

### **Contract Strategy**

The contract has negotiated set areas with Providers across the Optical Goods and Services category. These rates are defined for the contract term, however a change mechanism is provided in the contract with any increases or decreases requiring approval.

MSD frontline staff will offer Clients the choice of Preferred Suppliers on the basis of their price and location. This will assist MSD Clients to make informed decisions on which Providers are best placed to meet their particular Optical Goods and Services requirements.

## **5. Conflicts of Interest**

The Evaluation Panel, Steering Group and Working Group were required to complete Conflict of Interest declarations; any conflicts were addressed through a conflict of interest management plan.

## **6. Phase One Evaluation – Qualitative and Commercial**

On the closing date of Friday 25 October 2013 complete responses from 22 Respondents had been received in response to the Request for Proposal (RFP) for the supply of Optical Goods and Services. The Respondents provided coverage of each region of New Zealand and comprised a mix of small, medium and large businesses, and both local and global companies.

The Chief Procurement Officer endorsed the methodology employed as fair, transparent and consistent with the intentions outlined in the RFP document, the Procurement and Evaluation Plan, and all other associated communications.

Each response was evaluated against the criteria as follows:

### **Qualitative Evaluation Process**

One team of three evaluators was appointed to assess the qualitative capability of Respondents (see Appendix 2). Each evaluator in the Evaluation Team reviewed all Responses.

Each evaluator took part in five moderation sessions, held weekly from 30 October to 28 November to compare and cross-reference their approach to evaluating the 22 Responses. This was to ensure consistency of approach across the panel. After all evaluations were complete, a qualitative audit was undertaken by Procurement Solutions to ensure the panel was within the consensus range for all scores given. The Trade Interchange eTender tool then automatically weighted the scores by category as outlined in the Procurement and Evaluation Plan, to assign a final score for each proposal.

This concluded the RFP based qualitative assessment, which accounted for 50% of the total weighted score that could be achieved by Respondents.

### **Commercial Evaluation Process**

On 22 November 2013, all the respondents were invited to resubmit their commercial proposition, by way of a Best and Final Offer (BAFO).

The BAFO process was facilitated by the Trade Interchange eTender tool. Respondents were strongly encouraged to provide their best commercial proposition. Respondents were asked to re-submit their tendered pricing by close of business 26th November 2013.

Upon closure of the BAFO process, an analysis was performed to calculate a pricing score for each Respondent on a sub-category basis, using the formula contained in the approved Procurement and Evaluation Plan. This ranked the Respondents for each sub-category and then across all categories and accounted for 50% of the total weighted score that could be achieved by Respondents.

The two percentages (Qualitative and Commercial) were then combined and divided by the total overall annual cost for all the items priced, to arrive at a "Value Index" rating. The highest rating indicated the respondent with the highest compliance for the lowest price, therefore representing the best value for the supply of goods and services to MSD. This information was then presented to the evaluation panel to assist with their overall recommendation decision.

### Phase One Results

On 4 December 2013, the Evaluation Team met to recommend a long list of Respondents to progress to the next stage of negotiations. After reviewing the combined Qualitative and Commercial scoring, applying the value for money index and accounting for national and regional coverage, the Evaluation Team recommended a long list of 11 Respondents. As a condition of progressing to the negotiation phase the Evaluation Team determined Respondents had to score 20% (the median qualitative score) or more on the qualitative section.

As a result the following Respondents were recommended to progress to the next stage of the Evaluation Process:

(2)(b)(i)



### Reference Checks and Client Satisfaction Survey

In parallel to the evaluation process the Procurement Solutions Team invited the client references provided by each Respondent. References were submitted via the online Survey Monkey tool. The customer reference checking process was used to measure customer satisfaction with each Respondent. Client Satisfaction Survey results were reviewed prior to the long listing. No concerns were identified.

## 7. Phase Two Evaluation – Long listed Meetings/Negotiations

The eleven (11) Respondents were invited to attend a meeting at MSD National Office to discuss their RFP responses and to negotiate pricing. Meetings were held from 18<sup>th</sup> - 20th December 2013 and were conducted by the Procurement Solutions Team.



## Phase Two Process

Meetings were held via Telephone, Teleconference or in Person at National Office.

