



Queensland Audit Office
better public services

Strategic procurement

Report 1: 2016–17



Queensland Audit Office

Location Level 14, 53 Albert Street, Brisbane Qld 4000

PO Box 15396, City East Qld 4002

Telephone (07) 3149 6000

Email qao@qao.qld.gov.au

Online www.qao.qld.gov.au



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27 September 2016

The Honourable P Wellington MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Mr Speaker

Report to Parliament

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled Strategic procurement (Report 1: 2016–17).

In accordance with s.67 of the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Anthony Close', is positioned above the printed name.

Anthony Close
Auditor-General (acting)

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Summary

Introduction

Procurement of services and supplies makes up a significant proportion of the total expenditure for Queensland Government departments.

During 2015–16, 21 government departments and 16 Hospital and Health Services made around 2.1 million separate payments procuring about \$10 billion of supplies and services from 33 903 suppliers (excluding capital spend). This is about 18 per cent of their total expenditure (about 30 per cent of their total expenditure when inter-government transactions are included).

In addition, two commercialised business units in the Department of Housing and Public Works (DHPW) spend around \$760 million and public schools spend about \$700 million, which are recorded outside the government's common finance system.

Achieving value for money from this substantial outflow of public moneys requires:

- strategies supported by long term procurement plans with measurable goals
- using the public sector's combined buying power by coordinating expenditure across government
- continuously improving procurement capabilities, systems, processes and underlying activities.

The *Financial Accountability Act 2009* and the *Financial and Performance Management Standard 2009* make accountable officers (in most cases, the departmental directors-general and agency chief executives) responsible for carrying out their operations efficiently, effectively, and economically. This encompasses economy in procurement — the cost-effective acquisition of services and supplies of the right quality at the best price.

Accountable officers must comply with the Queensland Procurement Policy (QPP) — the overarching policy for procurement of goods and services. The main guiding principle in this policy is to drive value for money. Five other principles support this:

- Principle 2: We work together across agency boundaries to achieve savings and benefits.
- Principle 3: We are leaders in procurement practice — we understand our needs, the market, our suppliers and have the capability to deliver better outcomes.
- Principle 4: We use our procurement to advance the government's economic, environmental and social objectives and support the long-term wellbeing of our community.
- Principle 5: We have the confidence of stakeholders and the community in the government's management of procurement.
- Principle 6: We undertake our procurement with integrity, ensuring accountability for outcomes.

Recent changes to core public sector procurement

From 2007 to 2012, there have been several reviews into whole-of-government procurement. Each of these identified significant opportunities for departments to achieve substantial cost savings.

One of these reviews of strategic sourcing led to the creation of the Procurement Transformation Division (PTD) within DHPW from 1 July 2013, to lead a five-year Procurement Transformation Program (PTP).

The government expected the PTP would lead and oversee the realisation of an estimated \$600 million to \$1.3 billion in procurement benefits across government agencies by June 2018. This target represented savings of between six and 12 per cent of in-scope procurement spend.

The PTD reported progress to the previous government's Director-General (DG) Council. The DG Council was responsible for oversight of the whole-of-government approach to procurement in accordance with the QPP. In August 2014, the DG Council stopped its oversight of the PTP when it reported it was confident in the PTD's ability to deliver.

Most recently, in June 2015, to fulfil an election commitment by the incoming government, an Interdepartmental Committee (IDC) was established to undertake a broad-ranging review of government procurement practices. The IDC made nine recommendations to government about the future of Queensland's procurement operating model, including that the Office of the Chief Advisor be retained within DHPW. It also recommended that agencies remain accountable for their own procurement, rather than adopting a central-agency led procurement model.

The IDC recommended a two-tiered governance model, consisting of the CEO leadership board and category councils, to oversee procurement activities across the public sector. It also established the Queensland Government Procurement Committee to provide direction, informed deliberation, and advice to strategic whole-of-government procurement activities under the new operating model.

In addition, the IDC confirmed the value of using a category management approach in order to leverage whole-of-government buying power and opportunities. This involves grouping types of expenditure into categories and having a 'lead' for each category. The category lead is a department that understands and analyses a particular category of goods and services (for example, information communications technology).

The category leads are each expected to build a strategy and a plan to deliver the best outcomes across the state public sector when purchasing those goods and services. Their strategies may include suggesting ways for agencies to reduce or otherwise manage demand, rationalising the number of suppliers used, and standardising products supplied. When used effectively, these approaches can also deliver non-financial benefits, such as reducing the public sector's risk exposure when public sector agencies use common products and services.

Whether or not a category management approach is applied, cost-effective procurement cannot be realised without good quality procurement data. Departments and category managers need to understand what services and supplies they need to purchase, from whom, and how much they pay their suppliers, both in unit rates and in total.

This audit examined whether good quality data is available and whether state government departments are achieving and enabling value for money procurement outcomes through effective strategic procurement. It also examined whether there are sufficient measures in place to develop the necessary procurement capability in the staff who work in this field.

Audit conclusions

The public sector is better positioned to undertake strategic procurement than it was four years ago. This is because it has built some of the foundational elements it needs. These include defining and assessing procurement capabilities, negotiating whole-of-government supply arrangements, and commencing, and in some cases, implementing category management plans.

However, the PTD and government departments have not delivered on the significant financial benefits they expected. The strong leadership needed and the capabilities required in data, systems, and of people, are not yet sufficient. They are either missing or are not working as well as they could.

Most departmental managers do not have the data or the tools they need to inform their strategic procurement decisions. This is a fundamental limiting factor that needs to be urgently addressed. The PTD created datasets in an attempt to use data to analyse opportunities to realise benefits. We found these had material errors that made them of little practical use for whole-of-government or departmental procurement decisions. Our analysis of underlying procurement data that we extracted from departmental purchasing systems has identified missed opportunities to realise significant benefits.

Further, category management as a procurement discipline has yet to mature. Departments need now to commit to category targets and improve data quality, staff capability, and inter-agency collaboration for category management to be successful. This will take time and will require changes to buying behaviour, which will need clear direction and support from senior leadership to make it a reality.

Finally, in our opinion, DHPW is not best positioned to coordinate whole-of-government procurement in Queensland, a role it has historically performed. It does not have the organisational authority or capacity to set policies for procurement processes, or to monitor and enforce them. Nor can it direct or otherwise strongly influence the design of finance and procurement systems used by departments, to better support whole of government procurement outcomes.

Benefits realisation

The 2012 strategic sourcing review established ambitious expectations for departments to realise benefits. But departments did not then have the capability in data analytics and category management to validate how real the identified opportunities were and to implement strategic initiatives to realise them.

The PTP was expected to achieve a minimum of \$417 million in procurement benefits within two financial years; however, PTD reported that only \$190.5 million was achieved.

DHPW published benefits figures in its 2013–14 annual report without PTD properly validating them. PTD reported that it delivered \$64.5 million in cash savings for Wave 1 (the first phase) of the PTP, but we could only verify 46.90 per cent of this amount with supporting evidence.

It also incorrectly reported savings as 'cash savings', which would lead users of its report to mistakenly believe that PTD had improved the Queensland Government's cash position. This points to the need for greater checks and balances to be enforced for the performance information that departments publish in their annual reports.

The 2014–15 state budget reduced government departments' expenditure by \$24 million annually for four years due to the savings PTD claimed in Wave 1 of the PTP. Because of this, departments are reluctant now to set new benefits targets as they have no new incentive to achieve them. In fact, they have a disincentive.

This also set an unrealistic expectation that any savings realised in Wave 1 would continue to be realised at the same rate, with no change in demand for the products and services, over the following four years.

We observe that there is no whole-of-government benefits realisation process to ensure agencies that measure and report procurement benefits do so consistently.

We note also that the government is no longer tracking or aiming for the benefits target set in the State Procurement Plan 2014–18, which was developed by the PTD in June 2014. This is because it believes that target focused too narrowly on achieving financial savings rather than value for money.

Procurement planning

Not all departments are applying the principles of the Queensland Procurement Policy (QPP). Sixteen out of 21 departments do not have a current agency procurement plan, which the QPP requires.

This indicates the lack of importance that was placed on strategic procurement planning at an agency level. Because the IDC-recommended operating model for procurement is now based on an agency led procurement model, departments will need to develop these plans, link them to category plans, and keep them up to date.

Under the PTP, the PTD did not provide any guidance material to help agencies implement this policy requirement, preferring instead to emphasise their centre-led procurement model. But we note also that departments did not collaborate well to seek to deliver benefits.

Under the PTP, category management results were sub-optimal because the PTP:

- did not govern the categories and benefits management well
- allocated responsibility for categories to agencies that did not have the buying power to influence outcomes in those categories
- lacked good quality procurement data.

These factors inhibited PTD's effectiveness, which restricted its ability to deploy a range of strategies to achieve value for money, such as managing demand.

One positive development is that PTD and the Department of Science, Information Technology and Innovation (DSITI) have evaluated the best suppliers for a range of products and services and negotiated supply arrangements with them for all government departments to use.

But PTD has not managed the risk of departments buying outside of these whole-of-government supply arrangements as well as it could have. It needs to make these supply arrangements more readily accessible and easier to use.

As a corollary to this risk, neither the PTD nor DSITI can effectively monitor whether agencies purchase outside of these arrangements. They rely on supplier data to know how agencies have used their supply arrangements.

Procurement capability — systems, data, and people

Systems and data

PTD's ability to identify and drive financial and non-financial benefits has been limited because most departments systematically record only expenditure transactions in their financial systems not the broader procurement data associated with each expense, such as unit price, quantity, and supplier details.

PTD attempted to use departments' financial data to conduct a spend analysis, but it did not have the skills it needed to ensure its data was accurate. Therefore, the data PTD used for its own analysis and which it provided to other agencies upon request, was materially inaccurate. As a result, it was unreliable as a source of information for strategic procurement decisions.

Government agencies have performed various types of spend analysis in an attempt to fill the gap that a central data source could fulfil more effectively. This has duplicated effort across the public sector, and the different methodologies they have used means they cannot be easily combined into an accurate whole-of-government analysis.

The Q-Contracts implementation (a contracts management system selected by DHPW) does not satisfy all the key requirements we outlined in our report *Contract management: renewal and transition* (Report 10: 2013–14). It does not enable a user to conduct a spend analysis of contracts.

Because departments record contract information on separate systems, and these systems do not record contract spend, the departments that serve as category leads cannot effectively monitor the extent to which departments are using supply arrangements and contracts for their purchases.

People capability

Government departments have not agreed on what procurement skills their staff need to improve the effectiveness of their procurement functions. PTD developed a draft technical competency framework, but when it was ready for review in 2015, the DG Council was no longer operating to approve it.

PTD created a baseline of procurement capability in 2013. However, the public sector cannot reliably measure what progress it has made in developing procurement capability because the PTD has used different frameworks to define procurement capability at different times.

The PTD's technical competency framework is too narrowly focused on its training provider's learning offerings, which are targeted to individual rather than agency needs. Accordingly, the training needs assessment, which PTD built on the technical competency framework, identifies an individual's skills gaps, but not an agency's. Because of the tight link to the provider's learning offerings, the assessment only focuses on short-term training needs.

The public sector lacks a professional accreditation framework for procurement staff to ensure their skills remain current and to address emerging issues. While procurement staff can obtain a procurement certification, there is no ongoing requirement for them to continue professional development activities.

The 'Critical Skills Boost' (CSB) program provided through the PTD offered 1 000 public sector staff free training over 12 months, but only 447 have used the modules. One reason for the low take-up is that the learning is not competency-based — staff do not receive any formal recognition for completing it.

However, the opportunity exists for PTD's CSB program and certification programs to be leveraged to provide an accreditation program for procurement staff, which will provide formal recognition of staff's capability and encourage them to complete professional development training.

Opportunities for realising benefits

There are several opportunities for departments to use procurement strategies to realise financial benefits. We used the data we collect for our financial audits to demonstrate how agencies can do this. The financial benefits stem from creating new supply arrangements, better using existing supply arrangements, reducing processing costs, and managing demand for goods and services at the end of the financial year.

Creating new supply arrangements

A well negotiated supply arrangement enables procurement savings based on expected throughput, unlike off-contract spend which a vendor may price as a one-off procurement.

Using 2014–15 data, we identified new supply arrangements are needed for:

- mail and cargo transport — where two suppliers are currently on a supply arrangement that is no longer active. They account for 37 per cent of the total \$73.3 million spend
- food, vegetables, nuts, and seeds — where two departments share the majority of the total \$47.3 million spend. Of this spend, 47 per cent was with the top three suppliers, but two of them are not on a supply arrangement
- electricity and gas — where departments and Hospital and Health Services spent at least \$9.2 million without a supply arrangement
- subscriptions to publication databases and magazines — where the top three suppliers account for 44 per cent of total spend, but only one of the three suppliers are on a supply arrangement.

Better using existing supply arrangements

When departments use direct invoices it can be an indication that they are not using existing supply arrangements. This is referred to as 'off-contract' spend.

Our analysis of the number of purchase orders and direct invoices for general goods and services indicates that, on average, departments used direct invoices for 53 per cent of transactions greater than \$5 000 from 2014–15 to 2015–16. The management, professional and administrative services category has the highest number of direct invoices and therefore the highest risk of off-contract spend. In this category, off contract spending occurs more often than on-contract spending.

Reducing processing costs and managing end of year demand

By changing the behaviour of procurement practices to comply with Queensland Treasury's corporate card policy, the state government can save about \$9 million a year in transaction processing costs. By way of example, there have been about 366 000 invoices where the cost of processing the invoice was greater than the invoice value in the past three financial years.

Further benefits can be realised if departments better manage demand for the two categories of 'general goods and services' and 'information and communication technology' to ensure that impulsive decisions to spend budget allocations in June every year are reduced. This will ensure cash is not spent unnecessarily or off contract.

Procurement operating model

It is unclear how the new whole-of-government procurement function has been set up with the right level of authority to succeed within DHPW. Previous DHPW hosted functions struggled to influence the level of change required in procurement processes, systems, and buying behaviours to deliver strategic procurement outcomes.

The IDC report recommended a six-point action plan to provide a new model of procurement across government. These include:

- agency led procurement
- supported by a whole-of-government procurement body
- strengthen governance
- improve industry engagement
- increase procurement capability
- understand and address knowledge and information needs.

The IDC report recommended that agencies remain accountable for their own procurement delivery, and that a new whole-of-government procurement function be established to support departments in delivering procurement outcomes. This resulted in the creation of the Office of the Chief Advisor — Procurement (OCAP) within DHPW.

The new whole-of-government procurement function is limited in its ability to influence, as it has been set up as an advisor — it cannot set and monitor policy, or specify common processes and systems that will enable all agencies to collectively achieve procurement outcomes.

Queensland is the only Australian state where the responsibility for whole-of-government procurement does not sit with a treasury or finance department. The rationale in other states is that a central agency has more authority to issue policy statements on matters such as how agencies should record their expenditure, how they should account for benefits realised, and how they should report their performance.

Recommendations

We recommend that the Department of the Premier and Cabinet, Queensland Treasury and the Department of Housing and Public Works (DHPW)

1. work together to:
 - confirm the role and level of authority required by the Office of the Chief Advisor — Procurement to enable strategic procurement outcomes
 - assess the merits of retaining the role within the DHPW versus within a central agency.

We recommend that the Office of the Chief Advisor — Procurement collaborates with government departments to:

2. develop a Queensland Government procurement planning guide that establishes better practice and defines the roles and responsibilities for creating category and agency procurement plans
3. develop a benefits realisation framework to ensure that departments consistently establish, measure, report, and validate benefits
4. improve procurement capability in the public sector as part of its current program, and:
 - review, and agree with departments, the technical competency framework so that it includes all the skills a procurement professional needs to be effective, like data analytics and benefits realisation
 - review and update the procurement training needs assessment so it aligns to a professional accreditation scheme
 - implement a professional accreditation scheme for procurement staff in government to incentivise them to undertake certification and continue with professional development activities.

We recommend that the Office of the Chief Advisor — Procurement and the Department of Science, Information Technology and Innovation collaborate with government departments to:

5. develop a procurement data strategy that identifies and assesses:
 - what procurement data government departments need to record
 - how procurement data should be categorised, ideally using a universally recognised categorisation approach
 - cost-benefit of options for improving existing systems to improve the quality and accessibility of procurement data from a central source.

We recommend that all departments:

6. work with category leads to develop an agency procurement plan that includes, in addition to the QPP's minimum requirements:
 - spend analysis by the categories established and agreed with the Office of the Chief Advisor — Procurement
 - their use of existing whole-of-government supply arrangements
 - agency-specific opportunities (economic, social, and environmental) to realise procurement benefits and reduce processing costs
 - measurable benefits targets (financial and non-financial) against realistic timeframes that departments set, but which align to whole-of-government category goals and objectives.

Summary of responses

In accordance with section 64 of the *Auditor-General Act 2009*, the proposed report was provided to the 21 government departments for comment. The Department of the Premier and Cabinet requested DHPW to coordinate a whole-of-government response. A summary of the whole-of-government response is reproduced below and the formal response is included in Appendix A.

Queensland Government agencies are committed to continuous improvement and realising benefits of strategic procurement. It is acknowledged that the procurement of services and supplies accounts for a significant proportion of government expenditure. Agencies welcome the opportunity to improve processes and the effective delivery of strategic procurement outcomes.

The Department of Science, Information Technology and Innovation also responded in its role as being responsible for whole-of-government ICT category management and as a department committing public money to the acquisition of goods and services to enable service delivery. A summary of DSITI's response is reproduced below and the formal response is included in Appendix A.

DSITI looks forward to working with the Queensland Audit Office and the Office of the Chief Advisor — Procurement in the development of appropriate data analytic tools which support procurement decision making at both ICT category management and departmental levels, and in relation to lifting procurement capability in the public sector.

Report structure

Chapter	
Chapter 1	Provides the background to the audit and the context needed to understand the audit findings and conclusions
Chapter 2	Evaluates the benefits government departments have realised through strategic procurement
Chapter 3	Assesses how well government departments record and analyse procurement data to inform strategic procurement initiatives
Chapter 4	Assesses how well departments have assessed their procurement capability and the resources available to develop staff capability in the public sector

Report cost

This audit report cost \$432 000 to produce.

1. Context

Government departments' expenditure

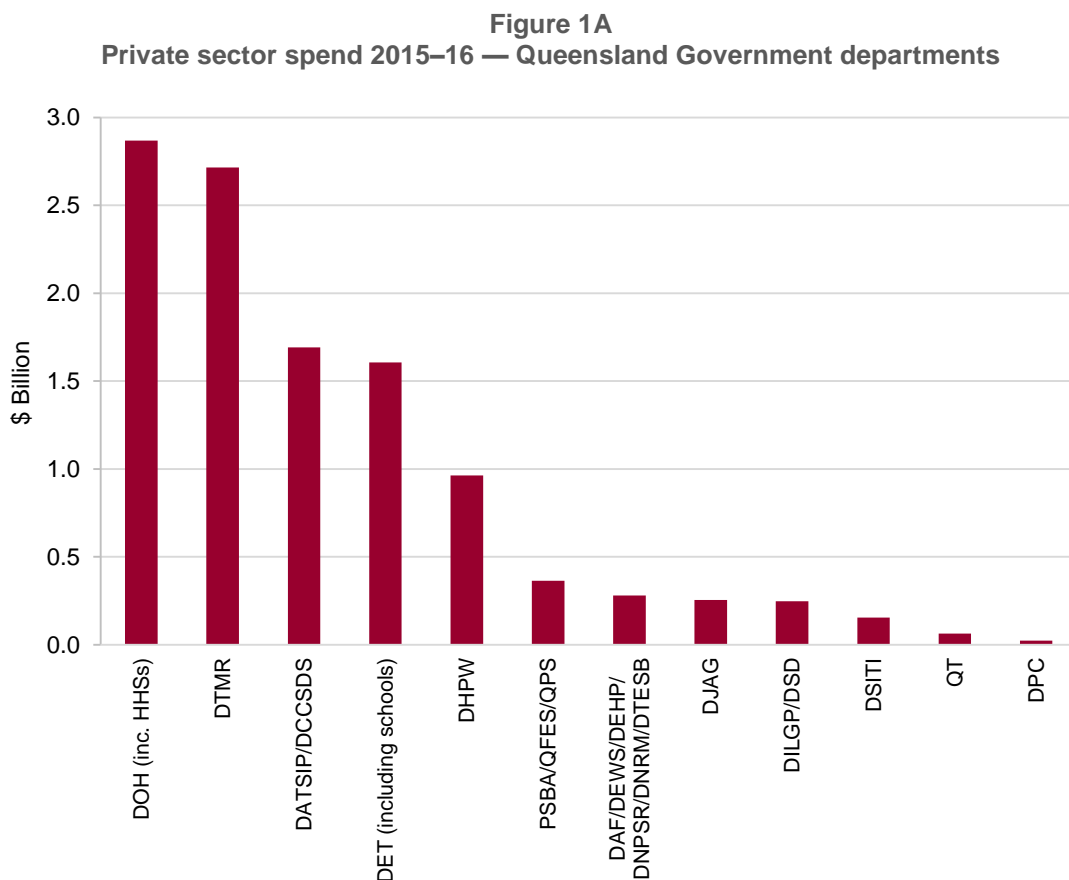
In 2015–16, Queensland Government departments and Hospital and Health Services (HHSs) spent about \$10 billion on services and supplies provided by the private sector (excluding capital spend). This includes about 2.1 million separate payments with 33 903 suppliers. This was out of their total \$55 billion operating expenditure (spend). Their total operating spend includes employee expenses, grants and subsidies, depreciation, asset revaluation adjustments, and inter-department payments.

In addition, two commercialised business units in the Department of Housing and Public Works (DHPW) spend around \$760 million and public schools spend about \$700 million, which are recorded outside the government's common finance system.

Not everything that is spent on private sector services and supplies can be influenced through strategic procurement initiatives, but the significant operating spend underscores how important it is that departments purchase their goods and services economically. They must attempt to reduce the cost of their inputs when they purchase goods and services.

The procurement function is managed by grouping departments into 'clusters'. For example, the procurement function at the Public Safety Business Agency also services the Queensland Police Service and the Queensland Fire and Emergency Services.

