

President's Message

Core Principles of achieving 'Value for Money'

Hello everyone, and welcome to the Summer edition of Value Times.

The Institute is in the business of helping people and organisations achieve best 'value for money', regardless of what the activity is.

I've previously mentioned that there are 10 core principles involved in achieving best 'value for money'.

In the next few editions of Value Times, I'll cover a few of them.

The first principle goes to the very heart of the matter. We separate 'Value' from 'Money'. This is crucial but, in my experience, also very uncommon.

We want to get to the position where we can say, "Here's the Value" and "Here's the Money". To do that we have to really understand the difference between 'value' and 'value for money'.

To do that, I find it helpful to go back to the year 1738 – yes, 1738!

It was in that year that the famous philosopher and mathematician, Daniel Bernoulli, made the observation that "The value of an item must not be based on its **price** but rather on the **utility** which it yields."

Even today – 286 years later – we still struggle with this idea.

Daniel Bernoulli got it dead right: 'value is to do with utility, not price.'

The money side of things is 'price' — the value has to do with what Bernoulli has referred to as 'utility'.

So, we can compare any two objects and make judgements concerning price and utility.

In other words, in comparing two objects, there will be four factors to consider: the utility of each object and the price of each. This is the process of determining best 'value for money'.

Regular readers of Value Times might recall a project that I've referred to several times in these articles. The project is Te Papa - Museum of New Zealand.

We ran Value Management exercises during the project's planning, design, construction and initial operations.

You might recall the comments of the Exhibitions Director, Ken Gorby, who said that the process had produced not only a dramatic reduction in cost, **but also a much better museum.**

Te Papa is still my favourite project of all the projects I've had the privilege of working on during my career. It's a great example of improving 'value for money': a dramatic reduction in cost **and** much better utility.

It's the "much better museum" statement that I want to focus on in this article.

Of the many thousands of visitors to the museum, most would be struck by how good it is, but wouldn't have a clue as to what it cost.

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Recognition of the work of IVMA Patron



In November 2023 the Malaysian Works Minister, Datuk Seri Alexander Nanta Linggi, presented a Construction Industry Development Board Fellowship Award to IVMA Patron, Dato' Sr Dr. Mohd Mazlan Che Mat.

The Award was in recognition of more than three decades of Mazlan's contribution to the application of 'value management' on projects in Malaysia and his education of Quantity Surveyors and other construction industry professionals in 'value for money' techniques and practices.

In presenting the Awards to 20 recipients, the Works Minister stated that it was to honour role models in the industry who have continuously contributed to the development and improvement of the construction sector.

John Bushell

Chair, Publications and Events Committee, IVMA

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I suspect that even for those involved, the cost of planning, design and construction would be a distant memory; but everyone speaks about how good it is.

But it's a good job that we focused on money as well.

The first exercise had the effect of ensuring that the project would meet its budget parameters. It's almost certain that the project would not have gone ahead without that first exercise.

Subsequent Value Management studies sought to keep the project within budget and, I'm happy to say, they succeeded.

The English language allows many uses of the word 'value' with many different meanings, subtleties and implications. Here's just a few of them:

- We really value your opinion.
- That painting is of enormous value.
- Her job is to value properties.
- I value your friendship.
- What's the net present value of this option?
- We place great value on punctuality.
- What's the value of this month's progress payment?
- Huge reductions – great value.

Those are just a few examples of using the word value in the English language. You'll have noticed that some of the examples are just about money.

Other examples have nothing at all to do with money whilst other examples mix up money with qualities such as how useful the thing is, the benefits of having it, and/or the importance that you might place on something.

“The English language allows many uses of the word ‘value’ with many different meanings, subtleties and implications.”

The English language allows us to abbreviate 'value' and 'value for money' but they are not the same thing. I repeat, they are **not** the same thing.

The thing to remember is this: when we abbreviate 'value for money' to the single word 'value', the single word 'value still means 'value for money'! This is so important!

As I've mentioned, the first principle of our approach to Value Management goes to the very heart of the matter – separating 'value' from 'money'. We really urge people to make this separation a habit.