Agenda for the meetings included: a summary of RFP response; value added services; national and regional coverage; the inclusion of Progressive lenses and the maximum price points MSD is willing to fund for Optical Goods and Services. Pricing categories discussed included; Single Vision & Frames; Bifocals & Frames; Progressives & Frames; and Eye Examinations.

Following these meetings further due diligence was undertaken to confirm any anomalies identified from the meetings or RFP response (due diligence included contacting consortium members in multiple bids, and reviewing supporting documentation provided).

## Phase Two Results

9(2)(b)(ii) were eliminated from the long list during this round of negotiations, as they were unwilling to meet the maximum price points MSD requires.

The results of phase two process identified eight (8) respondents who agreed to meet or met the maximum price points MSD set for Optical Goods and Services (including Progressive lenses). These eight (8) respondents progressed to the Shortlist of providers.

## 8. Phase Three Evaluation – Short listed Meetings/Negotiations

The eight (8) short listed Respondents were invited to attend a second round of meetings at National Office or via telephone, to confirm pricing, coverage and discuss findings from the due diligence performed in phase two.

Meetings were held at MSD National Office from 4th February – 17th February 2014 and were conducted by the Procurement Solutions Team.

## Phase Three Process

Agenda for the meetings included: respondent acceptance of the confirmation that Progressive lenses would be included in the Service Specifications of the RFP; confirmation of final pricing submitted; final coverage; and consortium member numbers were agreed (including consortium partners who were listed in multiple bids) if applicable; and anomalies identified from the due diligence process.

## Phase Three Results

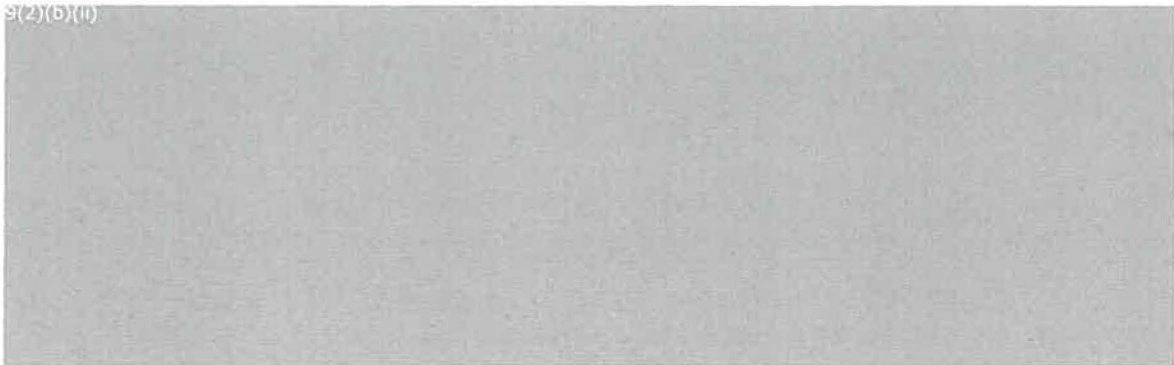
9(2)(b)(ii) were eliminated in this round of negotiations. 9(2)(b)(ii) withdrew their tender response due to their preference for a single preferred supplier contract, and 9(2)(b)(ii) was eliminated due to substantive inaccuracies found in their initial RFP response through the due diligence process.

The results of phase three evaluation process identified six (6) respondents who met pricing criteria set by MSD, passed final due diligence checks, confirmed 97% of existing national coverage and assisted in extending national coverage where possible.

These six (6) respondents are the recommended Preferred Suppliers for the RFP for Optical Goods and Services.

## 9. Panel Composition and National Coverage

The recommended six (6) Preferred Suppliers of Optical Goods and Services are listed below. They are:



There is currently no procurement approach in place for of Optical Goods and Services. As such the final solution will need to be easily understood and accessible by MSD staff in over 170 locations throughout New Zealand. To support implementation, comprehensive business processes are being developed by the service delivery lines within MSD.

A consideration with any Government Procurement solution is the presence of local versus global organisations. On the recommended panel of preferred suppliers there is a globally parented firm; and a number of New Zealand independents. With Optical goods and services, whether the organisation is locally or globally owned, the work or services are carried out largely by New Zealand based individuals. In this respect, the RFP evaluation methodology did not inherently favour local or global businesses.

