are clear expectations for public service chief executives and functional leads. This includes the expectation that the Ministry, as the procurement lead, provides advice on complex, high-risk, and strategically important projects and builds capability across the public sector.
- 1.11 The Government Chief Digital Officer (the chief executive of the Department of Internal Affairs) is the government lead for ICT procurement. This includes leading and managing the common capability³ ICT contracts across government and providing security certification and continuing assurance of suppliers.
- 1.12 Other public organisations play a lead agency role for syndicated contracts. Syndicated contracts are another form of collaborative contract where a group of agencies work together to procure goods or services.

² The *Government Procurement Rules* are published by the Ministry of Business, Innovation and Employment. Depending on the type of organisation, all public organisations are required, expected, or encouraged to apply the Rules. For more information on the Rules, see procurement.govt.nz.

³ A common capability contract is a type of approved collaborative contract. Common capability contracts establish supply agreements with approved suppliers for selected common goods or services or works purchased across government.

- 1.13 The Department of the Prime Minister and Cabinet has a broader role in identifying nationally significant risks and ensuring that a co-ordinated approach is taken across government towards managing these risks. Strategic supplier or supply risks and issues might be identified as part of this work or arise in a national emergency. Depending on the circumstances, either the relevant lead agency or the Department of the Prime Minister and Cabinet will ensure that a co-ordinated approach is taken. For example, in the early stages of the response to Covid-19, the supply of personal protective equipment presented a potential all-of-government issue. A centralised response led by the Ministry of Health was required to secure access to personal protective equipment and other important medical supplies.
- 1.14 The Director of Civil Defence Emergency Management also has a statutory obligation to identify nationally significant risks under the Civil Defence Emergency Management Act 2002.

Significant service contracts

- 1.15 The *Government Procurement Rules* require some public organisations to report their “significant service contracts” to the Ministry of Business, Innovation and Employment twice a year. Significant service contracts are contracts for goods and/or services “that are critically important to the delivery of business objectives, and pose a significant risk and/or significant impact in the event of supplier or supply failure”.⁴
- 1.16 The *Significant service contracts framework* provides guidance for public organisations on how to identify and manage significant service contracts. The framework was introduced in 2016 in response to concerns about how some important government contracts were managed. The purpose of the framework is to “provide confidence to government and the public that important services are being effectively delivered to New Zealand”.⁵
- 1.17 Government departments, the New Zealand Police, the New Zealand Defence Force, and most Crown entities, including district health boards, must report their significant service contracts to the Ministry. Councils, tertiary education institutions, and other public organisations that are not required to apply the *Government Procurement Rules* do not report to the Ministry on significant service contracts.
- 1.18 The suppliers of goods and services for contracts that are reported as significant service contracts are likely to be strategic suppliers for public organisations.

4 See “Significant service contracts framework” in the Procurement section at procurement.govt.nz.

5 Ministry of Business, Innovation and Employment (2016), *Significant service contracts framework*, Wellington, page 3.

Some of these suppliers will be government strategic suppliers. However, not all contracts with strategic suppliers will be significant service contracts.

- 1.19 The Significant Service Contracts Framework states that the Ministry will maintain a central register of significant service contracts to:
- enable greater collaboration between public organisations;
 - support public organisations with their significant service contracts; and
 - collate information for Ministers.
- 1.20 The Ministry occasionally publishes a high-level dashboard on significant service contracts. However, public organisations retain responsibility for managing these contracts, including any associated risks and issues.
- 1.21 Public expenditure on significant service contracts is substantial. For example, the whole-of-contract value of 608 significant service contracts reported to the Ministry, as at 1 October 2020, was more than \$29 billion.⁶ The dollar value of each contract varies, and low-cost contracts can be as critical to the delivery of public services as high-cost contracts. The Appendix provides further information on significant service contracts based on information reported to the Ministry.

Why we did our audit

- 1.22 The public sector delivers a wide range of public services that are important to New Zealanders. These include services that keep our towns and cities running (for example, water supply and waste disposal), support people in need (income support and health services), build our skills (education), and help keep us safe (emergency services). New Zealanders rightly expect continuity of these services.
- 1.23 Given the importance of strategic suppliers to the delivery of public services, we carried out a performance audit to understand how well public organisations, including central agencies, understand the risks of strategic suppliers failing to deliver and whether they have contingency plans in place.
- 1.24 Some strategic suppliers also provide essential services (for example, power and telecommunications) to other organisations that the public sector relies on or to New Zealanders directly. A significant failure of one of these strategic suppliers (such as financial collapse) could have wide-reaching implications for many New Zealanders.

What we looked at

- 1.25 We looked at practices across the public sector rather than particular public organisations.
- 1.26 We looked at the public sector's collective understanding and management of strategic supplier risk, including:
- whether the Government knows which suppliers are its key strategic suppliers across the public sector;
 - what processes are in place for assessing and mitigating the risk of important public services being disrupted by strategic supplier failure and responding to identified risks and issues; and
 - what reporting is provided to the Government on strategic supply risks to the delivery of public services.
- 1.27 We also looked at the understanding and management of strategic supplier risk within a selection of public organisations, including:
- the extent to which public organisations know which of their suppliers are strategic suppliers;
 - what processes public organisations have in place for assessing and mitigating the risk of public services being disrupted by strategic supplier failure and responding to identified risks and issues; and
 - what reporting public organisations provide to their senior leaders and governing bodies.
- 1.28 Our focus was on the risk of service disruption from a strategic supplier failing to deliver contracted goods and services (for example, because of supply chain issues, a major outage, financial collapse, or the supplier leaving the market). We did not look at other supplier risks such as a privacy breach, cybersecurity risks, or failure to meet health and safety requirements.

