



**Professionals
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Via email

Re: Joint Select Committee

on Government Procurement - Inquiry into the Commonwealth Procurement Framework

Professionals Australia welcomes the opportunity to provide comments in response to the Joint Select Committee on Government Procurement - Inquiry into the Commonwealth Procurement Framework.

Professionals Australia's represents technical professionals across Australia, many of whom are directly involved in the infrastructure development and delivery process. Accordingly, Professionals Australia's recommendations focus on the development and delivery of infrastructure, how assets are procured, and ways in which the process could deliver better value for money outcomes and minimise waste.

Professionals Australia strongly supports the principles of achieving value for money in government procurement. At a time when government budgets are stretched, community benefit must come from the informed use of public funds. Each year, billions of dollars are wasted through government procurement, and taxpayers receive only a portion of the benefit that they should. A stronger emphasis on value for money is vital if this situation is to be resolved.

When assessing value for money, it is important that this inquiry considers all aspects of value creation occurring through the government procurement. As such, Professionals Australia supports the introduction of new clauses regarding broader economic benefits.

As a nation, we need to drive our tax dollars further, and ensure that we capture the full value associated with our government spending. By leveraging government procurement efficiently, we can provide more infrastructure, better infrastructure, and simultaneously strengthen our economy through job creation and skill development.

The problem

Systematic cuts to the engineering and technical workforce in the public sector, combined with lowest price contracting for services, has caused a chronic diminution of engineering expertise throughout the infrastructure life cycle, as well as undervaluing the impact engineering and technical professionals have throughout all sectors of the economy.

First Government outsourced construction to the private sector to reduce the cost base by employing significantly fewer public works employees. It then outsourced design and specification of projects to the private sector, also in the name of lowering its cost base. Then it reduced the number of engineering professionals it employed on the basis that it no longer carried out its own design work. Finally, it appointed managers to procure infrastructure who had little knowledge or understanding of what technically had to be delivered.

The result: Government is no longer an informed purchaser of infrastructure. Those working in government are under ever increasing pressure to do more with less. Those working in the private sector see projects impacted by delays, variations and blowouts.

Problems are present through the entire infrastructure delivery cycle, with bad decisions and overspending occurring at every step of the process:

1. Those without engineering expertise making decisions on projects and asset maintenance;
2. Flawed decision-making regarding priority infrastructure projects:
 - increasing numbers of unsolicited bids with limited capacity to assess value;
 - a focus on 'ribbon-cutting' as opposed to use of objective criteria for project selection;
3. Poor infrastructure planning:
 - lumpiness of projects with lack of long-term plans;
 - changes to priority projects dependent on political cycle;
4. Poor project scoping:
 - lack of consideration and integration with existing infrastructure and systems;
 - outsourcing of scoping and planning;
 - unrealistic and costly attempts to shift risk to the private sector;
5. Flawed project proposal assessment:
 - a focus on the cheapest quote as opposed to the best value;
 - lifelong costs of a project not adequately considered;
 - workforce development not incentivised or adequately recognised in project bids;
 - high cost of bidding and lack of use of standard contracts;
6. Poor project management:
 - government not an informed purchaser;
 - lack of experience to manage implementation;
 - use of contractors to oversee contractors;
 - management of build quality principally administered through self-certification;
 - consultants used in oversighting work often use junior staff who don't have the necessary skills;
 - significant levels of construction disputation;

7. Inadequate asset management:
 - maintenance not seen as exciting as infrastructure delivery;
 - often cut in budgets because there is not an immediate impact;
 - lack of maintenance generates significant waste;
8. A focus on the immediate project rather than the capacity to deliver projects into the future:
 - poor implementation of strategies to encourage science, technology, engineering, and maths (STEM) education;
 - headhunt staff rather than cadetships and graduate development programs;
 - a crisis in public sector capacity as experience engineers retire;
 - inadequate private and public sector workforce development;
 - wages and career paths in the public sector not adequately attracting and retaining engineers;
 - use of 457 visas rather than employment of local staff;
 - inadequate number of women in the workforce;
 - higher levels of unemployment among migrant engineers;
9. A lack of concern for the overall public interest:
 - wages for in-house engineering expertise within the asset owner is budgeted for separately to project or capital budgets;
 - even if an investment in engineering expertise will save money in project costs, the overall benefit of this expenditure is not considered;
 - delays, cost blowouts and construction disputation is not effectively accounted.
10. Value for money is not being delivered.

