



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND  
AUDIT

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

THURSDAY, 28 JANUARY 1999

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**JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT**

**Thursday, 28 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 and Mr Brough, Mr Charles, Mr Georgiou, Mr Griffin and 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 9.03 a.m.**

**CHAIR**—The Joint Committee of Public Accounts and Audit will now take evidence as provided for by the Public Accounts and Audit Committee Act 1951 for its inquiry into Australian government purchasing policy and practice. The public hearing resumes from yesterday. Today the JCPAA will take evidence from the Department of Finance and Administration, the Australian National Audit Office, the Department of Social Security, the Australian Taxation Office, the Australian Customs Service, AusAID and the Australian Information Industry Association.

I refer members of the media who may be present at this hearing to the committee's 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.

[9.04 a.m.]

**WRIGHT, Dr Diana, General Manager, Resource Management Framework Group, Department of Finance and Administration**

**SAAVE-FAIRLEY, Mrs Louise, Branch Manager, Competitive Tendering and Contracting Group, Department of Finance and Administration**

**CHAIR**—I welcome representatives of the Department of Finance and Administration to today's hearing. We have received your submission, which we have read. We thank you for that. Would you like to make a brief opening statement before we start to ask you questions on your submission?

**Dr Wright**—I would like to give the essence of our submission so we have a context to talk in. There has been a progressive devolution of responsibility for procurement over the last 10 years to agencies. This has recently been formalised in the FMA Act, which has clearly put the responsibility for government procurement as a responsibility of the CEOs of agencies which are now responsible for the efficient, effective and ethical use of Commonwealth resources. In line with this, the role of the Department of Finance and Administration has aligned itself. It has moved away from one of compliance monitoring and being involved in the detail to one of establishing a procurement framework and providing facilitation to streamline and cut down red tape.

The objective is still one of value for money. The Department of Finance and Administration is seeking to facilitate this through a range of initiatives or functions. We have recently simplified the Commonwealth Procurement Guidelines. We have amended and abolished a number of common use arrangements. We have improved the endorsed supplier arrangements and introduced the Government Information Technology Communications Contract No. 3. We run a range of fora and workshops. We have a web site which provides best practice examples and documentation.

We have established a competitive tendering and contracting panel of specialists which agencies can access for skills and advice. We also perform an industry liaison function. Finally, we have introduced a Purchasing Advisory and Complaints Service, which operates on a toll-free number. That is the sort of support and facilitation we are now providing to agencies which have the prime responsibility for Commonwealth procurement.

**CHAIR**—Thank you, Dr Wright. One of the problems this committee has—and, in fact, the industry, science and technology committee had in 1994—is trying to get data. If part of the object of government purchasing is to support Australian-New Zealand industry and to support small and medium sized business, then we do not seem to have any really good statistics. ISONET in their submission said:

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.

Further to that, the Department of Employment, Workplace Relations and Small Business purported to give us statistics which they said they got from you. We do not understand where the data came from and we do not know how we get data. Can you help us?

**Dr Wright**—There are two basic sources of data available. One is from the endorsed supplier arrangements. There are currently 450 companies registered on the endorsed supplier arrangements and we are able to do analysis of those. Currently some 63 per cent of the endorsed suppliers are small to medium enterprises. An eligibility criterion for becoming an endorsed supplier is that you need to pass some industry development criteria or be an ANZ supplier. So one source of information is through the ESAs.

The second source of information is through Transigo data. All Commonwealth purchases over \$2,000 should be reported on Transigo. In conjunction with the Department of Employment, Workplace Relations and Small Business we engaged Dun and Bradstreet and they have done two years of analysis of the data. That analysis demonstrated that by value 28 per cent of Commonwealth purchases went to SMEs in 1995-96 and 1996-97. In 1996-97 that constituted \$2.2 billion. We have the Dun and Bradstreet information for the current financial year, but it is still being analysed. So that information has not yet been publicly released.

The information on Transigo also indicates that some 96 per cent to 97 per cent of suppliers are Australian-New Zealand suppliers. So the ESA and Transigo data are the two prime sources of information at the moment.

**Senator HOGG**—Just on that, you say 96 per cent or 97 per cent are suppliers. Does that mean that they are supplying Australian-made goods or they could be supplying something that is imported from overseas?

**Dr Wright**—That is indeed the case. It is only the suppliers. Labelling requirements are not the responsibility of Finance and Administration. We do not currently collect data on the nature of the goods supplied. That is a whole other area of complexity.

**CHAIR**—The problem I have is with your numbers. The departments we talked to yesterday and the departments that have given submissions to us tell us they cannot tell us or they can only partially tell us whether they are buying from Australian-New Zealand companies and whether they are buying from small or medium sized businesses. In some cases they can give us no data and in some cases only partial data. If the department which has the responsibility for purchasing cannot give us data, how can you?

**Dr Wright**—Because the agencies which register their purchases with Transigo also include a Dun's number for the purchase which allows us to dissect the information by the type of business in terms of its size. So that is the way that we are able to identify SMEs. The registered address determines whether it is an ANZ supplier or not. That is the nature of the data that is held in Transigo.

**CHAIR**—So if a multinational has a registered office in Australia with no employees, it is still an Australian-New Zealand supplier?

**Dr Wright**—Yes.

**CHAIR**—Could you give us some further information on the data, the statistics, you have and how you put it together? Can you give us some definitive information?

**Dr Wright**—Could you clarify what sort of information you are seeking?

**CHAIR**—We would like a report on how you developed the statistics—what sort of spreadsheet operation you used or what you have done—and how you came up with the answers you got.

**Dr Wright**—You are seeking the Dun and Bradstreet methodology?

**CHAIR**—Yes, the methodology. Before we change the topic, do you want to follow up on that, Senator Hogg?

**Senator HOGG**—Like you, Mr Chairman, I am very curious about these statistics because it is the one thing we found very hard to actually nail down. This also raises the issue I raised of Australian-made and manufactured goods versus those that may well be supplied through Australian suppliers. Do we have any way of identifying whether we are giving business to Australian manufacturers as such or whether we are just giving the business to Australian suppliers who are pulling the goods from offshore? In that case all we would be doing is a little operation and not really creating a number of jobs in the Australian economy.

How good are the ESA statistics? Sixty-three per cent are SMEs, I think you said. If 63 per cent are SMEs, does that mean that 63 per cent have gained contracts with the government or that 63 per cent on that list are SMEs? Do we know how many actually ever gain a contract with the government?

**Dr Wright**—We do not collect that information. If you are an endorsed supplier, it means that you have pre-clearance.

**Senator HOGG**—Yes, I understand that. But we do not know, though, whether or not those people actually get a contract and the value of the contract.

**Dr Wright**—You would get that information through the Transigo data, if you undertook an analysis in that form.

**Senator HOGG**—And you do not undertake that form of analysis?

**Dr Wright**—We have not done to date, no, but the information is there. All contract information over \$2,000 is currently collected on the Transigo system. The ESA is just a supply arrangement so that we can enter data online, but it does not actually track transactions. That is Transigo.

**Senator HOGG**—Yes, I understand. Do you keep any statistics at all on what type of small businesses are actually receiving the benefit of government contracts? I know we have



got them generically grouped as ‘small businesses’, but do we know whether they are consultancies, in which case they are invariably single person operations as opposed to a small manufacturer who may employ two or three? Do you have any break-ups such as that?

**Dr Wright**—We have done a high-level break-up—I believe it was in our submission—and 30 per cent of government contracts are for consultancies, but that is a very high-level grouping.

**Senator HOGG**—And those consultancies would invariably just be individuals?

**Dr Wright**—It is a fairly broad definition, as I understand it. It could be major accounting firms as much as individuals.

**Senator HOGG**—So you don’t do an analysis within that consultancy break-up?

**Dr Wright**—We haven’t done that to date.

**Senator HOGG**—That would be interesting if it were available.

**CHAIR**—On the issue of centralised versus decentralised purchasing, we take it as read that each department will, of course, make their own decisions. But ISONET told us yesterday that since the demise of the National Procurement Board there seems to be no watchdog whatsoever; in fact, that their services, except for their continuing relationship with the Department of Defence, apparently are not being utilised, notwithstanding the fact that in some of the reports from some of the departments they say they have contracts with ISONET. But ISONET says they have not had any inquiries for a couple of years from any department except Defence. My question is: how do we coordinate to get the message through the whole of the purchasing organisations, granted it is across departments and spread very widely in some and narrowly in others? How do we get across the message of purchasing requirements and what the government’s objectives are?

**Dr Wright**—There are a number of mechanisms for getting the message across. The Department of Finance and Administration runs a number of workshops which are both for agencies and for industry bodies, and there is one coming up in February which is specifically targeted at SMEs. These workshops have between 50 and 150 people attending each time. I think we have run five in the last 12 months.

**Senator HOGG**—Where are those held?

**Dr Wright**—In a range of locations. We have had a number in Canberra. The one for SMEs will be held in Victoria in February.

**Senator HOGG**—In regional areas as well or are they mainly capital city based?

**Dr Wright**—To date, they have been capital city based.

**Mr BROUGH**—How do you advertise them?

**Mrs Saave-Fairley**—The agency ones are advertised through a procurement network and also through CTC practitioners networks in agencies, and that is done through direct invitation via email type arrangements.

**Mr BROUGH**—So, one, they have to got to be on email—so they have got to be connected to the Net—and, two, they have to already have some sort of contact with the agency?

**Mrs Saave-Fairley**—That is correct, if we are just talking about the agency seminars. The conference that is coming up in February, however, will be advertised in the press.

**Mr BROUGH**—This is the SME one?

**Mrs Saave-Fairley**—That is right, yes. Invitations are going to industry bodies themselves which are representative of particular industry groups.

**Senator HOGG**—When are they held? What hour of the day?

**Mr BROUGH**—Good question!

**Senator HOGG**—No, I am serious, because many businesses find it difficult to get there.

**Mrs Saave-Fairley**—To take the Melbourne one as an example, it starts in the morning and runs for the day. But it is broken up into a series of different workshops during the day, so they can choose which particular one they might care to go to or spend the whole day there, depending on what they feel like. That is a free conference.

**CHAIR**—Getting back to the central question—perhaps I did not phrase it properly—some industry groups in some companies said in their submissions to us that all that value for money means to most purchasing officers is best price. Clearly, that is not the government's intention; the guidelines clearly go much beyond that. If there is no central watchdog anywhere to see whether individual departments or agencies are applying the guidelines properly, how do we know what is happening? How do we know that those criticisms are not valid?

**Dr Wright**—I would like to address a number of points there. With value for money, one factor is price. But clearly any assessment needs to be done on a case by case basis and agencies would need to take into account things like whole of life cost of the particular project or commodities they were looking at and the competency, viability and capability of the organisation that they were looking at. So there is a range of factors.

We address whether agencies are doing the right thing in a number of ways. We have available to agencies, and put out through our workshops, case studies of best practice which encourages agencies, and over 30 case studies are currently available. We have available in hard copy and also on our web site the government procurement guidelines. In terms of all watchdog bodies, since we established our toll-free complaints and advisory service there have been some 6,542 calls, of which only 25 could be classified as complaints, which is 0.4

per cent. All of those to date have been satisfactorily resolved by getting the two parties to discuss things together. So there is an area where people can seek advice. There is also the Ombudsman's office. The Department of Finance and Administration is a designated body under the ANZ Government Procurement Agreement, so there is another avenue for companies to seek advice as they feel they need it and be fairly treated. So, despite the fact that the National Procurement Board no longer exists, a range of mechanisms are available.

**CHAIR**—As an example, the Paper Manufacturers Association told us that their five members, who produce something like 97 per cent of Australia's paper requirements, cannot get any data. But they believe, from internal work that their companies have done, that somewhere in the order of only 30 per cent of Australian government paper purchases come from Australian manufacturers; the rest comes from overseas sources. They claim that value for money in the majority of cases simply means straight-out bottom line price.

**Senator HOGG**—How do you satisfy yourself that the government is getting value for money? That is the thing that I find hard to understand. I understand that you have got this watchdog process and so on, and that is all well and good, but how do you satisfy yourself that the value for money that the chair has outlined is being attained?

**Dr Wright**—That is the role of the agency heads under the FMA Act. They are the ones who are now responsible, accountable, for expenditure of money. Ultimately, there will be other means of evaluating agencies with the introduction of accrual budgeting. Output pricing will ultimately facilitate better benchmarking.

**Senator HOGG**—So there is no evaluation done at all? Currently, there is no benchmark against which you measure their performance—that they are getting value for money?

**Dr Wright**—The agency heads are responsible for demonstrating value for money and for undertaking processes that are subject to scrutiny. There are a number of mechanisms—through parliament and through the ANAO—for looking at individual processes to test value for money, and there are a range of complaints mechanisms should various suppliers feel that they have not been fairly dealt with.

**Mr GRIFFIN**—What you are saying is that there is no role for DOFA in that?

**Dr Wright**—No.

**Mr GRIFFIN**—That is what you are saying.

**Dr Wright**—Yes.

**Senator HOGG**—Do you think there could be or there should be?

**Dr Wright**—Not with the devolution of responsibility to agencies under the FMA Act. The legal responsibility is with them. Our role, as we see it, is one of facilitation and advice providing the policy framework.

**Mr BROUGH**—I want to come back to the data that you are provided with. What do the agencies provide you with in terms of informed data?

**Dr Wright**—In the Procurement Guidelines—which I believe were attached to our submission—there is a list of data which agencies supply when they register purchases on Transigo. That is the data that we collect. There is other data which, if you become an endorsed supplier, is collected. Financial checks are also undertaken. That data is not made publicly available.

