



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND  
AUDIT

**Reference: Australian government purchasing policy and practice**

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**JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT**

**Wednesday, 27 January 1999**

**Members:** Mr Charles (*Chair*), Mr Cox (*Deputy Chair*), Senators Coonan, Faulkner, Gibson, Hogg, Murray and Watson and Mr Andrews, Mr Brough, Mr Georgiou, Ms Gillard, Mr Griffin, Ms Plibersek, Mr St Clair and Mr Somlyay

**Senators and members in attendance:** Senator Hogg, Mr Brough, Mr Charles, Mr Griffin, Mr St Clair

**Terms of reference for the inquiry:**

The Joint Committee of Public Accounts and Audit (JCPAA) will examine whether Commonwealth entities, during the last four years, have achieved effective outcomes in the way purchasing policies are implemented, and whether Australian business has achieved more equitable outcomes arising from these policies. The inquiry will have particular reference to:

- (1) the performance of Commonwealth entities in managing and implementing purchasing policies during the last four years;
- (2) statistical information identifying trends in purchasing outcomes during the last four years;
- (3) an assessment of whether Commonwealth purchasing policies have maximised commercial opportunities for Australian suppliers; and
- (4) possible initiatives that could further enhance Commonwealth purchasing policies.

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**Committee met at 10.00 a.m.**

**CHAIR**—The Joint Committee of Public Accounts and Audit will now take evidence, as provided for by the Public Accounts Committee Act 1951, for its inquiry into Australian government purchasing policy and practice.

In 1997-98, the total value of purchases by the Commonwealth budget funded agencies was about \$8.8 billion. It is essential, therefore, that the purchasing function is managed effectively and appropriate guidelines are in place. Commonwealth agencies must ensure that Commonwealth monies are spent wisely and that outcomes for the Australian public are maximised. The committee will examine the performance of Commonwealth agencies in managing, reporting and complying with the Commonwealth procurement guidelines. Some of the key areas that will be examined include how Commonwealth agencies interpret and apply the core purchasing principles of value for money, open and effective competition, ethics and fair dealing, accountability and reporting, and national competitiveness and industry development.

The committee enters this inquiry with the knowledge that almost over five years ago a previous parliamentary inquiry noted serious criticisms with Commonwealth procurement. Some of those concerns have been raised in submissions to this inquiry. For example, some of the statements and claims that have been made in submissions include, firstly:

Commonwealth entities have poorly managed and implemented purchasing policy during the last four years, and the recommendations in the Bevis report 'were ignored in many areas'.

That was from Streets Enterprises, submission 4, paragraph 324. Secondly:

It has become apparent that, frequently, the selection of the winning bid is largely based upon price . . .

That was from Ballistic Innovations, submission 10, page 3. Thirdly:

Unfortunately the 1994 report has largely been a wasted opportunity as the procurement practices by Commonwealth entities have not progressed in a manner that has assisted industry, particularly SMEs.

That was from the Australian Information Industry Association, submission 13, page 2. Fourthly:

In respect of the third principle, viz national competitiveness and industry development, in broad terms it is our opinion that government purchasing has not helped local industry to become internationally competitive.

That was from the New South Wales ISO, submission 34, page 5. Fifthly:

There remains six core principles and policies, but without adequate guidance, purchasers may detect conflict between policies such as value for money and industry development, and opt for the simplest way out.

That was from ISONET, submission 35, page 5. And sixthly:

. . . unless purchasing competency training and accreditation levels are given status in Departments through requiring adequate training for specific posts, and providing remuneration incentives to those responsible for purchasing, the use of purchasing power as a facilitator of industry development can diminish significantly.

That was from ISONET, submission 36, page 5.

A key objective of the committee will be to test these and other claims and examine whether Commonwealth agencies have improved the management of the purchasing function and have helped maximise the commercial opportunities for Australian suppliers. In addition to investigating, evaluating and making recommendations on these issues, the committee will also consider the use and uptake of electronic commerce, common use agreements and endorsed supplier arrangements, the views and experience of the business community, the adequacy of purchasing statistics and possible initiatives that could further enhance Commonwealth procurement.

The committee will conduct further public hearings in Sydney and Melbourne during February. Today the JCPAA will take evidence from the Australian Industry Group Defence Council, the department of environment, the Office of Small Business, ISONET, the Pulp and Paper Manufactures Federation of Australia, the Department of Foreign Affairs and Trade, and the National Federation of Independent Business.

Before swearing in the witnesses I will refer members of the media who may be present at this hearing to the committee statement about the broadcasting of proceedings. In particular, I draw the media's attention to the need to fairly and accurately report the proceedings of the committee. Copies of the statement are available from the secretariat staff present at this meeting.

[10.05 a.m.]

**JOHANNES, Mr Eric Gregory, Executive Officer, Defence Council; and Manager, Industry Policy, Australian Industry Group Defence Council**

**CHAIR**—I now welcome a representative of the Australian Industry Group Defence Council. Thank you very much for both your submission and coming in today. Would you like to make a brief opening statement before we ask questions about your submission?

**Mr Johannes**—Yes, I would like to make a few introductory comments and then briefly look at some contextual issues. As you know, the Metal Trades Industry Association, MTIA, made a submission on Commonwealth procurement on 16 October 1997. Since that time, the MTIA has merged with the Australian Chamber of Manufactures to become the Australian Industry Group which, as a group or a single body, represents over eleven and a half thousand companies, with turnover in excess of \$100 billion per year and exports in the vicinity of \$25 billion. While the Australian Industry Group Defence Council, which I am also representing, did not make a submission directly on this issue, it has been very active in the defence arena on the issues of project management and procurement and has made recent submissions to government on issues including defence management of major acquisition projects and defence policy for industry.

In our view, getting purchasing policy and practice right in the defence sphere is essential and an important topic which this committee should examine. Why? Because each year, Defence has several thousand officers making over one million individual purchasing decisions and those decisions, cumulatively, account for well over 50 per cent of total government purchasing of goods and services. Also, in our view, in many areas Defence's approach provides a model for other government departments. While there has been substantial reform in the defence area and, indeed, more broadly—and we commend that reform—we would observe that there is room for both Defence and the broader bureaucracy to go further. For these reasons, we have decided to combine the testimony of both the Australian Industry Group per se and its Defence Council.

Noting those introductory comments, I will make a few points on the environment in which our comments will be situated today. Firstly, we observe that the Australian economy is open fully to participation from companies throughout the world, with the possible exception of the motor vehicle and textile industries. Secondly, for almost a decade, government procurement and purchasing policies have not included any quantum preference for Australian industry. Australian companies accept this insistence on international competitiveness when bidding to do business with government, because they seek the same characteristics from their own suppliers within the Australian economy. So we would make the observation that Australian companies must be internationally competitive not just to win export orders but to win contracts in the local market, including with the Australian government. Within that context, why is it important to work actively to maximise Australian industry involvement? We have looked at it from both the government and the industry perspective. The government's stated industry policy objectives include encouraging the growth of internationally competitive, export-oriented Australian companies and promoting national competitiveness and industry development through its procurement.

Noting Australia's current account deficit is in the vicinity of \$25 billion, or about five per cent of GDP, the government should take every opportunity to buy Australian.

Why is it important to industry in Australia to have internationally-competitive local suppliers on which to draw? Unlike their overseas counterparts, local subcontractors can offer a larger Australian company a better understanding of the domestic market, lower business costs through proximity, protection from currency fluctuations and a stronger guarantee of long-term support. So it makes good business sense, from both the government and industry perspective, to buy Australian wherever local suppliers are internationally competitive.

Within that context, why is government purchasing policy and practice particularly important? We note that direct purchasing by the government in Australia is a key economic lever for the government, both in terms of expenditure per se in the local economy and as a driver of development in its role as a leading-edge purchaser in areas like defence and information technology. Government purchasing also acts as an unofficial product endorsement scheme for industry. In fact, in areas such as defence it is almost impossible to export overseas if you cannot first point to that product or service being operated by your own defence force and purchased by your own government.

In sum, we believe the government's firm policy should be that any officer making a purchasing decision for the government should first ask, 'Why not buy from an Australian industry?' as opposed to, 'Why buy from an Australian industry?' And they should be required to demonstrate that they have examined the Australian market before exercising their purchasing delegation. To be effective, such a policy is really going to rest on change and improvement in a few key areas, namely: changing the culture of purchasing officers within government, applying in a more sophisticated way the principle of value for money, addressing the gap between policy and practice, adopting some specific new initiatives and addressing the role of public audit of major acquisition projects. I am happy, subsequently, to go into any of those issues in more detail.

**CHAIR**—Leigh Purnell wrote to us on 4 August and provided a submission for the Australian Industry Group, and in his covering letter he said:

The Council—

that is, the Defence Council—

is in the process of developing a comprehensive position paper on the issue of Defence purchasing which we will be providing to Government towards the end of this year.

And it goes on. Have you finished that paper?

**Mr Johannes**—I have recently taken the job of executive officer of the Defence Council and manager of industry policy for the group. We did in November-December provide a major submission to government on Defence management of major acquisition projects. I am happy to go back to the group and ask about the wider issue of government purchasing and inquire as to the status of the collection of views on the broader issue and report back to the committee.



**CHAIR**—If you have written such a paper, obviously we would be interested in it, unless it is confidential for some particular reason or other. I wonder if you would have a handle on this issue. Since you represent a lot of medium sized businesses and some small businesses and some major businesses as well, have you any idea of the percentage of small and medium sized businesses—not just for Defence, but across all of government purchasing, all the departments—that would have the capacity and/or the desire to market to government?

**Mr Johannes**—As a percentage, no, we would not have a firm figure for you. However, we would make a few observations: one, in general the attitude of smaller and medium sized companies is that successfully pursuing sales to government and demonstrating a track record of government business is a significant feather in the cap but, two, a great many small and medium sized companies have said to us over time, ‘We are no longer willing to try to do business with government because of the cost of doing business with government, particularly in the defence field.’ In many cases there are high barriers to entry and the paperwork is seen to be too great to justify pursuing the business.

**CHAIR**—Let me go back and rephrase my question a little bit. I understand you do not have figures. We would think, anecdotally, that most small businesses would not be in a position to supply to government, nor would they want to. This is one of the things that we are interested in. The corner milk bar, the furniture retailers, the clothing retailers and so on would have no desire to do so, and I would have thought they would make up the bulk of Australian small business.

**Mr Johannes**—You raise an interesting point: what constitutes government purchasing? Let me take the Defence example. Defence has, when you include its reserves when on service, in the vicinity of 100,000 people working for it. Essentially, it is a town. It buys all possible goods and services from the Australian economy, including furniture, food from the local Woolworths, cab vouchers and the like. So, in a sense, the companies involved in all those sectors potentially supply Defence and, by extension, supply the government and are involved in the process of government purchasing. If you would seek to put some boundaries on what constitutes government purchasing for the purpose of this inquiry, then I could happily go back on behalf of the group and collect some more meaningful information for you on who is actually interested in contributing to what type of government business.

**CHAIR**—I think that would be really interesting, but try to disassociate the local purchasing factor. Obviously a DFAT embassy in Jakarta is not going to buy stuff for Jakarta in Sydney or Melbourne, and certainly not in Wangaratta. But a Defence establishment location, whether it is a permanent location or a training area or whatever, is going to buy things that it needs locally from local businesses. I think everybody would expect that. So, while the local furniture retailer might supply some furniture to a local defence establishment, it is unlikely that the retailer would even consider supplying to Canberra or to overseas bases or whatever.

**Mr Johannes**—That is true.

**CHAIR**—Could you give us a rough idea of whether it is three per cent, five per cent or 10 per cent? Certainly we do not think it is 80 per cent or 90 per cent.

**Mr Johannes**—I will take that back to the group and look into it.

**CHAIR**—Let me ask you one more question, and then I will let my colleagues have a go. The government has recently announced a change to Transigo. At the end of June 1999 there will be competition for Transigo. Firstly, can you tell me if your member companies have benefited since the introduction of Transigo in terms of increased sales to government or perceived increased access or ease in dealing with government departments? Secondly, if that is the case, can you tell me whether you would view the proposed change as being either positive or negative?

**Mr Johannes**—Our members would feel that the concept of Transigo is a good one. One of the quantum indicators of the success of the initiative we have is far fewer members come to us asking for information on government contracts because they can get access to the information more directly themselves. What are some of the problems with Transigo? At the moment we are conducting a survey of over 2,500 of our regional members, and one of the questions we are asking those regional members is, ‘Do you have the facilities to make use of electronic commerce? Do you have the facilities to make use of the Internet to get information?’ We are surprised by the number of faxes that are coming through saying, ‘No, actually, I don’t have access to the Internet. I don’t have access to email.’ In this day and age, we would assume that almost everyone out there had it, just as part of good business sense.

So I guess relying on the Transigo initiative as your primary distribution source for information has a drawback in that there are a lot of companies out there that still are not part of the information superhighway. I am happy to come back to you and give you some sort of percentage figure based on our regional survey, just to give you an idea of how many companies out there in the regions do not have access to that sort of information.

**CHAIR**—But if what you are saying—or what you will say—to us is that a substantial number of your members have not yet availed themselves of modern information technology, is that government’s problem?

**Mr Johannes**—It is government’s problem if government wants to encourage business to become more internationally competitive, to become more export oriented and to increase its level of participation in government purchasing. If there are good companies out there which would do good business with government and they are not getting the information that government is providing, then government has to give further thought to how that information can be put forward.

**CHAIR**—But hasn’t the government done everything possible to advertise the expansion of business opportunities on and through the Internet and to encourage business to take it up and establish web sites as well as use modern technology? What the heck do you expect government to do? Go lead your people by the hand to come out of the ark?

**Mr Johannes**—I think it has been quite a passive campaign. I have had a number of members in the Australian Industry Group and, before this when I worked in the Department of Defence, in companies from the Defence industry calling regularly asking for information on government contracts because they were not aware of where they could get it. The

Australian Industry Group plays a significant role in informing people of the existence of things like Transigo.

**Senator HOGG**—I would like to pursue the issue you mentioned of the cost to small business that seems to be deterring them from putting in competitive tenders. Can you quantify what the cost is? Is it in terms of time or money or is it something that is bound up in red tape? What is the cost?

**Mr Johannes**—Primarily, it is time and the cost of education. Let me take the Defence field as an example. Defence tendering is unlike any other form of tendering in government, and probably any form of tendering in Australia. If you are not an insider, if you do not understand the concepts and if you do not understand the paperwork, you must make a substantial investment of personal time to go away and learn how the bureaucracy works and how the contracting system works. In a small business where you have five employees, you may lose a fifth of your employees for two weeks sending them away on courses to educate them on how to just fill out the tendering documentation correctly. Any look at Defence's annual program of training courses will show a very significant emphasis on teaching industry how to tender successfully. That is the greatest cost—the cost of understanding how to fill out the paperwork and submit it.

Another high cost in Defence and government tendering is the time taken for government to make purchasing decisions. I do have some figures back in the office which I can happily provide to the committee on the cost of Defence tendering for tenders in various price brackets to show the time taken by Defence to process the responses to tenders and the time taken to proceed to contract on the various tenders. If I have a small company and I put together a team to bid for a project and it then takes Defence or another area of government three months to evaluate that bid, I have a project team which may represent 20 or 30 per cent of my business sitting around on its hands waiting for a decision to be handed down.

**Mr GRIFFIN**—So it is not just Defence; it is an overall government issue.

**Mr Johannes**—It is an overall government issue, but in Defence it is particularly bad.

**Mr GRIFFIN**—Is that the same on the paperwork as well? Is it Defence mainly, or is it an overall government issue as well?

**Mr Johannes**—In the paperwork, it is Defence primarily.

**Mr BROUGH**—Is there any good reason why you believe it is particularly bad in Defence? Is it because of strategic or security components or some other reason behind Defence, or is there no good reason for it as far as you are concerned?

**Mr Johannes**—In some areas, there is a good reason. In a multibillion dollar project where you want to protect the interest of the taxpayer—if you are into a blue sky area like submarines or over the horizon radar, to take two very topical examples—it is going to take you a long time to evaluate the responses. In many cases, you will not have the expertise in-house to evaluate the responses and that is a significant investment on behalf of the taxpayer and one that you want to choose and make very carefully. The vast majority of Defence's

purchases—\$3½ billion of the \$6 billion worth of goods and services Defence buys every year—are minor projects, facilities and logistics goods and services.

**Mr BROUGH**—If you look at that scale from the smallest purchase to the largest purchase—and I think we all know a little bit about the larger purchases—is there any particular area in there which has done well? Is there a difference in the purchases under \$5 million in that they are expedited, et cetera, or is it all pretty much the same?

**Mr Johannes**—In our view, the strongest area of Defence purchasing is in the area of facilities. There are very high levels of Australian industry involvement, a very open relationship between the Defence department and the major contractors with which it does business and extensive use of panel arrangements which reduces the cost of doing business for industry. Those panel arrangements are regularly revisited allowing new players in. On both sides of the equation, the relationship is regarded as very positive and as having the lowest business costs of all.

**Mr BROUGH**—That is a model which could be followed in your opinion in other areas.

**Mr Johannes**—Absolutely.

**Mr BROUGH**—You mentioned culture. At the end of your statement, you said there were about four things which we might like you to expand on. I would like that, and I would particularly like to go to the changing culture of purchasing officers. That is mentioned in the Bevis report from 1994. What are your thoughts there?

**Mr Johannes**—In our view, a culture still persists in many areas—though, admittedly, it is on the decline—which equates Australian industry with higher cost, higher risk and lower quality. That has been noted in a series of government reports over time. It has been widely admitted within the Defence department.

I guess one of the issues there, particularly within Defence, is that there is an emphasis on setting policy centrally and seeing it applied by thousands of people out in the regions. There seems to be an implicit assumption that, if I release a piece of paper that says, ‘Australian industry is good and you should change your attitude,’ somehow through osmosis that new culture will be absorbed. But there has been very little emphasis in the past on educating purchasing officers in government. Ten or 15 years ago they had reason to doubt the quality, the timeliness and the risk associated with the Australian industry, but Australian industry has come a long way in the last decade and it is time to take a more serious look at what is out there and available.

**Mr GRIFFIN**—Have you noticed any improvement over the last three or four years following on from the Bevis report?

**Mr Johannes**—Yes, we have noticed an improvement over the last few years following on from the Bevis report.

**Mr GRIFFIN**—Was that in particular aspects of policy in various areas or in particular areas, if you know what I mean?

**Mr Johannes**—I guess really across-the-board we are noticing an improvement as there is a greater emphasis on education, more and more formal relationships between government departments and industry groups—such as our own—and, I would say importantly, through the creation of the ISO and the ISONET.

One of the issues with culture—and this gets into the policy practice gap, too—is the fact that it is very easy for local purchasing officers to buy offshore. In many cases, they simply plug a product number into a computer and it is bought from an overseas shelf where it has always been purchased. It is a little harder for a local purchasing officer in Sydney, Melbourne or Queensland to take a realistic look at what companies in the Australian market can offer and identify a viable alternative. That helps perpetuate the culture of, ‘I’ll go offshore.’ With the creation of bodies like the ISO network and the Australian Industry Group, you have a source where a purchasing officer can go forward and say, ‘Here’s the product I am after. I need help identifying an Australian alternative. Can you help me?’ Speeding up that process of looking at the Australian market is certainly a step in the right direction.

**Mr GRIFFIN**—What else would you do?

**Mr Johannes**—I would see greater insistence on education by going out to purchasing officers and saying, ‘This is the government’s industry policy. This is its procurement policy. This is why purchasing from Australian industry is important, and this is how we can make it easier for you to purchase from Australian industry.’

I would also see instituting a process of sanctions and rewards. If government purchasing officers are seen regularly to be making an effort to involve Australian industry on a cost-effective basis in their purchasing, then they should be held up as an example for others to follow. Equally, if purchasing officers simply go offshore without due cause for not buying an Australian product, then they should have their delegations removed after a warning or two. We do not see any process of sanction or reward. There is no incentive for a purchasing officer in government to take a serious look at Australian companies unless he or she has some sort of nationalistic fervour, because government policy set in Canberra does not mean that much to the individual out there in rural Queensland making purchasing decisions.

**Mr BROUGH**—Greg, your organisation obviously gets pretty frustrated members contacting them after they have been through this process, whether it be because of the red tape that was alluded to or whatever else. Do you see a role for your organisation to continually provide input and feedback to the government and the departments on an official basis to say where you identify in real time problems? This is very worth while, but this is four years down the track. If every six months, for argument’s sake, you were part of a round table which discussed the problems that had occurred in the previous six months, would you see that as being a big step forward both from a government and an industry perspective?

**Mr Johannes**—Absolutely. I think both government and industry would benefit significantly from that. There are models in other areas of government—in departments like Defence and Industry, Science and Resources—where industry and government come

together regularly to discuss issues of concern, but I am not aware of one on government purchasing.

We regularly respond formally to Defence or go to Defence formally through submissions on major areas of interest or concern to members of the broader group—like intellectual property, like management of major acquisition projects and like industry policy per se—but that is not a very cooperative relationship where I simply say, ‘What is of concern to members? This is of concern, so let’s put together a submission,’ and then we throw it at you and hope something happens as a result. I think it is also a joint responsibility. If industry is unhappy with the current situation, it is not good enough to simply complain about it. There is a role for government to say, ‘Okay. We’ll admit that the system isn’t perfect. Let’s get together on a regular basis and talk about how we can improve it in the spirit of cooperation,’ as opposed to the reactive, ‘Here is a submission. Let’s put down the shutters and defend the status quo.’

**Senator HOGG**—Another issue you raised earlier was value for money. One of the things that has come out of my reading of the submissions is that value for money is invariably interpreted as the cheapest price. What is the view of your organisation in terms of value for money? It seems that there are no benchmarks by which value for money can be tested as opposed to straight out lowest price. How does one get around this problem?

**Mr Johannes**—Our view is that value for money as a principle is well defined but in practice it is very poorly applied because there is very little guidance. One of the difficulties—and we acknowledge this difficulty—for purchasing officers in making a value for money decision is that it is very hard to compare a qualitative factor, like level of local industry participation, quality of product or prior performance, with a quantitative factor, like cost, timing and schedule. It is very easy to draw up a spreadsheet to say, ‘This person has offered X and this person has offered X plus 1,’ and make a decision on that basis. But it is very hard to say whether X plus 1 in fact gives you better value for money because the prior performance of the firm is stronger or the level of industry participation is higher.