Government as an informed purchaser

The Commonwealth Procurement Rules list some admirable goals, many of which Professionals Australia firmly agrees with. The overarching pursuit of better value for money is a topic that Professionals Australia's members have long supported, and we welcome any steps to improve the procurement process.

However, while the rules and framework provide a reasonable starting point, Professionals Australia fails to see any steps that will enable government agencies to realistically deliver on the prescribed goals. Governments have consistently confused value for money with low cost, and budgets for engineering workforces have consistently been stripped. As a result, governments are no longer informed as to what they are buying, and have no objective ability to reasonably decide whether specific cases of procurement represent value for money.

While the Commonwealth Procurement Rules are expected to set the procurement standard across government agencies, the reality is that budgets provide the first level of governance. As a result, lower cost options are regularly pursued over best value alternatives. Key technical decisions are dictated by finance departments, and ongoing expenditure on technical expertise has been sidelined in favour of consultants, funded under project costs.

There is a distinct lack of technical expertise at the decision-making table, both at government level and within government agencies. Many government agencies, State Governments, and indeed the Federal Government,

currently do not employ a Chief Engineers, capable of providing direct advice on strategies and expenditure of a technical nature.

Clause 4.4 of the CPRs states that *“Officials responsible for a procurement must be satisfied, after reasonable enquires, that the procurement achieves a value for money outcome.”* At present, the large majority of “officials responsible” are not reasonably capable of delivering this goal, and have no reasonable technical training to determine whether they are actually receiving a value for money result.

What it costs

Exact estimates as to the total waste in infrastructure spending vary. However, there is a wide consensus among industry experts, consulting groups, Government agencies and engineers, that our weak procurement systems are costing the Australian economy billions. The vast majority of this waste is avoidable.

Figures from Deloitte Access Economics – in a 2014 report prepared for the Australian Constructors Association – highlight the level of waste in infrastructure spending.

- There had been infrastructure blow-outs in seven of the previous eight years.
- The average blow-out is 6.5 per cent across all projects, and 12.7 per cent for projects over \$1 billion.
- During the most recent peak in infrastructure projects in 2009 (65 projects), blowouts peaked at 21.2 per cent. The more we spend, the more we waste.

According to the Committee Chair Nick Xenophon, the Australian Commonwealth Government Procurement is over \$59 billion annually. At this rate of waste, we stand to throw away between \$3.8 and \$7.5 billion per year through poor procurement practices. This figure rises to \$12.5 billion per year during periods of major infrastructure investment, highlighting that failings that occur when government technical capacity is stretched too thin.

Every dollar wasted is a dollar that could have gone towards resolving our infrastructure backlog. The Australian Infrastructure Audit – conducted by Infrastructure Australia – found that congestion and delays on our roads cost the economy \$13.7 billion in 2011. The Audit forecast this figure to swell to \$53.3 billion in 2031 if swift action is not taken. A major part of resolving this problem is making sure that money spent on infrastructure is not wasted.

Wider Economic benefits

Clause 10.30 of the CPRs establishes the need to consider the broader economic benefits associated with government procurement. Professionals Australia strongly supports this clause, and we believe it represents an opportunity to leverage the procurement function to deliver the maximum possible community benefit.