There are currently 12 procurement clusters, which service 21 government departments. Figure 1A shows government departments' private sector spend, by the 12 department procurement clusters.



Note: Agency abbreviations defined in Appendix C.

Source: Queensland Audit Office

Strategic procurement

When departments focus on value for money at a transactional level, they determine the best price for the quality they expect for a particular contract. Strategic procurement is more holistic. It starts with a department understanding its total spend — how much it spends, what it spends it on, and with whom they spend. Then it involves looking for opportunities and developing strategies to achieve better value for money for the department as a whole — and collectively for the Queensland Government.

Departments can use a strategic approach known as 'category management' to focus on specific areas of spend — for example, information and communications technology (ICT) spend or transport spend. It allows category managers to look at strategies for how they source and manage demand for similar products across divisions and departments, and rationalise products and services to achieve value for money. For example, if an agency needs to purchase uniforms for different divisions, it may be able to buy in bulk or from the same supplier to get a better price.

Departments can use a combination of strategies to achieve value for money. These strategies are known as 'value levers'. Examples are shown in Figure 1B.

Figure 1B
Procurement value lever examples

Value lever	Description
Price negotiation	Get a better price for a product or service to reduce the cost per unit. Terms can also be negotiated to provide for early payment discounts. Government departments have significant opportunities to use this value lever because of the bargaining power they have with their significant procurement spend.
Supplier optimisation	Reduce the total number of suppliers to a smaller number of suppliers, negotiate with those suppliers to achieve better rates and establish supply arrangements that all departments can benefit from. In the public sector context, departments also need to consider developing opportunities for suppliers in regional areas.
Product rationalisation	Reduce the number of products that departments procure, for example, the number of stationery product types. This provides an opportunity to get better rates for a smaller number of products by purchasing those items in greater quantities.
Demand management	Manage demand for a product or service to reduce the total procurement spend. This includes reviewing how much of a product or service a department actually needs and considering alternatives for meeting demand. This is an important value lever to use in combination with price negotiation. Total procurement spend can increase even with lower unit costs if demand increases.
Reduce transactional costs	Reduce costs of transacting with suppliers by using lower-cost payment channels, like corporate cards. Transactions with suppliers can be bundled to reduce the labour time required to process payments.

Source: Queensland Audit Office

State Procurement Plan and Queensland Procurement Policy

The Procurement Transformation Division (PTD) of the Department of Housing and Public Works (DHPW) published the State Procurement Plan 2014–18 (SPP) in June 2014. The SPP outlines the strategies DHPW, in collaboration with the other government departments, planned to use to reduce wasteful expenditure and red tape while still ensuring procurement processes were transparent.

The SPP is underpinned by the Queensland Procurement Policy (QPP), which replaced the former policy on 1 July 2013. The QPP is the government's overarching policy for the procurement of goods and services and operates as a principle-based policy. The primary principle is to drive value for money, and it has five supporting principles. The QPP states that when there is a conflict between the primary principle and the supporting principles, the value for money principle will be the determining factor.

The six principles of the QPP are:

- Principle 1: We drive value for money in our procurement.
- Principle 2: We work together across agency boundaries to achieve savings and benefits.
- Principle 3: We are leaders in procurement practice — we understand our needs, the market, our suppliers and have the capability to deliver better outcomes.
- Principle 4: We use our procurement to advance the government's economic, environmental and social objectives and support the long-term wellbeing of our community.
- Principle 5: We have the confidence of stakeholders and the community in the government's management of procurement.
- Principle 6: We undertake our procurement with integrity, ensuring accountability for outcomes.

The QPP requires departments to have an agency procurement plan, which as a minimum:

- aligns with the State Procurement Plan and State Category Plan (not yet developed)
- sets out the management and organisation of the procurement function, including an assessment of overall agency procurement capability and strategies for improvement
- expresses the objectives of the procurement function in support of broader agency objectives
- provides an analysis of savings and benefits opportunities (economic, social, and environmental) and strategies to achieve these
- contains measures, targets, performance against targets, and the agency's approach to risk management for procurement.

The QPP is currently under review.

Prior reviews of Queensland Government procurement

The operating model for Queensland Government procurement has changed three times since 2007, as a result of three major reviews of Queensland Government procurement (Figure 1C).

Figure 1C
Reviews leading to Queensland Government procurement operating model changes
(2007 to present)

Year	Review	Procurement operating model	Name of lead agency for procurement
2007	Service Delivery and Performance Commission Review 2007 — Review of Purchasing and Logistics in the Queensland Government	Agency led	Queensland Government Chief Procurement Office (QGCPO) within Department of Public Works
2013	Department of the Premier and Cabinet — Procurement Diagnostic 2012	Centre led	Procurement Transformation Division (PTD) within Department of Housing and Public Works (DHPW)
2016	Interdepartmental Committee — Review of Queensland Government procurement 2015	Agency led	Office of the Chief Advisor – Procurement (OCAP) within DHPW

Source: Queensland Audit Office

One noticeable change is the transition from an agency led model to a centre led model and then back again. A centre led procurement model is a centralised approach designed to use the greatest economies of scale. It is a favoured approach by private sector entities. Agency led models make individual agencies accountable for their own spend. This is in line with the *Financial Accountability Act 2009* and the *Financial and Performance Management Standard 2009*, which set requirements and frameworks for departments' accountable officers (Directors-General in most instances) to:

... achieve reasonable value for money by ensuring the operations of the department or statutory body are carried out efficiently, effectively and economically.

Strategic procurement helps agencies achieve their objectives economically by enabling them to reduce the cost of their inputs.

The agency led operating model also requires central leadership that sets procurement guidance and frameworks, and monitors whether departments implement them effectively.

Procurement Transformation Program

In December 2012, the review commissioned by the Department of the Premier and Cabinet into strategic sourcing identified opportunities for Queensland Government departments to achieve better value for money from procurement by investing in, and changing the way procurement in government operates. The review recommended substantial changes to the existing governance and operational arrangements for procurement. Cabinet subsequently approved these changes. As a result, the Procurement Transformation Program (PTP) commenced in June 2013. It included the:

- **Director-General Council (DG Council)** to lead, coach, and mentor whole-of-government procurement activities.
- **Chief Procurement Officer (CPO) Steering Committee** (originally referred to as the 'procurement management committee') to support the DG Council and undertake the work required to develop, manage, and implement the strategic procurement framework. It was to lead, coach, and mentor agencies and lead cross-agency procurement activities to deliver on the policy, business plans, state procurement plans, and guidance on decisions within the proposed structure.
- **Procurement Transformation Division (PTD)** to lead the whole-of-government PTP.

The PTD was established in July 2013 within the DHPW to:

- become the centre for excellence, providing commentary advocacy and advice to the DG Council, CPO Steering Committee, and agencies on procurement matters
- capture whole-of-government procurement spend and be the keeper of accurate data with the ability to interrogate data and provide insights on demand management, sourcing activities, contracting practices, and management of contracts
- provide training, capability assessment, and accreditation advice to respective contracts
- draft and act as custodian of the Queensland Procurement Policy
- establish a spend baseline, track financial benefits (cost reduction and avoidance), and report to the DG Council.

When the PTD was established, the Queensland Government expected that it would lead the PTP to deliver an estimated \$600 million to \$1.3 billion in procurement benefits within five years, by June 2018. These benefits were to be used to reduce government debt or to be redirected to government priorities.

PTD's primary data source for analysing departments' procurement spend was an Insight Cube. (PTD developed this in 2010 (when it was the Queensland Government Chief Procurement Office) to collate and analyse expenditure data from all departments). PTD used this data to develop category plans and provide a summary of this data to other agencies upon request.

Interdepartmental Committee review into procurement

In June 2015, as part of an election commitment, an Interdepartmental Committee (IDC) was established to undertake a broad-ranging review of the Queensland Government's procurement practices. The IDC was tasked with answering the question: *How should procurement be delivered across Queensland Government?*

The IDC made nine recommendations to provide a new model of procurement across Queensland Government. They were that:

- departments remain accountable for their own procurement delivery, supported through a whole-of-government framework under a whole-of-government governance framework with functional performance management and comparative reporting
- a new whole-of-government procurement function be established to provide support to departments to deliver procurement outcomes
- a two tiered governance model, consisting of the CEO leadership board and category councils, be implemented to oversee procurement activities across Queensland Government
- an industry engagement strategy be implemented in response to industry feedback regarding the need for closer working relationships with government
- a capability development strategy for procurement within Queensland Government be developed and implemented
- there would be better understanding of the knowledge and information needs of procurement, and that this would be addressed through enablers including data, systems, reporting, and knowledge management
- value for money be more clearly defined to take into account economic, environmental, and social factors, and that there be continuing emphasis on reducing process costs, for example, tendering process costs
- probity be recognised as a core element of the QPP, and that departments be accountable for implementing probity processes based on the level of procurement maturity in the department

- departments better understand regional supplier capability and supply chains, apply greater emphasis to developing competitive markets regionally, and collaborate to produce regional procurement plans for long-term programs of works and supply arrangements. It also recommended that departments contribute information to a forward procurement pipeline for publication to help ensure earlier identification of supply opportunities.

In May 2016, the IDC implementation project team completed its design of the new procurement operating model to improve the maturity of whole-of-government procurement activities. It included a schedule of activities to implement its recommendations. This work is underway, and began with establishing the Office of the Chief Advisor — Procurement which replaced PTD on 1 July 2016.

Under the new procurement operating model, which began on 1 July 2016, there are six mega-categories, each of which will be led by a nominated department and governed by a category council. One change has occurred from the previous model — responsibility for the social services mega-category has transferred from DHPW to the Department of Communities, Child Safety and Disability Services (DCCSDS). Figure 1D shows which departments will be responsible for leading the six mega-categories.

Figure 1D
Queensland public sector procurement mega-categories as at 1 July 2016

Mega-category	Responsible department
General goods and services (GGS)	Department of Housing and Public Works
Information and communication technology (ICT)	Department of Science, Information Technology and Innovation
Building, construction and maintenance (BCM)	Department of Housing and Public Works
Medical	Queensland Health
Social services	Department of Communities, Child Safety and Disability Services
Transport infrastructure and services	Department of Transport and Main Roads

Source: Queensland Audit Office from the 2015 Interdepartmental Committee review of Queensland Government Procurement

Roles and responsibilities

Figure 1E shows the roles and responsibilities for procurement in Queensland Government for the period 2013 to 2016. The roles and responsibilities changed on 1 July 2016 as a result of the IDC review but have not been formally published.

Figure 1E
Roles and responsibilities — Queensland Government procurement 2013–2016

Accountability	Authority	Responsibilities
Minister for Housing and Public Works	Administrative Arrangements Order (No. 3) 2015	Government purchasing
DG Council	QPP	<p>Responsible for facilitating a whole-of-government approach to procurement in accordance with the QPP.</p> <p>The DG Council is a strategic committee responsible for matters such as:</p> <ul style="list-style-type: none"> ▪ providing strategic direction and oversight for Queensland Government procurement on matters including government procurement policy and issues of strategic importance to procurement ▪ facilitating consultation across agencies ▪ engaging with industry on strategic procurement matters ▪ facilitating the identification and realisation of savings and benefits opportunities from procurement expenditure ▪ providing guidance to agencies in relation to economic, social or environmental benefits and opportunities ▪ overseeing a consistent, whole-of-government approach to procurement methodology and procedures.
PTD	QPP	The PTD is responsible for ensuring the PTD and its related guidelines and guidance are appropriate, reflect better practice and facilitate a high standard of procurement performance.
Government departments	Financial and Performance Management Standard 2009 and QPP	Accountable officers are responsible for ensuring the QPP is followed within their agencies.

Source: Queensland Audit Office

Whole-of-government procurement analysis tool

Because there is no accurate procurement analysis tool for the Queensland Government, QAO developed a low-cost interim solution leveraging our own financial data collection approach that allows departments to analyse their procurement spend with the private sector.

Our tool allows for analysis of individual departments, sectors, or whole-of-government for unique insights, for all six mega-categories. Appendix D shows screenshots of our business intelligence tool.

There are three main views available for use:

- supplier analysis (who government spends with)
- procurement category analysis (what government purchases)
- department analysis (who purchases the goods and services).

Our tool visualises the data to enable horizontal analysis (to understand purchasing trends) and vertical analysis (to see significant suppliers or products or services) across the whole of government. It can be filtered to any subset of it. As a part of this audit, we offered each agency the mapping table we used to categorise their spend data so they can provide us with feedback.

At the conclusion of this audit, we plan to work with Queensland Government stakeholders to ensure that it can be made available for whole-of-government use, managed forward and provide value to all agencies.

2. Realising benefits

Chapter in brief

Departments can use a variety of strategies to deliver procurement benefits, like renegotiating prices and reducing transaction costs and piecemeal purchasing. Their agency procurement plans should show which strategies they will use to deliver benefits.

Category management plans should show how government departments will work together to deliver procurement benefits.

Main findings

- The Queensland Procurement Policy (QPP) contains principles, which government departments did not successfully apply during the Procurement Transformation Program (PTP). The State Procurement Plan (SPP) contains a benefits target the Queensland Government is no longer tracking and aiming for.
- Sixteen out of 21 departments do not have a current agency procurement plan, which the QPP requires.
- A whole-of-government review set an expectation for Procurement Transformation Division (PTD) to lead the Procurement Transformation Program and achieve a minimum of \$417 million in procurement benefits within two financial years. However, PTD reported only \$190.5 million achieved over its first two years.
- The Department of Housing and Public Works (DHPW) published benefits figures in its 2013–14 annual report without PTD properly validating them. PTD reported that it delivered \$64.5 million in cash savings for Wave 1 (the first phase) of the PTP, but we could only verify 46.90 per cent of this amount with supporting evidence. They also incorrectly reported savings as ‘cash savings’.
- While category management in government departments is still developing, we noted two examples during our audit that show how strategic procurement can be used to deliver financial and non-financial benefits. These were public sector travel bookings and computer equipment for schools.
- Responsibility for coordinating whole-of-government procurement has historically been with DHPW, who do not have the authority necessary to influence procurement outcomes. This is inconsistent with every other Australian state, where they assign this responsibility to a treasury or finance function.

Audit conclusions

There are some examples of how departments have used strategic procurement to deliver benefits, but it is well short of the opportunities multiple reviews have identified. Whole-of-government procurement has moved from having aspirational targets for procurement benefits to having no targets at all. Most government departments are not committed to achieving benefits. One reason for this is that savings have been taken from them in the past, removing the incentive.

Most government departments cannot demonstrate that they are practising strategic procurement. Their procurement activities are primarily focused at an operational level, which means they are missing opportunities to realise benefits through strategic procurement initiatives.

Introduction

On 1 July 2013, the Procurement Transformation Division (PTD) was established within the Department of Housing and Public Works (DHPW) to lead a five-year Procurement Transformation Program (PTP). Based on a review of strategic sourcing, the Queensland Government expected that:

- the PTP would deliver an estimated \$600 million to \$1.3 billion in procurement benefits by June 2018, based on an estimate of six to 12 per cent of available procurement spend
- 85 per cent of the benefits, that is \$510 million to \$1.1 billion, could be achieved in the first three years of the program, by 30 June 2016
- 51 per cent of the benefits would be due to cost reduction and 49 per cent would be due to cost avoidance.

The review recommended a number of value levers to enable these savings, including:

- better managing suppliers to maximise value from continuous improvement
- renegotiating purchase price with suppliers
- implementing demand management practices
- developing standard sourcing processes.

PTD planned to deliver the PTP through a staged implementation. In Wave 1, it expected to achieve between \$60 million and \$120 million of benefits over 90 to 120 business days. After Wave 1, it expected to deliver the remaining benefits over a series of waves.

In June 2015, during the second wave of the PTP, the Queensland Government established an Interdepartmental Committee (IDC) to undertake a broad-ranging review of its procurement practices. As a result, the PTP was stopped after its first two years and placed into a transitional state while the IDC conducted its review and established a new operating model for Queensland Government procurement.

The current Queensland Procurement Policy makes several references to the term 'savings', which was a focus of the previous government. However, the IDC review found that value for money decisions were too narrowly focused on price, and recommended that value for money be more clearly defined to take into account economic, environmental, and social factors.

We assessed:

- the adequacy of plans and strategies the PTD and departments used to enable and realise financial and non-financial benefits through procurement
- how well the PTP governed, planned, and implemented strategies for a category management approach
- what procurement benefits PTD and other government departments achieved
- how accurately PTD and other government departments measured and reported benefits during the three years of the PTP.

Audit conclusions

The PTD and Queensland Government departments did not deliver the significant financial benefits expected of the Procurement Transformation Program. From results PTD achieved in the first phase of the program, departments' budgets were reduced based on savings that were not real. There is now no visible commitment to realising procurement benefits and departments are reluctant to set targets because their budgets were cut in the past.

DHPW has been responsible historically for coordinating whole-of-government procurement in Queensland. However, in our view it is not best positioned to deliver this function. It does not have the authority to set policies for procurement processes, influence finance system designs, or monitor how effectively departments implement them.

The State Procurement Plan and the Queensland Procurement Policy do not reflect the way public sector procurement actually operates. These plans emphasise departments working together to achieve benefits, but we saw little evidence of this happening in practice.

Most government departments cannot demonstrate that they are practising strategic procurement because they do not develop, and update annually, a procurement plan that shows how they intend to achieve procurement outcomes. This means their procurement activities are primarily focused at an operational level, which means they are missing opportunities to realise benefits through strategic procurement initiatives.

The PTP introduced category management as a procurement discipline in the public sector, but this has not matured sufficiently to deliver significant benefits. It has been primarily focused on strategic sourcing, and the lack of governance and good quality data has limited what could be realistically achieved.

State Procurement Plan and Queensland Procurement Policy

When the State Procurement Plan (SPP) was published in June 2014, it was meant to be updated annually to remain relevant, but DHPW has not updated it since its release. This is because the PTP, which DHPW created these documents to support, is no longer operating and a new procurement operating model is being developed. The QPP contains aspirational principles that government departments did not successfully apply during the PTP, and the SPP contains a benefits target DHPW is no longer tracking or aiming for.

According to the Queensland Procurement Policy (QPP), if agencies decide not to use a supply arrangement, they should document this in their agency procurement plan and disclose it to the Director-General (DG) Council. We did not identify any instances where this actually occurred.

The SPP covers four years, and states that it will be reviewed annually to ensure it remains relevant. The SPP shows that successful delivery of the plan by December 2018 will be measured by reducing the cost to serve, realising benefits, and improving client and supplier satisfaction. The only measurable target in the plan is to realise at least \$600 million in benefits to redirect to priority initiatives.

Agency procurement plans

We assessed whether each government department had a procurement plan, as required by the Queensland Procurement Policy, and identified that:

- nine departments had a procurement plan which included the year 2016 in the time period covered by the plan
- twelve departments did not have a current procurement plan.

Of the nine departments which have a current procurement plan:

- five have updated their plans since 2014. The other four departments have not updated their plans since at least 2013, when they developed their plans to align with the priorities of the previous government
- two (the Department of Education and Training and the Department of Transport and Main Roads) have identified and set benefits targets that they monitor their progress against.

Before the PTD was formed in 2013, the former Queensland Government Chief Procurement Office helped agencies with their procurement plans by providing them with guidance and workshops to help them understand the procurement planning process. PTD did not do this, preferring instead to emphasise a centre led procurement model. The result of this approach was that government departments did not focus on strategic procurement planning at an agency level. Because the IDC-recommended procurement operating model is based on an agency led procurement model, departments will now need to develop these, link to category plans, and keep them up to date.

Departments that do not have current agency procurement plans are unable to demonstrate that they monitor the performance of their procurement functions against established measures. This indicates that governance over procurement outcomes is lacking.

Category management

A whole-of-government review set an expectation for the PTP, led by DHPW, to achieve a minimum of \$417 million in procurement benefits within two financial years across all categories. PTD reported only \$190.5 million was achieved over its first two years.

Figure 2A shows PTD's benefits targets and actuals for 2013–14 and 2014–15 as reported in DHPW's annual reports.

Figure 2A
Reported benefits targets and claimed benefits

Financial year	Benefits target \$ million	Claimed realised benefits \$ million
2013–14 (Wave 1)	\$60 to \$120 in benefits	\$64.5 cash savings
2014–15 (Waves 1 and 2)	Wave 1 — \$82 to \$130 in enabled benefits*	\$126.0 procurement benefits
	Wave 2 — \$150 to \$250 in enabled benefits	(Wave 1: 103.6 Wave 2: 22.4)

Note: enabled benefits means that the PTP established sourcing arrangements with better rates, but that benefits would be realised when agencies use the arrangements.

Source: Queensland Audit Office from Department of Housing and Public Works annual reports

PTD began using category management during the PTP to realise benefits and it coordinated the completion of six 'mega-category' plans in July 2014. The IDC review identified that in regard to PTD's application of category management that '... the existing model championed by PTD is unclear, overly prescriptive in nature and seeks to manage too many categories centrally'. The IDC confirmed the value of category management and stated in its report that it is recognised as a better practice approach within other jurisdictions and is supported by most departments.

PTD's role in category management has been limited to negotiating new supply arrangements. It does not possess the buying power to influence purchasing behaviour, and it has only begun category management in a select number of categories.

Category plans and governance

PTD coordinated the development of mega-category plans with the mega-category department leads. In July 2014, PTD presented six mega-category plans to the DG Council, recommending they support the plans. The DG Council supported all six mega-category plans at its meeting on 24 July 2014.

At the same meeting, the DG Council advised the other attendees that they had sufficient confidence in the work of PTD such that from August 2014 they would no longer require regular reporting on the PTP. This meant that once the DG Council supported the mega-category plans, there was no governance framework in place to monitor how PTD and the government departments implemented the plans.

The IDC review recommended a two-tiered governance model, consisting of the CEO leadership board and category councils, to oversee procurement activities across Queensland Government.

PTP did not always allocate mega-categories to departments with sufficient buying power (that is, high procurement spend in that category), which limited the effectiveness of the governance model. While the building and construction maintenance, information and communication technology, medical, and transport infrastructure mega-categories were appropriately allocated, we found anomalies with how the social services and general goods and services (GGS) mega-categories were allocated.