All of this came home to me immediately following a breakfast prior to a meeting to discuss mining projects (some of which exceeded \$1 billion).

When I'm travelling, I sometimes treat myself to scrambled eggs and bacon which is what I decided to do on that occasion.

I had a choice – breakfast at the hotel where I was staying, or a cafe across the road. The hotel provided an international buffet that included scrambled eggs and bacon. It was self-serve, and they also offered a host of international dishes.

The cafe across the road provided none of the international options, but did offer scrambled eggs and bacon as well as the fact that it was all freshly made to order and they had barista-made coffee (the coffee at the hotel was self-serve).

I chose the cafe across the road.

As I walked back to the hotel after breakfast, it occurred to me that whether we're talking about a \$15 breakfast (by the way, the hotel breakfast was more like \$30) or whether we're talking about a billion dollar mining project, *the principles in deciding which option delivers best 'value for money' are EXACTLY the same.*

More next time!

Dr Roy Barton
President, IVMA

New Commonwealth Procurement Rules

On 9 June 2023, Minister for Finance, Senator the Hon Katy Gallagher, issued the Federal Government’s Commonwealth Procurement Rules which came into effect on 13 June 2023.

To provide some context for these Rules, in financial year 2022-23 there were 83,625 contracts with a combined value of \$74.8 billion published on the AusTender website.

The Commonwealth Procurement Rules govern how government entities buy goods and services, and are designed to ensure the Government and taxpayers get ‘value for money’.

The Department of Finance looks after the Commonwealth Procurement Framework, and assists both Government and business through advice, support and services.

The introduction to these new procurement rules states:

“Achieving value for money is the core of the Commonwealth Procurement Rules as it is critical in ensuring that public resources are used in the most efficient, effective, ethical and economic manner. Price is not the only factor when assessing value for money, and these Rules require officials to consider a range of other relevant financial and non-financial costs and benefits.

The Commonwealth procurement framework is a major economic lever, and the Government will use its significant purchasing power to support all businesses to deliver better value for money, grow the local economy and strengthen our domestic industry and manufacturing capability to build a better future for all Australians.”

The threshold for application of the Rules is generally for acquisitions whose contract cost is in excess of \$4 million and \$7.5 million in the case of construction works

‘Value for money’ is considered in Section 4 of the Rules which, as the following shows, separates ‘Considering value-for-money’ and ‘Achieving value-for-money’.



“Considering value for money

A thorough consideration of value for money begins by officials clearly understanding and expressing the goals and purpose of the procurement.

When a business requirement arises, officials should consider whether a procurement will deliver best value for money. It is important to take into consideration:

- stakeholder input;
- the scale and scope of the business requirement;
- the relevant entity’s resourcing and budget;
- obligations and opportunities under other existing arrangements;
- relevant Commonwealth policies; and
- the market’s capacity to competitively respond to a procurement.

When the relevant entity determines that procurement represents the best value for money these considerations will inform the development and implementation of the procurement.

Achieving value for money

Achieving value for money is the core of the CPRs. Officials responsible for a procurement must be satisfied, after reasonable enquiries, that the procurement achieves a value for money outcome. Procurements should:

- encourage competition and be non-discriminatory;
- use public resources in an efficient, effective, economical and ethical manner that is not inconsistent with the policies of the Commonwealth;
- facilitate accountable and transparent decision making;
- encourage appropriate engagement with risk; and
- be commensurate with the scale and scope of the business requirement.

Price is not the sole factor when assessing value for money. When conducting a procurement an official **must** consider the relevant financial and non-financial costs and benefits of each submission including, but not limited to the:

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New Commonwealth Procurement

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- quality of goods and services;
- fitness for purpose of the proposal;
- potential supplier's relevant experience and performance history;
- flexibility of the proposal (including innovation and adaptability over the lifecycle of the procurement);
- environmental sustainability of the proposed goods and services (such as energy efficiency, environmental and climate change impact and use of recycled products)
- whole of life costs."