How we carried out our work

- 1.29 We carried out this audit by:
- reviewing documents that describe how public organisations identify and manage strategic supplier risks;
 - reviewing the broader New Zealand and international literature on public sector understanding and management of strategic supplier risks;
 - interviewing key staff in central and local government organisations and some suppliers; and
 - analysing available data on strategic suppliers to the public sector.

- 1.30 We spoke with the following public organisations: Ministry of Business, Innovation and Employment, Department of Internal Affairs, the Treasury, Department of the Prime Minister and Cabinet, National Emergency Management Agency, New Zealand Infrastructure Commission – Te Waihanga, NZ Health Partnerships Limited, Pharmaceutical Management Agency (PHARMAC), HealthSource New Zealand Limited, Inland Revenue Department, Department of Corrections, Oranga Tamariki – Ministry for Children, Waka Kotahi NZ Transport Agency, Transpower New Zealand Limited, Ministry of Education, Wellington City Council, and Waikato Local Authority Shared Services Limited.
- 1.31 We also drew on interviews with councils carried out for our local government risk management work. We spoke with Local Government New Zealand, Taituarā – Local Government Professionals Aotearoa, and the chairperson of a local authority audit and risk committee. We also spoke with a small number of suppliers or supplier organisations: Spark New Zealand Limited, Datacom New Zealand Limited, Fulton Hogan Limited, Downer EDI Limited, and NZRIse.
- 1.32 We analysed the following datasets as possible sources of information on the public sector’s strategic suppliers:
- the significant service contracts reports submitted to the Ministry;
 - data held by the Department of Internal Affairs on use of ICT services for all-of-government common capability contracts; and
 - publicly available data from the Government Electronic Tenders Service on contracts awarded to suppliers.
- 1.33 The Appendix provides more information on this analysis.

Structure of this report

- 1.34 In Part 2, we discuss the public sector’s collective understanding and management of strategic supplier risk.
- 1.35 In Part 3, we discuss the understanding and management of strategic supplier risk within public organisations.
- 1.36 In the Appendix, we describe the available information on strategic suppliers.

Public sector understanding and management of strategic supplier risks

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- 2.1 In this Part, we discuss:
- visibility of strategic suppliers across the public sector;
 - roles, responsibilities, and processes for assessing and managing strategic supply risks; and
 - system-level reporting to Ministers.
- 2.2 We expected that:
- the Government would know which suppliers are strategic suppliers in the public sector, both in normal circumstances and in emergencies;
 - the public sector would have processes in place for assessing and mitigating the risk of important public services being disrupted by strategic supplier failure and responding to identified risks and issues; and
 - public organisations would provide reporting to Ministers on strategic supply risks to the delivery of public services.

Summary of findings

- 2.3 Many public organisations report their significant service contracts to the Ministry. An important purpose of reporting significant service contracts is to provide visibility of critical contracts across government. However, there is no system-wide visibility of government strategic suppliers.
- 2.4 Lack of system-wide visibility of government strategic suppliers is a significant concern. It means that the Government does not fully understand (and therefore cannot effectively manage) the risk of disruption to important public services if a strategic supplier fails to deliver. The Ministry has work under way that is likely to improve understanding of government strategic suppliers. In our view, the Ministry also needs to improve the reporting tool for significant service contracts and regularly analyse, share, and report on this information.
- 2.5 We found little evidence of processes for assessing and managing risks associated with government strategic suppliers. Roles and responsibilities for assessing and managing risks are unclear and there is no reporting to Ministers. Local government organisations are not collectively considering strategic supply issues, and lack processes for assessing and managing strategic supply risks. A co-ordinated approach to assessing and managing risks is required for strategic suppliers that provide services to a range of public organisations.
- 2.6 We also identified a need to better communicate priorities to government strategic suppliers if there are competing demands from public organisations for essential goods and services after an emergency. We expect the public sector to proactively consider priorities as part of emergency response planning and to tell suppliers about these priorities as soon as possible after an emergency.

There is no system-wide visibility of government strategic suppliers

- 2.7 Reporting significant service contracts to the Ministry is intended to provide visibility of critical contracts across government. Therefore, information should be readily available about government strategic suppliers and the extent of their business with the Government.
- 2.8 Many public organisations do report their significant service contracts to the Ministry, but there is no system-wide visibility of government strategic suppliers. Although public organisations we spoke with had some idea about which suppliers are (or are likely to be) strategic suppliers, there is no common and stated understanding across the public sector.
- 2.9 There are several reasons for this:
- Reporting on significant service contracts does not record the full extent to which public organisations rely on strategic suppliers:
 - Many public organisations, including local government organisations, are not required to report. Yet these public organisations deliver important public services to New Zealanders and are likely to rely on many of the same strategic suppliers.
 - Information is available only on a strategic supplier's significant service contracts and not on the many other contracts the supplier could have with public organisations.
 - There are issues with the quality of information that is reported:
 - Public organisations make their own assessments about which contracts are significant and therefore reported. We are aware there is at least one supplier that the Ministry considers a government strategic supplier that few public organisations have identified in their significant service contracts reporting.
 - In any reporting period, some public organisations fail to submit a report. Thirteen public organisations have never reported their significant service contracts to the Ministry despite being required to by the *Government Procurement Rules*.
 - There are inconsistencies in how information is recorded. For example, public organisations often identify suppliers differently or record contract values as text instead of figures. This limits the analysis that can be done.
 - Public organisations do not always provide requested information. For example, the supplier's New Zealand Business Number and the United Nations Standard Products and Services Code are often missing. This means that data cannot be easily linked to other datasets to provide a fuller picture of a supplier's business with the Government.

