



Australian Government

Department of Finance

Mr Gerry McNally
Committee Secretary
Senate Rural and Regional Affairs and Transport References Committee
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Parliament House
Canberra ACT 2600

By email: RRAT.Sen@aph.gov.au

Dear Mr McNally

In response to your invitation of 3 December 2020, please find attached a submission by the Department of Finance to the Inquiry into the future of Australia's aviation sector, in the context of COVID-19 and conditions post pandemic by the Rural and Regional Affairs and Transport References Committee.

The submission is focussed on Finance's role in managing whole of government procurement arrangements for travel, and the impact of COVID-19 on air travel during 2020.

Thank you for the opportunity to provide this submission to the Committee. I trust this information will assist your Inquiry.

Yours sincerely

Rosemary Huxtable
Secretary

18 December 2020

Introduction

The Department of Finance (Finance) is responsible for non-ICT Whole of Australian Government (WoAG) procurement policy and services and delivers a number of WoAG procurement arrangements, including for air travel (domestic and international).

Coordinated Procurement

Finance delivers WoAG procurement arrangements for commonly used goods or services to facilitate efficient processes, better prices, and enhanced service and quality for the Commonwealth. These arrangements offer increased transparency, standard terms and conditions and improved contract management that benefits both the government and suppliers.

Where established, coordinated procurement arrangements are mandatory for non-corporate Commonwealth agencies, as defined in section 8 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). Whether other agencies can opt-in is dependent on each specific arrangement.

Objectives of Coordinated Procurement

The WoAG procurement strategy aims to achieve five core objectives:

- reduce the cost of supply to agencies;
- continue to meet the business needs of agencies;
- contribute to a competitive and viable industry;
- result in fair, equitable and transparent process; and
- optimise government saving and efficiencies.

The achievement of these objectives improves the effectiveness and efficiency of agency processes and reduce duplication of effort and costs. This approach enables and empowers agencies to achieve benefits at an agency level. This is principally achieved through better practice travel-related activities including process and behavioural efficiencies, the adoption of technology and compliance with Australian Government domestic and international air travel policies.

Origin of the WoAG Travel Arrangements

Finance, on behalf of the Australian Government, has established a number of WoAG procurement arrangements for travel and travel related services. These include:

- travel management services;
- domestic air services;
- international air services;

- accommodation program management;
- vehicle rental; and
- travel and procurement payment services.

On 1 July 2010, the then Department of Finance and Deregulation implemented WoAG Standing Offer Arrangements for travel management services, domestic and international air travel. Arrangements for vehicle rental, domestic accommodation and travel payment services were instituted on 1 July 2012. These arrangements have been retendered as the standing offer arrangements have expired.

Prior to implementation of the WoAG Standing Offer Arrangements, agencies either managed the procurement and delivery of their own travel services or formed clusters with other agencies with similar needs. Travel offered through the clusters reflected strong brand affiliations and limited competition. This approach resulted in the Government being unable to leverage its purchasing power for travel services and forgoing potentially significant cost reductions.

Panel of Domestic and International Airlines

Finance has selected a panel of domestic and international air travel providers (Airlines) enabling agencies to access discounted Government travel airfares, and other benefits. These arrangements are governed by a Deed of Standing Offer between the Commonwealth of Australia and individual Airlines. The current WoAG domestic and international airline arrangements were put in place in 2016 and the initial period of the Deeds of Standing Offer will expire on 30 June 2021.

Finance is currently examining the available options to the Commonwealth in relation to the WoAG airline arrangements, including extension options within the Deed. Each airline is being assessed through an analysis of performance, including compliance with the requirements of the Deed of Standing Offer and an assessment to determine whether the arrangement continues to deliver value for money to the Commonwealth.

The use of panel airlines is not mandatory, however all air travel must be booked through the Government's travel management company. Agencies may use non-panel airlines as required, in accordance with the Government's travel policies and to meet their business needs. Domestically, these are typically for services not provided by panel airlines – for example, air travel across Northern Australia, the servicing of remote communities and operation in harsh and challenging conditions.

Panel airlines offer discounted flight pricing, including a reduction in publicly offered fares or fixed prices for specific routes. A variety of other benefits can also be provided through panel suppliers, such as additional luggage allowances.