So we acknowledge that there are difficulties but we would like to see some more formal guidance put in place to tell purchasing officers how on a step by step basis they make a value for money decision, noting that guidance will have to be generic because there is a very great variety of purchases made in government.

**Senator HOGG**—In your experience in your council, how many instances have there been where decisions have been made strictly on the basis of cost rather than on value for money and which in the longer term have been to the detriment of the government department making the purchase?

**Mr Johannes**—We would say the vast majority of purchases have been made on the basis of best cost as opposed to best value for money.

**Senator HOGG**—Do you have examples though where, in the long term, it can be shown to have been a detrimental decision because there has had to be some remedial action later which makes the lesser cost pale into insignificance because there were increased costs because of patch ups and whatever else?

**Mr Johannes**—There are a number of examples of major Defence projects that have used an offshore prime contractor and have had very high levels of overseas involvement on the basis of lower cost and subsequently we have struggled as a country to get access to repairs and through life upgrades on time because the overseas contractor has had more pressing business in which to engage.

**Senator HOGG**—Can you give us those examples?

**Mr Johannes**—I can give you an example of a recent simulation contract within Defence that was awarded to an overseas company called FSI. When FSI was halfway through the project, they decided that they had won a much more significant project in the United States and they used a pull-out clause to get out of the small Australian project. They went away and did the multi-hundred million dollar US project, and the Australian government and the Australian public were left in the lurch because we had not gone for an Australian contractor who could provide better through life support—albeit at a slightly higher cost—and who we had direct access to in terms of corporate headquarters and who had a long history of operating in the Australian industry.

**Senator HOGG**—So there was a real Australian contender that did not get a look in?

**Mr Johannes**—Absolutely.

**Senator HOGG**—How often would this occurrence happen in contracts? Is it regular?

**Mr Johannes**—It is hard to put a percentage on it. In our view, too, Defence has gone a long way in recent years to looking at the issue of through life support in country and trying to make that an explicit decision criteria in its contracts, but I have been told by colleagues in the Department of Defence that, of all the major contracts that have gone through in the past five years, the only one where consideration of Australian industry involvement influenced value for money in a meaningful way is the current process of selecting a major contractor for the airborne early warning and control aircraft. In all other cases, magically, the lowest price won the contract.

**CHAIR**—You spoke briefly before about ISO. In some other submissions, we have been led to believe I think that ISO was used more prior to the dismantling of the National Procurement Board. Is Defence using ISO? Is it using it enough? Should it use it more?

**Mr Johannes**—Defence has a formal memorandum of understanding with the ISO network. It is now insisting in its contracts for major projects—which are those worth \$20 million or more—that every tenderer supplies evidence that they consulted with the ISO when looking to identify local partners. There is a formal arrangement in place between Defence's support command—which is responsible for about \$2½ billion worth of logistics purchases a year—and the Industrial Supplies Office Network to ensure that purchasing officers within Defence can get direct access to the ISO when looking for local partners. So we see Defence making extensive use of the ISO. Within the Australian Industry Group, we hear regularly from the ISO on what they are doing and they regularly invite our participation.

**Mr BROUGH**—Can you put any figure on the benefits—not just to Defence but to your entire organisation—that could flow from an improvement to the procurement process if it were able to be best cased as far as you were concerned?

**Mr Johannes**—If government procurement worked at the level of international best practice, for example?

**Mr BROUGH**—Yes.

**Mr Johannes**—We would expect there would probably be a 20 to 30 per cent increase in industry participation and in Australian industry involvement in government business.

**Mr BROUGH**—Is there any way of putting either a dollar figure or a jobs figure on that within your industry's ball park?

**Mr Johannes**—I am sure we could put a dollar figure on it, and we could probably put an employment figure on it, too.

**Mr BROUGH**—It would be interesting if you could. I think it would be very worth while if you could come back to us with that to give us some sort of a picture of what we could head for.

**Mr Johannes**—Okay.

**Mr BROUGH**—I have one other question. Did you see the report on 20 January in the *Canberra Times* on the dossiers supposedly being kept by computer companies?

**Mr Johannes**—No, I have not seen that.

**Mr BROUGH**—Haven't you? Well, we will not bother to ask you about it.

**CHAIR**—I have one last question if everybody else has finished.

**Mr BROUGH**—Yes, thank you.

**CHAIR**—I noticed that one of your member companies is BTR Aerospace. You spoke about push button purchasing. I recall having a meeting with BTR years ago—and I do mean years ago—and they complained that one of the major parts they made, which was a landing strut and wheels, could be purchased directly from the United States by simply calling a part number or major assembly number up on a computer screen and pushing the button, and electronic purchasing had bought it. That was done rather than even considering the local manufacturer and supplier of the identical parts, which was actually established to make sure those things were available in Australia.

**Mr Johannes**—I am not surprised. We hear countless examples from members of that happening, particularly in Defence where you can simply plug a NATO stock number into a computer and it comes out of the US armed forces shelf, sometimes a year later.



One of the interesting initiatives we have seen industry adopt to try to counter this—and we wish to see government adopt this—is an approach that has been taken by both Ericsson and Transfield in the last couple of years in cooperation with ISONET. That approach is to open the warehouse and simply put out a series of trestle tables, label all the parts that are currently purchased from overseas, invite companies from throughout Australia to come along, walk through the warehouse, identify the parts they think they can produce at the same price or better and come to the company directly and say, ‘I can provide this product to you. I am an Australian company. I can do it at the same price or better. Let’s negotiate.’ That has been a very successful initiative for both companies and we would like to see that extended. That is one of the ways of overcoming push button purchasing—that is, by getting purchasing officers in government to realise that there are Australian alternatives.

We have no problem with the idea that in some cases there will be unique parts that are only manufactured overseas, and it is a fantastic system if for those parts I can press a button and it will arrive six months later. Year after year we do have a problem with failing to look at the market in Australia and seeing whether there is a local alternative that can replace that overseas push button part.

**CHAIR**—You are not going to find my BTR example—the strut for the F111—in a warehouse at Transfield, that is for sure. You are going to find it either in North Bayswater or in the United States. Nobody else makes the blessed thing.

**Mr Johannes**—That is right, and there will continue to be examples like that. There are Australian companies that do the same thing. There is a company called Rosebank Engineering that does precision micro grinding on F111 valves, and it is the only company in the world that now does that. We would have no problem with the US armed forces pressing a button and ordering directly from Rosebank.

**Senator HOGG**—I have one further question on the relationship between the purchasing officer and the tenderer. Is it your experience that there is a reasonably high turnover in the purchasing officer area which leads to a degradation of consistency? If so, do you have any figures that would support that? If not, what is your view?

**Mr Johannes**—There is significant turnover in the personnel involved in very large government purchases, which again primarily come out of Defence. In the area of lower level purchasing, there is not such a high level of turnover.

One of the reasons for the high level of turnover in Defence and major projects is, to date, a very large proportion of project managers have been in the military and have been on a two- to three-year posting cycle. They develop a relationship with the companies with which they do business. I would have to say that Defence is very good, though, at maintaining an arms-length relationship with those contractors and very rarely is there an accusation of conflict of interest. They learn how the two like to do business and a relationship of trust is developed. Then the military officer is posted and those relationships and the information sharing have to be built up again.

I can quite easily get you figures on the percentage of major project managers in Defence who are military and the level of turnover they experience. There is a process at the moment

called the Defence Reform Program that is attempting to civilianise more of those positions, but anything in Defence takes a number of years before it grabs hold and we would not expect to see a high turnover of military into civilian positions for some years yet.

**CHAIR**—Greg, thank you very much. We will look forward to your further correspondence and answers to the questions that you said you would get back to us on. In particular, if you have made that report and could give us a copy, we would be delighted to receive it. Thanks very much for coming. Thanks for your submission and for your input into the inquiry.

**Mr Johannes**—Thanks very much for your time.

**Proceedings suspended from 10.44 a.m. to 11.01 a.m.**

**ALLEN, Mr Rodney John, Acting Assistant Director, Corporate Services, Australian Antarctic Division, Department of the Environment and Heritage**

**BOX, Mr Malcolm, Director, Program Services, Department of the Environment and Heritage**

**GORDON, Ms Lesley Margaret, Assistant Director, Management, Bureau of Meteorology, Department of the Environment and Heritage**

**McKINLAY, Mr Andrew, Assistant Secretary, Finance and Infrastructure Branch, Department of the Environment and Heritage**

**TUCKER, Mr Mark, Assistant Secretary, Sustainable Industries Branch, Department of the Environment and Heritage**

**CHAIR**—I now welcome representatives of the Department of the Environment and Heritage to today's hearing. We have received your supplementary submission, together with your original submission. We thank you very much for that. Would you like to make a brief opening statement before we proceed to asking you questions?

**Mr McKinlay**—Yes, thank you. As you mentioned, Mr Chairman, the department has made two submissions—the first on 8 October, which provided factual information sought by the committee, and the second more recently on 20 January this year, which provided the committee with information on environment purchasing practice. As explained in our October submission last year, the department is split into three distinct operational areas each with its own management structure. They are the department's Canberra based operations, the Australian Antarctic Division and the Commonwealth Bureau of Meteorology.

I will be the general spokesman of the department and will be specifically responding to the committee on the October submission and aspects related to the Canberra based operations of the department. Ms Gordon will respond on Bureau of Meteorology aspects. Mr Allen will respond on Antarctic related aspects. Mr Box here is our technical expert on general procurement and purchasing policy and will assist us in our answers. Mr Tucker will respond on the more recent submission on environmental practice in purchasing and procurement.

**CHAIR**—We have just received your supplementary submission so I have not had a chance to read it. One of the things I thought was interesting was the statement that your Canberra office in 1995-96 had the largest expenditure and in 1997-98 was second out of your three operations. You said that for the Canberra office 97 per cent of suppliers were Australian and 55 per cent were SMEs. Can you tell me how you got the data?

**Mr McKinlay**—Yes, Mr Chairman. We do not maintain management information systems that provide us with regular reports on that data, but we have the data available to us. One of my members of staff sat down and tracked back through the information system and got that data for us.

**Mr BROUGH**—Can we take that one step further?

**CHAIR**—That is what I want to do. So you have information from Canberra, you have some information from the Australian Antarctic Division but nothing from the Bureau of Meteorology.

**Mr McKinlay**—I do not think the Bureau of Meteorology is able to obtain the data because it is defrayed throughout Australia. Again, its information systems are not designed to track that through. I think the Australian Antarctic Division was able to respond on Australian sourced—

**Mr Allen**—On small and medium sized enterprises.

**Mr McKinlay**—Sorry, small and medium sized enterprises, but it has not been able to respond on Australian sourced—

**CHAIR**—But you do not know whether they are Australian.

**Mr Allen**—It was very misleading what the question meant. I think it is quite easy to say that of all the orders that were placed over \$30,000, only one was placed overseas. All the rest were placed within Australia to Australian based companies.

**Mr BROUGH**—That is the point that we need to clarify. You just said ‘Australian based companies’. Do you mean Australian owned companies purchasing Australian made or just somebody that is based in Australia and we do not know where they are sourcing the information from? Can you clarify that for us?

**Mr McKinlay**—The data that we have provided relates to Australian suppliers—suppliers located within Australia operating within Australia.

**Mr BROUGH**—Suppliers located in Australia does not indicate whether they are Australian owned or whether the product that they are supplying is Australian made.

**Mr McKinlay**—That is correct.

**Mr BROUGH**—So it simply means, for argument’s sake, that it is a multinational which is based in Australia or which has a base in Australia. There is no way of your breaking that down further. I find that misleading in that, on the first glance, I see 97 per cent and think that we are doing a fabulous job. That is all coming to Australian companies. Is it possible that you have line items which are being purchased via a computer system into an Australian company which simply is a code number which then goes straight offshore and is produced and they supply it? Do you know that?

**Mr McKinlay**—No, we do not know that. We took the question at face value. Also, it would be very difficult for us to take it to the next step. The more likely scenario is our buying equipment from a supplier down the street and that equipment being sourced from overseas. That is the more likely scenario, I would have thought—for instance, computer equipment.

**Mr BROUGH**—Does that, in your opinion, follow the Commonwealth's procurement guidelines?

**Mr McKinlay**—We believe it does. We certainly source Australian sourced supplies. We believe it does.

**Mr BROUGH**—Thank you.

**CHAIR**—On page 1 of the supplementary submission you commented that the Commonwealth's stated environmental objectives for government purchasing can be considerably improved. Would you like to tell us how?

**Mr Tucker**—You will see from the supplementary submission that, from our feeling and anecdotal evidence, we thought we could do better than what we were doing. So we commissioned a consultant to do an assessment of what actual performance was. That consultant surveyed about 24 Commonwealth agencies and departments to come to a view on what their performance is in this regard and reached the view that there could be considerable improvement. It was based on face to face discussions, and it has been supported essentially by the people in those agencies and departments telling us through a Commonwealth waste reference group how they think they can do more and that they would like a number of things to assist them to do more.

In terms of the way that it could be improved, I would categorise it in three ways—one is commitment, two is capacity and three is accountability. We have a government policy that is very clear in terms of its intention, but in terms of the practices of agencies they can go considerably further to get to that policy commitment. I think the first thing they need is some high level commitment. Environmental issues seem to fall off the end of purchasing decisions rather than being a mainstream issue. If we can get commitment at high levels and agencies to have environmental considerations there, I think that is a very important first step.

The second one I mentioned is capacity. People want to do the right thing but do not seem to have information systems or the expertise to make the right decisions. So they need that capacity to make the decisions. The third one is accountability. At the moment, there is no mechanism whereby decisions are made where they will have to report on whether they have done the right thing environmentally. If there are reporting mechanisms required, people often take those activities far more seriously. They are, in a nutshell, the issues that we could see being improved.

**CHAIR**—A number of submissions that we have received from other parties have stated that apparently there is a big problem with respect to measuring the value for money objective, which is the first objective out of the six objectives in the purchasing policy. There has been more than one comment that, for instance, if a supplier were able to demonstrate—and they were Australian—environmental advantages from their equipment or their process, that seldom was taken into account in the purchasing decision. But rather the chances are that the purchase was simply made for dollars.

**Mr Tucker**—I understand that, Mr Chairman. Our interpretation of value for money is that it should not be just a dollar issue. There are all sorts of aspects of value for money. If you have a piece of equipment that is worth a certain amount and it is only going to last two years, but you have another piece of equipment that is comparable which will cost you 10 per cent more but which will last five years, then obviously people will go for the second piece of equipment. We are not saying that environmental considerations should override value for money aspects. The view is that they should be taken seriously along with other considerations in determining what value for money means and what is the best benefit for the Commonwealth as a whole.

**CHAIR**—The paper manufacturers as a group represent something like 97 per cent of Australia's producers of paper. They state, without quoting, that they are required to meet much higher environmental standards in producing their products in Australia—and they sell over \$3 million of paper a year in the Australian market—than those from other countries that they compete with for domestic consumption. They also state that they have received very poor treatment from the Commonwealth government in terms of purchasing. The Commonwealth agencies tend to purchase a cheaper product from overseas rather than considering the more stringent environmental requirements placed on our manufacturers. Can you comment on that?

**Mr McKinlay**—I think we could comment in two ways. I think what you have mentioned might convey the point that was made in the supplementary submission. As far as our department is concerned, we buy totally recycled paper. That is a standard that we put on our purchasers. As to whether other departments do that, I do not see that they are motivated to.

**Mr Tucker**—Mr McKinlay is right. In some sense, this department is a model of what we would like to see some other departments pick up. In terms of paper manufacturers and their recycled content, much of that is because of the market demand in Australia. As far as I understand, a number of departments do go for recycled content quite specifically. I do not know the details, but I am a little surprised they are saying that in general the Commonwealth does not buy recycled paper because my experience would be to the contrary.

**CHAIR**—I think you have missed the point. I did not say anything about recycled paper. From memory, the paper manufacturers supply something like \$3 billion worth of paper a year into the Australian marketplace. We have a shortfall of \$1.4 billion, roughly, that is made up from overseas suppliers. For paper across the board from the Commonwealth, they say that they are not getting a fair shake because with the imported paper that they are competing with in the production process itself—forget about recycled paper—the overseas competitors are not required to meet the environmental standards that our onshore based companies are.

**Mr Tucker**—I do not have any capacity to answer that question in an informed way, Mr Chairman. I do not know what the arrangements are overseas in terms of their competitors. In the broad, the way I can answer it is that in many respects this country has higher environmental standards than many of our neighbours. Our businesses operate in that environment. That is what the Australian community wants, and they are the standards that

are set. In some cases I can accept that that may affect some of the competitive advantages of some of our companies.

**CHAIR**—Let us get back to value for money. Does the Department of the Environment and Heritage have a view that those higher environmental standards might be taken or should be taken into account when making purchasing decisions with respect of the value for money requirement?

**Mr McKinlay**—No, we do not have a view. The government policy at the moment is that value for money is the principal criteria. We would not contest that policy.

**CHAIR**—Nobody seems to understand what value for money means.

**Mr McKinlay**—I think we have fairly laid out in our own purchasing instructions that value for money does not just rest on price. We have given some guidance as to other aspects that could be taken into account with value for money. Value for money would become difficult in the more complex contracts where there were whole of life considerations—maintenance, durability and the like. But we certainly do give guidance to the department.

**CHAIR**—If Amcor came to you and said, ‘Look, you have a one-year or two-year paper purchasing requirement of a couple of million dollars. We would like to do business.’ You say, ‘Well, you can’t because we have a price from Indonesia which is 10 per cent lower than yours.’ Amcor says, ‘But the environmental considerations that you make us adhere to cause us to have higher production costs by more than 10 per cent.’ Is it reasonable then to give the contract to Amcor on the basis of value for money?

**Mr McKinlay**—We would in that particular case. We buy wholly recycled paper and it is Australian sourced. We place quite a high priority on that.

**Senator HOGG**—I am interested in the value for money issue. What sorts of benchmarks do you use? What can people relate to? In terms of cost, they can relate to a figure. It is a million dollars as opposed to \$950,000. But, when it comes to value for money, what sorts of benchmarks do you have? You can put down a lot of nice words, you can put down a lot of pleasant sounding phrases, but how does your purchasing officer evaluate the issue of value for money versus the issue of cost? The evidence before us is that in spite of value for money being there, the principal thing taken into consideration is cost, cost and cost. It is the lowest cost that wins out all the time rather than value for money. What criteria do you use?

**Mr McKinlay**—Let me use an example of a fairly complex contract, the purchase of a PABX, which is a recent contract. For instance, the purchasing officer got good information on the purchase price, which is important, the longevity of the equipment—that is, year 2000 considerations—the risks to the department in terms of the supplier being able to maintain supply for the estimated useful life of the PABX and the likely maintenance costs over the period of that PABX. He reached a conclusion based on a net present value over the five years. It is all basically converted to dollars in today’s dollar terms in that particular case. That is the sort of guidance that we give to officers who procure—

**Mr BROUGH**—Is that across the board or only on major line items that you are purchasing?

**Mr McKinlay**—That sort of complex study would be on a major purchase because it costs you to make that sort of study. A less rigorous assessment on a cheaper purchase might involve contact with other users of the same product and some comment from those referees, if you like, on how the product has served them.

**Senator HOGG**—I am interested then as to how you would deal with a lesser purchase. I heard what you have said, but are there specific criteria that you give your purchasing officers in ensuring that they are getting value for money?

**Mr McKinlay**—Certainly. If I can read from our guidelines, it might help you. Our guidelines say:

Price alone is not a reliable indicator of value. Best value means the best available outcome when all relevant costs and benefits over the full procurement cycle are considered. You will not necessarily obtain the best available value for money by accepting the lowest priced suitable offer. A well-informed decision in any particular case requires a careful assessment of the functionality of what is needed; a thorough evaluation of what is offered and a supplier's capabilities to provide it; an understanding of all the relevant costs on a whole of life basis; negotiation, where appropriate, to clarify the best offers or to seek improvements so that the best possible outcome is obtained.

The more expensive the contract, the more rigorous we would be in following that. If we are going down the street to buy a pocket diary, obviously no such considerations will be taken into account. On the other hand, for major purchases, such as the PABX, quite a rigorous assessment occurs.

**Senator HOGG**—Do you have a cut-in figure then where the process becomes more rigorous?

**Mr McKinlay**—Yes. Contracts over \$30,000 require an extensive process such as calling of public tenders and the like and an assessment by the department's Procurement Review Board. For contracts of between \$2,000 and \$30,000 we require three written quotes and the criteria will be put in the request for offer on that. For contracts between \$500 and \$2,000 we require three verbal quotes and contracts below \$500 we regard as being just petty cash, if you like.

**Senator HOGG**—So there are no rigorous checks in that lower end then.

**Mr McKinlay**—The lower you get, the less rigorous the check would be.

**Senator HOGG**—I would imagine that it would be in the lower end that you would find many of the small businesses trying to compete to sell their wares to your organisation. Some of those would be arguing that their product might be a little bit more expensive than another product but still might be value for money.

**Mr McKinlay**—Yes.



**Senator HOGG**—Obviously, with a less rigorous testing there, the primary consideration will be cost.

**Mr McKinlay**—Yes. With anything above \$2,000 they have the perfect opportunity to provide that evidence in their written quote. Of course, that will be taken into account by the purchasing officer who might well question other suppliers on the basis of new information received in the quote.

**Senator HOGG**—Would it be fair to say that, in most instances in tenders that you would accept, price plays the predominant role and, in most instances, it would be the lowest price?

**Mr McKinlay**—Not in tenders over \$30,000, which require a rigorous assessment. In my experience, because I am on the department's Procurement Review Board, I would hazard an estimation that 75 per cent of the purchases end up being the one with the lowest price. But, certainly, price is not the sole criterion.

**Senator HOGG**—In that other area that does not require tenders, would you invariably say that it would be the lowest price?

**Mr McKinlay**—I would only be making a very subjective guess at that.

**Mr St CLAIR**—Do you believe that your interpretation of value for money is different from that of other agencies?

**Mr McKinlay**—I would have thought not. 'Value for money' might seem a subjective term but, if you step back and think about it and if you ask somebody from the street to think about what value for money is, I wonder whether the person on the street would say the cheapest product that is available to them. If you were buying a car, I would have thought not.

**Mr St CLAIR**—Who then makes that determination? At what level is that determination of what is value for money for your organisation made?

**Mr McKinlay**—That would be made usually at the Senior Executive Service level where the delegation to approve purchases occurs. It is more rigorously tested beyond that area on contracts of over \$30,000 where that is again assessed by the Senior Executive Service officer involved. It then comes to the Procurement Review Board to make sure that everything has been taken into account.