**Mr BROUGH**—What I am driving at is that when it comes down to value for money it is sometimes very subjective; it is down to the individual. DOFA's responsibility is overall financial control, if you like, even though it has all been devolved down. What if you had better access to the sort of data that we are referring to? I am looking here at national competition and industry development, section 5. It continually refers to ANZ industry capabilities and ANZ industry, not companies which could be shelf companies purchasing entities or whatever else from anywhere else. It does not seem as though the data that you are able to collect or that the agencies are currently collecting goes down to that level. It is more a superficial level, a simple level, saying, 'Well, we accessed it from a company that is registered in George Street, Brisbane or Sydney or wherever else, so we have done it.'

Do you think that it would be useful if, as part of those contracts, that information was provided and kept on a database by yourselves so that you say, 'Well, over a 12-month or a six-month period it appears that these agencies have a problem in fulfilling the guidelines in the way in which the government would like to see them enforced'?

**Dr Wright**—They are guidelines, not rules, and the objective is to facilitate SMEs and ANZ suppliers; it is not to mandate.

**Mr BROUGH**—Sorry, it is not ANZ suppliers. It says:

... investigate ANZ industry capability and provide fair opportunity for suppliers to compete ... the development of ANZ industry.

That is not just suppliers. I think that we are playing at this level unrealistically. If we want to get down to the tints of it, we have got to scrape a little bit further below the surface.

**Dr Wright**—The objective is through value for money; it is not to facilitate business for ANZ. In terms of accessing and collecting additional layers and levels of detail and then analysing that, one would need to look at the overhead that places on companies and agencies as well as on anybody else, whether it were DOFA or anyone else, to actually analyse that data. Those are considerations that would need to be addressed. It is a very complex issue once you start looking at whether produce is Australian made or manufactured under those definitions and whether companies are Australian or New Zealand. That can be measured at one point in time—they may change a week later. There could be a huge overhead in collecting that data. If one were to do that one would need to be clear on what questions one wanted to interrogate the data on so that it was robust. There could be a huge overhead in doing that and that would need to be considered.

**Mr BROUGH**—It seems to me that it is a waste of time having that sort of framework in there if, from what you are saying, it really is unachievable. With the rewriting of the laws relating to Australian components and what is Australian made, surely that task will become easier. All we are really looking for is something which is more substantial than what we have now, because what we have now is no more than a cup full of cold water. We could virtually have everything being purchased offshore by a company registered in Australia, and on the surface of it the Australian government would be supporting Australian business and that need not be the case at all. Would you accept that proposition?

**Dr Wright**—It would be a policy decision for government whether additional data collection and the overheads that that implied were warranted.

**Mr BROUGH**—It would certainly have to be investigated. I just make that point.

**CHAIR**—Your attitude tells me, rightly or wrongly, that DOFA is not particularly interested one way or the other whether purchasing by government agencies—totalling over \$8 billion a year—is enhancing Australian industry development or not. It seems like you do not really care. If that is so, then I can say on behalf of the committee that we have a big problem here.

**Mr BROUGH**—We need to know where it sits—to put it in a slightly less confrontational way.

**Senator HOGG**—Someone has to be responsible.

**Mr BROUGH**—What we have been asking all the different departments, and what I would like to know is: where do the six guidelines in here rate? Value for money can be interpreted as we said, but we need to look at them as a whole and say, ‘What is value for money?’ and build on that and say, ‘We are going to evaluate things because of the spin-offs that are available.’ One of the earlier witnesses is going to provide us with information on the value to the Australian economy of every additional \$1 million purchased by the Australian government of Australian products. Do you have anything at all which goes beyond this to say how you interpret this procurement, or is that totally up to the agencies?

**Mrs Saave-Fairley**—It is incumbent on each agency, as you know, to ensure that Commonwealth Procurement Guidelines are reflected in their Chief Executive Instructions and it is then up to the CEO of that agency to ensure that they implement government policy accordingly and be accountable if they do not—the decisions that they make are subject to external scrutiny.

**Mr BROUGH**—This is the bottom line: are you happy with this? Are you happy that the procurement guidelines work? Do they satisfy the needs?

**Dr Wright**—The revised guidelines have been in operation for 12 months. Given the number of calls on the complaints line and feedback that we have had from industry and agencies, we are satisfied that for that 12 month period things are operating well. But it has been only 12 months.

**Senator HOGG**—How many small businesses have you actually sat down with and discussed the guidelines with, as opposed to peak industry councils and industry groups, which do not necessarily represent the view of many small businesses—as we have heard in this inquiry? Have you actually sat down with small business themselves?

**Mrs Saave-Fairley**—Yes, there has been regular contact with small businesses as part of our endorsed supplier arrangements. That happens through calls coming in through our Purchasing Advisory and Complaints Service, and also on a face-to-face basis with people coming into the office and discussing with the relevant teams what the particular issue is and how it applies to them and so forth. So that does happen.

**Senator HOGG**—If I were a small manufacturer in Broadmeadows in Melbourne, how would I know of your existence? How would I come in contact with you to see if there is any room for me to get a contract with the Australian government? And if I am dissatisfied, how would I know where to register my dissatisfaction?

**Dr Wright**—We have an organisation within DOFA called AusInfo which runs the information bookshops. All the publications, including the Commonwealth guidelines and information on how to contact us, are available through AusInfo. That is in addition to any electronic mechanism for Internet access. AusInfo also runs an information service by phone, so there is easy, cost-free access for people to information.

**Mr BROUGH**—Let us come back to the statistics. You said in your submission on page 10:

Most industry organisations expressed concern about a lack of meaningful data about the extent that Government contracts are being let to small business. This is particularly relevant in the light of the Government's commitment that *each Commonwealth Department or agency be expected to source at least 10% of its purchases from SMEs.*

You go on to say that you have an SME participation survey report currently being considered by DOFA. What information do you expect it will contain, and when will it be released? Can we get hold of a copy?

**Mrs Saave-Fairley**—It is under consideration for analysis at the moment. It is our intention that the submission go to the minister by the end of March.

**Senator HOGG**—On page 4 of your submission you talk about model industry development criteria for use by agencies in respect of new arrangements for major projects. The submission says:

To assist agencies to meet this requirement, the Government also decided that the Minister for Finance and Administration, the Minister for Industry, Science and Tourism and the Minister for Workplace Relations and Small Business jointly develop, in consultation with industry and agencies, model industry development criteria for use by agencies.

When will that be developed?

**Dr Wright**—It is currently in draft form. Discussions have taken place with over 30 companies or industry organisations. The draft criteria have been used by a number of

agencies, including DOFA in our tendering processes. The finalisation was held up by the election, but we expect that the criteria will be finalised and released by the time we have our conference in February.

**Mr GRIFFIN**—Can we get a copy of the draft?

**Dr Wright**—We will check and take advice on that.

**Senator HOGG**—On page 7 of your submission under the endorsed supplier arrangements it says:

Suppliers will not need to seek endorsement every three years, with continued endorsement being subject to regular random reviews of their performance against ESA objectives.

Who will conduct the random reviews? How often? I understand what the word random means, but what are going to be the criteria? Will there be any review made of the ESA objectives?

**Dr Wright**—That is a question on detail. I will have to take advice. I will get back to you on that.

**Senator HOGG**—Thank you.

**CHAIR**—I have a couple of questions on Transigo. You said you are depending on Transigo for the data you have given us. What happens in July when Transigo goes?

**Dr Wright**—We will be testing the market and looking for a replacement system, in advance of that date, that meets our requirements and that agencies and industry are happy with. We have the capability to extend Transigo for a bit longer should we not have completed the process by the time. Certainly, we will not be without a system.

**CHAIR**—The Defence Council and the Australian Industry Group told us yesterday that they have done surveys of their members. They have a huge membership base which includes a lot of small and medium sized businesses. The results of their work indicate that the majority of small and medium sized businesses are not yet plugged into the Internet and do not have electronic capability. So how is electronic purchasing advantaging or working with Australian small and medium sized businesses? That seems to be a big question hanging in the air.

**Dr Wright**—That is no longer the responsibility of DOFA. The operational aspects of electronic commerce were moved under the AAO changes in October to the Office of Government Online.

**CHAIR**—You have misunderstood the question. One of the objectives of the purchasing policy of the Australian government is to enhance Australian industry capability, and particularly to give small and medium sized businesses a go in the government procurement market. Do you agree with that?

**Dr Wright**—Yes.

**CHAIR**—If small and medium sized businesses are not using the Internet then they cannot get information about available government purchasing contracts when they have been put up on Transigo or anything else. Nor can they enter into a purchasing contract with the government if they are not online.

**Mrs Saave-Fairley**—When government agencies go into open business opportunities they are required to place that business opportunity on Transigo. But nine times out of 10 they will also place it in the press, not only for the reasons you have outlined but also to ensure that they do get a wider market coverage than just Transigo. Most agencies, and it has certainly been DOFA's experience, explore every available avenue to ensure that they get the appropriate market response. Anybody doing a good business case would do that.

**CHAIR**—From whom does the Department of Finance and Administration buy their paper?

**Mrs Saave-Fairley**—Our current supplies are of Australian made paper.

**CHAIR**—So all your purchases are of Australian made paper?

**Dr Wright**—To my knowledge, yes. I will check that. Whether it is 100 per cent or 90 per cent I am not sure, but I understand that the current contract supplies Australian made paper.

**Mr GRIFFIN**—So it is an overall departmental-wide contract. Can you tell us why it is Australian made? We keep hearing that that may not be the case in some other places.

**Dr Wright**—No, I will have to take that on notice.

**Mr GRIFFIN**—I am just wondering how it has come out that way. We have heard that it is not coming out that way in a number of other places.

**Mr BROUGH**—It is a good strike rate—three out of three so far. Could we just go to the issue of training. You said in your opening statement that there was a panel of experts which could be accessed by agencies. We have heard from various departments already that some have accreditation for their purchasing officers, others have none, others have ongoing training, et cetera. Is the panel of experts being used widely by the various agencies? What internal training and accreditation do you have for your purchasing officers?

**Dr Wright**—Louise can probably provide the detail, but we have just expanded the panel over the last couple of months to include five companies who can supply skilled training expertise to agencies. We are about to make the public announcement on that. That is in addition to the other 27 companies who are registered on the panel.

As far as our own department is concerned, when we are undertaking major tenders we usually go to a panel member and get a business adviser and a probity auditor to work with us on the process. It is someone who has particular skills in the area for which we are



tendering, whether it is an outsourcing project or whatever. So we actually seek skills appropriate to the task at hand. Clearly, what you need depends on the case, the contract that you are letting at the time. So we actively seek skills to complement and supplement our in-house skills.

**Mr BROUGH**—Is DOFA using ISONET?

**Dr Wright**—I am the director of ISONET for DOFA.

**Mr BROUGH**—But do you use their services within the department?

**Dr Wright**—In the recent contracts which we have gone out to tender for there has been no need to go to ISONET because the market and the players in the field are well-known and we have made sure that we cover those as one is obliged to under the guidelines. ISONET is really when you need to ensure that you have covered areas, particularly where there is no clear market in Australia or it is a very specialised area.

**Mr BROUGH**—Can we get a list or some sort of a breakdown of who has used these experts because they are all outsourced and not in-house, aren't they?

**Dr Wright**—No, they are a panel of companies.

**Mr BROUGH**—So whilst we have now got this panel which has been extended, and that is great, if no-one is using them—although I presume some are—we would like to know who are and who are not.

**Mrs Saave-Fairley**—At the moment, based on anecdotal evidence from both the users and the suppliers, there seems to be a higher rate of use, which is good. At the moment we are actually undertaking a review of the CTC panel to assess whether it is actually having the impact that is intended. We can probably—

**Mr BROUGH**—I take it they are just being paid fee for service. So when the department of immigration requests XYZ company to provide someone, they put in an account and that all comes back to yourselves or whoever else.

**Mrs Saave-Fairley**—No, the agency deals direct.

**Mr BROUGH**—Or back to the agency. You know who they are and they should be able to provide to you who they have provided services to.

**Dr Wright**—If it is a purchase over \$2,000, then it should be registered under Transigo. But we are undertaking a review. When the panel was implemented in March, the industries and the firms selected certainly had high expectations so I am sure they will be very keen to let us know whether it is working for them or not.

**Mr BROUGH**—Sure.

**CHAIR**—Can you tell us why the government abolished the National Procurement Board?

**Dr Wright**—It was a policy decision of government.

**Mr GEORGIU**—Can you elaborate on the reasons for the policy decision?

**Dr Wright**—No.

**Mr GEORGIU**—You can't.

**Mrs Saave-Fairley**—I understand that it was as a result of the purchasing review in December 1997 and as part of the general devolution to agencies of responsibility for their own purchasing areas, plus the proposals that came out of the purchasing review to set up things like the Purchasing and Advisory Complaints Service, plus the fact that we now have the ANZ Government Procurement Agreement and so forth, this was appropriate. That is my understanding.

**Mr GEORGIU**—I do not think you were being asked to canvass the merits of the policy, just the grounds of the policy. Could I just ask one question; I have come in late and it may have been covered. There is a provision in the procurement guidelines that where agencies purchase overseas goods in preference to ANZ goods they must be able to demonstrate that ANZ suppliers have had a fair opportunity to compete. Can you tell us how you do that and how you are able to demonstrate that Australian suppliers have had an opportunity to compete?

**Dr Wright**—We can only talk to that question from the Department of Finance and Administration's perspective.

**Mr GEORGIU**—Just from your perspective.

**Dr Wright**—Certainly we use market intelligence and we advertise widely in the press. Case by case we have undertaken a number of tender processes over the last 18 months. We also have access to ISONET if we need to do a double-check.