- Explanatory information, including commentary on risks and issues, is often limited. This reduces the value that can be obtained from the reporting.
 - The Ministry does not carry out regular analysis of the reported information or share it with other public organisations. It occasionally publishes a dashboard on its website, but the information is too high level to provide a useful picture of government strategic suppliers and associated risks.
- 2.10 Quality issues with the significant service contracts data are partly attributable to the reporting tool. The tool is a modifiable spreadsheet template that public organisations fill out and email to the Ministry. It comes with a mix of open-text and fixed-response fields. Although guidance on how to use the template is available, there is considerable inconsistency in how public organisations complete the reports. The Appendix provides further information on our assessment of the significant service contracts data.
- 2.11 A perceived lack of value from some public organisations in reporting significant service contracts might also contribute to poor data quality. Public organisations we spoke with for this audit and our 2019 audit of the Ministry's procurement leadership role⁷ told us that they do not know what happens to the information they provide. They get no comments or questions from the Ministry about risks or issues identified in their reports, nor any information about risks or issues that other public organisations experience with the same strategic supplier. Those we spoke with suggested that many public organisations treat reporting significant service contracts as a compliance exercise that has limited value to them.
- 2.12 We looked at what other information is available on strategic suppliers, as well as significant service contracts reporting. We found few alternative sources of information on strategic suppliers. Information that is available covers only a specific service or sector. For example, we found several emergency management reports that show a good understanding of government strategic suppliers for a particular good or service (for example, fuel supply). However, the total picture is fragmented.

Lack of visibility means the Government cannot fully understand and manage risk

- 2.13 Lack of system-wide visibility of government strategic suppliers is a significant gap. It means that the Government does not know how much it relies on any one supplier. As a result, the Government cannot fully understand (and therefore manage) the risk of disruption to important public services if a strategic supplier fails to deliver.

⁷ Office of the Auditor-General (2019), *Using "functional leadership" to improve government procurement*, Wellington.

- 2.14 This point was recently emphasised to the Ministry in a review commissioned after a strategic supplier experienced a service outage. That review recommended that the Ministry and the Government Chief Digital Officer identify the 10 most critical suppliers to government and ensure that the risk exposure is understood and managed.
- 2.15 The Ministry recognises the need for better understanding government strategic suppliers. It has initiated a programme of work on supplier relationship management. This includes a focus on government strategic suppliers. The Ministry has analysed recent information on significant service contracts and is seeking to supplement this with information from other sources to identify and assess the Government's business with 50 to 100 suppliers.⁸ It will then test a whole-of-government approach to managing the relationship with two strategic suppliers. The Ministry intends to review the success of this approach and create a business case for expanding the supplier relationship management programme. The Ministry told us it is also working to improve its procurement data and ability to provide insights through implementing its Digital e-Procurement Strategy during the next five years.
- 2.16 In our view, these initiatives are a step in the right direction. However, the Ministry also needs to improve the significant service contracts reporting process to improve the information available on government strategic suppliers. This should include, for example, stronger controls in the reporting tool to improve data quality, regular analysis of reported information, feedback to agencies supplying the data, and expanding the dataset to include more information on strategic suppliers' business with the Government. If this is done well, it would help improve visibility of government strategic suppliers and associated risks. Without it, the Government will continue to be uninformed about the risks it faces.
- 2.17 Improving the reporting process and making use of, and sharing, the information will also demonstrate its value to public organisations. This, in turn, is likely to result in improved data quality and build system-wide confidence in the significant service contracts information.

Recommendation 1

We recommend that the Ministry of Business, Innovation and Employment:

- improve the reporting tool for significant service contracts to improve the information available on these contracts and government strategic suppliers; and
 - regularly analyse, share, and report to the Government on this information.
-

- 2.18 We also see value in a shared understanding of the most critical public services and supporting infrastructure. Knowing which public services are most important would help inform an assessment of government strategic suppliers. The Treasury has created a tool to assess the relative criticality of public assets. The tool aligns with the Government's well-being approach and could be adapted to inform an assessment of critical public services and strategic suppliers.
- 2.19 Strategic suppliers failing is only one aspect of what might cause service disruption. Integrating this work in a broader assessment of service failure risks would provide a more robust risk management dataset and could underpin a more structured approach to addressing the risks of critical service failures. This is a subject of interest to us.

Roles, responsibilities, and processes for assessing and managing strategic supply risks are unclear

- 2.20 Being able to identify government strategic suppliers is essential to understanding and managing risks. Effective risk management requires that:
- the public sector has processes in place for assessing and managing risks;
 - roles and responsibilities for assessing and managing risks are clear and well understood; and
 - risk management activity is co-ordinated between public organisations.
- 2.21 Co-ordinated approaches are particularly important in times of heightened demand to ensure that public organisations are not competing for critical supplies. For example, our work looking at how the Ministry of Health managed personal protective equipment identified a need for co-ordinated procurement of supplies in response to Covid-19.⁹

Processes for assessing and managing risks are not well-established

- 2.22 We saw little evidence of established processes for assessing and managing risks associated with government strategic suppliers. This is not surprising, given that the Government does not have visibility of its strategic suppliers. The central government organisations we spoke with all saw a need for cross-government processes to better understand and manage strategic supplier and supply risks. We agree.
- 2.23 We identified several practices and initiatives that could help the public sector to manage risk. For example:
- Public organisations sometimes share information on their strategic suppliers and the risks and issues they experience. Information sharing occurs through

⁹ Office of the Auditor-General (2020), *Ministry of Health: Management of personal protective equipment in response to Covid-19*, Wellington.

informal phone calls or in meetings of cross-sector groups (such as the Social Services Procurement Committee, the Joint Procurement Leads Group for the health sector, or the Crown Collaboration Construction Forum).