Social services

The social services mega-category was previously the responsibility of DHPW and is now the responsibility of the Department of Communities, Child Safety and Disability Services (DCCSDS). When the social services mega-category was the responsibility of DHPW from Wave 2 of the PTP, it made little progress in developing the social services mega-category at a whole-of-government level. DCCSDS is in a transitional period, now preparing to take leadership of the mega-category.

Allocating DCCSDS the social services mega-category is supported by 2014–15 spend data that shows that DCCSDS is the highest procurer of the community and social services category in the public sector — it accounts for 76 per cent of the public sector's total spend in the community and social services category.

Figure 2B shows spend in the community and social services category (which includes grants) by department in 2014–15.

Figure 2B
Community and social services category spend — 2014–15

Department	Total amount \$	Total public sector spend
Department of Communities Child Safety and Disability Services	1 440 721 511	76
Queensland Health	189 271 678	10
Department of National Parks Sport and Racing	40 485 880	2
Department of Education and Training	38 165 336	2
Department of Natural Resources and Mines	36 333 464	2
Department of Aboriginal and Torres Strait Islander Partnerships	28 503 643	2
Other departments < \$25 million	113 815 006	6
Totals	1 887 296 517	100

Note: Figures may not add due to rounding. Other categories in addition to the community and social services category make up the social services mega-category. Categories are from the United Nations Standard Products and Services Code®.

Source: Queensland Audit Office

We acknowledge that not all of the \$1.9 billion of 2014–15 expenditure in the community and social services is addressable spend (that is, the spend could be impacted by strategic sourcing activities in a market where multiple suppliers can provide the same service). This is because some of this expenditure is classified as grants.

General goods and services

DHPW is the category leader for the general goods and services (GGS) mega-category. This mega-category is unique because the categories which form it do not have anything in common, unlike the information and communications technology (ICT) mega-category for example, where ICT services, software, hardware, and telecommunications categories all relate to ICT. This means the GGS mega-category is essentially a basket of goods that cannot be allocated to any of the other five mega-categories.

Of the 12 categories PTD defined within the GGS mega-category:

- DHPW is the category lead for seven categories, but is the top purchaser in only one
- DHPW is one of the top three purchasers in only two categories — fleet and professional services
- three categories have no category management function
- Queensland Health is the highest purchaser in eight categories.

Because DHPW is not the main purchaser in many of the categories it manages on behalf of the rest of government, it does not have most influence to drive demand management — a key value lever needed to deliver financial benefits. This means its role in managing these categories is limited to strategic sourcing — getting the best price through supplier negotiations.

Therefore, the GGS mega-category can only realise significant financial and non-financial benefits if departments collaborate. This did not work well during the PTP as the IDC review of Queensland Government Procurement identified. While PTD strategically sources goods and services, the benefits are only realised when and if agencies use those arrangements.

Figure 2C shows the 12 GGS categories PTD defined, the total spend in 2014–15, lead departments and which departments spend the most in those categories.

Figure 2C
General goods and services category private sector spend
Queensland Government departments — 2014–15

Category	Total spend \$	Lead department	Top spending departments
Administration expenses	4 603 486	None	DNRM (99%) DAF (1%)
Business equipment and services	171 461 398	DET	QH (65%) DET (9%) DTMR (6%)
Clothing and safety equipment	13 923 888	DEHP	QH (55%) DJAG (33%) DNPSR (5%)
Contingent labour (short-term labour hire)	251 108 613	DHPW	QH (35%) DET (14%) DTMR (13%)
Electricity and utilities	178 243 850	DHPW	QH (60%) DTMR (16%) DJAG (9%)
Employee services	1 960 124	DHPW	DCCSDS (60%) DJAG (29%) QPS (5%)
Fleet	60 458 298	DHPW	QPS (42%) QH (27%) DAF (8%)
Food and catering services	76 734 766	None	QH (71%) DJAG (21%) DNPSR (3%)
Logistics	97 766 157	None	DAF (37%) QH (29%) DTMR (14%)
Marketing	80 084 876	DHPW	QH (29%) DPC (18%) DTMR (14%)
Professional services	419 363 126	DHPW	QH (40%) DTMR (10%) DHPW (8%)
Travel	83 524 638	DHPW	QH (40%) QPS (18%) DET (8%)
Total	1 439 233 218		

Note: Only includes SAP instances of finance systems. Unallocated contractors and miscellaneous expenses are not included.

Source: Queensland Audit Office

Category strategies

While category management in government departments is still developing, we noted two examples during our audit that show how strategic procurement can be used to deliver financial and non-financial benefits. These examples are:

- **air travel, car hire and accommodation bookings** — DHPW manages the QTravel system, which all agencies can use to book staff travel at discounted rates
- **information and communication technology equipment (ICT)** — the Department of Education and Training (DET) purchases ICT equipment at discounted rates for schools.

Air travel bookings

PTD used effective strategies to deliver real financial and non-financial benefits within the air travel, car hire and accommodation category. PTD began developing the QTravel system in April 2014 and the system went live in September 2014. After PTD developed, tested and implemented the system, it was able to immediately begin realising benefits in air travel, car hire and accommodation.

PTD enabled the benefits in this category by negotiating better prices for public sector staff travel, and the benefits were realised by changing how public sector staff book travel. For example, to change staff behaviour for air travel bookings to realise the benefits, PTD encouraged departments to:

- book earlier (more than a week in advance) to obtain cheaper prices than those charged when booking closer to the day of travel
- book restrictive fares that are non-refundable and incur a fee if the traveller changes their travel plans, rather than flexible fares, which are fully refundable without a fee. For example, on a Brisbane to Cairns flight this saves about \$65 (on average) per flight
- choose the cheapest carrier despite loyalty programs.

We verified the savings potential PTD has achieved through its QTravel system by comparing flight prices on QTravel against public airline websites. We did this for flights on two airlines for two common routes seven days in advance of departure date (20 July 2016).

Figure 2D shows that public sector agencies can avoid significant costs by booking flights on QTravel. It also shows that for the lowest fare (restrictive fare), QTravel's prices were 13.6 per cent lower (on average), and for fully flexible fares were 22.4 per cent lower (on average).

Figure 2D
QTravel vs. airline website prices

Route	Brisbane to Cairns — airline one	Brisbane to Cairns — airline two	Brisbane to Townsville — airline one	Brisbane to Townsville — airline two
QTravel – lowest fare (\$)	180	151	180	151
Public website — lowest fare (\$)	195	165	210	199
Variance (%)	7.7	8.5	14.3	24.1
QTravel — fully flexible fare (\$)	250	332	250	332
Public website — fully flexible fare (\$)	345	385	389	379
Variance (%)	27.5	13.8	35.7	12.4

Note: Benchmark is based on the highest 'flexible' fare for that airline.

Source: Queensland Audit Office

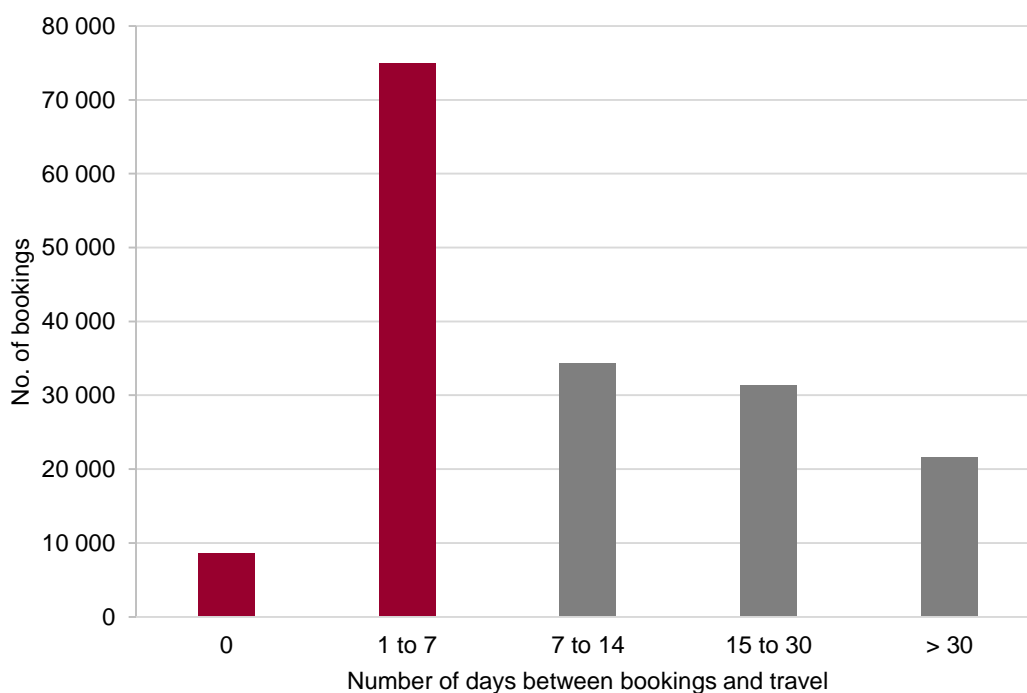
In 2014–15, of 170 882 travel bookings, public sector entities chose the lowest fare on 86 per cent of occasions. This shows that by centrally negotiating better rates, and making it easy for agencies to access those rates, significant financial benefits can be achieved.

PTD can effectively track spending public sector agencies conduct within QTravel, but not spending that occurs outside of it. In September 2015, PTD attempted to identify travel expenses that occurred outside of these arrangements. It estimated that over \$50 million (based on the PTD data tool — the Insight Cube — which is inaccurate) had occurred off-contract during the 2014–15 financial year. While it is highly likely PTD has overestimated the off-contract spend, it still indicates that off-contract spend on travel is undermining the benefits that are achievable in this category.

Of 170 882 air travel bookings in 2014–15, about 49 per cent were booked within the week of travel, and five per cent booked on the day of travel. While the nature of public servant work sometimes causes short notice travel, the fact that in almost half of all cases, staff are booking travel within a week indicates that they do not adequately plan their travel. This is costing their departments more for travel expenses.

Booking travel in advance more often will yield further financial benefits. This is an example of behavioural change that can deliver financial benefits across the public sector. Figure 2E shows how many days in advance of travelling public sector staff booked their travel arrangements in 2014–15.

Figure 2E
Public sector planning for travel — 2014–15



Source: Queensland Audit Office from PTD QTravel data

PTD has also realised non-financial benefits through implementing QTravel. The system gives it the ability to know where travelling staff are located in a disaster situation, which enables departments to better fulfil their duty of care obligations for travelling employees under occupational health and safety legislation.

Overall, the implementation of QTravel has been a positive change and has the potential to deliver more financial benefits if departments continue to change their purchasing behaviours.

Department of Education and Training

DET uses strategic procurement initiatives to deliver procurement benefits. It annually plans for and tracks savings it generates through strategic procurement initiatives across three categories of spend: general goods and services, information and communication technology (ICT), and infrastructure.

The key strategies DET has used to achieve its stated procurement benefits to date include:

- negotiating with suppliers to supply discounts off recommended retail prices
- reducing transactional costs for hardware purchases by encouraging schools to use on-line ordering rather than purchasing hardware in store
- establishing its own supply arrangement for commodities such as IT software and devices and food products.

Figure 2F shows the savings DET reported as achieved from 2012–13 to 2014–15 and its forecast for 2015–16.

Figure 2F
Department of Education and Training — reported savings from 2012–13 to 2015–16

Category	2012–13 Actual \$	2013–14 Actual \$	2014–15 Actual \$	2015–16 Forecast \$
General goods and services	3 106 353	8 688 213	11 040 151	9 944 258
ICT	46 235 188	31 664 688	42 949 242	40 295 000
Infrastructure	26 777 796	44 456 936	23 335 872	20 000 000
Totals	76 119 337	84 809 837	77 325 265	70 239 258

Source: Queensland Audit Office from data provided by the Department of Education and Training

ICT benefits

DET reported \$42 million in savings in 2014–15 in the ICT category, 63 per cent of which came from encouraging schools (state, Catholic and independent) to use the ICT software and hardware supply arrangements that it established.

DET's methodology for calculating most of its ICT category savings involves calculating the difference between the final price the purchasing unit (that is, school, corporate area and TAFE Queensland) paid and the next closest alternative arrangement available to government. While DET's ICT savings do not represent a decrease in total spend, they do indicate that DET is achieving better value for money to meet increasing demand.

For example, since July 2013, DET has negotiated with five IT suppliers of computer laptops, desktops and tablets to achieve better rates than what has been available on a whole-of-government supply arrangement with the same suppliers. DET also currently manages the whole-of-government supply arrangement for end user computing, but it has been able to negotiate better rates for its educational IT needs because of its significant purchasing power and its ability to standardise the product mix.

By obtaining better rates on IT equipment, DET has achieved greater buying power to acquire IT equipment and achieve better value for money. DET spent \$8.9 million more on educational IT equipment in 2014–15 than in 2013–14, but it saved \$9.5 million by paying less for these devices than what it would have paid to acquire them through the whole-of-government rates. From June 2013 to December 2015, DET saved \$19.4 million by using its own supply arrangement for IT devices.

Figure 2G shows the volume and total price DET paid for IT educational equipment in 2013–14 and 2014–15.

Figure 2G
Department of Education and Training —
IT educational equipment quantity and spend

Product	Quantity purchased in 2013–14	Quantity purchased in 2014–15	Spend in 2013–14 \$	Spend in 2014–15 \$
Laptop 1	3 902	6 011	2 933 051	4 593 699
Laptop 2	1 306	2 296	981 627	1 760 633
Laptop 3	567	1 570	444 119	1 410 156
Laptop 4	806	1 274	746 667	1 190 060
Laptop 5	3192	2 894	2 223 953	1 644 318
Laptop 6	523	4 289	422 303	3 451 316
Tablet 1	57	94	75 620	114 132
Desktop 1	7 147	8 486	5 094 914	5 685 385
Desktop 2	3 871	6 005	3 091 028	4 541 511
Desktop 3	1 665	674	1 572 303	577 575
Tablet 2	0	1 339	—	1 539 158
Totals	23 042	34 932	17 585 586	26 507 943

Source: Queensland Audit Office from data provided by the Department of Education and Training

Measuring and reporting benefits

PTD developed a benefits management framework and the DG Council endorsed it in May 2013. The framework stated that it was imperative that benefits be 'simple, robust and auditable' to demonstrate that 'cash releasing' savings were real and were impacting the 'bottom line'. The designed assurance process involved gated review points at the planning, execution, and result phases. There is no evidence that the assurance process to ensure the savings were real was implemented.

The consequence of this is that there is no whole-of-government benefits realisation process to ensure that agencies which measure and report procurement benefits do this consistently. This means the benefits agencies report are not validated before they are publicly reported, and the benefits cannot be aggregated at a whole-of-government level.

We reviewed the benefits measured and reported by:

- DHPW, as part of its reporting of procurement benefits from the PTP
- the Department of Transport and Main Roads (DTMR), whose measurement of benefits was a key input into DHPW's benefits reporting
- DET, who annually publishes its procurement plan and reports benefits it has achieved from procurement.

While all three departments measure benefits, there is no a single governing framework, and therefore the benefits cannot be reliably aggregated.

Procurement Transformation Program

PTD reported its progress on benefits to the DG Council and then publicly through the DHPW annual reports.

PTD did not develop its own benefits realisation framework at an operational level to ensure it had appropriate checks and balances for the benefits it publicly reported.

Year One of the Procurement Transformation Program — 2013–14

DHPW reported in its 2012–13 annual report a Wave 1 target to deliver \$60 million to \$120 million in benefits in 90 to 120 days. In its subsequent annual report (2013–14), DHPW reported as part of its performance statement, that it achieved its Wave 1 target noting that it '... enabled a minimum \$82 million to \$130 million and delivered \$64.5 million in cash savings'.

Almost half of the Wave 1 cash savings DHPW reported in 2013–14 were provided by other departments, but DHPW did not validate the benefits before it reported the savings in its annual report.

We found that DHPW had supporting documentation for only about 47 per cent of the savings it claimed. We reviewed the source documentation that DHPW had, and obtained some additional information from other departments, to assess the reported \$64.5 million in cash savings. Most of the \$64.5 savings it reported as 'cash savings' were not real cash savings. For example:

- road projects (\$12.3 million) — this amount was already taken from the DTMR budget and was not an outcome of the PTP
- PTD calculated savings in building, construction and maintenance (\$13.5 million), medical (\$10.3 million) and professional services (\$5.15 million) as the difference between the existing price departments paid for the products and services and their new renegotiated contract price. This means the savings increase when the volume purchased increase. This does not represent a decrease in spend, but rather better value for money.

The savings DHPW included in its calculation of cash benefits included savings from office and educational supplies, which contained two savings initiatives — rationalised products/pricing (\$4.40 million) and demand management (\$10.35 million). PTD calculated:

- the pricing/products component as the difference between the old price and the new price, multiplied by the quantity ordered
- demand management as the reduction of products purchased in 2013–14 compared to the previous four financial years.

While savings from demand management are cash savings because they reflect an actual reduction in spend, PTD did not consider other factors such as current and future inventory levels to validate the authenticity of benefits realised. For example, a decline in demand for stationery could be realised in one year; however, a spike in expenditure could occur in a later period when the inventory needs to be replenished. Departments therefore may not be able to sustain the savings over multiple periods.

Figure 2H shows the work packages DHPW used to report cash savings in its 2013–14 annual report and our comparison against the supporting documentation DHPW had.

Figure 2H
DHPW work packages that reported Wave 1 benefits 2013–14

Work package	Category owner (agency)	Cash savings claimed \$ mil.	Supporting evidence for cash savings \$ mil.	Comment
Blue collar contingent labour	DTMR	3.21	3.27	Understated by \$0.06 million.
Building, construction and maintenance (BCM)	DHPW	6.20	0.00	DHPW internal audit identified this as enabled only, not realised in Wave 1.
Building, construction and maintenance (BCM) — mitigation	DHPW	7.30	0.00	DHPW internal audit identified this as enabled only, not realised in Wave 1.
Clinical supplies	QH	2.30	0.00	Insufficient evidence to support claim.
ICT — telecommunications	DSITI	2.53	2.24	Overstated by \$0.30 million.
Nursing contingent labour	QH	2.24	2.24	Matches savings reported by QH.
Office and educational supplies	DHPW & DET	4.40	4.40	Matches savings reported by DHPW.
Office and educational supplies — mitigation	DHPW & DET	10.35	0.00	Insufficient evidence to support claim.
Pharmaceuticals	QH	4.61	0.00	Insufficient evidence to support claim.
Professional services	DHPW	5.15	3.27	Overstated by \$1.87 million.
Prosthetics	QH	1.16	0.00	Enabled benefits delayed, not realised in Wave 1.
Roads	DTMR	12.30	12.30	Matches savings reported by DTMR.
Travel	DHPW	2.34	2.34	Matches savings reported by DHPW.
Others	Various	0.41	Not audited	
Total		64.50	30.05	46.90 per cent supported by evidence

Source: Queensland Audit Office from Department of Housing and Public Works

The savings which DHPW reported from Wave 1 of the PTP were used in the 2014–15 state budget to reduce departments' expenditure by \$24 million per year over four years from 2014–15 to 2017–18. While this is more conservative than the \$64.5 million DHPW reported, our analysis of DHPW's savings calculations show that these savings were not real cash savings.

The 2014–15 state budget states:

Savings as a result of the first wave of this program will contribute to the ongoing task of fiscal repair and debt reduction as well as for reinvestment by agencies into services. While savings to be returned to the budget amount to approximately \$24 million per annum, the overall savings and benefits to be enabled from Wave 1 procurement reforms is estimated to be in the range of \$82 million to \$130 million per annum. It is intended that the remainder of the savings and benefits enabled from Wave 1 will be retained by departments for reinvestment to address the Government's policy objectives.

Because government departments' budgets were reduced by \$24 million in 2014–15 because of Wave 1 benefits, they are reluctant to set new targets because they have no incentive to achieve them.

Year Two of the Procurement Transformation Program — 2014–15

In the non-financial section of its 2014–15 annual report, DHPW provided a broader definition of savings than it did in its 2013–14 annual report, using the term 'procurement savings' as opposed to 'cash savings' and 'enabled savings.' However, because it did not clearly define what it meant by the term 'procurement savings', users of its report could incorrectly interpret that this meant that DHPW decreased actual spend.

DHPW made the following statements in its 2014–15 annual report:

We helped drive improved procurement practices across the sector, which enabled us to deliver savings of over \$126 million to government agencies in the past financial year.

In 2014–15, the department delivered over \$126 million in procurement savings to government.

The \$126 million in procurement savings DHPW reported included \$103.6 million from Wave 1 of the PTP and \$22.4 million for Wave 2. In April 2014, as part of Wave 2 of the PTP, PTD contracted consultants to facilitate between \$150 to \$250 million in enabled benefits by 30 September 2014. By June 2015, PTD could only report \$22.4 million in enabled benefits for Wave 2. This indicates that the \$18 million it spent on consultants and contractors in 2014–15 did not yield the results it expected.

PTD's Wave 2 work packages in 2014–15 financial year included:

- utilities — through energy rate negotiations (\$15.6 million benefits)
- pharmaceuticals — standing offer arrangement unit rate negotiations (\$2.4 million benefits; this work package was led by Queensland Health)
- office based staff solutions — through reducing supplier margins, harmonising WorkCover and other insurances, and removing superannuation paid on overtime (\$2.1 million benefits)
- other packages — \$2 million benefits.

We audited the \$126 million in procurement benefits DHPW reported in its 2014–15 annual report with supporting documentation. We found that PTD's consolidated benefits report did not reconcile to the \$126 million it reported publicly — it was \$12.18 million short.

We requested supporting evidence for \$118.43 million of the benefits it reported (we excluded \$7.57 million from our request as these benefits referred to small work packages), but it could only provide detailed calculations for \$88.54 million.

Other departments delivered 60 per cent of the procurement savings DHPW reported, or \$75 million out of \$126 million. Most notably, \$49 million, or almost 40 per cent of the savings DHPW reported, came from savings DTMR realised on road projects.

Department of Transport and Main Roads

In 2012, DTMR established its Chief Procurement Office to reform the department's procurement processes and realise savings benefits of \$250 million over four years by 2015–16. The Cabinet Budget Review Committee (CBRC) gave DTMR this savings target through the 2012–13 revised budget outcome process.

