

## Chapter 5

### Scrutiny of the BER Implementation Taskforce

5.1 This chapter examines the continued operation of the BER Implementation Taskforce (the Taskforce), its activities, outputs and effectiveness.

5.2 Central to the committee's deliberations is an examination of whether the Taskforce adequately comes to terms with the serious questions about taxpayers receiving value for money in the implementation of the Primary Schools for the 21st Century (P21) program. Since the committee's last report the Taskforce has provided two reports to the Minister for Education. The Interim Report was handed down in August 2010 and the First Report in December 2010. These, together with hearings conducted between the committee, the Taskforce Chair Mr Orgill, and representatives of the Department of Education, Employment and Workplace Relations (DEEWR), have provided the basis from which the committee has formed its judgements concerning the Taskforce's success.

5.3 The next section of the chapter briefly summarises the workplan and activities of the Taskforce, in order to provide a context for deeper analysis of the two reports released to date.

#### Activities and workplan of the Taskforce

5.4 The Taskforce was established on 3 May 2010 with responsibility for investigating complaints regarding the operation of the Building the Education Revolution (BER) program, to assess value for money aspects of the program and its implementation, and to make referrals and recommendations to ensure the objectives of BER were realised.

5.5 As the Interim Report was handed down in August, the Taskforce had been in operation for three months with a core headcount of fewer than 25 people. The Interim Report noted that the majority of staff had been sourced from the private sector to reinforce the Taskforce's independence.<sup>1</sup> Staff had a variety of specialist skills and professional backgrounds including construction, quantity surveying, procurement, finance, education, architecture, project management, modelling, audit and legal services.

5.6 The Taskforce also engaged architectural and legal firms to provide specialist services. These firms analysed the design and specification standards used by education authorities and analysed the costs, risks and incentives contained in the

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1 BER Implementation Taskforce, *Interim Report*, August 2010, p. 14.

different contract types used by a cross-section of education authorities in the delivery of the BER program and projects.

5.7 The Taskforce workplan is composed of four streams:

- Value for money review and examination
- Procurement and delivery models
- BER complaints management
- Complaint solutions

5.8 The committee focused on the stream which addresses procurement and delivery models. The Taskforce examined the different procurement models and delivery approaches used by education authorities to understand how these contributed to issues raised in complaints, as well as the extent to which they influenced value for money outcomes. The Taskforce was particularly interested to witness how implementation approaches under the BER have differed from 'business as usual' and the underlying drivers for the procurement strategies adopted. Where private sector organisations and contractors were used to manage delivery of the program or projects, the Taskforce examined the fees paid to managing organisations and how risk and incentives were allocated through the supply chain. The Taskforce also examined education authority application of DEEWR Program Guidelines and reviewed contractual arrangements at key levels of the BER delivery process.<sup>2</sup>

5.9 The workplan also anticipated activity on the management of complaints related to the BER, and how they were resolved. The Taskforce focussed on how complaints were received, processed and responded to. This data informed the Taskforce's school visitation program, as well as the requests for information it has made to education authorities for detailed information regarding individual projects. The Taskforce also consulted with a cross-section of education authorities to analyse their current complaint handling processes and systems to avoid duplication and to identify opportunities to improve complaint handling in the future.

5.10 The Taskforce also reported that it played a role (from June 2010) in facilitating and encouraging potential solutions between complainants and the relevant education authority. The Taskforce was particularly focused on complaints involving New South Wales (NSW) and Victorian Government schools.<sup>3</sup>

5.11 While the Taskforce's emphasis is wide ranging, the committee's primary focus is the issue of value for money.

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2 BER Implementation Taskforce, *Interim Report*, August 2010, p. 15.

3 BER Implementation Taskforce, *Interim Report*, August 2010, pp 15–16.

## Interim Report summary

5.12 The Executive Summary of the Interim Report summarises the approach adopted by the Taskforce in carrying out its duties. The Taskforce acknowledged that it sought to determine whether or not value for money as achieved across the program's implementation.

5.13 The Taskforce developed a model to reflect what it considered to be the community's perception of 'value for money'. It concluded that value for money involved three criteria:

- quality (is the building is fit for purpose?);
- time (is the project is delivered in accordance with agreed timeframes?); and
- cost (does the project comes in on budget and relative to historical cost benchmarks?).

5.14 The Interim Report reflected that 'On any project it is apparent there is a necessary tradeoff between quality, time and cost.'<sup>4</sup> A schematic of the model used by the Taskforce appears later in this chapter.

5.15 As of August 2010, the Taskforce had received complaints in respect of 254 schools. This amounted to approximately 2.7 per cent of all schools involved in the BER program, and of these over half related to value for money. NSW Government schools accounted for 56 per cent of complaints and Victorian Government schools for 20 per cent. The Interim Report noted that:

From our investigations to date, the majority of complaints raise very valid concerns, particularly about value for money and the approach to school level involvement in decision making...[t]here is evidence to suggest that some education authorities have achieved better value for money than others and after extensive review of costs and contract administration the Taskforce has concluded that some schools have not received value for money.<sup>5</sup>

5.16 So pronounced were the shortcomings in value for money being achieved in NSW that the Taskforce recommended that \$75 million of funding be withheld from the NSW Government until complaints were fully investigated and solutions sought.<sup>6</sup>

5.17 The Taskforce's job was made more difficult by the use in different jurisdictions of different procurement and delivery models. It was considered that this

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4 BER Implementation Taskforce, *Interim Report*, August 2010, pp 7–9.