- The Ministry's planned work to test a whole-of-government approach to managing relationships with strategic suppliers has the potential to improve understanding and management of risk. The Ministry is also establishing an assurance function for procurement that could help to identify and address common issues with strategic suppliers.
- The public sector is aware of the risk of strategic supplier failure in the construction sector, and the effect on important public sector infrastructure projects should that occur. The Construction Sector Accord is a joint commitment between the Government and the industry and includes a range of initiatives to improve the capability and resilience of the construction sector.
- The Ministry of Education has led work on assessing the financial position of infrastructure suppliers on behalf of several public organisations. The initiative could be extended to include more public organisations, a wider range of information, and/or other supply sectors. We were told that the assessment tool is also informing industry-led work to improve the financial health and sustainability of suppliers.
- The Infrastructure Commission is developing a pipeline of planned infrastructure to provide greater visibility of upcoming projects across the public sector. The purpose is to enable better co-ordination of projects and better use of limited resources.

2.24 These are promising initiatives. However, they each have limitations. For example, occasional information sharing cannot ensure a thorough understanding of risk. It also does not necessarily lead to co-ordinated risk management. A whole-of-government approach to managing strategic supplier relationships has yet to be tested, and so no decisions have been made on any wider roll-out of the approach. Construction sector initiatives focus solely on the construction sector and not the other sectors that public organisations rely on (such as ICT, facilities management, and health care).

2.25 Further, existing practices and initiatives are not enough to ensure a well-co-ordinated and system-wide approach to assessing and managing the Government's strategic supply risks. In our view, there is a significant gap in processes for assessing and managing risks to ensure that New Zealanders continue to receive critical public services if a strategic supplier fails to deliver.

There is a need to clarify roles and responsibilities

- 2.26 Roles and responsibilities for assessing and managing risks about government strategic suppliers are unclear. For example, although the Ministry provides guidance to public organisations and collates information on significant service contracts, it does not have a mandate to co-ordinate risk assessment and management for government strategic suppliers. Other public organisations do not have this mandate either. The Ministry is leading work to test a whole-of-government approach to managing relationships with government strategic suppliers. However, the respective roles of the Ministry and other public organisations have yet to be clarified.
- 2.27 The lead agencies for all-of-government, common capability, and syndicated contracts are responsible for providing some cross-government risk assessment of suppliers (some of which might be strategic suppliers). However, the lead agency role covers only the collaborative contract and not the supplier's whole relationship with the public sector.
- 2.28 It is not clear how information on strategic supply risks feeds into processes led by the Department of the Prime Minister and Cabinet for managing nationally significant risks. It is also not clear who has responsibility for ensuring that this happens. In our view, this needs to be clarified.

Consideration needs to be given to strategic supply risks in local government

- 2.29 We did not see any evidence of local government considering strategic supply issues. We also did not see any processes for assessing or managing shared strategic supply risks across local government.
- 2.30 Councils are self-governing entities and make their own decisions on how they assess and manage risks. However, there are formal and informal networks for sharing information between councils, and some regions have shared-services arrangements for procuring goods and services (for example, Waikato and Bay of Plenty). These networks and arrangements provide opportunities for councils to discuss strategic suppliers and strategic supply risks.
- 2.31 We strongly encourage the local government sector to use forums such as the Local Government Strategic Procurement Group to:
- identify strategic supply risks to critical public services delivered by local government; and
 - work with central government to establish a better national understanding of risks and ensure that risks are well-managed and co-ordinated.

Recommendation 2

We recommend that the Ministry of Business, Innovation and Employment, the Department of Internal Affairs, the Department of the Prime Minister and Cabinet, the Treasury, the National Emergency Management Agency, and other agencies as appropriate:

- consider how the public sector, including local government, can build on existing initiatives to ensure that strategic supply risks affecting important public services are well understood, managed, and co-ordinated; and
 - work with Te Kawa Mataaho Public Service Commission to ensure that roles and responsibilities are clearly assigned.
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The public sector should better communicate service priorities to strategic suppliers after an emergency

- 2.32 The public sector has well-established processes for responding to issues that arise after an emergency. For example, emergency management legislation states which services must continue operating during an emergency. The Coordinated Incident Management System, which is used to organise emergency responses, establishes clear roles and responsibilities. The Coordinated Incident Management System documents also acknowledge the need to prioritise access to goods and services in an emergency.
- 2.33 We found many examples of public organisations working together, and with business and community organisations, to address strategic supply or supplier issues in response to Covid-19. These examples include:
- keeping major air freight routes open;
 - prioritising ICT support to essential agencies and services;
 - ensuring that suppliers were paid on time and not unfairly penalised for contracts not delivered during the Covid-19 lockdown; and
 - leveraging relationships with other countries to secure access to critical medical supplies.
- 2.34 Some of those we spoke with told us the public sector is good at working collaboratively in an emergency. A few suppliers suggested that collaborative approaches developed in emergency situations could be used to address critical supply issues at other times as well. For example, the Stronger Christchurch Infrastructure Rebuild Team and North Canterbury Transport Infrastructure Recovery alliances were set up after the Canterbury and Kaikōura earthquakes to address the large-scale infrastructure work required.

- 2.35 We identified a need for more co-ordinated and timely communication from public organisations to strategic suppliers after an emergency. Suppliers told us that some public organisations make contact promptly after an emergency. However, most suppliers we spoke with said that the public sector does not provide advice on which public services should be prioritised. One supplier told us they got advice on priorities three weeks after the Covid-19 lockdown. This advice was too late to be useful because the supplier had already sold essential supplies (like laptops) to enable public organisations and students to work remotely.
- 2.36 Failure to communicate clearly to suppliers about which public services should be prioritised in an emergency creates the risk of resources being allocated to the wrong priorities. We expect the public sector to proactively consider priorities for service delivery as part of emergency response planning and to let suppliers know these priorities as soon as possible after an emergency, rather than leave those decisions for suppliers.