**Mr St CLAIR**—Is there any interaction at that sort of level over the interpretation of this value for money? Is it a broad spectrum where you decide that your organisation fits there and another organisation fits somewhere else?

**Mr McKinlay**—I do not think we ever consciously make that comparison.

**Mr St CLAIR**—It was only a quick up-take on the recycled paper issue that I was trying to get as to whether you have actually taken an issue and said, ‘All right. We believe as an organisation that our value for money interpretation fits at that point.’

**Mr McKinlay**—I think we have narrowed the definition of value for money in the particular case of paper in that we require recycled paper and will look for value for money in that product. That is probably the interpretation I would wield at that. Beyond that, considerations will be on the general quality of the paper and how it affects—

**Mr St CLAIR**—Or other products.

**Mr McKinlay**—Yes, or other products.

**Mr BROUGH**—What priority do you give purchasing? Any organisation has internal priorities and they are well known by the organisation. What priority does your department give to the whole issue of buying Australian made and of ensuring that the processes are followed, and to that I would like you to go to what training is provided to your purchasing officers and what checks and balances are in place there now? How rigorous are they? How often are they put up?

You mentioned that at \$30,000 it is quite rigorous. Do we know what percentage, through your three separate departments within the department, if you like, are less than \$30,000 and which are more than \$30,000, because obviously you spent \$281 million in 1997-98? For a starter, do we have a breakdown of that? You could then address that other question perhaps across the three and whether there is a difference or whether you have an overarching approach to this within the department.

**Mr McKinlay**—I will answer the last question first. The \$30,000 threshold is, if you like, at the top of a pyramid. So certainly the bulk of our purchases would be less than \$30,000. In relation to the question you have as to how much priority we put on our purchasing practice, we break our purchasing into three areas because the purchasing and the operational needs of the three areas are very different. Each has its own accredited purchasing units, so they have received formal training in the area. In the Canberra based operations of the department, purchase orders come through our accredited purchasing unit and get examined to make sure that there has been fair competition. There is certainly a focus on value for money aspects, but having fully tested the market is a key criterion that they would follow.

**Mr BROUGH**—Just to take that a step further, it seems that you have fairly well developed processes for above \$30,000, but the bulk of your purchases are under \$30,000, and that probably goes back to the internal report that you had done where there needs to be further improvements to your purchasing processes. Could we just have a bit of an understanding of the practicalities of what you are currently doing from the three areas to either improve it or where you see weaknesses which need to be improved upon, because all we are here to do obviously is to identify where we can improve the thing, not to condemn people.

**Mr McKinlay**—We believe that we do it pretty well. It could be viewed as a very thorough process. For over \$30,000 there are additional processes that we throw in because of the significance of the individual purchase and the impact on the department. Below \$30,000 there is still the same criteria applied and still the same thorough checking at the first point. What a contract over \$30,000 will elicit is a bit of double checking of that by an independent source, and that is where the Procurement Review Board fits in. So it is an additional caution that we apply to contracts.

**Mr BROUGH**—To go to the other part of the question, what ongoing training and checks and balances do you put in place to ensure that your purchasing officers are in fact applying your administrative guidelines? Are they done regularly? Are they done ad hoc? What is the situation?

**Mr McKinlay**—Since our purchasing officers actually write the guidelines, they are well across it. They are constantly across it. They talk day to day with line areas of the department. So, in terms of the familiarisation with government rules and regulations on purchasing, the purchasing people in all three units will be very close to and across those guidelines.

**Mr Tucker**—Perhaps I can give you another example. I am actually in a line area; I am not in a purchasing area. My staff, right down to the people who would, say, draw up a consultancy contract for \$15,000, clearly understand that when they are choosing consultants and looking at prices and so on the concept is value for money. These guidelines are out on our bulletin board within the department.

**Mr McKinlay**—And on our Intranet.

**Mr Tucker**—Yes. So every staff member has access to them in any purchasing decision they may make for any service relating to consultancies. When I approve a consultancy service for \$10,000 or \$15,000, it is done on the basis of value for money following those guidelines.

**Mr BROUGH**—This is what we are all trying to get to in relation to this feelgood value for money concept. Suppose I am your purchasing officer. I go out and do this consultancy for \$10,000 and that is the company that I select. Do I then have to give justification as to how it was done? Is that a procedure which you insist upon or is it something which may or may not be done?

**Mr Tucker**—That is a procedure that is required. It has to be justified, and obviously price is one justification. The next one will be whether they are actually going to deliver what we want and how confident are we in that. In their proposal to us of what service they will deliver, did they put in some extra things that we thought were really worthwhile which we will get for, say, a little bit more than somebody else who did the standard for a little bit less? Those justifications and assessments are certainly made in my line area and I suspect in every other line area of the department when making those decisions, right down to, say, some of the lowest staff members involved in those assessments. They know the requirements of them. If they do not, then I will ask them to prepare it before I make a decision.

**Mr BROUGH**—Industry has already pointed out to us that they feel that small business finds that the paperwork is just too arduous in many instances. Firstly, do you agree with that assessment? Secondly, do you think it would be possible and worthwhile to open up the lines of communication between yourself and Industry on an ongoing, say, six-monthly basis to hear directly from them of the problems that their key bodies are experiencing with your department or with any other department to then assist you to further refine your practices?

**Mr McKinlay**—I think your latter point draws to what my answer was going to be. It is difficult for us to make that value assessment of how hard it is for the other side, if you like, to comply with Commonwealth procurement. From our viewpoint, we do not really think it is a great deal of difficulty. I think Commonwealth departments tend to be ultra cautious. For instance, for contracts over \$30,000 we require rigorous tenders which just have to be expensive to put together. If there are 10 organisations tendering, there are nine that will not make it. If you add up the dollars in that, that is quite considerable. I suspect that, of the many tenderers who do not succeed, most would go away and keep trying but others get quite disgruntled by that. I suspect you may well have received feedback from such suppliers.

I think the government is really pushing towards electronic commerce in the hope that that will ease the burden of Commonwealth procurement, especially on small to medium enterprises. We did an interesting cut of us having advertised via the Transigo system over a period of about 11 months. We advertised via Transigo 27 business opportunities and only three offers came in on the basis of that. I think industry needs to improve itself too in taking advantage of this.

**Mr BROUGH**—But doesn't that come back to what I was saying? You are sitting here saying that you put out these 27 and you got three—they were not good enough; they failed. They are complaining from the other end. Somewhere along the line we need to, in a non-confrontational manner, put the two groups together to see how we can make this work better. Is the department supportive of such a move?

**Mr McKinlay**—Certainly.

**Mr St CLAIR**—I want to go back to when you were talking about the issuing of a contract. Supposing it was for consultancy, do you have a reporting mechanism on the end of that contract on the performance of that or is it something that is part of the contract and therefore you will not end up at the end unless it has performed?

**Mr McKinlay**—A typical consultancy contract would have various landmarks through the life of the contract and would have payments aligned with those landmarks. At the end, the final payment, which might typically be a third of the contract price, will be dependent upon the department receiving an acceptable report, which is inevitably what a consultancy ends up in.

**Mr St CLAIR**—Before the contract is issued, obviously the purchasing people would have access to the performance of those that had tendered for the particular contract, whatever it may be. How do you get on with new entrants into that game with small to

medium sized enterprises that have come up either with a new product or part of a new product?

**Mr McKinlay**—I do not think we would really assess on the basis of who has submitted at face value. If a large accounting firm submits, you know full well that it is not the large accounting firm you are employing; it is in fact the people that are going to be put forward. I think we will give an equal assessment right the way through. A lot of cases are of contracted firms that I have never heard of before. Maybe that is my ignorance, but, still, nevertheless, I had never heard of them.

**CHAIR**—To what extent have you used common use contracts?

**Mr McKinlay**—We used to use common use contracts quite extensively. We believe that there were 99 common use contract arrangements when it all came to an end. We typically used 27 of those, or more commonly used 20 of those. So we did tend to use them. But there were lots of common use contracts in all sorts of different aspects of life, for instance, office furniture and the like. We bought off those.

**CHAIR**—To what extent will the demise of common use contracts—or the majority of them, not all of them—make life more difficult or tend to reduce business opportunities for small and medium sized Australian or New Zealand suppliers?

**Mr McKinlay**—We are not the policy runner on that, the Department of Finance and Administration is, but they would believe that their endorsed supplier arrangements would make better opportunities rather than contain them, especially to new entrants.

**CHAIR**—Have you started using those?

**Mr McKinlay**—In relation to endorsed supplier arrangements, I think we just happily transferred from one to the other, if you like.

**CHAIR**—Are endorsed supplier arrangements electronic or paper based?

**Mr McKinlay**—It could be either, I think. We get the endorsed supplier arrangements off the Net, but the actual arrangement between the department and the supplier would be a mix of electronic, but ultimately on paper.

**CHAIR**—Who offers the endorsed supplier? Does that come from DOFA?

**Mr McKinlay**—Yes, DOFA has an endorsed supplier list. They have a web site which invites suppliers to register and provide details to get endorsed supplier status.

**CHAIR**—But you just told us that you put 27 offers out on Transigo and got three responses. To what extent is small business using the Internet to take advantage of these opportunities the government is providing?

**Mr McKinlay**—Obviously, the example I gave shows not very much at the moment, but it is in its infancy in this country. I think it needs the continued momentum. We were not

silly enough to just advertise via Transigo. We also advertise by traditional means through the national newspapers. So we do both. You will get an increasing trend of suppliers taking advantage of the Internet.

**Senator HOGG**—Just so we have a comparison, if you advertised in the traditional media and other sources, what was the response to those 27 in the traditional media?

**Mr McKinlay**—I do not know exactly but, typically, depending on the product or the service you are after, you get somewhere between three and 20 offers.

**CHAIR**—Let us go back in history. I was on the industry, science and technology committee when we conducted the hearings that produced the so-called Bevis report in 1994. Can you tell us to what extent culture within your department has changed since 1994 in terms of purchasing policy with respect to Australianism in buying?

**Mr McKinlay**—I am not so sure that our culture would have changed substantially in terms of Australianism in buying simply because of the nature of the products we buy. The typical overseas product we buy will be a publication that is not available in Australia. That is our standard overseas purchase. I really do not think the Australian source of supply has ever been an issue with our department. In terms of using the Internet et cetera, the department's computer facilities have kept up with the times. We all have access to the Internet. We get lots of our information from the Internet, including purchasing information.

**CHAIR**—Perhaps you have misunderstood the question. One of the most basic things we have found was there was an adverse culture within the government purchasing environment towards Australian manufacturers and suppliers—that is, more often than not somewhere between 30,000 and 40,000 government purchasing officers saw Australian manufacturers and suppliers as being, as in the past, largely unreliable, producing poor quality and not making products up to international standards. Given an equal purchasing price, chances are a purchasing officer would have purchased the overseas product rather than the Australian product and called it better value for money because he would not have trusted Australian manufacturers. Has culture changed within your department since that time or is it still the same?

**Mr McKinlay**—I do not think that culture existed in our department at the time. Our purchases are typically of services, like consultancy services. With those sorts of purchases the Australian supply has a distinct advantage by being on the spot. Obviously you will look for local expertise before you, in despair, go overseas. I do not think that culture exists in our department.

**Mr BROUGH**—There is always the problem that we encounter where three separate departments do not talk to each other necessarily because of their internal purchasing. You have three 'departments' within a department for want of a better term.

**Mr McKinlay**—Yes.

**Mr BROUGH**—What interaction do you have between those three to ensure that you are maximising your purchasing power and that you are not perhaps at cross-purposes at different times?

**Mr McKinlay**—Firstly, we make sure we have consistent guidelines. We need to recognise the very different operational environments in which the three areas exist. Take, for instance, the Antarctic Division. It is located in Hobart. It is contained very much to Tasmanian supplies, and is focused purely on Antarctic operations. The Bureau of Meteorology is an Australia wide organisation and can take wide advantage of around Australia vendor opportunities. It is also in the business of measuring meteorological factors and reporting them and buying the equipment for that. The Canberra based element of the department is really a policy based element that gives advice to government on environment and heritage matters.

**Mr BROUGH**—But there are obviously items that you have in common and all need, whether they be stationery or IT or whatever else. Is there anything done as a coordinated base between the three to look at the fact that you have had reliable supply from company XYZ or that you have had an inappropriate relationship for whatever reason with another company? Is this sort of information shared and are those common line items purchased to get the additional discounts or whatever else that may be available—value for money that we keep coming back to—across the entire department or are they still left up to the three separate segments, in which case we could be losing out?

**Mr McKinlay**—Firstly, on an exception basis, if we were encountering a problem with a particular supplier and needed advice on another supplier there would be some interaction between the three organisations to blast a way through that to see if they had knowledge that would help us. On the basis of taking advantage of best value for money and purchasing power, for instance, we are at the moment examining renewal of our travel contract. We are doing that on a combined basis to maximise our purchasing power. That is an area where we see purchasing power can make a hell of a difference in the price of a service.

**Mr BROUGH**—Do your purchasing officers have some form of accreditation?

**Mr McKinlay**—From the Canberra viewpoint, no, we have a purchasing officer with an offsider. So we have a very small purchasing operation.

**Ms Gordon**—Ours is certainly accredited. They have different levels of accreditation—some just to the simple level and some to the complex level, but they are certainly accredited. If I could go back to the earlier point about the sharing of information across the three elements of the portfolio, we have a finance and administration subcommittee and a program evaluation and audit committee which are both fora within which we can share experience and look at the framework within which we undertake purchasing activity, particularly if there was a problem area. I can think of a recent example where that was shared through the finance and administration subcommittee. So lessons learned or problem areas have an opportunity to be shared there. We also have the commonality of the Financial Management and Accountability Act and our chief executive instructions. So that provides a framework which is overarching for the three elements.

**Mr BROUGH**—How many people would be purchasing in your area, Lesley?

**Ms Gordon**—We have two experts and there are a couple of other people who work within that group on procurement activity who would not be full time. That is in our head office environment. There would be people in our regions as well who undertake procurement activity.

**Mr BROUGH**—Are they accredited?

**Ms Gordon**—Yes.

**Mr BROUGH**—And there is some form of formal training, in other words, to give them accreditation.

**Ms Gordon**—Yes.

**Mr BROUGH**—Is the training they undergo publicly available?

**Ms Gordon**—We would use the training that would be common across a lot of government agencies. That was done through Purchasing Australia. Some other people go and do other courses through the local TAFEs, et cetera.

**CHAIR**—I have a simple question that requires a simple answer: do the three groups within your department utilise the services of the ISOs?

**Ms Gordon**—Yes.

**CHAIR**—Thank you very much. We appreciate it. If you are able to get more numbers from all three of your groups in the future, we would like to know. Data is, indeed, most helpful.



[11.48 a.m.]

**SABIC, Ms Dusanka, Director, Regulation Reform, Department of Employment, Workplace Relations and Small Business**

**TANNAHILL, Ms Lesley, General Manager, Office of Small Business, Department of Employment, Workplace Relations and Small Business**

**VERNEY, Dr Guy, Assistant Secretary, Business Entry Point, Department of Employment, Workplace Relations and Small Business**

**CHAIR**—I welcome representatives from the Office of Small Business. Thank you for coming to talk with us today. Thank you for your submission. Before we start asking you questions, would you like to make a brief opening statement?

**Ms Tannahill**—Yes. The Office of Small Business sits within the Department of Employment, Workplace Relations and Small Business. It provides a policy focus for the whole of government approach to making sure that the impact of government policy is either positive for small business or at least not negative. We see that 80 per cent of businesses in Australia are defined as small business. They are a significant part of the jobs growth generation for the country and for the economy. We see that government purchasing has a major role to play in assisting this sector of the economy to grow and prosper. That is really the basis for our submission.

There is not a lot new since we made the submission, except for movements in the area of Transigo. I brought Dr Guy Verney with me today to talk about electronic commerce, if you are interested in that arena. Dusanka Sabic has been on the Bell task force, which led to the creation of this group and to the work that we have been doing in regulation reform, red tape reduction. She is now running with that area of the Office of Small Business. Hopefully, we will be able to answer any questions you may have.

**CHAIR**—You gave us some very interesting statistics. You said that in 1995-96 Commonwealth departments and agencies sourced 24.4 per cent of their purchases from SMEs, with more than \$1.8 billion of federal purchasing expenditure going to SMEs. In 1996-97 the figures were 33.9 per cent and \$1.595 billion, respectively. Can you tell us how you got those numbers?

**Ms Tannahill**—As I understand it, these were as a result of joint work between the Department of Finance and Administration and our group and we used some consultants to obtain these figures.

**CHAIR**—If you could give us further information, we would be more than appreciative because most of the departments responding are unable to give us information on either the percentage or the number of purchasing dollars to Australian or New Zealand suppliers or the percentage of contracts or business going to small business or SMEs.

**Ms Sabic**—I believe tomorrow you will be speaking to the Department of Finance and Administration. They had primary carriage of this research project and I believe they will be able to discuss with you the methodology that was undertaken and adopted by Dun and Bradstreet and how we got the data and how they managed for the standard error and sampling—those sorts of issues. I think it would be better if they answered those particular questions.

**CHAIR**—So you got the information from DOFA.

**Ms Sabic**—That is right. Our involvement was with finance. We assisted with 50 per cent of the finance and we discussed the methodology and approved the way it was going to be undertaken. Principally, this is DOFA's project and I think it is more appropriate that they answer any of those specific questions.

**CHAIR**—Are you familiar with ISONET?

**Ms Tannahill**—Yes.

**CHAIR**—ISONET, in their submission to us, stated:

Gathering of purchasing statistics by Purchasing Australia, when it existed, produced results which were the subject of much debate. The statistics were drawn largely from Purchasing and Disposal gazettals, and relied on purchasing officers accurately filling out information. Since the demise of the Purchasing and Disposals Gazette, and the advent of electronic commerce through Transigo, no published information has been sighted which gives a breakdown of where Commonwealth purchasing is directed.

**Ms Sabic**—I am aware that there is criticism of the way the data is collected. Dun and Bradstreet have a lot of the business information and the methodology that was used through filtering and matching the entry that was done on the gazette. It was a filtering process. I am not that familiar with the survey methodology that was used. I am sure that DOFA will be able to talk it through and go through those technical aspects of how the data was obtained and the rigour with which the survey was undertaken.

**CHAIR**—We just talked to the Department of the Environment and Heritage. One of the things that is already becoming a concern, I think, for the committee is: as we move to electronic purchasing and as we move to trying to let small businesses and medium sized businesses know that government purchasing is going to be on offer, there has been this age old problem all the way back to identified problems in the so-called Bevis report in 1994: your clients—the small businesses and medium sized businesses in Australia—do not know what government is buying and with dispersal of purchasing responsibility, devolution of responsibility across the departments and however many thousands of purchasing officers, they do not know where to go and where to buy.

Theoretically—and I think you describe it in your paper—they are better served now when items like Transigo are put up to allow the businesses out there to know that business is going to be on offer. Yet Environment said that they put up 27 business offers last year on Transigo and only got three offers. Likewise, the Australian Industry Group told us this morning that a very high percentage of their small and medium sized businesses responded

in a survey that they had no capacity to use the Internet and were not using electronic business management tools at all. Where do we go?

**Ms Tannahill**—It is quite clear that our view is that electronic methods are the means of the future and not the long distant future. I have recently been to New Zealand with Minister Reith to talk to small businesses about the introduction of the GST. One of the points they have made in the 10 years they have had this tax is the way in which it has been a motivator for small and medium enterprises to get on-line for the purposes of efficient business management and ultimately tax returns. We feel that is probably going to be another major motivator here in Australia.

We are entering a period in which small business will come very rapidly more on-line. The latest survey results we have show that around 67 per cent of them are on-line, but the level of sophistication of their usage is pretty low. So there is some education work to be done there as well as encouragement for businesses to come on-line. We think the business entry point provides the single entry point navigator that will allow people to get around this devolved system much more efficiently, and we are right at the development phase of that at the moment.

**Dr Verney**—As you know, the development of the business entry point came out of *More Time for Business* and the concern about the compliance burden that small business had. The solution which we put to the government was that there should be an electronic base system because, as you know, not everybody has access to electronic means. There are ways of communicating with wide ranges of clients, industry sectors, and rural and regional Australia through a system that is electronically based. We chose the Internet largely because it was a way of the future, and it offered a way of communicating and bringing together diverse ranges of information.

We looked at a distributed model because different jurisdictions and different agencies are at different stages of development. Any attempt to impose one solution will not work. Therefore, the approach we have taken is what we call a distributed model, which enables different groups, different jurisdictions, different agencies at different stages of development—the terms of reference we have is whole of governments, not just the Commonwealth—to be advanced.

We have, through our phase 1 process, had a proof of concept. We are taking that further now in what we are developing. For the information of the committee, what is available through that is the revamped Business Information Service that AusIndustry is responsible for, and that has been moved into an Internet framework. A number of transactions are available at the moment. For example, you can register for a tax file number through the business entry point web site. That is centrally available. In the previous discussion with Environment, I heard the question put, ‘What about the endorsed supplier arrangements?’ Through the business entry point, you can link straight to Finance’s endorsed supply registration application for firms.

We had discussions with OGO last Friday in terms of what is the post-Transigo situation. My initial thinking is that in terms of the business entry point it can provide a navigational directional tool to these sorts of transactions in the purchasing world. That is a preliminary

view and it would have to be tested and taken forward. But it certainly provides an opportunity to look at the way in which that can be done. So the business entry point is looking at bringing together information across jurisdictions. If you were a small business person in Adelaide and you wanted to find out about aquaculture in Perth, you could do that from Adelaide. At the same time you could be then migrated across to doing something like a tax file number registration if you wanted to continue with what you were doing in the aquaculture industry. So business entry point is providing a navigational directional service and is linking, as I said, to all levels of government in Australia. We have already linked to that endorsed supplier application which Finance runs for Transigo.

**CHAIR**—We talk about small and medium sized business and we talk about government purchasing. The purpose of this inquiry is to see what government is doing after the 1994 report to maximise the opportunity for Australian small and medium sized business. I would assume that the Office of Small Business would absolutely be on board with those aims and objectives. Have you any mechanism for calculating the percentages of small and medium sized businesses that potentially could supply to government?

**Ms Tannahill**—We would need to take that one on notice.

**CHAIR**—Do you understand what I am asking?

**Ms Tannahill**—Absolutely, I do.

**CHAIR**—If 80 per cent of Australian small businesses could do business with the federal government, that is one issue. If it were only three per cent, that is a different issue. We doubt whether the corner milk bar or the local vegie shop—the fruitologist—has much interest in supplying to federal agencies.

