

CHAPTER 6: PROCUREMENT

Key findings of the Committee:

- 6.1** The Committee acknowledges the extensive range of policies and guidance material relating to procurement that has been issued by the Victorian Government Purchasing Board and Department of Treasury and Finance respectively.
- 6.2** To enhance public reporting, the Department of Treasury and Finance should consider providing guidance to departments and public bodies about the way in which procurement outcomes derived from the largest contracts for strategic items (i.e. those that are essential to the achievement of an agency's key outputs) should be divulged in annual reports.
- 6.3** The Victorian Auditor-General regards achieving value for money as the principal objective of public sector procurement. According to the Auditor-General, value for money represents the optimum combination of quality, quantity, risk, timeliness and cost, and should be determined on a whole-of-contract and whole-of-asset life basis.
- 6.4** When measuring and evaluating procurement performance in terms of whether value for money has been derived in procurement, it is essential that a balanced judgement takes place between financial and non-financial factors (such as quality, risk and timeliness), rather than only the initial purchase price.
- 6.5** While in the vast majority of cases, agencies indicated that value for money had been obtained from their respective procurement contracts, instances arose where agencies informed the Committee that value for money outcomes can only be determined at the end of the delivery timeframe or after implementation.
- 6.6** The Committee noticed from the information supplied by agencies that in measuring and evaluating value for money, the concept of referring to appropriate national benchmarks for like contracts was not raised. The Committee sees merit in central agencies exploring the possibility of researching such material for developing business cases and criteria for measuring and evaluating whether value for money has been provided from large and complex procurement.
- 6.7** The Committee supports the concept advocated by the Victorian Auditor-General that for large and complex procurement, the procurer should consider publishing a value-for-money statement that sets out the aspects of the procurement approach that will drive the achievement of value for money.
- 6.8** In the vast majority of cases reported to the Committee, agencies acquired items at or within the budgeted amount for 2008-09. Where budgets were exceeded, the acceleration of works was a factor that contributed to this outcome.
- 6.9** The Committee noted that 21 procurement contracts (13 IT contracts) were not delivered on time. Although there was no single stand out factor contributing to the delays, some of the reasons offered for timelines being exceeded centred on delays associated with overseas providers/suppliers and vendor software issues.

- 6.10** The Committee looked for, but did not find, evidence to indicate that planned timelines for delivery of major procurement contracts were included in key planning documents of agencies such as corporate or annual/business plans.
- 6.11** Most agencies indicated that the quality of service provided from procurement activities had been at the standard required by the contract or in line with expectations/schedules. Some of the factors identified that adversely impacted on quality of service delivery related to resourcing issues connected with the supplier.
- 6.12** All agencies had processes in place for identifying and managing risks associated with procurement. Common avenues included the development of risk registers, risk management plans, the use of the PRINCE2 project management methodology, working parties, project teams reporting to particular committees and meetings with service providers.
- 6.13** When describing to the Committee the accountability frameworks that were in place, many agencies indicated that accountability mechanisms were described in procurement contracts.
- 6.14** The Committee noted that to facilitate openness and probity in Victorian Government contracts, a Central Registry of Major Government Contracts has been established. In doing so, the Government has advised that it has been necessary to withhold certain parts of the long-standing contracts listed on the register from disclosure due to the existence of confidentiality clauses or, in other very limited cases, on the basis that disclosure would be contrary to the public interest.

6.1. Introduction

When examining issues relevant to public administration, financial and performance outcomes connected with the State's procurement function continue to come under the Committee's notice, especially given the major economic stimulus packages implemented at the Commonwealth level and the sizeable budget-related infrastructure initiatives at the Victorian state level.

The Committee recognises that the procurement of goods, services, IT and construction is a key strategic management function, both centrally, where whole-of-government contracts are entered into, as well as at an individual agency level.

In terms of the relevance of sound procurement practices to the community at large, securing value for money in procurement is crucial to the wider objective of delivering high quality, cost-effective public services. In introducing this topic for scrutiny, the Committee concurs with the concept that purchasers need to develop clear strategies for continual improvement in the acquisition of goods and services.¹¹⁸ The Committee's findings are therefore aimed at facilitating the satisfaction of this objective.

118 The Government of Scotland, <www.scotland.gov.uk/Topics/Government/Finance/spfm/procure>, accessed 6 January 2010

6.2. Background

In extensively covering procurement practices and outcomes in the Committee's previous *Report on the 2007-08 Financial and Performance Outcomes*, the Committee called for the disclosure of milestones used and service delivery achieved as part of reporting on procurement contracts in annual reports. The Government, in its response, indicated that the Victorian Government Purchasing Board policy requires that departments disclose details of procurement contracts, including milestones, deliverables and performance obligations on the Whole of Victorian Government contract publishing system (for contracts between \$100,000 and \$10 million in value, departments are to disclose a summary of details and for those over \$10 million they are to provide full details). In relation to the disclosure of this material in annual reports, the Government advised in November 2009 that this matter was being considered in the context of the Public Finance and Accountability Bill program of works.¹¹⁹

The Committee noted that a key feature of the Public Finance and Accountability Bill included '*more effective procurement governance that focuses on the probity of high risk procurement activities of all public entities*'.¹²⁰ Importantly, the Bill requires departments and public bodies to comply with the procurement principles outlined in the Bill which centred on:¹²¹

- value for money procurement outcomes based on balanced judgement of financial and non-financial factors;
- accountability commensurate with appropriate levels of authority and responsibility;
- probity through the application of integrity and ethical behaviour; and
- scalability so that policies, processes and capability are appropriate for the complexity and significance of the procurement undertaken.