Figure 2I shows the savings targets CBRC gave to DTMR in 2012.

Figure 2I
Savings targets — Department of Transport and Main Roads

Financial year	Savings target \$ mil.
2012–13	2
2013–14	22
2014–15	85
2015–16	141
Total	250

Source: Queensland Audit Office

Queensland Treasury removed the amounts from DTMR's budget when CBRC set the targets. DTMR then needed to find ways to achieve the targets.

DTMR developed a benefits realisation framework to ensure it had a consistent approach to identifying, validating, tracking, and documenting benefits. DTMR's method for measuring benefits provides clear definition of the types of benefits that can be realised:

- hard dollar savings — cash savings that can be reallocated to meet business needs. It is the difference between the previous year's spend and the current year's spend
- volume discounts and rebates — provided by suppliers for high volume purchases or early payment
- cash avoidance savings — costs are avoided when, through negotiation, the final contracted offer is less than the best offer (when the best offer is higher than the baseline or budget)
- non-financial benefits — qualitative benefits which are observable efficiencies as a result of streamlining procurement processes in transacting business.

Using its benefits realisation framework, DTMR recorded about \$240 million in realised savings over four financial years from 2012–13 to 2015–16. About 77 per cent, or \$184 million of DTMR's realised savings from 2012–13 to 2015–16, have come from initiatives under the construction delivery category.

DTMR cannot use the funds it saves on individual projects to reallocate to other projects or to address new initiatives because Queensland Treasury has already decreased DTMR's budget by the savings target.

DTMR aimed to achieve \$148 million out of DTMR's total savings target of \$250 million through savings realised in construction delivery projects — \$132 million of savings from projects with a cost of equal to or greater than \$10 million, and \$16 million of savings for projects that cost less than \$10 million. DTMR calculates the realised savings on projects costing \$10 million or greater as the difference between the contract award price and the estimated project cost it publishes in its annual Queensland Transport and Roads Investment Program (QTRIP).

The indicative total project costs DTMR publishes in its annual QTRIP are based on what is known as a P90 estimate — a conservative estimate, where one in 10 projects could exceed the total project cost, or there is a 10 per cent probability that a project cost will exceed budget. (That is, the contingency allowance in the budget on top of the cost estimate is sufficient to ensure there is a 90 per cent chance the budget will not be exceeded.)

DTMR calculates the Approved Project Value (APV) for projects over \$10 million when it awards a contract based on a P75 estimate — where one in four projects could exceed the total project cost. Infrastructure Australia guidelines state that 'as the "most likely" project outcome, adoption of the P50 estimate as the Project Cost Estimate is appropriate'.

It also states that 'if a number or portfolio of projects are delivered on average at the P90 estimate, then this should not be considered satisfactory'.

This means that DTMR's reported savings come from delivering major projects for less than the indicative costs it initially sets for projects, rather than what it most likely needed to complete the project. The actual costs incurred can be less due to several reasons, which include favourable market conditions (which create more competitive tension in tenders and better pricing for DTMR), unused project contingency, and more innovation in project design.

Because DTMR calculates realised savings using indicative construction project cost estimates rather than 'most likely needs to complete', the majority of the reported savings are due to a reduction in contingency. Figure 2J shows, by project cost component, DTMR's estimated relative costs and savings assumptions for construction delivery projects \$10 million or greater. Seventy-three per cent of DTMR's savings on a typical project greater than \$10 million are from reductions in project contingency.

Figure 2J
Department of Transport and Main Roads assumptions for achieving savings for projects greater than or equal to \$10 million

Project cost component	% allocated in business case (P90 estimate)	% of total project cost savings
DTMR costs — concept phase	1.3	0
DTMR costs — development phase	3.5	0.07
DTMR costs — implementation phase	7.3	0.14
DTMR costs — finalisation phase	0.5	0
DTMR costs — resumptions	3.8	0
Total DTMR costs	16.4	
Construction	51.0	1.0
Risks	23.0	4.6
Escalation	10.0	0.5
Totals	100.0	6.3

Note: Figures may not add due to rounding.

Source: Queensland Audit Office

Department of Education and Training

DET publicly reported an average of \$80 million in procurement savings per year from 2011–13 to 2014–15, but it has not clearly defined in its public reporting what it means by procurement savings.

DET's method for calculating procurement savings is primarily based on the difference between what the department and schools pay for using a DET supply arrangement and what they would have paid without DET's supply arrangement or the next best available supply arrangement. This means the savings it reports multiply when the volume of units it purchases increases. While this does not necessarily represent a cash reduction saving, it shows that DET's strategic procurement activities has enabled it to achieve greater purchasing power through reduced rates on goods and services.

Responsibility and review of whole-of-government procurement outcomes

Queensland is the only Australian state where the responsibility for whole-of-government procurement does not sit with a treasury or finance department. The rationale for assigning this responsibility to a treasury or finance function in other jurisdictions is that a central agency has more authority to direct agencies in areas such as how they should record their expenditure, or how they should account for benefits realised.

In December 2014, The Finance and Administration Parliamentary Committee asked for a whole-of-government review of benefits and effectiveness of the PTP to be performed, but the IDC review did not include benefits within its scope.

Review of Queensland Government Procurement

In December 2014, the Finance and Administration Committee tabled Report No. 57 — *Inquiry into Public Sector Contract Extensions in Parliament*. It recommended:

- a whole-of-government review of the benefits and effectiveness of the PTP following its final phase
- the Department of Housing and Public Works assess training requirements for all departments.

On 9 June 2015, the Queensland Government responded to the Finance and Administration Committee Report No. 57 stating:

The Government supports in-principle the recommendation that a whole-of-government review of the benefits and effectiveness of the new whole-of-government approach to contract extensions led by DHPW be conducted.

The Government is committed to conducting a broad-ranging review of Government procurement practices to ensure that probity and value for money remain at the forefront of the State's procurement policy and consider local content provisions as part of a new procurement policy for Government.

To support the delivery of this election commitment, an Interdepartmental Committee has been established to undertake a review of Queensland Government procurement. It is proposed to report back to the Finance and Administration Committee by April 2016 after the Interdepartmental Committee review is completed ...

In late June 2015, as part of an election commitment, the Queensland Government established the IDC review of Queensland Government Procurement to undertake a broad-ranging review of its procurement practices. The IDC review did not include a review of benefits in its terms of reference, and the final report is silent on what benefits were achieved through the PTP.

The IDC report does not comment on how the Queensland public sector could incentivise or require departments to realise procurement benefits.

The IDC report did identify that:

An historical focus on financial savings from whole-of-government initiatives, coupled with the harvesting of these savings back to Queensland Treasury, has eroded support for the existing approach and contributed to departments' reluctance to widely collaborate and publish spend data.

Whole-of-government procurement function

Since 2007, after three major reviews into Queensland Government Procurement and sub-optimal outcomes from procurement, DHPW has maintained responsibility for whole-of-government procurement. The IDC report does not state why the whole-of-government procurement function is best positioned within DHPW compared to a central or finance agency like other jurisdictions.

Figure 2K shows, for each Australian jurisdiction, the departments responsible for whole-of-government procurement.

Figure 2K
Current jurisdictional arrangements for procurement

Jurisdiction	Department responsible for whole-of-government procurement
Australian Government	Procurement Coordinator under the Department of Finance
Australian Capital Territory	The Government Procurement Board Secretariat: Procurement and Capital Works, in the Chief Minister, Treasury and Economic Development Directorate.
New South Wales	New South Wales Procurement Board under Department of Finance, Services and Innovation
Northern Territory	Department of Business
Queensland	Office of the Chief Advisor — Procurement under the Department of Housing and Public Works
South Australia	State Procurement Board under the Department of Treasury and Finance
Tasmania	Department of Treasury and Finance
Victoria	Victorian Government Procurement Board under the Minister for Finance Secretariat: Department of Treasury and Finance
Western Australia	Government Procurement under the Department of Finance

Source: Queensland Audit Office

A whole-of-government strategic sourcing review in 2012 recommended that the DG Council be given the legislative authority to direct agencies where appropriate on procurement matters. Government departments did not consider this was necessary, as they intended to use a 'one-government' approach rather than taking a centralisation or 'one size fits all' approach, and because they would voluntarily commit to the initiative.

However, the significantly lower than expected outcomes of the PTP show that departments did not collaborate well.

The IDC report recommended that agencies remain accountable for their own procurement delivery, and that a new whole-of-government procurement function be established to support departments in delivering procurement outcomes. This resulted in the creation of the Office of the Chief Advisor — Procurement within DHPW.

The new whole-of-government procurement function is limited in its ability to influence, as it has been set up as an advisor — it cannot set and monitor policy, or specify common processes and systems that will enable all agencies to collectively achieve procurement outcomes.

3. Recording and analysing procurement data

Chapter in brief

Good quality procurement data helps agencies understand how much they spend, what they spend it on, and with whom they spend it. Departments need this information to inform strategies to achieve better value for money.

Departments record expenditure data in finance systems, tender information in Q-Tender, supply arrangements in the Queensland Contracts Directory, and contract information in contract registers or Q-Contracts — a contract management system the Department of Housing and Public Works selected for agencies to use. It has managed this system since August 2013.

Main findings

- Departments cannot effectively analyse procurement and contract information to make strategic procurement decisions because:
 - they record information in multiple systems
 - the systems are not integrated
 - the finance systems record spend data but not complete procurement data such as volumes, prices and products.
- The Procurement Transformation Division:
 - was limited in its ability to use value levers for strategic procurement because government financial systems lack good quality procurement data
 - used government departments' financial data to analyse procurement spend, but the data it used for its analyses was materially inaccurate and unreliable for informing strategic procurement decisions
 - lacked the skills it needed to accurately analyse procurement spend
 - did not develop or drive a whole-of-government framework for categorising expenditure data. Departments have therefore performed disaggregate pieces of work in an attempt to fill the gap where a central data source should be.
- The Q-Contracts implementation does not satisfy the requirements for a contract management life cycle system, and only seven departments have implemented it.
- A strategic sourcing review in 2012 established ambitious expectations for departments to realise benefits, but departments lacked the capability in data analytics to validate the opportunities and implement strategic initiatives to realise them.
- Category leads are unable to effectively monitor whether agencies purchase outside of the arrangements they have established. They rely on supplier data to know how agencies have used their supply arrangements.

Audit conclusions

The lack of good quality procurement data is limiting the potential for government departments to realise significant financial benefits from strategic procurement. This problem is bigger than departmental procurement functions and bigger than any one agency. It will need chief procurement officers and chief financial officers to work together to ensure that financial systems meet the needs of both functions.

Introduction

Departments need quality spend information to make strategic procurement decisions. High quality procurement data enables them to understand how much they spend on goods and services, what they spend it on, and with whom they spend it. If agencies have this information at a category level, it can inform strategies to achieve better value for money.

In 2011, the Queensland Government Chief Procurement Office developed an Insight Cube — a data tool to collate and analyse expenditure data from all departments using procurement categories. This data underpinned the analysis the Procurement Transformation Division (PTD) performed in developing category plans. PTD also provided a summary of this data to other agencies upon request to help them understand their spending patterns.

Q-Contracts is the system used by some agencies to record and manage procurement information over the term of their contracts. The Department of Housing and Public Works (DHPW) has managed Q-Contracts since August 2013, after the former Department of Public Works (DPW) selected it as the preferred contract management system for agencies. DPW acquired the software from an external supplier and re-branded it as Q-Contracts.

We assessed the availability and quality of data used to inform whole-of-government spend analysis. We also assessed the suitability and uptake of DHPW's Q-Contracts contract management life cycle system.

Audit conclusions

Poor quality procurement data is limiting the potential for government departments to realise significant procurement benefits. Most departmental managers do not have the data or the tools they need to make strategic procurement decisions. The Insight Cube PTD developed to analyse procurement spend is materially inaccurate, incomplete and unreliable for informing whole-of-government strategic procurement decisions.

While departments can easily access expenditure data, they do not have good visibility of procurement data like product mix, unit prices, and quantities. Because departments lack this data, they are unable to conduct meaningful and insightful spend analysis to develop specific strategies to realise financial benefits from procurement. PTD attempted unsuccessfully to use expenditure data to develop spend analysis, but it lacked the capability to do this accurately and misrepresented departments' actual procurement spend.

Government departments have designed and implemented their financial systems to predominantly meet the needs of financial and payroll functions, but not procurement. The Department of Transport and Main Roads is the only agency that can demonstrate it has improved its financial system to record procurement data. Many departments share financial systems and this means that all stakeholders in those financial systems, including procurement, need to work together to ensure the system meets the needs of financial, payroll and procurement functions.

Recording data for procurement analysis

We expected to see that departments analyse their spend data annually to identify opportunities to realise procurement benefits. We found that some, but not all, departments analyse their procurement spend. We also found that they would all benefit from increasing the depth of their analysis.

Departments need detailed, accurate spend data to effectively analyse procurement opportunities and deliver better value for money. Most departments are not recording sufficiently detailed spend data because of how they have configured their finance systems, and PTD has not ensured the data it used to analyse procurement spend was complete and accurate.

When PTD presented the mega-category plans to the Director-General (DG) Council in July 2014, it did not have an accurate knowledge of what the addressable spend was, and the Office of the Chief Advisor — Procurement (OCAP) is still unable to state it with any accuracy because of poor quality finance system and contract data.

Queensland Government finance systems

Queensland departments primarily use finance systems to produce financial statements and to account for how they use their funds, not for analysing procurement spend. The transactional data within these systems is organised within a chart of accounts, which organises revenue, expenditure, assets and liabilities by general ledger account codes (GL accounts).

The GL accounts map to the financial statements and there are instances where GL accounts relate to multiple procurement categories. An example of this is consultancies and contractor GL accounts, where the expenditure could relate to multiple procurement categories, such as professional services or engineering services.

This is a legacy issue from the implementation of SAP finance systems in Queensland Government agencies and is beyond OCAP's ability to influence. The former Service Delivery Performance Commission (SDPC) reported in its 2007 *Report on Purchasing and Logistics* identified that the then planned SAP standard offering did not have the functionality to support strategic sourcing and contract management. The former Department of Public Works did not implement the SDPC's recommendation to include SAP procurement capability as part of the SAP standard offering because the SAP implementation focused on finance and payroll functionality.

Departments record data relating to different phases in the procurement and contract management life cycle in various systems. These systems, which do not integrate and do not generally include unit and pricing data, include:

- finance systems, typically SAP, to record expenditure data
- Q-Tenders, to record public tender data
- Queensland Contracts Directory (QCD), to record supply arrangements
- Q-Contracts and agency-maintained contract registers, to record contract data.

Because these systems are not integrated, government departments cannot effectively monitor their spend against their own contracts and whole-of-government supply arrangements.

Queensland Government contract management systems

The Q-Contracts system implementation does not satisfy all the key requirements we outlined in *Contract management: renewal and transition* (Report 10: 2013–14). PTD did not implement the functionality to enable a user to conduct a spend analysis of contracts.

The 2011 business case for Q-Contracts forecast that all agencies would adopt the solution by June 2012 to deliver expected benefits of \$7.25 million per year. However, in *Contract management: renewal and transition* (Report 10: 2013–14) we found that:

- by December 2013, only the host department (DHPW) was using the software — in five out of 30 of its business units
- the three departments audited did not have complete records of their contracts or centralised records of all the contract management activities
- the standard product offering for the Q-Contracts system does not integrate with SAP. This lack of functionality reduces the system's effectiveness and its attractiveness to departments as an appropriate option to support contract management.

We recommended that all departments implement a contract management life cycle system to enable:

- consistent monitoring of supplier performance
- spend analysis
- an early trigger for contract expiry.

On 24 July 2014, in an out of session submission to the DG Council, PTD incorrectly advised that implementation of Q-Contracts would ensure adherence to our requirements, despite our report specifically stating Q-Contracts' limitations.

As at June 2016, seven government departments were using Q-Contracts, plus an additional two departments whose procurement function is serviced by one of the departments that implemented Q-Contracts. This is well short of the business case expectation that all agencies would be using the solution by June 2012. DHPW has not reviewed the business case since it completed it in 2011 to determine if the system is an appropriate fit for the needs of Queensland Government agencies.

Because Q-Contracts, as PTD implemented it, lacks the functionality to conduct spend analysis on contracts, OCAP cannot effectively monitor contract leakage from the supply arrangements it has established for departments to use. Mega-category leads also cannot effectively monitor off-contract spend because departments record contract information on separate systems that do not record contract spend.

The other agencies who did not implement Q-Contracts use spreadsheets as a low-cost option to manage their contracts. This does not enable them to effectively monitor contract spend, supplier performance and contract expiry.

The seven agencies that have implemented the system are:

- DHPW — June 2014
- Queensland Health — December 2013
- Department of Education and Training — July 2014
- Department of Justice and Attorney-General — October 2014
- Department of Science, Information Technology and Innovation — December 2014
- Department of Aboriginal and Torres Strait Islander Partnerships — December 2014
- Public Sector Business Agency — August 2015.

The agencies who implemented the system have expressed significant concerns with DHPW on the system implementation, such as:

- the system was not configured to their local needs
- they had to independently seek support from the vendor with no central coordination for product and systems support
- the training material provided by the vendor was generic and not tailored to their local needs.

To respond to these concerns, in July 2015, DHPW developed a recovery strategy for the Q-Contracts implementation, led by a new project manager. Its recovery strategy was to fix the issues raised in the existing implementations and deliver business as usual services to support those agencies who had implemented the system.

Case study 1 shows how one department who decided not to implement Q-Contracts used its existing finance system to enable it to monitor spend against contracts.

Case study 1

Department of Transport and Main Roads' contract register

The Department of Transport and Main Roads (DTMR) did not implement the Q-Contracts system because it had concerns with the system's functionality. Instead, DTMR implemented a contract register spreadsheet as a short-term, low cost solution and investigated options for a fit-for-purpose contract management system.

DTMR implemented its contract register in June 2015. It initially designed this to be a data collection tool to cleanse contract data and upload it into a contract management life cycle system it planned to implement. The contract register provides DTMR with visibility of its contracts and the functionality to monitor contract expiry dates and analyse spend against contracts.

In August 2015, DTMR enhanced the value of its contract register by implementing a process to weekly upload the data from the contract register into its finance system, SAP. By having contract data in its finance system, DTMR can now accurately monitor how much it spends against each contract. This is because DTMR made changes to its SAP system to require users to select pre-loaded contract information when they process a purchase requisition. Users have four options:

- 'on contract' where a contract exists
- 'contract pending' when the contract has not yet been finalised
- 'express process' for goods and services up to \$25 000 or
- 'no contract'.

The Insight Cube

OCAP imports data into its Insight Cube from agency finance systems. It does not reconcile the data it imports into its Insight Cube with source systems and financial statements to ensure its data is complete and accurate. We reconciled OCAP's data with the data that we obtained for our financial audits for two financial years (2013–14 and 2014–15). In doing so, we identified that only about 70 per cent of 2013–14 and 2014–15 general ledger (GL) account balances in the Insight Cube reconciled within plus or minus five per cent of our verified financial data.

PTD (now OCAP) appends new expenditure data to its Insight Cube on a quarterly basis. In a strategic sourcing review commissioned by the Department of the Premier and Cabinet in 2012, a consultant to government identified that PTD's Insight Cube did not contain the following data sets:

- purchase order (PO) data — highlighting POs raised/approved, quantity ordered, unit of measure and price
- materials data — showing item description and category, units, quantity and price
- projects data — showing project budget, spend, start date and end date
- contract data — showing contracted parties, unit price, values, dates and spend to date.

The consultant recommended that PTD include these data types in its Insight Cube. Three years after this review, PTD was still not able to do this, primarily because the data sets do not exist in the source systems (departments' finance systems) from which the Insight Cube extracts data. The lack of procurement data, particularly data relating to quantities and pricing information, means that OCAP and government departments are significantly limited in their ability to conduct and influence demand management.

In late 2015, the then PTD advised the Chief Procurement Officer (CPO) Steering Committee that the Insight Cube 'may not be as unreliable as what is currently understood'. PTD did not do sufficient testing to support this statement, and because the CPO Steering Committee did not question the level of testing performed, stakeholders were not adequately informed about the significant limitations of the Insight Cube.

PTD performed a high level analysis of spend data for four out of 21 departments by comparing the Insight Cube data to data an external consultant used on a 'Data Integrity Reforms Project' to assure stakeholders of its accuracy. PTD found that for those four departments, the Insight Cube's data was only three per cent greater on aggregate.

PTD advised the CPO Steering Committee that 'One may reasonably expect that the higher spend result would be likely to be the more accurate', implying that the Insight Cube was more accurate than the consultant's data. The CPO Committee made the decision to continue using the Insight Cube with an ongoing action to improve in-house capability. However, PTD did not develop a plan to improve this capability because it was awaiting the outcomes of the IDC review.

Every month, QAO extracts data from departments' finance systems and then reconciles the data extracts with the source systems before we append the data to our data set. We use this data set for our financial audits. At the end of the financial year, we reconcile the data to all the financial statement line items against which Queensland Government departments report.

We reconciled PTD's data to the data we use in our financial audits to determine the impact of the significant discrepancies we identified with PTD's data integrity. To do so, we used PTD's mega-category mapping on our data and on the data from their Insight Cube, then compared the results.

We identified that the variances in the Insight Cube to our verified data set occurred because PTD:

- lacked the skills to understand how document types in SAP systems work
- double-counted transactions because it included transactions with multiple document types stored in SAP for different purposes (for example, purchase orders and goods receipts related to the same transaction) in its spend analysis
- manually manipulated SAP document types and GL account assignments when it imported the data into its Insight Cube
- removed accounting journals, which had the effect of reinstating duplicate transactions that were previously reversed.

The following three examples show why PTD's Insight Cube is unreliable for spend analysis.

Example #1 — GGS mega-category plan data

PTD coordinated the development of mega-categories with the mega-category lead departments. In July 2014, PTD presented six mega-category plans to the DG Council.

The GGS category plan identified 'granularity of data' as a critical and almost certain risk. PTD did not identify that the key issue was not only with the granularity of the data (how the data was categorised). It was fundamentally about how inaccurate the total spend data was — and this was what PTD based its spend analysis on.