**Ms Tannahill**—There is a high percentage of the small business community that is defined as micro business, which is fewer than five employees. A great many of those are in the small office, home office environment doing consultancy type service work. We have made the point in our submission that we think there are a great many of those kinds of people, especially those in the knowledge industries, who have a very large capacity to make a good contribution to government purchasing, even as partners or subcontractors to larger projects. We think that they supply, by their very nature, flexibility, innovation and responsiveness. And, as somebody made the point earlier, they are on site. So we think it is more than just an individual, very small business being able to take on a large contract. There are more ways to involve small business in government purchasing. So we think the capacity of small business would be quite high, in that sense, to be able to be involved.

**Senator HOGG**—On that point, you are confining that mainly to consultancy work. That does not really hold true in other areas of commerce, does it?

**Ms Tannahill**—How do you mean?

**Senator HOGG**—It might hold for the consultant, for the small manufacturers, but there are no small suppliers of, say, other things that are used—furniture and so on. You are dealing there with major manufacturers or major suppliers of desks, or whatever else it might

be. I am just trying to get some sort of picture as to what we are talking about when we are talking about small business in Australia and making the opportunity for small business. We are not talking about the small furniture shop in a suburb in Kew or a suburb in Brisbane or something like that. We are talking about a major supplier. Is that correct? And can you quantify it? That is the sort of thing we would need to know.

**Ms Tannahill**—We do have data that breaks down the small business community, and we can supply that to you if you would find that useful. The Office of Small Business, in conjunction with the Australian Bureau of Statistics, conducts what we refer to as the business longitudinal study. That is a five-year study. We are about two years into that at the moment, but we already have some good data out of it about the nature of small business. You may find that kind of information useful. It is our understanding that the small retailer, the sort of person that you are referring to, makes up a smaller percentage of that community than you would expect. There still is a very large percentage of the small business community that has the capacity to apply for part or all of government contracts. Really what we are saying is that we want a system that will allow them to make that decision for themselves, to make their own judgments about that and to have access to the information.

**Mr BROUGH**—I recently had a bit of work done in my office, a couple of walls put up. What would be required by a small business—the local carpenter or whatever it happens to be—in order to gain part of that contract? We are probably talking about something in the vicinity of \$5,000 or \$10,000—a couple of walls and a couple of shelves. How easy is it for the mum and dad and one apprentice to apply for that and receive that work? Are you getting feedback that they are saying, ‘This is all too hard,’ so it goes to the capital city company which might have 50 or 70 or 80 employees?

**Ms Tannahill**—The sort of feedback that we get is around things like the lead time; they need lead time to put the work in on a tender. They need it not to be costly for them. So if the terms of the tender are very complex and they are required to employ a consultant to advise them on how to respond—

**Mr BROUGH**—That is what I am getting to. I need some information on that. Are you receiving feedback that those very small contracts, which could very much go to the local provider—whatever it happens to be—are too hard for them?

**Ms Tannahill**—Yes, we are. We are also receiving feedback that it is very hard for them to know where to go to get the information, how to get it and that the costs of compliance are high. This is anecdotal and it also comes from places like the industry bodies, ACCI, the Small Business Forum, the sorts of places where we meet and network with industry and the small business sector. The sort of stuff we are getting is from survey work that they do and it is also anecdotal.

**Mr BROUGH**—Is this a role that you can play? Say there are 20 contracts on these small scales that I am referring to and they all go to a substantial medium to larger business as opposed to a smaller one. Is there a role there for your office to pull those out and look at them and ask why they have failed and how this system can be improved? How can we direct the various departments—DOFA, for argument’s sake—to streamline their purchasing,

in this particular area, to encourage genuine small business, micro business, to have a role to play?

**Ms Tannahill**—Yes, I do, and I think that is already happening. The OSB has already had a large involvement with the Department of Finance over how this can happen. Some of the things that came out of the Bell report *More time for business* have already been fixed as a result of that kind of consultative work that we are doing. We think there is more to be done and we will continue to do that. But you are right—we would not have the capacity to set ourselves up as brokers in any sense.

We think we can build the business entry point system so it provides that maximum, easy entry point for small business and navigates them quickly. If you go into the business entry point and log yourself on as a business, you can actually tailor the rest of your navigation through the system to your specific interest. So you can log yourself on as a South Australian fisheries person and the system will search only for things that are relevant to you. So we think that kind of navigational capacity will help greatly in this once businesses are substantially on-line and for those who are on-line already. On the other hand, Ms Sabic's team works closely with Finance and are always monitoring this sort of environment to see where specific examples can be thrown up as models, if you like, and multiplier effects.

**Mr BROUGH**—Does your office do its own purchasing?

**Ms Tannahill**—It is done through our wider department, the Department of Employment, Workplace Relations and Small Business, and I would have to tell you that I am not well informed on that.

**Mr St CLAIR**—What is the definition of small business?

**Ms Tannahill**—That is a really good question, an exceptionally good question. In our paper we have actually attempted to describe what we are defining as 'small business' within the confines of this comment. It is around the Australian Bureau of Statistics definition. Simplistically, we say that it is businesses with fewer than 20 employees, also being non-agricultural. There are some other factors. They are generally typically owner operated or the owner has a very strong role in the business. There are some factors around turnovers of less than \$10 million. That is a generic sort of description that we work with. But there are a number of other things the industry people work on, a range of categories that are much more defined than that, for varying purpose grants and things like that. For instance, the unfair dismissals legislation has its definition as being a business with fewer than 15 employees. There are some reasons for that as well. But generally the ABS definition is the one that we work with.

**Mr St CLAIR**—And that is under 20?

**Ms Tannahill**—That is right, and micro business we define as having under five employees.

**Mr St CLAIR**—What is the classification of under 100?

**Ms Tannahill**—That was a classification for manufacturing industries. It was attempting to say that in a manufacturing industry ‘small’ is different and that under 100 could still be considered as being small. Our view would be that 20 is fine for manufacturing too.

**Ms Sabic**—The government’s focus has been on small to medium sized enterprises and that may cause confusion in some of that data that you were referring to earlier, because it has not been disaggregated. We are looking at small to medium sized enterprises which, under the definition that was being used, was a business with under 200 employees. So it would assist if there were a greater focus on the smaller end of town—the 20 and under five.

**Mr St CLAIR**—Absolutely, because every time I ask the question I get a different answer. It becomes very difficult.

**Ms Tannahill**—It is difficult. Our focus in the Office of Small Business is to work towards more standard definitions in these arenas and clearer and more whole of government understandings of the small business sector. It will take time.

**Mr St CLAIR**—It certainly helps small business in interacting back to the departments when they feel as though they have got some ownership of the fact that they are small businesses, in other words, having under 20 employees.

**CHAIR**—On page 4 of your submission you comment that:

. . . there is scope for Commonwealth departments and agencies to focus more on harnessing Government purchasing to drive Australian industry development.

How do you rate the performance of government departments in managing their industry development responsibilities now? Should I ask whether or not you want to be frank?

**Ms Tannahill**—We think it could be better. We would encourage them to pay attention to that factor in smaller contracts, contracts under the \$10 million, which is currently the cut-off line. So we would like them to be looking at a wider range of contracts in light of the industry development capacity.

**CHAIR**—Would you like to tell us privately those departments we ought to be questioning with some intensity?

**Ms Tannahill**—I am not sure that would be appropriate.

**Mr BROUGH**—To put it another way, have you done an analysis of the various departments?

**Ms Tannahill**—In terms of government purchasing?

**Mr BROUGH**—Yes.

**Ms Tannahill**—To my knowledge, no. You would appreciate that the Office of Small Business has not been around all that long. Our prime focus has been around regulatory performance. We have actually played an extremely hands-on interventionist role in the area of reducing red tape. We have introduced regulatory performance indicators, annual regulatory plans, regulatory impact statements, and we can tell you who is performing well and who is not. There has been a Productivity Commission report on that as well. Just prior to Christmas they reported for the first time. This year for the first time there will be time boxes on all documents that go out from government departments to small business for them to respond how they found that process and how much time it took and cost to comply.

**Mr BROUGH**—Who did you say we can check with to see whether those departments performed?

**Ms Tannahill**—The Productivity Commission reports on that. They report on the compliance with regulatory impact statements, as part of our overall plan for improving the regulatory performance of government departments. So in answer to your question, we are not ducking the question of being hands-on and interventionist in this area. It is just that with limited resources we focused our effort in the last year on that arena, because it is the one that small business is identifying as being the most important to them by a country mile. But we see this arena, government purchasing, as being another regulatory arena that we can have some influence in, where we can hope to influence government departments.

**Mr BROUGH**—This has not been a big focus for you up until now?

**Ms Tannahill**—We have monitored it very carefully and very closely. We have worked with the Department of Finance and we will continue to do that. But we see good progress. We see things happening. We see that a lot more needs to be done. We do have to be very careful, given our limited resources, with what we can achieve and what we can target.

**Mr BROUGH**—What do you achieve? You monitor it and you see that there is a need. Where do you take it from there?

**Ms Tannahill**—The example that I give you is the regulatory performance program where we have actually run, for instance, regulatory performance indicator workshops. We have run a great many of those for all government departments that have a significant regulatory role. We did that all through the second half of last year. We walk them through why the small business sector is so important to the economy as a job creation instrument, why what they do in regulatory work has such a large impact on small business and can affect them so negatively, and how they can go about changing their culture and their environment. You talked about the culture of the agencies; I think that is very important. We walk through the logistics of how they can physically go about that.

A good example is that an agency like ANSFA will tell us that they consult with small business. We ask them to define ‘consult’ and they say, ‘A white paper to ACCI with a two week response time.’ They do not deliberately mean not to consult with small business, and they think they are consulting. Our work has been around helping them to understand what real consultation means for small business and how they can do that.



**Mr GRIFFIN**—How do you decide who you actually do those workshops with?

**Ms Tannahill**—We invite all agencies. We tell all agencies that we believe they all should be involved and we invite them to attend. At this stage, by doing that, we have had more than we can cope with in terms of response. So we are very encouraged by the response. What I am really saying is that the agencies do not mean to do it wrong. They quite often do not know how to do it right because they do not understand the sector well enough.

**Mr GRIFFIN**—My concern is that, if there are particular agencies that are worse for cultural or organisational reasons, are they the ones that are coming to these sorts of things?

**Ms Tannahill**—Yes, I think so. We have had some agencies that we would think were fairly poor performers come along and show a positive response to changing, yes.

**Mr GRIFFIN**—You mentioned that the Productivity Commission released a report on how well agencies are going on the question of the regulatory issues.

**Ms Tannahill**—Yes.

**Mr GRIFFIN**—To follow up from Mr Brough's question from there, let's say a particular agency has not done well in terms of a review on the question of the regulatory issues. When that is brought to notice through the Productivity Commission report, is there any action that then goes on from that in terms of what they should be doing?

**Ms Tannahill**—Yes, my group would certainly target that and go in there and have a talk with them.

**Mr GRIFFIN**—So you would pick up from the Productivity Commission?

**Ms Tannahill**—Absolutely, we do. In relation to which departments, the SME survey that was done by DOFA in consultation with us did actually aggregate to individual departments, so you might like to ask them about that tomorrow.

**Mr GRIFFIN**—On from that, I know it is probably only anecdotal from your point of view, because you have not had a chance to put the resources into the government purchasing aspect of looking at the departments, but on an anecdotal basis, would you say that those who have problems with the regulatory issues are also those who are most likely to have problems around the question of government purchasing? Or is that a bit of a long bow?

**Ms Sabic**—I agree that there is probably a correlation, because it stems back to the nature of regulatory agencies and their lack of focus on the need to create a small business friendly environment. This is where the Office of Small Business will be directing some of its efforts over the next two years. It is about getting them to focus on streamlining their operations so that they recognise the commercial operating environment of small business.

**Mr GRIFFIN**—Could you get to us a copy of the Productivity Commission report which rates the performance of agencies on the regulatory issue?

**Ms Tannahill**—Yes. As a matter of interest, the performance of government agencies in terms of regulatory impact statements has improved from 11 per cent to 91 per cent compliance in one year. We think that that is a pretty good indicator of their willingness to change.

**Mr BROUGH**—In relation to Australian made products—you may have heard this when you were sitting in here—we heard that 97 per cent of the purchases of the Department of the Environment and Heritage last year were from Australian based companies. When we dug a bit deeper to find out whether the products were sourced from Australia or were Australian made—all that sort of thing—there was no information available. That would impact very dramatically on Australian small and medium businesses. It does not matter where they are based because if the product is coming from overseas it has very little benefit. Is that something you have found in your discussions with the various bodies and groups so far? Is that an area that needs to be highlighted?

**Ms Tannahill**—It is not something that we are focused on. It is a good point and worth having a look at.

**Mr BROUGH**—It would impact very dramatically upon small business. Obviously, they are the Australian owners and manufacturers, et cetera. I saw this as a big hole in which things could be driven through, even while we are fulfilling the requirements. Is purchasing an important element within departments, from what you have seen? Is the whole element of purchasing taken seriously?

**Ms Tannahill**—It would depend on what department you were looking at.

**Mr BROUGH**—Do you think it varies quite dramatically?

**Ms Tannahill**—Very much so, yes.

**Mr Verney**—In Defence, purchasing is a very big issue because of the range of items involved. It ranges from submarines to rope for boats, for example. So Defence has a large focus on procurement. There is a range of arrangements for the nature of activities that organisations undertake in that area.

**Ms Tannahill**—It is very much a matter of education and cultural change. For example, because my group sits within a much larger department, we are forever harassing our own department. We say, 'We stand for this. We are out there pontificating about this matter. What's your performance in this arena?' They get a hard time from us all the time. Even our department is sometimes surprised and really has not thought about the impact that it might have on small business.

**Mr GRIFFIN**—They are prepared to change, though, are they not?

**Ms Tannahill**—Yes. That is what we are finding.

**Mr St CLAIR**—How do you find your relationship with small business?

**Ms Tannahill**—Extremely positive. They are very pleased, for instance, to have a cabinet minister for small business; they tell us that consistently. They have access to him through us, so they are able to put their points of view and give us the information that we need very easily by having us there. We manage to rove around all the government departments. We are focusing heavily on the relationship between small business and the finance areas. That includes tax, particularly this year with the introduction of the tax reform agenda. My office actually supports the Small Business Tax Advisory Committee. It provides a secretariat for that. We also support and manage the Small Business Forum, and we will manage the Small Business Ministerial Council, which was an election commitment last year. We have a very close industry liaison role with the small business sector.

**Mr St CLAIR**—Do you see that helping small business to overcome the feeling of awe or fear in dealing with the large government departments? In other words, small business may feel a bit more confident about coming up with contracts?

**Ms Tannahill**—Yes. I am absolutely certain. We were in New Zealand only last week and spoke with small business sector industry leaders and government officials in the area of inland revenue about tax administration there. The Small Business Tax Committee was referring to the Australian government excluding my office. They obviously have this view that the Office of Small Business is almost an advocate. We do not promote that role. We see ourselves as some kind of channel, if you like. We move around the government departments encouraging them to see the impact for small business on what they do rather than do things for small business ourselves. It is more that we like to wake up government generally about what it is they are doing that is creating an impact.

**Mr St CLAIR**—Is there any way you can measure the outcome at the end of the day? Do you have anything in place to do that? Is it just anecdotal?

**Ms Tannahill**—We can.

**Ms Sabic**—We will be able to measure some of the impact we have had over the last two years through the introduction of regulatory performance indicators. At the end of this financial year—this is the first reporting year—by October, we will be able to analyse the data of regulatory agencies and how they have delivered six key objectives in improving the regulatory environment for small business.

**Ms Tannahill**—We have other measures. We were able to reduce the amount of survey work that went out to small businesses by 30 per cent through the Australian Bureau of Statistics in one year. We created a statistical clearing house to enable that to happen. That came out of *More time for business*. That is a fairly dramatic quantitative measure of the effect we can have. We also monitor the health of the small business sector, but we cannot be held solely responsible for it. We like to think we play a role in it.

**CHAIR**—In advising us that you recommend an increase in the targets for Commonwealth government departments from 10 per cent to up to 20 per cent for small and

medium enterprises, are you satisfied that the qualitative work that went into that will not, in effect, undermine effective competition? Or is that just off the top of the head?

**Ms Tannahill**—No. It is part of this work that has been done with Finance. I do not feel qualified to comment in detail on it at this point. I would have to take it on notice and give you some details.

**CHAIR**—Could you get back to us. You have made some important recommendations in your submission. We will look closely at them. We would like to know the extent to which this is judgment based or anecdotal based or whatever.

**Ms Tannahill**—It is not a figure from thin air. It is clear that you need some more information on it.

**Senator HOGG**—How many would be reaching the current policy of 10 per cent?

**CHAIR**—They say 38 per cent now.

**Ms Tannahill**—It all goes to the issue of how you define a small business. That makes it extremely difficult.

**CHAIR**—It all goes back to the data.

**Ms Tannahill**—We are essentially saying that the performance is not bad. The government could actually afford to set higher targets without doing too much more work to meet them.

**CHAIR**—In the 1994 report, if I remember,—I will get the numbers wrong—I think the United States government said at the time that something like 90 per cent of US government purchasing went to United States companies while more like 94 or 95 per cent of Japanese government purchasing went to Japanese companies. We reckon that in Australia it was down way below 20 per cent. That is the closest handle we could get on it. It is appalling.

**Ms Tannahill**—We recommend in this report that it could go a lot higher. It would be a matter for consideration, certainly.

**CHAIR**—One thing we heard in that inquiry—a number of submissions we have this time also make reference to it—is that for a company that wishes to export, particularly in an area involving government contracts, in order to be able to get an export contract or get on a tender list overseas, they need to have had experience with the Australian government first. To what extent do you agree with that attitude? What, if anything, is your office doing to try to promote amongst the departments the need for them to give an opportunity to new and emerging small and medium sized businesses so they can have export opportunities?

**Ms Tannahill**—Across the board our campaign is to think small first. Our line with a whole range of initiatives with government is that if you design something where one size fits all, it is not going to work for small business. If you target something at small business, the likelihood is that it will work for most people. If you go for a standard solution to

something, look at something that will work for small businesses first and you will have a much better solution to it. That is the message.

**CHAIR**—I am asking something slightly different. Most people will tell you that they cannot get on a tender list in Indonesia, Malaysia or Thailand if they cannot get the first contract with the Australian government.

**Ms Tannahill**—That is right. We agree that that is an anomaly.

**Mr BROUGH**—Is there anything in particular you could recommend as the highest priority on which to build the relationship between small business and the purchasing element of the various departments?

**Ms Tannahill**—If you gave me one shot at it, I would say that this is the answer. The business entry point process is the answer, absolutely. It has the greatest single capacity to move this issue forward quickly.

**Mr BROUGH**—Are the departments fully aware of its significance and how they can play a role in it? Forget the small business side of it, because obviously if you do not have them in the first place you have nothing. How well aware are the departments of playing their role?

**Ms Tannahill**—One of the key unique qualities of this project is the highly consultative framework in which it has been developed. We have a Commonwealth agencies consultative group. It is a very high level group across the major agencies, including the Treasury agencies, which are our direct partners in this project. It meets regularly around the policy for the development of the BEP. It encourages agencies to come on board with it. Recently, the BEP team developed a series of how-to guides and a strategy for bringing more agencies on board very quickly at the same time as they develop their E-payments and transaction capacities. So we are moving very fast this year into those transaction capacities and we are bringing those agencies along with us in a very consultative way. At the very highest levels we have a lot of support. We are feeling very positive about it.

**CHAIR**—Thank you very much for coming to talk to us. Thank you for your submission. We look forward to receiving any further information that you can give us.

**Ms Tannahill**—Thank you.

**Sitting suspended from 12.31 p.m. to 1.33 p.m.**

**McLACHLAN, Mr David John, Chairman, ISONET Ltd**

**NEIL, Mr Christopher Henry, Executive Director, ISONET Ltd**

**CHAIR**—I now welcome representatives of ISONET to today's hearing. Thank you very much for coming and for your submission. Would you like to make a brief opening statement before we ask you questions about what you have told us?

**Mr McLachlan**—Thank you for the opportunity to come and expand on some of the matters that we raised in this submission to you. You will recall that the submission came in in August 1998 and the circumstances, as we understand them working as a facilitator in this area, remain very much the same. So the points that we made in August 1998 are as valid today as they were when they were made.

The points that I would like to iterate are the background of ISONET Limited and the involvement that we have had for some period of time now in government procurement as a facilitator. The information related to the Commonwealth purchasing as a driver of industry development and the effect that that has on the economy for every million dollars spent has been validated quite recently, and is still very valid.

The other point we would like to make is that as a facilitator we have very little difficulty with the policy of government in terms of its procurement, but we do have some difficulty in looking at the implementation and the way in which that policy is being achieved.

Finally, in the last part of the paper, we believe that there needs to be a completion of the monitoring loop in some way or another to ensure that what is being supposedly enunciated as government policy is in fact being achieved in the procurement process of government.

**CHAIR**—Thank you for that. In your submission you said:

Since its formation, ISONET has been instrumental in promoting and fostering a more cohesive ISO network, with the ability to provide a national response to enquiries about ANZ industry capability.

Can you give us some idea of how many inquiries you have had?

**Mr McLachlan**—In terms of actual numbers of inquiries, I cannot give you that figure straight off the top of my head. I could achieve that for you, but we have now established a comprehensive national industry database which is electronically linked. If you recall from your days of the Bevis report, that was nowhere near on the horizon in those days, but it is now very effective.

We have given some figures about major project activities in the number of inquiries that have come forward for those types of activities, but those figures are not including the figures that come as a matter of course in each of the state jurisdictions to the individual ISOs, but I could achieve that for you.

**CHAIR**—You said in your submission:

It is interesting to note that since the ISO commenced operations in 1984, the organisation has facilitated over \$2.1 billion worth of contracts being redirected to Australian industry for goods and services that would otherwise have been imported.

**Mr McLachlan**—Correct.

**CHAIR**—I do not want to be a sceptic, but I recall that when the committee visited one or more state ISOs in Queensland, an example of what good work they had done was a tender requirement from the Department of Defence—I think it was Army, actually—for boots. They showed us with great delight on the screen how the ISO had done such a fantastic job of making sure that an Australian company got the contract to supply the boots for the Army. However, the company happened to be a company that always supplied boots to the Army.