5 BER Implementation Taskforce, *Interim Report*, August 2010, pp 7–9.

6 BER Implementation Taskforce, *Interim Report*, August 2010, pp 7–9.

substantially affected the value for money outcomes achieved, and added significantly to the time required by the Taskforce to assess value for money across projects.<sup>7</sup>

5.18 The Taskforce examined the delivery of projects between government and non-government schools, including those that self-managed projects. The Taskforce concluded that centralised delivery models did not necessarily deliver poorer project outcomes, and that allowing schools to self-manage project delivery would not have achieved the implementation timetable required by the program in larger government systems where the scale of the program was more logistically challenging. Such an approach would also have given rise to a number of risk issues that were more easily managed through a centralised approach.<sup>8</sup>

5.19 The Executive Summary concluded that:

The Taskforce does not have sufficient pre-BER cost data at this interim stage to conclude, but from what limited data and insights we do have, we think the overall BER versus pre-BER cost differential, for each education authority, is in the range from 0% to plus 12%. The higher costs have resulted from the scale, time and complexity of the undertaking. Overall, delivering BER P21 within the short timeframe to achieve the economic stimulus objectives may have added a premium to pre-BER business as usual costs of between 5-6%. The Taskforce will continue to gather and analyse BER and pre-BER project data to enable us to have a more definitive view on value for money for the BER program as a whole by our November 2010 report.<sup>9</sup>

### ***Recommendations***

5.20 The Interim Report made six immediate recommendations. In summary, these were:

- that school-specific project cost data be published in a common format across Australia;
- that where possible, projects not yet committed, or unlikely to be completed by March 2011, be delivered in accordance with a pre-BER approach to capital works;
- that school stakeholders be more involved in decision making regarding projects;
- that education authorities have flexibility to reallocate to their own projects any savings made on administering the program;

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7 BER Implementation Taskforce, *Interim Report*, August 2010, pp 7–9. See also 'Actions for the benefit of future programs', dot point 9, p. 10.

8 BER Implementation Taskforce, *Interim Report*, August 2010, pp 7–9.

9 BER Implementation Taskforce, *Interim Report*, August 2010, pp 7–9.

- that mediation be used to resolve complaints over sub-standard work, where the body responsible is an external managing organisation;
- that the NSW Government more carefully manage BER contracts to ensure that managing contractors' fees represent value for money.

5.21 The Taskforce made a further eight recommendations for the benefit of future programs. These included:

- that DEEWR establish a unit to review, share and transfer knowledge about school facility standards, and the process of designing and delivering school buildings;
- that a forum of education authorities be convened to develop a more consistent set of definitions and measures of what constitutes value for money;
- that the BER-CAM database be housed with an appropriate custodian so that it is available for future cost benchmarking purposes;
- that steps be taken to establish more consistent project management and building contract arrangements between jurisdictions;
- that backlog school maintenance be better monitored by DEEWR, and that this knowledge be used in designing future capital spending programs;
- that government education authorities establish clearer master plans, and better involve school communities in the process;
- that DEEWR improve its technical abilities in respect of project management, construction and quantity surveying to facilitate better infrastructure administration in the future;
- that DEEWR establish a unit to receive, investigate and resolve complaints resulting from any future major education spending program.

5.22 On the release of the Interim Report, the government accepted all the above recommendations.

5.23 Discussion now turns to the contents of the First Report, which was handed down in December 2010, four months after the release of the Interim Report.

### **First Report summary**

5.24 The First Report was released on 15 December 2010. Getting an accurate measure of the extent to which value for money was achieved continued to be the focus in the First Report, and this subject is explored in more detail in the subsequent section of this chapter. The current section summarises some of the First Report's other notable features, including its recommendations.

5.25 The Taskforce's BER Cost Analysis Model (BER-CAM) was populated with data from all education authorities for more than 30 per cent of projects implemented under P21. The Taskforce advised that BER-CAM enables a comparison of the cost of

delivery of projects between states and territories. BER-CAM allows the Taskforce to report by a number of variables. These include by product, component cost, contractor and project time.<sup>10</sup> The BER-CAM was the critical tool used to inform the Taskforce's analysis of the effectiveness of the P21 program.

5.26 As at December, over 10 500 projects were part of the program in nearly 8000 schools across the country. Ninety nine per cent of P21 projects had commenced, 50 per cent were under construction and 43 per cent of projects nationally were completed.<sup>11</sup>

5.27 The Taskforce has made over 320 visits to schools with BER projects. Visits were made in all states and the Northern Territory (NT), with the majority to government schools in NSW and Victoria as schools in these jurisdictions were the subject of the most complaints.

5.28 The First Report noted a 'small but steady stream' of complaints raising 'very valid concerns', which had been lodged since the commencement of the program.<sup>12</sup> Complaints initially focused on issues relating to value for money, delays in construction and the limited involvement of school communities in decision making. By December the trend had shifted, and complaints centred on completions, the quality of the product delivered and the handover process.<sup>13</sup> The Taskforce received an additional 40 complaints after the Interim Report was written, and overall reported complaints from 294 schools, three per cent of all schools involved in the program. Of the 136 open complaints, 107 were categorised as relating to value for money and were being investigated.<sup>14</sup>

5.29 The Taskforce considered whether the P21 program had achieved the stimulus objectives. The Taskforce concluded that Australia had been insulated from the global financial crisis, and the \$16.2 billion BER program had made a material contribution to this outcome in its first year.<sup>15</sup> The committee's commentary on the accuracy of these conclusions is set out later in this chapter.

### ***Recommendations***

5.30 The recommendations contained in the First Report were fewer in number and narrower in scope than those in the Interim Report. The recommendations built on those in the Interim Report and accepted in full by the Australian Government. In summary, the First Report recommendations were:

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10 BER Implementation Taskforce, *First Report*, December 2010, pp 7 and 21.

11 BER Implementation Taskforce, *First Report*, December 2010, p. 8.

12 BER Implementation Taskforce, *First Report*, December 2010, p. 8.

13 BER Implementation Taskforce, *First Report*, December 2010, pp 76–97.

14 BER Implementation Taskforce, *First Report*, December 2010, p. 13.

15 BER Implementation Taskforce, *First Report*, December 2010, p 59.

- to ensure funding equity, future funding for Commonwealth education infrastructure programs take into account regional cost differences;
- to ensure an ongoing focus on the achievement of value for money, DEEWR encourage state and territory jurisdictions to provide cost performance data on school infrastructure to the Commonwealth for incorporation into BER Cost Analysis Model (BER-CAM); and
- to enable targeting of future capital programs, the Commonwealth work with state and territory jurisdictions to better monitor the age and condition of school infrastructure so that future capital spending can be better targeted to areas of need.<sup>16</sup>

5.31 The Australian Government accepted the second recommendation in full. The first and third recommendations were accepted in principle.<sup>17</sup>

### **A Focus on Value for Money**

5.32 The Interim Report explained that the cost data used by the Taskforce in that report was derived from a sample of over 400 projects covering all states and territories and most education authorities across Australia and analysed through a computerised cost analysis tool, as discussed above. Significant progress was made in developing the BER-CAM database in the intervening months, which is described in the First Report as now providing:

...statistically valid, comparative data on the detailed costs of P21 projects from all over the country. We now have project data for all 22 education authorities across all project types and for more than 30 per cent of all projects (3,186) implemented under P21. BER-CAM enables us to compare the costs of projects in the non-government and government sectors and the difference in the cost of delivery of projects between states and territories. It allows us to report by managing contractor, project manager, by product, by component cost, by project time and various other variables. BER-CAM is a foundation of our evidence based conclusions on cost and time in the context of assessing value for money.<sup>18</sup>

5.33 The data collected in developing this model included initial pre-BER project cost data, required to establish a comparative baseline. The Taskforce has used this model to inform its preliminary value for money observations and to identify outlier projects for detailed cost assessment.<sup>19</sup> In its First Report, the Taskforce observe that:

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16 BER Implementation Taskforce, *First Report*, December 2010, p. 11.