**Mr GEORGIU**—So that, in your view, meets the requirement that you must be able to demonstrate that ANZ suppliers—

**Dr Wright**—Just before you came into the room, we said that for each tender process that we engage in we usually employ a business adviser who is skilled and knowledgeable in that area who understands the market and who the players are. We also engage a separate probity auditor who signs off on each stage of our process. So that is our methodology for ensuring that we meet the guidelines.

**Mr St CLAIR**—Do you see it as a role of DOFA to enter into any development programs with any of your Australian suppliers, or ANZ suppliers, for products that are not available easily, rather than allow the big overseas companies, for example, to develop a product that you want?

**Dr Wright**—We have not done to date. It is a concept which is conceivable under a partnership approach. It would need to satisfy all the criteria of public accountability and we would certainly need to be assured that we could demonstrate that and satisfy parliament that spending taxpayers' money on developing a product or an industry was an appropriate thing to do.

**Mr St CLAIR**—We have already had one agency here that does that as part of its policy, if there is a product it needs and it finds that it has a supplier able to provide assistance, if you like, to develop the program. You do not see a role to fit in with these sorts of guidelines?

**Dr Wright**—Not a specific role for the department. It would probably be a more appropriate role for DISR.

**Mr GRIFFIN**—There are several pages on common use agreements and ESAs in your submission. I would like your response to a couple of points. What sort of feedback have you had from industry groups et cetera around the question of the changes that have been made? We have had in submissions some criticism of the changes. One organisation said that CUAs are an effective method of collective buying arrangements but that in some areas they are now replaced by 'incompetent endorsed supply arrangements which are not what the user wants'. From that, the ANAO said in its submission that CUAs save the Commonwealth between \$58 and \$66 million per year through demand aggregation and consequent lower prices. Can I get some comments from you on those issues and comments.

**Dr Wright**—We currently have one CUA still in place. It goes through to the year 2000, and it is for archival services. Our analysis of the information—it is covered in our submission on CUAs—showed that 20 were basically not CUAs but mainly had one sole user, which was Defence. They have now taken over those contracts. A couple of areas were identified where it might be possible to achieve significant whole of government savings, and they were energy and travel. Because of the major reforms in the energy industry—it is in a state of flux—that has not been proceeded with as a CUA at present. However, we are scheduled to revisit it in August 2000, I think.

With travel, we undertook considerable consultation with agencies as to what would best meet their requirements. The feedback from that and our analysis indicated that through effective clustering the same level of savings could be achieved by government as through mandating a CUA. Agencies were certainly concerned about being locked in. Now they can cluster. ATO and Centrelink have already entered into contracts, and other agencies are looking at clustering with them to achieve savings. When the current travel contract of the Department of Finance and Administration ceases, it will also be looking at that.

**Mr GRIFFIN**—Basically, as to the ANAO's point about the advantages of these, you believe that the other arrangements coming into place or which are in operation take care of that concern?

**Dr Wright**—Yes.

**Mr BROUGH**—You say that the competitive tendering and contracting branch of DoFA is primarily responsible for advising and providing guidance on the policy framework rather than providing centralised control and coordination. Given that, how do you advise purchasing officers across the government agencies to balance the principles of national competitiveness in industry development, value for money and open and effective competition?

**Mrs Saave-Fairley**—Basically, as I said, we run a whole range of fora, be they seminars or workshops, which happen on a regular basis. Agencies are able to come along to those fora. They also ring individual officers on an as-needs basis. On top of that, we have the web site, which is our main—

**Mr BROUGH**—They are the mechanisms. What is the advice you provide to them in relation to the balancing of those principles?

**Mrs Saave-Fairley**—Agencies are essentially advised to consider, in terms of value for money, for example, and industry development, small and medium enterprises and ANZs. They consider things such as the benefits of local suppliers, avoiding practices that might discriminate, providing opportunities for ANZ suppliers to compete, actively encouraging small business participation and looking for innovative ways to produce the most effective outcome.

**Mr BROUGH**—But you are not putting any particular emphasis or balance into that? Would you feel confident that the overwhelming majority of agency purchasing officers, if asked, would come up with a fairly similar line in relation to getting that balance so that it reflects your advice?

**Mrs Saave-Fairley**—All of that is in the framework of the purchasing guidelines and the way that they are required to be reflected in agencies' CEIs and in best practice purchasing policy and practice.

**Mr BROUGH**—Realistically, it comes down to each of the agency chiefs, if you like, deciding which of the six they interpret as having greater value. Is that a reasonable assessment to make? Obviously value for money will be essential. In terms of how you determine value for money, no two people will look at it in an identical fashion. Does it come down to what the individual looks for?

**Dr Wright**—It is case by case. As the 1996 figures demonstrate, there is a considerable skill base within agencies. We will be able to hopefully demonstrate through our review of the panel that agencies are seeking advice and guidance as to what constitutes value for money on a case by case basis. They engage panel members when they do not have in-house expertise. That is certainly what we have done in our organisation. How you interpret value for money will depend on the nature of the contract being let at the time.

**Mr BROUGH**—In terms of the expertise angle, we heard evidence yesterday about IT, which is obviously one of our biggest ongoing current purchases and will be for some years to come. It was this person's job, in a past position, to bamboozle purchasing officers. He found it quite easy. He said that when he was sitting in front of a purchasing officer and

representing a major international company he had credibility behind him and they accepted what he had to say. If he presented exactly the same arguments when representing an SME, they would not accept them because he did not have that same credibility behind him. His point was that he was dealing with people who were not competent to make decisions, particularly on IT technology. This allowed poor decisions to be taken on the basis of good salesmanship, if you like. Do you have any comments to make on how you overcome that sort of thing with your expert panels et cetera?

**Dr Wright**—In the case of IT, that issue is disappearing because of the mandates by government for outsourcing. We have a body of expertise in OASITO, which facilitates the move to outsourcing.

**Mr GRIFFIN**—I would like to see whether the department could do something for us on the question of the Bevis report. We are basically looking at it and seeing how it is going. We have the government response from 1994. I am interested in comparing where things have gone from there recommendation by recommendation. I refer you to the actual government response of 1994. I understand that it is by the previous government; gee, I miss it. We have each recommendation and a response from the government. I would like an additional column which shows what has happened since then.

It could be a number of things. Where the recommendation was agreed to and some action was required, I would like to know what action has occurred. Where there has been a policy change since that time, I would like to know what that policy change is and what that has meant in practical terms. If a recommendation was not agreed to and there were reasons for it at that time, I want to know whether there has been any change in circumstances that might have led to that recommendation being agreed to now. If you like, it is a synopsis of the context of the report with respect to the government and its implementation of it. I have found in the past that sometimes the government response looks fine but a year or two later, while it still looks fine, nothing has happened. I am not saying that that is the case here. I would like to get that sort of sketch. Is that possible?

**Dr Wright**—We could do that to the extent that we have information readily to hand. There are 42 recommendations. I am not sure of our capability to address each of them. But we can certainly look at them and get back to you.

**Mr GRIFFIN**—If you could, that would be great.

**Mr GEORGIU**—I return to the issue of demonstrating that ANZ suppliers have had a fair opportunity to compete. You have raised a number of issues which bear on the question. How do you demonstrate clearly that there has been a fair opportunity to compete?

**Dr Wright**—We can currently only refer to the data in Transigo and the fact that we have 63 per cent of SMEs on our endorsed supplier arrangements. All of the companies registered have either passed industry development criteria or are ANZ suppliers. That is the information we have available at present.

**Mr GEORGIU**—But there is a requirement that you must be able to demonstrate that Australian suppliers have had a fair opportunity.

**Dr Wright**—That is a requirement of the CEO of each agency. We are certainly confident for DoFA that any of our processes, if subjected to scrutiny by the ANAO or committees, would pass that test.

**Senator HOGG**—An article in the *Canberra Times* on 20 January this year brought about a denial by the minister regarding dossiers on \$1 billion public servant buys. You are the people responsible for overseeing these procurement guidelines. The article talks about the Bluesheet system and keeping dossiers on public servants. It says:

Companies using the Bluesheet system classify their target bureaucrats into technical buyers, financial buyers and influencers, and one of the ultimate aims is to establish a "mole"—known as a coach—within an agency.

I am not going to go through the whole article. That sort of thing is frightening. Whilst one might say it is good speculative journalism, one also did not believe that Australian cricketers were involved in betting scandals at the cricket.

One might take this with a grain of salt. What mechanisms do you have in place to ensure that that sort of behaviour, whilst it is outside your control and is being done by public companies and so on, is not in any way interfering with your guidelines? How do you ensure that the guidelines, which are very good, are lived up to?

**Dr Wright**—Firstly, there are Guidelines on Official Conduct which apply to all public servants. They cover conflicts of interest. Secondly, all public servants are subject to the Crimes Act should they be found to have had a conflict of interest. In addition, in our agency and I believe in others, all senior managers—they are the ones who are responsible for signing off on contracts—have to regularly supply statements of their interests and identify any possible conflicts of interest. They are the mechanisms that operate within government.

I am aware of the Bluesheet article. Our minister did respond to it. He said that anyone who has read a particular book would know how to gather particular aspects of information that may or may not help companies gain an edge. The guidelines on conflicts of interest have been in operation for many years. All public servants are well aware of them. In Finance, as I mentioned, we usually engage a probity order to make sure that we handle the processes appropriately.

**Mrs Saave-Fairley**—Commonwealth Procurement Circular 97 of 2 has attached to it the code of ethics for procurement. It is distributed across all Commonwealth agencies as well.

**CHAIR**—Thank you very much for coming to talk to us today. We appreciate the further information that you have agreed to supply to us as soon as you can.

**Dr Wright**—Thank you.

**Proceedings suspended from 10.07 a.m. to 10.16 a.m.**

**COLEMAN, Mr Russell, Executive Director, Corporate Management Branch,  
Australian National Audit Office**

**McPHEE, Mr Ian, National Business Director, Australian National Audit Office**

**MINCHIN, Mr Tony, Executive Director, Performance Audit, Australian National  
Audit Office**

**CHAIR**—Thank you for your submission and for coming today. Do you have a brief opening statement that you would like to make?

**Mr McPhee**—Yes, Mr Chairman. Happy New Year to you and your colleagues.

**CHAIR**—And to you. And have a great 4th of July.

**Mr McPhee**—Procurement is one of the main areas in administration which has undergone extensive change over the last few years. With the current levels of outsourcing, it is opportune for current policy and practice to be reviewed to assess whether improvements can be made. There is little doubt that the current reform agenda has refreshed the focus on the importance of a highly performing public sector. A key element of this is in improving the cost effectiveness of the provision of services.

Our audit coverage has tended to focus on Commonwealth administration predominantly rather than industry development. As the committee would be aware, quite a number of the performance audits we undertake include elements that consider purchasing by agencies. For instance, this committee has reviewed a number of these reports, including the audit of the Defence inventory, the new submarine project and matters relevant to the contract with South Pacific Cruise Lines Limited.

Key messages arising from these and other audits highlight the importance at the agency level of applying sound risk management practices to procurement activity, particularly where a significant change in approach or delivery is proposed; assessing the allocation of risk between the Commonwealth and the provider; considering appropriate incentive and penalty regimes; assessing the capacity of the contractor to deliver the outcome proposed; ensuring contracts are clear on critical aspects to be delivered and outcomes to be achieved; ensuring sound contract management and review arrangements are in place; and, finally, being very clear in the specification of performance information and accountability requirements pursuant to the contract. It is apparent that an awareness of the government's purchasing policy, sound administration processes and effective management are critical to sustained long-term purchasing performance. Sound administration of this kind is necessary to underpin effective outcomes at government agency levels.

There is a good range of framework and guidance material available to assist agencies. Agencies do support each other with advice and guidance in the area of procurement. In this context, I draw the committee's attention to a recent ANAO publication entitled *Selecting suppliers: managing the risk*. We have some copies available for committee members. It provides a framework to allow agencies to assess some of the financial and probity risks associated with contracting out.

Looking forward, our audit program for the 1999-2000 year proposes a selection of acquisition purchasing audits. We will discuss this audit program with the committee in the next quarter before finalising it. We would be open to suggestions from the committee across the whole audit program.

In our submission, we have sought to highlight a couple of matters. Firstly, it is important that the Commonwealth acts to harness its collective purchasing power through a combination of whole of government arrangements, endorsed supply arrangements and, where appropriate, common use arrangements, building on the considerable experience gained to date with these arrangements. Secondly, we see that it would be of benefit in the articulation of the Commonwealth's broad purchasing framework, with the objective of integrating the material available on Commonwealth policy and the range of guidance on good practice that fleshes out the Commonwealth procurement guidelines. In saying this, we acknowledge the work that DoFA has done in progressively expanding the material on its home page to provide more guidance to agencies on principles and best practice.

There is also some useful practice on the web sites of agencies overseas that promulgate purchasing policy, including some material on New Zealand. It is interesting from the point of view of the committee's prior consideration of the lack of statistics on local content. New Zealand has a particular approach there. I will finally introduce my colleagues. Tony Minchin looks after our Defence audit program, and Russell Coleman looks after our corporate branch in the National Audit Office.

**CHAIR**—Yesterday the Department of Foreign Affairs and Trade told us that they had done an internal audit as part of their process of increasing the efficiency of their operation. As a result of that, they have come to the conclusion that centralising purchasing for DFAT offers them very substantial savings and efficiencies. In their submission to us, they also said that there was an audit report—we have not yet found it—that recommended that there were savings and efficiencies to be made with centralised purchasing. If you could provide us with a copy of that, we would appreciate it. More importantly, could you tell us your view of centralised purchasing within agencies.