Figure 3A shows the results for the four departments with the highest GGS spend (excluding DHPW, because we do not currently obtain the data for its commercialised business units). For these four departments, the variance between our data and PTD's is 35 per cent — PTD overstated these four departments' spend by \$532 million.

Figure 3A
QAO reconciliation of GGS procurement spend data — 2014–15

Department	PTD Insight Cube \$	QAO data using PTD mapping \$	Variance \$	Variance %
Queensland Health*	986 573 217	663 780 375	322 792 842	33
Department of Transport and Main Roads	197 580 311	148 177 135	49 403 176	25
Department of Agriculture and Fisheries	132 289 417	94 594 638	37 694 778	28
Department of Justice and Attorney-General	200 778 068	78 978 748	121 799 320	61
Totals	1 517 221 013	985 530 896	531 690 117	35

* Note: Queensland Health figures include Hospital and Health Services.

Source: Queensland Audit Office using PTD Insight Cube data and Queensland Audit Office data

Example #2 — ICT mega-category plan data

The ICT mega-category plan presented to the DG Council in July 2014 identified the unavailability of good quality data to inform strategic procurement decisions as a risk, noting that ‘data quality used for this report is poor’ and that the addressable spend was ‘unknown’.

Figure 3B shows the results of our reconciliation using PTD’s mega-category mapping on our data and on the data from their Insight Cube for the four departments with the highest ICT spend.

Figure 3B
QAO reconciliation of PTD ICT procurement spend data — 2014–15

Department	PTD Insight Cube \$	QAO data using PTD mapping \$	Variance \$	Variance %
Queensland Health*	320 093 672	198 379 483	121 714 189	38
Department of Science, Information Technology and Innovation	206 342 268	130 564 181	75 778 087	37
Department of Education and Training	170 682 014	118 905 640	51 776 374	30
Department of Transport and Main Roads	98 552 210	87 081 152	11 471 057	12
TOTALS	795 670 164	534 930 456	260 739 708	33

* Queensland Health figures include Hospital and Health Services.

Source: Queensland Audit Office using PTD Insight Cube data and Queensland Audit Office data

In July 2016, DSITI completed draft ICT category plans which include more accurate spend data than its previous plans. This shows that DSITI is improving the quality of spend data for the ICT mega-category.

Example #3 — Spend analysis data

Analysing Queensland Health (QH)'s spend is a critical component of analysing whole-of-government spend, because it represents a large proportion of the whole-of-government spend. However, PTD did not have an accurate view of QH's spend. We identified that in PTD's Insight Cube:

- in 2013–14, about 32 per cent of QH's GL accounts (363 of 1 119) did not reconcile to our audit data within five per cent
- in 2014–15, about 32 per cent of QH's GL accounts (368 of 1 159) did not reconcile to our audit data within five per cent.

Figure 3C shows the top ten GL accounts where we found significant variances with PTD's Insight Cube for the 2014–15 financial year.

Figure 3C
Top 10 overstated GL accounts in PTD Insight Cube for Queensland Health — 2014–15

General ledger account	General ledger description	Variance \$	Variance %
560100	Clinical supplies — disposable	79 851 862	32.1
560035	Prosthetics	61 617 635	83.0
517505	Contractors — non-clinical	57 795 867	59.7
536100	Repairs and maintenance — buildings	56 055 664	49.3
565000	Other supplies — general	49 196 551	95.9
560940	Pathology	46 317 383	101.2
536295	Computer software — maintenance	23 114 531	46.3
510435	Software	21 428 368	89.8
510410	Computer equipment — not portable and attractive	17 648 170	93.2
560000	Clinical supplies — non-disposable	16 890 573	68.5

Source: Queensland Audit Office using PTD Insight Cube data

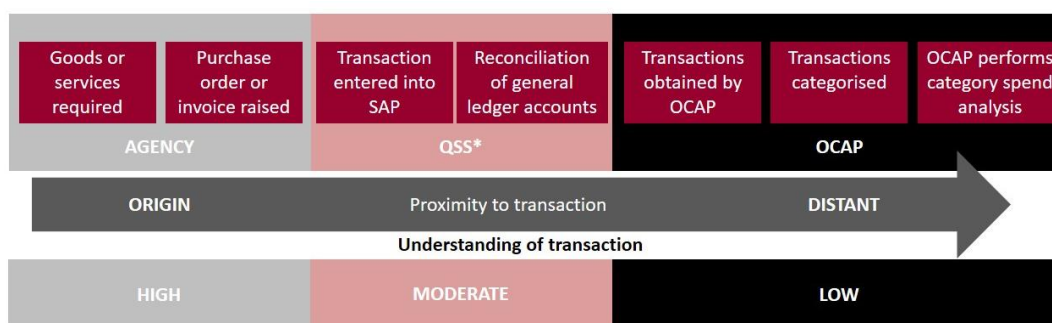
Categorising procurement data

PTD did not develop or drive a whole-of-government framework for categorising expenditure data. Due to this lack of an agreed framework, agencies are performing their own categorisation using different frameworks. This means that the spend analysis, which some departments do independently, cannot be combined for a whole-of-government spend analysis because of inconsistent methodologies.

Approach to categorising data

The most efficient and effective way of classifying procurement data is to do it at the point of data entry. That is, departments should classify each transaction as they raise a purchase order. As most Queensland Government departments did not implement the procurement and material masters modules of SAP, PTD had to categorise the expenditure transactions retrospectively, as Figure 3D shows.

Figure 3D
OCAP's process for allocating procurement categories



* Queensland Shared Services (QSS) does not perform all transaction entries. For example, Queensland Health uses its own shared service provider for the Hospital and Health Services.

Source: Queensland Audit Office

Categorising spend transactions well after the transaction event has occurred adversely affects the ability to categorise data down to a commodity level and is less likely to be accurate. PTD categorises expenditure to four levels (mega-category, category, sub-category, and commodity). PTD states that data confidence is relatively high down to the second level of categories (90 per cent); however, is much lower when looking at the sub-category or commodity level (50 per cent).

PTD uses a hybrid of categorisation frameworks — a combination of categories suggested by external consultants during the 2012 strategic sourcing review and the global standard for product and services coding, the United Nations Standard Products and Services Code® (UNSPSC). Other agencies (the Departments of Health, Transport and Main Roads, Education and Training and the Public Safety Business Agency) perform their own categorisation of procurement spend but use other category frameworks. This means that government departments cannot easily aggregate this data and are duplicating categorising activities across the public sector.

PTD did not effectively work with other government departments to agree on a categorisation approach. Other departments performed their own categorisation to varying success. These include the four departments mentioned above and the Department of Science, Information Technology and Innovation.

Without an agreed whole-of-government procurement category framework and a centralised dataset, these departments have been performing the same task using different methods, causing duplication of effort.

The IDC operational model includes UNSPSC categories across all six mega-categories. The challenge remains for all government departments to agree with this categorisation and to change their systems and processes to ensure they accurately record their expense data against these categories.

Contract information

The key strategic risk PTD has in managing its supply arrangements is managing off-contract spend. PTD (now OCAP) does not have the ability to effectively monitor off-contract spend because government departments do not record in their finance systems what supply arrangements they use when making purchases.

Due to the poor quality of their data, PTD relied on supplier data to understand the risk of off-contract spend, but it cannot quantify it with any certainty. This is not within PTD's (now OCAP's) control and it requires departments to change their systems to categorise data at the point of data entry. Only by requiring agencies to input commodity level data at the inception of a purchase order or invoice will OCAP obtain the quality of data it requires to perform a meaningful spend analysis. Departments could do this by using a materials master (available for SAP) to record unit cost and quantity information.

Department of Transport and Main Roads

The Department of Transport and Main Roads (DTMR) has significantly improved its data quality to increase the transparency of its spend and purchasing practices. DTMR enhanced its procurement data by adopting an internationally recognised categorisation standard at the point of data input, using a materials master in SAP.

DTMR completed a project to categorise its expenditure data against the UNSPSC, which is a global, multi-sector standard for classifying products and services. DTMR completed this project using its current finance system and internal resources. As a result, DTMR has significantly improved the quality of its procurement data at low cost, and provided its category managers with the tool they need to effectively manage procurement categories. Category managers can now access the spend data themselves, rather than needing to request the data from a central team.

Case study 2 shows how DTMR improved its procurement data.

Case study 2

Department of Transport and Main Roads' procurement data

DTMR categorises its expense data at the point of data entry, which is the purchase order in most cases. It classifies all expenses to four hierarchical levels, with detail increasing with each level. The fourth level provides product-specific data. Figure CS1 shows examples of DTMR's categories to the commodity level.

Figure CS1
DTMR Level 3 and 4 category examples

Level 3	Level 4
Aggregates	Natural aggregate
Concrete & mortars	Ready mix concrete
Asphalts	Asphalt
Passenger air transportation	Commercial airplane travel
	Chartered airplane travel
Passenger road transportation	Vehicle rental
	Taxicab services
	Chartered bus services

Source: Queensland Audit Office

Because DTMR has this level of procurement data it can:

- analyse spend at a category and product level with a high degree of confidence in the accuracy of the data, and use this to inform procurement strategies
- search for products to see which suppliers provide a specific product and historical pricing data to inform purchasing decisions
- analyse off-contract spend to identify contract leakage.

DTMR has a high degree of confidence in how it categorises expenses because it automatically codes its expenditure data in its finance system. The user does not have an option to select what codes apply — which eliminates user error. The user selects the product and the system automatically assigns the relevant procurement and general ledger codes. This required DTMR to develop (and agree with its business areas) the mapping for coding products, and it has a process for uploading new products into its finance system.

DTMR categorised its expenditure data by:

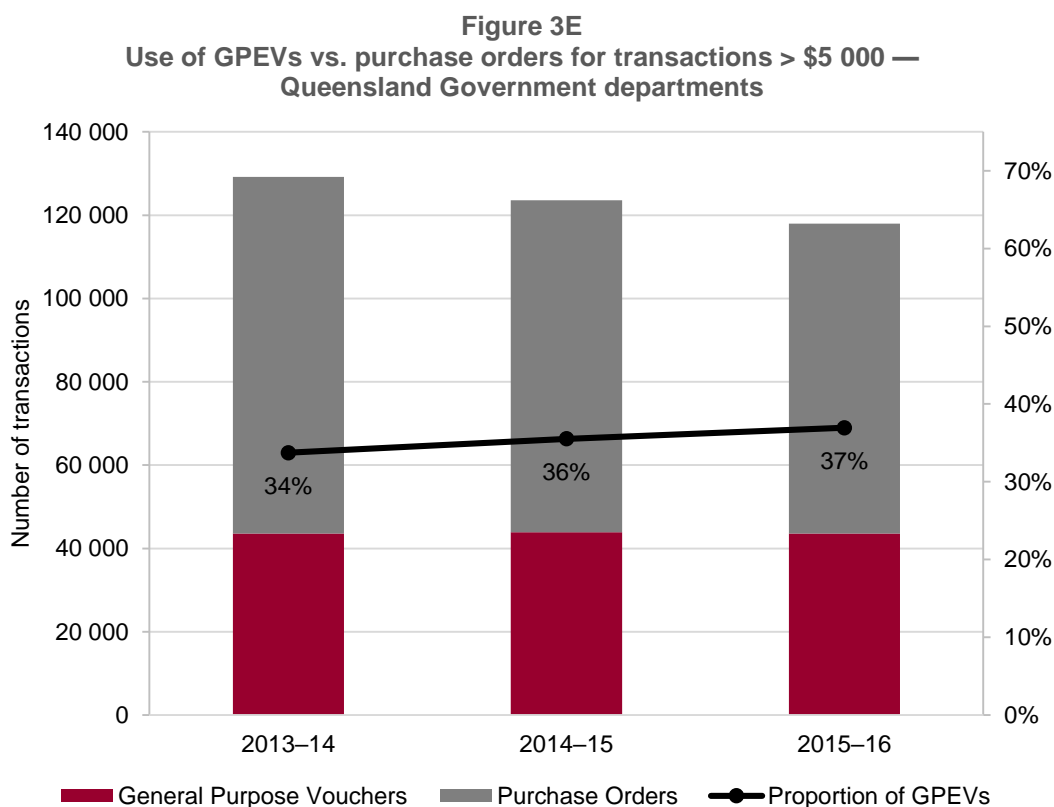
- extracting data from its finance system and grouping the data by material type and dollar amount
- using the material description field in SAP to assign UNSPSC codes to materials
- grouping materials into categories and sub-categories
- validating the coding with DTMR category leads who also provided units of measure for the materials
- allocating general ledger account codes to materials
- uploading the finalised list into SAP.

DTMR is now able to strategically analyse data down to the third and fourth levels to better understand its product mix and commodities. As it expands its detailed categorisation from purchase orders to also include direct invoices and corporate card purchases, DTMR's procurement data quality will continue to improve and give it meaningful insights into its procurement spend.

Enhancing categorisation through purchase orders

DTMR has successfully improved the quality of its procurement data by encouraging the use of purchase orders. Unlike other transaction types, purchase orders contain product, unit, and quantity information. However, across the public sector the use of purchase orders has declined from 66 per cent of transactions greater than \$5 000 in 2013–14 to 63 per cent in 2015–16. The alternative transaction type, general purpose expenditure vouchers (GPEVs), contain insufficient detail for categorising procurement spend.

Purchase orders cost more to process, and therefore agencies should assess the cost-benefit of processing purchase orders over GPEVs. Figure 3E shows the proportion of GPEV transactions to purchase order transactions (over the corporate card threshold of \$5 000) over the last three financial years.



Notes: Transactions with private sector entities only.

Source: Queensland Audit Office

Analysing data to identify procurement opportunities

PTD did not use a range of value levers to deliver procurement benefits. The lack of good quality procurement data limited PTD's effectiveness and ability to use value levers other than strategic sourcing, such as managing demand or reducing transactional costs.

Because there is no accurate procurement analysis tool for the Queensland Government, during this audit, QAO developed a low-cost solution, creating our own financial data collection approach that allows departments to analyse their procurement spend with the private sector. Using our tool, we were able to identify further strategic procurement opportunities for the Queensland Government to explore, including:

- establishing new supply arrangements for areas of common expenditure where a current supply arrangement does not exist
- increasing the use of existing supply arrangements
- reducing transactional processing costs by using corporate cards
- managing demand for general goods and services.

Establishing supply arrangements

The GGS categories we identified for which every department purchases commodities are:

- professional services
- logistics
- marketing
- business equipment and services
- travel
- fleet.

Of about \$2 billion (2014–15) in spend in the GGS categories, 57 per cent relates to categories that 10 or more departments have in common. However, in 2014–15, the Queensland Government purchased GGS products and services from about 14 000 individual suppliers.

Figure 3F shows that of the top 50 GGS suppliers, by value, about 30 per cent were used by 10 or more departments and about 56 per cent were used by less than five departments. This means that while government departments purchase similar general goods and services, they are not maximising the economies of scale available to rationalise suppliers and reduce costs.

Figure 3F
Number of departments spending with top 50 GGS suppliers — 2014–15

Number of departments	Number of top 50 suppliers used	Spend in GGS categories
< 10 departments	35 (70 per cent)	\$848 738 790 (43 per cent)
10 to 20 departments	13 (26 per cent)	\$477 171 019 (24 per cent)
All departments	2 (4 per cent)	\$639 534 786 (33 per cent)
Totals	50	\$1 965 444 595

Source: Queensland Audit Office

We identified the following categories in which the Queensland Government could realise benefits if departments and other public sector agencies work collaboratively.

In these examples, it is likely that departments are paying different rates for the same products and services, leading to inefficiencies and waste.

Mail and cargo transport

\$73.3 million (2014–15) — total government GGS spend in this category.

- The Department of Agriculture and Fisheries spent 49 per cent of this, and the Department of Transport and Main Roads (DTMR) and the Department of Health (DOH) both purchased 14 per cent. Other agencies purchased the remaining 23 per cent.
- The top two suppliers in this category account for 37 per cent of total government GGS spend. Based on our review of the Queensland Contracts Directory (QCD), there is a whole-of-government supply arrangement in place for these two suppliers. However, DHPW's website lists arrangements with courier and freights suppliers as being 'under review', so any existing arrangements cannot be used.

Utilities — electricity and gas

\$156.5 million (2014–15) — total department and hospital and health service (HHS) GGS spend in this category.

- HHSs were responsible for 55 per cent of the total spend on utilities, and the top three highest spend departments were DTMR (15 per cent), the Department of Justice and Attorney-General (DJAG) (11 per cent), and the Queensland Police Service (QPS) (eight per cent).
- The top three spend suppliers account for 85 per cent of the total utilities spend — at least 13 departments and six HHSs used their services.
- The top three suppliers in this category are under a whole-of-government arrangement or under a pricing regulation, the remaining spend of \$9.8 million (14 per cent) is with other suppliers that are not included in a supply arrangement.
- Because gas and electricity expenses are coded to an 'electricity and gas' GL account, and suppliers can provide both commodities, it is difficult to separate these commodities for detailed analysis. We used a free text field to identify that 26 public sector entities spent at least \$9.2 million on gas in 2014–15, of which they spent \$8.2 million with two suppliers. However, there is no supply arrangement for gas, which means each public sector agency sources this commodity independently. They are not using the government's buying power to get a better deal.

Fruits, vegetables, nuts and seeds

\$47.3 million (2014–15) — total department and HHS GGS spend in this category.

- Queensland Health HHSs spent 77 per cent of this, with 14 HHSs independently engaging with the highest spend supplier.
- The highest spend department is the DJAG, with 23 per cent of the spend. Two other departments — the Department of Communities, Child Safety and Disability Services and DOH — account for less than one per cent of the spend.
- The top three spend suppliers account for 47 per cent of the total spend. DJAG and at least 12 HHSs use all three suppliers.
- Based on our review of the QCD, there is a whole-of-government arrangement for only one of the top three suppliers. Sixteen public sector entities use the highest spend supplier; however, this supplier is not on a whole-of-government arrangement.

Subscriptions, publications and magazines

\$21.1 million — total government spend in this category.

- DOH spent 35 per cent of this, the 16 HHSs purchased 14 per cent, and DTMR and DJAG purchased 12 and eight per cent, respectively. Other agencies purchased the remaining 31 per cent.
- The top three suppliers in this category account for 44 per cent of total government spend. However, based on our review of the QCD, only one of the three was on a whole-of-government or agency-level supply arrangement.
- An opportunity exists for government departments to achieve better value for money from these suppliers by using their collective purchasing power.

Increasing use of existing supply arrangements

According to the QCD:

- PTD has established 15 new supply arrangements since July 2013, and manages 33 current supply arrangements on behalf of government agencies. PTD has established an additional six new supply arrangements since July 2013, and manages an additional five supply arrangements which are not recorded in the QCD.
- The Department of Science, Information Technology and Innovation (DSITI) has established 11 new ICT supply arrangements since September 2013, and manages 31 current supply arrangements on behalf of government agencies.

However, because government departments do not record spend against whole-of-government supply arrangements in their finance systems, PTD and DSITI are unable to effectively monitor whether agencies purchase outside of the arrangements they have established. They rely on supplier data to know how agencies have used their supply arrangements, but this does not tell them how much off-contract spend occurs.

Without significant improvements in the systems supporting procurement, it will be difficult, under any governance arrangement, to effectively monitor if agencies use the supply arrangements that are established.

On and off-contract spend

We examined government departments' use of supply arrangements. We assumed that if a public sector entity used a supply arrangement, it would process those transactions through a purchase order rather than a direct invoice. To perform this analysis, we focused on GGS transactions greater than \$5 000 (which, under Queensland Treasury policy, should be on corporate cards).

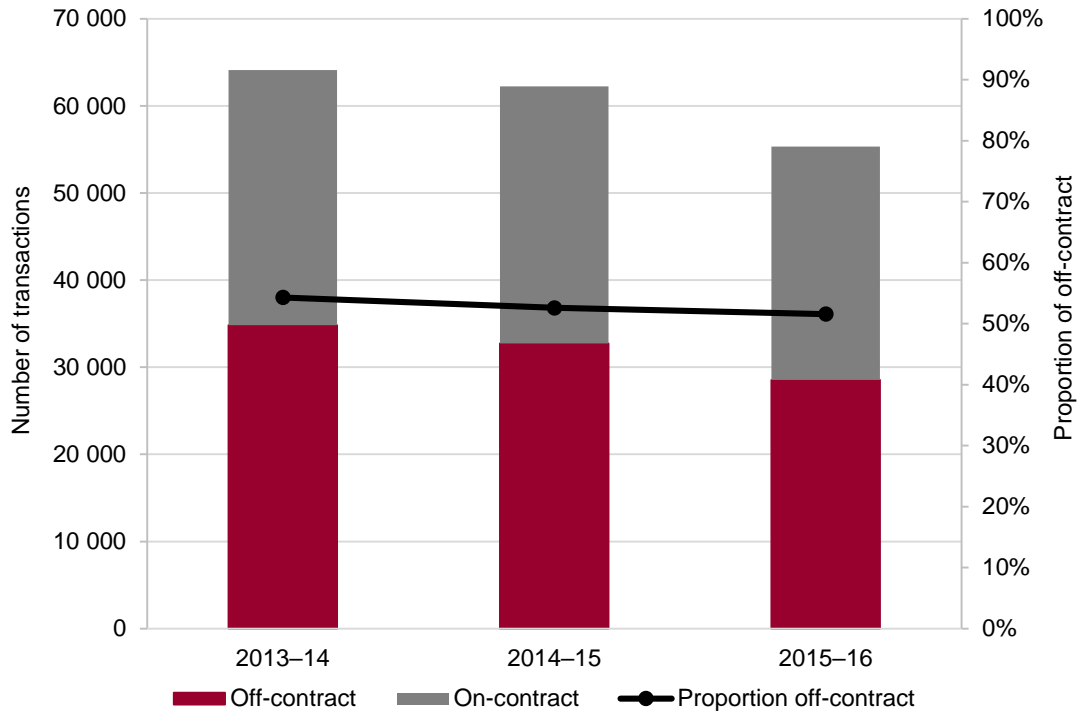
Using this methodology, in 2014–15, about \$473 million of government expenditure was off-contract. This was 46 per cent of total GGS expenditure.