In terms of achieving consistency in public reporting, the Committee believes the Department of Treasury and Finance should consider providing guidance to departments and public bodies about the way in which procurement outcomes derived from the largest contracts for strategic items (i.e. those that are essential to the achievement of an agency's key outputs) should be divulged in annual reports.

Further comments on these matters are contained throughout this chapter of the report.

Recommendation 13: **With regard to the implementation of large scale procurement contracts for the purchase of strategic goods and services, the Department of Treasury and Finance should consider providing guidance to agencies on how to disclose in their annual reports in a consistent manner the impact that procurement outcomes in terms of service delivery have had on the achievement of planned strategic objectives.**

119 Victorian Government, Responses to the Recommendations of Public Accounts and Estimates Committee's 87th *Report on the 2007-08 Financial and Performance Outcomes*, 9 November 2009, p.9

120 *Victorian Parliamentary Debates*, Legislative Assembly, 10 December 2009, p.4628

121 Victorian Government, Public Finance and Accountability Bill 2009, cl. 9

The Committee also wishes to note the Commonwealth's economic stimulus plan released in February 2009. This capital spend places an obligation on states and territories to effectively manage procurement activities across the public sector in order to maximise financial and performance outcomes for the Victorian public, especially in terms of the State's large-scale infrastructure contracts. The Committee's analysis contained in this chapter is therefore complemented with comments made in Chapter 3 (Public Sector Infrastructure and Asset Investment) and Chapter 7 (Fiscal Stimulus Packages and Grants) of this report.

The Committee reviewed the two largest (non-IT) contracts and two largest IT contracts in terms of expenditure incurred in 2008-09 across each of 43 public sector agencies. The inquiry involved asking agencies questions that centred on:

- value for money;
- costs compared to budget;
- times involved in implementation compared to established timelines;
- the extent to which quality service has been provided compared to the agreed standard;
- risk identification and management; and
- the accountability framework.

In undertaking this review, the Committee acknowledges the extensive range of policies and guidance material relating to procurement that has been issued by the Victorian Government Purchasing Board and Department of Treasury and Finance respectively. This material includes an Investment Management Standard, a suite of tools and techniques for the through-life management of asset investments, which is aimed at allowing investment decision makers within Government to '*clearly define the need for an investment, shape the solution and track the delivery of benefits throughout the investment lifecycle*'. According to the Department, the adoption of these practices has been shown to drive investments that are more effective at implementing policy and reducing the risk of investment failure.¹²²

As part of the Investment Management Standard, the Department has developed a tool called an Investment Logic Map to assist in testing the rationale for proceeding with investment proposals (particularly information and communications technology investments) while they are still at an early stage of development. The Government's approach to investment management relating to the creation of an Investment Logic Map has two components, namely:

- defining the drivers, objectives and benefits of the investment and the changes and enablers required for the gains to be achieved; and
- confirming with investors, architects and implementers that the proposal can be achieved and considering the relationship to other business strategies, initiatives and assets for leveraging against existing organisational resources and capabilities.

The Committee also noted that the Department has developed detailed business case guidelines for State Purchase Contracts, which aim to achieve improved value for money on a whole-of-life and long-term sustainable basis.¹²³

122 Department of Treasury and Finance, *Gateway Reviews and Best Practice Guidelines*, <www.dtf.vic.gov.au/gateway>, accessed 8 January 2010

123 Department of Treasury and Finance, *Good Practice Guidelines, Strategic Procurement – General*, June 2009, p.10

6.3. Securing value for money in procurement

6.3.1 Criteria for obtaining value for money in procurement

A wide variety of authoritative literature exists, both locally and overseas, with regard to defining value for money components in procurement.

The Victorian Government Purchasing Board (VGPB) states that in broad terms, value for money denotes a balanced benefit measure covering quality levels, performance standards, risk exposure, other policy or special interest measures (e.g. environment impacts), as well as price. Achieving improved value for money is one of four objectives that have been set by the Victorian Government for the procurement of goods and services. To verify whether value for money has been obtained from the goods and services, the VGPB poses the following questions:¹²⁴

- Did they meet their specification?
- Were they supplied on time?
- Were they supplied at the agreed cost?
- Have planned benefits been achieved by the State?

The Victorian Auditor-General regards achieving value for money as the principal objective of public sector procurement. Value for money represents the optimum combination of quality, quantity, risk, timeliness and cost, and should be determined on a whole-of-contract and whole-of-asset life basis.¹²⁵

According to the UK National Audit Office:¹²⁶

All public procurement of goods and services, including works, must be based on value for money, having due regard to propriety and regularity. Value for money is not about achieving the lowest initial price: it is defined as the optimum combination of whole of life costs and quality...In the case of goods and services which have a working life that extends over many years, there is a need to ensure they are cost effective over their working life. This means taking a long-term view and not focusing on the lowest purchase price at the expense of long-term value for money. Long-term procurement commitments also should be able to deal with change, for example, a department may wish to take advantage of changes in technology.