**Mr McPhee**—It depends, obviously, on the definition of centralised purchasing. There is great benefit in having a centralised cell on purchasing. In this era of devolution, it is also important to allow program managers to make decisions which affect the achievement of their program objectives et cetera. It is a bit of a balance. You need the expertise available. In some cases, for common type contracts, it is very wise to do it centrally, for instance. For the standard corporate services type contracts it is very wise to do it centrally. If you have program requirements which have particular needs in terms of getting in assistance, contractors or whatever, it is important for the program managers to take responsibility for the acquisition of the services but with guidance from specialists.

**CHAIR**—Could you tell us where the ANAO buys its paper?

**Mr Coleman**—I would have to take that on notice. I understand that it is Australian made, but I will have to get confirmation of that.



**CHAIR**—You were here in the earlier sessions. We would appreciate that information. One of the problems for the committee is trying to segregate anecdotal evidence or bias from particular groups that feel aggrieved and the facts. In that case, you can appreciate our frustration at the lack of data. The ANAO's report in 1994 occasioned the Industry, Science and Technology Committee to inquire into government purchasing practice. It led to a whole proliferation of recommendations.

**Mr McPhee**—I mentioned earlier the New Zealand approach. If you do not mind, I will mention what occurs. This has come off the web from the New Zealand Ministry of Commerce. It is their procurement guidelines. They issue a guide for suppliers to inform their market. It is interesting. It says:

The Government has therefore instructed its departments to require information about local New Zealand and Australian content of goods offered for supply so that purchasers can take any such advantages into account. Where there is difficulty in supplying local content (e.g. in complex technical purchases), this requirement should be undertaken on a best endeavours basis. There is, however, no benchmark level of local content required nor a policy of applying preference to favour domestic industry and discriminate against foreign suppliers. Having given domestic industry full and fair opportunity, agencies should buy from the best source available according to their own assessment of all the costs and benefits.

Obviously that would provide a basis to compile statistics on local content.

**CHAIR**—How do they collect the statistics?

**Mr McPhee**—I do not know. It does not actually refer to the statistical element in this document. Maybe the secretariat could touch base with the New Zealand Ministry of Commerce to see whether aggregated statistics are collected.

**CHAIR**—Yesterday, in their submission to us, ISONET was particularly critical on this issue of data. They said:

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

Is that also your understanding?

**Mr McPhee**—I cannot answer with authority. I would be guided by the Finance evidence on that.

**CHAIR**—They recommend the reintroduction of an independent monitoring body, not necessarily the National Procurement Board, to oversee the implementation of Commonwealth purchasing policy on a regular basis. Would you have a comment to make on that recommendation?

**Mr McPhee**—Obviously it is a policy position. The emphasis of the current reforms is very much to put responsibility squarely on the shoulders of the CEOs of agencies. Agencies such as DoFA obviously advise government on policy. The decision has been made to move from a situation of oversight to one where there is less oversight now. Obviously that is a matter for government.

**CHAIR**—What we are trying to come to grips with in this inquiry overall is whether we are really giving Australian industry, which includes consultants and all the rest of it, a fair go and a fair opportunity to compete and participate in government purchasing activities. How do you think this committee and the ANAO could be satisfied that the procurement guidelines in respect of Australian industry development and giving small and medium sized businesses a go are being realised without any kind of oversight or without proper data and statistics? How do we get there?

**Senator HOGG**—The claim is that they are being squeezed out. The tender might be let out to a principal, who then subcontracts. They are just being squeezed out at the bottom end.

**Mr McPhee**—It is a difficult issue. Obviously there are people who are more expert than us in this matter. The guidelines seek to be even-handed and non-discriminatory. Whether the government provides a further positive impetus for local industry is obviously a matter for the government.

**Mr GRIFFIN**—In the audits you have done over the last year or so you would have looked at variations on the theme of what governments are doing with purchasing. In your opinion—I understand that it is an opinion—do you believe that the guidelines are being embraced by departments and purchasing officers in general, sometimes or rarely?

**Mr McPhee**—I think they are. Quite frankly, people are getting a lot more disciplined about the way that they evaluate proposals. There is a lot more use of software packages to help the assessment process. There is criteria to get experts on panels. By and large, agencies obviously do want the best outcome. The question is how they get the expertise to make the right calls; that is another issue. But they are seeking, in my experience, to do the right thing.

**Mr GEORGIU**—The guidelines prescribe that, where ANZ businesses do not get the business, it must be demonstrable that they have had a fair opportunity to compete. When the ANAO does these audits, I would have thought that would be a criteria you would examine, or is that unfair?

**Mr McPhee**—We tend to look at whether agencies have followed good practice in acquisition, that they have a good approach, they set the criteria and they have a good panel et cetera. We do not seek to second-guess their judgments.

**Mr GEORGIU**—There is a requirement that where agencies purchase overseas goods in preference to ANZ goods they must be able to demonstrate that ANZ suppliers have had a fair opportunity to compete. That is a requirement they must be able to demonstrate. Has the ANAO ever said, ‘Guys, show us’?

**Mr McPhee**—I cannot answer that question directly.

**Mr GEORGIU**—Is it an unfair question?

**Mr McPhee**—It is not unfair. It is one of many requirements that have to be met and which our methodology should embrace.

**Mr GEORGIU**—This is not data dependent. This lays the onus on the agency. It is not something that is macro; it is a requirement on agencies. In looking at open and effective competition, has the ANAO looked at the agencies and reported on their compliance with this very firm directive which places the onus on the agency?

**Mr McPhee**—I am not sure that I can add much more to my point. I do not know the specifics, at that level of detail, of the audits we have done.

**Mr GRIFFIN**—Would it be possible to do a survey of auditors to address that question internally? If it has not been directly asked, is it possible for a selection of more recent audits to be very quickly revisited?

**Mr BROUGH**—What we have heard so far consistently is that the agencies look at it. They interpret it as being a purchase from an Australian based company. It does not matter where the products are sourced from. Therefore, they have no knowledge of whether they have purchased Australian made products, Australian-New Zealand made products or part thereof or anything else. The evidence given to us by DoFA is that that is all probably too hard in their eyes. I do not accept that that is too hard. If we do not have that information, we really are defeating the whole purpose of the exercise. Can you see that the guidelines can be so liberally interpreted that they are almost worthless as far as the ANZ industry side of things is concerned?

**Mr McPhee**—I appreciate that. Equally, when we are doing the audit coverage, provided that they go out to tender and receive a range of responses and there is no particular bias towards local or overseas companies, we would accept that as satisfactory.

**Mr GRIFFIN**—The structure and representation of a process does not necessarily lead to a fair outcome. This is a very hard thing for audit to look at. I am not saying that it is something you should have necessarily got to at all. What has come through with some of the submissions and evidence is a concern from some groups that there is still a cultural problem around the question of Australian and New Zealand made versus overseas made and big companies versus small companies. It is hard to quantify. It is an interesting issue.

**Mr McPhee**—I accept that.

**Mr St CLAIR**—Do you think there should be more in the actual tender specs rather than the audit at the end of the day?

**Mr McPhee**—Absolutely. There is no question of that. That is where the emphasis should be.

**Mr St CLAIR**—I am brand new at this, so bear with me, if you would. There appears to be a big time gap in the interpretation of value for money or, as Mr Georgiou said, some part of that six guidelines. If the government wishes to have more involvement by SMEs, I would have thought you would do that at the start of the system rather than at the audit at

the end of the system. In that way, we do not sit here and listen to the interpretation that someone has put on it.

**Mr McPhee**—I absolutely agree.

**CHAIR**—ISONET says in its submission that since 1995 it has detected a significant difference in attitude between Defence and other Commonwealth agencies to Australian industry involvement in procurement. The changes in the Defence attitude culminated in the release of the Defence and industry strategic policy by the Minister for Defence Industry, Science and Personnel on 2 June 1998. Defence has a firm policy on developing local industry as a credible, capable and competitive support base into the future. The policy is structured within the parameters of the Commonwealth procurement guidelines, but Defence shows a resolve to make the policy known to all potential suppliers and to enforce it. Is that a fair comment?

**Mr McPhee**—I think it is a fair comment that Defence have emphasised ISONET in their guidelines and the assistance it can provide. They are sufficiently large to be able to set up their own procurement policy within the context of the government's policy. That would not generally be required for agencies at the smaller end of the scale, but it obviously has an effect. The positive emphasis that Defence itself gives to it has obviously had a very beneficial effect and I think there is an interesting lesson in that.

**CHAIR**—With respect, if you take a whole bunch of agencies or departments, each spending \$150 million, \$250 million, \$350 million or \$400 million, that adds up to a lot of money. We accept that Defence spends about half what the Commonwealth spends on purchases; nonetheless, if you take all the other agencies and add them up, it becomes pretty important if we are trying to improve Australian industry's ability to compete for export markets where, in many instances, they need the credibility of having done business with the Australian government before they go to a government overseas.

**Mr BROUGH**—And those systems are not in place too. You only have to look at the figures that were provided to us which state that one department—DEETYA—in 1995-96 was the second largest expenditure at \$1.4 billion, and then it dropped right off with the subsequent changes. But there is nothing to say it could not happen in reverse. And if they do not have those practices and procedures in place, what happens?

**Mr McPhee**—The guidelines at the moment have two or three lines on ISONET, I think, and the previous—

**CHAIR**—Sorry?

**Mr McPhee**—I think the current guidelines make a very brief reference to ISONET.

**CHAIR**—I am not concerned about ISONET so much as what they say is added to within Defence towards giving Australian industry development a goal which is different from the other departments and agencies.

**Mr McPhee**—We have no basis on which to form an opinion as to whether Defence is doing more in a practical sense, but I do accept that, through their policy instructions, they have given local industry very strong support. I do not know how the practice in Defence compares with other agencies, but I think the message is clear. Through reinforcement it has an effect.

**Mr GEORGIU**—You are actually touching on the chairman's first question in that series. You said that there are some interesting lessons to be derived from what is happening in Defence. Could you elaborate on that?

**Mr McPhee**—Having read the Defence procurement policy, the support that the department would like to provide local industry, provided it meets all the other tests, is very clear and it is from the top. I think that is an important signal.

**Mr BROUGH**—So they all operate under the same Commonwealth procurement guidelines?

**Mr McPhee**—Yes.

**Mr BROUGH**—I think the nub of everything we have been on about for the last three days is that until someone—the head of the department, the minister or whoever else—lays down, within that department, that whilst they are the guidelines, we would like to see the emphasis placed on whatever it happens to be, then it is up to those below, without any clear direction. Defence is always knocked for some of its management of programs and whatever else, but it has quite obviously got that correct and it is a model that needs to be followed.

Following on from that; with your performance audits, have you seen significant accreditation and training being undertaken, and in a structured manner, across departments?

**Mr McPhee**—We have not looked at that issue specifically, but I think it is accepted that training is an issue. It was an issue in 1994 and it continues to be an issue today. We have currently got some audit work going on in corporate areas to look at a number of agencies and how they manage a range of what we call common business contracts, like maintenance, legal services and those sorts of things. The results are not through yet, but I was speaking to the team leader yesterday and the message was that the people managing those contracts did have the skills, by and large.

It is interesting because I think it suggests that the issue is not a uniform one. Because of the traditional purchasing arrangements in the public sector and the fact that they were often done through a centralised corporate area, you are likely to have experience and skills in those central areas. It is when you move out to program areas, acquiring things and services in their own right—and these people are not specialist corporate people—that the training issue becomes a bigger one for agencies.

It is interesting to hear DOFA talking about the training program they are putting out, and the PSMPC also offers training in procurement. I think it is one of those areas that is just going to have to be hammered, basically, until the message sinks in about the criticality of the skillset in procurement.

**Mr Minchin**—Could I go back to an earlier point raised by Mr Georgiou, and that is the reference to ANZ industry and the procurement guidelines? I make the point—which the committee might be aware of—that the procurement guidelines are not black letter law. The regulations which are the source of authority for the guidelines simply say that officials must have regard to them. They do not say they must comply with them.

As something new under the regulations which came into force on 1 January last year, the regulations do go on to say that if officials take some action which is inconsistent with the guidelines, they should leave some written record to that effect. That came into effect only last year, but my general point is that the procurement guidelines are not legal requirements.

**Mr GEORGIOU**—And what conclusion do you draw—

**Mr Minchin**—I got the impression, Mr Chairman, that Mr Georgiou felt that the procurement guidelines—especially their reference to ANZ industry—are something that departments must comply with; they must do it in each case. All I am saying is that the law is that they simply must have regard to them. There is a difference.

**Mr GEORGIOU**—So if they disregard them, that is okay too.

**Mr Minchin**—Yes. But they must leave written record to that effect, under the regulations.

**Mr GEORGIOU**—How much did the document cost to print?

**Mr BROUGH**—That is our whole point, isn't it? We have pointed out time and time again that you could drive a truck through the guidelines.

**Mr Minchin**—Perhaps I should clarify. The specific reference is in Financial Management and Accountability Regulations, No. 8, where it states that an official performing duties in relation to the procurement of property or services must have regard to the procurement guidelines. An official who takes action that is not consistent with the guidelines must make a written record of his or her reasons for doing so.

**Mr BROUGH**—Doesn't it make it difficult for you as auditors—and for performance audit in particular—when looking at a particular agency's procurement procedures, when you know that these are not enforceable so that, therefore, as long as they are following thrust of them and have given them some consideration, there is really nothing adverse that you can say?

**Mr Minchin**—Yes, it is difficult. But, as I mentioned, the regulations which came into effect last year do go on to say that officials must now give some record of where their action was inconsistent.