17 Senator the Hon. Christopher Evans, Minister for Tertiary Education, Skills, Jobs and Workplace Relations, 'Government welcomes BER Implementation Taskforce Report', Media Release, 15 December 2010.

18 BER Implementation Taskforce, *First Report*, December 2010, p. 7.

19 BER Implementation Taskforce, *First Report*, December 2010, p. 15.

BER-CAM has the potential to provide benchmarks for all future education infrastructure expenditure and could be the basis for standardising current disparate education authorities' approaches to value for money.<sup>20</sup>

5.34 This process led to the completion of detailed value for money reviews of 57 school projects, the majority of which were selected following a complaint being lodged by a school or member of the public. Following an analysis of quality, time and cost criteria, a pass/fail assessment was made for each project. The methodology of the assessment is reflected in Figure 1.

**Figure 1: Value for money assessment framework**

Quality	6/20	Time	4/20	Cost	10/20	
Site Inspection		Project delivered within mandated timeframe. (Utilises DEEWR Data)		Independent quantity surveyor assessment		
Fitness for purpose	3	<b>Committed:</b> time project took from funding allocation to being defined, and documented (scored out of 2)	2	<b>BER Program Factors</b>		
Meets required design and quality standards	1.5	>60 days score 1 <60 days score 2		+ cost premium for accelerated delivery timeframe. Determined by actual completion rate achieved by the education authority that undertook the project.	+ 0-5%	\$ xxx
Compliance with agreed scope	1.5	<b>Completed:</b> time project took from committed to Practical Completion (scored out of 2)	2	+ cost premium for local job creation and employment. A one per cent cost premium is added.	+ 1%	\$ xxx
		>60 days score 1 <60 days score 2		+ additional cost of BER reporting requirements. The 1.5 per cent given to education authorities for the program administration is considered sufficient to address this. If an education authority required more than the 1.5 per cent then these additional costs are added into the actual costs.	+ 0-1.3%	
				<b>Jurisdiction Specific Factors</b>		
				+ cost premium higher for design and quality standards. All education authorities are building to an equivalent level of design and quality standard to that of pre-BER without any significant difference between each other in relation to scope and quality. No adjustment made		\$ xxx
					10	\$ xxx

  

Cost Variance Scoring	
(actual costs vs independent costs)	
10 points	<0%
8 points	0-5%
6 points	6-10%
4 points	11-15%
2 points	16-20%
0 points	>20%

Source: BER Implementation Taskforce, First Report, p. 34.

5.35 The Taskforce defined quality as the delivery of school buildings which were fit for educational purpose, complied with relevant building design and construction standards and achieved the agreed project scope. Fitness for purpose was given the highest weighting. The Taskforce considered that a project that did not achieve a pass



on quality was an 'instant fail', as was a project that was of very limited educational value.<sup>21</sup>

5.36 The process to assess and score quality constituted a review of the most current drawings and specifications followed by an on-site inspection by construction professionals. The Taskforce considered concerns raised by stakeholders, compliance with building regulations and certification, as well as observable defects and the quality of construction delivered.

5.37 The quality, time and cost scorings were tabulated resulting in a final score out of 20. The Taskforce weighted cost as 50 per cent, time as 20 per cent and quality as 30 per cent. The overall score was then converted to a percentage with under 45 per cent being a value for money fail or red grade, 45 to 55 per cent being a marginal or amber grade, and above 55 per cent being a value for money pass and green grade.<sup>22</sup> The committee is critical of the rationale underlying this scoring process, which is discussed further later in this chapter.

5.38 Time was assessed according to whether the project had been delivered within the agreed project scoping and delivery timeframe. The Taskforce broke this into two sub-elements: the time from funding allocation to readiness to begin construction and the time taken from readiness to begin construction to the practical completion of the building. Where a project was still under construction, the Taskforce awarded full marks so as not to unfairly penalise projects which cannot yet be appraised.<sup>23</sup>

5.39 Costing methodology compared the actual final costs or the latest (as at November 2010) estimated final costs of a project against an independent quantity surveyor's cost estimate, given the actual project drawings, specifications and site conditions. These estimates make the following assumptions:

- normal consent and approval conditions and requirements are in place
- traditional design team arrangements with designers led by architect or project manager
- tendering conditions and construction market are normal (pricing is not overly high or low)
- project fully documented prior to tender (not design templates)
- project tendered to pre-qualified select tender list
- industry standard construction contract documentation (no unusual higher or lower level of risk on contractors)
- fixed price lump sum contracts

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21 BER Implementation Taskforce, *First Report*, December 2010, p. 31.