Enabling Competition

Prior to the WoAG Standing Offer Arrangements most agencies participated in one of three clusters, which operated preferred supplier arrangements with one airline. The preferred airline was responsible for bookings, airfares, accommodation and car rental suppliers.

Under the WoAG Standing Offer Arrangements, there are no preferred suppliers. Suppliers are provided the same opportunity to participate in tender processes and provide services to Government that are established through an open approach to market.

Different air travel, accommodation, and car rental providers have supplied services over the life of the Arrangements.

Table A: Current WoAG Domestic and International air service providers

	Airline
Domestic	Jetstar
	Qantas Airways
	REX
	Virgin Australia
International	China Eastern Airways
	Emirates
	Etihad Airways
	Fiji Airways
	Finnair
	Garuda Indonesia
	Jetstar
	LATAM Airlines
	Qantas Airways
	Qatar Airways
	Royal Brunei Airlines
	Singapore Airlines
	Thai Airways
	Virgin Australia

The Commonwealth's current domestic air travel arrangements are comprised of four domestic carriers: Qantas, Jetstar¹, Virgin Australia (Virgin) and Regional Express (REX). Air travel can be booked on other smaller regional carriers for travel to rural, regional and remote areas of Australia, on routes not serviced by Qantas and/or Virgin. Domestic volume and expenditure is spread among these carriers.

The Deeds of Standing Offer outlines when domestic and international airlines may approach Finance to review price and service offerings. In considering any application, Finance does not act unilaterally. It takes into account the commercial viewpoint of the airline, the economic imperatives of the broader aviation sector, and, importantly, value for money for the Australian taxpayer.

It is in the Commonwealth's interests to take commercial decisions within its contracting cycle that support and underpin a viable and competitive aviation sector, particularly domestically and this approach is aligned with the Government's COVID-19 support packages for the aviation and travel sectors.

COVID-19

Impact

COVID-19 has had a significant impact on the travel industry and demand for air travel. During the height of the pandemic in Australia, travel was limited to only that deemed necessary to meet essential requirements, primarily COVID-19 related travel. Border closures and a marked decline in the number of commercial aviation services impacted the mobility of essential Government personnel and the delivery of essential Government programs.

By necessity, agencies increased their use of alternative communication tools, which has been reflected in significantly reduced travel numbers.

Finance continues to support suppliers and agencies to manage these changing requirements.

Travel Volumes

At its lowest, domestic air travel bookings were reduced by 95 per cent compared to the same period in 2019. International air travel bookings all but ceased, consistent with the Government's ban on overseas travel. The value of refunds for pre-booked air travel that could no longer be undertaken outweighed the value of new purchases for some months. Where possible, air credits that can be redeemed for future air travel have been accepted in lieu of cash refunds to assist with the preservation of liquidity in the airline sector.

The travel industry overall has seen a significant downturn in expenditure, and the Commonwealth Government has implemented a range of support measures, particularly for the airline industry. The Department of Infrastructure, Transport, Regional Development and

¹ The contractual relationship with the Qantas Group encompasses Qantas International, Qantas domestic, Jetstar international and Jetstar domestic.

Communications has carriage of the aviation policy measures announced by Government during COVID-19.

State and territory border closures and a profound reduction in the number of available commercial flights, has complicated the delivery of Government programs. For example, border restrictions limited students' access to the ABSTUDY indigenous students travel program, managed by Services Australia.

Longer term impact

During the COVID-19 crisis, Finance has carefully considered the means by which it can continue to support its contracted airline partners. It has done so within the remit and intent of the WoAG Standing Offer Arrangements and consistent with the Australian Government's broader measures to support the domestic aviation sector. Finance has continued to work closely with Australia's two principal domestic airlines on variations to price, updated terms and conditions to reflect the current environment, support to airlines to maintain viability and the continuation of benefits associated with these arrangements.

The Commonwealth has a contractual arrangement with Virgin. On 21 April 2020, Virgin's parent company, Virgin Australia Holdings was placed into Voluntary Administration. Finance was part of a Treasury-led Taskforce with the Department of Infrastructure, Transport, Regional Development and Communications, the Attorney-General's Department, the Australian Government Solicitor, and specialist financial, commercial and legal consultants that guided the Government's response to Virgin Australia Holding's administration. Finance's role on this taskforce reflected its commercial and transaction expertise, as well as its ownership of various procurement and travel related policies. The Government engaged constructively with Virgin Australia Holding's Administrator to deliver a market-led solution and ensure that Australia retains a competitive domestic aviation market.

