Impact of the Australian Government Economic Stimulus Package on Procurement

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Abstract
In February 2009, the Federal Government announced a $42 billion ‘Nation Building – Economic Stimulus Plan’ (the Plan) in response to the Global Financial Crisis. The Plan involved a massive spending program on building infrastructure for the key areas of education, community infrastructure, road and rail, housing and renewable energy. This paper will examine two key areas of the Plan – education and renewable energy – with a focus on their impact on procurement and the lessons to be learnt. The education infrastructure spending program titled ‘Building the Education Revolution’ and the original renewable energy program which involved the Home Roofing Insulation Scheme have both received a plethora of media attention and public feedback, a large proportion of which has been negative. While generally the Plan has been considered beneficial for the Australian economy and a contributing factor to the country’s resilience to the worst of the Global Financial Crisis as seen in many other countries, the delivery of these key areas of the Plan have received criticism for the varying outcomes and benefits delivered for the procurement spend.
Introduction

In the coming months and years investigative journalism will give way to more in-depth commentary and research into the outcomes and impact of the Australian Government’s massive public spending program, the Economic Stimulus Package designed to respond to the 2009 Global Financial Crisis. In the meantime, however, due to its contemporary nature, there are many significant challenges with writing on this topic that must be acknowledged and have attempted to be overcome wherever possible.

The challenges involved in researching and writing on this topic include the following:

- only limited information is available, with information scarcity most notable from both the academic world and the government (both Federal and the States);
- the spending program is not yet finished and has not and cannot yet be reviewed in its entirety;
- state governments are releasing information in an ad hoc fashion, largely in response to the amount of criticism received from the media, with some states better than others at providing accessible information on their delivery of the Economic Stimulus projects; and
- the largest source of information is still the media in the form of investigative journalism – which can be tainted by political spin, the playing to ‘public outrage,’ lack of specialized knowledge in the topic being reported and lack of academic review or challenge to assumptions presented.

The ‘Impact of the Australian Government Economic Stimulus Package on Procurement’ is an extremely broad topic and cannot be comprehensively covered in this paper. Therefore, this paper will focus on two key areas of the Economic Stimulus Package – education and renewable energy. Within these two areas, the discussion will focus on outlining the programs, the issues, their impact on procurement and lessons to be learnt from these programs for procuring organizations.
The Impact of the Australian Government Economic Stimulus Package on Procurement

On 3 February 2009, Australian Prime Minister Kevin Rudd announced a $42 billion ‘Nation Building – Economic Stimulus Plan’ (the Plan). The Plan was part of the Federal Government’s response to the Global Financial Crisis (GFC) that was triggered in July 2008 by a credit crisis in the United States and the collapse of large financial institutions (Janda, 2009). Australia, while less affected by the GFC than many other countries, still experienced a significant recession with rising unemployment, cuts to industry and the production of goods and services, the “unwinding of the mining boom” (COA, 2009d) and reduced spending by households (Janda, 2009). To stimulate the economy the Federal Government announced the Plan which included entering temporary deficit to support jobs and economic growth by implementing a massive spending program on building infrastructure for the key areas of education, community infrastructure, road and rail, housing and renewable energy (COA, 2009b). Two of the key areas of the Plan – education and renewable energy – will be examined in this paper with a focus on their impact on procurement and lessons to be learnt.

The education component of the Plan, titled ‘Building the Education Revolution’ (BER) included the spending of $16.2 billion over three years on the following projects:

1. Primary Schools for the 21st Century (P21), consisting of new building infrastructure such as libraries;

2. Multipurpose halls, classrooms and the refurbishment of existing facilities;

3. Science and Language Centers (SLC), consisting of new building infrastructure or the refurbishment of existing laboratories or language learning centers; and

4. National School Pride (NSP), consisting of the refurbishment of buildings (painting, carpeting), construction or upgrade of fixed shade structures, covered outdoor learning areas, sporting grounds and facilities and green upgrades (COA, 2009a).
The renewable energy component of the Plan originally included a Home Installation Program and a Solar Hot Water Rebate Program. The Federal Government announced on 19 February 2010 that these Programs were to be replaced by a household Renewable Energy Bonus Scheme (COA, 2009c).