The above information includes essential factors for consideration and the Rules refer Procurement Officers to further online information at:

<https://www.finance.gov.au/government/procurement>

There are a number of general references to Standards that are made via the above-noted site at:

<https://www.finance.gov.au/sites/default/files/2020-08/application-and-verification-of-standards.pdf>

However, conspicuous by its absence is that 'value for money' is not defined anywhere in the Procurement Rules or accompanying information.

This would seem to be a fundamental omission particularly when the Australian Standard AS4183-2007, Value Management, defines the terms 'value' and 'value for money' in clear and practical terms.

The 'value' terms 'usefulness', 'benefit' and 'importance' in the Standard are sufficiently generic to be applicable to just about any endeavour.

Importantly, they facilitate the quest for 'value' to commence at the project initiation phase where decades of experience have shown that best 'value' is achievable at minimal cost.

"However, conspicuous by its absence is that 'value for money' is not defined anywhere in the Procurement Rules or accompanying information."

If the current Commonwealth Procurement Rules are to truly deliver their objective *'...to build a better future for all Australians'* then encouraging, if not mandating, the application of the Value Management Standard in the Commonwealth Procurement Process would seem to be an essential inclusion in the Rules.

In addition to this there would need to be training of Procurement Officers and a series of demonstration projects to familiarise staff with the process and its outcomes.

As the two following articles ably demonstrate, it is high time that procurement processes Federally are attuned to current Economic, Environmental and Social realities, including:

- The Commonwealth procurement service must be re-professionalised to current commercial standards and develop a commensurate culture within procurement services.
- A recognised 'value for money' process must be mandatory on contracts exceeding specified capital costs and procurement class.
- In a time of stubborn high inflation, effective and efficient procurement in Government is essential if inflation is to be tamed and the right infrastructure and supplies procured.
- Many government procurements have a long life and, particularly in the case of

infrastructure and Defence procurement, will have a significant impact on other projects and the community, environment and economy generally.

- Government procurements frequently have a significant strategic impact on industry development, educational requirements, employment consequences, community impact, energy use, ongoing operation, and maintenance and disposal costs.
- In procurement governments must be particularly sensitive to the 'opportunity cost of capital' — a dollar of capital can only be spent once — so spend it wisely!

John Bushell

Chair, Publications and Events Committee, IVMA

‘Commitment issues’ – An inquiry into Commonwealth Procurement

In 2023 Julian Hill, MP chaired a multi-party committee comprising 18 MPs and Senators that inquired into procurement in the Commonwealth Government.

The Terms of Reference of the inquiry included:

The Joint Committee of Public Accounts and Audit will inquire into and report on Commonwealth procurement with a view to improving the culture of how procurement rules and guidelines are implemented across the Australian Public Service.

The Inquiry also had “particular regard” to five previous reports from the Auditor-General.

The Inquiry would also take into account “The views of the Auditor-General, Department of Finance and other interested

parties in relation to Commonwealth procurement and demonstrating value for money through competition, probity and strong contract management.”

The inquiry commenced in September 2022 and the Committee issued its report in August 2023.

The **‘Chair’s Foreword’** included the following observations:

“(Australian Government procurement) accounted for more than \$80 billion in committed value in 2021-22 with the Government awarding more than 90,000 contracts to more than 12,000 businesses for a hugely diverse range of goods and services.

In four of the five reports by the Australian National Audit Office (ANAO) considered in this inquiry there was

noncompliance with the Commonwealth Procurement Rules (CPRs). Especially significant were consistent failures to demonstrate value for money, conduct procurements in line with ethical requirements or keep adequate records, and substandard contract management.

Put plainly, the Commonwealth has serious commitment issues. AusTender is no AusTinder and it needs reform. Public servants need to get far more comfortable and skilled with playing the field and sharpening their pencils on suppliers, even if this leads to difficult conversations and rejection.

Systematic problems were identified hence the Committee has recommended major changes are needed to get better value for money for taxpayers.”

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‘Commitment issues’ – An inquiry into Commonwealth Procurement

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The Committee’s recommendations include the following:

“Panels have become an uncompetitive rort and it needs to stop! A growing share of procurement is occurring from suppliers listed on ‘Standing Offers’ or Panels. Yet too often this is one quote or limiting or stifling competition and value for money. The rules should be changed to make clear that: sole sourcing is not cool and multiple quotes should be obtained; a separate value for money assessment must still be undertaken; and panels should be refreshed more often.