22 BER Implementation Taskforce, *First Report*, December 2010, p. 31.

23 BER Implementation Taskforce, *First Report*, December 2010, p. 32.

- no accelerated design or construction program
- no program specific requirements (e.g. additional employment of apprentices or Aboriginal and Torres Strait Islanders)
- no additional program reporting requirements; and
- no use of managing organisations (contracts are direct with the main building contractor).<sup>24</sup>

5.40 To these estimates the Taskforce added an adjustment factor (specific to each education authority) to reflect the cost premium of accelerated delivery of the program and other BER project specific requirements. The percentage range for accelerated delivery varied between 0–5 per cent as determined by the completion rate observed for each education authority. The Taskforce also applied a one per cent adjustment factor for the program apprenticeship and Indigenous job creation requirements.<sup>25</sup>

5.41 The First Report made conclusive findings about the poor value for money obtained by the NSW Government in rolling out the BER in that state. The Taskforce reported that:

The NSW Government has the highest cost per square meter of all 22 education authorities and on average builds the smallest facilities. This does not appear to be a result of having a higher proportion of smaller schools in comparison with other government education authorities or a higher percentage of non-metropolitan schools, which are generally more expensive to build. The Taskforce believes the high cost of NSW Government projects is a product of outsourcing program delivery and risk, together with the diseconomies of scale of a centralised process, for responsibilities. In particular, the NSW Government has used an overly expensive and sophisticated delivery approach to deliver relatively simple, small and medium size projects, whereas other jurisdictions have employed less expensive procurement and delivery arrangements.<sup>26</sup>

5.42 The NSW Government schools represented nearly 55 per cent of complaints received and the Victorian Government 19 per cent. This profile is consistent with the findings reported at the time of the Interim Report. Seventy six per cent of the NSW Government complaints related to value for money.<sup>27</sup>

5.43 The First Report found that:

The NSW Government engaged seven large construction companies under a managing contractor model. Value for money was not their primary focus and insufficient weight was given to the school communities' priorities in

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24 BER Implementation Taskforce, *First Report*, December 2010, p. 32.

25 BER Implementation Taskforce, *First Report*, December 2010, pp 32–33.

26 BER Implementation Taskforce, *First Report*, December 2010, p. 8.

27 BER Implementation Taskforce, *First Report*, December 2010, p. 8.

project selection. High program and project fees contributed to de-scoping of projects (removing solar panels, rainwater tanks, covered walkways, landscaping, or interactive whiteboards from the original plans to contain costs) creating frustration and tensions within school communities.<sup>28</sup>

5.44 The First Report also found that:

While the NSW Government has outperformed all its peers on the Program's primary objective of delivering stimulus, the view of the Taskforce is that it is not delivering consistent value for money for its schools. The quality of implemented projects is functional and robust but only loosely integrated into specific school environments. Costs are excessively high for the product delivered and this is especially so for smaller schools. The Taskforce has serious concerns as to the NSW Government's capacity to ensure full and rigorous control of costs as school projects are completed and contracts closed out.<sup>29</sup>

5.45 The Taskforce also considered the Victorian experience, and found the driver of complaints in the Victorian Government school system was somewhat different to that in NSW. The First Report found:

Victoria has a history of empowering its school principals and devolving decision making since the early 1990s. For the Program, the Victorian Government elected to adopt a highly centralised approach to implementation and engaged private sector program and project managers to manage regions. In the Taskforce's view, the latter have not adequately consulted with schools in some instances and have not paid enough attention to completion detail and the quality of the product in others. Thirty eight per cent of complaints in respect of Victorian Government schools however relate to value for money.<sup>30</sup>

5.46 The Taskforce investigated and evaluated outcomes in Western Australia (WA), South Australia (SA) and Tasmania and observed 'innovative and flexible' approaches to pursuing value for money. For example, the First Report noted that the WA Government exhibited flexibility with indicative funding amounts set by the Commonwealth to ensure each school received useful and relevant projects. It kept risk in house and had very low program fees. The WA Government implemented the program with 'commercial nous' and a sharp focus on value for money. In SA the government eschewed multi party tendering, and instead matched pre-qualified builders with schools and controlled costs through independent quantity surveying. In addition, it worked with industry to realise economies of scale in areas including professional indemnity insurance.<sup>31</sup>

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28 BER Implementation Taskforce, *First Report*, December 2010, pp 8–9.

29 BER Implementation Taskforce, *First Report*, December 2010, pp 10–11.

30 BER Implementation Taskforce, *First Report*, December 2010, p. 9.

31 BER Implementation Taskforce, *First Report*, December 2010, p. 10.

5.47 Having assessed the implementation and delivery models used by all 22 education authorities, the Taskforce's overall conclusion was that states and territories that were able to leverage or supplement their existing public works delivery capacity, in association with the relevant education authorities, achieved stronger results than those that did not. Many of the education authorities relied heavily on competitive tender processes to deliver value for money, which the Taskforce considered an 'inadequate' strategy.<sup>32</sup>

5.48 The Taskforce noted that with project completions at 43 per cent in December 2010, it was too early to form a definitive view as to whether individual education authorities have attained value for money. The Taskforce signalled its intention to publish more definitive findings in the May 2011 report.<sup>33</sup>

5.49 Nevertheless, the Taskforce formed the view based on the data available that value for money was being achieved by most state and territory government schools, with the exception of NSW.<sup>34</sup>

5.50 In the final section of this chapter the committee considers the effectiveness of the approach of the BER Taskforce in achieving its objectives, with particular reference to its success in assessing value for money.

### **Effectiveness of the BER Taskforce**

5.51 The committee spent significant time examining whether the Taskforce adequately addressed its objectives, and in particular the serious question about whether or not taxpayers were receiving value for money in the implementation of the P21 program.

5.52 In this section the committee will consider the Taskforce's overall assessment of value for money in state and territory schools, before turning to the Taskforce's detailed value for money case studies. Finally, the committee will discuss the Taskforce's approach to complaints and conclusions in relation to the economic stimulus effect of the P21 program.

#### ***Overall assessment of value for money in state and territory school systems***

5.53 As discussed earlier in this chapter, the Taskforce used the BER-CAM computer modelling tool to assess value for money of projects at over 400 schools nationally. The Taskforce's analysis was based on three criteria: cost, timeliness, and fitness for purpose. Each of these criteria was assessed against P21 projects across government, independent and Catholic systems.

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32 BER Implementation Taskforce, *First Report*, December 2010, p. 10.

33 BER Implementation Taskforce, *First Report*, December 2010, pp 10–11.

34 BER Implementation Taskforce, *First Report*, December 2010, pp 10–11.

5.54 The committee believes that the Taskforce has misinterpreted the data to conclude that value for money is being achieved in state and territory government schools, as the data does not support this conclusion. Indeed, when the cost and timeliness of state and territory projects are considered as a whole in comparison with the Catholic and independent systems, it is clear that value for money has not been achieved. The committee will first discuss Taskforce's assessment of cost.