### Regional Coverage

The RFP objective was to deliver supply of Optical Goods and Services across the country in as many locations as possible. The following table summarises the number of Providers as located to serve the respective regions.

Full time locations are defined as being open at least 5 days in the week, the traditional fulltime optometry and retail service. Part time locations include visiting clinics which are open on a periodic or on demand basis. Part time locations are exclusively in locations with a small population base.

See Appendix 5 for a full list of provider locations.



9(2)(b)(ii)

#### Gaps in Coverage

A key requirement of the procurement was to ensure MSD's Clients were not disadvantaged by having to travel outside of their own area to receive Optical Goods and Services, where they currently do not have to do so.

With this in mind the following gaps in coverage exist as at time of writing, 19 February 2014. The intention is that Clients living in these areas will have two options as follows:

- a) Travel voluntarily to a location with a Recommended Preferred Supplier, in order to obtain the preferential rates MSD has negotiated.
- b) If the Client is unwilling or unable to travel, continue to use the existing process by obtaining quotes from the local optometry provider. MSD will have no control over the prices charged. This option is **only** available in locations where there is no Preferred Supplier within the urban area.

Over the course of the contract MSD will continue to encourage the Recommended Panel Providers to extend coverage to these locations where they are able to do so. The table below shows the coverage gaps. More isolated areas such as Greymouth and Kaikoura are a higher priority to fill, than locations adjacent to major urban areas like Kaiapoi.

Urban Area	W&I Region	Fulltime W&I Site	Optical grants by corresponding site <sup>1</sup>	Nearest Panel Provider Location
Waiheke Island	Auckland	Waiheke Island Community Link	6	Queen St, 25km via ferry
Whitianga	Waikato	-	-	Whangamata, 75km
Greymouth	Nelson	Greymouth Community Link	75	Hokitika, 40km
Kaikoura	Nelson	Kaikoura Heartlands	-	Blenheim, 128km
Kaiapoi	Canterbury	Kaiapoi Community Link	40	Rangiora, 11km
Gore	Southern	Gore Community Link	42	Invercargill, 61km

**Table 2:** Urban Areas with **no** recommended preferred supplier location (full or part time) and there is a record of a Client utilising a grant for Optical goods and Services with another provider in the urban area.

### Capacity

The large number of locations available to clients in the majority of urban areas will ensure the providers should have few issues meeting the demand. Pre RFP engagement with Providers indicated the majority of them have capacity to take on additional business beyond their current levels. The following urban areas have been identified as potentially having the least capacity, when comparing provider locations within an urban area with the count of optical grants recommended by the corresponding service centre. It is possible that clients will choose to travel outside of their area to utilise their grant with a different supplier than the one closest to them, as happens now, but the impact of this cannot be predicted.

Urban Area	Optical grants by sites within area (2013)	Count of Panel Provider Locations	Ratio of Optical Grants per location ↓
Porirua	305	1	305.0
Invercargill	221	1	221.0
Whangarei	320	2	160.0
Auckland South	1,538	10	153.8
Upper Hutt	153	1	153.0
Rotorua	296	2	148.0
Pukekohe	146	1	146.0
Kaitia	145	1	145.0
Levin	135	1	135.0
Huntly	108	1	108.0
<b>Overall Ratio</b>	<b>17,325<sup>2</sup></b>	<b>191</b>	<b>90.7</b>

**Table 3:** Urban areas with the 10 highest ratios of grants per location and the overall ratio

<sup>1</sup> For calendar year 2013, Excludes Grants Recommended by NZ Super Regions or Studylink Processing Centre which made up 21% of all grants for the year

<sup>2</sup> For calendar year 2013, Includes all Grants Recommended by NZ Super Regions or Studylink Processing Centre

## 10. Market Impact

In nominating six (6) Preferred Suppliers as recommended Optical Goods and Services suppliers, there were 16 Respondents who have been unsuccessful in their bid to become a Preferred Suppliers to MSD's Clients. One of these Responses was a consortium bid of independent practices (Clarity 2020), and one was a major retail chain of optometrists (OPSM).

### Potentially At Risk Unsuccessful Respondents

The Procurement Solutions Team assesses unsuccessful Respondents will not experience significant business risk as a result of this process.