There is no system-level reporting to Ministers

- 2.37 There is no system-level reporting to Ministers on risks associated with government strategic suppliers. The Ministry reported to Ministers on significant service contracts after the Significant Service Contract Framework was introduced. We also understand that Ministers with ICT-related portfolios met regularly to discuss key ICT projects across government, including risks and issues. However, we were told that Ministry reporting and regular ministerial discussion of ICT projects have not occurred since 2017.
- 2.38 The purpose of the Significant Service Contract Framework is to “provide confidence to government and the public that important services are being effectively delivered to New Zealand”.¹⁰ This is an important purpose. However, the public sector cannot provide this confidence until work is carried out to:
- improve the quality of information on strategic suppliers and the significant service contracts they hold with the Government; and
 - ensure that this information is regularly collated, analysed, and reported to the Government.
- 2.39 Good information on strategic suppliers is an important first step for the public sector to effectively manage the risks of service disruption from strategic supplier failure.

¹⁰ Ministry of Business, Innovation and Employment (2016), *Significant service contracts framework*, Wellington, page 3.

3

Public organisations' understanding and management of strategic supplier risks

- 3.1 In this Part, we discuss:
- public organisations' understanding of their strategic suppliers;
 - how public organisations assess and manage strategic supply risks; and
 - reporting to senior leaders and governing bodies.

- 3.2 We expected that:
- public organisations would know which of their suppliers are strategic suppliers and have a good understanding of the supply market;
 - public organisations would have robust processes in place for assessing and mitigating the risk of public services being disrupted by strategic supplier failure and responding to identified risks and issues; and
 - leadership teams and governing bodies would have oversight of strategic supply risks.

Summary of findings

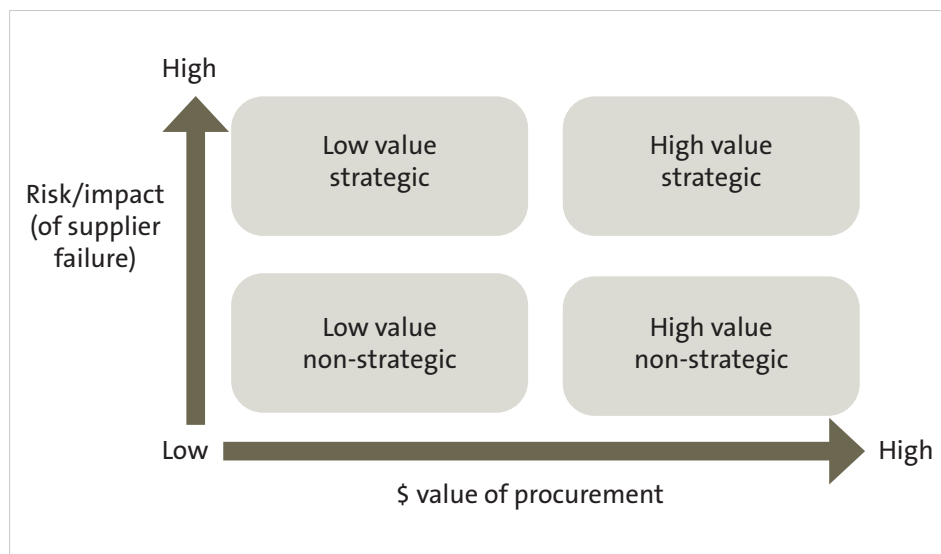
- 3.3 Public organisations we spoke with generally know which of their suppliers are strategic suppliers. However, they need further guidance on how to identify the suppliers and contracts that are critical to them delivering public services. This would help ensure a consistent approach to how public organisations identify their strategic suppliers and significant service contracts.
- 3.4 Covid-19 has highlighted the importance of public organisations being able to identify their strategic suppliers and understand their supply chains. As a result, some public organisations have reassessed which suppliers are their strategic suppliers. In our view, all public organisations should regularly assess which suppliers are strategic suppliers, and how they manage their relationships with them, both in normal circumstances and during an emergency. We have also identified several areas public organisations could improve when assessing and managing strategic supply risks.
- 3.5 Public organisations' reporting to senior leaders and governing bodies on strategic supply risks is currently limited. In our view, senior leaders should require better reporting of strategic supply risks for them and for governing bodies to ensure that they can understand and manage these risks well.

Public organisations generally know which of their suppliers are strategic suppliers

- 3.6 Most public organisations we spoke with understand which of their suppliers are essential to the delivery of their public services and why.

- 3.7 How public organisations identify their strategic suppliers varies. Most public organisations we spoke with take a structured approach to classify suppliers by how critical or strategic they are. For example, some public organisations use a four-quadrant model to assess suppliers against the risk or impact of failure and the dollar value of their contracts (see Figure 1).

Figure 1
The model some public organisations use to identify their strategic suppliers



Source: Adapted from Ministry of Business, Innovation and Employment, "Guide to Procurement" at procurement.govt.nz.

- 3.8 Under this model, strategic suppliers are those that are "high dollar value and high risk/impact" and "low dollar value and high risk/impact" (the top two quadrants in Figure 1). Most public organisations we spoke with recognise that strategic suppliers are not necessarily the suppliers they spend the most money on. They understand that low-cost contracts can also be critical to the delivery of public services.
- 3.9 The Significant Service Contracts Framework has made public organisations aware of the importance of identifying significant service contracts and strategic suppliers. Some public organisations told us they draw on guidance in the framework to identify their strategic suppliers. Other public organisations have prepared more detailed criteria to inform their analysis of suppliers.

- 3.10 Some public organisations consider that more detailed guidance is needed to help identify “significant” contracts and promote a consistent approach across the public sector. We agree that further guidance would be useful to ensure that public organisations identify and appropriately manage all contracts that are critical to the delivery of public services.
- 3.11 Public organisations would also benefit from guidance on identifying strategic suppliers. The Ministry told us that it is creating a toolkit to help public organisations identify their strategic suppliers as part of its supplier relationship management programme.