### *Cost*

5.55 To assess costs the Taskforce used regionally adjusted figures (to account for the higher costs of building outside of metropolitan areas) to compare similar projects. The Taskforce decided to breakdown costs by state, separating government schools from independent and Catholic schools in each state or territory.<sup>35</sup> Using this approach the Taskforce observed in the First Report that independent schools had lower costs overall and that

In three of the six states (NSW, Queensland and Victoria), Catholic system schools have materially lower costs than government schools. In the other three states, however, the reverse is true.<sup>36</sup>

5.56 This statement invites the conclusion that on balance P21 projects in government schools cost about the same as comparable P21 projects in Catholic schools.

5.57 The committee took a different approach to interpreting the data. The committee found it useful to compare project costs in government schools Australia wide with those in the Catholic and independent systems overall. When the data is interrogated from this perspective, the average square metre cost of projects in Catholic and independent schools is markedly lower than state and territory schools.

5.58 This view was confirmed during committee hearings. In response to questioning by Senator Mason, Mr Orgill acknowledged that NSW, Queensland and Victoria comprised the majority of P21 projects. Mr Orgill acknowledged that if all the government projects Australia wide were compared with the cost of Catholic projects Australia wide, then the Catholic system was much cheaper overall.<sup>37</sup> The committee view is that when the evidence of cost is considered as a whole, it is apparent that value for money was not obtained in the government systems. The committee now considers the Taskforce's conclusion in relation to the impact timeliness has on the achievement of value for money in P21 projects.

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35 BER Implementation Taskforce, *First Report*, December 2010, pp 22–28.

36 BER Implementation Taskforce, *First Report*, December 2010, p. 10.

37 Mr Brad Orgill, Chair, BER Implementation Taskforce, Education, Employment and Workplace Relations References Committee, *Committee Hansard*, 4 February 2011, pp 6–7.

*Timeliness*

5.59 The Taskforce considered timeliness when accessing overall value for money, and observed that there was a trade off between cost and timeliness, with projects requiring short completion times on average costing more than those for which timelines were more flexible.<sup>38</sup> As discussed earlier in this chapter, the Taskforce estimated that the premium for quick completion would be around five per cent. This was considered a reasonable cost, as the P21 program was intended to achieve economic stimulus, and swift delivery was an important element of its success.

5.60 However, the committee notes that, based on the data in the Taskforce's First Report, there is no consistent pattern to suggest that higher costs achieved faster delivery. For example:

- Compared to independent and Catholic schools in Victoria, Victorian Government school projects are taking the longest to complete in that state, and are the most expensive.<sup>39</sup>
- Projects in Queensland independent schools, NT Catholic schools and NT independent schools have the lowest number of project days, and have the lowest cost per a square metre, compared to all school systems in Australia.<sup>40</sup>
- Projects in independent and Catholic schools across Australia were completed in time frames quicker than average, with lower cost on average than projects in state and territory government schools across Australia.<sup>41</sup>

5.61 For these reasons the committee disagrees with the Taskforce's interpretation of the data. The committee believes that timeliness does not account for the higher cost of P21 projects in state and territory government schools. In the committee's view the higher cost of projects in state and territory schools indicates a failure to achieve value for money, rather than timely delivery of projects. The committee now considers fitness for purpose.

*Fitness for purpose*

5.62 An analysis of the third criterion, fitness for purpose does not disclose to the committee any reason to alter its view. Mr Orgill confirmed during committee hearings that the Taskforce 'found no observable differences in quality between the

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38 BER Implementation Taskforce, *First Report*, December 2010, pp 30 and 62.

39 BER Implementation Taskforce, *First Report*, December 2010, pp 22, 30 and 62 (Schematics 5, 17 and 28).

40 BER Implementation Taskforce, *First Report*, December 2010, pp 22 and 30 (Schematics 5 and 17).

41 BER Implementation Taskforce, *First Report*, December 2010, pp 22 and 30 (Schematics 5 and 17).

Catholic system and the state system'.<sup>42</sup> The committee concludes that the state and territory schools that paid more than Catholic and independent schools did not receive any higher quality in return for the higher cost. The committee believes that this indicates that value for money was not achieved in government systems.

5.63 The NSW Government has been particularly singled out for its systemic failure to achieve value for money in P21 projects. In the next section the committee discusses the Taskforce's overall value for money assessment in NSW Government schools.

### *Assessment of value for money in NSW Government schools*

5.64 The committee will now consider the Taskforce's assessment of value for money in NSW Government schools. As discussed earlier in this chapter, the Taskforce reported that NSW Government schools are not 'delivering consistent value for money in its schools'.<sup>43</sup> NSW Government school projects cost on average 21 per cent higher than the Victorian Government schools and 28 per cent higher than the Queensland Government schools.<sup>44</sup> When costs in NSW are compared with the Catholic and independent systems, its costs are nearly double the cost of Victorian independent, Queensland independent, Tasmanian Government, Tasmanian Catholic and independent, and the Northern Territory Catholic and independent systems.<sup>45</sup>

5.65 The committee considered whether NSW was paying more for a better quality product. This is not the case. During committee hearings Mr Orgill advised that the Taskforce, 'found no observable differences in quality between the Catholic system and the state system'.<sup>46</sup>

5.66 The NSW Government did complete its projects more quickly. However, the increased costs incurred for projects in the NSW Government system are much higher than the five per cent premium for quick completion allowed for by the Taskforce. The so called 'trade off' between costs and timeliness does not account for the much higher costs of projects in the NSW Government system.

5.67 The committee considers that if state and territory governments had achieved the same outcomes as Catholic schools in NSW, Queensland and Victoria, then the Commonwealth could have saved a substantial amount of money. The committee will

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42 Mr Brad Orgill, Chair, Building the Education Revolution Implementation Taskforce, Education, Employment and Workplace Relations References Committee, *Proof Committee Hansard*, 4 February 2011, p. 7.

43 BER Implementation Taskforce, *First Report*, December 2010, p. 23.

44 BER Implementation Taskforce, *First Report*, December 2010, p. 23.

45 BER Implementation Taskforce, *First Report*, December 2010, p. 22 (Schematic 5).

46 Mr Brad Orgill, Chair, Building the Education Revolution Implementation Taskforce, Education, Employment and Workplace Relations References Committee, *Proof Committee Hansard*, 4 February 2011, p. 7.

discuss NSW's failure to achieve value for money more specifically when it critically examines the detailed value for money assessments undertaken by the Taskforce in the next section.