Both the BER and the original Renewable Energy Program (REP) have received a plethora of media attention and public feedback, a large proportion of which has been negative. While generally the Plan has been considered beneficial for the Australian economy and a contributing factor to the country’s resilience to the worst of the GFC as seen in many other countries (Janda, 2009), the delivery of key projects within the Plan have received criticism for the varying outcomes and benefits delivered for the procurement spend. Key issues commented upon include the following:

- whether these programs delivered value for money outcomes;
- whether they addressed the issue of local employment;
- probity and accountability in the spending of public funds;
- lack of planning, research, consultation with stakeholders and consideration of the existing market/industry and the availability and skills of suppliers;
- the impact of outsourcing to private companies on the outcomes delivered for procurement spend; and
- conflicting procurement aims.

These key issues and their impact on procurement will be discussed below under the topics of ‘Building the Education Revolution’ and the ‘Renewable Energy Program’.

**Building the Education Revolution (BER)**

The education component of the Plan came in the form of the Federal Government’s ‘Building the Education Revolution’ (BER). This particular stimulus package had the dual aims of providing vital school infrastructure and building improvements in order to improve the educational environment, while also quickly stimulating the economy and local businesses in particular through the massive spending on many small (for example NSP projects), medium and a few larger sized infrastructure
projects (Price Waterhouse Coopers, 2009, p. 14). Many commentators have noted that the ‘shock and awe’ implementation and one size fits all approach of the BER was inconsistent with a true education revolution that requires careful planning and consideration of individual school and community needs (Bolt, 2010). Other significant criticisms of the BER include the cost to deliver and project manage the implementation of basic infrastructure programs and the choice of procurement processes and strategies which enabled major construction companies to reap more of the rewards than smaller local businesses (Karvelas, 2010).

Despite the many criticisms of the BER, it must be acknowledged that BER was a massive project and there are many very happy school communities who are now enjoying the benefits of rejuvenated classrooms and new school halls or libraries (for example Gatton, Lockyer and Brisbane Valley Star, 2010) and Julia Gillard, then Deputy Prime Minister and Education Minister was very keen to highlight this whenever there is criticism. Ms Gillard responded to The Australian in the face of censure (Karvelas, 2010):

*The BER is delivering over 24,000 separate projects in 9500 schools across the country, and so far it has been an overwhelming success, supporting thousands of jobs and providing our school children with the educational infrastructure they deserve.*

On the whole the NSP and SLC components of the BER have received limited criticism in comparison to the P21 programs. The SLC program is a smaller component of the BER that involves the redevelopment or development of Science and Language Centers in 513 senior schools. Thus far, 3 of the 513 SLC projects have been delivered (Australia, Science and Language Centres, 2010). The NSP Program is much larger and more widespread than the SLC program, costing $1.28b and involving 13,047 projects in 9,497 schools nationally (COA, 2010b). While the NSP is a much larger program, the smaller parcels of work involved, which could be tendered to local builders and tradespersons, and the choices made by the States in regards to the procurement processes chosen to deliver these projects, meant that the NSP program was much less controversial than the P21.

The choice of procurement process for the delivery of the NSP projects differed between the states. In Western Australia, the procurement
strategy for the delivery of the NSP involved “informing the tenderers how much money is available for each project and then asking them to indicate how much work they’ll do for that value” (Tondut, 2009). See, for example, the Tender Breakdown Form for Albany Senior High School that is included below as Attachment A (Luce, 2009). The Western Australian NSP programs were tightly controlled and centralized, with Building Management and Works, Western Australia’s public works department, managing the tendering process and aiming to achieve value through the aggregation of purchases (Tondut, 2009). Western Australia’s tendering, project and contract management costs were not included in the school grants but came out of a separate 1.5% administration funding pool (Perpitch, 2010).

In comparison, South Australia extended the procurement threshold of school principals to $250,000 to allow them to avoid the outsourced facilities management system that levied a 4% management fee (South Australia, 2009a). South Australia raised the purchasing threshold of school principals to deliver their NSP projects, allowing a three quotation system for purchases up to $250,000 (South Australia, 2009b) rather than open tender which may raise issues of probity and accountability. In New South Wales the NSP projects were coordinated by the Department of Education and Training’s regional Asset Management Units (AMUs) with some NSP projects being managed by the school principals (Minus, 2010). In Queensland, a 10.5% standard fee was levied for the project management, principal consultant and cost planners to oversee the procurement of minor works using a design and construct contract with pre-qualified contractors (Queensland Government, 2009a, 2009b, 2009c).