Take a broader view of what you do! Procurement is more than a conveyor belt trucking Commonwealth money out, and goods and services in. The current definition should be updated to reflect modern, professionalised practices including more active management of supply chains and markets to maximise value for money.

Value for money, always, no exceptions! Sometimes things are urgent – but value for money still applies. Clause 2.6 is not a magic spell – agencies still need to keep records and ensure value for money.

Take a good hard look at yourself! Internal Audit Committees should increase their scrutiny of procurement controls and provide more assurance over major, complex or risky procurements.

It’s time to re-professionalise! Finance must address the lack of

procurement expertise and capability within the Australian Public Service (APS) by prioritizing the development of a procurement professional stream in the APS and by updating the procurement framework to match the development the procurement profession has undergone outside the public sector in recent years.

Finance needs to lead! Finance is the system steward and regulator – so own it! To be effective, Finance needs to have more clue what’s actually happening in the system. That doesn’t mean being accountable for every procurement, but it does mean collecting more and better information about agencies’ compliance with the CPRs to give it an accurate picture of how the procurement framework is operating. Requirements need to be skillfully crafted so they are not ‘red tape’ but force self-reflection and permit external analysis.

This report is the latest in a conga line of reports addressing aspects of procurement but this time recommendations for systemic change are made. In a time of rising prices and tightening budgets, the Australian public deserves no less.”

Recommendations

Of the 19 recommendations made by the Committee, only five relate specifically to achieving ‘value for money’. They are highlighted here.

“Recommendation 1:

The Committee recommends that the

Department of Finance work to advance public sector procurement capability and professionalism by:

- prioritising the development and rollout of a procurement professional stream within the Australian Public Service, to facilitate the creation of procurement and contracting specialists, and
- expanding the current definition of procurement in the Commonwealth Procurement Rules, to empower and better reflect modern, professionalised procurement practices, including more active management of supply markets and supply chains to maximise value for money.

Finance should report back to the Committee within 12 months on its progress to develop and deliver these outcomes.

Recommendation 2:

The Committee recommends that the Department of Finance amend the Commonwealth Procurement Rules to reverse the onus such that they apply to corporate Commonwealth entities by default, with any exceptions to be made by the Finance Minister via legislative instrument.

Recommendation 3:

The Committee recommends that the Department of Finance amend paragraph 2.6 of the Commonwealth procurement Rules to emphasize that the core principles of achieving value for money and conducting procurements in a fair, transparent and accountable manner continue to apply to the procurement even when an exemption to the rules was obtained under the paragraph. Finance should develop and issue guidance on paragraph 2.6 to reflect this amendment.

Recommendation 4:

Noting that reporting on compliance with the Commonwealth Procurement Rules

“Procurement is more than a conveyor belt trucking Commonwealth money out, and goods and services in.”

(CPRs) is currently limited to the inclusion of significant non-compliance in annual reports, the Committee recommends that the Department of Finance:

- require Commonwealth entities subject to the CPRs or the Public Governance, Performance and Accountability Act 2013, by 31 December 2023, to provide Finance with a report on their internal procurement and delegation policies that outlines how value for money will be ensured when procuring from panels.

Recommendation 7:

The Committee recommends that the Department of Finance amends its guidance on the use of panels to make it explicit that:

- a separate value for money assessment must still be undertaken when conducting a procurement from a panel, even though value for money has been considered when forming the panel, and
- panel procurement should involve multiple competing tenders from panel members, with sole-sourcing from a panel generally considered inadequate to demonstrate value for money.”

“Key Findings” of the Audit were:

“The Australian National Audit Office (ANAO) argued that a more active regulatory posture could result in significantly better value for money outcomes from Australia’s procurement expenditure:

Whether you describe it as stewardship or a regulatory framework, the policy owner has a responsibility for understanding if Commonwealth procurement policy outcomes are being achieved. Without evidence to the contrary, ANAO audits suggest there is opportunity to improve value for money outcomes and economic and social

benefits from Commonwealth procurement activities.