This Committee therefore recommends that agencies be mindful of this consideration when entering into IT procurement contracts.

124 *ibid.*, p.2, 22

125 Victorian Auditor-General's Office, *Public Sector Procurement, Turning Principles into Practice*, October 2007, p.3

126 United Kingdom, National Audit Office, *Getting value for money from procurement*, 2001, pp.3, 5

6.3.2 Overall findings

The Committee was interested in understanding the reasons why agencies considered value for money (the key principle to be achieved in the procurement function) had been obtained in the largest procurement contracts entered into by government agencies.

While in the vast majority of cases, agencies indicated that value for money had been obtained from their respective procurement contracts, instances arose where agencies informed the Committee that value for money outcomes can only be determined at the end of the delivery timeframe or after implementation. In other situations, the lack of well developed markets restricted the ability of agencies to reach definitive conclusions on whether value for money had been provided in the procurement.

The Committee noted that there was a wide array of techniques used by agencies to assess whether value for money had been obtained from procurement contracts. Techniques employed included:

- the undergoing of a competitive tender which includes value for money criteria;
- the tender being significantly lower than the next lowest tender;
- the appointment of the lowest price contractor;
- ensuring that the budget not being exceeded;
- services are delivered in accordance with required timeframes;
- obtaining feedback from customer surveys (key stakeholder or sponsorship satisfaction);
- monitoring against like providers; and
- the conduct of independent evaluations.

Some approaches offered innovative approaches for securing value for money. As an example, under the contract for the purchase of the Ultranet, the Department of Education and Early Childhood Development can purchase discrete deliverables, contracted as individual work orders, and only award subsequent work dependent on the contractor demonstrating their capacity to deliver.¹²⁷ In relation to the Medical Records Scanning project at Alfred (Bayside) Health, the final phase of the tender evaluation process involved site visits at a number of Victorian and United States hospitals to assess the final two products in a fully functional environment.¹²⁸

The Committee noticed from the information supplied by agencies that in measuring and evaluating value for money, the concept of referring to appropriate national benchmarks for like contracts was not mentioned by any agency. The Committee sees merit in the Department of Treasury and Finance exploring the possibility of researching such material for developing business cases and criteria for measuring and evaluating whether value for money has been provided from large and complex procurement. The results of such research should be used to help departments and agencies further improve their procurement processes.

127 Department of Education and Early Childhood Development, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 1 December 2009, p.20

128 Alfred (Bayside) Health, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 18 January 2010, p.18

Where judgements about whether value was achieved were based solely on price, this situation showed a lack of understanding by some agencies of wider value for money considerations in procurement. In addition, the mere inclusion in the tender of value for money criteria for the selection of the contractor, while commendable, does not guarantee that value for money has been appropriately assessed and obtained from the procurement contract.

Optimising value for money

The Committee was interested to find that in a few cases, value for money was optimised by agencies getting an increased level of quality of service above contracted specifications from the contractor at the same cost. For example:

- Victoria Police advised that in relation to the Melbourne Custody Centre, there have been a number of initiatives provided by the contractor that extended beyond the contracted key performance indicators outlined in the contract;¹²⁹ and
- the Department of Justice advised that in relation to the Fujitsu IT contract, the contractor reports on value-add initiatives over and above the contract.¹³⁰

The Committee encourages agencies to be vigilant at all times to seeking opportunities to obtain better value for money from procurement contracts in terms of negotiating an increased level or quality of service at no additional cost from contractors.

The Committee sighted some examples where agencies provided information indicating that value for money had been obtained in implementing particular procurement contracts. Examples are provided in Table 6.1.

129 Department of Justice, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 3 December 2009, p.48

130 *ibid.*, p.53

Table 6.1: Examples where organisations provided reasons for concluding that value for money had been obtained in implementing particular procurement contracts more than \$1 million

Organisation	Procurement Contract	Expenditure in 2008-09	Reasons as to whether value for money has been obtained
Department of Education and Early Childhood Development	Print Management Services (whole-of-government contract)	\$3,536,057	The Victorian Government will receive value for money through improved reporting, transparency, streamlined processes and reduced inefficiencies in spending on print. Other benefits include the standardisation of some print work, provision of expert advice, reduction in volumes and waste and lessening our footprint on the environment. ^(a)
Melbourne Water	Sugarloaf Pipeline Project	\$351,200,000	<p>The Sugarloaf Pipeline is being delivered by an Alliance to overcome the challenges of a short timeframe, concurrent approvals, design & construction, and limited resources. A rigorous tender assessment process, reviewing commercial, technical and other competencies was used to select the Alliance partners.</p> <p>Based on this assessment, underpinned by the Project Alliance Agreement with definitive performance requirements, it is considered that 'value for money' is being achieved.</p> <p>Performance against the requirements is currently to a high level with the project likely to be completed under budget and on schedule, whilst achieving targets in safety, environment, stakeholders, quality and legacy.^(b)</p>
Department of Treasury and Finance	Hays Personnel	\$3,142,069	<p>Value for money has been obtained from the contract due to:^(c)</p> <ul style="list-style-type: none"> • savings achieved; • the supplier's ability to meet Government requirements; • contractor retention; • fixed, consistent and transparent rates; and • the supply of consistent quality of candidates.