Following (b) (5) withdrawing their response to the RFP, around 12% of MSD client transactions will be serviced by the preferred suppliers. (b) (5) are part of a global chain and as they withdrew of their own volition, late in the process, Procurement Solutions have assessed the business risk and consider it acceptable to them.

Independent practices who did not choose to align themselves with either (b) (5), a buying and marketing group of independent eye care professionals or (b) (5)

(b) (5) branded locations, would appear to be at the most market risk. However due to the relatively low volumes of grants in most areas the impact on their business is assessed to be not significant. MSD will encourage both (b) (5) to accept new independent suppliers to join their consortiums where possible; particularly in areas we lack coverage.



The unsuccessful Respondents have been informed that their tenders were unsuccessful as a result of the RFP evaluation process. The Procurement Solutions Team intends to

- provide written material outlining why they were unsuccessful, including how they scored against the mean quality scores and how their pricing translated to the Value for Money Rank
- offer a face-to-face debriefing with the Procurement Solutions Team.



## 11. Financial Analysis

Forecasting and Costing's estimated reduction in expenditure as a result of preferred suppliers for Optical goods and services

### Forecasted MSD's Reduction in Crown Spend

(b)(2)(C)


(b)(2)(C)


### Assumptions

1. We have been provided with grants data for Optical goods and services supplied by the Data Integration & Reporting Unit for calendar year 2013.
2. As the grants data provided does not identify what a grant payment is specifically for, we have assumed that any grant which is less than \$100 is for an Eye Examination only.
3. For costing purposes we have cleaned the grants data of some duplicate entries. Grants data may contain situations where a client is granted an amount for optical but due to system or human error that amount needs to be re-granted. This makes it look like the client has had multiple grants when in reality they have only been granted one item. We have consolidated them down to 1 grant for costing purposes where multiple grants had the same amount of payment.
4. For clients with multiple grants we have matched and combined the cost of the eye examination with payments over \$100 to approximate the situation of clients having to apply for both the initial eye examination and then subsequent grant for the optical products (Lenses and Frames).
5. Implementation date is expected to be in the first week of May 2014 for Nelson and Southern regions followed by the remainder of the country in mid-late June 2014 however for costing purposes we assumed it to be 1st July 2014 for the remainder of the country.
6. Pricing as supplied by Procurement have been used and are as follows. This pricing has been used for the entire 5 year forecast period. Also supplied is the proportions estimated for each of the packages as supplied by Procurement on the advice of supplier.

Packages - Eye Exam, Frames and Lenses	Proportion	\$ Cost (Max Price)
Single vision	60%	\$ 169.00
Bifocals	10%	\$ 245.00
Progressives	30%	\$ 249.00
Eye Exam Only		\$ 65.00

## 12. Details of the Goods and Services Agreement

The proposed commencement date for national rollout is scheduled for May 2014, depending on the date MSD counter signs the Optical Goods and Services Agreements.

The first Contract Year will end in May 2015, and the initial three-year term will run until May 2017. The proposed initial period is followed by two rights of renewal of one year each (3+1+1). The initial term is designed to be long enough to provide opportunity and certainty to suppliers, while the two, one year extensions offer flexibility to extend the term pending a return to market for these (and other, if relevant) Optical Goods and Services, i.e. another RFP.

## 13. Contract Risks

The following table summarises the risks identified and the mitigating factors to be employed by the Procurement Solutions Social Assistance Working Group.

Below are the specific contract risks – a full risk register is available

RISK IDENTIFIED	MITIGATION	RISK RATING
<b>Reputational:</b> Reputational risk through limited choice of product and supplier/interruption of care	Communications Plan including stakeholder engagement and key messages to clients confirming high quality goods and lower long term costs. Proactive releases where appropriate	High
<b>Financial:</b> If the estimated reduction in crown spend is not achieved, we will not meet stakeholder expectations.	Procurement process to obtain best price for items On-going monitoring and reporting of Crown spend.	Medium
<b>Supplier Impact:</b> Implementation of preferred suppliers may impact other or existing suppliers.	Supplier engagement through RFP Briefing to suppliers Key messages through the Communications Plan	Medium