Recommendation 3

We recommend that the Ministry of Business, Innovation and Employment provide further guidance to help public organisations identify their significant service contracts and strategic suppliers.

- 3.12 Covid-19 has highlighted the importance of public organisations being able to identify their strategic suppliers and understand their supply chains. This knowledge helps public organisations take early action to ensure that important goods and services will continue to be provided in the event of an emergency.
- 3.13 Covid-19 resulted in some public organisations reassessing which suppliers are strategic suppliers. For example, personal protective equipment and hand sanitiser became critical supply issues for many public organisations in 2020. For public organisations in the social services sector, the early Covid-19 response highlighted that suppliers of contracted services during normal circumstances are not always those with the knowledge and connections required to support communities during an emergency.
- 3.14 Some public organisations intend to reassess their strategic suppliers, either because of their Covid-19 experience or a shift in organisational strategy. This is good practice. Regular review ensures that public organisations maintain an up-to-date understanding of their strategic suppliers and are well placed to identify and manage any risks of supplier failure. In our view, all public organisations should do this.

Recommendation 4

We recommend that public organisations regularly assess which of their suppliers are strategic suppliers, the resilience of these suppliers, and how they manage their relationships with them, both in normal circumstances and in emergencies.

Processes are in place for assessing and managing risk

- 3.15 The public organisations we spoke with have processes in place for assessing and managing the risk of service disruption from strategic supplier failure.
- 3.16 Public organisations have a strong focus on assessing risk when they source a strategic supplier. For the public organisations we spoke with, this is important for mitigating the risk that a strategic supplier could fail to deliver contracted goods or services and potentially disrupt the delivery of public services. When assessing risk, public organisations told us they consider:
- the supplier's financial position;
 - the supplier's skills, experience, and ability to deliver the required goods and services; and
 - sometimes, the supplier's business continuity plans.
- 3.17 Public organisations also consider other important matters at this stage, such as the supplier's health and safety practices and environmental sustainability.
- 3.18 Some public organisations told us that they have well-established processes for regularly monitoring and assessing risks during the life of the contract. For example:
- actively monitoring supplier performance in delivering contracted goods and services;
 - looking for any indications of risk, such as a strategic supplier losing an important contract with another organisation;
 - having regular conversations with strategic suppliers to understand any emerging risks and issues; and
 - considering the external risks their strategic suppliers face (such as climate change or Covid-19) and what effect these might have on the supplier's ability to continue providing important goods and services.
- 3.19 Public organisations use a range of strategies and practices to mitigate and manage the risk of service disruption from strategic supplier failure. These include:
- using multiple suppliers or sourcing supplies from multiple locations;
 - incorporating "continuity of supply" requirements in contracts, with penalties, and enforcing contract requirements;¹¹
 - putting in place governance boards to oversee the delivery of major projects;
 - identifying strategic supply risks and mitigations in organisational risk registers;

11 However, our work on personal protective equipment found that such provisions could not effectively be enforced in circumstances of increased global demand. See our report Office of the Auditor-General (2020), *Ministry of Health: Management of personal protective equipment in response to Covid-19*, Wellington.

- carrying out internal audits;
- having contingency plans in the event of supplier failure;
- putting in place risk management plans if there is a high risk of supply or supplier failure; and
- improving the capability of the supply market (for example, through investing in skills development or requiring large suppliers to partner with small or medium-sized businesses to deliver contracts).

3.20 These are all appropriate strategies for mitigating and managing risks.

Supplier relationship management is a key strategy for managing risk

- 3.21 Supplier relationship management was a topic of our discussions with both public organisations and suppliers. Supplier relationship management is a key strategy used by many of the public organisations we spoke with to identify and manage risk.
- 3.22 Some public organisations have adopted a formal supplier relationship management approach to guide how they work with their most important suppliers. Although practices vary, they are characterised by open and honest communication, collaboration, joint problem-solving, and regular meetings between senior leaders to discuss performance, risks and issues, and opportunities for creating greater value from the relationship. Some of the public organisations we spoke with see their relationship with strategic suppliers as similar to a partnership.
- 3.23 Suppliers expressed mixed views about how effectively public organisations manage their relationships with strategic suppliers. All suppliers we spoke with consider that good relationship management is important to achieving good contract outcomes, getting the best value from the relationship, and managing risk. They could give examples of public organisations that do this well.
- 3.24 However, suppliers also told us that many public organisations take a more transactional approach instead of a strategic relationship-based one. We heard that, in these cases, relationships are often managed at the contract manager level, and the focus is solely on ensuring that contractual obligations are met. This is a lost opportunity to work alongside suppliers to innovate and explore different ways of using their services to better support the delivery of public services and achieve the Government's broader procurement outcomes.
- 3.25 Some public organisations we spoke with expressed concern about public organisations under-investing in supplier relationship management. They suggested, for example, that many public organisations fail to recognise that effective supplier relationship management requires more than a "coffee and a chat".

- 3.26 Building strong collaborative relationships is particularly important for suppliers providing critical goods and services. This enables public organisations to better understand and mitigate risks, identify and manage any issues early, and work with strategic suppliers to secure the long-term supply of essential goods and services. In our view, public organisations should ensure that their investment in supplier relationship management reflects the importance of the services being provided.
- 3.27 The Ministry has set up a group of public organisations (known as a “community of practice”) to create tools, provide guidance, and promote consistent supplier relationship management practices across the public sector. This is a positive development. As noted in paragraph 3.14, we recommend that public organisations regularly assess how they manage their relationships with their strategic suppliers. The Ministry told us that the toolkit it is preparing will provide guidance for public organisations on how to do this.