A limitation of our analysis is that the purchase orders could relate to a standing offer arrangement or an individual agency contract, which is also a form of contract leakage. To be conservative, we assumed that all purchase orders were on common standing offer arrangements.

Because most government departments do not have the systems they need to monitor spend against contract, this analysis is indicative, using the best available data within government finance systems.

Figure 3G shows, for departments' GGS expenditure, the number of contract and off-contract transactions over the last three financial years.

Figure 3G
GGS on- vs. off-contract transactions from 2013–14 to 2015–16 —
Queensland Government departments

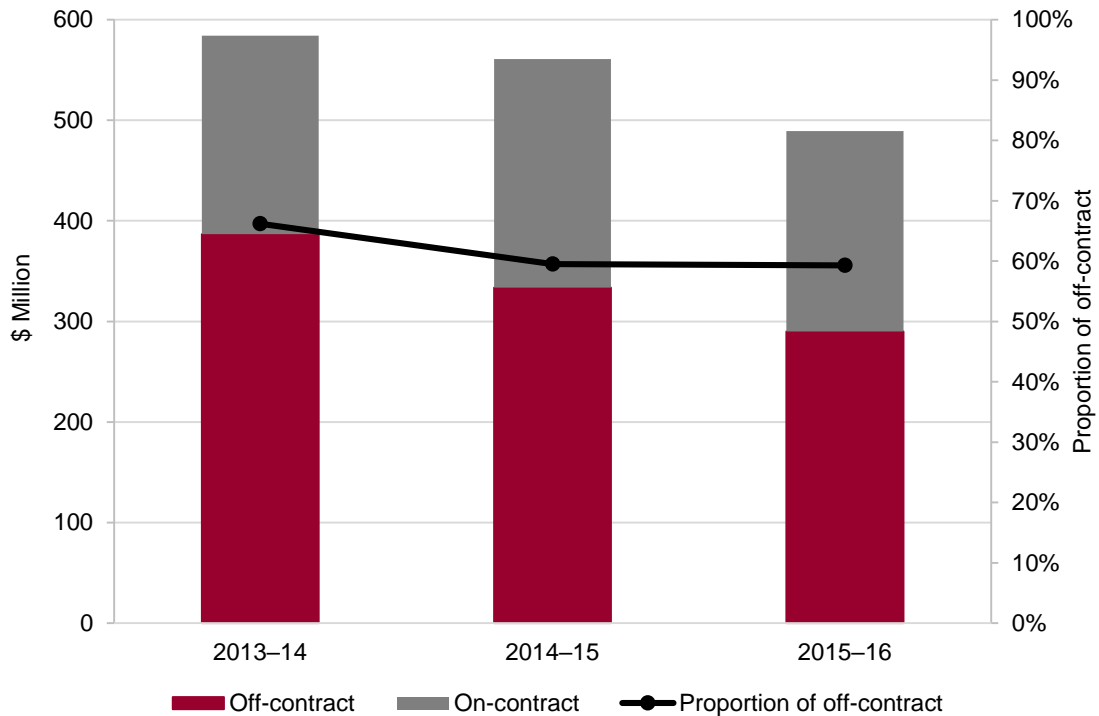


Note: Based on IDC category mapping.

Source: Queensland Audit Office

We analysed all GGS categories further to examine if there were categories of spend where higher contract leakage occurred. About half of the off-contract expenditure occurred in the management, business professionals and administrative services category, which shows that it is high risk for contract leakage. Figure 3H shows the on-contract and off-contract spend for this category.

Figure 3H
Management, business professionals and administration services —
on vs. off-contract expenditure from 2013–14 to 2015–16



Note: Based on IDC category mapping.

Source: Queensland Audit Office

PTD has not managed the risk of contract leakage well on whole-of-government supply arrangements because it has not made all its supply arrangements easily accessible and easy to use. This increases the risk that departments will purchase goods and services off-contract and miss opportunities to use economies of scale to realise financial benefits.

PTD developed the QCD, which departmental staff can use to search for supply arrangements by standing offer arrangement (SOA) number, name, department, category and key words. The system returns a reference number and a contact person for the supply arrangement. The QCD does not contain information on individual products, unit rates, supplier contacts, supplier terms of payment and similar product comparisons. Staff can find more detailed information on the supply arrangements on DHPW's web site, but this information is not easily searchable.

In comparison, the New South Wales Government uses a system called 'NSWbuy'. This system is effectively a one-stop shop for all NSW government procurement. Suppliers use the system to tender for government work and manage their product catalogue, and buyers use it to access a product catalogue from which to purchase. Buyers from government agencies can log in and build shopping lists from the product catalogue with current unit rates, and purchase from standing offer arrangements online.

Because the goods can be purchased centrally, the system records what products agencies have ordered, including what rates they paid and what quantities they ordered. This information can then be used to perform a spend analysis at a product level for a department or whole-of-government level.

Reducing transactional costs

Another value lever departments can use to enable financial benefits is to decrease their processing costs for paying suppliers. Queensland Treasury has set a policy that requires all agencies to use corporate cards for all low value purchases. The Treasurer's Guideline for the Use of the Queensland Government Corporate Purchasing Card states that all agency purchasing transactions under \$5 000 must be made using a corporate card unless:

- use of a corporate card is not cost effective compared to end to end process of other payment channels
- agency policy has reasonably restricted the use of a corporate card for a particular type of transaction or purpose to satisfy a business need
- corporate card is not accepted by the supplier.

For most public sector entities, it costs \$13.50 more to process a direct invoice compared to a corporate card transaction. Queensland Shared Services (QSS) charges agencies \$17.50 to process a direct invoice compared to \$4.00 per corporate card transaction.

Over the last three financial years, departments and HHSs spent about \$37.8 million more in transactional costs for transactions under \$5 000 because they did not use corporate cards for over 2.6 million transactions. We calculated that if government departments converted 70 per cent of these transactions (a conservative conversion rate) onto corporate card, they would have saved \$26.5 million over the last three years.

There were also over two million purchase order transactions below the \$5 000 threshold. Some of these transactions are linked to larger orders, but if only 30 per cent of these transactions were paid on corporate card, departments would have saved an additional \$8.5 million in processing costs over three years.

We also found that there were over 366 000 direct invoice transactions in the last three financial years where the cost of processing the transaction was higher than the actual cost departments paid for purchasing the good or service.

Figure 3I shows the savings government departments could have realised if they changed their purchasing behaviour and paid for 70 per cent of their direct invoice transactions on corporate card instead.

Figure 3I
Whole-of-government use of corporate cards 2013–14 to 2015–16

Financial year	Number of direct invoice transactions < \$5 000	Foregone savings (\$'s)	Number of transactions less than cost of processing
2013–14	825 683	8 380 682	118 164
2014–15	893 946	9 073 552	122 306
2015–16	890 178	9 035 307	125 547
Totals	2 609 807	26 489 541	366 017

Note: This analysis excludes electronic general purpose vouchers, purchase order related transactions, travel, and office-related transactions. Queensland Health (including HHSs) and Department of Education and Training use their own internal shared services and not QSS, therefore processing costs may vary. Our analysis only includes SAP instances, and is therefore conservative.

Source: Queensland Audit Office

Managing demand

While government departments do not record enough data to enable them to manage demand, by analysing spending patterns over time, they can still identify if there are potential demand management issues they need to address to better control their spend.

Our analysis of Queensland Government departments' private sector GGS and ICT expenditure by procurement categories over the past three financial years shows that the monthly spend peaked significantly in June of the 2013–14, 2014–15 and 2015–16 financial years. This is an indicator of urgency to pay supplier invoices by 30 June and/or expenditure behaviours at the end of financial year to spend unused budget allocations. The latter puts value for money at risk.

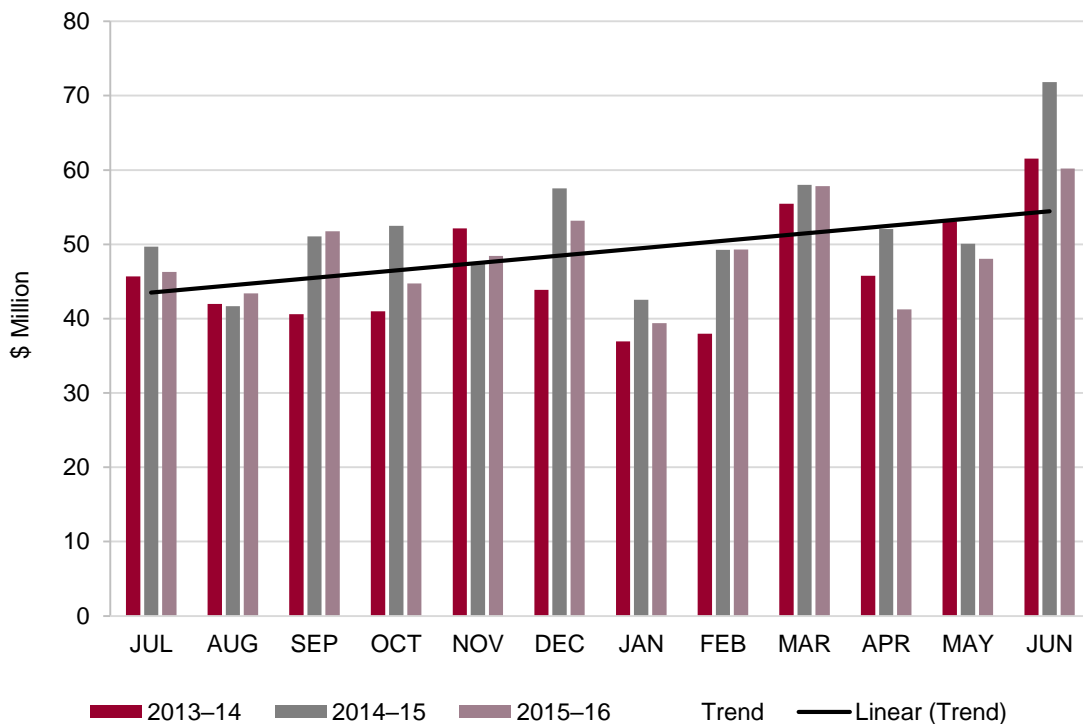
The categories in which we most observed this trend were:

- management, business professionals, and administrative services
- office equipment and supplies
- information technology broadcasting and telecommunications
- computer services.

General goods and services

Figures 3J and 3K show Queensland Government departments' monthly GGS expenditure on private sector suppliers between 2013–14 to 2015–16 for the management, business professionals and administrative services and office equipment and suppliers categories.

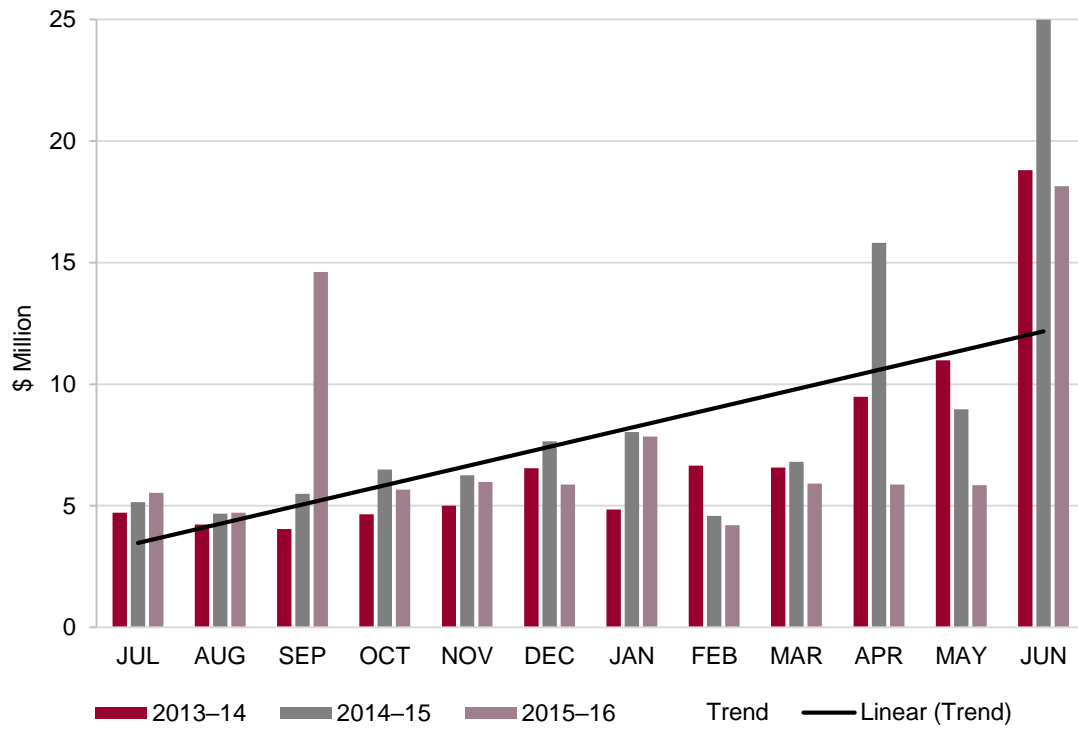
Figure 3J
Seasonal analysis of private sector GGS expenditure between 2013–14 to 2015–16 —
Management, business professionals and administrative services



Notes: Excludes QFleet, and Building and Asset Services. Includes HHSs.

Source: Queensland Audit Office

Figure 3K
Seasonal analysis of private sector GGS expenditure between 2013–14 to 2015–16 —
Office equipment and suppliers



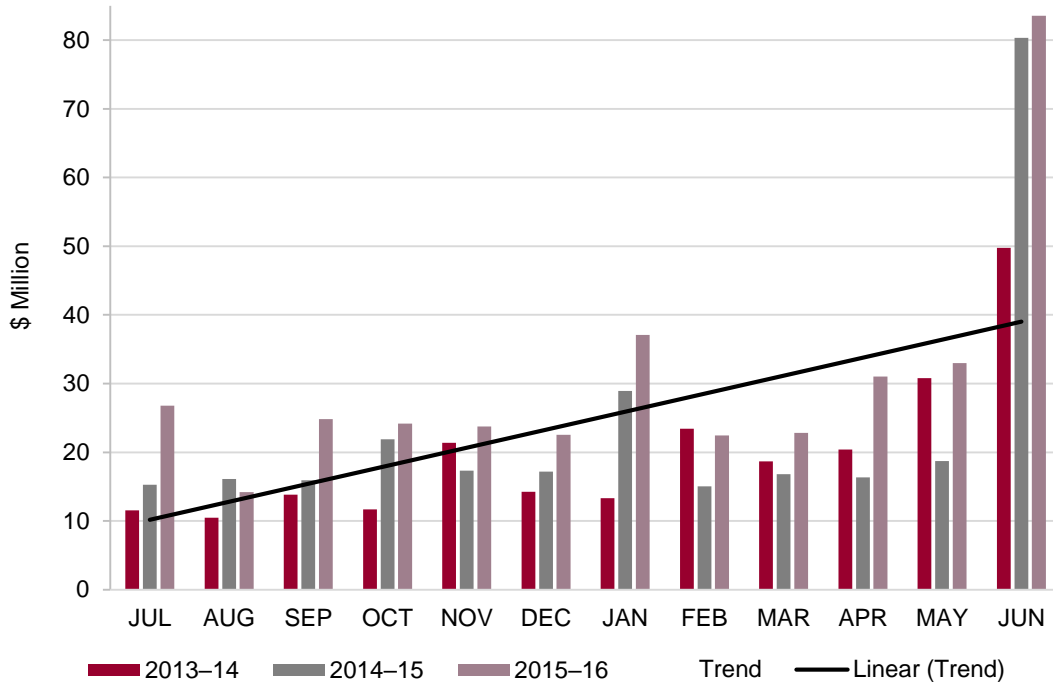
Notes: Excludes QFleet, and Building and Asset Services. Includes HHSs.

Source: Queensland Audit Office

Information and communications technology

Figures 3L and 3M show Queensland Government departments' monthly ICT expenditure with private sector suppliers between 2013–14 to 2015–16 for the information technology broadcasting and telecommunications, and computer services categories.

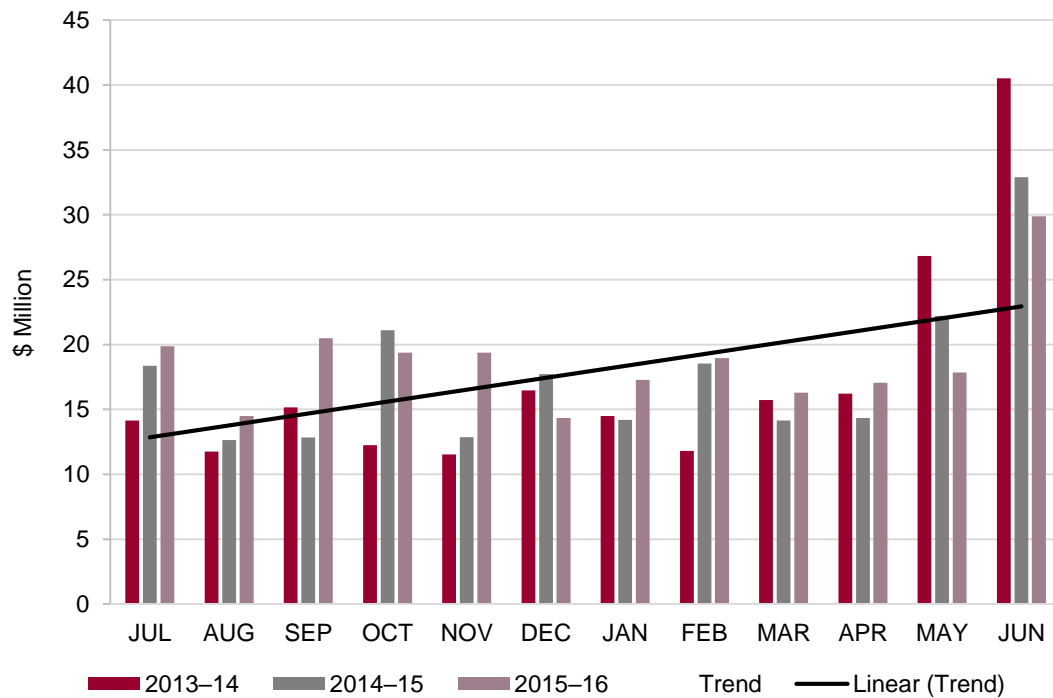
Figure 3L
Seasonal analysis of private sector ICT expenditure between 2013–14 to 2015–16 —
Information technology broadcasting and telecommunications



Notes: Excludes QFleet, and Building and Asset Services because they do not use SAP. Includes HHSs.

Source: Queensland Audit Office

Figure 3M
Seasonal analysis of private sector ICT expenditure between 2013–14 to 2015–16 —
Computer services



Notes: Excludes QFleet, and Building and Asset Services because they do not use SAP. Includes HHSs.

Source: Queensland Audit Office

4. Procurement capability

Chapter in brief

When the Procurement Transformation Program (PTD) was established in 2013, it found that there was a significant gap between the capability which existed and that which was needed to support the new procurement operating model. It has worked to address that gap.

We assessed whether:

- the PTD effectively designed and implemented initiatives to improve procurement skills in the public sector
- government departments assessed their own procurement capability and engaged their staff in professional development opportunities to build capability.

Main findings

- Although PTD developed a draft technical competency framework, there is no formal agreement at a whole-of-government level on what skills the public sector needs to deliver effective procurement services.
- There are more than 2 000 staff in government agencies with responsibilities for contract management and about 1 000 with procurement responsibilities. In 2015–16, when PTD made available a 'Critical Skills Boost Program' to the public sector, less than 200 completed an online training module and less than 500 attended a training workshop.
- No government departments used PTD's training needs assessment tool to complete an assessment of their procurement capability at an agency level. The training needs assessment tool's usefulness does not extend beyond assessing an individual's training needs.
- PTD's training needs assessment tool directly links to short-term training needs and is biased towards the training provider's offerings. It does not assess an individual's medium-term training needs, such as whether they should obtain a professional certification.
- PTD's programs are not reaching enough staff with responsibility for managing contracts and there may be gaps in departments' contract management capability that they are not addressing through training opportunities.
- The public sector lacks a professional accreditation framework for procurement staff to ensure their skills remain current and address emerging issues.

Audit conclusions

The public sector is still developing the skills it needs to deliver strategic procurement well.

PTD designed a draft procurement capability framework and related assessment and training tools, but did not implement it effectively. Departments did not engage well with PTD's frameworks, tools and training opportunities. This is partly because PTD's procurement certifications have no ongoing professional development requirements, so staff do not have sufficient incentive to undertake professional development activities.

Introduction

People capability is one of the key enablers to effective strategic procurement. In 2013, the Procurement Transformation Division (PTD) developed a procurement capability framework to define the procurement capability the public sector needs at an organisational level and employee level. PTD built this framework to support the proposed operating model of the Procurement Transformation Program (PTP) and to develop a profile of Queensland Government departments' procurement capability — by conducting a capability development survey.

PTD's capability development survey of 476 procurement staff (out of 672 eligible participants) identified that:

... whilst there are pockets of expertise throughout the sector, there is a significant gap between current capability and that required to realise the benefits of the proposed better practice new operating methodology.

To determine whether the PTD effectively designed and implemented initiatives to improve procurement skills in the public sector, we assessed whether it:

- defined what procurement skills the public sector requires
- identified to what extent the required procurement skills exist in the public sector, and implemented initiatives to address any known gaps in capability
- designed and delivered training to meet the professional development needs of procurement staff in the public sector.

We also assessed whether government departments assessed their own procurement capability and engaged their staff in professional development opportunities to build capability.

Audit conclusions

The skills maturity that the public sector needs to deliver strategic procurement outcomes is still developing.

The public sector cannot reliably measure what progress it has made in developing procurement capability because it has used different frameworks to define procurement capability at different times, and the departments have not formally agreed with the current framework.

PTD developed programs to improve procurement capability in the public sector, but did not implement them effectively. PTD's method for assessing procurement capability was too narrowly focused on its training provider's offerings and on short-term training needs. Its procurement certifications have no ongoing professional development requirements, which means staff do not have sufficient incentive to undertake professional development activities.

These are some of the main reasons why the level of engagement by public sector staff with PTD's online learning programs has been lower than PTD expected, even though PTD made the training freely available to agencies in 2015–16.

