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Australian Government

Defence

ENTERPRISE BUSINESS COMMITTEE

24 AUGUST 2022

OPPORTUNITIES FOR IMPROVED CONTRACTOR MANAGEMENT

Purpose / Decision Required

1. The purpose is to discuss financial considerations around the use of contractors. The Government's election commitment around reducing contractor spend needs a proactive approach by the department ^{s47C}

Recommendations

2. It is recommended that the Enterprise Business Committee: ^{s47C}

Back

3. There are five key professional services panels within Defence. The estimated aggregated total spend for FY2021-22 was \$2.63 billion with a specific breakdown of:
 - a. Defence Support Services (DSS) Panel - \$1.06 billion.

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- b. Information Communication Technology Provider Arrangement - \$756 million.
- c. Major Service Provider (MSP) to CASG - \$656 million.
- d. Defence Infrastructure Panel - \$121 million.
- e. Defence Infrastructure Panel, Enviro, Heritage & Engineering - \$34 million.

DSS and MSP panels

- 4. The combined contract values for the DSS and MSP panels account for more than 66 percent of the top 5 Defence professional services panels. The DSS and MSP panel arrangements are maintained by Commercial Division.
- 5. The DSS Panel provides Defence with access to 79 skill sets at five skill levels. The MSP Panel is for CASG use only and facilitates the procurement of larger, longer term and more integrated work packages.
- 6. The MSP arrangements commenced in 2018, with a review conducted in 2021 ^{s47E(d)}

The review made ^{s47E(d)} recommendations (see summary at Attachment A) to enhance the MSP arrangements and align them with Defence Enterprise requirements.

^{s47E(d)}

- 7. The DSS rates for the top 5 firms are in excess of the rates of the MSP arrangements and the MSP panel represents a lower cost of delivery, with:

^{s47E(d)}

- 8. ^{s47E(d)}

Behavioural and Procurement issues

- 9. ^{s47E(d)}

- 10. Level 5 usage (49 contracts) is stable but they are an over-represented resource given their cost and skills. ^{s47E(d)}

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11. s47E(d)

s47G

12. In this regard, Defence could:

s47E(d)

13. A random sample of approximately 70 new contracts across the top 5 contractors on DSS showed only s47E(d) of contracts were contested, s47E(d). For contested contracts, Defence realised savings up to s47E(d). The top 5 contractors that Defence 'sole sourced' are:

s47E(d), s47G

14. On 1 July 2022, the Commonwealth Procurement Rules were amended to include: "To maximise competition, officials should, where possible, approach multiple potential suppliers on a standing offer". Defence could give effect to this, and achieve savings, through ceasing the 'sole sourcing' of panel contracts where possible and requiring at least three quotes as a general rule. s47E(d)

15. Scope/value creep can be evidence of poorly scoped or poorly managed contracts. Attachment C demonstrates that firms are being contracted for small pieces of work s47E(d)

s47E(d), s47G

Such practices were recently highlighted in a series of articles by the Australian Financial Review in August 2022.

16. The contracting methodology under the Panels is routinely on a time and materials basis and requires contractors to be co-located on a fulltime basis in the workplace. s47E(d)

Outcomes/outputs-based contracts provide greater price certainty, with the contractor incentivised to manage risk and drive innovation and efficiency in service delivery. s47E(d)

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17. s47E(d)



Risks and Issues

18. s47E(d)



19. Any change of approach to accessing panels would need to be managed carefully.

Finance and Resource Impacts

20. The Government election commitment to “reduce wasteful spending on external private labour (contractors, consultants and labour hire) … by \$3 billion over four years” could negatively affect Defence budgets.

21. s47E(d)



22.



Next Steps

23. s47C



Consultation

24. Consultation occurred with:

- Shane Fairweather, Acting DepSec CASG
- Graham Webber, FAS, Financial Performance and Management
- Ciril Karo, General Business Manager, CASG.

Contact Officer: Mr Andy Staines, FAS P&C, Commercial Division

Authorised by: Mr Steven Groves, Chief Financial Officer

Date: 18 August 2022

Attachment

- MSP Review Summary Recommendations
- Top 5 DSS contractor rates versus MSP rates
- DSS Contracts by highest Amendment Value Percentage

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Attachment A

MSP Review Summary Recommendations

Summary findings and recommendations

The MSP Review found that the MSP arrangements have delivered improved outcomes relative to the previous arrangements and the MSP arrangements should remain in place subject to modification to realise their original intent. The MSP Review has confirmed specific objectives and expectations for MSPs to support the Australian Defence services industry, as described in the Joint Objectives, should continue to be pursued and be supported by the Review recommendations.

The key recommendations from the Review, outlined below, focus on:

- supporting the ongoing sustainment and development of Defence capability;
- providing ongoing support for industry capability;
- opportunities to ease labour constraints which are starting to impact on the MSP program;
- increasing the reach of the MSP supply chain arrangements;
- other observations to improve the MSP program outcomes (including value for money); and
- strengthening governance and controls.