Despite the varying approaches to procurement of the NSP projects by the states, there is little information available on the outcomes and the impact of the different procurement processes on the achievement of quality and good value for the procurement spend. The total costs of the varying approaches by the states to deliver the works is not clear. For example, the cost of the AMU service in New South Wales has not been detailed and is not easily comparable with the management costs in Western Australia, Queensland and South Australia. This type of information could greatly add to the procurement body of knowledge when it does become available.

The P21 program is the more controversial part of the BER that has received much attention from the media – especially in New South Wales.
Initially the media focused on the problems of the one-size-fits-all approach to the design of buildings (for example new school halls or libraries) and their rollout across the states. This approach enabled the media to report on new school halls being allocated to schools due for closure and extra facilities to schools that were unnecessary and unsuited to their requirements (Bolt, 2010). More recently, the media has focused on the procurement processes used and their effect on the attainment of value for money outcomes. In particular, the use by many states of a Managing Contractor Procurement Model is an interesting area for more in-depth study.

A number of the states relied on a small number of large construction firms to act as Managing Contractors in the delivery of the P21 projects – including but not limited to New South Wales, South Australia and Queensland (Klan 2010b). Notably, Western Australia chose not to use a Managing Contractor Procurement Model, instead selecting their builders via competitive open tender and keeping the management of the project as a separate regulatory function, not to be included in the main construction contract and not to be levied on the schools but to be overseen by Building Management and Works and their competitively tendered project management and architectural firms (Perpitch, 2010; Luce 2009).

Generally, in a Managing Contractor Procurement Model, a management contractor undertakes to perform the works through trade contractors who are contractually accountable to the management contractor (Bell Gully, 2004). This form of procurement model requires in-house expertise and a good working relationship with trade contractors. The Managing Contractor Procurement Model effectively outsources the overseeing and management function to the head contractor, which has its own risks and may attract a higher fee structure.

South Australia’s Managing Contractor Model effectively saw school principals, without the requisite background in procurement or construction project management, assuming the status of external project manager, managing site issues, attending design and construction meetings and assessing construction Occupational, Health and Safety plans including evacuation processes (South Australia, 2009c). Indeed, South Australia’s Department for Transport, Energy and Infrastructure (DTEI) in their publication “Working With Your Builder” spells out the heavy responsibilities of the school principal in overseeing the Managing
Contractor as “It will not be possible for DTEI to undertake its usual overview and inspection roles during the Contract...”.

In Queensland, approximately 20% of the P21 projects were delivered via traditional lump sum contract while approximately 80% of the projects were delivered through an amended managing contractor model – Construction Management (Queensland Government, 2009c, p. 16). The Queensland Government’s Project Management Office notes in its BER Procurement Plan (Queensland Government, 2009c, p. 16) the reasons for not proceeding with the full Managing Contractor Model for their BER projects:

A further comparison of the managing contractor form shows that it is a form specifically developed for large one-off projects. For this reason it is considered less advantageous than the design and construct lump sum due to the tight timeframes and relatively low value of work per site. These factors do not easily lend themselves to a major contract with a guaranteed construction sum. A managing contractor form of contract was considered for parts of the BER project, but an amended form of construction management contract was considered more appropriate as lower management fees and profit percentages could be negotiated and it allows the principal to control the subcontract supply chain. This will be crucial in addressing local contractor demands and unemployment hotspots.

The main difference to note with the Queensland Construction Management Model (Price Waterhouse Coopers, 2009) as opposed to the Managing Contractor model is that in construction management, a construction manager undertakes to manage the works through trade contractors but the Principal (for example the Minister for Works) remains involved in directing the project and the trade contracts are made directly with the Principal (Bell Gully, 2004).

On 1 April 2010, The Australian newspaper (Klan, 2010a, p. 1) reported that the seven Managing Contractor firms in New South Wales were receiving “secret fees” of between 12.5% to 16.5% of the project cost (including the BER program’s capped 4% project management fee) to provide their managing contractor service. The total estimated value of the
fees is $85m. At least one of New South Wales’ Managing Contractors, Hansen Yuncken, is also a ‘Construction Manager’ for Queensland (Klan 2010b, p. 4) and a Managing Contractor for the BER, Round 1 in South Australia (Hansen Yuncken, 2010). Anthony Klan from the Weekend Australian, reported on 3-4 April 2010 that Hansen Yuncken were leveraging fees and charges up to 20% on the cost of new buildings for the P21 project in Queensland. South Australia is yet to enter into the debate and disclose how much they are paying for the use of this and other Managing Contractors.