Sources:

- (a) *Department of Education and Early Childhood Development, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 1 December 2009, p.16*
- (b) *Melbourne Water, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 1 December 2009, p.18*
- (c) *Department of Treasury and Finance, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 10 December 2009, p.38*

6.3.3 Price as a criteria for value for money

The Committee received some responses indicating that price was a significant factor or even the sole factor in procurement decision-making. While this might be the case in minor procurement matters or for commonly available equipment (e.g. computers), the Committee maintains that when measuring and evaluating procurement performance in terms of whether value for money has been derived in large-scale procurement projects, it is essential that a balanced judgement takes place between financial and non-financial factors (such as quality, risk and timeliness). The Committee supports the concept advocated by the Victorian Auditor-General that for large and complex procurement, the procurer should consider publishing a value-for-money statement that sets out the aspects of the procurement approach that will drive the achievement of value for money.¹³¹

Recommendation 14: The Department of Treasury and Finance reinforce with agencies for evaluation and reporting purposes, the need to adopt a balanced approach that takes into account an optimum combination of quality, quantity, risk, timeliness and cost when measuring and evaluating whether value for money has been obtained from procurement.

Recommendation 15: For large and complex procurement, the Department of Treasury and Finance encourage agencies to consider publishing a value-for-money statement that sets out the aspects of the procurement approach aimed at driving the achievement of value-for-money.

6.4. Cost versus budget for large procurement contracts

Table 6.2 shows the respective budgets and expenditure for 2008-09 according to each contract included in the Committee's review where expenditure incurred in 2008-09 exceeded \$10 million. The table shows that in the vast majority of the largest contract payments for 2008-09, agencies have been able to procure items at or within the budgeted amount for that year. Where budgets were exceeded, it was claimed by the Roads Corporation that the acceleration of works was a factor that contributed to this outcome.¹³² The Victorian WorkCover Authority advised the Committee that in relation to payments for the provision of legal services, professional fees were higher than budgeted due to increased litigation activity, which were outside the control of the Legal Panel.¹³³

131 Victorian Auditor-General's Office, *Public Sector Procurement, Turning Principles into Practice*, October 2007, p.7

132 Department of Transport, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 9 December 2009, p.35

133 Victorian WorkCover Authority, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 2 February 2010, p.16

Table 6.2: Procurement contracts examined by the Committee where expenditure incurred in 2008-09 exceeded \$10 million

Agency	Contract description	Budget 2008-09	Expenditure 2008-09
Department of Education and Early Childhood Development	Ultratnet	\$28,428,000	\$13,357,814
Department of Human Services	Gardasil Vaccine	\$156,921,955 current approved contract	\$43,483,757
	National Immunisation Program Vaccines	\$149,662,663 current approved contract	\$28,450,500
	HealthSMART	(e)	(e)
Eastern Health	Medical Imaging Services	\$11,160,000	\$11,160,000
	Support services (catering, cleaning, grounds)	\$18,600,000	\$18,600,000
Southern Health	Doveton 100 bed facility	\$25,000,000	\$25,000,000
Department of Innovation, Industry and Regional Development			
Victorian Skills Commission	Delivery of vocational education and training by the Victoria University TAFE Division	\$73,750,000	(b)
	Delivery of vocational education and training by the Holmesglen Institute of TAFE	\$73,470,000	(b)
Department of Justice	Infringement Management and Enforcement Services Agreement	\$37,800,000	\$38,050,000
	Port Phillip Prison Agreement	\$51,300,000	\$51,200,000
Victoria Police	CBA Hardware and Service Leasing Agreement (CBA)	\$13,490,000	\$13,280,000
Department of Premier and Cabinet	Grocon – Clean-up of bushfire sites	N/A	\$63,900,000
Department of Sustainability and Environment	Technical, Engineering, Planning & Environment Advisory Services for the Wonthaggi Desalination Project	\$75,500,000	(c)
	Agreement with VicForests to meet the Secretary's obligations under the <i>Forest (Wood Pulp) Agreement Act 1996</i>	\$22,500,000	\$18,500,000
Goulburn–Murray Rural Water Corporation	Rubicon – Future Flow Project	(d)	\$17,600,000
Melbourne Water Corporation	Northern Sewer Project	\$89,000,000	\$72,000,000