Value for Money in Procurement

(2.81)
The Audit reports considered by this inquiry highlighted a number of common problems about the operation of the Commonwealth Procurement Rules. Among these is the demonstration of value for money, particularly through the use of competitive procurement approaches.

(2.82)
The ANAO noted in its submission that the Commonwealth Procurement Framework is principles based, and that achieving value for money is its key principle:

The principles are straightforward and readily visible in the table of contents of the Commonwealth Procurement Rules (CPRs). The core principle is achieving value for money, and this is enhanced and complemented by other key principles such as encouraging competition; efficient, effective, economical and ethical procurement; accountability and transparency; and risk management.

(2.83)
The ANAO noted that officials must make a reasonable effort to satisfy themselves that the procurement to be undertaken achieves a value for money outcome:

- To achieve this outcome, the CPRs state that relevant entities should:
- encourage competitive and non-discriminatory processes;
 - use public resources in an efficient, effective, economical and ethical manner that is not inconsistent with the policies of the Commonwealth;
 - make decisions in an accountable and transparent manner;

- appropriately consider the risks; and
- conduct a process commensurate with the scale, scope and risk of the procurement and business requirement.

(2.84)
Services Australia, in its submission to the inquiry stated the principle in this form:

All commonwealth procurements are required to consider and achieve value for money, as stated within section 4 of the Commonwealth Procurement Rules (CPRs). Procurements which are not sufficiently justified based on value for money, pose a potential risk in not clearly demonstrating accountability, probity and transparency of decisions. Undertaking Commonwealth procurements on a value for money basis demonstrates that public resources are used in the most efficient, effective, ethical and economic manner, in accordance with the Public Governance, Performance and Accountability Act 2013.

(2.85)
The ANAO argued that the use of competitive approaches to procurement is among the easiest ways to demonstrate that value for money has been achieved in a procurement:

Generally, the more the more competitive the procurement process, the better placed an entity is to demonstrate that it has achieved value for money. Competition encourages respondents encourages respondents to submit more efficient, effective and economical proposals. It also ensures that the purchasing entity has access to comparative services and rates, placing it in an informed position when evaluating the responses.

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‘Commitment issues’ – An inquiry into Commonwealth Procurement

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(2.87)

Drawing on its extensive performance audit evidence base, the ANAO observed that entities frequently avoid competitive procurement approaches because doing so is less costly for them and an easier process to undertake, and not because their approach provides value for the taxpayer.

(2.88)

The Audit reports considered as part of this inquiry provide examples that bear this analysis out. The National Capital Authority (NCA) for example, made insufficient use of open and competitive procurement processes, with limited tender approaches occurring even when the value of the procurement required an open approach to market.

(2.89)

Even when it undertook competitive procurement process, the NCA was often unable to demonstrate value for money. When open tenders were conducted, conditions for participation were frequently included that limited competition, and incumbent suppliers were often preferred, limiting access to new market entrants. When assessing tenders, the NCA awarded contracts to the candidate that demonstrated value for money in just over half the cases examined by the ANAO.

(2.90)

The audit of the Digital Transformation Agency (DTA) also identified a range of issues relating to achieving value for money. The DTA frequently directly sourced procurements from panels in ways that did not support the intent of the CPRs in achieving value for money. When conducting open approaches to market, the DTA's tender evaluation process did not stand up to ANAO examination, with the audit finding that "none of the examined procurements fully complied with CPR requirements to consider value for money."

“There is clearly considerable scope for improvement for the Commonwealth Public Service to achieve better ‘value’ for taxpayer dollar.”

The above items represent a small selection from the numerous issues raised in the 135-page report.

There is clearly considerable scope for improvement for the Commonwealth Public Service to achieve better ‘value’ for taxpayer dollar.