While I appreciate the effectiveness of the industrial supply offices and their engineering base, and I absolutely compliment that and support it highly, I do wonder sometimes about the data. The 1994 inquiry by the Standing Committee on Industry, Science and Technology had huge problems trying to get any data. We still have problems trying to get data on how many billions of dollars that government spends actually goes to Australian companies, how many go to small and medium sized businesses and how many go to Australian and New Zealand companies. I wonder about your \$2.1 billion worth of contracts that would have otherwise gone to overseas industries.

**Mr Neil**—We have the same frustrations about getting data. I do not know the case you are talking about of the boots. The only suggestion I could offer is that if the ISO was putting it up as a success, it may have been that the Army was casting its eyes perhaps overseas for supply from an existing contract that they had. Maybe the contract was coming to an end and they may have been casting their supply base broader. If the ISO was claiming it as a success, it was the ISO that convinced the Army to stay with the Australian supplier that they had before. The ISO works not only to create jobs, but to save jobs where current contracts may be coming to an end and people are looking offshore for potential supply.

The only comment I can make about the validity of the ISO data is that each of the ISOs are independently managed and they are all under continual review. There is a review process going on with an ISO about once every 7 months. Each of the states—because there is state government funding for the state ISOs—require an audited review process at the end of each of the contract periods, which is varying from three to five years. Those audit review processes look at the performance figures that the ISOs do offer up as their results and, if the state governments accept them, then I suggest they are probably valid.

**Mr McLachlan**—Could I just finish off on that, Mr Chairman? Since the Bevis report and the introduction of ISONET and—you will recall, under the previous administration—the SASP Program, there has been pretty clear criteria given to the ISOs as to how they can record and claim a win with regard to Australian industry. That has been rolling through now since 1995. Whilst you asked that question with regard to boots, the figures that we now get are much more robust in terms of the way in which they are claimed for the actual wins. They are not only claimed for the individual ISO but also attributed to the various states in

Australia that participate in it so—while Queensland might get the contract—if the work is also coming out of Victoria that is also clearly identified.

**CHAIR**—One of the dot points on page 2 of ISONET's submission says:

The Chairman of ISONET was a member of the National Procurement Board through its period of operation.

Would you like to tell us about the effectiveness or otherwise of the National Procurement Board?

**Mr McLachlan**—I think the National Procurement Board was a very effective body. It had a lot of teething difficulties. Then it had a period of time where the secretariat changed for personnel reasons and it lost some of its momentum. Then, of course, the structure of its government department—Administrative Services—disappeared and it went across into DOFA.

I think the National Procurement Board was in a position to provide advice to government ministers that it was responsible to—and also to the departments—in an independent way, bringing in both a combination of public service advice and, more importantly, the industry advice. It also provided an opportunity for the operators of small to medium enterprises around this nation—through a series of forums that we conducted—to get up on the floor and convey their thoughts and their impressions and their difficulties to a government minister; namely, the Hon. David Jull at that time.

It was amazing the way in which many of the policies that were coming forward in the *Commonwealth Procurement Guidelines* were altered to reflect some of the input from those SMEs. I have never seen any other forum that gave that opportunity for SMEs to be able to speak directly to a government minister in the way in which that occurred. It also took out the filtering process that goes on, in many cases, when industry associations are representing a particular element of an industry sector to go to the government. So, in many ways, I think the National Procurement Board provided a very good function.

It asked a lot of embarrassing questions from time to time and it was also instrumental in getting government departments, through Purchasing Australia as it was then, to broaden its approach to various matters related to government procurement. It provided the catalyst for change in the doomed Transigo, the electronic commerce, to go to whole of government. It provided forums for SMEs to air their advice. It also provided an opportunity for independent advice to be provided on World Trade Organisation developments. It did a lot in facilitating the relationships between the states and the Commonwealth jurisdictions over procurement and coming towards the formation of a common contract, particularly for common services and so on. I think it was effective.

**CHAIR**—Since the demise of Purchasing Australia and the further devolution of purchasing responsibilities to the individual departments and agencies, is your role now diminished with the demise of that centralisation of some of the functions?

**Mr McLachlan**—No, because we have become broader in what we are required to do in the facilitation of major projects and that comes under the SAMP program—the Supplier



Access to Major Projects Program. We have been very much involved in coordinating the activities of that program, as has been stated in our submission here. I think that we have got a much broader role than initially intended coming out of the Bevis report.

**CHAIR**—So you think your role is enhanced?

**Mr McLachlan**—Most certainly.

**CHAIR**—Across the whole range of Commonwealth instrumentalities, as a percentage of government purchasing expenditure, are we altogether doing better than we were in 1993-94?

**Mr McLachlan**—I cannot answer that question for you. I would suggest that, with the exception of the Department of Defence, the level of inquiries coming into the ISO from other government departments has fallen off. We do not have that relationship now, that we were having when we established the MOUs with government departments, for them to use the services of the ISO to find ANZ capability in this country. The Department of Defence have certainly gone down that path. They have put a lot of effort into training and the facilitation of that themselves, to their benefit. We do not see the same coming out of the other government departments.

**CHAIR**—What are you trying to do about that?

**Mr McLachlan**—We continue to talk with the procurement areas of those other government departments, particularly where we had MOUs previously, and that represents about 85 per cent of the major expenditure in government areas—with the agencies that we had those responsibilities with. We continually talk to them through our operator here in Canberra, but we do not get a lot—following the inquiry.

**Mr Neil**—We cannot force government departments to use the ISO.

**Mr GRIFFIN**—We understand that.

**Mr Neil**—We can only try and advise them of the benefits, not only to themselves but also in implementing government policy of using the ISO network to assist them in their purchasing practices. Unfortunately, the emphasis that they are applying to their own practices these days tends to be more towards the efficiency of procurement rather than the effectiveness of procurement, because we do not have the staff on the ground any more to go and knock on their doors continually and they do not come and knock on ours.

**CHAIR**—You obviously believe in your effectiveness. In constructing our report and recommendations, what would you like us to suggest to enhance your role and get the other departments, beyond Defence, to use your facilities?

**Mr McLachlan**—We would certainly welcome that opportunity to be able to—

**CHAIR**—But what would you have us recommend? What practical recommendation do you think would enhance your role?

**Mr McLachlan**—That government departments be encouraged—I do not want the word ‘require’ in there; though you can put ‘require’ if you want to—to use the services of the ISO to maximise the value of their purchasing decisions.

**CHAIR**—We might write that, ‘All departments really ought to buy mother’s bread,’ but what sort of mechanism would you envisage would be necessary to give you more clout?

**Mr Neil**—To give us more clout or to give better clout to government policy?

**CHAIR**—Yes.

**Mr Neil**—We are only an instrument of government policy. We are only a body that facilitates the activities that go on as a result of government policy. To give more clout to the policy, we believe a monitoring body of some description should be reintroduced to watch what is happening with policy; to improve the training of purchasing authorities and people, so that when they are performing their activity, they are not performing it with a very narrow, lowest price purchasing, latest colourful brochure approach towards purchasing but, because they are using government funds—Commonwealth taxpayers’ funds—that they are, in fact, having a broader view of the use of those funds. ISONET and the ISO network is simply one of the agencies that can assist them. It is a tool that can be used by them to ensure that they are maximising the effectiveness of that purchasing.

**Mr GRIFFIN**—Have you got any statistics or information which points to the changes that have resulted from the end of the NPB in March 1998 through to now, or is it just too early?

**Mr Neil**—The only statistics that we can offer are the statistics that we saw from our Support for Australian Suppliers Program. That was a program funded by the Commonwealth that provided ten staff into the offices of the ISO specifically to work on Commonwealth procurement activities. The numbers are in the paper. I think it was research on about \$1.3 billion worth of goods. I have not got the figures right in front of me on the page, but we did report in the paper the results that we were able to achieve from that Support for Australian Suppliers Program.

With the change of government, that program was stopped. Because we do not have the staff on the ground, knocking on the doors, continually reinforcing the benefits that can come to both buyer and supplier from looking for the opportunities locally, the inquiries dried up. The number of inquiries we get is the only measure we have for what has happened with the change of policy.

**Mr GRIFFIN**—And you see that as being a direct result of the National Procurement Board going?

**Mr McLachlan**—No, we see that as a direct result of the SASP—

**Mr Neil**—But that all happened at about the same time, with the same change in approach.

**Mr GRIFFIN**—Okay. But, other than that, you have not got anything other than the anecdotal stuff which relates to the National Procurement Board as such.

**Mr Neil**—That is correct, because we just cannot find out where to find the figures.

**Mr GRIFFIN**—But, having had an independent monitoring body, are you convinced that there is a direct link between now not having an independent monitoring body and the situation where inquiries are in fact drying up?

**Mr McLachlan**—There is a body which still exists—the APCC—which was, supposedly, to take over some of the ongoing responsibilities of the National Procurement Board. But it is a body which is more related to the relationship between the Commonwealth and the state jurisdictions in terms of purchasing, and it has no industry representation on it. I think that the strength of the National Procurement Board was that it had representation from industry that could every so often put their hand up and say, ‘Hey, this might be good for government, but it is no good for industry,’ or ‘This might be better if you did it in this particular way.’ It gave moderation to the whole approach.

**Mr BROUGH**—You are really saying that when you had a watchdog—for want of a better term—overseeing it, the departments felt compelled to do something positive. Is that correct?

**Mr McLachlan**—Yes. They had to report if they went outside particular criteria.

**Mr BROUGH**—So once you took away the need, the force, the requirement for them to do something, they ceased to do it. Therefore, it was not a carrot; it was a stick. You are saying that the departments, the nation, the government and the economy all benefited from using your services, therefore gaining a greater access to the Australian market. If the departments were also going to be beneficiaries because they were going to have greater lines of communication, better back-up services and all the rest of it, why then have they ceased to continue down that line? Have they maintained the contracts and those contacts that were built up during that period or have they also disappeared?

**Mr McLachlan**—As to the first part of the question, only the departments can answer as to why they do not do it.

**Mr BROUGH**—You must have an opinion, though.

**Mr McLachlan**—I have a feeling that, in terms of the outcome of the whole thing, the effectiveness of their procurement is not as important as the efficiency of it. They do not seem to be focused as much on what they are getting for their dollar as on achieving the dollar and getting the item.

**Mr BROUGH**—So, as long as they can get it quickly and reasonably efficiently, the fact that it is not as effective and it is not going to last as long is not as important to them.

**Mr McLachlan**—It would not always seem to be the case.

**Mr BROUGH**—Therefore, the value for money—

**Mr McLachlan**—is perhaps not being adhered to in the way in which the guidelines ask it to be adhered to. But there is nobody who can tell us that these days because there is nobody looking at that, and that comes back to the monitoring side.

**Mr BROUGH**—What about the second part of the question, which relates to the growth, stagnation or whatever of the contracts that they signed as a result of the work that you did? Are you aware of whether they have been maintained?

**Mr McLachlan**—I am not aware.

**Mr Neil**—There is a significant staff turnover within the Public Service, and there has also been a continual devolution of the function of purchasing down through the staff line. So purchasing may be only five per cent of a person's job. They are not going to attribute a lot of importance to something that takes only five per cent of their time if their main job is policy determination or something else.

**Mr BROUGH**—You mentioned that here, but what do you suggest be done about it? Are you suggesting it should be more centralised again?

**Mr Neil**—Education.

**Mr McLachlan**—Training.

**Mr BROUGH**—So you do not think that the training within the departments—in many of the departments, at least—is satisfactory?

**Mr Neil**—I do not think the level of importance that should be given to the amount of money that is being spent is being given to it—with the exception of the Department of Defence perhaps.

**Mr St CLAIR**—Is that where you get back to the question of efficiency or effectiveness of the procurement that you were getting at earlier?

**Mr McLachlan**—That is right.

**Mr St CLAIR**—The issue today has been value for money and the importance placed on it by various agencies in their purchasing and procurement. I am just wondering whether this devolution of the procurement or the purchasing power is having any effect on it.

**Mr Neil**—It is the definition of what 'value for money' is. Each person has a different definition of what value for money is. If a person's riding instructions have been that they have to spend a certain amount of money within a certain period and they can get value for money by doing that, then that is their definition. There are departments out there that have got a very good attitude towards looking locally first, and they will do whatever they can to find a local supplier because they can see the benefits from after-sale service, from a continued level of supply, from being able to specify adequately—all of the real reasons for

which you want to have a supplier close at hand. Others might see value for money in the amount of time and effort they have to spend in buying the thing. If they can go to a catalogue, do it electronically and have it delivered without them having to spend a lot of man-hours on the purchase, they see that as value for money.

**Mr St CLAIR**—Do you see it therefore as a change of culture in the interpretation of ‘value for money’ and that the interpretation will change depending on what the particular organisation is doing?

**Mr Neil**—Yes.

**Mr McLachlan**—That is where training takes over. If you spend the time and the effort in the training, you create the correct culture.

**Mr St CLAIR**—And you narrow the definition down.

**Mr McLachlan**—Yes.

**Mr GRIFFIN**—Have you got a couple of examples of departments that you think do a good job on procurement?

**Mr Neil**—Defence, of course; Transport; Joint House Department; what used to be Social Security—they were all supporters of the concept of looking locally first, and they do continue to use us.

**Mr GRIFFIN**—Do you want to give us a couple of examples of departments that do not do a good job on procurement?

**Mr Neil**—I would prefer not to.

**Senator HOGG**—If you are not prepared to do that, can you give me some idea of just who your clients are. Are they all government departments or do you have others?

**Mr Neil**—The ISO network employs 70 technical specialists throughout Australia—and we do have an office in New Zealand—and only one of those is dedicated to Commonwealth procurement activity; that is, one out of 70. The rest of the ISO staff, and the majority of the ISO work, are employed in the private sector, predominantly major project work—oil and gas developments—

**Senator HOGG**—What about state governments?

**Mr Neil**—ISONET has only three employees. ISONET is the facilitation body funded by the Commonwealth to provide the umbrella organisation for the ISO network nationally and to provide the link between the Commonwealth and the state funded, monitored and managed bodies. It is the ISO network that contains the specialist staff to do the work. ISONET is a very small organisation funded by the Commonwealth to provide a link.

**Senator HOGG**—In terms of the ISOs—and I think I understand the difference there—I presume they would have state government departments as clients as well.

**Mr Neil**—Yes.

**Senator HOGG**—Is there any noticeable difference between the inquiry rate of state government departments and that of federal government departments? Is there as much of a lack of inquiry at the state government level as there is at the federal level?

**Mr Neil**—It varies between states. Some of the states—for instance, South Australia, Tasmania and the Northern Territory—have very specific policies. In fact, the ISOs within South Australia and Tasmania are part of the bureaucracy; they are physically within the departments; they are public servants. In the Northern Territory and some of the other cases, they are limited companies like ISONET; they are managed by a board. The importance that the state government places on state government purchasing activities by ISOs varies across the states. The bigger states, such as New South Wales and Victoria, tend to direct their ISOs towards private sector development. The smaller states tend to direct their purchasing more towards government purchasing.

**Mr BROUGH**—Can I just clarify that? So you are also working to assist other major projects, national projects. How do you determine those, and what is your relationship there? How do you find they approach you, compared to the way government departments approach you?

**Mr McLachlan**—The SAMP program, which is funded by the federal government, is for major project facilitation where we will put a consulting engineer to work at the conceptual stage with an organisation—for example, at Anaconda Nickel with the Murrin Murrin nickel project in Western Australia. We put an engineer in there to consult through the developmental phase. We funded him in the first year with federal funding, and then in subsequent years it was on a cost recovery basis where we shared the expenses. He identifies all the opportunities in the process for Australian and New Zealand industry to be involved.

A typical example there was that Anaconda wanted to develop a new type of retort system which had been seen before in Canada. The immediate reaction was, ‘We will get all the retort furnaces from Canada,’ but this fellow, through the ISO structure, was able to find that that capability was possible out of the Submarine Corporation. Some \$60 million worth of work went to Australian industry that would have been fully imported.

**Mr BROUGH**—I am glad you clarified that. I was not aware of it. What I want to know now is how you find your relationship with that type of organisation compared to your experiences with government organisations. Really, you are doing exactly the same function.

**Mr McLachlan**—The way in which we sell ourselves in that regard is with a major project that has got major project facilitation status through the Department of Industry, Science and Resources. Through the ISOs in the various states, we approach that organisation with a major project and talk to them about the benefit we can give them as a project, identifying Australian and New Zealand industry, particularly the way in which it

relates to their bottom line and complies with the government's policies. Those relationships are very good because we are delivering all the time for them.

**Mr BROUGH**—You have not answered my question. How does that compare to the response you get from the departments?

**Mr McLachlan**—We do not get the same response from the departments because the departments do not bring us in—with the exception of Defence—to be involved in the development of those major projects or procurement projects as they are starting to move down the path.

**Mr BROUGH**—Is that simply because they do not see the benefit?

**Mr McLachlan**—I do not know whether it is that they do not see the benefit, they do not have the time or they do not believe that Australian industry can produce it. I do not know what the story is.

**CHAIR**—Have you asked?

**Mr McLachlan**—We tried. We asked the question. We are continually going back to those people where we had those memorandums beforehand and were starting to develop it but, with one or two exceptions, we never hear anything back from them.

The Commonwealth government's departmental procurement programs, in many cases, are piecemeal. They are not the same as an Anaconda Nickel major project or a Defence minehunter project, where you can put a box around it and it goes across. With the exception of the IT areas, it is not as clearly defined. But the opportunity still exists for us to be able to assist in many areas.

**Mr St CLAIR**—Going back to this question of value for money, has the influence of competition on the power of purchasing and the push for competition affected in your view the value for money and the attitude towards the value for money?

**Mr Neil**—It depends on the skills and the tools available to the purchasing evaluators. If the tools and the skills they have do not allow them to build a sensible comparison across a number of competing tenderers on all of the elements of value for money, such as life cycle, costing, disposal costs, costs of introduction and costs of ongoing support—and this is where I come back to the education issue—they go to what they can always justify and that is price.

**Mr GRIFFIN**—On the question of inquiries, do you have statistics from within the network not only on the number of inquiries but on where the inquiries have come from and which departments and others make inquiries?

**Mr Neil**—We do. Because the ISOs around Australia have to continually justify their existence to their own sponsors, they have a very rigorous process of recording inquiries and their value—and these are inquiries that are potential imports—and the results of those inquiries. The results can be that the contract was lost—in other words, the purchase was

from overseas—the contract was cancelled because the project or the procurement did not continue or the contract was won. If it was lost, then we dissect that into a number of reasons why it was lost—lack of confidence in the industry, price, quality, delivery, lead time, capability of supply in the right quantities, et cetera. Those statistics are collated by ISONET every quarter for the network.

**Mr GRIFFIN**—Okay. It is fair to say that those departments that in your view are actually doing the right thing are the ones that are inquiring to you.

**Mr Neil**—Yes. That is a conclusion you could draw.

**Mr GRIFFIN**—Can we get a copy of some of those statistics?

**Mr Neil**—I might remind you that the majority of the work of the ISOs is with private enterprise.

**Mr BROUGH**—But that is only because government departments have not really used you. We accept that, because you have just given evidence that they are basically wasting your time by not doing anything. What percentage difference is there between the private and government sectors? You have two key objectives and one of them is not being met—that is:

To provide and facilitate the supply of Australian/New Zealand products and services to the Commonwealth and New Zealand Governments . . .

That is by and large, not exclusively. If it were running efficiently, where would you see the percentage of your business break-up being between private sector and the government sector?

**Mr Neil**—Could we take that on advice and provide you with a response?

**Mr BROUGH**—Sure. Perhaps you could tell us what it is now and what you imagine it would be if it were run efficiently.

**Senator HOGG**—Could you also give us some idea of the break-up of the suppliers that you represent? Are they very small businesses, small to medium businesses or what?

**Mr Neil**—I can very quickly give you a synopsis of the information we have. The ISO is a research body; it is not a membership or a subscription based system so we do not have members and we do not represent suppliers.

**Senator HOGG**—I am talking about that in the broad sense.

**Mr Neil**—The data that we hold that has been built up over the life of the ISO—and ISONET is the coordination body that coordinates this nationally—represents 36,000 records of companies that have a capability in Australia.

**Senator HOGG**—Is that mostly in manufacturing?



**Mr Neil**—Yes, and services. There is an element of services in it, but a large proportion of that relates to value adding companies in the manufacturing sense. The range of companies is from the multinational Australian companies all the way down to the mum and pop shops, the two person outfits. We cover the full range of industry sectors and size of company in those records.

**Senator HOGG**—Have you got some sort of break-up that you could give us?

**Mr Neil**—Yes.

**Mr BROUGH**—Are you getting much frustration displayed to you by Australian manufacturers that just cannot get a look in as far as they are concerned?

**Mr Neil**—We do not necessarily, because we are one level removed from the general inquiry. The general inquiry goes to the ISOs and we are the facilitation body. The anecdotal feedback we get is that companies that are known to the ISO and are on our information bank do express frustration saying, ‘We are supporting this concept of a body that promotes local industry involvement, but we are not getting any contracts or inquiries. We have been known to you for five years but we haven’t got a contract yet. Why not?’ We cannot force people to use Australian companies. We can certainly make people aware of the Australian company, but we cannot make them aware unless they ask the question.

**Mr McLachlan**—That was one of the very interesting things that came out of the SME forums that were run by the National Procurement Board around the nation. Operators and companies would get up and give you chapter and verse on their difficulties trying to deal with government. It was at that time that the National Procurement Board project came around looking at the cost of doing business with government. That came from that sort of frustration that was apparent, particularly with the SMEs.

**Mr BROUGH**—What concerns me is that that is a one-off process. What we have suggested to the other departments today is that this needs to be an ongoing formal process undertaken perhaps within departments and reportable or whatever else, because the lines of communication just do not seem to exist.

**Mr Neil**—That is right.

**CHAIR**—In your report, you say:

Since the demise of the Purchasing and Disposals Gazette, and the advent of electronic commerce through Transigo, no published information has been sighted which gives a breakdown of where Commonwealth purchasing is directed.

Can you expand on that a bit or is that just it?

**Mr Neil**—Purchasing Australia used to produce a purchasing statistics bulletin. It was a dozen-page document that listed where the spend was going—from which departments, how much each department was spending and where it was going offshore and where it was not going offshore.

**CHAIR**—Really?

**Mr Neil**—Yes.

**CHAIR**—When was this?

**Mr Neil**—The last one I saw is probably three years old. I will provide you with a copy of the most recent bulletin that I have. However, the information in it was flawed because it relied on the purchasing officers filling out what they did accurately. We recognised that it was flawed. However, it was an attempt to demonstrate where the Commonwealth dollar was going and where it was being spent. Since the demise of Purchasing Australia, I have seen nothing in a published sense that allows us to see who is spending what and where.