**Mr BROUGH**—Certainly, but take that a step further. As a purchasing officer I have followed the general thrust, but I have not gone to the letter or perhaps the sentiment of what some people have decided this should mean. I have not gone away from the guidelines,

but I have simply not dotted every ‘i’ and crossed every ‘t’ in relation to them. That does not make anything that I have done incorrect or something that you could make an adverse report on. So, therefore, it would go through to the keeper and nothing further would occur with it, and it would not be highlighted as a potential difficulty that should be overcome, surely?

**Mr Minchin**—If we were examining a particular purchase and it was of something fairly material, we would want to see where the official actually addressed his or her mind to the procurement guidelines. If the one mentioned by Mr Georgiou is relevant we would want to see some reference to where they considered and had regard to those guidelines. But, at the end of the day, they are not a firm legal requirement.

**Mr GEORGIU**—You are making a very heavy point of this. Let me just respond by saying that if a guideline says you must demonstrate that Australian suppliers have a fair shake, then they have to demonstrate it, or they have to say, ‘We don’t wish to demonstrate because we don’t care.’ Given the—how can I put it?—fineness of some decisions, and the significant areas of intangibility, an absolute ability to demonstrate unequivocally that Australian suppliers had a fair opportunity to compete, would actually benefit Australian suppliers quite significantly. I am not sure why you are making such a big point out of it. It is not black letter law.

**Senator HOGG**—I think the point is that there are no benchmarks, as far as I can see, throughout the whole guidelines against which agencies have to match their performance.

**Mr BROUGH**—There is no way of measuring the outcomes.

**Senator HOGG**—There is no way of measuring the outcomes.

**Mr BROUGH**—And they are all covered by the generalised statement in the introduction which says you have to give some consideration to it. So it does not matter what ‘musts’ or ‘haves’ or whatever else are inside, you should try to adhere to them and, if you don’t, well, good try, fail, don’t worry about it.

**Mr Minchin**—The particular guideline that Mr Georgiou was referring to actually says that agencies should ensure that. It does not say that agencies must ensure that.

**Mr GEORGIU**—On page 17.

**Mr Minchin**—I think my print might be different from Mr Georgiou’s.

**Mr BROUGH**—It says ‘must’ in here.

**Mr GEORGIU**—Well, it is definitely not black letter law—you have three versions. It says:

Where agencies purchase overseas goods in preference to ANZ goods, they must be able to demonstrate that ANZ suppliers have had fair opportunity to compete.

**Mr BROUGH**—Looking at that, how would you as auditors interpret that and ask them to do it? I think that was probably Mr Georgiou's original question. Even though these are only guidelines to be followed, surely that is a key point of a performance audit when you identify that 60 per cent of what has been purchased is non-ANZ produced. Just show me how you did it, because you must do that.

**Mr Minchin**—That would depend on the materiality of the particular purchase we were looking at. I really cannot generalise from that nor can these guidelines really generalise to assist officials much more than they have done. All I can say is that we would need to see some sort of assessment by the purchasing officer at the time that he had proper regard to the requirements.

**Mr BROUGH**—Has that been done to date? Has that particular point been something of significance in your performance audits that you are aware of?

**Mr Minchin**—We have not done any audits that have dealt directly with the regulation that came into effect last year.

**Mr GEORGIOU**—That would seem to be dancing around the point quite a lot. You have a long section on open and effective competition. My question was quite simple: where they got an overseas supplier, have you actually asked them to demonstrate that Australian suppliers have had a fair opportunity to compete? It is not an immaterial question in terms of an audit that is concerned with open and effective competition.

**Mr Minchin**—A recent example might be the new submarine project which, in our report, referred to local content requirements. The contract provides for certain targets to be met for the department's spending on the new submarine project. There was no doubt that the department was meeting the specified targets.

**Mr GEORGIOU**—That is a side step.

**Mr Minchin**—When you look more closely at the targets you can see there are some definitional problems, which we mentioned in our report. It was hard to judge the true value of Australian industry content in the department's spending on the project because the definition allowed local content to include spending on payments to companies incorporated in Australia but which might, in effect, be simply the local branch of an overseas supplier. We went on to say in the same report that the ANZAC ship contract appeared to have a much better definition of Australian and New Zealand local content.

**Senator HOGG**—That is the very problem that besets us in this whole exercise. We are trying to identify that element of ANZ content by industry and we just cannot.

**Mr BROUGH**—The Department of the Environment has told us that 97 per cent of its suppliers were Australian. No, they were not—97 per cent of them were based in Australia. What they purchased, who those companies were or anything else, they don't know. So it is exactly what you have identified with the submarine, and it would seem that that is widespread across all departments. From what I heard from DOFA this morning, no-one seems to care too much. It is all in the too hard basket.



**CHAIR**—Correct me if I am wrong, colleagues, but I think DOFA told us that 97 per cent of Australian government purchases come from Australian or New Zealand companies. I think all of us know that is absolute rubbish. You do not need to be Einstein nor do you need a book of statistics to know that is wrong. It is just plain wrong. We do not buy aeroplanes from Australian manufacturers. We buy some computers from Australian manufacturers, but we buy one heck of a lot more from overseas, together with the video screens, the data entry points—

**Mr BROUGH**—The mobile phones.

**CHAIR**—It goes on and on.

**Mr GEORGIU**—Can I just ask—

**CHAIR**—Let him go first.

**Mr McPhee**—I just wanted to make a complementary point to Tony's point where he mentioned the guidelines. There is another regulation, and I just wanted to make the point that it requires people who are approving expenditure to make sure the proposed expenditure is in accordance with the policies of the Commonwealth and will make efficient and effective use of public moneys. I want to draw the distinction between government policy, which is a requirement to be adhered to, and the interpretation or the detail in guidelines. I think it is important.

**CHAIR**—I do not understand.

**Mr GEORGIU**—There are smokescreens going up, I understand. I understand that audits are only partly about these sorts of things; they are about whether three million bucks was paid without a paper trail. Leaving aside the byplay, has this alerted you to the fact that these guidelines are significant and should be examined when there is a prima facie onus on the purchaser to demonstrate that Australian and New Zealand companies got a fair shake? Do you say, 'Excuse me. By the way, at the last check-off point before this audit, can you please demonstrate to me that ANZ suppliers have had a fair opportunity to compete'? If we are talking about cultural change and if you are significantly emphasising the lead role of a CEO in a devolved system of accountability, then the Audit Office is a critical player in sensitising people to the requirements. Although that is generally hard, here you have an unequivocal statement that they should be able to demonstrate it—rather than just wave their hands and say 'It is value for money' they have to demonstrate that Australian and New Zealand suppliers have had a fair opportunity. The onus is on them, not on you. All you have to do is ask.

**Mr McPhee**—That assessment is a fine point of judgment. We generally look at the process to make sure that Australian companies get a fair shake. Providing they do and the process provides for that in an open and fair way in accordance with government policy, that is the extent to which we would take it.

**Mr GEORGIU**—They are required to demonstrate to you, not you form an assessment.

**Mr McPhee**—We have to form an assessment whether they are—

**Mr GEORGIU**—After they demonstrate—

**Mr McPhee**—Exactly, and we need to have sufficient evidence, if we have a contrary view. I take your point that—

**Mr GEORGIU**—But usually the onus is on you to prove something; now the onus is on them to prove it.

**Senator HOGG**—What makes you decide that they have had a fair shake?

**Mr BROUGH**—You made a decision in that defence one that they showed that they were Australian based companies, but you decided to dig a bit further.

**Senator HOGG**—What determines that it is a fair shake? What is your standard?

**Mr McPhee**—There are two issues. In accordance with government policy, the defence approach was sound and legitimate. Then the Audit Office has to be careful in a sense whether we then take it to the next step to say whether it could be improved, because it really goes to the question of government policy. Our role is not to comment on policy but to make sure the administration implements policy in the most effective way. So we have to be careful that we do not comment on government policy but—

**Mr BROUGH**—You don't interpret it either?

**Mr McPhee**—We do. Absolutely.

**Mr BROUGH**—So how do you interpret that? That is really what John is saying. You interpreted for that submarine contract one way. Is that the way you do it all the time? And is the fifth guideline, national competitiveness and industry development, so ambiguous where it refers to ANZ suppliers—so that they are doing the right thing if they just tick off on a George Street company but up further it talks constantly about ANZ industry, which is a heck of a different thing? So does that make it difficult for you to make that judgment?

**Mr McPhee**—It does in the sense that the government policy requirement has been met. It is easy to make that judgment. The question then is how far we take it to say whether Australian industry is getting a fair shake, to use Mr Georgiou's term?

**Senator HOGG**—That is the very point. Of course it may well be that they ask one major operator, whom they know may well suit their purposes, and then, for the sake of complying with these guidelines, they may go along and ask five smaller competitors who are not in the hunt anyway—never were in the hunt. Then you come along and see that there is one major one and they have asked five smaller ones. The five smaller ones might have an ANZ component but at the end of the day are not really suitable. The fact is that they did not ask the right five. How do you test that?

**Mr McPhee**—That is why we endeavour to look at the systematic issues to make sure there were sound departmental procedures to avoid the ad hoc approach to procurement. We do look to see whether there is a policy statement by the department and a good process using experts on the evaluation panel—all those good practices which seek to give confidence that not only the right people will be given the opportunity to bid for the work but the right outcome will be achieved for the department.

**CHAIR**—Your own operation, ANAO: how much money do you spend a year? How much of it is spent with small or medium sized business, and how much of it is spent on Australian goods and services?

**Mr McPhee**—We have a budget of about \$50 million a year. I might look to Mr Coleman here to give me a hand, but we do outsource a fair amount of our work, as you would be aware—particularly in the financial statement areas, to the large accounting firms. We also outsource our information technology support to UNISYS here in Canberra, a local office. We could provide you with the exact details, but Russell might be able to provide some more dollar figures.

**Mr Coleman**—I cannot provide any dollar figures off the top of my head, Mr Chairman, but, as Mr McPhee said, the nature of our operations is such that a lot of our stuff is local supplies. We get all our stationery supplies locally. In terms of the production of all our reports and things, we have an integrated contract with a local printing firm, Paragon Printers, for our supplies. So the nature of our work dictates by and large a lot of our purchasing management.

**CHAIR**—If you could advise us in due course we would appreciate it.

**Mr Coleman**—I will get some details.

**Mr BROUGH**—I would just like to take up a point. When we heard from DOFA, there was a bit of a byline that went past when we were asking particularly about IT. I asked whether they went to ISONET and they said, ‘We don’t need to go there because we have already identified four or five people who are regular, good suppliers.’ We had already established that they do not know whether or not they are purchasing Australian, so they were satisfied with their suppliers’ past record.

I know from my personal experience in business that, as a salesperson, if you could get your potential clients to write your specific performance guidelines into their user requirements, that immediately counted out so many of the opposition. This comes back to some of the information that has been alluded to in the papers recently. It is not collusion; it is not illegal, but it can easily counter a lot of smaller companies. If you want to look at Microsoft and Intel, you can get an example of exactly what occurs. Is that something that you have the capacity to deal with?

**Mr McPhee**—We certainly could look at that. In fact there is an argument to say it is good practice to put out a draft tender document to industry, not to particular firms, for comment. The whole emphasis these days is to describe the outcome you are seeking rather than the method of approach, so it is very common practice to do it in draft form, put it out

to industry for comment and then take account of the comments and refine your document in that way. I want to say that there is some good practice but, clearly, dealing with one firm to cut out others is not so.

**Mr BROUGH**—It makes the purchaser's job very easy because at the end of the day there is only one line in there which the others cannot meet. They all meet the other criteria but it is a case of 'I am sorry, that was a basic user requirement so you are all out of the picture' and therefore the guidelines do not matter because no-one else could meet the criteria as set down in the document. So they have fulfilled every guideline, they have gone to industry and they have sought all of this, but you are told, 'You couldn't do it.'

**Mr McPhee**—Yes. The trend to outcome orientation is a positive one in the sense that the approach of specifying requirements did provide greater scope for the sort of the situation you referred to than the outcome solution, where you say, 'I must have a four by two piece of equipment.'

**Mr BROUGH**—Thank you.

**CHAIR**—Thank you very much for coming here and talking to us, and we would appreciate the further information that you have promised us.

**Mr McPhee**—We are happy to provide that. Could I just mention one thing that might be of interest to the committee. I know you were talking about value for money yesterday and today. Lots of words are written about value for money but there is a UK definition that you might find useful as well:

Value for money is the optimum combination of whole-life cost and quality . . . to meet the user's requirement.

That is very succinct but to the point, and we can provide that to the secretary.

**CHAIR**—Thank you.

[11.07 a.m.]

**GOODWIN, Mr Neil, Manager National Purchasing and Contracts Unit, Centrelink**

**HOEFER, Mr Peter, Chief Financial Officer, Department of Family and Community Services**

**CHAIR**—Welcome. We received a submission from your former department—the Department of Social Security—and we thank you for that. Is that submission still valid for the Department of Family and Community Services?

**Mr Hoefer**—That submission is certainly correct for the former DSS over the past four years. On 20 October the Administrative Order created the new department—the Department of Family and Community Services. Our department has radically changed from the DSS that actually presented the submission. Do you want me to articulate the nature of the changes?

**CHAIR**—Firstly, do you wish to make an opening statement in addition to your submission

**Mr Hoefer**—Certainly. After the Administrative Order, the Department of Social Security changed from a 700-person organisation to about a 5,500-person organisation. It inherited two large divisions from Health, and also the Commonwealth Rehabilitation Service and the Child Support Agency from the Australian Taxation Office. Up until that date, DSS was a fairly small department of 700 people which focused primarily on the policy dimensions of social security delivery and it relied very heavily on Centrelink for its corporate services support.