### *Detailed value for money assessments*

5.68 In addition to the general value for money assessments discussed in the previous section, the Taskforce conducted 57 detailed value for money assessments. The case studies arose from complaints made by schools mostly in NSW and Victoria. As discussed above, the Taskforce allocated a pass or fail to each P21 project that it considered in this assessment.<sup>47</sup>

5.69 The Taskforce used the methodology illustrated in Figure 1, above. The committee is sceptical about some of the conclusions the Taskforce reached using this methodology. In particular, the committee disagrees with the Taskforce's conclusions in some cases that value for money has been achieved. The committee will first consider the Taskforce's detailed assessment of value for money in NSW Government schools.

#### *NSW Government schools*

5.70 As discussed earlier the Taskforce reported that value for money was not achieved across projects in the NSW Government system. The following case studies are just a few examples of NSW Government's systemic failure to achieve value for money.

5.71 Scotts Head Public school received funding for a new library and administration building.<sup>48</sup> The total cost of the project was \$1.95 million, at \$4530 a square metre. The project was completed in a reasonable amount of time. The building was functional but was not what the school had agreed to, and did not meet design standards. Solar cells, a water tank and air conditioning were removed from the scope of the original project. The building was prefabricated offsite and did not create local jobs, therefore it did not meet the stimulus requirements. An independent assessment costed the project at \$858 552, or \$3252 a square metre, 39 per cent lower than the amount paid. The Commonwealth paid \$337 302 too much for this project. The Taskforce gave this project a score of 31 per cent and decided it had failed the value for money assessment, a conclusion with which the committee cannot help but agree.

5.72 Another similar example of failure to achieve value for money include Cattai Public School, for which the Commonwealth paid \$162 059 too much and for which the Taskforce gave a score of 38 per cent.<sup>49</sup>

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47 BER Implementation Taskforce, *First Report*, December 2010, p. 31.

48 BER Implementation Taskforce, *First Report*, December 2010, p. 42

49 BER Implementation Taskforce, *First Report*, December 2010, p. 120.



5.73 Another example is Curran Public School, a multipurpose hall, with attached covered learning area and landscaping for which the paid Commonwealth \$380 307 too much.<sup>50</sup>

5.74 However, just as troubling as the appalling lack of value achieved in these examples are the Taskforce's conclusions in respect of other projects. For example, Bradbury Public School received funding approval for a new canteen, hall and additional refurbishments. The total cost of the project was \$2.6 million and was completed seven months behind schedule. The average cost per a square metre was \$3,797. An independent assessment costed the project at \$2.3 million, at \$3289 per square metre, 15 per cent lower than the amount paid.<sup>51</sup> In the committee's view, this P21 project did not achieve value for money. The Commonwealth has paid \$300 000 too much for this project. However, the Taskforce gave the project a score of 63 per cent and decided the project had passed the value for money assessment. In the committee's view this conclusion is not possible, in light of the evidence.

5.75 Similarly, Mount Victoria Primary School, received funding approval for a new classroom.<sup>52</sup> The total cost of the project was \$892 473, at \$7140 a square metre. The project was completed within a reasonable amount of time and to a reasonable standard. An independent assessment costed the project at \$745 336, at \$5963 a square metre, 20 per cent less than the amount paid. The Commonwealth has paid \$147 137 too much for this project. The Taskforce allocated a score of 50 per cent and decided the project had passed marginally on the value for money assessment. The committee disagrees with the Taskforce's assessment. On the evidence it is clear that this project has not achieved value for money.

5.76 The examples listed above demonstrate the strong concerns the committee has about the NSW Government's failure to achieve value for money in P21 projects. The Bradbury Public School and Mount Victoria Public School case studies also demonstrate why the committee is sceptical of the Taskforce's methodology in assessing value for money. In these schools the Commonwealth paid hundreds of thousands more than it should have, yet the Taskforce decided that value for money had been achieved. The committee now turns to the Taskforce's detailed assessment of value for money in other government schools.

#### *Victorian Government schools*

5.77 Compared to independent and Catholic schools in Victoria, Victorian Government school projects are taking the longest to complete and are the most expensive.<sup>53</sup> Victorian Government schools cost on average \$2783 per square metre,

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50 BER Implementation Taskforce, *First Report*, December 2010, p. 123.

51 BER Implementation Taskforce, *First Report*, December 2010, p. 118.

52 BER Implementation Taskforce, *First Report*, December 2010, p. 139.

53 BER Implementation Taskforce, *First Report*, December 2010, pp 22, 30 and 62 (Schematics 5, 17 and 28).

higher than the national average of \$2331 per square metre.<sup>54</sup> The following case studies provide examples of where the Victorian Government has failed to achieve value for money.

5.78 The Taskforce found a number of instances where value for money had not been achieved. For example, the Commonwealth paid

- \$419 250 too much for a multipurpose hall at Berwick Primary School.<sup>55</sup>
- \$335 714 too much for a multipurpose hall at Narre Warren South P-12 College.<sup>56</sup>
- \$669 891 too much for a library at Strathmore North Primary School.<sup>57</sup>

5.79 The Victorian context also provides examples where the Taskforce has passed projects where there is a clear absence of value for money. For example, Osbourne Primary School received funding for a new library and administration building. The total cost of the project was \$3.4 million, at \$3444 a square metre. An independent assessment costed the project at \$3 million, or \$3076 a square metre, 12 per cent lower than the amount paid. The Commonwealth paid \$364 397 too much for this project. However, despite the excessive cost of the project, the Taskforce gave this project a score of 58 per cent and decided it had passed the value for money assessment.<sup>58</sup> The committee strongly disagree with the Taskforce's assessment.

5.80 Similarly, at Patterson Lakes Primary School the Commonwealth paid \$298 296 too much for a multipurpose hall. Instead of failing this project, the Taskforce decided that value for money had been achieved and gave it a pass mark of 66 per cent.<sup>59</sup> Again in Hallam Valley Primary School (Fleetwood), where the Commonwealth spent \$172 397 too much on multipurpose hall, the Taskforce declared that value for money had been achieved, and allocated a pass mark of 71 per cent.<sup>60</sup>

5.81 The committee is concerned that about the failure of the Victorian Government to achieve consistent value for money in P21 projects. The committee is also troubled by the Taskforce's decision to pass projects where it is clear that the Commonwealth has spent hundreds of thousands more than it should have. The committee considers the Taskforce's detailed value for money assessments in Queensland.