However, the clause should provide some additional accountability, reporting requirements, and a standard by which economic benefit is measured. At present, the clause requires only consideration of the benefits, without any established need to maximise the benefit, and provides no guidance as to the types of benefits that should be

considered. In assessing the economic benefit, items such as cost, waste, opportunity cost, potential additional expenditures, local content, job creation and skill development must all be considered.

The CPRs also provide no formal guidance as to accountability. Procurement officers must consider value for money and must consider broader economic benefits, but at present they do not need to provide any firm evidence or reporting to demonstrate that they have satisfied the requirements of the CPRs. Regulation and rules without accountability, transparency and enforceability serve no purpose, and will not result in any tangible improvements to the procurement process. If these rules are to achieve their desired result, officers responsible for procurement should be provided with additional guidance on items of value and economic benefit to be considered, and they should be required to report on the outcomes of their decisions.

Workforce development and local content

The greatest economic benefit to be derived from government procurement is the opportunity for employment and business for individuals and companies across Australia. Every time the government spends tax payer dollars, it provides the chance for a company to provide its services. These companies then employ people to carry out their work. In doing so, government procurement directly contributes to the health of the Australian economy.

When undertaking the procurement function, it is vital that workforce development and local content are considered. Foreign service providers often provide competitive quotes for government business, aided by low wage costs abroad. However, when these providers are chosen, the economic benefit is limited to the procured item, and does not extend to business and employment in the same way that it would had a local firm been employed.

With this in mind, it is important that the Commonwealth Procurement Rules establish a requirement for officers responsible for procurement to consider the impact on local employment and local businesses when selecting a provider.

Government procurement should also be utilised to improve workforce development. In order for agencies to assess the wider economic benefits associated with procurement, providers need to be transparent as to their workforce composition. The training provided, cadetships, graduate programs, local workforce, foreign workforce and new employment opportunities should all be considered before contracts are awarded, as without this information, the full economic benefits associated with procurement cannot reasonably be assessed.

Waste

When considering broader economic benefits, the most immediate item to be addressed is the cost that the nation's aging infrastructure imposes on national productivity. As previously stated, Infrastructure Australia found that congestion and delays on our roads cost the economy \$13.7 billion in 2011, and this figure is forecast to swell to \$53.3 billion in 2031. The ongoing infrastructure backlog is exacerbated by the amount of waste incurred during the infrastructure delivery process, as this wasted money could have otherwise been used to deliver productivity-enhancing infrastructure.

Better procurement will enable governments to minimise waste, and use the saved money on much needed additional projects. In doing so, the whole economy benefits, leading to increased productivity, less waste, more jobs and a higher quality of life for Australians.

Conclusion

Professionals Australia welcomes any effort to improve the procurement process, to deliver better value outcomes and wider economic benefits to the community. The Commonwealth Procurement Rules go some way towards encouraging and fostering better procurement practices, however the rules require additional clarification to enable greater enforceability and measurability. This should include greater guidance as to what constitutes value for money, and what broader economic benefits should be considered.

Additionally, the CPRs will not be able to deliver value for money outcomes if the officers responsible for procurement lack the technical expertise to adequately assess the products and services that they are procuring. For example, it is unlikely that officers with accounting or finance backgrounds will be able to affectively determine the reasonable likelihood that the service delivery will meet expectation and achieve long-term value for money on major infrastructure purchases. Instead, their expertise will likely be limited to assessing cost alone rather than value. As such, the CPRs should provide some additional clarification to ensure that responsible officers are well qualified in the area of their procurement responsibility, and that they receive oversight at management level by similarly qualified technical professionals.

Professionals Australia's has long been concerned about the inefficiencies and waste in government procurement. Please find attached our recent publication "Better Infrastructure" outlining the key arguments in favour of improving government technical capacity.

If you require any further information on the matters raised in this correspondence, please do not hesitate to contact me via Jenny Broomhall at jbroomhall@professionalsaustralia.org.au.

Yours sincerely



Chris Walton, CEO