**CHAIR**—Focusing on Transigo, which is about to change in the middle of this year, we understand from other respondents to this inquiry that, while Transigo has the potential to be effective in letting small and medium sized businesses know where Commonwealth business is available, there is some anecdotal and statistical evidence, at least from one industry, that small and medium sized business do not have the capability at the present time and there are not enough companies actually plugged into the Internet to be able to use it effectively. Have you any view on that?

**Mr Neil**—The only view that I have is anecdotal information. From my knowledge of small companies, they are more concerned with keeping the cash flow going and more concerned with their day-to-day running of the business than they are with having a dedicated staff member searching electronically for opportunities and performing desktop functions on the Internet. I can only suggest that, as companies get larger in size, they have more resources to do that sort of work. Smaller companies are more concerned with keeping the company alive.

**CHAIR**—Surely it is not government's job to go out and say to every small business, 'This might be a purchasing opportunity for you.' It is up to business to seek out the business. It is probably, I would think, a proper function of government to try to make it as easy as possible for small business to deal with government, rather than making it difficult and expensive.

**Mr Neil**—Correct.

**CHAIR**—On page 5 of your submission, you said that with a move to outsourcing:

There is a possibility that the requirement to promote national competitiveness and industry development may not be passed on through the contract tier.

Have you been able to monitor the situation and provide some detailed information on the effects of outsourcing on industry development? If so, what solutions would you propose?

**Mr Neil**—We are not a monitor. Our job is not to watch what is happening with the government departments. We have no right to ask them for information. Most of the comments that are in the paper are observations from discussions. We cannot provide you

with the facts or the figures in a succinct table that says, 'Since outsourcing occurred, so many contracts have not occurred.' It is not our job to do that monitoring and we do not have the information available to us. It is anecdotal, once again.

**Mr BROUGH**—You can effectively save departments money. You said you are saving these private companies money because you provide a body which initially was funded by the federal government in order to help industry. If the requirement was set down in clear, unambiguous terms to the departments that they were to reach certain targets, goals or whatever, then once again they would be forced to come back to you or put on dedicated staff to seek out what you already do. Is that true?

**Mr Neil**—Correct.

**Mr BROUGH**—So right now it is possible that they are looking for opportunities within the Australian industry but they simply are not using you, but that is an unlikely scenario. Have you got any evidence one way or the other on that?

**Mr Neil**—When there was a regular process of accreditation of purchasing officers—

**Mr BROUGH**—You are saying that there is not anymore?

**Mr Neil**—No. Defence do run a series of purchasing competency sessions for themselves and other government departments, but they do not occur with the same frequency as they did before.

**Mr BROUGH**—So as far as you are concerned, the majority of purchasing officers within our various departments are not accredited and do not have ongoing training of a formalised nature?

**Mr Neil**—To my belief, yes. When there was a more rigorous attempt to educate training officers, we provided one of the briefing sessions. I and the person we have employed purely for Commonwealth purchasing also spend time on the phone and visiting Commonwealth departments to make them aware of us. If they are looking for a body that can assist them, then they should know about us. If they have to find a body using their own resources, then they may find other bodies, industries and associations that can help them, but it is not as though we are hiding ourselves away and not making ourselves available to them. We make ourselves available to them. If they do not use us, we do not why.

**Mr McLachlan**—There is reference to the ISO structure in the *Commonwealth Procurement Guidelines*.

**Mr St CLAIR**—You were talking about the reporting system and the difficulty some of the smaller businesses have accessing what has been going on after the publication of that booklet ceased in 1996. Do you see any simple way of electronically tagging these things? With the search engines that are available nowadays, if you were actually looking to enter into some sort of contract with government departments, you could just search it up.

**Mr McLachlan**—Just put it on the Net.

**Mr Neil**—There are any number of ways you could electronically tag. If people are doing World Wide Web searches though, those searches are worldwide so they have to perform their own refinement of their search. We can perform that for them if they come to us and ask. We are only a service provider.

**Mr St CLAIR**—But do you think it would help if government departments did that as a matter of course?

**Mr Neil**—Yes.

**Mr McLachlan**—Many government departments do that on their home page with their procurement activities and opportunities.

**Mr GRIFFIN**—You spoke before about the memorandums of understanding that were required from departments a couple of years ago. I think you said that, with a number of those, you have written and received no response, et cetera. Is that right?

**Mr Neil**—Yes. A cabinet decision of the previous government flowing from the Bevis report required memorandums of understanding. With the change of government, my belief is that cabinet decisions no longer have any authority. Therefore, if the departments that had the MOUs with us did not wish to use us, they could put the MOU to one side.

**Mr GRIFFIN**—And that is what you believe has happened?

**Mr Neil**—We believe that there is no longer an emphasis or a priority.

**Mr McLachlan**—There is no requirement for it to occur and therefore it does not.

**CHAIR**—Gentlemen, thank you very much. We would be delighted to receive those items that you suggested you would be able to supply to us.

**Mr Neil**—Thank you.

[2.20 p.m.]

**CRIBB, Mr Bridson, Executive Director, Pulp and Paper Manufacturers Federation of Australia**

**CHAIR**—I now welcome the representative of the Pulp and Paper Manufacturers Federation of Australia to today's hearing. Thank you for your submission and for coming to talk to us today. Would you like to make a brief opening statement before we start to ask you questions?

**Mr Cribb**—If I may, I would like to make a brief opening statement in support of our submission. My federation represents the interests of the five largest paper manufacturers in Australia. Collectively, these companies produce many different types of paper used by the Commonwealth government ranging from printing and writing papers to telephone directory grade paper to tissue and toilet paper.

As we have indicated in our submission, in the case of paper, we consider that the laudable objectives that are set out in the Commonwealth government's procurement principles have not been met. In particular, we have serious problems with the value for money principle where in the case of paper price alone has been substituted for that principle. As a result, we believe that the government procurement policies have not met their objective to promote the development of Australian industry.

The main reason for this appears to be the devolution of purchasing responsibilities to the agency or subagency level. Certainly in the case of paper the only criterion which seems to be applied by purchasing officers is the cheapest price which is available at the time of purchase. This in itself is contrary to the value for money principle, which states that price alone is not often a reliable indicator of value for money.

While there are no accurate figures available, all of the available evidence strongly suggests that a very large proportion and probably the majority of the Commonwealth government's paper purchases are from imported sources. We consider that an important opportunity to encourage a major import replacement industry has therefore been lost. This situation, in our view, could be redressed if the Commonwealth government sought to obtain genuine value for money in its paper purchases through long-term contracts with the Australian industry.

The Australian paper industry is internationally competitive in terms of price and has an excellent environmental record. Importantly, it is a major investor in the Australian economy and provides high value jobs in regional Australia. We believe that the value for money principle needs to be actively applied in its fullest sense. It may need to be rewritten to ensure that it cannot be interpreted by government purchasing officers as simply meaning lowest cost. We consider that the national competitiveness and industry development principle also needs to be elevated to equal importance with the value for money principle.

So at a practical level we consider the Commonwealth government needs to implement policy and administrative arrangements that will enable the development of long-term supply

partnerships with major Australian paper producers. Such partnerships would be of value to both sides. They would ensure that the Commonwealth government's paper needs are fully met in terms of price, quality and service while providing an important and continuing domestic market for a major import replacement industry. I would be pleased to answer any questions the committee might have.

**CHAIR**—Thank you for that. Mr Cribb, you just reiterated what you said in your report that price alone has been substituted for value for money. Can you tell me how you reached that conclusion?

**Mr Cribb**—It is a bit difficult in the absence of centralised purchasing arrangements to get hard evidence, but certainly a lot of anecdotal evidence that I and my member companies have received suggests that, because the purchasing of a product like paper is often devolved well below agency level, typically the person who needs paper rings up the local supplier and takes whatever happens to be the cheapest available. We have a lot of anecdotal evidence that supports that. Because paper is perceived to be a low value product, people do not pay much attention to its purchase. They just buy whatever happens to be the cheapest at the time.

**CHAIR**—A lot of anecdotal evidence—numbers?

**Mr Cribb**—I could not give you numbers but, when I spoke to my member companies in preparing this submission, that was the strong message that I received from them.

**Senator HOGG**—Is this purchasing off wholesalers or retailers?

**Mr Cribb**—Often it is through wholesalers—paper merchants and that kind of thing. A lot depends on the grade of paper. Telephone directory type grade of paper is normally done by major contract, and my member company that produces that grade of paper competes for that. Often tissue paper is also let under a major contract. But often people just buy printing and writing paper from the local paper merchant.

**Senator HOGG**—So these are merchants who deal primarily with overseas suppliers?

**Mr Cribb**—They deal with any supplier. They sell both Australian paper and imported paper. It is a very competitive market on price.

**Mr GRIFFIN**—In terms of the major contracts you mentioned, do you have evidence of a situation where your companies that can compete on those products have in fact not got government contracts?

**Mr Cribb**—That has certainly been the case in telephone directories. This is through Telstra, which I guess is still majority government owned, and I am informed that Australian Newsprint Mills lost a contract there on price grounds. But I guess the point I am trying to make here is that, according to the guidelines, price should not be the only criterion. There are a whole lot of other things.

**Mr GRIFFIN**—At this stage I am approaching it from another end which is to try to work out what we are talking about and how big an issue it is.

**CHAIR**—We should not be talking about Telstra.

**Mr GRIFFIN**—Telstra is a bit different.

**CHAIR**—The government may own part of it, but it is an independent company. It has nothing to do with government purchasing policy, with respect.

**Mr Cribb**—Sure, that is just one grade of paper.

**Mr GRIFFIN**—Although I think the wider issue still is relevant, if not directly to this inquiry. From our point of view, it would be handy for us to get a pretty reasonable handle on how big an issue this is in terms of money and price differentials. What sorts of price differentials are we talking about in this sort of stuff? I am sure it varies a fair bit.

**Mr Cribb**—I do not have the details, and a lot would depend on the price at the time. For example, in terms of printing and writing paper, we have had the collapse of the Indonesian companies so there is a lot of cheap Indonesian paper that is available in the market at the moment. It is very competitive in terms of price and they have been winning market share because of that. The point we are trying to make is that, according to the purchasing guidelines, price should not be the only criterion. Look at all the costs that are added on to Australian producers for very good reasons which are not borne by Indonesian producers, for example.

**Mr GRIFFIN**—Are these environmental sorts of things?

**Mr Cribb**—For example, there is a whole range of environmental regulation in Australia, the cost of which is borne by industry, which Indonesian companies are not required to meet. In addition, the Indonesian wood supply which goes into making paper is heavily subsidised by the government, and that is not the case in Australia. There is a whole range of additional cost that the Australian industry bears which its competitors do not. The Australian industry can compete on price, but it is not always the absolute cheapest. We have found in many cases that government purchasing officers will buy whatever happens to be cheapest at the time. At the moment, a lot of that paper happens to be imported.

**Mr GRIFFIN**—Looking at it from the point of view of the purchasing officer, though, is it a situation where generally there are two lots of paper which are basically the same and do the same thing but one is cheaper than the other so they go with the cheaper one?

**Mr Cribb**—That is right.

**Mr GRIFFIN**—I know from my own office that different grades of paper can play merry hell with machinery and stuff like that.

**Mr Cribb**—That is right. Sometimes there is a quality difference. A lot of the imported paper is quite okay, but I guess the purchasing officer would not be in a position to always

be aware of which is a good brand and which is not. I guess part of the thing we are getting to, if we are looking at some kind of long-term supply contract, is making sure—

**Mr GRIFFIN**—On the quality issue, I think there is an argument there that, if there is a situation where they are missing the point about quality—for example, if it is long-term record keeping and one has a half life of 20 years and one is 50, or whatever—that is an issue they need to know about. Looking at it from the question of the purchasing officer themselves, although I sympathise with you strongly on the question of the additional costs that Australian industry face in those areas, I do not know what we do about that in terms of what purchasing officers do in the case of their situation where they face two products that are both basically the same but one is cheaper than the other. There is an issue there.

**Mr Cribb**—Again, you would have to have a slightly more centralised system than exists at the moment. But, if you are looking at a department buying at a departmental level or you are looking at buying a large amount of paper on a wholesale basis and entering into some long-term supply arrangement, the stuff that the purchasing officer is buying on an ad hoc basis from the local paper merchant may not necessarily be the cheapest in terms of price anyway or the best in terms of the quality they would be guaranteed of getting and in terms of any other requirements that the customer might have.

A lot of those things can be met much better than the existing arrangement. For example, we get a lot of inquiries about the recycled content of paper. For a lot of imported paper you would have no idea of the recycled content of that paper or of the other environmental elements that have gone into that paper. If you buy an Australian brand of paper, you can have very high confidence in those areas.

**Mr St CLAIR**—Was it ever the case where your members sold direct to the government? Was that part of the chain or has it always gone to another stage of manufacture through a wholesaler?

**Mr Cribb**—Again, I think it depends on the grade of paper. I could come back to you on that, but my understanding is that, in the past, there have certainly been direct sales to government and not through a wholesaler.

**Mr St CLAIR**—I am just wondering whether it has been driven in turn by the paper manufacturers or in fact the wholesalers saying, ‘All right, we will manipulate the market far more. We don’t care where we buy the product from because we need to compete and we need to compete for government contracts.’

**Mr Cribb**—In the case of things like tissue paper, the manufacturer is in fact the wholesaler and the retailer as well. Again, it depends on the grade of paper. Certainly the strong message I have got from my companies is that the change in arrangements has made their lives much more difficult in terms of selling to government.

**Mr St CLAIR**—It could be argued that more wholesalers and SMEs could be more happy with the change in the way the purchasing is done because more of them have an opportunity to compete.



**Mr Cribb**—I understand what you are saying.

**Mr BROUGH**—In relation to value for money and the cheapest price, surely you must be able to get some records from your five participating companies of contracts that they have bid for and lost over the last 12 months or two years.

**Mr Cribb**—I am sure I could obtain that information. A lot of that information would be commercial-in-confidence and they would be fairly reluctant to divulge it—that would be my guess.

**Mr BROUGH**—The committee can take evidence in private. I think it is important because all we have is anecdotal evidence.

**Mr Cribb**—I can ask my companies directly for that information and get back to you.

**Mr BROUGH**—It would be useful just to find out exactly what the situation is across a range of products opposed to, as you say, just word of mouth. How many other paper manufacturers are there in Australia?

**Mr Cribb**—There are some small tissue manufacturers. The companies that I represent make about 97 or 98 per cent of the paper that is produced in Australia.

**Mr BROUGH**—Is COSCO one of the small ones?

**Mr Cribb**—That is right. They are not one of my members.

**Mr BROUGH**—They hold Australian government contracts, though, for tissue paper. So, therefore, it is another Australian company which has won a contract, one would presume on price as well. That is why I think it is important to find out this information that you provided to us.

**Mr Cribb**—In the case of COSCO, they are not a member so I do not have any information from them, but I can certainly ask my other members for that.

**CHAIR**—I personally have a bit of a problem because you made some pretty emotive statements such as:

While there are no figures available, all of the available evidence strongly suggests that the majority of the Commonwealth Government's paper purchases are from imported sources.

Then you go on and say:

Certainly in the case of paper, it is clear that the objectives set out in the Commonwealth Government's procurement principles have not been met. Price alone has been substituted for "value for money".

I do not know how you can reach that emotive conclusion without any evidence.

**Mr Cribb**—The reason there is no evidence is the system that may have been able to produce that evidence in the past no longer exists. The last information I have is the Bevis inquiry, which I understand was done about four or five years ago.

**CHAIR**—It was 1994.

**Mr Cribb**—For example, in terms of printing and writing paper, the evidence that was put before that committee was that the best estimate for government purchases of fine paper was \$160 million, of which \$95 million was imported product and the balance of \$65 million was locally produced. That is the latest evidence that exists. There are no figures since then but, if you take that as a benchmark in 1994, the anecdotal evidence that I have received from my member companies is that the situation has got a lot worse. It has not improved at all. As I said, the principles that underlie government purchasing policies are very laudable, but the problem from our perspective is that they are not being translated into reality.

**CHAIR**—I do not know about other members and senators here but I do know that in my office all the paper comes from South Gippsland—all of it.

**Mr Cribb**—In the past we have had inquiries from various members of parliament as to whether the paper they were using in their office was Australian made or not because they were not sure, and in some cases it was not.

**CHAIR**—I know mine is because I have seen the boxes. I have also been to the mill and watched it being produced. It is the same box so it has to be the same paper.

**Mr BROUGH**—To whom are your people supplying? Obviously you are supplying predominantly to Australian companies and not exporting a great deal.

**Mr Cribb**—The industry exports about \$400 million worth of paper a year. It makes up about 13 per cent of overall sales. The industry is primarily an import substitution or import replacement industry.

**Mr BROUGH**—If 87 per cent of your business is into the Australian market, which is basically what you are saying, which is a very price sensitive market as well and you are able to compete there, why is it you are unable to compete for government contracts if you are able to compete for private enterprise contracts, which many people would say are more conscious of cost effectiveness and price than government departments?

**Mr Cribb**—I think a lot of the private company contracts are done on a bigger basis. Part of the problem with the way the purchasing is done now is that it is often done at a very small level. I am certainly aware of departments where decisions about which printing and writing paper are going to be used are done at the divisional level and the executive assistant of the division head rings up and makes a purchase. I think a lot of private companies still tend to go for larger contracts for perhaps their whole company or part of their operations.

**Mr BROUGH**—Has your organisation put that as a buying strategy to the government for them to save money, particularly to departments? You would then be able to organise the distribution network or whatever else the case may be.

**Mr Cribb**—My companies are certainly pursuing those opportunities with bigger departments, yes.

**Mr BROUGH**—So that is a relatively new thing, is it? They have not done that for a while?

**Mr Cribb**—There used to be these common use contracts, or whatever, which no longer exist. A number of my companies had those common use contracts which they do not have anymore so they are looking at alternatives to replace those common use contracts with those departments.

**Mr BROUGH**—Are your dealings with the departmental procurement officers or purchasing officers satisfactory—the actual level of communication and availability?

**Mr Cribb**—I myself have not dealt with any of them, and I do not have information on that from my companies. I could ask them for feedback on that.

**Mr BROUGH**—I think it would be worth while if we could hear from your companies directly what their opinion is of not so much the policy—we have heard what you believe of that—but the reception they get, the availability, et cetera.

**Mr Cribb**—Sure.

**CHAIR**—We took up with a government department this morning an issue in your submission. You talk about the high cost to manufacturers of environmental requirements in Australia in order to manufacture pulp and paper that you say are not necessarily imposed on competitors, particularly in South-East Asia, or there might be on producers in the United States and Europe. The response of the Department of the Environment and Heritage, which is now on the public record, was that they recognise that fact and they buy all recycled paper, which is all Australian-made.

**Mr Cribb**—I certainly applaud that, if that is what they are doing.

**CHAIR**—We will ask other departments too as they come along, but we are having some trouble with where all these numbers came from. By the way, in relation to the 1994 report of the Standing Committee on Industry, Science and Technology into government purchasing, could you tell us where the statistics came from that you talked about on paper?

**Mr Cribb**—I understand it was a combination of estimates from the then Department of Administrative Services and industry estimates.

**CHAIR**—Thank you very much for coming and talking to us.

**Mr Cribb**—Thank you.

Proceedings suspended from 2.39 p.m. to 3.16 p.m.

[3.16 p.m.]

**BAXTER, Mr Peter Colin, Assistant Secretary, Finance Management Branch,  
Department of Foreign Affairs and Trade**

**HARDY, Mr Keith George, Acting Director, Financial Management and Accounting  
Section, Department of Foreign Affairs and Trade**

**HEAPS, Mrs Catherine May, Competitive Tendering and Contracts Unit, Finance  
Management Branch, Department of Foreign Affairs and Trade**

**PAGE, Mr Stuart, Manager, Consulting Services, Information Management Branch,  
Department of Foreign Affairs and Trade**

**SAMS, Mr Peter William, IT Procurement, Information Management Branch,  
Department of Foreign Affairs and Trade**

**CHAIR**—Thank you for your submission and for coming today. Would you like to make a brief opening statement before we ask you questions about your submission?

**Mr Baxter**—No. We are happy to go to questions.

**CHAIR**—You said in the submission that the department believes the \$2,000 threshold which has been in place for over a decade is too low and that time has gradually devalued purchasing power to a fraction of what it was at the time of its introduction. It also says that if the requirement to gazette purchases is to be retained, the department considers that raising the threshold for gazettal action from \$2,000 to a minimum of \$10,000 would be appropriate. Would you like to develop that point a little?

**Mr Hardy**—Basically, the department has a manual system for gazettals at the present time. It is a very labour intensive process. The majority of our payments do fall within the \$2,000 threshold, but there are a considerable number of payments between \$2,000 and \$10,000. Given the resource intensiveness of the process, we would like to see the threshold increased to a more realistic level. The statement about the time value of the \$2,000 I do not think requires any elaboration.

**CHAIR**—One of the difficulties that we have and which the House of Representatives Industry, Science and Technology Committee had in 1994 is coming to grips with what we buy. It is easy enough to get a total number of dollars spent but, outside that, getting discrete and definitive data on what percentage of purchases goes to Australian or New Zealand firms and what percentage of purchases goes to small or medium sized business enterprises appears to be too hard for most departments. Could you comment on that?

**Mr BROUGH**—Could we add one more to that. You said right up front \$161 million. What percentage of that goes to overseas locations? You have 75 of them. What is the percentage of domestic travel and information technology as well? It might give us a better idea. You might be only a tiny player here.

**Mr Baxter**—Overall, your last comment is accurate. We are a small player on the procurement scene in the public sector. The first part of your question deals with what sort of mechanisms we have put in place for looking at the suppliers that would fit the category of small and medium sized enterprises or Australian and New Zealand enterprises. Until recently, our capacity to do that was quite limited for a number of reasons. Firstly, within Canberra, we had a devolved structure of procurement throughout the Canberra headquarters of the department, where each of our individual divisions undertook procurement activity on their own behalf. There was no centralised control over that. We were reliant upon divisions to provide that information.

Recently, we have re-engineered the whole of our accounts processing and procurement process to centralise it within one area of the department. This enables us to capture that information and to enable us to be more efficient in our procurement in terms of the skill level of the officers undertaking that activity. We can also monitor more closely issues such as value for money and what the profile of our suppliers is. That was put in place just before Christmas, so we are still in the very early stages. In addition, we are implementing at the moment a new financial management information system, which has significantly greater power than the one that it is replacing. That will enable us to capture that information electronically and, therefore, collate the data and provide it to committees such as this one.