The following areas provide scope for improvement:

- A clear and unambiguous definition of ‘value for money’ is required to be included in the Commonwealth Procurement Rules and it is used in the development and procurement of projects and services and supplies
- Purchasing Officers need to be trained in the application of ‘value for money’ principles
- Contract Managers would benefit from training to better manage ‘value’ delivery and traceability of decision-making during the procurement and contract implementation phases
- Commonwealth Agencies need to be apprised of the need to commence the quest for ‘value for money’ at project inception where experience demonstrates that ‘value’ for the community can be significantly increased at minimal cost.

A preferred ‘value for money’ process would be to utilise Australian Standard AS 4183-2007 which describes the process

that has had over 30 years of application in Australia’s State Governments, and which has delivered verifiable public benefits.

Whilst not specifically addressed in the Audit report “creeping politicisation” of the public service is an ever-present risk in the current system.

This may include the ‘revolving door’ between Ministers and businesses related to their former ministerial portfolio, a similar ‘revolving door’ between political staffers and the public service and political demands to “get stuff done” irrespective of any demonstration of public good.

Transparency and traceability of process is also an essential ingredient in procurement; a requirement identified frequently in the Audit report.

Australia (and all nations) face significant challenges primarily related to living on an increasingly heating planet. We can ill afford to waste time and resources that do not address directly the challenges we and future generations face.

John Bushell

Chair, Publications and Events Committee, IVMA

Department of Defence's Procurement of Hunter Class Frigates

In May 2023 the Australian National Audit Office (ANAO) published its audit into the Department of Defence's purchase of 9 Hunter Class frigates.

So serious were the flaws in the procurement process that, the Secretary of the Department of Defence (DoD), Greg Moriarty admitted in a response to the ANAO Audit prepared by the DoD itself, that its own review of the acquisition process found: "Following initial pass in June 2014, the review found that there was a growing incompatibility between project objectives including continuous naval shipbuilding and the intended procurement method as described throughout the tender process."

In conducting the audit, the ANAO's objective was **"to assess the effectiveness of the Department of Defence's procurement of Hunter class frigates and the achievement of value for money to date"**.

To form a conclusion the Audit office adopted the following criteria:

- Did Defence conduct an effective tender process?
- Did Defence effectively advise government?
- Did Defence establish fit-for-purpose contracting arrangements?
- Has Defence established effective contract monitoring and reporting arrangements?
- Has Defence's expenditure to date been effective in delivering on project milestones?

The ANAO summarised its conclusions following the audit as follows:

- "The Department of Defence's management to date of its procurement of Hunter class frigates has been partly effective. Defence's procurement process and related advisory processes lacked a value for money focus, and key records, including the rationale for the procurement approach, were not

retained. Contract expenditure to date has not been effective in delivering on project milestones, and the project is experiencing an 18-month delay and additional costs due in large part to design immaturity.

- Defence did not conduct an effective limited tender process for the ship design. The value for money of the three competing designs was not assessed by officials, as the Tender Evaluation Plan (TEP) proposed that government would do so. The Commonwealth Procurement Rules (CPRs) and the Defence Procurement Policy Manual required officials responsible for procurement to be satisfied, after reasonable inquiries, that the procurement achieved a value for money outcome. Defence did not otherwise document the rationale for the TEP not requiring a value for money assessment or comparative evaluation of the tenders by officials.
- Defence's advice to the Australian Government at first and second pass was partly effective. While the advice was timely and informative, Defence's advice at second pass was not complete. Defence did not advise that a value for money assessment had not been conducted by Defence officials and that under the TEP Defence expected government to consider the value for money of the tenders.
- Defence has established largely fit-for-purpose contracting arrangements for the design and productionisation stage, and largely effective contract monitoring and reporting arrangements to ensure adequate visibility of performance and emerging risks and issues. However, the contract management plan was established 44 months (3.6 years) after contract execution.
- Defence's expenditure to date has not been effective in delivering on project

milestones, and the cost of the head contract has increased. Lack of design maturity has resulted in an 18-month delay to the project and extension of the design and productionisation phase, at an additional cost to Defence of \$422.8 million. At January 2023 the project was forecast to exceed the whole of project budget approved by government by a significant amount."