At the end of 1997 the two organisations were split. DSS retained the policy component, and all the corporate management and infrastructure went across to Centrelink. We have had a service level agreement between the two organisations. Encompassed within that, purchasing and contract management capabilities were actually provided as an internal service by Centrelink to the former DSS. Since that date, it has become quite clear that our new department needs to set up its own corporate management infrastructure, so we are going about the process of developing appropriate corporate systems and key corporate functions such as a contract management unit. I think that is a reasonable background in terms of the change of circumstances since the original submission was provided.

**CHAIR**—How are you handling the purchasing function in the new department?

**Mr Hoefer**—We are in a transitional phase at this point where we have developed our own contract management unit. A proposal will go to the board of management within the department in the middle of February which will announce how this business model will work. There will be a transition away from utilising the services that had been previously provided by Centrelink and actually providing our own in-house support function. That process has been in transition since December and we will have a full capability by the end of this month.

**CHAIR**—How do you expect purchasing is going to be handled?

**Mr Hoefler**—The purchasing and contract management capability of the new department is based primarily on the model that Centrelink has had developed over the past few years and is maturing. Both organisations are developing a very similar approach in terms of their purchasing and contract management. Although we will have independent capabilities, we will also come together to attain the best value for money outcomes within the portfolio. That will continue, even though we will have separate contract management and purchasing capabilities.

**CHAIR**—How is the model going to operate? Do you have highly devolved purchasing or centralised purchasing management? What do you intend to do?

**Mr Hoefler**—The model is as it has been in the past with the former department. Purchases less than \$2,000 are done on a purchasing card. That approach is done both within the former DSS and within Centrelink. In addition to that, we have standard procurement methodologies for more complex purchases over \$2,000. You might want to make some comments, Mr Goodwin.

**CHAIR**—That does not tell us very much.

**Mr Goodwin**—In relation to the Centrelink position, we have a purchasing card which we encourage the use of in our network and it works in well over 400 offices Australia wide. We have some 500 to 600 people actively involved in purchasing in some way, shape or form. We have 800-plus purchasing cards in the network. They are all capped at \$2,000 per transaction. They are mostly to encourage our regional offices to buy their simple off-the-shelf things from regional suppliers, as opposed to the previous arrangements where we often—being DSS in those days—had the conundrum of using common use contracts that drove regional and remote offices to capital city suppliers as opposed to their local region. We have now broken away from that and we have now let our network buy their off-the-shelf low-value requirements through the purchasing card through their local suppliers—whether that be the local supermarket, newsagent or wherever. Wherever they can get the best value for money in their local region, that is where we encourage them to go.

**Senator HOGG**—Does best value for money mean their lowest price, because that is how it is interpreted in most instances? Whilst people use those words, it really means the lowest price.

**Mr Goodwin**—Agreed. An issue from the procurement practitioners' point of view is that if they need an item for their office should they go running down the street to compare the prices from two or three suppliers? Does that retailer really know whether that came locally or from overseas? Issues also arise about the standards for stamping 'Australian made' and exactly what it means.

**Mr BROUGH**—What are we talking about here? Is it just stationary or what?

**Mr Goodwin**—Whatever we need to run one of our offices.

**Mr BROUGH**—Do you go out because you need a new video or television, a new piece of furniture or pencil or rubber?

**Mr Goodwin**—It can be all of those things. It could even be glazing—for example, if somebody threw a rock through our window, we would have to get the local glazier in. They regularly buy paper and things for photocopiers, printers—just the things that keep the office ticking over. The purchasing profile that Bevis required us to do was a very interesting process. It showed that in our network they really do not buy much that is over \$2,000—most of it is small value, high volume.

**Mr BROUGH**—Are you buying things like paper locally or are they getting bulk purchases?

**Mr Goodwin**—It is a little bit fragmented. Some of our areas have standing arrangements with suppliers whereby they would deliver the paper on an ‘as needed’ basis to our offices, but most of our remote offices buy it locally from the towns, as I understand it.

**Mr GRIFFIN**—On that purchasing profile aspect, how much in dollar terms—if you have got any recent figures for a financial year—would actually be spent on purchases under \$2,000 versus those over \$2,000?

**Mr Goodwin**—We are spending around \$600 million a year, including IT and including leases. Leases are a very large—

**Mr GRIFFIN**—That is global. That is total—

**Mr Goodwin**—That is total Centrelink portfolio. We are running very much on a Pareto principle. We are almost a carbon copy. We think that, according to the information that we can get, about 85 per cent of all our purchases are valued at \$2,000 and under.

**Mr St CLAIR**—You just started to mention about leases—

**CHAIR**—Six hundred million.

**Mr BROUGH**—It is because stationery or paper is bought individually everywhere.

**Mr GRIFFIN**—It is about \$510 million or thereabouts, roughly, in that \$600 million, if I did my maths correctly.

**Mr Goodwin**—It is 24,000 people; 400-plus offices.

**Mr St CLAIR**—You were just about to mention leases and you changed.

**Mr Goodwin**—Yes.

**Mr St CLAIR**—What were you going to say? You were going to say something about leases.

**Mr Goodwin**—Leases are a major part of our procurement activity. That is all now outsourced to a private company. However, we have not let go of the accountability aspects. We review and control all the tenders that they let and we review their selection basis and they use Commonwealth procurement practices. That is all done through my unit. We clear all those standard documents.

**Mr GRIFFIN**—You said that that is outsourced.

**Mr Goodwin**—The selection and calling for the bids for our leases and the selection of our leases, our property maintenance, is all outsourced to the company.

**Mr St CLAIR**—Is there a step before then that is not outsourced, such as the local manager goes and identifies—

**Mr Goodwin**—Yes. The fixing part, the notification part, is all outsourced to a private company.

**Mr St CLAIR**—Sorry, I just want to get across that. It is a local thing, I must admit, but it is probably significant. Your local Centrelink office needs to relocate. It has been identified that it is going to be relocated over the next two years.

**Mr Goodwin**—Yes.

**Mr St CLAIR**—You are saying that in the first instance the manager or the manager's delegate goes and locates some potential spots, or what happens?

**Mr Goodwin**—Generally, as I understand it, the local managers act in consort with our Canberra property unit that controls all our property and manages our outsourced contract. In conjunction with the property manager, they scout and go out to the market and look for suitable premises to our user specifications.

**Mr St CLAIR**—So then you only look at your user specifications?

**Mr Goodwin**—That is right.

**Mr St CLAIR**—If you want to go down to the guidelines, and you said that property is one of your biggest expenditures, do you then look at ownership of the property and therefore look at whether or not it is an ANZ supplier?

**Mr Goodwin**—We are actually just starting to do searches on companies to look through their registered offices, who the shareholders are, et cetera. That has now become a fairly common occurrence with our property leases.

**Mr St CLAIR**—Why do you do that?

**Mr Goodwin**—To make sure that we are contracting with the right people. We have to be sure because my unit drafts up draft contracts. We need to be sure that the people that we



are cutting into the signature block in these contracts are actually part of that company. We are not doing it just for property; we are doing it for a whole range of contracts now.

**Mr St CLAIR**—But you are not actually doing it for the benefit of the guidelines to make sure that wherever possible you are purchasing from ANZ companies.

**Mr Goodwin**—No.

**Mr GRIFFIN**—That property cost—leases, et cetera—is part of that \$600 million figure; is that right?

**Mr Goodwin**—Yes.

**Mr GRIFFIN**—I take it that basically they would all be over \$2,000, so they are only part of that \$90 million, or thereabouts, of the \$600 million. How much of it are property costs?

**Mr Goodwin**—I do not have those figures with me. I control the over-arching policy for the department. The property people are a specialist unit again like our IT specialist unit.

**Mr GRIFFIN**—I would be interested in getting a bit of a breakdown along those lines. What I am particularly interested in is the approximate \$510 million, per annum I take it, that is under \$2,000 which goes on the purchasing cards, and whether you can give us a breakdown as to what that is actually for—how much of it is stationery or whatever; how much is furniture and so on and so forth—just to get an idea. What I am interested in is the fact that a lot of the guidelines that we are talking about basically are more big picture in the context, whereas all these smaller purchases that we have identified would in fact have problems being scrutinised. In the case of your area, the problem with that potentially is that 85 per cent of expenditure is in fact basically shooting through the net—to use the fishing net analogy. We are using a gill net and we are not catching minnows.

**Mr Goodwin**—That would not be an uncommon analogy around the Commonwealth. It is a fairly accepted—

**Mr GRIFFIN**—So your percentages are something that you think are similar to a lot of other departments in that? It would not be the same in Defence.

**Mr Goodwin**—Certainly, that is what the procurement profiles that Bevis required us to do showed in my conversations with other agencies, that that 80-20 split was fairly common. Can I just say that I am not sure whether we are going to be able to provide that data. We have switched over to a purchasing card and we are having trouble with the management information flow back to us in the last few months. We have only been using it since 1 July. We will provide what we can.

**Mr GRIFFIN**—See what you can do, if you could, because I think it will be quite interesting. Is the nature of the purchasing card approach a bankcard sort of approach?

**Mr Goodwin**—It is really not much different from the old—

**Mr GRIFFIN**—So you should get statements in terms of what cards have been used for what to provide some detail in terms of what has been spent.

**Mr Goodwin**—You do. The advantage that we have got is that it provides a different breakup of commodity codes to what the ANZSCC coding does on Transigo. It is a different way of looking at it. It is based on trading communities. That is basically what we are interested in. The purchasing card gave us an ability to turn on each card and forbid that card user from using it in places they probably should not.

**Mr GRIFFIN**—How many cards would there be?

**Mr Goodwin**—We have in excess of 800.

**Mr GRIFFIN**—So there would be one card per office.

**Mr Goodwin**—There is usually one and a backup, and maybe another one.

**CHAIR**—Is that the Australian government credit card?

**Mr Goodwin**—Yes, essentially.

**Mr GRIFFIN**—And effectively there would be an officer responsible at each location with respect to those issues—a local purchasing officer in effect?

**Mr Goodwin**—That is correct.

**Mr GRIFFIN**—Do they get any training at that level?

**Mr Goodwin**—We are about to implement a purchasing officer network which will be competency based. One of our problems is keeping people in these jobs and keeping up training to them. I know you have probably heard that before but, in our network, we are experiencing about a 20 per cent turnover in our purchasing staff a year. That is a fairly big task. We were fairly vocal when the procurement competencies came in, when at one stage there was a big drive to have everybody involved in purchasing competency assessed. We did some ‘back of the postage stamp’ calculations and worked out that it would cost the then Department of Social Security about \$1.5 million to implement and about \$600,000 a year to maintain.

**Mr GRIFFIN**—Is that 20 per cent turnover in purchasing staff a situation particularly in Centrelink, given the changes, or do you think that is a common percentage in relation to government departments?

**Mr Goodwin**—I could not talk to other government departments, but I think it has been reasonably consistent between DSS and Centrelink for a while.

**Mr Hoefler**—As I mentioned, we are currently developing our own contract management capability, and we have been looking at recruiting suitable purchasing staff into that unit. It has been extremely difficult to find skilled practitioners that are readily available. I have to

say at this point that there is not a great deal of those people available in the Commonwealth market.

**Senator HOGG**—On these small purchases, what sort of testing do you do to make sure that, in going to the local supplier, they are getting value for money?

**Mr Goodwin**—Generally, our officers know the cost of the things they buy. We encourage them to move their suppliers around. If they have an option within that local community, they should not just go to the shop that is the next door down and buy it there all the time. Our instructions encourage them to move government business around.

**Senator HOGG**—What internal mechanism do you have to make sure that they are doing the right thing—to check it?

**Mr Goodwin**—We don't have any. We leave it up to them.

**Senator HOGG**—The second question related to that is: if they go to supplier A, and supplier B knows that they are going to A and knows that supplier A has the same product at a cheaper price, what mechanism is open to supplier B to complain that fairness is not being achieved in supplier B's eyes?

**Mr Goodwin**—I guess they would go straight to our local purchasing unit—the office that is doing the purchasing—or else—

**Senator HOGG**—So they would go to the person who is doing the purchasing?

**Mr Goodwin**—Or else they could complain to the DAS purchasing unit, if they know that.

**Senator HOGG**—Does that happen often?

**Mr Goodwin**—I have not had one complaint from DAS purchasing or from any supplier for many years.

**Mr GRIFFIN**—Would a complaint go to you?

**Mr Goodwin**—It should. I work to the head of procurement for our organisation, so it would find its way here. If somebody wrote to our CEO about our purchasing practice, it would come to me.

**Mr GEORGIU**—You have a holding vault system for small purchases.

**Mr Goodwin**—Yes.

**Mr GEORGIU**—In terms of overall value for money, are you confident that you are getting that value rather than buying in aggregate, with all the costs?

**Mr Goodwin**—Could I follow a thread that I was following earlier—I think we got a bit waylaid with it. That is how we handle our small value purchases. We also allow our network to buy whatever they want from the existing contract that we have already made purchasing decisions on. We regard that as an ordering issue. The purchasing decision, in setting up the contract, has already been made, so all they are doing is ordering. It is a funds control issue—whether they have the available funds to buy. For our other purchases, consultancies above \$30,000, which get a bit difficult sometimes—

**Mr GEORGIU**—Can I just stop you. I just want to know, if you are buying \$50 million worth of paper through small purchases, are you confident that, all-up, those small purchases are more economical, in the larger sense, for the Commonwealth than supplying paper through centralised buying and provisioning?

**Mr Goodwin**—We have compared the prices that we get with the old buyer's guide for paper, and they are roughly comparable. We are probably paying a bit more than we would have under the buyer's guide, but it is all swings and roundabouts, I think. We are talking to the ATO now, and we have been for a little while, about doing a tender—and this is sounding like another common use arrangement—for national paper supplies. A few agencies have expressed interest with us in going out into the marketplace.