The accelerated, wide-scale uptake of virtual conferencing technologies by agencies during COVID-19 may have an ongoing impact possibly flattening demand for domestic air travel between capital cities over the longer term. The quantum of the decline is difficult to predict at this time, however it is not expected to materially erode the Government's purchasing power.

Travel Policy and Compliance

Foundational Principles

The Government's domestic and international travel policies specify that travel must only be undertaken where other communication tools are ineffective and there is a demonstrated business need. Value for money is the overarching consideration when booking travel.

Officials must make decisions based on value for money and an impartial consideration of the fares available and not on a personal preference for a particular airline or aircraft type, access to airline lounges, or accumulating airline status points.

Under the devolved resource management framework, agencies are responsible for compliance with the Government's travel policies and for ensuring that they deliver value for money. However, Finance has an important stewardship role which involves developing policies and guidance, assisting agencies to understand these policies, and helping agencies to manage their performance under these policies.

The Policies

Domestic Travel Policy

Participating Commonwealth agencies subject to the PGPA Act are required to adhere to the requirements of the Australian Government's domestic air travel policy expressed in Resource Management Guide No. 404² when considering, booking or approving domestic travel.

The policy requires Commonwealth officials undertaking official domestic air travel, to select the lowest practical fare, which is the lowest fare available at the time the travel is booked on a regular service (not a charter flight) that suits the practical business needs of the traveller.

International Travel Policy

Participating Commonwealth agencies subject to the PGPA Act are required to adhere to the requirements of the Australian Government's international air travel policy expressed in Resource Management Guide No. 405³ when considering, booking or approving international travel.

When undertaking official international travel, officials must select the best international fare, which is the lowest fare available on the day the travel is booked on a regular scheduled service (not a charter flight), that suits the practical business needs of the traveller and maximises overall value for money for the total cost of the trip.

Operational Considerations

While compliance with these policies is mandatory, the decision to travel and the selection of an appropriate mode of transport and fares is an agency decision.

In 2018-19, 99.8 per cent of domestic tickets reflected the lowest practical fare in accordance with the policy.

² <https://www.finance.gov.au/publications/resource-management-guides/domestic-travel-policy-rmg-404>

³ <https://www.finance.gov.au/publications/resource-management-guides/official-international-travel-use-best-fare-day-rmg-405>

Domestic and international airlines contracted to the Commonwealth as part of these WoAG Standing Offer Arrangements are required to ensure that airline loyalty reward points are not accrued for government business related travel. These arrangements were implemented to generate behavioural changes in regards to selection of airline based on pricing rather than airline loyalty incentives. Further, the suppression of loyalty reward points underpins the Commonwealth's travel policies that require that an airline-agnostic consideration of available fares that suit the business needs of a traveller each time a new booking is created.

Savings and efficiencies

The current travel arrangements continue to deliver savings and drive efficiencies. These arrangements deliver better value for money through a single approach to market, and price reductions that have been negotiated with airlines and other contracted travel providers through the relevant procurement processes.

Process Efficiencies

Improving procurement processes across agencies is being achieved by:

- encouraging greater use of online booking tools to facilitate bookings, reducing transactions costs and increasing uptake of lower-priced fares;
- sharing best practice for purchasing and booking management amongst agencies; and
- investigating automated approval, acquittal and verification processes.

Conclusions

The WoAG Travel Arrangements have been regularly reviewed over the past ten years since Government agreed to the establishment of a coordinated approach to procurement of travel services. Periodic benchmarking and audits of the current WoAG Travel Arrangements have identified that the strategic objectives of coordinated procurements are being met.

In particular, the objective of reducing the cost of supply to agencies has replaced the need for agencies to undertake open market tender processes or secondary procurement assessments. This has resulted in reductions in agency administrative costs for procurement and contract management activities.

Further, coordinated procurement of travel services through the open market tender processes has enabled all market players to participate and compete equitably.

Finance will continue to build upon the efficiencies achieved to date through:

- equitable structuring of contracts and pricing;
- proactive management of contractual arrangements; and
- support to influence behavioural change including greater value for money judgements by travellers.