Agency	Contract description	Budget 2008-09	Expenditure 2008-09
Department of Transport	Sugarloaf Pipeline Project	\$366,200,000	\$351,200,000
	Connex	\$398,000,000	\$412,000,000
	Yarra	\$133,000,000	\$127,000,000
	Metropolitan Train Control Replacement Project (METROL)	\$17,400,000	\$15,500,000
	Metropolitan Train Communication System	\$48,300,000 ^(e)	\$23,600,000
Roads Corporation	West Gate Freeway Alliance Project	\$140,000,000	\$229,000,000 ^(f)
	Deer Park Bypass Project	\$87,300,000	\$114,900,000 ^(g)
	Freeway Management System	\$50,000,000	\$20,500,000
V-Line Passenger Corporation	Downer EDI – Maintenance Contract on V/Line Rolling Stock (excluding V/Locity)	\$41,200,000	\$41,700,000
	BP – Diesel Fuel for V/Line Rolling Stock Fleet	\$35,100,000	\$34,300,000
Department of Treasury and Finance			
Transport Accident Commission	FKP Lifestyles Pty Ltd	\$10,500,000	\$9,900,000
	Mitchell & Partners Australia Pty Ltd (marketing expenditure)	\$17,600,000	\$16,100,000
City West Water Limited	Programmed Facility Management (PFM) – maintenance contractor	\$19,720,000	\$19,421,000
South East Water Limited	Boneo Sewage Treatment Plant Upgrade	\$21,300,000	\$20,900,000
Victorian WorkCover Authority	Authorised Agents	\$196,000,000	\$194,000,000
	Legal Panels	\$35,800,000	\$42,200,000
	Claims System of Work/ Novus	\$16,650,000	\$16,650,000
	Information Management	\$6,480,000	\$6,230,000

Notes:

- (a) Program implementation funding has been provided from a number of sources to make up a total financial commitment of \$360 million. Department of Health and health services are both contributing to the establishment costs and to the operating costs, additional to the funding allocated by the Government in 2003.
- (b) Training providers are paid for training delivery within targets set for purchased places.
- (c) In accordance with final budget.
- (d) Goulburn-Murray Water (G-MW) has an agreement with Rubicon that allows Statement of Works (SoWs) to be signed. The current Agreement with Rubicon has been approved by the G-MW board to a total of \$62 million. At the time budgets were being set by G-MW, the Future Flow project was not yet in place and therefore the scope was still being developed. Despite there being no set budget in place, SoWs are negotiated by G-MW and Rubicon for each portion of works. In addition, the gates are listed on the State Pricing Schedule and other services are commercially negotiated.
- (e) The original budget for 2008-09 was \$48,300,000. The budget phasings were reviewed following the signing of the major contract in December 2008.
- (f) This was a result primarily of the acceleration of works relating to the project. Total estimated cost of the project remains within the approved amount.
- (g) This was a result of acceleration of works during 2008-09 and previous years.

Sources: Agency responses to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One

6.5. Times involved in implementation

6.5.1 Criteria for ensuring procurement contracts are delivered on time

Research shows that ensuring that goods and services purchased are available when needed is one of the ingredients of obtaining value for money from procurement.¹³⁴

6.5.2 Overall findings

The Committee noted that 21 procurement contracts (13 IT contracts) were not delivered on time according to the timelines specified in contract or tender documentation. Although there was no single standout factor that contributed to delays, some of the reasons offered for timelines being exceeded centred on delays associated with overseas providers/suppliers and vendor software issues. Table 6.3 gives examples of delays experienced in major procurement during 2008-09. On the other hand, Melbourne Water advised the Committee in early December 2009 that the Sugarloaf Pipeline Project (actual costs incurred of \$351.2 million compared to the budget of \$366.2 million due to improved productivity) was running approximately four months ahead of its published completion date of mid 2010.¹³⁵

134 United Kingdom, National Audit Office, *Getting value for money from procurement*, p.1

135 Melbourne Water, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 1 December 2009, p.17

Table 6.3: Examples of procurement contracts not delivered on time or where timelines have been extended

Agency	Procurement contract	Expenditure 2008-09	Reason
Department of Education and early Childhood Development	Outsourced Assessment Service for the Program for Students with Disabilities	\$4.0 million for the term of the contract	The contract period from 12 July 2007 to 31 December 2008 was extended to 31 December 2009.
Alfred (Bayside) Health	Medical Records Scanning	Total cost over 5 years of \$5.2 million	Original timeline to go live at the Alfred of January 2010 was extended to March 2010 due to the large number of staff that require training.
	Alfred Centre Stage 11	\$131,000	The project, which was scheduled to commence in August 2009 and be completed by March 2010, is currently tracking to complete by May 2010.
Barwon Health	Digital Medical Record Case	\$1.2 million	2.5 years actual versus 2 year budget.
Royal Children's Hospital	Medical Photography Management system	\$124,839	Due to the hospital and the vendor experiencing unexpected staff availability issues, the actual go-live date was 24 August 2009 compared to the original go-live date of 30 June 2009.
Southern Health	Patient and Client Management System (PCMS)	\$3.0 million	The timeframe for the PCMS has not been in line with expectations as the agency is waiting for software fixes.
Western Health	Patient and Client Management System (PCMS)	\$1.8 million	With a project duration of 15 months, a two month delay was experienced in relation to the system go-live compared to the initial targeted date due to a series of operational factors and the complexity of the implementation.
Victoria Police	Helicopters	\$8.0 million	The provision of the new aircraft has experienced issues with overseas providers.
Metropolitan Fire and Emergency Services Board	Seven General Purpose Pumpers	\$2.4 million	While the completion is currently on track, there was some delay in the completion of the construction stage primarily due to delivery issues relating to overseas components.
Metropolitan Fire and Emergency Services Board	Construction of the Nunawading Fire Station	\$680,000	The original date for practical completion was 7 October 2009. The approved adjusted date is 2 March 2010. The time delay is attributed to industrial issues relating to firefighters' relocation to a temporary fire station site.
Country Fire Authority	Ballarat Emergency Management Facility	\$4.3 million	The agreed construction completion date was 1 June 2009. The actual construction completion date was 13 July 2009. Delays were partially attributed to wet weather days. A formal contract variance, without cost to CFA, was executed.
Department of Planning and Community Development	eGrants Project	\$1.4 million	Development commenced late because of the delay in obtaining supplier engagement approvals. The delay in implementation was primarily due to technical infrastructure problems.