**Mr GEORGIU**—Could you provide us with that comparison, please? There are swings and roundabouts but basically both systems are fundamentally equal in terms of the cost to the Commonwealth.

**Mr St CLAIR**—Mr Goodwin, it is good to see you are here at that level. A lot of the people who have appeared before this inquiry have not been at the level that you are, and I think it is great. The Financial Management and Accountability Act 1997 brought the responsibility for a whole host of functions to chief executive officers. Obviously one of those is the purchasing function. Has there been a guideline issued by the CEO to you, or a memo sent to you, as to what you should take into account as far as the procurement guidelines are concerned?

**Mr Goodwin**—In relation to those five or six core principles, we have never thought that necessary. The reason why is our legal advice. We were concerned originally when the guidelines were issued as guidelines, but they were issued under the FMA Act. There is still a conundrum in my mind as to how you can have a guideline that is issued as a force of law under the FMA Act. We sought informal advice from a contracts lawyer—and I do not want to labour this too much—who said that where you see the words 'shall have regard to' it is as good as saying 'at law, you will do.'

**Mr BROUGH**—Is that right?

**Mr Goodwin**—That is my advice, but I have not sought formal legal advice.

**Mr GEORGIU**—Could you talk to the audit office and come back to us after you have reached a conclusion?

**Mr BROUGH**—I want to clarify something there. You are saying that the guidelines are issued as part of the FMA Act?

**Mr Goodwin**—That is my understanding.

**Mr BROUGH**—That is all. I just wanted to be sure.

**Mr St CLAIR**—I want to labour it just a bit more. I think you have touched on a point that we really do need to have a grip on. So you feel that, because the guidelines were issued under that FMA Act, it is the responsibility of the CEO who has responsibilities to administer that? Did they send you a memo or an instruction on it?

**Mr Goodwin**—Not that I am aware of. That is not a requirement in there.

**Mr St CLAIR**—So you have just done it as part of the process?

**Mr Goodwin**—We treat all those things as things that we have to do, and we adapt them for each case-by-case purchase.

**Mr St CLAIR**—We have had one group in here that simply said the opposite. That is why I said your level is good.

**Mr Goodwin**—Perhaps that serves to underline something that does need to be clarified in Commonwealth procurement generally.

**Mr BROUGH**—I hope I am not going to repeat what you just said, but I was taken by your last point about your legal advice. It was a little contrary to what we heard from the audit office, so I am keen to follow it up. On page 2 you mention ‘National Competitiveness and Industry Development’. I will read you the passage and get you to elaborate on it. It reads:

Whilst the objectives of national competitiveness and industry development are strongly supported by the portfolio, the mechanisms to implement them have been the subject of some contention over the years . . . the industry development ‘offerings’ from suppliers are still required to be assessed on a value for money basis.

Conceptually, this is at odds with the Government’s policy about open and effective competition and its objective of supporting Small and Medium Enterprises (SMEs) and Australian and New Zealand (ANZ) suppliers.

You are the first one who has actually stated that. That is pertinently what we have been trying to elicit from people, because it seems to be the case. Can you give us some real nuts and bolts as to why that is the case and how you deal with it?

**Mr Goodwin**—Going back a few years, the preference scheme for ANZ suppliers was abandoned. I think there was a notional 20 per cent discount offered to the bids of ANZ suppliers. I believe, from memory, the reason was that the general feeling was that the suppliers added 20 per cent to their bid. I do not know whether that is the case or not, but that was all administered by the then Department of Administrative Services. Then we moved to two-envelope tendering, which was, in turn, abandoned. Now we are looking at a generic industry development criteria, and I think that is a step in the right direction.

I have raised this with the appropriate agencies before. However, I am still quite concerned about the draft industry development criteria that have been sent around to agencies for comment—and I stress, as far as I am aware they are only a draft. When a multinational or a large company and an SME are bidding for the same job that is worth, say, more than \$10 million—and an SME is often ANZ suppliers as well—and you ask both, ‘How are you going to invest in R&D if you get this contract? How much are you going to invest in value-added activities to the Australian economy?’ then it seems to me that you run a severe risk of unwittingly pushing the evaluation when you talk about those considerations in context of value for money—and that is what we are talking about—towards the larger companies or multinationals.

**Mr BROUGH**—So you think that what was originally a nice thought actually works against them at the end of the day?

**Mr Goodwin**—Unless there is some detail there that I am not aware of—and we have not used this system yet—but I would prefer not to be put in that situation.

**Mr BROUGH**—How do you mix the three up—the value for money, the Australian and New Zealand content and, open tendering? Where do you get your balance now?

**Mr Goodwin**—At the moment, we are using GITC version 3 for information technology. All the industry development offsets are in that and they are administered by OASIT or OGO.

**Mr Hofer**—OGO, I think.

**Mr Goodwin**—We have not yet done a tender that requires industry offsets that are above \$10 million. Most of our arrangements are still coasting along under arrangements that were under the old common use arrangements, but they will progressively run out. That is why we are trying to get a handle on this industry development thing and we have been asking questions—because we would like to be prepared for it. In yesterday’s submissions from the Office of Small Business, I noticed that some extremely interesting statistics were provided. I believe that in their submission there was a list of three or four simple value-added things that you can explain to purchasing officers. If you spend \$1 million on an ANZ product, you translate to these things. We have never seen those stats and I would love to see that sort of information.

**Mr BROUGH**—They are going to expand on that for us. We asked them to send us additional information.

**Mr Goodwin**—That would be wonderful, because there is no lack of will or want on the part of purchasing officers out there to buy Australian. We are all taxpayers, and we all have children we want to give jobs to—all those sorts of things. The mechanism is: how do you get it? How can you make those decisions in the context of value for money?

**CHAIR**—Let me follow up on that. That is a very positive statement, yet in 1994, clearly the industry, science and technology committee found across the public sector generally—not 100 per cent of course, but to a large extent—an adverse climate towards

purchasing Australian, and that there was, if anything, a bias towards overseas goods and services because of a perceived lack of quality, delivery and service from Australian companies.

**Mr Goodwin**—I have not found that anywhere in my travels and, when talking to my counterparts in other agencies, I have never heard anybody say that. This sort of perception could be something along the lines of better selling techniques from larger international companies. Perhaps they are more skilled at putting their point—they trade on market name and there are perceptions out there. I do not know how you would measure whether those things actually occur in practice.

**Mr St CLAIR**—Do you have a formal weighting structure in your evaluation of major tenders? Local government, for example, might have a weighting structure for the building of a bridge which is a major contract, and they might weight it to local content or a whole range of different things. Do you do similar things? If so, how much of a role do the SMEs or ANZ content have in it?

**Mr Goodwin**—To my knowledge, I do not think we do that. My comment would be that, if you are going to weight against research and investment by a large company, how can you then argue that that is a value for money outcome? I do not know. I have not got the answer.

**Mr St CLAIR**—I made a note about four pages ago: ‘Are we seeing the right people at the inquiry?’ At the moment, I think we are.

**Mr GEORGIU**—Mr Goodwin, you just posed a dilemma. You essentially said, ‘Tell me how I meet these Australian New Zealand purchasing objectives within the context of value for money. You said, ‘I’m a father. I want my kids to get work. We’re all the same. We all are this, but you tell me how to achieve Australian purchases within the context of value for money.’ Can you outline at a little more length what dilemmas you actually see in making decisions?

**Mr Goodwin**—There are a number of dilemmas: I want to talk about management information in a minute, because I think we have got a few answers there. But I think the confusion that exists in the general community about what is an ANZ product also exists with purchasing officers. I am sure you have heard that before, but it is still there.

Again, I guess a self-criticism is that we have not been out there to our purchasing network trying to gather that information. We have made a few attempts to try to design a survey that we could send out to our purchasing officers asking, ‘What type of goods do you buy that are ANZ-manufactured?’ We have just given up because of labelling problems and definition problems. I was involved with the National Procurement Board some years ago in putting together definitions and statistics and attempting to pull some statistics on ANZ and SMEs out of our then financial management information system. But that project fell in a bit of a heap when the National Procurement Board ceased to exist. Then we threw out our financial management information system and got a new one.

**Senator HOGG**—Forgetting the fact that it got the flick, was it a project that was doomed to failure anyway, because of the identification problems that you mentioned?

**Mr Goodwin**—That was a major problem, yes.

**Senator HOGG**—So that really gets to the heart of the fact that we cannot get statistics here before this committee.

**CHAIR**—If you were a CEO of a company spending \$600 million a year, wouldn't you want to know where it was going?

**Mr Goodwin**—You would. But I doubt whether any CEO of any company can tell you how much they spend on ANZ products. They could tell you for their big contracts, because you can build that into the tenders if you have got a way of auditing what the suppliers tell you. That, in itself, is a story. I could tell this committee what ANZ goods we have contracted for; what we get is another issue.

**Mr BROUGH**—What do you mean? You sign a contract for something that they tell you is going to be an Australian made product and, when you actually get it, you are not confident that it is actually an Australian made product?

**Mr Goodwin**—It is a matter of satisfying yourselves as the contract goes on and matures. Companies operate in this thing they call the global economy. If we went to tender for stationery—for this pencil, for example—we might say we prefer Australian products. The tenderers might give us Australian products in the initial bid, but they operate globally and they buy from Argentina and everywhere else and they reserve the right to substitute goods at the drop of a hat to guarantee their price competitiveness in the marketplace. We then have to set up a mechanism so that when they want to substitute this pencil with one from Argentina, they tell us about it or we have a mechanism to detect it. We are talking about tens of thousands of potential items of stationery, so the logistics are fairly large.

**Mr GEORGIU**—So the dilemma that you are starting to talk about is actually only one dilemma—only one problem? Because if there are more, I would like to flush them out.

**Mr Goodwin**—That is one issue; another one is financial management information systems. We can build into our financial management information systems a couple of fields: one is ANZ suppliers and one is SME suppliers. We cannot build a field that says, 'Is this individual line item an ANZ product manufactured in Australia?' We then rely on our purchasing officers when they call up on our system—called SAP/R3—and fill out a purchase order, to say, 'This is an SME and this is ANZ supplier.'

One of the problems we have got is 20,000 suppliers. It is not uncommon for them to change their status and be taken over and cease to exist. Things change. If we were to introduce those things we would have to be constantly out to the marketplace, testing the water and asking those companies that are SMEs and ANZ, 'Have you changed your status?' Multiply that by 40 or 50 agencies that potentially use SAP or like products doing the same at the same time and I think suppliers are going to get pretty cheesed off, pretty quickly. As well as that, we lack a capacity to audit all our suppliers. If they claim they are ANZ, how



far can we go to verify that, or do we go that far to verify it? Then you come into issues about consistency between departments. Our supplier might tell us something and they might tell ATO or another agency something different. So you have a consistency of information issue. There is a way around that. I am trying to convene a group now to put some pressure onto SAP to change their government template.

**Mr BROUGH**—What is SAP?

**Mr Goodwin**—It is a financial management information system. It is called SAP/R3. Most of the big agencies have picked it up from the OGIT panel contract.

**Mr Hoeffler**—Shared systems.

**Mr Goodwin**—Shared systems contract. We are trying to set up a group—I guess I will be chairing it—which is going to try to put some pressure on SAP to put those two fields into the government template. If we can do that, we can then provide statistics to DOFA and to this committee and benchmark it across agencies, at least to which agencies are using ANZ and which agencies are using SME, and we can provide you with that data.

**CHAIR**—How do you define ANZ?

**Mr Goodwin**—That is another issue.

**Mr BROUGH**—This is what we came back to.

**CHAIR**—DOFA told us this morning that 97 per cent of Australian government purchasing is to ANZ suppliers.

**Mr Goodwin**—I cannot comment on that—

**CHAIR**—I have great difficulty in believing it.

**Mr Goodwin**—That, quite frankly, is the issue that torpedoed our endeavours with the National Procurement Board—because it was the earlier days of trying to get that definition bedded down and it was quite volatile—we had quite interesting discussions.

I have got the definition here somewhere. My understanding is that in our policies an SME is an organisation with an annual turnover of \$20 million or less, in the manufacturing sector it has fewer than 200 employees or, in the service sector, fewer than 50 employees.

**Mr BROUGH**—That is totally different to what we heard yesterday.

**Senator HOGG**—Is that your definition?

**Mr Goodwin**—It might be. It could be that our policy is wrong, I do not know.

**Senator HOGG**—We are not having a shot at you. Whose definition is that?

**Mr Goodwin**—That was the definition at the time. I do not know.

**Senator HOGG**—It does not matter.

**Mr BROUGH**—It is the one that you stick to at the moment, when looking at it?

**Mr Goodwin**—That is the one that we use at the moment. We do not capture that data on SMEs because we lack the financial management information system to do it, but that is what we are trying to change.

**Mr GRIFFIN**—Do you have internal departmental guidelines around the question of purchasing which expand on the Commonwealth procurement guidelines?

**Mr Goodwin**—They are in the process of being rewritten to recognise the split between DFAS and Centrelink. We are putting them online. Our simple purchasing is online, with the Commonwealth procurement guidelines also online and embedded into that. We have a system called information mapping to do that.

**Mr GRIFFIN**—When you say ‘simple purchasing’, does that mean the little ones?

**Mr Goodwin**—For those under \$2,000 and often the existing contract, which is not really purchasing it is just ordering.