Procurement skills the public sector needs

Although PTD developed a draft procurement capability framework, there is no formal agreement at a whole-of-government level on what skills the public sector needs to deliver effective procurement services. The framework lacks some key procurement competencies — data analytics, benefits management, and demand management. These are required if strategic procurement is to be delivered effectively.

Developing the procurement capability framework

In 2013, PTD developed a procurement capability framework, along with a survey to assess capability and establish a baseline across the whole public sector. From the survey, it knew that there was insufficient capability in the public sector in areas such as:

- category management
- supplier relationship management
- supplier risk assessment
- strategy and planning (including spend analysis, demand management and supply market analysis).

In 2014, PTD worked with an external training provider to develop a whole-of-government procurement technical competency framework to outline the technical skills and knowledge that staff with procurement responsibilities require to deliver procurement services effectively. PTD developed this framework so agencies could assess and create a baseline of their procurement skills at an agency level. PTD engaged its provider to design and deliver training courses so staff could undertake further training in the areas that the training needs assessment identified they needed to develop.

PTD's technical competency framework includes:

- ten competencies for staff undertaking procurement tasks and/or roles — sourcing, negotiation, legal, finance, cost management, operational procurement, contract management, strategy and project management
- four skill maturity levels for each of the 10 competencies — awareness, understanding, practitioner and expert
- eight procurement roles with details of the expected skill maturity level required for each role across the 10 competencies.

Figure 4A shows the procurement roles and descriptions PTD developed as part of its technical competency framework.

Figure 4A
Procurement learning programs — June 2015 to June 2016

Procurement role*	Role description
Procurement officer	undertake routine purchasing, with the focus on basic contract management and process compliance
Procurement analyst	analyse data and information, with the focus on helping the organisation make informed decisions
Procurement advisory	focus on routine (also known as tactical) procurement that is of a low value and/or low risk nature. This may include engaging with internal customers, conducting request for quote processes, establishing and negotiating contracts with suppliers, and potentially some management of routine contracts
Procurement specialist	not defined in PTD's technical competency framework
Contract manager	manage supplier performance and contract compliance to ensure value is delivered under a contract, with a continuous improvement focus
Contract manager (with broader procurement)	focus on contract management and managing supplier performance to ensure value is delivered under a contract. This role also conducts routine procurement (often low-value and/or low risk in nature)
Category manager	undertake category management, with the focus on creating more value for the organisation. Includes developing and implementing category management plans, market analysis and total costs analysis, risk management, extensive stakeholder engagement. May also include supplier relationship management and managing strategic contracts
Procurement director	develop the procurement strategy and capability of the organisation, to enable the procurement organisation to perform. Outcome focused, requiring strong leadership skills, stakeholder management skills and procurement expertise to deliver procurement outcomes consistent with government policy and priorities.

Source: Queensland Audit Office from Queensland Whole-of-Government Procurement Technical Competency Framework 2015

The current framework does not include three technical skills which existed in the 2013 framework which PTD used to survey the public sector, and which are critical for driving procurement savings. These are:

- **data and analytics** — ability to identify, extract, categorise, analyse, report and track large scale complex internal and external data
- **benefits management** — ability to support the development of a baseline and addressable spend target at the category level and ability to measure and track benefits performance against savings targets
- **demand management** — understanding of demand for a specific category and the associated demand drivers.

PTD drafted the competency framework in June 2014 and provided it to a procurement capability reference group, which included stakeholders from 12 government departments, for review. PTD subsequently completed the framework in January 2015; however, there was no effective governance framework in place at that time to obtain whole-of-government agreement on the framework.

When PTD completed the competency framework in 2015, the Director-General (DG) Council was no longer considering matters relating to the PTP. Consequently, the DG Council did not contribute to implementing item 14 of the Queensland Procurement Policy:

‘Accountable officers will be responsible for ensuring capability is developed and maintained to standards commensurate with guidance issued by the Director-General Council ...’

PTD did not submit the framework to the Chief Procurement Officer Steering Committee for approval.

Data analysis capability

The strategic sourcing review in 2012 identified significant opportunities for departments to realise financial benefits through strategic procurement, but departments lacked data analytics capability to validate how real these opportunities were and to implement initiatives to realise them.

Case study 3 shows how the Department of Health (DOH) has identified the need for this analysis capability and is now building its capability to analyse data and identify benefits opportunities.

Case study 3

Medical mega-category benefits realisation

In the context of healthcare costs, benefits realisation is not about cost-cutting, but is more about getting more value from healthcare spend, and reducing inefficiency and waste.

Since 2012, multiple consultants have identified significant opportunities for Queensland Health to deliver financial procurement benefits.

In December 2012, the whole-of-government sourcing review identified potential benefits for the medical mega-category of \$93 million to \$163 million over five years (financial year 2013 to 2018), and \$54 million to \$90 million in the first two years.

DOH commissioned its own review in 2013–14, in which the external consultant categorised Queensland Health procurement data (for the Department of Health and five Hospital and Health Services) and produced a visualisation tool. The tool allowed the consultants to identify the opportunity for Queensland Health to realise \$126 million to \$230 million annually. DOH did not have the capability internally to validate and build upon this analysis to inform strategic procurement initiatives.

DOH is currently building its data analytics and category management capability and in January 2016 set itself a more conservative benefits target of \$47 million by 2019–20.

Baselining public sector procurement skills

PTD has made progress in providing a tool to enable agencies to assess the procurement skills and capabilities of individual procurement staff, but departments have not assessed their organisational procurement capability. The programs are not reaching enough staff with responsibility for managing contracts and there may be gaps in departments’ contract management capability that they are not addressing through training opportunities.

Assessing individual staff training needs

The training needs assessment tool PTD used in 2015 is a useful technique for assessing procurement capability at an individual level because it provides staff with a personalised assessment of where their skills gaps are and what they can do to develop their skills.

However, it is not as effective for assessing an agency's overall procurement capability. This is because PTD designed the questions to assess how often an individual uses a particular skill. While this is a way to measure an individual's skills proficiency, it also means the assessment can overstate an individual's capability skills gap because the individual may have a skill they do not use often in their current role. Consequently, this would also overstate an agency's capability skills gap.

Because PTD's training needs assessment tool directly links to the Critical Skills Boost (CSB) program for skills staff need to address in the short-term, it is biased towards the training provider's offerings. It also does not assess an individual's medium-term training needs, like whether they should obtain a professional certification.

Between July 2015 and April 2016, 1 139 procurement staff across the public sector completed a training needs assessment. This is a better participation rate than in 2013, when PTD conducted the capability survey and 476 staff participated. (We cannot cite percentages of the total group because PTD is unable to confirm the actual number of procurement staff that exist in the public sector because of unreliable data.)

The training needs assessment would be more effective if there was whole-of-government agreement on the criteria for these assessments. Because the framework for assessing capability changed significantly from 2013 to 2015, there is no reliable data to indicate whether the public sector's procurement capability has improved over this time.

Of the 1 139 public sector staff who completed a training needs assessment:

- 455 completed a contract management training needs assessment
- 390 completed a procurement training needs assessment
- 237 completed a procurement and contract management training needs assessment
- 29 completed a procurement and leadership training needs assessment
- 22 completed a procurement, contract management and leadership training needs assessment
- four completed a leadership training needs assessment
- four completed a leadership and contract management training needs assessment.

Contract management training

The total number of public sector staff who have completed a contract management training needs assessment, 718, is well short of the number of public sector staff who are responsible for managing contracts. For example, according to departmental contract registers, there are almost 2 000 staff with contract management responsibilities in three agencies alone — the Department of Transport and Main Roads (900), Queensland Health (638) and the DHPW (408). This indicates that PTD's programs are not reaching enough staff with responsibility for managing contracts and that there may be gaps in departments' contract management capability that they are not addressing through training opportunities.

Assessing agency-level procurement capability

While all 21 government departments used PTD's training needs assessment tool to assess the capability of staff at an individual level, none of them used it to complete an agency-level capability assessment. This indicates that the training needs assessment tool's usefulness does not extend beyond assessing an individual's training needs.

The Queensland Procurement Policy (QPP) requires agencies to include in their agency procurement plans an assessment of their overall procurement capability and strategies for improvement. Because agencies have not performed this, they cannot demonstrate that they have fulfilled Principle 3 of the QPP, which is: 'We are leaders in procurement practice — we understand our needs, the market, our suppliers and *have the capability* to deliver better outcomes.'

The guidance material which supports the QPP explains that agencies '... can focus on capability and performance by ensuring that:

- every procurement is handled by an officer with the necessary experience and expertise
- procurement teams are structured to enhance learning and skills transfer
- the agency procurement plan is used to evaluate and report on organisational capability, and to document workforce development strategies.'

Procurement learning and development to address skills gaps

The public sector lacks a professional accreditation framework for procurement staff to ensure their skills remain current and address emerging issues. As mentioned earlier, PTD's training needs assessment tool directly links to short-term training needs and is biased towards the training provider's offerings. It does not assess an individual's medium-term training needs, such as whether they should obtain a professional certification.

Public sector take up of PTD's training programs, in particular e-Learning, has fallen well short of expectations. This is because the programs within its CSB program are not competency-based — staff do not receive any formal recognition for the modules they complete. PTD would have achieved better value for money for the \$627 235 it paid upfront for the CSB program if more public sector staff engaged with the program.

Professional accreditation

While procurement staff can obtain a procurement certification, there is no ongoing requirement for them to continue professional development activities. However, PTD's CSB program and certification programs could be leveraged to provide an accreditation program for procurement staff.

In July 2015, PTD launched the 'Skills 2 Procure' program through which it made available the following learning and development programs to assist agencies develop the skills of their procurement staff:

- CSB program — targets staff who need immediate procurement training or need to develop a specific procurement skill relevant to their role
- Procurement certification program — provides staff with a nationally-recognised procurement qualification across four levels.
- Procurement leadership program — provides a discipline-specific leadership program for leaders of procurement functions.

Figure 4B shows the number of participants in each of PTD's learning and development programs.

Figure 4B
Procurement learning programs — June 2015 to June 2016

Learning program	Participation from government departments
Procurement certification program	472 staff have received a procurement certification
CSB program	1 139 staff have completed a training needs assessment 422 staff have attended one-day workshops 178 staff have completed online training modules
Procurement leadership program	52 staff are enrolled

Source: Queensland Audit Office from data provided by the Department of Housing and Public Works

Procurement certification

PTD delivers a procurement certification program to build the body of knowledge and associated skills that a procurement professional in the Queensland public sector needs. PTD engaged the Institute of Public Administration NSW to deliver a revised certification program from 1 July 2015 from the one that the former Queensland Government Chief Procurement Office delivered from 2012 to 2015.

The four levels of certification provide an entry level certification (levels 1 and 2) and specialist skills and knowledge (levels 3 and 4) for staff who specialise in procurement. The Chartered Institute of Procurement and Supply recognises the level 3 and 4 qualifications.

PTD's revised certification program is a positive step in increasing the opportunity for staff with procurement responsibilities to build skills in key areas that have been lacking in the public sector. In particular, the new level 3 qualification, Diploma of Procurement and Contracting includes the following new electives designed to build skills that are essential to delivering value for money from procurement:

- plan and implement strategic sourcing
- plan and implement procurement category management
- conduct demand and procurement spend analysis.

Of the 472 staff from Queensland Government departments who have received a procurement certification since July 2015:

- 304 received a level 1 — Procurement fundamentals certification
- 110 received a level 2 — Intermediate procurement certification
- 56 received level 3 — Diploma of Procurement and Contracting
- two received levels 1 and 2 combined.

PTD began delivering the level 4 certification in April 2016. It includes modules on coordinating and negotiating strategic procurement, and managing strategic contracts. Nine staff from public sector agencies began the level 4 certification in April 2016.

Because many procurement staff in the public sector already have a procurement certification, there is little incentive for them to obtain the new certification and benefit from the new training modules available. PTD did not create a clear pathway for procurement staff to upgrade their certification, and therefore it has not realised the potential value of the new certification.

Critical Skills Boost program

PTD built the CSB program on its 2014 technical competency framework. Once an employee completes the training needs analysis against the technical competency framework, they are expected to discuss their results and agree a training plan with their manager. The training needs assessment recommends specific training opportunities for the employee to complete, which can include a combination of in-person workshops and e-Learning (online learning).

PTD established a standard offer arrangement with an external supplier to provide training services for the CSB program. Up until 30 June 2016, all Queensland Government departments could access the training needs analysis and the e-Learning platform for free. This is because PTD paid the supplier an enterprise-wide annual subscription fee for:

- the training needs analysis which any individual in a Queensland Government department can use
- the e-Learning platform which up to 1 000 staff can use before further charges are applied. Each employee is given access to modules depending on their role and their training needs assessment results.

Individual attendance at in-person workshop costs \$295, or \$3 700 per group of 10 to 20 people. The total upfront cost of the training package for 2015–16 was \$627 235, plus variable costs of the workshops for the provider to design and deliver the critical skills boost program.

From July 2015 to June 2016, 269 public sector employees started and 178 completed modules on the e-Learning platform — well short of the 1 000 staff that could use it. The key reason why agencies have not used PTD's e-Learning program to its full potential is that it is not a competency based program. That is, staff who complete the training modules do not receive any formal recognition for the modules they completed. An accreditation program for procurement staff in government would address this problem, as it would provide staff with an incentive to complete the training.

The most frequently completed programs through the CSB e-Learning and workshops were:

- e-Learning — request for proposal management, influencing specifications and strategic sourcing
- workshops — contract management essentials.

From June 2015 to March 2016, PTD provided 38 one-day workshops through its external supplier. There were 602 attendees across all workshops. The actual number of staff who attended was 422, of which 122 staff attended two or more workshops.

'Contract management essentials', an introductory or refresher course in contract management, was the most frequently attended workshop. It accounted for about 30 per cent of all workshop attendances. 'Category management essentials', which is key to driving strategic procurement, accounted for less than 5 per cent of the total workshops attended. Figure 4C shows the workshops PTD have delivered and the number of attendees for each topic.

Figure 4C
Critical Skills Boost Program — workshops attended

Workshop	Number of workshops held	Number of attendees
Contract management essentials	12	180
Supplier relationship management	4	79
Negotiation skills	4	69
Drafting specifications and offers	3	52
Market analysis and reducing total cost of ownership	2	42
Bid management and tender evaluation	2	40
Procurement essentials	3	26
Category management essentials	2	22
Developing category strategies	1	22
Advanced contract management	1	19
Intermediate contract management	1	14
Other group training	3	37
Totals	38	602

Source: Queensland Audit Office from data provided by the Department of Housing and Public Works

Appendices

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Appendix A — Comments from agencies

As mandated in section 64 of the *Auditor-General Act 2009*, the Queensland Audit Office gave a copy of this report with a request for comments to:

- Department of the Premier and Cabinet
- Department of Aboriginal and Torres Strait Islander Partnerships
- Department of Agriculture and Fisheries
- Department of Communities, Child Safety and Disability Services
- Department of Education and Training
- Department of Energy and Water Supply
- Department of Environment and Heritage Protection
- Department of Health
- Department of Housing and Public Works
- Department of Infrastructure, Local Government and Planning
- Department of Justice and Attorney-General
- Department of National Parks, Sport and Racing
- Department of Natural Resources and Mines
- Public Safety Business Agency
- Queensland Fire and Emergency Services
- Queensland Police Service
- Department of Science, Information Technology and Innovation
- Department of State Development
- Department of Transport and Main Roads
- Queensland Treasury
- Department of Tourism, Major Events, Small Business and the Commonwealth Games.

The head of these agencies are responsible for the accuracy, fairness and balance of their comments.

This appendix contains their detailed responses to our audit recommendations.

Comments received from Director-General, Department of Housing and Public Works



Department of
Housing and Public Works

Our Ref: HPW2506/16
Your Ref: 2016-9147P
David Toma – 3149 6050

19 SEP 2016

Mr Anthony Close
Acting Auditor-General
Queensland Audit Office
PO Box 15396
CITY EAST QLD 4002

Dear Mr ^{Anthony}Close

Thank you for the Queensland Audit Office's letter of 29 August 2016 from Mr Andrew Greaves regarding the performance audit on strategic procurement. As the agency responsible for coordinating whole-of-government procurement, the Department of Housing and Public Works has been requested to consolidate agency returns and provide a response on behalf of all agencies.

Queensland Government agencies are committed to continuous improvement and realising the benefits of strategic procurement. It is acknowledged that the procurement of services and supplies accounts for a significant proportion of Government expenditure. Agencies welcome the opportunity to improve processes and the effective delivery of strategic procurement outcomes.

It is noted that the issues in the draft report are largely consistent with those identified by the Interdepartmental Committee's (IDC) report on the Review of Queensland Government Procurement, published in April 2016. Queensland Government agencies are already working to implement recommendations from the IDC review, to deliver a new procurement operating model for Queensland Government. The comments in the attached table outline the Queensland Government's intended steps to address the recommendations in the proposed report to Parliament.

Oversight of the recommendations will occur through the Queensland Government Procurement Committee, to ensure engagement and collaboration with all agencies. In this regard, consideration of the resourcing impacts of the recommendations on agencies, including tiered and phased approach based on agency capacity and the value, risk and types of procurement undertaken by agencies is proposed.

If you need more information, Fiona Wright, Acting Assistant Director-General, Queensland Government Procurement can be contacted on (07) 3008 2700 or email fiona.wright@hpw.qld.gov.au.

Yours sincerely

Liza Carroll
Director-General

Level 7 80 George Street
Brisbane Queensland
GPO Box 2457 Brisbane
Queensland 4001 Australia

Telephone +617 3008 2934
Facsimile +617 3224 5616
Website www.hpw.qld.gov.au

Responses to recommendations




Department of Housing and Public Works, Strategic procurement (Report No. 1: 2016–17)

Response to recommendations provided by Queensland Government Agencies on 19 September 2016.

Recommendation	Agree / Disagree	Timeframe for Implementation (Quarter and Year)	Additional comments
<p>We recommend that the Department of the Premier and Cabinet, Queensland Treasury and the Department of Housing and Public Works (DHPW)</p> <p>1. work together to:</p> <ul style="list-style-type: none"> confirm the role and level of authority required by the Office of the Chief Advisor — Procurement to enable strategic procurement outcomes assess the merits of retaining the role within the DHPW verses within a central agency. 	Agree in principle	Timeframes to implement recommendations will be aligned to the six-point plan recommended by the IDC and subsequent implementation plan developed to deliver the new procurement operating model for Queensland Government. This implementation plan is iterative and is being delivered in stages from 2016 to 2019.	The Department of Housing and Public Works will work with the Department of the Premier and Cabinet and Queensland Treasury to confirm the role and level of authority required by the Office of Chief Advisor – Procurement (OCA-P) and assess the merits of retaining the role in DHPW verses a central agency. This recommendation will be considered by the CEO Leadership Board.
<p>We recommend that the Office of the Chief Advisor — Procurement collaborates with government departments to:</p> <p>2. develop a Queensland Government procurement planning guide that establishes better practice and defines the roles and responsibilities for creating category and agency procurement plans</p>	Agree		OCA-P will work with agencies to develop and make available procurement planning guidance to define the roles, responsibilities and information to be included to establish better practice for creating category and agency procurement plans.
<p>We recommend that the Office of the Chief Advisor — Procurement collaborates with government departments to:</p> <p>3. develop a benefits realisation framework to ensure that departments consistently establish, measure, report, and validate benefits</p>	Agree		The OCA-P will work with Queensland Treasury, the Queensland Audit Office and agencies to develop a benefits realisation framework to ensure that departments establish, measure, report and validate benefits. A streamlined and practical approach cognisant of agency capacity and procurement maturity may be proposed, along with a staged implementation to reporting taking into account the IDC recommendations. The framework will be supported by improvement initiatives delivered under implementation of recommendation 5.
<p>We recommend that the Office of the Chief Advisor — Procurement collaborates with government departments to:</p> <p>4. improve procurement capability in the public sector as part of its current program, and:</p> <ul style="list-style-type: none"> review, and agree with departments, the technical competency framework so that it includes all the skills a procurement professional needs to be effective, like data analytics and benefits realisation review and update the procurement training needs assessment so it aligns to a professional accreditation scheme implement a professional accreditation scheme for procurement staff in government to incentivise them to undertake certification and continue with professional development activities. 	Agree		OCA-P is already working with agencies to agree and implement a professional accreditation framework that supports development of procurement as a speciality area, improve the technical competency, and create consistency across the sector. The OCA-P will consider the additional undertaking of providing a pathway to certification and professional qualifications in the area of procurement.
<p>We recommend that the Office of the Chief Advisor — Procurement and the Department of Science, Information Technology and Innovation collaborate with government departments to:</p> <p>5. develop a procurement data strategy that identifies and assesses:</p> <ul style="list-style-type: none"> what procurement data government departments need to record how procurement data should be categorised, ideally using a universally recognised categorisation approach cost-benefit of options for improving existing systems to improve the quality and accessibility of procurement data from a central source. 	Agree		OCA-P has commenced working with the Department of Science, Information Technology and Innovation to develop a procurement data strategy. Options for delivery will be considered over time. DHPW will engage agencies and seek their input on the development of the procurement data strategy through the Queensland Government Procurement Committee and CEO Leadership Board.

Responses to recommendations



Recommendation	Agree / Disagree	Timeframe for implementation (Quarter and Year)	Additional comments
<p>We recommend that all departments:</p> <p>6. work with category leads to develop an agency procurement plan that includes, in addition to the QPP's minimum requirements:</p> <ul style="list-style-type: none"> ▪ spend analysis by the categories established and agreed with the Office of the Chief Advisor – Procurement ▪ their use of existing whole-of-government supply arrangements ▪ agency-specific opportunities (economic, social, and environmental) to realise procurement benefits and reduce processing costs ▪ measurable benefits targets (financial and non-financial) against realistic timeframes that departments set, but which align to whole-of-government category goals and objectives. 	<p>Agree in principle</p>		<p>Category leads and agencies (with support from the OCA-P) will work together to develop category and agency procurement plans that exceed QPPs minimum requirements. Planning requirements will be scalable and appropriate to the value, risk and types of procurement activity undertaken by agencies. This will ensure that planning recognises agency capacity and maturity and that this activity adds value to the agency procurement function.</p>

Page 2

Comments received from Director-General, Department of Science, Information Technology and Innovation

 **E-MAILED**
16/09/16



Department of
**Science, Information
Technology and Innovation**

Ref: 01694-2016
Your ref: 2016-9147P

Mr Anthony Close
Acting Auditor-General
Queensland Audit Office
PO Box 15396
CITY EAST QLD 4002

Dear Mr Close

I refer to the letter of 29 August 2016 from the former Auditor-General, Queensland Audit Office regarding the proposed report to Parliament for the performance audit on strategic procurement.