Agency	Procurement contract	Expenditure 2008-09	Reason
Victorian Urban Development Authority	Civil Works Contract B – follow up clarification question to name the contract	Follow up clarification question to quantify expenditure in 2008-09	The project took longer to complete than the original finish date due to an increased scope of work and issues outside the control of the contractor, including the unexpected location of existing services that then needed to be moved.
City West Water Limited	3D Networks – PABX Upgrade	\$451,000	The project was completed on 13 June 2009. The estimated completion date in the original business case written in December 2008 (prior to the procurement process for the contract) was 26 March 2009. The main reason for the delay was due to an unexpected technical dependency which was identified after the business case was approved. The project steering committee assessed the risk and decided to delay the project while another project was approved to upgrade the IVR to a version compatible with the target PABX version.
Treasury Corporation of Victoria	Gresham IT contract	\$840,723	The project originally had a 12 month implementation period ending December 2008. Implementation is now anticipated to occur in the second quarter of 2010. While delivery of software enhancements to meet Australian market conventions has been slower than anticipated, the software appears likely to meet TCV's requirements.
	IT procurement project (IT&E)	\$408,000	The project, which is a core system, was implemented in June 2009. Implementation was originally anticipated to occur in November 2007. While the delivery of the software was behind schedule, in general terms the services were in line with the contract and the software met TCV's requirements.
South East Water	Pakenham Sewage Treatment Plant Organic Capacity Upgrade	\$3.6 million for the two main contracts that comprise the project	The original contract completion date was February 2009. The works were operationally completed in May 2009. Delays were mainly caused by slow delivery by the main equipment supplier.
	Customer Information System Infrastructure replacement	\$600,000	Planned end date: 28 May 2009 Actual end date: 26 August 2009
	ICE Process Engine Migration and Targeted Improvements Project	\$400,000	Planned end date: April 2010 Forecast: July 2010
Department of Transport	Metropolitan Train Communication System	\$23.6 million	During 2008-09 the major milestone completed was 'contract award'. This milestone was achieved later than planned due to protracted negotiations with the contractor. This resulted in the project ready for use date being extended to December 2011.

Agency	Procurement contract	Expenditure 2008-09	Reason
Parliamentary departments	Heritage Asset Management Strategy Phase 1	\$6.647 million life to date costs incurred to 30 June 2009	<p>The original funding granted for the program for a three year period has been extended to four years, primarily due to:</p> <ul style="list-style-type: none"> • sitting patterns of the Parliament preventing work being carried out on a continuous basis; • the ability to source stone for the restoration project was more complicated than that originally envisaged; and • the condition of the stone fabric of the Parliament was a lot worse than that originally anticipated.

Sources: Department and agency responses to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One

In addition, with regard to the implementation of the HealthSMART Program, the Department of Human Services informed the Committee that in some cases timelines have altered when health services have advised that they were not ready to implement the system. The Department also indicated that although there have been delays with some projects, particularly with clinical systems, the scale of the program provides for re-prioritisation and adjustment of the overall program schedule to minimise any potential budget impact.¹³⁶

6.5.3 Corporate/annual/business planning

Given that procurement is a critical business process for Government directly affecting the quality and cost-effectiveness of services provided to the public, overseas experience shows that a core procurement governance objective is to raise the profile of procurement so that it is recognised as a strategic function within public sector organisations.¹³⁷

While major procurement contracts were listed, the Committee looked for, but did not find, evidence to indicate that objectives, planned timelines and key deliverables for major procurement contracts were included in planning documents of agencies such as corporate or annual/business plans. The Committee has noted in previous inquiries as well as in the current examination of outcomes that for some procurement activities, initial timelines have been extended by agencies.

Recommendation 16: To enhance accountability for, and strengthen the control environment over, the delivery of major procurement contracts on time, all departments and government agencies include objectives, planned milestones and key deliverables in their corporate and annual/business plans.

