Around $43 billion is invested in public infrastructure each year. Around 53% is procured from the private sector, and professional services contribute almost 20% to the overall value of projects.

As budgetary constraints compete with the public demand for enhanced infrastructure provision, the need for each dollar of public funding for infrastructure projects to go further is greater than ever. The procurement reform described in this report presents an opportunity to make this happen.

There are big opportunities for more efficient procurement of professional services for public sector built environment projects. With improvements in briefs, delivery models and contracts, firms can:

- Reduce the costs of projects by 5.4%, comprised of:
  - direct price increases of 3.6%;
  - indirect price increases of 1.5% from reduced competition; and
  - inefficient costs of bidding worth 0.3% of project prices.
- Reduce delays to projects by 7%;
- Improve the quality of projects by 7%.

By implementing the recommendations of this report, government has the opportunity to achieve economic benefits of around $5.1 billion in additional GDP between 2015 and 2030 (real $2014).

Project Briefs: Unclear Objectives and Unverified Information

Finding: Unclear project objectives are encountered by firms in 37% of Requests for Proposals.

- This has led to higher prices in around 12% of all projects due to direct premiums charged by firms in response.
- Unclear project objectives also lead to reduced competition in around 9% of all public sector infrastructure projects, as firms decide not to bid for the work.
- Other responses include submitting proposals that do not conform to the specifications of the project brief, or not taking any specific action.

Where project briefs are unclear, the report found firms respond in one of four ways, see Graph 1.

Finding: Firms are required to undertake additional work to verify the accuracy of information provided in briefing documents in around 34% public sector tenders. See Table 1.

- The costs of this additional work are estimated at around $41,800 per firm per bid.

Less Innovative

Finding: Around 40% of professional services firms bidding for built environment sector projects consider public sector clients to be very or somewhat responsive to innovative suggestions during a request for proposal (RFP) process. In contrast, almost half of the industry has found public sector clients unwilling to take innovative suggestions on board. See Table 2.

One method that the public sector can use to promote opportunities for innovation is to interact with industry, either as an early market sounding process or during the bidding process. The data collected for this report suggests that these interactions take place for just below half of all tenders for professional services in built environment projects.
**Increased Bid Costs**

**Finding:** Bid costs for professional services firms tendering for public sector built environment projects range between 0.6% and 2.9% of total project value. See Table 3.

**Onerous Terms and Conditions**

**Proportionate Liability**

**Finding:** While around 20% of respondents indicate that they currently hold insurance cover for contracting out of proportionate liability, almost half of respondents (44%) indicate that they do not and a further 36% are unsure as to whether they hold cover for this. See Graph 2.

**Finding:** To obtain insurance cover for contracting out of proportionate liability, firms can be required to pay up to 25% in additional insurance premiums if it’s available at all.

- This figure varies greatly, but particularly affects smaller firms. This uneven distribution of the costs of contracting out across the industry may lead to further impacts on the level of competition within the industry over the longer term.

**Other Contract Clauses**

A range of other contract clauses are regularly encountered by the consulting industry that may lead to less desirable consequences, whether through increased prices, ineffectual risk management, delays, or reduced quality.

The responses of firms include pricing risk into their bids, not bidding for work, proceeding without adequate insurance, or absorbing the cost and potentially affecting the long term viability of their firm. See Table 4.

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**Table 3: Bid costs as a proportion of total project value**

<table>
<thead>
<tr>
<th></th>
<th>Large Firms</th>
<th>Medium and Small Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional models</td>
<td>0.6%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Private models</td>
<td>2.2%</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

**Graph 2: Private sector insurance cover for contracting out of proportionate liability**

- **36%** Don’t know / not sure
- **20%** Yes
- **44%** No

**Table 4: Business responses to onerous contract clauses**

<table>
<thead>
<tr>
<th>Clause was't there</th>
<th>Business absorbed impact</th>
<th>No insurance</th>
<th>Non bids</th>
<th>Higher priced bids</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unlimited liability</td>
<td>7%</td>
<td>8%</td>
<td>7%</td>
<td>30%</td>
</tr>
<tr>
<td>Specific insurance</td>
<td>7%</td>
<td>5%</td>
<td>4%</td>
<td>30%</td>
</tr>
<tr>
<td>Requirements</td>
<td></td>
<td></td>
<td></td>
<td>3%</td>
</tr>
<tr>
<td>Fitness for purpose</td>
<td>4%</td>
<td>4%</td>
<td>3%</td>
<td>27%</td>
</tr>
<tr>
<td>Purpose</td>
<td></td>
<td></td>
<td></td>
<td>20%</td>
</tr>
<tr>
<td>Termination for</td>
<td>3%</td>
<td>4%</td>
<td>2%</td>
<td>19%</td>
</tr>
<tr>
<td>Convenience</td>
<td></td>
<td></td>
<td></td>
<td>19%</td>
</tr>
<tr>
<td>Expert standard</td>
<td>2%</td>
<td>3%</td>
<td>2%</td>
<td>20%</td>
</tr>
<tr>
<td>of care</td>
<td></td>
<td></td>
<td></td>
<td>73%</td>
</tr>
<tr>
<td>Significant liquidated damages etc.</td>
<td>2%</td>
<td>3%</td>
<td>2%</td>
<td>73%</td>
</tr>
<tr>
<td>Novation provisions</td>
<td>3%</td>
<td>2%</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>Contracting out of proportionate liability</td>
<td>3%</td>
<td>3%</td>
<td>2%</td>
<td>4%</td>
</tr>
</tbody>
</table>
Overall Economic Impact

Finding: Economic modelling found that while the dividend of improving procurement practices is modest in annual terms, the benefits accumulate significantly over the long term, worth:

- $2.5 billion in cost savings for government between 2015 and 2030; and
- $5.1 billion in additional GDP between 2015 and 2030.

Recommendations

To improve public sector procurement outcomes:

1) Set up procurement teams with a mix of practical, legal and procurement experience.
2) Reallocate procurement resources towards better specification of project objectives, including early engagement with industry, identifying end user needs, and re-testing business case objectives.
3) Remove contract clauses that don’t stack up, whether from a cost-benefit perspective, or through the behaviour shaped by the inclusion of those terms.
4) Develop and apply limited liability guidelines to assist agencies with ensuring that liability requirements do not add unnecessarily to project costs.
5) Verification of brief information by government to avoid costly duplication by tenderers.
6) Streamline compliance processes to reduce bid costs.
7) Evaluate and adapt procurement frameworks to encourage innovation, including being open to new delivery models, early market sounding options and continuing to provide opportunities for unsolicited proposals.

Consult Australia has long been engaged in the policy discussion about improving procurement practices around Australia. As this report shows, reforms to procurement will not only support our industry, but will yield benefits for public sector clients and ultimately the broader public who use that infrastructure.

It is critical that the procurers of public projects are aware of these benefits, and factor them into their decisions as our industry works to develop tomorrow’s infrastructure.

Our Industry

Consult Australia is the industry association that represents the business interests of consulting firms operating in the built and natural environment across Australia. Our member firms’ services include, but are not limited to: architecture, landscape architecture, engineering, planning, cost consulting (quantity surveyors), project management and environmental science.

Consult Australia
Level 6, 50 Clarence Street
Sydney NSW 2000
P. 02 9922 4711  E. info@consultaustralia.com.au   W. www.consultaustralia.com.au