<b>Organisational Impact</b> If a staff member makes a payment for optical goods and services to a non-preferred supplier in a geographical area that is covered by a preferred supplier, MSD may be in breach of Contract and Legislation.	Comprehensive training to ensure all staff aware of requirements to pay preferred supplier Operational Guidelines and Business Processes Centralised Services checks during Authentication to minimise or eliminate payments to non-preferred suppliers Knowledge and Insights reporting that payments are made to preferred suppliers	High
<b>Staff, Client and Supplier Impact</b> National coverage may not be achievable resulting in status quo remaining in some geographical areas (clients unable to take advantage of lower costs without travel) and staff managing both the status quo and preferred supplier arrangement processes	Business Process and training clearly identifies geographical areas covered by Preferred Suppliers Centralised Authentication to monitor and ensure correct process / supplier used IAP Monitoring Supplier expectations to be managed through the RFP and contracting processes	High

Table 5: Contract Risk Analysis

#### 14. Implementation of the Optical Goods and Services Contract

The proposed engagement model developed by the Social Assistance Procurement Working Group during the procurement process is as follows:

- MSD's Clients will still have the discretion to source 'out of scope' Optical Goods and Services (i.e. contact lenses) from outside the Optical Goods and Services agreement. The preferred suppliers will be asked to report off-contract expenditure to the Procurement Solutions Team on a quarterly basis.
- MSD Clients will be encouraged to purchase any out of scope ancillary Optical Goods and Services from their selected Optical Goods and Services Preferred Suppliers for ease of access, and to ensure the supplier has the required flexibility for MSD.
- Expenditure and transaction activity data will be collected by the Suppliers and consolidated by the Procurement Solutions Team for reporting back to the service delivery lines and Business Steering Group on a quarterly basis. This reporting will provide unprecedented information on the relative activity, volume and spend with their Providers and the relative expenditure profile of MSD's Clients.
- The Procurement Solutions Team has negotiated a number of value added services (Appendix 4) that will allow MSD's Clients to derive additional value from preferred suppliers through improved communications and strategic engagement. Any reductions attributable to these value added services have not been incorporated into the forecast reductions, primarily due to the fact there is a lack of visibility as to the requirement or



potential up-take of such services amongst MSD's Clients. Once the contract has been operational for 12 months, the Procurement Solutions Social Assistance Working Group will measure the reductions associated with the value added services by tracking the frequency of these, the type, and making a proxy calculation around the quantifiable benefits associated.

Implementation Timelines	
Training Frontline Staff (single region rollout)	1 April 2014
Initial 6 week rollout (selected region)	5 May 2014
Full National roll out	23 June 2014

## 15. Communications Strategy

The communications strategy for staff will focus on:

- Clear and consistent messaging to relevant staff on the benefits to MSD Clients of the Optical Goods and Services panel Providers, terms of the contract and clear guidance on best practice procurement with the proposed panel.
- Improved ability to compare panel Providers' pricing relative to other Providers respectively.

Staff have been updated throughout the RFP process and are aware of the preferred supplier arrangement. Representatives of the different MSD Services Lines have been represented on the Social Assistance Working Group and the Social Assistance Business Steering Group and as such have been involved in the evaluation and Provider selection process.

Training will be held with staff on the outcome of the process as soon as the outcome has been announced by the Minister.

Communications to Staff will commence from April 2014. Planning for post-contract award (i.e. contract management and transition planning and collateral development) is underway. The Optical Goods and Services Preferred Suppliers directory will be developed to guide MSD Service Centres in the use of the Optical Goods and Services contracts.

A full Communications plan is available for review.

## 16. Contract Management

Contract Management will be incorporated into the Goods and Services Agreement document and will outline the approach to management of the Optical Goods and Services contracts. The Procurement Team will be responsible for the overall management of the contracts. Contract management will include:

- provision of reporting to the Social Assistance Procurement Steering Committee
- management of panel Providers
- promotion of the panel and its benefits to maximise participation
- coordination opportunities for increased cost reductions

The contract will be managed against contractually agreed service levels. The Service levels cover:

- Accreditation (fitness for purpose of the provided Optical Goods and Services)
- Order Fulfilment Standards including timely performance
- Eye Examination Appointment turnaround time frames
- Quality Assurance, including Warranties, Fault Resolution and Complaints Management
- Performance against agreed contracted prices
- Sustainability and
- Reporting and data provision.

Additionally, the Procurement Solutions Team intends to meet each successful Respondent before contract execution to organise transition responsibilities.