**CHAIR**—It is interesting that you have gone back to centralised financial management and centralised purchasing. Most departments seem to have come to the view that decentralised purchasing is more efficient, effective and cost effective.

**Mr Baxter**—There were a few reasons for that. Firstly, roughly 85 per cent of our procurement is for small routine office requisites. As we are a policy advising department, our procurement needs are fairly limited. It is stationery and computer equipment and that sort of thing rather than equipment to implement programs, which other agencies might have.

Secondly, we found that the divisions that were controlling our procurement activity were generally focused on foreign and trade policy, which is their core business, rather than financial management. Certainly from the studies we did there were significant savings to be made by consolidating the expertise in one area, given the small-scale nature of most of our procurement and the fact that we could consolidate orders and achieve economies of scale by doing that and take a much more strategic approach to our suppliers. So we certainly found at both the procurement end and the accounts processing end that there were considerable savings to be made by centralising the process. We have made considerable savings by doing that. We have roughly halved the number of people involved in that activity by centralisation.

**Mr BROUGH**—Is this part of your administrative dividend type requirements?

**Mr Baxter**—It is certainly part of our overall administrative reform program to reduce the overheads in non-core business areas so that we can devote more of our resources to foreign and trade policy delivery.

**Mr BROUGH**—So you have staff that are now dedicated to nothing other than procurement?

**Mr Baxter**—That is right.

**Mr BROUGH**—How many would be doing that?

**Mr Baxter**—The unit has an initial complement of 14. We are reasonably confident that, with some further re-engineering once the central unit has bedded down, we can take those numbers a little lower.

**Mr BROUGH**—Are they doing some form of training and accreditation in which to be able to achieve that and then ongoing courses as well as assessments?

**Mr Baxter**—Yes. Some of the officers have undergone formal procurement training. We are still staffing the unit now. We have a few positions left. The officers selected for it will also be undergoing procurement training. It is true to say that all the officers working in the area have had previous experience in the procurement area either in Australia or at overseas posts.

To answer the question as to why we are centralising when others seem to be devolving, about three years ago there was a report issued by the National Audit Office. It encouraged agencies to look at centralisation as a way of achieving efficiencies by greater economies of scale and by concentrating expertise in one particular area to ensure that the value for money provisions were there. Once we have bedded down the central unit, our proposal is to then benchmark the unit against other public sector agencies and commercial entities to demonstrate that we are doing this as efficiently as possible.

We did a fair investigation of public and private sector practice before designing our system. We looked at organisations such as Telstra and other organisations that went down the route of re-engineering their procurement well in advance of us. So we have benefited from the experience of others in both the public and private sectors.

**Senator HOGG**—How do you deal with the concept of value for money, given that we have heard evidence that in many instances now it is the cheapest price that is accepted rather than value for money? How have you dealt with that in your processes?

**Mr Baxter**—We certainly do not look at price as the only criterion in selecting a product. I will ask Mr Hardy to talk about that a little more.

**Mr Hardy**—We have a procurement manual, which is in the process of being updated. New guidelines will be issued which are consistent with the Commonwealth procurement guidelines. They elaborate and amplify the whole of life costs, such as warranties, after sales service, and quality, et cetera, and they focus on ANZ and SME dimensions rather than simply the cost of the item. For a long time now, price has not been a single criterion, and nor has it been the major criterion for the way we purchase our goods and services.

**Mr BROUGH**—Can we take that a step further. There are six Commonwealth procurement guidelines, as you are obviously aware. It seems to me from what we have heard today that there is no weighting necessarily given to them. Perhaps the weighting is to get the lowest price. Have you, in the guidelines you are developing for DFAT, given a weighting or a priority to one over another? Is that left to this? It concerns me that in some areas we have heard how lip-service can be paid to four out of the six, for arguments's sake. Have you done anything to address that?

**Mr Hardy**—No. There is no formal weighting of the criteria in the procurement selection process. While the process of procurement is centralised, the responsibility for the selection of suppliers for non-routine items still remains with divisions and managers. They are responsible for their budgets. In a department which has a broad scope and responsibilities, a lot of our procurement revolves around services and consultancies, which are very specialised areas. It is up to the manager to determine the quality of the product, not merely the cost.

**Mr BROUGH**—I still have some concern that you give clear direction about purchasing from ANZs and SMEs, if that is the way we want to go. Another angle might be the environmental impact. I know it is not specifically one, given your nature. It comes down to the dollar value for many people, regardless of the fact of what is in the wonderful books.

**Mr Hardy**—I and Mrs Heaps are the focal point for particular consultations. The cost factor is very often regarded as not the most important item. That is, people say, 'We are looking at a service which is not the cheapest. Must we take the cheapest?' Managers are very aware that they do not have to take the cheapest cost. It is very much the case.

**CHAIR**—Mr Baxter, you said that you have examined both modern public sector and private sector practice. You cited Telstra. Leaving Telstra aside, which is still a GBE, when you examined private sector practice, what percentage of private sector companies did you find use centralised purchasing offices?

**Mr Baxter**—A significant number of them do. We were looking for benchmarks that we could set ourselves, if you like. We were looking at things such as error rates in processing and the proper use of due date payments to minimise costs for the departments. We looked not only at the big picture of the procurement function itself but also at the detail of the steps along the chain, from the person who generates a request to procure some item to the payment of the bill. We did a lot of process mapping right through. We did that in our organisation. We mapped very precisely the times it took to process certain procurement requests and then compared those times with other agencies and people out in the private sector. We certainly found that we did not benchmark very well. Thus, we were able to get approval from our senior executive to implement an entirely new system, some of which we have borrowed from the experience of others and other elements of which we have developed in-house.

An example is that we have an electronic system for people who want to raise procurement requests. It is all done electronically within the office so that from the generating period to the person who approves to the person who pays it is very much a paperless process these days.



**CHAIR**—It is fascinating. Anecdotally, I have managed a couple of companies some time ago. I would never have considered devolving purchasing in the first place. I would never have considered letting management let go of the purse strings. I thought it was always too important.

**Mr Baxter**—Certainly from a finance management perspective we agree with that point of view. That was another important element in our case to our executive to get approval to do this.

**Mr St CLAIR**—Did you have any problem with the benchmarking in getting people to cooperate with you?

**Mr Baxter**—Some. People are fairly protective of innovations that they have brought in. We also used consultants through the process as our advisers in designing and implementing the new system. We also used independent consultants to do a quality assurance on the product that we were delivering to the department and to assure ourselves that we were meeting best practice. As I said, the unit was set up just prior to Christmas, so we are still in the early stages of the process. But we certainly hope by the end of the first quarter to benchmark again and be able to demonstrate where we have moved from and where we have arrived.

**Mr St CLAIR**—How did you deal with the balancing act between the efficiency and effectiveness of procurement? Is that coming into the benchmarking structure?

**Mr Baxter**—With the exception of our information management branch and our passports branch in particular, most of the work units in our department are engaged in foreign and trade policy. Frankly, that is their business and they are not that interested in procurement policy. It is a reasonable position given our core business as a department. We saw it to be far more efficient to consolidate all those activities in the corporate management areas of the department. I certainly agree with the Chairman's point that that is a much more sensible way of managing your budget, given the impact of procurement.

**Mr BROUGH**—Will accrual accounting impact on your purchasing policies?

**Mr Baxter**—The accrual budgeting framework and some of the associated changes—the competitive tendering and contracting agenda that is going along with accrual budgeting—certainly will in that agencies are being encouraged to look at what activities are best performed in-house and what might be best performed elsewhere. In terms of looking at things such as market testing for some of our functions, particularly transaction processing, there may be an impact in terms of what we keep inside the department and what at some future point in time we might look at giving to an outsource provider. But we have gone a fairly significant way down the road in some areas of the department in that regard.

As far as the routine, day-to-day procurement goes, probably the biggest impact will be the capital use charge that is proposed as part of the accrual budgeting framework. We are not a large owner of assets in the department, but we have some assets. Clearly we will be looking very hard at our net assets base and whether we should get rid of non-performing assets. There are other issues. We are at the moment developing a decision making guide for

our managers which looks at the implications of accrual budgeting for procurement. There are issues such as leasing versus the ownership of vehicle fleets. As you are probably aware, at all our missions around the world there is a small vehicle fleet. Whether we continue to own them or lease them, we are looking at the numbers now and how they will be impacted upon by the capital use charge. We will develop guidelines for our managers as a result of those investigations.

**Mr BROUGH**—You mentioned earlier that Australian and New Zealand components and manufactured goods are obviously important, as they are in the guidelines. Do you use ISONET to assist you with that?

**Mr Hardy**—No, we do not. We have not yet struck a MOU with ISONET. But that is not through neglect. It is an oversight.

**Mr BROUGH**—Do you see a role for them in your business to assist you?

**Mr Hardy**—Clearly the role of ISONET is to match suppliers, vendors and purchasers. But it falls short of what we are looking for on an electronic platform. E-commerce is where we are focusing at the moment.

**Mr BROUGH**—How do you mean it falls short? In what aspect?

**Mr Hardy**—There is no electronic marketplace, as it were. ISONET does not fulfil this properly. It will go out and provide you with a service and match your needs, but it does not allow full electronic commerce, which we are looking to put in place this year.

**Mr BROUGH**—I am sorry, but I am still not with you. Excuse my ignorance. Can you elaborate on that. Are you saying that they are not up to speed electronically?

**Mr Hardy**—An E-commerce marketplace in Australia is what we would like to see. From the outset, ISONET, as far as it goes, falls short of providing a full electronic marketplace in terms of electronic commerce, electronic purchasing and ordering and electronic payment all in the one transaction.

**Mr BROUGH**—And that is not available anywhere in Australia at the moment?

**Mr Hardy**—That is right.

**Mr BROUGH**—Obviously we will be moving in that direction. One day we will get there. Why does that limit the your use of the ISOs?

**Mr Hardy**—We are concentrating our efforts on going to a fully electronic marketplace. ISONET falls short of that. We are canvassing options to go into the full electronic marketplace with a number of providers. They do not assist at the moment. We are exploring our options.

**Mr BROUGH**—If you take that a step further, you will press the button and the item will have been purchased. Is that what you want to achieve eventually?

**Mr Hardy**—That is right, yes.

**Mr BROUGH**—How do you put safeguards in place to ensure that that is not an imported item coming out of an Australian based company?

**Mr Hardy**—This is part of the much broader question of electronic commerce. That includes the safeguards and firewalls that exist, the security arrangements for financing and, indeed, the supply preference for whichever platform you subscribe to.

**CHAIR**—Probably the major problem we found in 1994 is that there existed within the Australian government bureaucracy an attitude that Australian products were probably inferior in quality, that the companies were inferior in service and that we have not matured either in manufacturing or in services. Therefore, foreign goods were generally preferred by bureaucrat buyers. It sounds to me like nothing has changed. Value for money really means the best price and to hell with whether an Australian SME gets a go or Australian manufacturers get a go.

**Mr Baxter**—One of the aspects of our procurement profile is that a lot of the items we buy are off-the-shelf items. They are where the Australian or New Zealand content or lack thereof is known. They are stationery supplies and these sorts of items. That investigative work is perhaps not necessary in a lot of cases for us.

When we are looking at major purchases, be they major consultancies or new information systems or the like, that is certainly a factor. I know from my own area of responsibility we have used consultancies extensively in looking at issues such as the re-engineering of procurement and the development of new financial management information systems. In those cases, the consultancies have gone to Australian based companies rather than the big four or other multinational enterprises because they understand the system of government in which we operate. That is a very important criterion for us in letting consultancies, certainly from a financial management perspective.

**Mr Sams**—On the IT side, we have played a role in using Australian companies in preference, even if the product was not available, and gone through the process of developing the product with an Australian company. There are a couple of examples of that with BHP and JTEC.

**CHAIR**—The paper manufacturers have told us that they think the majority of Australian government purchases of paper in Australia goes to imported paper.

**Mr Sams**—DFAT uses 100 per cent Australian made paper. We buy all our A4 80-cut sheet now as part of the recentralised process. I buy it, and we buy Australian paper.

**CHAIR**—Very good. That is two down.

**Mr Sams**—It is more expensive, but it is good quality paper.

**CHAIR**—That is two departments. Both have said the same thing. We are not really sure where the anecdotal evidence comes from any more.

**Mr St CLAIR**—What role do you see for developing product with Australian producers or suppliers?

**Mr Sams**—On the IT side, Stuart Page is probably better answering that.

**Mr Page**—The information management branch has a very close relationship with Australian industry. One company is JTEC, which is an indigenous Australian company that supplies communications equipment. It is able to move our data around the world not only for our department but for all of government to all our sites overseas. We have stuck with them. In the early days, we gave them a lot of support. We endorsed them. We also won an award for this. In doing so, it made JTEC win some major contracts in Europe. We have always been very supportive. John Riddell is the CEO of JTEC. We always look to them for answers and solutions to some of our in-depth technology questions.

We also talk to a company called Randata. We have two networks which go worldwide. One is secure to a higher degree. The other is less secure. They supply us with specialist equipment to ensure that that data is transferred. We are always pushing government along. Another area that we are pushing at the moment is a company called Vision-Able. It is part of Vision Systems. It is part of converging our network. It is a 100 per cent owned Australian company that we have endeavoured to have talks with to ensure that we are able to get this new technology on our desktop and be a showpiece overseas at our embassies with this kind of technology.

**Mr St CLAIR**—With the period of rapid change that we are in and with technology in particular, do you see that as a role that other agencies should be taking on? Is this a virtual partnership of development?

**Mr Page**—Most definitely. We call it a strategic partnership agreement. It is a win-win situation for us. We always ask, ‘Can you do this?’ A lot of the time, they come up with the goods. It is always important for the information management branch that we ask that question first of industry. We always attend forums and have regular meetings with the majority of the main computer companies which are Australian owned about some of the technology which has been produced in Australia.

**Mr St CLAIR**—Where does your culture come from?

**Mr Page**—To be honest, it comes from our Assistant Secretary, Doug Woodhouse. He ensures that, whenever we can, we look at Australian because we represent Australia overseas. He says, ‘Why not try to endorse these products?’

**Mr St CLAIR**—Is that a new culture change?

**Mr Page**—It has been instilled since he has been there for the last two and a half years. It is a real business focus that we try to look at. We are a service provider. As such, our philosophy is to always lend support and endorse.

**Mr BROUGH**—Do you think your centralised buying strategy could inadvertently disadvantage small to medium enterprises because of that larger purchasing capacity? Is that a potential negative spin-off that could occur?

**Mr Baxter**—There is always the potential for that, as Mr Hardy pointed out earlier. In the guidelines that we are currently preparing, we will give advice to mitigate against that. Having a centrally controlled area gives you some scope to enforce the rules, whereas in a devolved arrangement it is much more difficult to control what people are doing. The analysis we have done shows that approximately 95 per cent of our purchases in Australia are from Australian and New Zealand suppliers. Of that procurement, about 27 per cent in Australia is from Australian owned businesses. So I guess we have a reasonable record in that regard.

As Mr Page has pointed out, one of our objectives as a corporate entity is to promote Australian business interests overseas, so we do look where we can to use Australian products. It is interesting to note that, while we do not have central control over the procurement that is undertaken at missions overseas, a large number of those missions choose to procure items that they require for their operations from Australia. They do this both from a value for money and product quality point of view and from the point of view of showcasing Australia.

**Mr BROUGH**—Have you thought about, in developing this policy, some sort of a mechanism to ensure that you maintain direct communications with the business community to find out that what you are developing is actually going to work for them and not just for you? We have heard already that there seems to be quite a gulf between the two and that, in many cases, there are insufficient opportunities to get together on a formal, regular basis. The continual development of your policy means that it can improve, but not to the detriment of the business communities.

**Mr Baxter**—That is a very good point. It is certainly one of the factors that was behind us establishing the central unit. We would then have the capacity to talk to suppliers on a whole of department basis about our requirements and what their particular requirements were. Previously, until the end of last year, we had 11 different purchasing units in the department buying very small volumes from suppliers, usually from exactly the same supplier. That led to complexities in the supplier's operations and in our own and inefficiencies on both sides. We think it will be an advantage in our dealing with suppliers on a much more strategic basis.

**CHAIR**—How do you see the demise of common use contracts? If centralised purchasing is good, common use contracts across the whole of government ought to have been valuable, I would have thought.

**Mr Baxter**—That is not a proposition we disagree with in a number of areas. You mentioned earlier the Australian content issue. My understanding is that it was the Department of Finance and Administration under the old common use contracts that used to undertake some of that investigative work. There is an issue as to whether it is efficient for agencies to do that on an agency by agency basis or whether it is more efficient to do that

for commonly procured items at a whole of government level. I can certainly see that there are some advantages for that. We use common use arrangements quite frequently.

**CHAIR**—We have had some concern expressed by the Australian Industry Group. They have surveyed their small and medium sized members and they have found that their use of electronic commerce is antiquated or minimal—I am not sure what word to use to describe it, but certainly it is not up to what we would expect. Things like the endorsed supplier concept fails to operate properly if businesses that might wish to participate in being suppliers to the Australian government do not get the information because they do not have access to the Internet. They do not get the information that, in fact, an order is up for grabs. How do we deal with that as we move quickly to the endorsed supplier concept and electronic commerce generally?

**Mr Page**—We cannot, because at the moment not every industry or member of the business community is online so we cannot discriminate. As we do for IT procurement, we can do it two ways: we can put it online and we also advertise in the paper. That is the only way to do it until the infrastructure in Australia is sufficient enough to hold electronic transfer of data, information, money, input and all those sorts of things. Until both sides are equal we are in a stalemate position.

**Mr BROUGH**—Would you not involve the ISOs as well? It would seem to be a logical step. You are waiting—and we are all waiting—for this e-commerce to develop fully. You have this organisation, which was identified in 1994, set up, doing what it does and you do not take advantage of it. I find that really hard to comprehend. Why do you not make use of it, given the fact that we all agree with where you want to head and that much of what you have said is correct? There is this period of time, which we are currently in, where you could be utilising this service to advantage your department and services in general. Does anyone care to comment on that?

**Mr Hardy**—We intend to interface more with ISONET as part of the strategic arrangements which we are putting into place now. Given that the new centralised arrangements are so new—we are going to tender in the next few weeks—it might be opportune therefore to turn to ISONET for casting the net a little wider.

**Mr BROUGH**—If you are going to do that in the next few weeks, I would be interested to hear back on your feedback from them, as basically a new player in their market—you have indicated that you have not used them for some time. It may be useful to us to hear back on that.

**Mr Baxter**—It is also the case that in the major non-information technology contracts which we have let over the past year we have gone to some length to try to ensure that in the tender field Australian companies are represented. Unfortunately, not in every case have those companies followed through on the tender process. An example of that is the negotiations we conducted last year to develop a portfolio-wide travel contract. We made quite significant efforts to ensure that there were some of the smaller players were in the field—not just the large travel providers—because it was a lucrative contract in terms of the dollar value.

Unfortunately, those people either dropped out early in the process or were subsequently found not to be able to offer the kind of service that we required. But we engaged an industry specialist to survey the marketplace for us and come up with recommendations of companies that would be able to do the job.

**CHAIR**—I have one last question. You said earlier that you had an ANAO audit which recommended that you consider centralised purchasing and accounting for efficiency reasons. Could you advise us—not this instant but as soon as you can—which audit that was?

**Mr Baxter**—It was not an audit specifically on DFAT. It was a public service-wide survey of accounts processing and procurement operations. It was a generic report on the public sector, and they made some recommendations regarding procurement activity and the centralisation of it as being one way you could achieve economies of scale.

**CHAIR**—Do you remember when that was done?

**Mr Baxter**—I have it in my office and I could certainly—

**CHAIR**—If you could let my secretary know, I would be most appreciative.

**Mr Baxter**—I certainly will.

**CHAIR**—That is fascinating. We did not know that. You learn something new every day—that is why we have inquiries. Thank you very much. We certainly appreciate your input and your attitude.

[4.01 p.m.]

**FARRELL, Mr John Edward, ACT President, National Federation of Independent Business**

**CHAIR**—I now welcome the representative of the National Federation of Independent Business to today's hearing. We have received your submission. Would you like to make a brief opening statement before we ask you questions?

**Mr Farrell**—The NFIB's position certainly in the ACT region is quite clear on a few of these issues. We believe, quite frankly, that government purchasing policy, far from being of benefit to small business, is in fact the reverse. We believe that the public service organisations, which are very large purchasers particularly of high technology equipment, have an attitude of risk averseness which is way out of line with the actual risk involved in dealing with small enterprises.

This is exacerbated even further when the technology is in fact home-grown. It is in this area where the major deficiencies lie. At the cornerstone of any comment that I make here in response to the points in the submission, I believe the underlying problem is in that area.

**CHAIR**—Could you tell us who is the National Federation of Independent Business? Whom do you represent?

**Mr Farrell**—Yes. The National Federation of Independent Business is an evolution of what used to be called the Australian Small Business Association and it is in a transitional phase. ASBA used to have about 25,000 members nation wide, but because of the architecture of ASBA—which appeared to get lost in executive hierarchies rather than coalface—it was decided to restructure that organisation some three or four years ago.

As there was no model in Australia from which we could take a lead, one of the executives in the organisation decided to go overseas to try and find an appropriate organisation. In the United States of America they found an organisation called the NFIB, which is an extremely coalface organisation with something like 650,000-odd members, and is in fact a very powerful organisation which deals with the coalface.

To cut a long story short, certain states decided to restructure ASBA in this new mould. Because of the historical development of Australia into what we call natural regions, like the Illawarra, the Gold Coast, ACT and so on, and because of all the reasons that things do evolve, we decided to regionalise the organisation so that each region would become autonomous to a large degree, but live with the same aims and goals of the federation. That is basically where we are at.

I look after the ACT region. Because of this evolutionary process, I have raised quite a few of the points to do with purchasing because we in this region live with both federal government purchasing and ACT regional purchasing.

**Senator HOGG**—What industries do your members mainly focus on?



**Mr Farrell**—We cover all the trades, all the professions and some amounts of manufacturing and construction. By definition, the NFIB is not a trade association or a professional association; it is a business association. Whereas the major associations—namely, MTIA, pharmacy guilds and so on—look after specific memberships, we cover the whole spectrum at the real small business end. So the vast majority of our members are in the one- to five-person group, which of course comprises 90 per cent of the 800,000 businesses in Australia.