There are some areas for improvement

- 3.28 Public organisations have different levels of experience and capability in assessing and managing the risks associated with their strategic suppliers. We identified the following areas for improvement:
- ongoing risk assessment;
 - attention to supply chain risks;
 - appropriate allocation of risks in contracts; and
 - building procurement capability.
- 3.29 Although some public organisations regularly monitor and assess risks, others told us they or other public organisations do not put enough emphasis on assessing and managing risk during the life of the contract. This means that, if a strategic supplier fails, public organisations are unprepared and this could potentially disrupt the delivery of important public services. This is consistent with our previous finding that public organisations need to improve their contract management.¹² Ongoing risk assessment appears to be stronger in public organisations where there is centralised oversight of contracts with strategic suppliers.
- 3.30 Our work on the Ministry of Health’s management of personal protective equipment highlighted the importance of understanding the risks and vulnerabilities of supply chains. For this audit, we found that some public organisations consider supply chain risks and, for example, seek information about a supplier’s relationships with its suppliers or, since Covid-19, seek information about transport routes for essential supplies (for example, medicine).

¹² Office of the Auditor-General (2018), *Introducing our work about procurement*, Wellington.

- 3.31 However, some public organisations do not fully understand supply chains for the essential goods and services they rely on or their vulnerabilities during an emergency. This means that these organisations do not understand the risks and, therefore, are not adequately prepared for supply failure, making them more vulnerable to service disruption. This is an area where we expect to see improvement.
- 3.32 We heard concerns from public servants and suppliers that public organisations are not always aware that their procurement approach can create risks. The main concern was that public organisations try to “contract their way out of risks” by placing unreasonable requirements on suppliers. We also heard concerns about unrealistic and inflexible time frames placed on suppliers. Such behaviour can increase costs and put the supplier in the position where failure is more likely, or deter suppliers with the required skills and capability from accepting the contract. This might increase the likelihood of a less suitable supplier being awarded the contract and then failing to deliver contracted goods or services.
- 3.33 Concerns about unfair contracts and expecting suppliers to take on risks they cannot manage are not new. These concerns have been raised in the infrastructure sector. We are aware that work is under way through the Construction Sector Accord to ensure that government contracts are fair and transparent and that risk is allocated appropriately. It is a well-established principle that risks should be allocated to the party best able to manage them.
- 3.34 We saw a continuing need to improve procurement capability in public organisations. Public organisations need the organisational capability, skills, and experience to work effectively with strategic suppliers and be alert to, and prepared for, any supply risks. Where organisational capability is lacking, there is a heightened risk that public organisations are unprepared for possible supplier failure and, as a result, disruption to important public services. As we noted in our December 2019 report *Using “functional leadership” to improve government procurement*, public organisations and the Ministry have a role in developing procurement capability.
- 3.35 The Ministry is preparing a toolkit that provides the opportunity to support improvement in procurement capability. We understand that the toolkit will provide guidance for public organisations on how they work with their suppliers and identify and manage risks.

Reporting on strategic supply risks is limited

- 3.36 Reporting to senior leaders and governing bodies on strategic supply risks is currently limited and should be strengthened.
- 3.37 Public organisations that are subject to the *Government Procurement Rules* must report their significant service contracts to the Ministry twice a year. One purpose of reporting is to increase the visibility of significant service contracts within public organisations. The intended outcome is that senior leaders know about the opportunities, risks, and issues with these contracts and are engaged in how these are being managed.
- 3.38 Public organisations we spoke with had mixed views of the value of the reporting requirement (which we discuss in paragraph 2.11). However, they agreed, in principle, with the underlying intent of creating greater awareness and oversight of these contracts among senior leaders.
- 3.39 Local government organisations are not required to report significant service contracts to the Ministry so there is no equivalent way of increasing visibility of strategic suppliers or strategic supply risks in local government.
- 3.40 Other public sector reporting on strategic supply risks is limited. Some public organisations we spoke with have identified strategic supplier or supply risks as strategic risks. They report these risks to their leadership teams as part of their risk-reporting processes. A few public organisations have prepared specific reports on supply risks in response to Covid-19. Only one public organisation we spoke with is considering specific and ongoing reporting to its leadership team on strategic supply risks and issues.
- 3.41 There is little planned reporting of strategic supply risks to Ministers or governing bodies (boards and councils). We were told that reporting typically occurs after an issue has arisen or as part of reporting on important projects.
- 3.42 We expect public organisations, as a general principle, to be transparent about their strategic risks, including strategic supply risks, and provide for appropriate oversight of risk management. Reporting to senior leaders and governing bodies is an important mechanism for providing this transparency and oversight. Senior leaders need to be requesting this information from their public organisations. Without this information, there is a risk that senior leaders and governing bodies will be unaware of strategic supply risks and public organisations will not give enough attention to ensuring that risks are well-managed. This creates the risk of disruption to important public services in the event of supplier failure.

Recommendation 5

We recommend that public organisations have adequate processes in place for reporting strategic supply risks to their senior leaders and governing bodies.

Appendix

Understanding available information on strategic suppliers

What we did

The main dataset we looked at was the significant service contracts reports submitted by public organisations to the Ministry. The Ministry provided this dataset to us as 560 individual spreadsheets dated between March 2017 and October 2020.

After receiving the files, we consolidated them into a single dataset and cleaned the data to ensure that it was standardised. For example, we needed to ensure that we could consistently identify public organisations and suppliers (which were named in different ways). We also had to make sure we had consistently recorded contract values. When a maximum contract value and a minimum contract value were recorded, we used the median as the contract value.

We used information from the Companies Register to retrieve the unique New Zealand Business Number for as many New Zealand-based suppliers as possible because this was not always recorded by public organisations. We also gathered information on the parent company for each supplier (where available) from the companies register.