While the information on this topic is limited and state governments are yet to disclose exactly what they paid to deliver these BER projects, what is clear is that the choice of procurement model and in particular the choice of outsourcing and using the largest construction companies in Australia to manage and deliver the construction projects has been costly. Not only does the use of large construction firms appear to impact on the overall cost of the project, but it also has an impact upon one of the key aims of the BER – to boost local infrastructure and support jobs – which is undermined by massive profit margins for just a few.

The Renewable Energy Program (REP)

The Federal Government included a Renewable Energy Program in their Plan which had multiple aims including: boosting the Australian economy through providing financial support to local installers and tradespersons through rebates; investing in Australia’s long-term needs in regards to alternative energy and sustainability initiatives, and working towards the Federal Government commitment to the Carbon Pollution Reduction Scheme. Unfortunately though, one of the original REP programs, the Home Roofing Insulation Scheme (the Scheme), has been roundly considered to be a disaster, a public safety risk and waste of public funds (Oakes, 2010). The Insulation Scheme has been linked to 4 deaths, more than 87 house fires and an on-going risk to over 1000 inhabitants and their properties where the roofing insulation was installed as part of this Scheme (Coorey & Arup, 2010). About 37,000 homes were installed with foil insulation, instead of ‘Pink Batts’, including in a dangerous fashion with the insulation being placed “directly over live electrical wires and fastened with metal staples, essentially electrifying entire roofs and buildings” (Trenwith, 2010).
The blame for the disasters linked to the Scheme have been placed squarely on the Federal Government’s shoulders (or more specifically, those of then responsible Environmental Minister, Peter Garrett). This is despite the acknowledged fault of “shonky” installers (Oakes, 2010) who breached installation guidelines, employed inadequately trained staff and were reckless as to the risks inherent in this work (Coorey & Arup, 2010). This procurement has been costly to the Federal Government and Australian taxpayers. Along with the cost to audit homes that have had the insulation installed (Trenwith, 2010), the Federal Government is now also paying to support the retention of insulation workers in the insulation industry or related industries until the new Renewable Energy Bonus Scheme commences on 1 June 2010 (Australia, Home Insulation Program, 2010). Former prime minister Kevin Rudd also acknowledged that the Scheme could have cost him an election (Hudson 2010). The Insulation Scheme demonstrates that despite the failures of other parties, a Government can never truly divulge themselves of the procurement risks and will ultimately be held responsible.

While the aims of the Insulation Scheme may be considered worthy (COA, 2010a), with a number of commentators noting that insulation schemes are valid environmental sustainability initiatives used or currently being considered in many countries (Curtin, 2010), the poor planning and implementation of this program led to the disastrous outcome. There is evidence that the rushed implementation of this program – without due consideration of the risks involved, with lack of research into the present status and capability of the industry, without development of the industry and implementation of standards and quality management systems, and with the provision of rebates and incentives directly to installation companies without requiring them to demonstrate their experience and capability – created this volatile situation. There are lessons to be learnt here for not only the Federal Government, who is now trying to remedy these procurement mistakes, but for any procuring organization. The key lessons to be learnt will be briefly discussed below.

Lesson 1: Plan the procurement and perform comprehensive risk assessments

The Plan was developed at short notice in response to urgent economic need. The Plan was designed to quickly restart the Australian economy with projects that would, if delivered according to the Plan, have
lasting benefit to the country. The key aim of boosting the economy through the speedy spending of public monies, however, may arguably be the barrier to the success of the secondary aim: quality, lasting building infrastructure and sustainable development, through their lack of planning.

In February 2009, Lenore Taylor reported that the “Rudd Government is hoping low-skilled unemployed people will be quickly retrained as insulation installers to meet the demand fuelled by its temporary $1600 grant to any home owner needing energy-saving roof insulation.” One year later, numerous reports highlighted that the very inexperience of the installers employed in the Scheme contributed to the disastrous outcome. The risks inherent in overloading an under-developed industry appear obvious now and should have been more seriously considered at the time.