136 Department of Human Services, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 18 January 2010, p.32

137 British Columbia, Ministry of Finance, Office of the Comptroller General, *Procurement Government Office 2008/09-2010/11 Service Plan*, p.5

6.6. Quality of service

6.6.1 Criteria for maximising quality

Good practice procurement literature indicates that for large and complex procurement, ‘*quality requirements should reflect minimum functional requirements and be clear*’.¹³⁸ According to the UK National Audit Office, ‘*better value for money from procurement can be achieved in many ways, for example ... introducing incentives into the contract to ensure continuous cost and quality improvements throughout its duration...*’¹³⁹

6.6.2 Overall findings

Most agencies indicated that the quality of service provided had been at the standard required by the contract or in line with expectations/schedules. Some of the factors identified by agencies that adversely impacted on quality of service delivery related to contractor resourcing issues. For example, Southern Health informed the Committee that the Patient and Client Management System has resourcing issues due to the number of agencies going live with the system and the supplier’s ability to implement and fix the system simultaneously.¹⁴⁰

Victoria Police also had issues in regard to the level and quality of service provided under the IT contract known as *Tower 2: Desktop and Local Area Network IT Services* (actual expenditure 2008-09, \$9.7 million).¹⁴¹

Of the recommendations made by the Ombudsman Victoria in November 2009 in the investigation into the tendering and contracting of information technology services within Victoria Police, the Committee believes that adoption of the following recommendations at wider agency levels would improve the quality of procurement processes and strengthen controls over associated risks:¹⁴²

- Victoria Police develop and implement a policy that prohibits adjustment to any contracts over a specified monetary value without prior approval, according to Victorian Government Purchasing Board Procurement Policies; and
- Victoria Police establish and appropriately resource a central major projects management facility to be responsible for the procurement and major contract management responsibilities allocated to the Business Information and Technology Services Department, Procurement Management Division and other areas of Victoria Police.

138 Victorian Auditor-General’s Office, *Public Sector Procurement, Turning Principles into Practice*, October 2007, p.7

139 United Kingdom, National Audit Office, *Getting value for money from procurement*, 2001, p.4

140 Southern Health, response to the Committee’s 2008-09 Financial and Performance Outcomes Questionnaire – Part One, p.13

141 Department of Justice, response to the Committee’s 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 3 December 2009, p.50

142 Ombudsman Victoria, *Own motion investigation into the tendering and contracting of information and technology services within Victoria Police*, November 2009, p.9

6.7. Risk management

6.7.1 Criteria for managing procurement risk

According to the Victorian Department of Treasury and Finance, ‘*any factor that has the potential to place in jeopardy departmental procurement objectives (policy, probity, fitness for use and value for money) constitutes a risk*’. The Department views that ‘*a full risk allocation matrix, including consequences and likelihood analyses and mitigation strategies, is a fundamental component of the commercial principles that need to be outlined in business cases*’.¹⁴³

The Committee also noted that the Department regards ‘*risk assessment as necessary to provide a clearly defined judgement on the severity of risks in terms of their effect on the achievement of defined goals and to define the methods by which the effects of risk events occurring can be reduced*’. According to the Department, for complex and/or high value procurement projects such as State purchased contracts, the identification of risks which affect both purchaser and provider is an ongoing process which should commence with the development of the draft specification.¹⁴⁴

The Committee noted that a comprehensive set of standard Victorian Government risk management processes, outlined in guidelines issued by the Department of Treasury and Finance, includes a framework for considering both the exposures to continued business risk and opportunities for managing such risks.¹⁴⁵

Research undertaken by the Committee revealed that when making procurement decisions, consideration also needs to be given to the risk that key outputs are not delivered on time, to budget and of appropriate quality.

Overseas literature confirms that whether in conventional procurement, market-testing or some form of public-private partnership, value for money considerations should involve an assessment of risk and an appropriate allocation of risk between contracting parties.⁸

According to the Victorian Auditor-General, ‘*all procurement involves a degree of risk*’. It should be noted that the Auditor-General states that ‘*the management of risk is relevant to all phases in the procurement cycle and relates to both the procurement process and to the nature of what is being procured*’. One of the tasks in developing a procurement strategy involves ‘*identifying and assessing the potential risks associated with the procurement and developing risk management strategies. Value for money is maximised by allocating risk optimally*’.¹⁴⁶

In covering the issue of procurement risk, the Committee was therefore interested in understanding how risks were identified and managed by agencies.

143 Department of Treasury and Finance, *Good Practice Guidelines, State Procurement – General*, June 2009, p.24

144 Department of Treasury and Finance, *Good Practice Guidelines for Developing a State Purchase Contract Business Case*, June 2009, p.28

145 *ibid.*, pp.29-33

146 Victorian Auditor-General’s Office, *Public Sector Procurement, Turning Principles into Practice*, October 2007, pp.3, 11

6.7.2 Overall findings

All agencies had processes in place for identifying and managing risks associated with procurement. Common avenues included the development of risk registers, risk management plans, the use of the PRINCE2 project management methodology, conduct of financial due diligence checks, project teams reporting to particular committees and meetings with service providers.

6.7.3 Risks associated with procurement that are critical to the achievement of organisational outcomes

The Committee is of the view that because large-scale procurement contracts will often impact on the efficiency and effectiveness of service delivery of outputs and the achievement of agency goals and outcomes, it will be important for agencies to continue to institute controls over large-scale procurement which monitor on a continual basis whether:

- risk assessments are being carried out in an appropriate manner; and
- procurement risks are being reviewed and managed effectively.