Please find enclosed the Department of Science, Information Technology and Innovation's (DSITI) response to the recommendations of the report.

DSITI has dual roles in relation to the whole-of-government procurement model, being responsible for whole-of-government ICT category management and as a department committing public money for the acquisition of goods and services to enable the delivery of government objectives.

DSITI looks forward to working with the Queensland Audit Office and the Office of the Chief Advisor – Procurement in the development of appropriate data analytic tools which support procurement decision making at both ICT category management and departmental levels, and in relation to lifting procurement capability in the public sector.

Should you require any further information, you may contact Mr Evan Hill, Chief Change and Operations Officer, Department of Science, Information Technology and Innovation by email at evan.hill@dsiti.qld.gov.au or on telephone 07 3719 7800.

Yours sincerely

Jamie Werrick
Director-General

16/9/16

Encl. (1)

Level 26, 111 George Street
Brisbane 4000

GPO Box 5078 Brisbane
Queensland 4001 Australia

Telephone +61 7 3215 3700
Website www.qld.gov.au

Responses to recommendations

Department Name, Strategic procurement (Report No. 1: 2016–17)

Response to recommendations provided by Sue Lindsay, Director, DSITI Procurement Services on 13 September 2016

Recommendation	Agree / Disagree	Timeframe for Implementation (Quarter and Year)	Additional comments
<p>We recommend that the Department of the Premier and Cabinet, Queensland Treasury and the Department of Housing and Public Works (DHPW)</p> <p>1. work together to:</p> <ul style="list-style-type: none"> ▪ confirm the role and level of authority required by the Office of the Chief Advisor — Procurement to enable strategic procurement outcomes ▪ assess the merits of retaining the role within the DHPW verses within a central agency. 	Agree		Refer to DPC and DHPW comments
<p>We recommend that the Office of the Chief Advisor — Procurement collaborates with government departments to:</p> <p>2. develop a Queensland Government procurement planning guide that establishes better practice and defines the roles and responsibilities for creating category and agency procurement plans</p>	Agree		DSITI advises this work would enable the 2017/18 planning cycle.
<p>We recommend that the Office of the Chief Advisor — Procurement collaborates with government departments to:</p> <p>3. develop a benefits realisation framework to ensure that departments consistently establish, measure, report, and validate benefits</p>	Agree		<p>DSITI advises this work would enable the 2017/18 planning cycle.</p> <p>These activities also align to other recommendations regarding the ability to collect data, analyse and report.</p>

Responses to recommendations

Recommendation	Agree / Disagree	Timeframe for Implementation (Quarter and Year)	Additional comments
<p>We recommend that the Office of the Chief Advisor — Procurement collaborates with government departments to:</p> <p>4. improve procurement capability in the public sector as part of its current program, and:</p> <ul style="list-style-type: none"> ▪ review, and agree with departments, the technical competency framework so that it includes all the skills a procurement professional needs to be effective, like data analytics and benefits realisation ▪ review and update the procurement training needs assessment so it aligns to a professional accreditation scheme ▪ implement a professional accreditation scheme for procurement staff in government to incentivise them to undertake certification and continue with professional development activities. 	<p>Agree</p>	<p>To be determined and agreed with OCA-P</p>	<p>DSITI is already working with OCA-P in the development of the framework.</p> <p>To allow for take up of the changes in the approach, this would need to be a phased approach across the 2016/17 financial year.</p>
<p>We recommend that the Office of the Chief Advisor — Procurement and the Department of Science, Information Technology and Innovation collaborate with government departments to:</p> <p>5. develop a procurement data strategy that identifies and assesses:</p> <ul style="list-style-type: none"> ▪ what procurement data government departments need to record ▪ how procurement data should be categorised, ideally using a universally recognised categorisation approach ▪ cost-benefit of options for improving existing systems to improve the quality and accessibility of procurement data from a central source. 	<p>Agree</p>	<p>To be determined and agreed with OCA-P</p>	<p>The ICT Category is working with OCA-P and QAO on the development and timing for this activity.</p> <p>As with the comment on the recommendation above, a phased approach would be recommended.</p>

Responses to recommendations

Recommendation	Agree / Disagree	Timeframe for Implementation (Quarter and Year)	Additional comments
<p>We recommend that all departments:</p> <p>6. work with category leads to develop an agency procurement plan that includes, in addition to the QPP minimum requirements:</p> <ul style="list-style-type: none"> ▪ spend analysis by the categories established and agreed with the Office of the Chief Advisor — Procurement ▪ their use of existing whole-of-government supply arrangements ▪ agency-specific opportunities (economic, social, and environmental) to realise procurement benefits and reduce processing costs ▪ measurable benefits targets (financial and non-financial) against realistic timeframes that departments set, but which align to whole-of-government category goals and objectives. 	Agree	To be determined and agreed with OCA-P	<p>Work is underway within DSITI and in conjunction with OCA-P to facilitate the identified outcomes.</p> <p>Implementation of activities will be phased over the current financial year for the 2017/18 planning cycle.</p>

Appendix B — Audit objectives and methods

Audit objective

The objective of this audit is to determine whether state government departments are achieving and enabling value for money procurement outcomes through effective strategic procurement.

The audit addressed this objective through the sub-objectives and lines of inquiry set out in Figure B1.

Figure B1
Audit scope

Sub-objectives		Lines of inquiry	
1	Is there a clear vision at a whole-of-government level to achieve financial and non-financial benefits from procurement?	1.1	Is sufficient priority placed at a whole-of-government level on realising financial and non-financial procurement benefits?
		1.2	Are the procurement benefits results established at a whole-of-government level and is the responsibility for achieving the benefits clearly defined?
2	Do government departments effectively plan for and deliver strategies to achieve financial and non-financial benefits in procurement?	2.1	Do government departments collaborate and develop the capability to achieve financial and non-financial procurement benefits?
		2.2	Do government departments define and commit to achieving procurement benefits targets?
		2.3	Do government departments develop and implement plans to realise and enable benefits in procurement?
		2.4	Do government departments achieve and report procurement benefits?

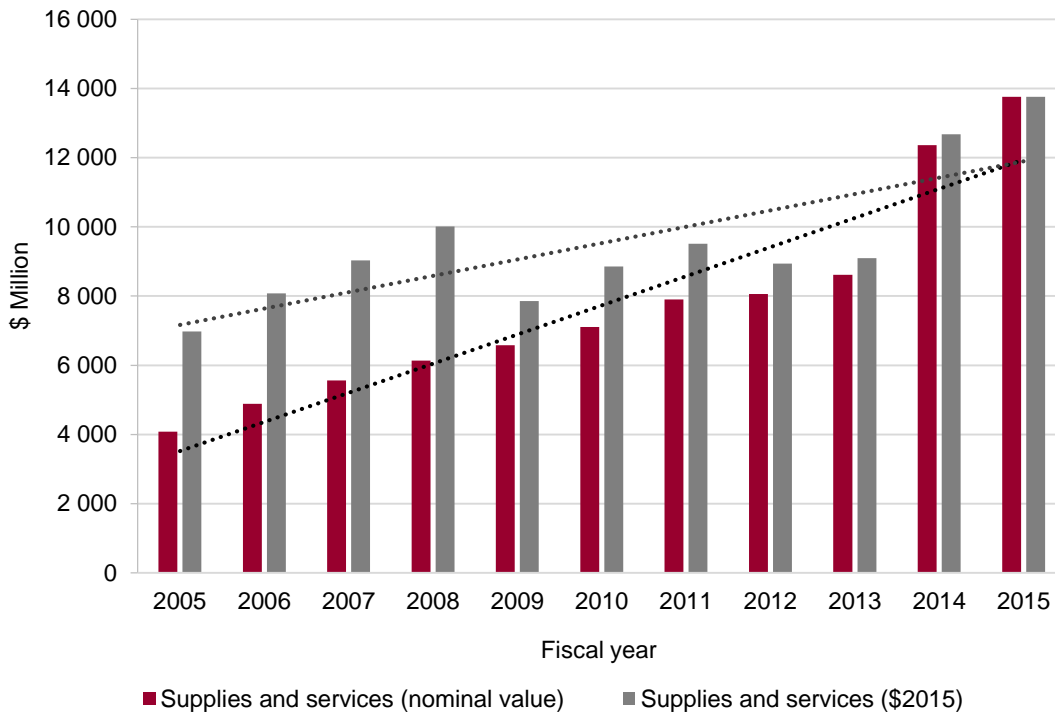
Source: Queensland Audit Office

Reason for the audit

Two reviews into whole-of-government procurement have identified significant opportunities for Queensland Government departments to achieve substantial cost savings. In 2007, a Service Delivery and Performance Commission report identified that improved procurement practices would deliver improved efficiencies worth between 5 to 10 per cent of total government expenditure. Similarly, in 2012, a consultant's report identified that benefits of \$600 million to \$1.3 billion could be realised by June 2018, if departments invested in strategic procurement and changed the way Queensland Government business operates.

Our preliminary analysis of expenditure on supplies and services by state government departments since 2004–05 shows that expenditure has continued to increase over this period in both nominal and 2015 dollars. Figure B2 shows how much state government departments spent on supplies and services from 2004–05 to 2014–15.

Figure B2
State government departments expenditure on supplies and services*



*Note: The supplies and services expenditure in 2013–14 and 2014–15 is significantly higher compared to previous years because grant expenditure was reclassified following a recommendation by the Commission of Audit. This added \$3.4 billion to the 2013–14 supplies and services total. The 2014–15 supplies and services total also contains personal benefits payments paid to service providers, which was not included in the previous years' totals.

Source: Queensland Audit Office from Queensland Treasury Report on State Finances from 2004–05 to 2014–15.

In *Contract management: renewal and transition* (Report 10: 2013–14), we identified that departments entered into contracts independently without considering how they could use the collective bargaining power of government to negotiate better value for money. In this audit, we assessed what progress state government departments have made in collaborating to achieve procurement savings. We considered the 2015 Review of Queensland Government Procurement by the Interdepartmental Committee into how procurement should be delivered across Queensland Government when conducting our audit and developing our recommendations.

Performance audit approach

We conducted this audit in accordance with the Auditor-General of Queensland Auditing standards, which incorporate Australian Auditing and Assurance Standards.

We conducted it between January 2016 and August 2016. The audit consisted of:

- interviews with officials from:
 - Department of the Premier and Cabinet
 - Department of Aboriginal and Torres Strait Islander Partnerships
 - Department of Agriculture and Fisheries
 - Department of Communities, Child Safety and Disability Services
 - Department of Education and Training
 - Department of Energy and Water Supply
 - Department of Environment and Heritage Protection
 - Department of Health
 - Department of Housing and Public Works
 - Department of Infrastructure, Local Government and Planning
 - Department of Justice and Attorney-General
 - Department of National Parks, Sport and Racing
 - Department of Natural Resources and Mines
 - Queensland Fire and Emergency Services
 - Queensland Police Service
 - Department of Science, Information Technology and Innovation
 - Department of State Development
 - Department of Transport and Main Roads
 - Queensland Treasury
 - Department of Tourism, Major Events, Small Business and the Commonwealth Games.
- analyses of documents, including Cabinet submissions, policies, plans, reports, guidelines and manuals
- extensive data analysis, incorporating data from the following sources:
 - Queensland Audit Office financial audit data warehouse
 - Procurement Transformation Division Insight Cube
 - Q-Contracts
 - Queensland Contracts Directory
 - QTenders
 - various contract registers
 - QTravel supplier data
 - Critical Skills Boost program data
 - Procurement Certification Program data.

Appendix C — Agency abbreviations

Figure C1 shows the agency abbreviations that are used throughout this report.

Figure C1
Agency Abbreviations

Abbreviation	Agency Name	Abbreviation	Agency Name
DAF	Department of Agriculture and Fisheries	DPC	Department of the Premier and Cabinet
DATSIP	Department of Aboriginal and Torres Strait Islander Partnerships	DSD	Department of State Development
DCCSDS	Department of Communities, Child Safety and Disability Services	DSITI	Department of Science, Information Technology and Innovation
DEHP	Department of Environment and Heritage Protection	DTEsb	Department of Tourism, Major Events, Small Business and the Commonwealth Games
DET	Department of Education and Training	DTMR	Department of Transport and Main Roads
DEWS	Department of Energy and Water Supply	HHSs	Hospital and Health Services
DHPW	Department of Housing and Public Works	PSBA	Public Safety Business Agency
DILGP	Department of Infrastructure, Local Government and Planning	QFES	Queensland Fire and Emergency Services
DJAG	Department of Justice and Attorney-General	QH	Queensland Health (includes Department of Health and Hospital and Health Services)
DNPSR	Department of National Parks, Sport and Racing	QPS	Queensland Police Service
DNRM	Department of Natural Resources and Mines	QT	Queensland Treasury
DOH	Department of Health		

Source: Queensland Audit Office

Appendix D — QAO procurement tool

As part of this audit, we developed a dashboard to visualise procurement expenditure that we already collect for our financial audits from each department. We continuously verify this data by reconciling it to the finance systems posting total reports. We normalise the supplier listing (to remove duplicate suppliers) and use the Australian Business Number to access additional supplier information from the Australian Business Register. This allows us to segregate government entities and private sector entities, as well as know what type of entity suppliers are (i.e. sole trader, partnership, company).

For our dashboard, we applied a category mapping table to the general ledger codes to categorise departments' expenditure against United Nations Standard Products and Services Codes (UNSPSC). The general ledger account mapping to UNSPSC codes does not provide a 100 per cent accurate allocation of spend to categories, because some general ledger account codes contain expenditure that can relate to multiple categories. However, it does indicate category spend. We asked all departments to provide feedback on our categorisation, and where practical, we reallocated the spend to categories the agencies suggested.

To improve the quality of spend categorisation, agencies will need to improve their finance systems so that they categorise their expenditure when they input the data into the SAP finance system.

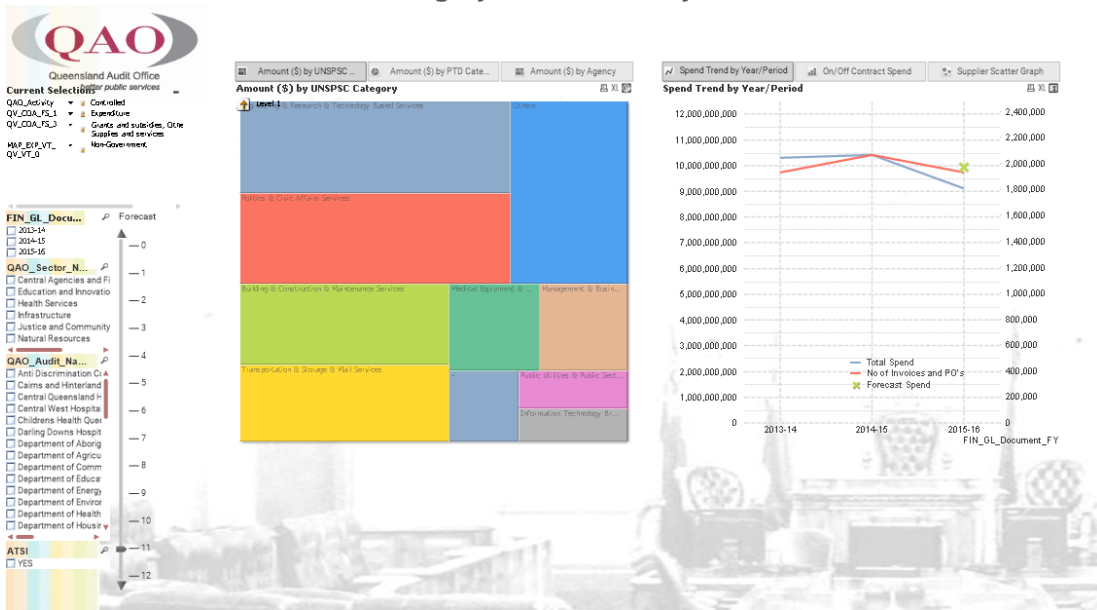
Our tool provides users with the ability to analyse:

- categories — spend data by department, sector, or any number of government agencies by UNSPSC categories, the former PTD's categories, or the Interdepartmental Committee's proposed category structure
- vendors — spend data by vendor, including the total spend per vendor, number of transactions, average invoice amount, potential off-contract spend, and expenditure trend over 12 months
- seasonal spend — spend data by months, quarters, and years to identify any unusual purchasing activity
- transaction types — spend data by transaction type to identify by payment stratum, expenditure by purchase orders, direct invoice and opportunities to realise savings through increasing credit card use for lower-risk transactions.

The user can analyse any combination of the above. For example, a user could analyse a department's procurement spend in professional services, analyse which vendors the department engages the most, when its payments mostly occur, and what transactions it mostly uses.

Figures D1, D2, D3 and D4 show sample screenshots of the QAO whole-of-government procurement analysis tool.

Figure D1
Category and trend analysis



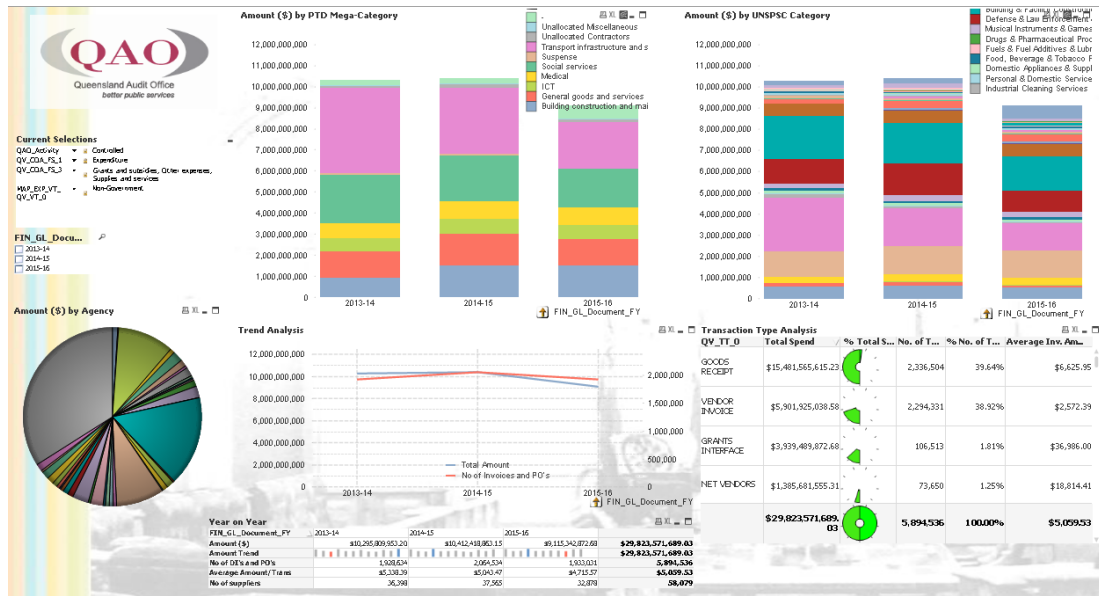
Source: Queensland Audit Office

Figure D2
Supplier vertical and trend analysis



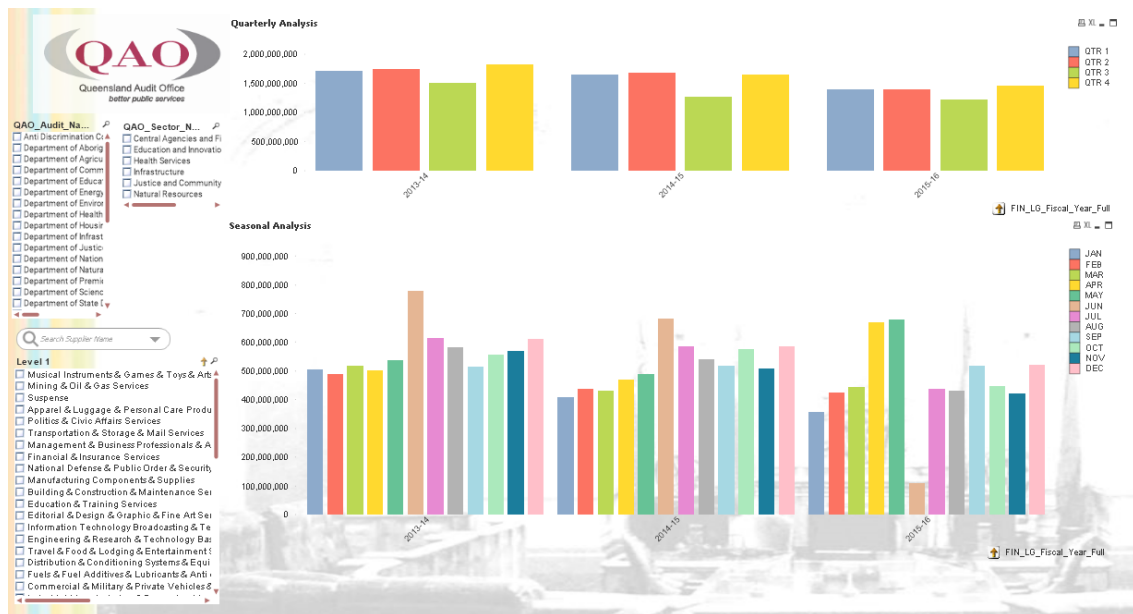
Source: Queensland Audit Office

Figure D3
Mega-category and transaction type analysis



Source: Queensland Audit Office

Figure D4
Seasonal spend analysis



Source: Queensland Audit Office

Auditor-General Reports to Parliament

Reports tabled in 2016–17

Number	Title	Date tabled in Legislative Assembly
1.	Strategic procurement	September 2016
2.		
3.		
4.		
5.		
6.		
7.		

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