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54 BER Implementation Taskforce, *First Report*, December 2010, p. 22 (Schematic 5).

55 BER Implementation Taskforce, *First Report*, December 2010, p. 153.

56 BER Implementation Taskforce, *First Report*, December 2010, p. 160

57 BER Implementation Taskforce, *First Report*, December 2010, p. 164.

58 BER Implementation Taskforce, *First Report*, December 2010, p. 161

59 BER Implementation Taskforce, *First Report*, December 2010, p. 162.

60 BER Implementation Taskforce, *First Report*, December 2010, p. 156

### *Queensland Government schools*

5.82 The Taskforce reported that the majority of complaints were received from Victoria and NSW. However, some serious concerns about value for money were also raised in Queensland. This is not surprising as Queensland Government projects cost on average \$2627 per square metre, which is above the average national cost of \$2331 per square metre.<sup>61</sup>

5.83 Ithaca Creek State School received funding for a resource centre.<sup>62</sup> The total cost of the project is just over \$1.6 million, or \$1.970 per a square metre. The project is not yet completed, so a fitness for purposes assessment has not been made. An independent assessment costed the project at \$1.4 million, or \$1739 per a square metre, 12 per cent less than the amount paid. The Commonwealth has committed to pay \$191 471 too much for this project. The Taskforce gave this project a score of 57 per cent and decided the project had passed the value for money assessment. The committee disagrees with the Taskforce. In the committee's view the evidence is clear that value for money has not been achieved.

5.84 The committee is concerned that the Taskforce's methodology has led it to conclude that value for money has been achieved where the evidence clearly indicates that this is not the case.

### *Committee view*

5.85 The committee has serious reservations about the approach the Taskforce has taken in assessing value for money, and disagrees with some of the conclusions the Taskforce has reached. Based on the committee's assessment of the evidence reported by the Taskforce, the committee concludes that P21 projects in the Catholic and independent systems achieved significantly better value for money than comparable P21 projects in the state systems. Despite the Taskforce's value for money assessment framework of cost, timeliness and fitness for purpose, the committee is unable to assure itself that value for money has been achieved for P21 projects in the government system.

5.86 The Taskforce and the government have argued that the small number of official complaints is indicative that value for money has been achieved in the bulk of P21 projects. The committee considers the problems with this statement in the next section.

### ***Complaints***

5.87 As discussed earlier in this chapter, the Taskforce observed that complaints have arisen from only three percent of P21 projects.<sup>63</sup> Complaints initially focused on

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61 BER Implementation Taskforce, *First Report*, December 2010, p. 22 (Schematic 5).

62 BER Implementation Taskforce, *First Report*, December 2010, p. 145.

63 BER Implementation Taskforce, *First Report*, December 2010, p. 8.

issues relating to value for money, delays in construction and the limited involvement of school communities in decision making. By December 2010 complaints centred on completions, the quality of the product delivered and the handover process.<sup>64</sup> The Taskforce reported complaints from 294 schools, of the 136 open complaints, 107 were categorised as relating to value for money.<sup>65</sup>

5.88 The low number of official complaints has been referred to by the Australian Government as an indication of BER success.<sup>66</sup> The committee view is that low complaint rates are not evidence that P21 projects have been successful or that value for money has been achieved.

5.89 Surveys of school principals indicate a much higher level of dissatisfaction with P21 projects than might be suggested by the figure contained in the Taskforce's First report. For example, the Australian Primary Principal's Association (APPA) survey of 2411 members found a 43 per cent dissatisfaction rate amongst principals of state and territory schools, Australia wide.<sup>67</sup> The APPA noted that the dissatisfaction rate was particularly high amongst NSW and Victorian principals. *The Australian* newspaper has reported that a survey conducted by the Public School Principals Forum of 300 members found that only 57 per cent of public school principals were satisfied with the P21 program.<sup>68</sup>

5.90 The danger in relying on official complaint numbers when assessing the quality of a program was also recognised by the Environment, Communications and the Arts References Committee findings in its report on home insulation.<sup>69</sup> For example, the Department of Environment, Water, Heritage and the Arts (DEWHA) advised that only 0.65 per cent of participants had officially complained about their experience. However, that committee found that the evidence suggested 'a level of

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64 BER Implementation Taskforce, *First Report*, December 2010, pp 76–97.

65 BER Implementation Taskforce, *First Report*, December 2010, p. 13.

66 Government members' minority report, in Senate Education, Employment and Workplace Relations References Committee, *Primary Schools for the Twenty First Century Program – Interim Report*, June 2010, p. 78; Senator the Hon. Chris Evans, Minister for Tertiary Education, Skills, Jobs and Workplace Relations, 'Government welcomes BER Implementation Taskforce Report', Media Release, 15 December 2010.

67 Australian Primary Principals Association, *Building the Education Revolution Survey Report*, 30 April 2010, p. 3, <http://www.appa.asn.au/images/press/bersurveyexec20100501.pdf> (accessed 4 March 2011).

68 Anthony Klan, 'Busting the many BER myths', *The Australian*, 17 February 2011, <http://www.theaustralian.com.au/news/features/busting-the-many-ber-myths/story-e6frg6z6-1226007190063> (accessed 3 March 2011). See also Anthony Klan, 'Survey reveals principals' BER concerns', *The Australian*, 7 March 2011, <http://www.theaustralian.com.au/in-depth/schools-watch/survey-reveals-principals-ber-concerns/story-fn56ulhe-1226016764919> (accessed 7 March 2011).

69 Senate Environment, Communications and the Arts References Committee, *Energy Efficient Homes Package (ceiling insulation)*, July 2010, p. 58.

dissatisfaction orders of magnitude higher than suggested by DEWHA's 0.65 per cent level of complaint'.<sup>70</sup>

5.91 The committee view is that the number of official complaints received is not a good indicator of the success of P21 program, nor does it provide assurance to Australian taxpayers that value for money has been achieved.

5.92 An argument made by the government in response to concerns about value for money is that the P21 program was intended to provide a stimulus benefit to the Australian economy. The committee considers the merits of this argument in the next section.