Lesson 2: Research the industry, consult stakeholders and, if necessary, invest in supplier/contractor development

So often, some of the mistakes are so obvious that you wonder how anyone could have made them. The principal problem was that the Australian insulation business was largely unregulated. As the programme took off, inexperienced installers started offering insulation by knocking on people's doors. The government was forced to introduce safety and training rules as it went along. Critics say the government was advised by the industry to postpone the start of the programme until proper procedures were in place but ignored the warnings (Skapinker, 2010).

As Skapinker’s commentary above notes, the installation industry at the time of the implementation of the Scheme was “largely unregulated” and unskilled. The very popularity of the Government’s Scheme with homeowners created an unacceptable pressure and demand on an industry that was just not ready (Trenwith, 2010). Research into the existing industry and consultation with relevant stakeholders would have highlighted the need for intense contractor/supplier development in terms of training, support and regulation. It would have identified possible shortages to supply, not only of suitably qualified installers but also of materials including ‘Pink Batts’. Indeed, there is evidence that this information was
available to the Government but was largely ignored (Coorey and Arup, 2010).

Lesson 3: Consider implementing pre-qualification systems and plan for the quality management of the contract

The ABC was told that “one company the Federal Government accredited last year, had a previous history as a telemarketing business, and no prior qualifications in home insulation” (Lane, 2010). Indeed, numerous media articles are now reporting on the unconscionable marketing practices and “cowboy” behavior of “fly-by-nighter” installation companies, newly formed to take advantage of the Federal Government Home Insulation funding (Oakes, 2010). The lesson to be learned from this for the procurement profession is to consider the nature of the industry and implement appropriate systems or procurement processes to evaluate, control and manage the quality of the goods or services being procured.

Under pressure from the poor procurement outcomes of the Scheme, the Federal Government had to backtrack and put in place Initial Supplier Qualification processes (Cousins et al., 2008, p. 60) and other quality control measures post hoc, including the following: registration systems including the evaluation of contractor experience and capability, mandatory training programs, auditing, and the public naming and shaming of companies that fail to comply with guidelines (Trenwith, 2010). It is a costly lesson to learn that these steps should have been in place from the beginning.

Conclusions

In the coming months and years, the reporting and academic analysis on the topic of the Impact of the Australian Government Economic Stimulus Package on Procurement will provide a valuable contribution to the procurement body of knowledge. This is a broad topic that can provide practical insight on many issues relevant to the procurement profession, including, but not limited to:

- How to maximize outcomes for the procurement spend and, in particular, the impact of outsourcing functions;
• The choice of procurement process and innovation in procurement and how this can impact upon the quality outcome for the procurement spend;

• Governance, probity and accountability issues;

• The importance of considering the whole procurement cycle, from in-depth planning and research through quality control and contract management to disposal/decommissioning and review;

• The importance of community and stakeholder consultation and involvement to avoid obvious mistakes and ensure that projects meet their objectives; and

• The importance of building procurement capability within organizations and the impact this can have on project outcomes.

As discussed earlier, one of the key areas that will form part of the procurement body of knowledge will be the impact of having an internal procurement resource and the type of procurement processes that are then entered into versus the cost of outsourcing this function. What has yet to enter into the media reporting in regards to the outcomes of the BER spending is the circumstances of the various state procurement organizations and whether they had the internal resources and level of preparedness to coordinate such a massive spending program and deliver value for money results.

The events surrounding the Home Roofing Insulation Scheme highlight the importance of planning, researching and understanding the market, developing suppliers/contractors if required and the implementation of appropriate procurement processes and quality management systems. Arguably, this information already existed for procurement practitioners and the benefits of further research into this situation will further bolster existing case studies supporting the involvement of procurement professionals from the very beginning of the idea through its management to the review stage.

Both the BER and the Home Roofing Insulation Scheme examples highlight the political impact of procurement for state and federal governments and the inescapability of risk. In regards to the Home...
Insulation Scheme, the Federal Government is carrying the political and financial responsibility for the unconscionable and, in some cases, possibly negligent conduct of contractors. In regards to the BER, many of the state governments tried unsuccessfully to shift the risk, cost and responsibility for the projects to private enterprise through their choice of procurement process – for example, with the use of Managing Contractors. Considering the unavoidability of the risk, an area to be further investigated is how governments can better manage projects and their risks internally.

References