The following were the ANAO's supporting findings relating specifically to 'value for money' requirements:

- "Defence's Endorsement to Proceed documentation for the CEP approved the Request for Tender (RFT) going ahead and set out tender evaluation criteria and expectations for the assessment of value for money. However, the expectations regarding the assessment of value for money were not operationalised, as the Tender Evaluation Plan (TEP) specified that value for money would not be assessed by Defence.
- The TEP, which was approved by the probity advisor, did not document how the evaluation process would address the core rule of the Commonwealth Procurement Rules (CPRs), which is achieving value for money. The CPRs require officials responsible for procurement to be satisfied, after reasonable inquiries, that the procurement achieves a value for money outcome. Defence did not document the rationale for the TEP not requiring a value for money assessment or comparative evaluation of the tenders by officials.
- As the tender evaluation process was underpinned by a TEP that specifically excluded a value for money assessment of tenders by officials, the Source Evaluation Report (SER) did not include a value for money assessment.
- Defence's advice to government at first pass was timely and informative.

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Department of Defence's Procurement of Hunter Class Frigates

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However, its recommendation to include the BAE Type 26 design in the competitive evaluation process (CEP) as the third option, instead of the alternate, was not underpinned by a documented rationale.

- At second pass, Defence's advice to government on the selection of the preferred ship design was not complete. Defence did not draw the following matters to government's attention.
 - Contrary to the requirements of the Commonwealth Procurement Rules (CPRs), a value for money assessment had not been conducted by Defence officials. Defence's assessment was against the high-level capability requirements.
 - Under the Tender Evaluation Plan (TEP) Defence expected government to consider the value for money of the tenders.
 - A 10 per cent reduction to tendered build costs had been applied by Defence. The reduction had not been negotiated with tenderers.
 - Sustainment cost estimates had not been prepared for government consideration as required by the Budget Process Operational Rules applying to Defence.
- In its assessment, which was included in Defence's second pass advice to government, the Department of Finance (Finance) drew attention to the 10 per

cent reduction to tendered build costs and other limitations in Defence's advice on costs. Finance did not comment on Defence's lack of a value for money assessment, compliance with the CPRs or quality of advice regarding value for money.

- Performance expectations are clearly set out in the contracted statement of work and are linked to performance measures, with processes to manage poor performance included in the conditions of contract. Commercial levers to incentivise the prime contractor (BAE Systems Maritime Australia) and drive value for money outcomes in project delivery are limited. Key commercial levers such as profit moderation provisions were not active at the time the head contract was executed. On 29 June 2022 Defence signed a contract change proposal activating profit moderation for the Scope Fee from 1 July 2022, enlivening a key commercial lever in the head contract."

In summary then it is clear that:

- 'Value for money' was specifically excluded as a consideration when evaluating tenders despite being a specific requirement of the Commonwealth Procurement Rules.
- The undocumented switch in the tender shortlisting process to the BAE Systems Type 26 design represents a critical lack

of transparency in the acquisition process.

- The perceived need to provide local employment on Defence acquisitions is and will in future be a significant (avoidable) cost to the Australian community.

The problems arising from the Hunter Class Frigate acquisition will impact the Australian economy for decades to come because the ANAO audit also identified the following "emergent risks" with the ongoing project:

- "Unable to raise, train and sustain future Navy workforce in order to support future Navy capabilities and provide Seaworthiness assurance.
- The delivered HCF (and future batches) has insufficient capability to counter current and emerging threats."

"Remedial actions" have been identified to address these significant and ongoing risks.

It is inevitable, however, that a 'value for money' discipline will be essential in addressing these fundamental issues as the acquisition and operational phase of this Defence Procurement develops.

It may be instructive to understand how our close ally, the United States of America, addresses the acquisition of military ships.

In 1954 the US Navy's Bureau of Ships introduced a formal Value Engineering (VE) program to optimise 'value for money' in vessel acquisition.

VE is the US equivalent of Value Management in Australia.

This same VE approach remains an essential component in the US Department of Navy Ships acquisition process today.

John Bushell

Chair, Publications and Events Committee, IVMA

"'Value for money' was specifically excluded as a consideration when evaluating tenders despite being a specific requirement of the CPRs."