Should the Preferred Suppliers have an existing arrangement with MSD as a SuperGold Card Programme participating business partner, any discounts applicable under that programme will not be applied to the Goods and Services agreement for the supply of Optical Goods and Services.

## 17. Strategic Measures of Success

The most critical success factor for the contract is the delivery against the objectives of the RFP and project. The success of the panel of preferred suppliers for Optical Goods and Services will be assessed throughout the initial three year term of the contracts, but will likely be reviewed for the purposes of deciding whether to renew each panel Provider's Goods and Services Agreement (or alternately replacement under a new RFP) before the end of the initial three year contract term before May 2017, with the decision to renew contracts and notice to suppliers required by November 2016 (6 months before end of first three year term).

The following factors will ultimately determine success in delivery of the Optical Goods and Services solution:

- measurement and monitoring of cost reductions delivered to MSD's Clients;
- measurement and monitoring of off-panel expenditure to determine whether the suppliers are meeting the needs of MSD's Clients;
- provision of reporting and advice to Social Assistance Procurement Steering Group through quarterly reporting on the relative performance of panel Providers and the value for money delivered to MSD's Clients;
- meet Service Level Agreements (SLA) includes minimum delivery times frames for goods and appointment time frames for eye exams;
- meet Key Performance Indicators (KPI) and;
- benchmark cost of Goods and Service at the end each calendar year to ensure providers are in line with current pricing and latest developments in optical practices, to ensure latest technology is utilised



## 18. Summary

To conclude, the Evaluation Panel and Social Assistance Working Group recommend the listed respondents (appendix 1) to be the preferred suppliers of Optical Goods and Services for MSD Clients.

The recommendation is made following evaluation of the responses received. All the recommended preferred suppliers:

- Demonstrated current experience in the delivery of Optical goods and services to the required standards, established by MSD (Supply of value for money Optical goods and services to meet the immediate and essential needs of MSD Clients)
- Demonstrated sound business and financial acumen, in meeting and understanding the commercial criteria required, which is outlined in the RFP.
- Assisted MSD in the achievement of the objectives of the RFP (Reduction of debt to the Crown and MSD Clients, this will enable improvements and simplification of the processes for MSD staff and Clients)
- Demonstrated a willingness to develop partnerships with MSD, to achieve the national coverage, necessary to ensure MSD Clients will not be required to travel excessively to receive Optical goods and services

In summary, the recommended preferred suppliers scored highly in the Qualitative and Commercial evaluations. All six (6) recommended preferred suppliers achieved an overall ranking score of 11 or better. (Out of possible 22 ranking)

The recommended preferred suppliers have all given a commitment to assist MSD with the achievement of the objectives of the RFP for Optical Goods and Services, by their participation in the RFP and willingness to develop working partnerships.



## Appendix 1: List of Recommended Preferred Suppliers

	Recommended Respondent Name
b(2)(f)(i)	

**Appendix 2: Evaluation Team Members**

Name	Position	Organisation
9(2)(a)		MSD
9(2)(a)		MSD
9(2)(a)		MSD
9(2)(a)		MSD
9(2)(a)		MSD
9(2)(a)		MSD

**Appendix 3: Phase One Evaluation – Long list Results**

Organisation Name	Qualitative Ranking	Commercial Ranking	Overall Ranking
(b) (5) DPP, (b) (5) ACP			



#### Appendix 4: Value Added Services

Supplier	Value Added Services
<div>9(2)(b)(ii)</div> <div>RELEASSED UNDER THE OFFICIAL INFORMATION ACT</div>	

### Appendix 5: Full List of Recommended Preferred Supplier Locations

Region	Location or Area	Provider	Member Name	Status
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(b) (5) DPP				
[REDACTED]				

Optical Goods and Services - Contract Award Report

Region	Location or Area	Provider	Member Name	Status
[REDACTED]				



Optical Goods and Services - Contract Award Report

Region	Location or Area	Provider	Member Name	Status
[REDACTED]				

Optical Goods and Services - Contract Award Report

Region	Location or Area	Provider	Member Name	Status
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Region	Location or Area	Provider	Member Name	Status
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(S)(b)(1)