**Senator HOGG**—Would many of those be members of other organisations, such as the MTIA?

**Mr Farrell**—They could be. We find that, particularly in the construction industry, quite a few of our members might also be members of the HIA. What we have found—and this is the reason for the existence of the NFIB as a generic organisation—is that most of the trade associations et al concentrate on aspects specific to them. In other words, the engineers might concentrate on engineering, purchasing in bulk and those sorts of issues. But when it comes to their members being small business people, they do not look after them. Unfortunately, they do not cover that aspect. We tackle problems like landlord-tenant matters and problems in purchasing, which in fact have a direct impact on the viability of small business.

**Mr St CLAIR**—What is your definition of small business?

**Mr Farrell**—My definition is 10 or fewer employees, which is, I think, way out of kilter with the way the government defines it.

**Mr St CLAIR**—Do you have any thoughts about the government's definition?

**Mr Farrell**—I think in manufacturing they define it as about 100 or so employees, and 20 is their starting point. That is far too high. Ninety-five per cent of all small businesses in Australia have five or fewer people.

**Mr St CLAIR**—Could I seek a clarification on the name of your organisation? It is the National Federation of Independent Business, not the National Federation of Independent Businesses.

**Mr Farrell**—That is correct.

**Mr St CLAIR**—What is the difference? Is it business as business?

**Mr Farrell**—Yes, it is business as business, not businesses. I think 'businesses' is different grammar.

**CHAIR**—How many members do you have?

**Mr Farrell**—We have about 450 in this region, and if you multiply that by about 40 you will get the national membership. I think the national membership is nominally 25,000 because that was the ASBA membership. I do not know what the other regions currently

stand at, to be honest with you. But if you assume 25,000-odd, I think you would be pretty close to the mark.

**CHAIR**—In your submission, you said:

3. The Commonwealth purchasing policies, particularly in the critical areas of information technology and telecommunications, have led to a proliferation of fly-by-night importers of cloned products, together with a **totally unrealistic risk averseness** to products developed by Australian SMEs.

Can you quantify that? What leads you to this conclusion?

**Mr Farrell**—Australia is a reasonably homogenous society in terms of its business structure. For example, we have in our region roughly 30 per cent retail, 30 per cent construction, 30 per cent services and then bits and pieces. In the IT sector we have relatively few members, but in every single case since the introduction of the cluster system in IT, for example—there was a lot of brouhaha from Mr Fahey's office about it—we found that the mechanism of clustering really demands that a prime contractor gets the job. These prime contractors virtually just farm out to small business—the smaller IT people—token amounts of business, at almost zero profit, in order to satisfy what is written into their documents as being 'a SME approach to life'.

That really is the cornerstone of the argument, to the extent where some of our members have virtually abandoned quoting to the government at all—both at territory level and federal level—because they simply are not in a position to quote. So the cluster system is a disgrace as far as we are concerned, as it is the ruination of small business directly. That really qualifies that remark.

In the areas where you have an SME developing a product, and that product might be a hardware product or a software product in the case of IT, we find that the risk averseness of the people at director level in the public service—the people who are the so-called technologists who analyse tenders or proposals of various forms and feed their comments and recommendations back up the tree to FAS level and above—and their backgrounds do not permit them to make an objective analysis on the viability of a new product as it is brought to the market.

There is zero marketing experience involved. There is zero R&D experience involved. They are told by the multinationals and the bigger corporations, 'You guys have all kinds of benefits in this country. You are very good at primary industry and so on, but when it comes to technology you have no economies of scale, you have no R&D strength and therefore you cannot make these products.' This attitude, which is bred into relatively low level management people at director level, gives rise to this horrendous risk averseness attitude which means products never see the light of day. A very minor percentage of the products which are indigenously bred or designed here, coming out of excellent engineering minds from all our universities, technical colleges and so on, ever see the light of day because of this horrendous risk averseness which is also part of the purchasing mechanism. That is what happens on a day-to-day basis.

**CHAIR**—Can you quantify any of that or give us evidence or is it simply your view?

**Mr Farrell**—It is not my view. I have been in the industry for 30 years. I am an electrical engineer by profession myself. I have worked in R&D. I have worked for and ran a division of Honeywell, a big corporation, for many years. I really understood how the whole process does work. For example, when I was a corporate executive 25 years ago with the Honeywell Corporation it was my job to project precisely what I am saying to you. That was in fact the rule of the game. You had to convince those guys out there that they were pretty good at wheat and sheep and digging mines and so on but they really did not have it when it came to designing new products. That is what I had to do.

**Mr BROUGH**—Who were you doing that to?

**Mr Farrell**—The people I am talking to you about—the guys who were the buyers, the FAS level type people—convincing the government purchasing people that that was the case.

**Mr BROUGH**—I take it this is your inside knowledge to your point:

The disaster of Common Use Contracts has developed cosy and costly relationships between low-level public servants and the myriad foreign suppliers.

You are referring there to just the big suppliers generally. Did you see the article in the *Canberra Times* on the 20th to do with IT companies—dossiers on \$1 billion Public Service buyers, which is basically saying that they have lots of information, et cetera? It seems to me there was a bit of a correlation between what that article alluded to in some aspects and what you are saying there. Is that what you believe occurs?

**Mr Farrell**—I believe that is a sophisticated version of what used to happen 25 years ago. They have made it an art form. In those days we did not have to do that. There were not that many players in the game. When the common use contract system came to pass, we saw the devolution of management. People who used to make decisions in the Public Service on purchasing who were generally at an FAS or higher level were all of sudden brought down to director level. The proliferation was just amazing. The director level people ‘went to bed’ so to speak with this proliferation of suppliers and were treated quite well by them in terms of entertainment and so on. This is where the problem cropped up. Therefore, it became necessary, because there were such large numbers of these public servants involved in the decision making process, to go to something like that to make it stick because there were a lot of people you had to worry about.

In the olden days you might be working with a Deputy Secretary or a Secretary to a department or, for example, in my case I used to work with the Second Commissioner for Taxation when I was working with Honeywell, so I was working at a very high level. As computers, IT products generally and communication products have downsized to the point where they are slightly larger than a commodity now—and there is such a wide variety of people making purchasing decisions—if you wanted to do your marketing right you would need to keep track of them. I think the dossier system is the way they do it.

**Mr BROUGH**—Can you point to any success stories of your members in relation to dealings with any federal government department or the ISONET or anything like that?

**Mr Farrell**—Not really. I started the NFIB about three years ago. I took time out from my own business to make sure this was done properly and with rigour. In the course of that time all I have had from quite reputable and well adjusted business managers who own their own businesses is complaints. There has been no single success story that has been brought to me from my members.

**Mr BROUGH**—What are the normal complaints you get?

**Mr Farrell**—That they are shut out—that the access has now been shut out by the clustering system and the general purchasing methodology.

**Mr BROUGH**—That is only one aspect. They are shut out because of the big scale, but there are—

**Mr Farrell**—That is it. That means that you lose your business. For example, one of my members, who deals in the education market, has simply said, ‘I am abandoning my complete personal computer product approach to this whole thing and I am going to concentrate on an area of activity for which I have to go and get new skills—skills in cabling systems—in order to survive,’ because his normal business has virtually been removed in its entirety. That is the scale of the problem, and something needs to be done about it.

**Mr BROUGH**—How do you improve the way government departments deal with WP?

**Mr Farrell**—As I said, I come to the nub of the whole solution at item 4—not just complaining about the problem. The calibre of the people who are employed and their tasks—their job descriptions, if you like—in the Public Service at this purchasing level have to be such that they are in a position to dissect the projects that they have under their control into digestible lumps in exactly the same way as private enterprise would normally do it.

If you have a project manager and he has to do an IT or a communications task, it is his job to break it down into digestible lumps so that it can be let out to small subcontractors and they can absorb it financially and technically. Sheer, God-awful laziness is currently involved because it is so simple for the Public Servants who are involved in the purchasing process to simply say, ‘Hey, this is great for us. All we have to deal with is one guy at IBM. Let him go and rip off the little guys. If we make him conform so that he has to have an SME component in his bid, he will do it. We just deal with him. Nice and easy.’ IBM does not do that. All the major contractors do not do that. They cannot be bothered. They might throw a few bones around the place. The system is inadequate. The purchasing authority must have the ability and then the authority to dissect projects into digestible lumps for small business.

**Mr BROUGH**—At your next point you say:

Buyers, or external consultants if used, MUST be instructed to incorporate a minimum (60%) of SME content and Australian Intellectual Property into the purchases.

Wouldn't that just flow on to the same problem? What you are really saying is that IBM, or whoever else becomes the major contractor, will screw 35 businesses instead of five businesses.

I used to be at the bottom of the food chain as far as building was concerned. I was a 'subbie' to an electrical contractor at one stage. I would not have thought that point would have made one iota of difference to the bottom line of an SME, because it does not matter whether you are contracting directly to the government saying, 'It's too big; can't handle it,' or you are contracting to an IBM who turns around and takes you to the wall anyway because they do not pay you on time and because they make such constraints. All they are doing is managing the overall project. There is no money in it for you even if there is cashflow.

**Mr Farrell**—No, I disagree. If you follow my argument there—the cause and effect—the primary initiative should be the mandatory dissection by the government agency, not by Mr IBM or whoever.

**Mr BROUGH**—There is a clear difference. So you are saying that you have your major network set up—which, obviously, someone on a large scale has to do—but as many elements underneath that as possible should be dissected into separate contracts.

**Mr Farrell**—I think a major network can be dissected quite easily if the people have the competence.

**Mr BROUGH**—We are only talking about IT here.

**Mr Farrell**—Exactly, but I am sure the same principles apply outside IT. I am illustrating the most crucial and most job intensive problem that we have at the moment. IT causes us the majority of our financial problems in the budget because of this tremendous deficit that we have bred. That is the only source of jobs in the future—the real source of jobs—and therefore it has to be treated with priority and not bundled in with other items which are different from it and of less significance. These are of great economic significance to Australia.

In the olden days we had some fairly gutsy people at the top of the tree at the deputy secretary level who would go about their business and had some desire to do things Australian and gave small companies pilot bids for example. Instead of going down to some asinine cluster system, if somebody wished to go into a project, it would be relatively easy to single out a small department or section of the department in Tasmania or somewhere else and say, 'We're going to put a little prototype of this thing in here,' which may be a hundredth of the total program, 'and we'll do proof of concept over there and we'll let small businesses quote directly.'

**Mr St CLAIR**—What is this cluster system you are talking about?

**Mr Farrell**—The cluster system in a nutshell is as follows. The government departments have been encouraged by what used to be OGIT, which is now OASIT, the Office of Asset Sales and Information Technology, to go into what are called clusters. Therefore, you will

get DIMA and four or five different government departments or agencies clustering together on the presumption that, if they go to tender as a group, a bid will be made for their particular task or set of tasks and they will get some economy of scale out of it and therefore they will only have to deal with the one supplier. Currently there are three or four clusters in existence. Cluster 3 is the first and the biggest disaster area because that in fact is now being used as a precedent.

So the whole idea of increasing the size of the bid rather than decreasing the size of the bid is fundamentally, logically and commercially unsound. The cluster system should therefore be abolished because it is virtually excluding, almost by definition, the ability for SMEs to bid, except in that throw me a bone method that is adopted.

**Mr BROUGH**—If you take the SMEs out of it, then it is not unstable. Let us presume that was not an issue at all. Let us presume it is just straight out dollar value and nothing else. Let us forget value for dollar and cost. The bigger it is the less you have to deal with. Doesn't that flow?

**Mr Farrell**—No, it does not. You get into monopolistic and potentially collusive situations. The fewer the number of people who can bid for a project—and we have seen this happen in other areas—there is bound to be collusion with only three or four major players in any game. It was picked up in transport as you well know with the ACCC and I can assure you that there would be no reason in the world as to why it should not happen in computers or communications at all.

**Mr St CLAIR**—It is a wonderful thing that we do in that we learn things everyday, as was mentioned before, Mr Chairman. In relation to the devolution of purchasing down the line within the departments themselves or within the agencies themselves, do you see that as a problem as well where you are not dealing with the right levels? So we do not want clusters because that puts the potential for too much power within a large group of collusive people, but we do not want to devolve it too far either because that puts it down at such a level that is not going to maybe give SMEs an opportunity.

**Mr Farrell**—I did not say we should not devolve, but we should devolve it to the right people. The expertise is what is important. I have an open mind as to whether devolution is a good thing. I do not have any problem with middle management making decisions at all, but if middle management is not equipped in terms of their background and experience to do the task, then it is very easy, particularly in technology matters, to bamboozle their chiefs, who, by the way—and I say this without indicting anybody or trying to be facetious—almost pride themselves on their ignorance of things technological. So you have this dilemma. Anybody can make decisions on motor cars because everybody drives a motor car and therefore it would be rather difficult for a director level person in the Public Service to hoodwink his management on things to do with motor cars. It is extremely easy to do in matters to do with telecommunications. Buzz phrases abound.

**Mr St CLAIR**—We have had in evidence today a department that does virtually have a joint venture arrangement with IT companies for the development of Australian software or hardware or whatever to come up with a product that they want.

**Mr Farrell**—Yes, it does happen. It is extremely rare. All I can say to you is that my personal experience and the experience of the people that I currently look after is that it is just non-existent. I will give you one particular case. This happens to be the Territory government, but it does not matter; the principle is so clear. A product was designed right here in Canberra in what we call the wide band area which came to pass about two years ago. We were supposedly going to try to launch it here in this Territory by the federal and the Territory governments. The purchasing people in that particular area simply went out of their way to get overseas to have a look and come back with an overseas product without giving any explanation as to why. The local product, which was 90 per cent complete, was cheaper by the way. They just went away and did it.

**Mr St CLAIR**—Is education and training the way to get over that situation of bringing the SMEs and the Commonwealth together? Do you believe that will get over it or is that just wishful thinking?

**Mr Farrell**—I think it is wishful thinking. The fundamental thing has got to be that the people who are making purchasing decisions have got to be qualified to do the job.

**Mr St CLAIR**—Is that accreditation?

**Mr Farrell**—I think it is more than that. The career background has got to be part of it. You have to change the nature of the beast, so you no longer have the situation where some guy just wanders in through corporate services or whatever, learns a few buzz words and buzz phrases about computers, has a PC on his desk, connects to the network, does a couple of training courses with IBM and thereby gets enough buzz words under his belt so he can take proposals to the deputy secretaries of the organisation, and the deputy secretaries just say, 'It is all too hard for me. If you reckon it is really all right, go do it.' That is simply not adequate. You have to have people who are used to projects, who have project management, who understand it, who have enough of a technological base literally between the ears and who have had that kind of training. So instead of just being Mr Public Service grade X, SOG B or whatever who migrates into a director level job, they have to have knowledge, and they do not have that knowledge.

**Mr St CLAIR**—But there was abuse, you will agree, 25 or so years ago with professional purchasing officers. We do not want to go back to those horrendous days surely.

**Mr Farrell**—No, what I am saying is that we need to accept a couple of axioms here. One of them is that devolution is not a bad thing because it gives management better control over what it is doing. So let us proceed with that, particularly in the technological areas. You have to define those people very well. You have to define their job skills very well. If necessary, you have to change the way they are employed and where they come from so they can analyse a situation and not be terrified.

I have sat in the presence of people at director level, FAS level and assistant secretary level because I happen to be a technologist—it is just an accident of history, by the way—and I know what I can do to bamboozle those guys. In the days when I had a Honeywell hat on, they would accept my bamboozling because it came with the image of the Honeywell Corporation. If I went to them with another hat on—the NFIB hat—or if I accompanied one

of my small business people, for example, even though I would have the same words and the same dramatic effect so they would not understand what I was saying, they would now reject it because it was coming from a small organisation.

So you have this culture problem that has to be solved, otherwise we will continue to go down the gurgler, and it is getting worse every day, not better. I predicted back in 1991 that it would cost us many billions of dollars. People pooh-pooed it then. We have lost many billions of dollars a year, and probably 200,000 jobs have been lost in the last five or six years because of this problem.

**Mr BROUGH**—What percentage of a government's IT business can your members provide?

**Mr Farrell**—At least 50 per cent or more.

**Mr BROUGH**—What do you think they are providing now?

**Mr Farrell**—Five per cent.

**Mr BROUGH**—And you think that 50 per cent can do it cost-effectively in comparison, plus give us all the other benefits?

**Mr Farrell**—Absolutely.

**Mr BROUGH**—You have no doubts at all?

**Mr Farrell**—No doubt about that whatsoever. There have been some fairly great changes in computer technology and communications technology in recent times, and I mean the last three or four years. If you do not mind me spending five minutes on it, I will explain one of them to you.

People across the world have got sick and tired of what is called the Wintel problem—Windows, which is Microsoft, and Intel which is the manufacturer of the chips. As you would understand—even if you were not computer skilled people—a technological cancer has been breeding all over the world for the past 10 or 15 years and it goes like this.

Windows and Intel decide they want to have a perpetually increasing market. Therefore, they must create obsolescence where it does not need to exist. They go to the people who design the programs for word processing and all the other applications and say, 'You have to start to offer more features and you have to be more computer intensive.' So two years down the track you will go to the same customer you have now—whether it be DAS, DEETYA or the Prime Minister's department—and say, 'Here are all these new features that you have to have. They all come at a price, unfortunately, so you have to chuck out all those machines you have and you have to build them into Pentiums or whatever. You have to upgrade.' This is the big hoax that has been launched on the whole industry and it has been growing and growing like top seed and costing hundreds of millions of dollars every year. It is cash money going out of our government.



A few years ago some people were sick and tired of this and they were people who have some ethics in the business. One of the people who designed one of the operating systems in the world said, 'This has got to stop. We have to burst this Wintel bubble.' These people said that as computers were getting faster and faster, it stands to reason—it is commonsense—that we should be able to use that one little computer, which is now more powerful than a mainframe 20 years ago, to service more than one person. The idea of everybody having a computer on their desk becomes obsolete.

A lot of small companies said, 'Thank you, God. Let's get involved in this multiuser use of computers.' They started to design the necessary products which would support this multiuser phenomenon. That is really where the government should be going. The big companies do not want this to happen and therefore have virtually kept themselves out of this marketplace. That is where the SMEs are extremely strong. If the government was to break its projects up into digestible lumps, this new technology would get in there, small business manufacturing would get in there and the Wintel bubble would be burst once and for all.

In my other capacity I have just implemented a project in this city based on this multiuser technology. That is the type of thing which has been precluded. Some small businesses, particularly one I know in Sydney, spent nearly \$2½ million worth of research money to develop the products that go with this multiuser technology, and they have virtually been drowned out of the system.

**Mr BROUGH**—You are saying that that exists now?

**Mr Farrell**—Absolutely, they exist today.

**Mr BROUGH**—They may be mainframe.

**Mr Farrell**—But the point is that we get back to risk averseness. I have bounced this off a few people and asked, 'Why don't you go down this multiuser path?'

**Mr BROUGH**—You cannot go down that multiuser path if you do not put any user requirements in the tendering documents. Therefore, they are precluded before they start.

**Mr Farrell**—They will not do it, because once again, there are some extremely cosy relationships between the buyers and the big boys. It is as simple as that, and the big boys do not want to play this game.

**Mr BROUGH**—Why hasn't business picked it up? I am no computer expert, but my understanding is that they were changing over their hardware every 13 months and it went down to about every 8 months, because of this con being perpetrated on the world market. Why aren't they picking up things like these multiuser options?

**Mr Farrell**—You will find that big business is very much like big government. In the IT departments there is a similar problem.

**Mr BROUGH**—Any sized business. What about medium sized business?

**Mr Farrell**—Small business wants to do what I am talking about.

**Mr BROUGH**—Why aren't they?

**Mr Farrell**—They are slowly, but it is taking too long. That is an issue outside this one. We are talking about federal government departments here. We have talked about what they call thin client technology, which is where all you have on your desk is a screen, a keyboard and a mouse and there is no PC there at all. They do not want to hear about it—'That's risk averse, mate. Can a Sydney company actually do this sort of stuff? We don't want to hear about that.' It is very simple.

**Mr St CLAIR**—Can we get off IT for a minute? There are other products that a lot of your small business people have. I am talking about the ACT particularly, because that is where you are from. What are the other barriers to traders that are around? Do you see a way over that?

**Mr Farrell**—Once again, there is another problem that we face here. Some of the people in the motor trading enhancement industry are building bodies for motor cars, trucks and so on for government departments, et cetera. In a number of cases you will find that the tender is being expressed in such a way that, when a small business guy puts a bid in, that tender is analysed in such a way that he does not get the job. On a \$2,000 or \$5,000 job, for example, he might lose out by \$60. You will find that that \$60, which is the difference in the dollar price for the product, is more than compensated for by the fact that, once again, the public servant involved in the letting of the contract has to drive to Newcastle for two days and pick up the product from there. On the surface they have made a \$60 saving in the purchase and it might have cost them \$500, let alone the man's time to pick up the product from Newcastle.

**Mr BROUGH**—Do you have any examples of that?

**Mr Farrell**—Not here. I could certainly document one particular case, if I needed to, yes.

**Mr BROUGH**—If there are any others you could give us, it would be most useful.

**Mr Farrell**—That is the nature of the purchasing problem that we have. You have this style of activity taking place where there are personal benefits and things like travel get involved. Therefore, a pseudoevaluation takes place.

**Mr BROUGH**—Would you think there was a purpose for reintroducing the watchdog over government purchasing, so that there is a body that can be appealed to? It can look down and see that XYZ department intends to purchase in a certain way and that is not a good decision, because of the things that you have mentioned.

**Mr Farrell**—I think it would be useful, as long as it was not too overbearing. I think the historical interdepartmental committee style of thing was just a nightmare because it took too long to get anywhere. I think there should be an ombudsman type of body that one can appeal to to get some justice.

**Mr St CLAIR**—If you had a magic wand, how would you fix it?

**Mr Farrell**—First of all, I would definitely look simply, clearly and quickly into the educational background and qualifications of the people who are making the purchases, and make sure that they are either removed or transferred to other areas if they don't fit the bill. New people should be brought in from outside or wherever who have the qualifications and background to make the decisions which encompass these two points, that is, breaking the projects down and being analytical enough to make the right decisions, and then be subject to some scrutiny at random or on demand. That would solve the problem, because it has got generally worse over the past five or six years rather than better, and continues to get worse.

**CHAIR**—Thank you very much for coming to talk to us today. We appreciate your input.

Resolved (on motion by **Mr St Clair**):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

**Committee adjourned at 4.37 p.m.**