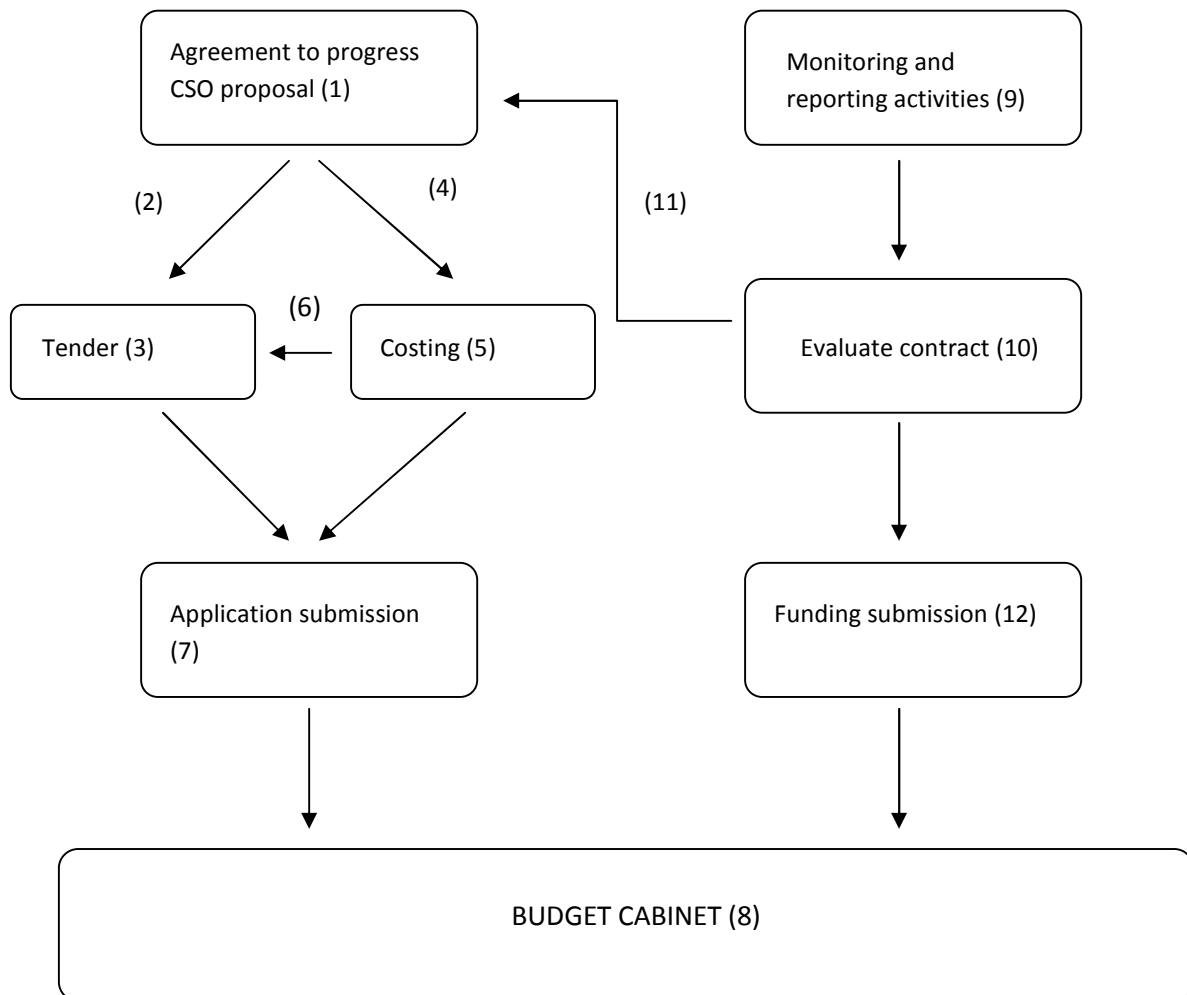


FLOW CHART OF CSO PROCESS

ESTABLISHING A NEW CSO

ANNUAL REVIEW OF EXISTING CSO



- (1) If a Ministry or SOE considers there is a need for a CSO (either as part of a new policy/strategy under its portfolio or as part of established Government priorities), it should firstly consult with the Ministry of Finance and Treasury and the other Accountable Minister. Both Accountable Ministers (i.e. the Ministry of Finance and Treasury and the Responsible Minister) must agree with the CSO proposal for it to be progressed. Ministers will need to instruct their officials to make this happen.
- (2) If there is agreement, the lead Ministry should then initiate a tender process. Competitive tendering procedures are set out in the *Financial Instructions 2010*.
- (3) Tenders must specify that budget funding has not yet been allocated for the proposed CSO project. It should also include pro-forma templates for CSO contracts.
- (4) Where there is no clear benefit in a tender process (for example, the CSO relates to existing natural monopoly infrastructure owned and operated by a SOE), the process is for a letter to be sent to the SOE, co-signed by both Accountable Ministers, outlining the nature and scope of the proposed CSO and directing the relevant SOE to provide costings¹.
- (5) The SOE must provide initial costing estimates to the Ministry within 10 days of the receiving the direction.
- (6) The preferred approach to procuring CSOs is to go to tender wherever possible. There may be certain circumstances however where it is preferable for SOEs to provide their costings ahead of this process (e.g. where Accountable Ministers are unsure of the merits of a possible CSO and want to get an indication of costs before deciding to undertake a full tender process). This step provides for this situation.
- (7) The lead Ministry must prepare a written application submission, approved by its Minister and the Accountable Ministers. The Ministry of Finance and Treasury (SOE Monitoring Unit) and the other Accountable Ministry (if this is different to the lead Ministry) will assist with the preparation of this submission, though the intention is for the responsible Ministry to lead this work. As a transitional measure, the Ministry of Finance and Treasury (SOE Monitoring Unit) will lead the preparation of all new CSO submissions/applications for 2011, 2012 and 2013 Budget years.
- (8) Acceptance of a product or service as a CSO is dependent on Cabinet approval. Only Cabinet can approve CSOs – no-one else can. Cabinet also determines the appropriate purchasing Ministry and allocation of funds.

¹ Note, this direction could include costings of various CSO options.

- (9) The purchasing Ministry is responsible for managing the CSO contract with the CSO provider (SOE or other organisation). This includes monitoring and collecting information on performance.
- (10) Using the performance information collected as part of the CSO contract, the purchasing Ministry, in co-operation with the Accountable Ministries, should evaluate whether the CSO is being efficiently delivered and whether it is achieving the identified social objective.
- (11) If the evaluation indicates that the CSO is not being delivered efficiently and/or is not achieving the identified social goals, then the CSO output or delivery (and thus the CSO contract) will need to be changed. To do this, the CSO should undergo a thorough review following the same steps and procedures as for a new CSO proposal.
- (12) The funding submission should include key information on the performance of the CSO. In all cases where there is an existing contract, the budget submission should include an estimate of the cost to the Government of compensating the SOE if the Government decides to break the contract. More details may be required if the submission actually proposes to terminate an existing contract early.