MINISTRY OF  
SOCIAL DEVELOPMENT  
*Te Manatū Whakahiato Ora*

## Preferred Supplier Arrangements for Whiteware and Optical Products Funded through Hardship Assistance

Date: 22 March 2013  
Security level: IN CONFIDENCE

Report no.: REP/13/03/221  
Priority: Medium

### Action Sought

Hon Paula Bennett  
Minister for Social Development

For your approval

28 March 2013

### Contact for telephone discussion

Name	Position	Telephone	1st Contact
Bede Hogan	Team Manager,	9(2)(a)	<input checked="" type="checkbox"/>
Lynley Speers	Programme Manager,	9(2)(a)	

Report prepared by: Lynley Speers, Programme Manager

### Minister's office comments

- ☐ Noted
- ☐ Seen
- ☐ Approved
- ☒ Needs change
- ☐ Withdrawn
- ☐ Not seen by Minister
- ☐ Overtaken by events
- ☐ Referred to (specify)

#### Comments

As discussed in Agency meeting

Date received from MSD

22 MAR 2013

Date returned to MSD

~ 5 APR 2013

# report



MINISTRY OF  
SOCIAL DEVELOPMENT  
*Te Manatū Whakahiato Ora*

Date: 22 March 2013

Security Level: IN CONFIDENCE

To: Hon Paula Bennett, Minister for Social Development

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## **Preferred supplier arrangements for whiteware and optical products funded through hardship assistance**

### **Purpose of the report**

- 1 The Social Security (Benefit Categories and Work Focus) Amendment Bill (the Social Security Bill) is expected to receive the Royal Assent in May 2013.
- 2 This report seeks agreement to commence a procurement process to contract preferred suppliers to provide whiteware to clients, and request information from the market for the provision of optical services to clients, following Royal Assent.

### **Executive summary**

- 3 The Social Security Bill will enable MSD to contract preferred suppliers to deliver cost-effective and quality goods and services to clients. MSD has identified whiteware and optical products funded through hardship assistance as optimal initial areas to introduce preferred supplier arrangement. MSD would contract with preferred suppliers to provide clients with:
  - a set range of new whiteware products to clients
  - a set range of optical frames, as well as eye tests, fittings and lenses.
- 4 MSD can commence the tendering process once the Social Security Bill receives the Royal Assent. It is expected that preferred supplier arrangements for whiteware could be implemented from September 2013, and preferred supplier arrangements for optical products from November 2013. A longer period is required to implement preferred supplier arrangements for optical products and services as this is a more complex area of expenditure than whiteware. MSD needs to seek Expressions of Interest to determine whether preferred supplier arrangements for optical products and services are feasible and coverage is available on a national basis.
- 5 It is expected that these initiatives will reduce client debt to the Crown in out years and streamline administrative processes. However, some suppliers of second-hand whiteware may be affected by reduced business income as a consequence of the changes. In addition, some clients may consider they are disadvantaged as their choice of product and supplier will be restricted if they apply to purchase whiteware or optical products through hardship assistance.
- 6 MSD also considers that, when the current accreditation regime for medical alarms expires in March 2014, it may be beneficial to introduce preferred supplier arrangements



for medical alarms funded through DA. However, MSD considers there is value in first undertaking a Request For Information in order to determine whether more cost-effective alternatives to medical alarms are available.

- 7 As part of the Treasury-led work on microfinance, MSD will also explore how best to link microfinance providers to preferred supplier arrangements.

## **Background**

- 8 The Social Security Bill will enable MSD to contract preferred suppliers to deliver goods and services to clients. Where a preferred supplier arrangement is in place, the Bill requires clients to use a preferred supplier and allows MSD to redirect payment to the preferred supplier. This will strengthen MSD's ability to negotiate and purchase cost-effective and higher quality goods and services, reducing client debt and generating savings for clients.
- 9 MSD has identified a number of goods and services which may be suitable for preferred supplier arrangements, based on work by MSD and the results of a review by PMMS (a global procurement consultancy firm). Areas that have been considered to date include medical alarms; gardening services; whiteware; optical products; furniture – including beds, chairs and tables; power and food.