Developing Defence capability

1. The MSP arrangements should be updated to clearly articulate Defence's expectations with respect of the MSPs building Defence's skills and capabilities under the Capability Life Cycle.

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Supporting industry capability

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s47E(d)



Easing labour constraints

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Increasing the reach of Supply Chain arrangements

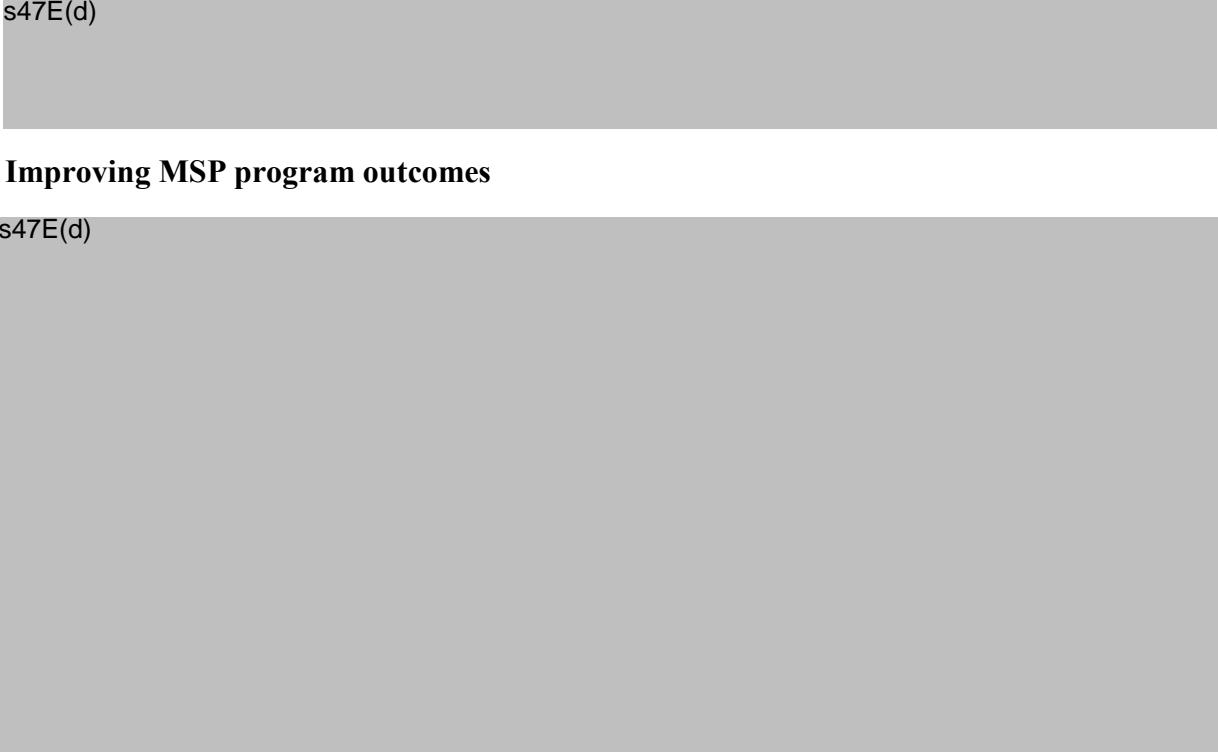
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Improving MSP program outcomes

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Strengthening governance and controls

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Attachment B

Top 5 DSS contractor rates versus MSP rates

1. The table below compares the average long-term rates offered by the top 5 DSS contractors ~~s47E(d), s47G~~ with the average rates offered under the MSP programs across the high volume services being procured under the DSS program.

SKILL SETS	Variance DSS long term rate vs MSP rate		
	Level 2	Level 3	Level 4
1.1 Program & Product Management Services & Spt	s47E(d), s47G		
1.2 Project Management Services & Spt			
2.1 Sys and Software Eng - Systems Engineering			
2.2 Sys and Software Eng - Systems Architecture / Integration			
3.1 Integrated Logistics Spt Management			
3.5 Logistics Spt Analysis			
4.1 Strategic Business Advice			
4.2 Proc Methodologies, Contracting Options & Tender Dev			
Average variance			

2. The analysis shows the DSS rates are ~~s47E(d)~~ higher across a sample of different skills and skill levels and are on average ~~s47E(d)~~ higher across skill levels 3 and 4.
3. ~~s47E(d)~~ ~~s47E(d)~~ The top 10 contractors account for ~~s47E(d)~~ of spend contract values the DSS panel (\$2.2b).

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Attachment C

DSS Contracts by highest Amendment Value Percentage

Capability Group/Service	Responsible Profit Centre	Contract Notice Description	No of Amendments	Comments on Extension Options	Supplier	Start value	Current Value	Percentage Amendment Value Increase
s47E(d)					s47E(d), s47G			

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