To see whether they could provide additional information to augment the significant service contracts dataset, we looked at:

- data held by the Department of Internal Affairs on public organisations' use of ICT services under the all-of-government common capability contracts; and
- publicly available data from the Government Electronic Tenders Service on contracts awarded to suppliers.

We wanted to know whether we could match the information on suppliers of significant service contracts to suppliers in these datasets to get a fuller picture of strategic suppliers' business with the Government.

What we found

The significant service contracts dataset contains a wide range of information about the nature, management, and performance of each contract. This includes:

- the contract name, a short description of the contract, and the United Nations Standard Products and Services Code for the goods and services provided by the contract;
- the supplier name and their New Zealand Business Number;
- the minimum and maximum intended lengths of the contract (in years), start and end dates, and minimum and maximum contract values;

- whether performance measures are in place and how performance is tracking against these measures (a green, amber, or red rating, with optional commentary);
- whether risks and issues are being identified, tracked, and managed and the current risk profile of the contract (a green, amber, or red rating, with optional commentary);
- whether continuity and contingency plans are in place;
- whether there is a plan for working with the supplier and the current status of the relationship (a green, amber, or red rating, with optional commentary); and
- the overall health of the contract (a green, amber, or red rating, with optional commentary).

However, there are some limitations to the dataset:

- Reporting is incomplete. In any given reporting period, some public organisations did not submit a report to the Ministry. Thirteen organisations have never reported their significant service contracts to the Ministry, despite being subject to the *Government Procurement Rules*.
- The data is of variable quality. The main issue we found was inconsistent recording of important information like supplier names (with variations in wording) and contract value (which sometimes includes text or multiple pieces of information). This limits the analysis that can be done. There are also gaps in the information that is reported. Stronger controls in the reporting tool would help address these issues.
- Information on risks is limited. The reporting tool does not require public organisations to directly comment on the risk of supplier failure. The risk of supplier failure can only be inferred from the risk status and any commentary that public organisations provide. In addition, the relationship between ratings for risks and issues and the overall health of the contract is unclear. We identified some contracts that had been assessed as “red” for risks and issues but “green” for overall health of the contract, which was not always well-explained in the commentary.

Overall, we concluded that the significant service contracts dataset has the potential to provide a rich source of information on government strategic suppliers for the 130 public organisations that are required to report to the Ministry. However, improvements to the reporting tool are needed to improve the quality of information and get the best value from it.

The Department of Internal Affairs' dataset on use of ICT services is of higher quality than the significant service contracts dataset. For example, supplier names are consistently recorded because the data is provided by the suppliers themselves. "Consumption value" is always recorded as dollar amounts and does not include any text. Although we could match the ICT services dataset to the significant service contracts dataset, we had no way of identifying whether there was any duplication of contracts between the datasets.

It is important to note that the Department of Internal Affairs' dataset is not an alternative source of information on strategic suppliers. It includes only data on use of ICT services under the all-of-government common capability contracts and does not distinguish between significant service contracts and non-significant contracts.

We found that we could not match the significant service contracts dataset to the Government Electronic Tenders Service dataset because there was no unique identifier common to both datasets. The New Zealand Business Number is available in the significant service contracts dataset but not in the Government Electronic Tenders Service dataset. The Government Electronic Tenders Service dataset includes the United Nations Standard Products and Services Code identifier but this was added to the significant service contracts dataset only in 2019 so has limited value for analysis. The Government Electronic Tenders Service dataset also lacks completeness. For example, about 90% of the contract values in the dataset we looked at were missing.

What the data tells us

We limited our analysis to the significant service contracts dataset.

We used a consolidated dataset of three years of data for the analysis. It contains information on 3839 significant service contracts across 101 different public organisations. There are about 500 unique suppliers that we identified in the dataset. We cannot give an exact figure for suppliers because inconsistencies in the dataset means there are many alternative names for the same suppliers.

Our analysis indicates that:

- The total number and dollar value of significant service contracts varies in each reporting period. In our dataset, we identified 401 contracts with a total whole-of-contract value of over \$23 billion in the reports submitted to the Ministry at 1 October 2020. These figures are lower than those reported by the Ministry in its dashboard because there were some files that we could not attribute to a specific reporting period. Our decision to use the median contract value could also have contributed to different figures.

- Most public organisations report up to five significant service contracts. Some public organisations report between six and 20 significant service contracts. A few public organisations have many more significant service contracts, with one public organisation reporting 58 significant service contracts at 1 October 2020.
- There is considerable variation in the dollar value of each significant service contract. For example, the value of contracts reported at 1 October 2020 ranges from \$10,000 to more than \$1 billion. The median contract value is about \$6 million.
- Most suppliers hold only one or two significant service contracts with public organisations. Some suppliers have more than five significant service contracts. One company was identified as the supplier for 14 significant service contracts at 1 October 2020.
- Most significant service contracts are for ICT services. Other services provided by suppliers with the most significant service contracts include construction, facilities management, and health care.
- The suppliers with the highest dollar value of significant service contracts are different in each reporting period. ICT and construction companies dominate the list of top 10 suppliers by dollar value at 1 October 2020.
- Analysis of a subset of public organisations that deliver critical public services¹³ suggests that these organisations report more significant service contracts than other public organisations. These public organisations collectively account for a high proportion of total expenditure on significant service contracts (99% in our analysis of 1 October 2020 reports).

These figures should be treated with caution given the limitations we identified with the dataset.

¹³ There is no official list of critical public services. Our view of which organisations deliver critical public services was informed by the list of essential services prepared for Covid-19 Alert Level 4, the lifeline utilities identified in the Civil Defence Emergency Management Act 2002, and the essential services list in the Employment Relations Act 2000.

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