## **Introduction of preferred supplier arrangements – overarching strategy**

- 10 Many public sector agencies contract commercial suppliers to provide goods and services to the public or to particular groups. MSD has not previously contracted for the preferred supply of goods and services to clients for specified areas of social assistance. Although there is great potential for new procurement arrangements to benefit clients and reduce Crown expenditure, this represents a significant change in approach.
- 11 There are some challenges associated with the introduction of preferred supplier arrangements; in particular, ensuring client needs are met and that products are cost effective. As such, it is important that the initial implementation of preferred supplier arrangements is in areas of social assistance which have clearly identifiable benefits for clients, and risks that MSD is able to manage. Once these initial arrangements have been implemented and evaluated, we will be better placed to consider implementing preferred supplier arrangements in those areas of social assistance where the benefits are currently less clear, the impact on clients is more significant and risks are more complex.
- 12 Whiteware and optical products, funded through hardship assistance, and medical alarms funded through Disability Allowance (DA), are suitable initial areas. Clients who seek assistance to purchase whiteware or optical products must generally repay the amount they borrow from MSD. Under preferred supplier arrangements MSD will be able to procure higher quality products for clients at a lower cost, and the benefit of these arrangements will accrue directly to the client. In addition, the granting process will be streamlined as clients will not be required to obtain multiple quotes and total Crown debt reduced. Introducing a preferred supplier arrangement for medical alarms funded through DA is likely to reduce costs to the Crown (although further work is required to determine the nature and extent of savings) without disadvantaging DA recipients.
- 13 Once MSD has had an opportunity to implement and evaluate the introduction of preferred supplier arrangements in these areas, MSD will be in a better position to assess whether preferred supplier arrangements would be beneficial in other areas. The Social Security Bill also introduces a power to restrict the extent to which certain costs are funded through DA, or place conditions on the funding of costs. There is a need to consider potential changes to funding arrangements through this power before preferred supplier arrangements are considered for Disability Allowance costs.

Out of scope



Out of scope





## ***Optical products***

### ***Proposal***

- 26 Around 9(2)(b)(ii) per year is currently lent to clients to purchase optical products through hardship assistance.
- 27 It is proposed that MSD introduce a preferred supplier arrangement for optical products, where a set range of options will be available to clients who need to purchase eye examinations, glasses (single, bifocal and graduated lenses) and contact lenses. It is anticipated that MSD will be able to negotiate an all-inclusive price for the first eye test, reduced cost lenses, a set range of frames within a capped price range, a fitting service for new lenses purchased and fitted to existing frames, and low cost reading glasses (similar to the price of products available in pharmacies and The Warehouse). Clients with specialist eye problems would be managed on a case-by-case basis, if necessary, in terms of their eyewear needs.
- 28 The Social Security Bill allows MSD to introduce preferred supplier arrangements in specific geographical regions. MSD will aim to secure national coverage. However, given the nature of the optical market (where the three largest suppliers locate their outlets to cover only the main and provincial centres) and the need to limit the distance clients travel to suppliers, MSD may need to contract a mix of national and local providers to achieve full coverage. In addition, it may not be possible to contract preferred suppliers in certain geographical areas – in those areas it would be necessary to retain the current approach.

### ***Benefits and challenges***

- 29 MSD estimates that this will result in a 9(2)(b)(ii) reduction in hardship assistance for optical products over five years. While there may be an initial increase in processing time (as clients and staff adjust to the change) the approval and payment process will be simplified and it is estimated that there will be 5,000 less transactions to process and 2,460 hours will be saved in processing time over five years. This is because clients will no longer need to provide a number of quotes and there will be fewer steps required to approve a grant for both an eye test and eyewear.
- 30 As a result of this change, clients would not be able to purchase cheaper products offered by a non-preferred supplier or use MSD assistance to purchase products from their current optician (if not a preferred supplier). In particular, superannuitants may be reluctant to change from a supplier they have been using for a long period of time. This may result in negative reaction from clients and possibly member groups e.g. Grey Power. However, clients will have access to cost effective items that meet their needs through the preferred suppliers. MSD would also review the contract periodically and repeat the tender process where analysis suggests that cheaper and higher quality alternatives were being consistently offered by non-preferred suppliers.
- 31 MSD will also put a process in place to deal with the unlikely situation where a client has an immediate and essential need for eyewear which does not appear to be covered under the preferred supplier arrangement.

### ***Timeframe and process***

- 32 The timeframe and process differ from those for whiteware, as an Expression of Interest is required to determine whether preferred supplier arrangements for optical products are feasible, including whether national coverage is achievable. The following key steps will be required:
- Expression of Interest to market – Mid May