### *Stimulus benefit*

5.93 The Australian Government advised in 2009 that the primary aim of the BER is to 'provide economic stimulus to national and local economies through the rapid construction and refurbishment of school infrastructure'.<sup>71</sup> The government claimed that the P21 program, as part of BER, was implemented to respond to the Global Financial Crisis. The committee observed in its Interim Report that the government had not established appropriate mechanisms to enable an assessment of the effect the P21 program had in relation to the economy, especially in relation to job creation.<sup>72</sup>

5.94 The Taskforce stated in its First Report that appropriate stimulus spending must be timely, targeted and temporary.<sup>73</sup> The Taskforce considered whether the P21 program had achieved the stimulus objectives, and was unable to directly link the P21 program to jobs and economic outcomes.<sup>74</sup> Instead the Taskforce provided a general commentary on the Australian economy from June 2007 to the present, and concluded that Australia had been insulated from the global financial crisis, and the \$16 billion BER program had made a material contribution to this outcome in its first year.<sup>75</sup>

5.95 The committee is unable to determine the accuracy of this estimate, due to the nature of the data available to it, and the many other factors that may have contributed to an improvement in the economy. For example, the Taskforce itself recognised that strong commodity prices and continued growth in Asia have contributed to the mild impact that the global financial crisis had on the Australian

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70 Senate Environment, Communications and the Arts References Committee, *Energy Efficient Homes Package (ceiling insulation)*, July 2010, p. 58.

71 Department of Education, Employment and Workplace Relations, *Submission 22*, p. 3.

72 Senate Education, Employment and Workplace Relations References Committee, *Primary Schools for the Twenty First Century Program – Interim Report*, June 2010, pp 8–13.

73 BER Implementation Taskforce, *First Report*, December 2010, p. 58.

74 BER Implementation Taskforce, *First Report*, December 2010, pp 58–71.

75 BER Implementation Taskforce, *First Report*, December 2010, p. 59.

economy.<sup>76</sup> The committee believes that it is simplistic to credit the P21 program with responsibility for the current state of Australia's economy.

5.96 The committee noted in its Interim Report that it was concerned that the untimely spending of the stimulus money was leading to an overstimulation of the economy, well after the worst of the global financial crisis had passed.<sup>77</sup> DEEWR confirmed on 3 June 2010 that many P21 projects were behind schedule, and the committee remains concerned about effect delayed expenditure on P21 projects may have on the economy. Factors which give rise to this concern include the Reserve Bank of Australia having raised interest rates seven times since October 2009, indicating that the economy is growing strongly.<sup>78</sup>

5.97 DEEWR advised during Estimates Hearings on 24 February 2011 that 23 projects approved for P21 funding have not yet commenced.<sup>79</sup> Alarming, on 31 December 2010, only 58 per cent of P21 projects had been completed.<sup>80</sup> Following questioning from Senator Mason, Minister Evans acknowledged that 'the delay that has occurred in some of these projects means that the stimulus argument is no longer a strong one'.<sup>81</sup>

5.98 Three years after the global financial crisis, not all P21 projects have been completed, and some have not even commenced. It is hard to see how P21 meets the Taskforce's definition of appropriate stimulus spending. The committee view is that even if the P21 program had a stimulus effect the ongoing expenditure may now prove detrimental to the Australian economy.

## Conclusion

5.99 In this chapter the committee has examined how the Taskforce has approached the serious questions about taxpayers receiving value for money in the implementation of the P21 program.

5.100 The committee has considered the Taskforce's workplan, its Interim and First Reports, and its overall effectiveness. The committee has identified some serious shortfalls in the Taskforce's approach to assessing value for money. Most

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76 BER Implementation Taskforce, *First Report*, December 2010, p. 59.

77 Senate Education, Employment and Workplace Relations References Committee, *Primary Schools for the Twenty First Century Program – Interim Report*, June 2010, pp 12–13.

78 Reserve Bank of Australia, *Cash Rate Target: Interest Rate Decisions*, <http://www.rba.gov.au/statistics/cash-rate.html> (accessed 4 March 2011).

79 Mr Michael Manthorpe, Deputy Secretary, DEEWR, *Proof Estimates Hansard*, 24 February 2011, pp 88–89.

80 Mr Michael Manthorpe, Deputy Secretary, DEEWR, *Proof Estimates Hansard*, 24 February 2011, p. 94.

81 Senator the Hon. Chris Evans, Minister for Tertiary Education, Skills, Jobs and Workplace Relations, DEEWR, *Proof Estimates Hansard*, 24 February 2011, p. 87.

significantly, the committee disagrees with the Taskforce's conclusion that, generally, value for money is being achieved in state and territory government schools. The Taskforce has reached this conclusion through its particular approach to interpreting the data. The committee disagrees with this approach. The committee believes that when the state and territory projects are considered as a whole in comparison with the Catholic and independent systems, the evidence is that value for money has not been achieved in the government systems.

5.101 The committee also notes with concern that the Taskforce's detailed value for money assessments led it to conclude on a number of occasions that value for money had been achieved in circumstances where the Commonwealth has paid excessive sums. In some circumstances these amounts run into hundreds of thousands of dollars.

5.102 The committee has considered the Taskforce's commentary on complaints. The committee notes that other evidence indicates a much higher level of dissatisfaction with P21 projects amongst primary school principals than the Taskforce acknowledges.

5.103 The committee is unable to form an opinion about the government's much-touted stimulus effect of the P21 spending. While the Taskforce has been trying to portray the increase in school construction as partly compensating for the fall in residential construction, the government has not been able to quantify in any meaningful way the effect of P21 spending on the economy, either in terms of total numbers of jobs created or saved, or the impact on the rate of economic growth. As such, the effectiveness of the \$14.8 billion spent thus far on the BER program cannot be properly assessed and compared to any alternatives.<sup>82</sup>

5.104 For the reasons outlined in this chapter, the committee's view is that the Taskforce, and the Australian Government, have failed to provide proper accountability or assurance to Australian taxpayers that \$16.2 billion funding for the BER program was properly and effectively spent.

## **Senator Chris Back**

### **Chair**

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82 As at December 2010, \$14.8 billion spent. Mr Michael Manthorpe, Deputy Secretary, DEEWR, *Estimates Hansard*, 24 February 2011, p. 94.