This is an area where overseas experience suggests that agencies can utilise the services of internal audit.¹⁴⁷

Recommendation 17: To enhance procurement governance and maximise financial and performance outcomes across the public sector, the Department of Treasury and Finance encourage agencies to consider using their internal audit function to evaluate on an ongoing basis, for large-scale procurement contracts, whether:

- (c) risk assessments are being carried out in an appropriate manner; and
- (d) procurement risks are being reviewed and managed effectively.

147 UK National Audit Office, *Getting Value for Money from Procurement*, p.13

6.7.4 **Monitoring of risks on an ongoing basis**

The Committee noted what appeared to be several good examples of where risks were monitored on an ongoing basis. For example, at the Department of Education and Early Childhood Development:

- as part of managing the Wireless Network in Primary Schools Refresh contract (expenditure of \$7.4 million incurred in 2008-09), risks are reviewed by the Project Team on a fortnightly cycle and risks and issues updated, added or deleted from the risk register accordingly, depending on the status of each item;¹⁴⁸ and
- with regard to the Ultranet procurement contract (expenditure of \$13.4 million incurred in 2008-09), while a Risk Management Plan includes a risk register and contingency planning, risks are monitored by the Project Team on a weekly basis and by the Project Board on a fortnightly basis. An external independent risk review has been completed and the risk register updated to reflect the risks identified in the review.¹⁴⁹

6.7.5 **Risk sharing**

A good example of risk sharing cited by the Committee in a service specific contract related to the contract entered into with Grocon for the clean up of the bushfire sites after the February 2009 bushfires. In this instance, the principal retained most of the risk relating to performing pursuant to the requirements of the schedule and the overall costs, while the contractor assumed the risks relating to quality, construction liability, administration, contract management and value for money.¹⁵⁰

In another example, at VicRoads with regard to the Freeway Management System (expenditure of \$20.5 million), risk reviews were conducted during the development of the contracts. Risks were then either allocated to the contractor using quality assurance based contracts, or managed directly in order to minimise exposure to the time and cost.¹⁵¹

6.8. **Accountability framework**

6.8.1 **Criteria for establishing strong accountability for procurement**

According to the Victorian Auditor-General, accountability in the public sector calls for personnel entrusted with public resources to operate in accordance with clear objectives in a transparent manner, accept responsibility for their actions, seek to achieve the best use of resources and avail themselves to appropriate scrutiny.¹⁵² Further, procurement principles advocated by the Government require a level of accountability commensurate with appropriate levels of authority and responsibility.¹⁵³

148 Department of Education and Early Childhood Development, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 1 December 2009, p.18

149 *ibid.*, p.19

150 Department of Premier and Cabinet, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 7 December 2009, p.15

151 Department of Transport, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 9 December 2009, p.42

152 Victorian Auditor-General's Office, *Public Sector Procurement, Turning Principles into Practice*, October 2007, p.3

153 Victorian Government, Public Finance and Accountability Bill 2009, cl. 9 (b)

6.8.2 Overall findings

The Committee asked agencies to outline the accountability framework that was in place in relations to its largest procurement contracts. Many agencies indicated that the accountability framework and performance measures were described in the procurement contract, which included a schedule of service deliverables.

6.8.3 Central level

The Committee noted that to facilitate openness and probity in Victorian Government contracts, a Central Register of Major Government Contracts has been established. This new resource enables major contracts awarded by the Victorian Government since 1992 to be downloaded and reviewed. It is understood that contracts are to be progressively published on the register after discussions with private sector firms have been completed. In this regard, however, the Government has advised that it has been necessary to withhold certain parts of the contracts listed on the Central Register of Major Contracts from disclosure due to the existence of long-standing confidentiality clauses prior to 2000. In other (very limited) cases, it has advised that disclosure would be contrary to the public interest.¹⁵⁴

6.8.4 Agency level

Various good examples of strong accountability mechanisms were provided to the Committee. Examples of good practice are set out below.

For some IT procurement contracts, procurement governance arrangements involved the creation of a Control Board and Reference Group. For example, the Department of Planning and Community Development formed a Project Control Group to preside over its eGrants Project. Members provided strategic and operational direction to the project from business and technical perspectives, as well as an escalation path for risks and issues. Regular reports on eGrants project delivery were provided to the Project Control Board. An eGrants Reference Group was also established with representatives from across the business. This Group met with the project team regularly to review requirements and specifications, assist with user acceptance testing and ensure that appropriate business input was incorporated.¹⁵⁵

In relation to the contract for the delivery of Australian Exhibitions and Conferences – State of Design Festival, the Department of Innovation, Industry and Regional Development was assisted in developing standards and monitoring delivery by an external expert reference group. Appropriateness, effectiveness and efficiency in delivery of the 2008 Festival was determined through an independent evaluation and economic impact report.¹⁵⁶

The Committee believes that when standards are developed for the purpose of promoting quality of service delivery and holding agencies accountable, it is essential that appropriate market or current agency benchmarks are used to ensure best practice is applied.

154 Victorian Government, <<http://www.contracts.vic.gov.au/major/contracts>>, accessed 5 January 2010

155 Department of Planning and Community Development, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 23 December 2009, p.17

156 Department of Innovation, Industry and Regional Development, response to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire – Part One, received 15 December 2009, p.16