**Mr GRIFFIN**—If you could get us a copy of what you have got, we would be interested to have a bit of a squiz. I understand if something is a draft; that will be fine. On the question of purchasing officers at a local level, predominantly what they are actually expending is the under \$2,000 requirement. I take it that most of that \$90 million for the above \$2,000 purchases is for more centrally done stuff, because it would be for larger things.

**Mr Goodwin**—Mostly IT and consultants.

**Mr GRIFFIN**—If I am a purchasing officer at Dandenong Centrelink, what constraints operate on me in terms of what I do? Are there expenditure constraints? I cannot spend more than \$2,000 on something before I have to go somewhere else. Is there a ceiling on that sort of stuff?

**Mr Goodwin**—We use a regime of benchmarks. There are about five or six of them. We pin it down further to categories of suppliers. For example, we do not want everybody in our organisation making decisions or signing contracts for consultants, because that is a different market category to off-the-shelf pens and paper. For all consultants above \$30,000 and—this is the part that is in line with Bevis—and for all goods and services above \$100,000, those requirements come to my unit, which is totally independent from everything else in the agency and is staffed by competency trained and assessed people.

**Mr GRIFFIN**—What I am looking at is more the question of the 85 per cent of transactions in dollar value that are below that \$2,000 limit. That is because they would not

come to you guys because it is too small. That is fair enough; I do not have a problem with that. You say there are about 800 cards, is that right?

**Mr Goodwin**—Around about that.

**Mr GRIFFIN**—I am not going to get into the mathematics of that other than to say that if you average that—though I am not saying that is what you should do—it is still a significant amount of money per card per purchasing officer. What I am trying to look at is: what sort of guidelines do they operate under in terms of what they do? For example, is it a situation where, if they are spending more than \$10,000 on stationery, a red light goes off and a ‘please explain’ goes out? Are those sorts of checks and balances in there?

**Mr Goodwin**—The purchasing cards are capped at \$2,000 per transaction.

**Mr GRIFFIN**—But can I go out and buy \$2,000 in paper here and \$2,000 in paper there, and spend \$200,000?

**Mr Goodwin**—There is no system that we know of that will stop you from doing that. Once we get the management information from our card provider, we can start developing some programs. That is all we can rely on.

**Mr GRIFFIN**—So what you are planning to do, seeing as it is only a new system, is a bit like what happens in my home: a Bankcard bill comes back and the wife has me arrested. You will be looking at those issues and I guess you will be looking at expenditure profiles around that sort of stuff.

**Mr Goodwin**—We certainly will.

**Mr GRIFFIN**—Understandably, the principal monitoring tool from your end, and therefore the principal effective regulatory control at the bottom end, is going to be a question of price. If I am a purchasing officer and the circumstances are that I am looking at trying to keep my purchases down because that is part of my job, and if practically the only management tool you have is to actually look at the cost of purchases through that card, then it is obviously going to be a major concern as to what I do. It should be—I am not saying it should not be—but it will probably be the only one. Would that be right?

**Mr Goodwin**—It would be the major one, yes.

**Mr BROUGH**—What is required at branch level with the cards? They go and whack it on the card, but are they required to keep details?

**Mr Goodwin**—Yes, they keep logs and the logs are reconciled. There are audits on them and that sort of thing.

**Mr BROUGH**—So all of that information is actually kept anyway?

**Mr Goodwin**—That is. There is a full audit trail.

**Mr BROUGH**—You said earlier that there was no mechanism to be able to trip someone up. But say they bought \$1,999 worth of paper today, tomorrow, the next day and the day after; when you did their simple auditing then you could identify that.

**Mr Goodwin**—You could.

**Mr BROUGH**—Quite often, if you have guidelines there, just the fact that they are there brings a few people into line.

**Mr Goodwin**—We have not detected any abuse of our credit cards.

**Mr BROUGH**—Don't get me wrong, I am not talking about abuse or fraud or anything like that at all but about utilising the guidelines to the nth degree because it is simpler rather than fulfilling these guidelines. You were not able to give us a ballpark figure of what the total expenditure on the cards would be over a 12-month period, were you?

**Mr Goodwin**—No.

**Mr BROUGH**—Is that something you said you were going to be able to supply?

**Mr Goodwin**—It is still bedding in.

**Mr GRIFFIN**—You should be able to put a limit on it, shouldn't you? I was just talking to Mr Georgiou about it.

**Mr Goodwin**—Each card has a card limit, but there is also a transaction limit.

**Mr BROUGH**—What is the card limit? Does that vary?

**Mr Goodwin**—We let that vary.

**Mr BROUGH**—What would the maximum be?

**Mr Goodwin**—I have no idea; that is controlled by our finance policy people. I could take that on notice and give you a stance if you like.

**CHAIR**—You told us there were about 800 cards out there.

**Mr Goodwin**—Yes.

**CHAIR**—And I think, from the numbers you gave us, you said that with those 800 cards you spend \$520 million a year.

**Mr Goodwin**—That is not all on the cards.

**CHAIR**—That is about \$700,000 per Australian government credit card. Wow! That is a lot.

**Senator HOGG**—You want one.

**CHAIR**—Seven hundred grand!

**Mr Goodwin**—You may have misunderstood me. The credit card is one mechanism that we use to buy. It is very convenient. It is cheaper than raising a purchase order. It is more acceptable to a lot of rural and remote people. We also process a lot of invoices, straight from suppliers. I do not know what the mix of all of these things is.

**CHAIR**—That is still a lot—\$700,000 per year per card!

**Mr Hofer**—I think you are misunderstanding the situation here. We have got a lot of standing orders in place where transactions are actually purchased on a standing order rather than actually through the card. So there will be a lot of separate purchasing processes which are still effectively less than \$2,000 in total, but not every transaction actually utilises the card. We cannot give you that breakdown with statistics. So it is not \$700,000 per card or anything like that; it would be a far lower proportion. Unfortunately, we do not have the information at hand.

**CHAIR**—But you will let us know.

**Mr Goodwin**—We will inquire what stats we can do.

**Senator HOGG**—There is just one question I want to raise, and that is the concept within the procurement guidelines of the use of ANZ suppliers and ANZ industry. Does it have a feelgood value in the case of people such as politicians, does it have a nuisance value in the case of people such as yourselves, who find difficulty in defining what is a supplier or what is ANZ industry, or does it have some real value for both groups? If so, is it a concept worth pursuing?

**Mr Goodwin**—I do not know what alternative concepts there are overseas. I guess other agencies are looking at that. We heard earlier of some New Zealand experiences. I think they are the sorts of things that we need to look at and share around agencies and get together and talk about what is practical and what is achievable in the context of the government's policies. From my point of view, I think the attempts over the last 10 or 12 years or so on industry development have been more frustrating than anything. I do not think the chopping and changing helps. I just go back to the point that it is not from want of wanting to do the right thing; it is trying to get a target to aim at, something tangible to get hold of.

**Mr GEORGIU**—Is this a distortion? The message I get out of you is that if I knew what an Australian product was and if I knew what an SME was, then we would be buying once more from both.

**Mr Goodwin**—If I can prove it is value for money—

**Mr GEORGIU**—Within that.

**Mr Goodwin**—If somebody can show me a way it is value for money.

**Mr GEORGIU**—That is what I got out of you: on the same value for money, my problem is that on two identical items I do not have the data on which to make a judgment.

**Mr Goodwin**—Yes.

**CHAIR**—Your attitude is very refreshing, at least from my viewpoint. Thank you for that.

**Mr Goodwin**—It is no more than I have proffered to other meetings of practitioners.

**CHAIR**—Thank you very much.

[11.57 a.m.]

**SULLIVAN, Ms Glenda, Assistant Commissioner, Financial Systems and Infrastructure, Australian Taxation Office**

**DAVIES, Mr Graham, Director, Procurement Policy, Australian Taxation Office**

**DAVIDSON, Mr Jim, Director, Data Capture Systems, IT Services, Australian Taxation Office**

**CHAIR**—Welcome. We have received your submission. Would you like to make a brief opening statement before we proceed to questions?

**Ms Sullivan**—Perhaps just a structural statement, if I could. Unlike a lot of agencies, the Taxation Office actually has an arrangement where we have a general head of procurement, which is me, and we have a specialised IT head of procurement as well. So there are actually two roles in the organisation. Jim represents the IT specialist area.

**CHAIR**—In 1997-98 you spent about \$243 million on goods and services. Does that sound about right?

**Ms Sullivan**—It depends on what is included and what is not included. If you include expenditure on property and leaseholds, it is in fact considerably higher than that. The figure then comes to about \$421 million.

**CHAIR**—In your submission, under the heading ‘Open and Effective Competition’, you say:

We have pursued open and effective competition by appropriate policy instructions . . . The ATO also encourages the use of public tendering where appropriate and through our MOU with ISONET.

Yesterday, in a submission to us, ISONET said:

Since 1997, with the exception of Defence major procurement work, no significant inquiry has been made of ISO by Commonwealth agencies seeking to maximise opportunities for local manufacturers in their purchasing activities.

Who is right: ISONET or you?

**Ms Sullivan**—Graham has had the dealings with ISONET.

**Mr Davies**—I think ISONET would know more than we do about exactly how many people in the ATO are approaching them for assistance. We have tried, at a procurement policy level, to direct people to go to ISONET, particularly if they are confused about the state of the market in a particular product or service or if they are uncertain about whether a market exists at all. On the other hand, for major procurement we have usually gone direct to tender in order to test that market. ISONET, for us, has been more useful at the medium to small end, where people are looking to spend maybe \$5,000, \$10,000 or \$15,000 rather than several million dollars.

**CHAIR**—You said:

Although we attempt to utilise Australian made goods and services, we have no records which indicate the country of origin . . .

Do you have records that indicate, at least in some manner, how much of your total expenditure goes to small or medium sized businesses and how much goes to Australian or New Zealand sourced companies?

**Ms Sullivan**—That is a difficult question. I will provide a bit of background on that. Until recently, the tax office support for expenditure generally was an extremely elderly financial management information system which did not allow us to collect that information without massive additional non-system work. We have recently moved to the SAP/R3 product, which was implemented about six months ago, and it allows us more capability for data collection around expenditure. That is a slightly roundabout way of saying that we believe we would be able to match some of the data that is starting to be collected via the SAP/R3 infrastructure and match that against information in external sources, but we are not at the moment doing so. Basically, we are developing a capability, if that becomes a requirement for the future. I was sitting in on the last of the Social Security evidence, and many of the issues are the same: a definition of what is an SME, what is an ANZ and whether it is content or company—and we do not report on that systematically at the moment.

**Senator HOGG**—What is your definition of an SME? Is it different from theirs?

**Ms Sullivan**—We have heard that definition before. I do not know that we actually define it at the moment.

**Mr Davies**—We do not define it.

**Senator HOGG**—Oh, you do not define it.

**Ms Sullivan**—There are too many definitions.

**Mr Davies**—It has been too difficult to come up with an answer so far. We are really waiting to see what might be a policy response of government.

**Mr BROUGH**—Each and every department has said to us that it is very difficult or impossible to determine the origin of the supplies that they are receiving. Yet, in the same breath, ISONET and the departments have all told us that they do not utilise their service, when their key objective is to provide and facilitate the supply of Australian and New Zealand products and services to the Commonwealth and New Zealand governments and their agencies.

Surely if there were, as a result of the 1994 report, a funded organisation set up to do that and to assist you with it, whilst it may not give you all the answers, it would certainly take some of the weight off the shoulders of the different agencies and ensure that it was done. Even though, as the chairman stated earlier, you put in your submission that you



utilise them, what you are really telling us is that your direction to your purchasers is that they should consider using them, but you do not know whether they do or not.

**Ms Sullivan**—Our primary direction around procurement is that the bulk of our expenditure is moving more and more towards major contract acquisitions or major purchases around categories of goods from which our people then draw down supplies, and that is done through the open market competition route.

**Mr BROUGH**—Could I just take that another step further? If you go to the small business community which has given evidence, because the four-, five- or six-operator company quite often does not have the manpower to seek this out, and whilst it is not the government's job to seek them out necessarily, ISONET was set up to do just that and to assist. It is very easy to identify the big players and the headline banners of those names, and they will make sure that they are in there tendering. But we are disadvantaging our home-grown products and companies by not utilising a service which is already there. I would put it to you that it does not matter whether it is big, small or in between, a free service has been set up, and it is being underutilised and that is having a detrimental impact upon your fulfilling the guidelines as set out in the procurement guidelines, and it is disadvantaging Australia as a whole. Would you like to comment on that?

**Ms Sullivan**—Not specifically in those terms. Basically, as I have said, our procurement approach is moving towards more systematically looking at the value of different sorts of contracts, and that is tending towards either regional, local or national contracts. What I am trying to argue is that it is actually a horses for courses issue here. In some areas our direction clearly is in national contracts. The classic example is travel, and there is not a big choice there. In others our distribution is through regional approaches—and when I say regional that is normally, in our terminology, a state-based approach covering a number of our offices in the same geographic region. In other situations it might be local purchases. So there is no single answer. Where we can, we find moving contracts to post the tender situation to a major supplier, from which our staff then draw down the supplies they need, tends to be the more effective for the organisation. And those are publicly advertised.

**Mr BROUGH**—But you are still not coming to my original point. I accept all of that; that is fine. Why not use ISONET to assist you to ensure that you get the best chance of getting an Australian made product, whether it be national, regional or local? I think that policy is fine, but why not throw in that other element?

**Mr Davies**—We can certainly consider that. Our viewpoint was that we—

**Mr BROUGH**—Could I just put it another way? Why wouldn't you consider that? Why wouldn't that be a matter of priority?

**Mr Davies**—It would if I were the procurement officer, yes.

**Mr BROUGH**—But with procurement officers, we have heard that it depends on who was making the policy at the top. I think in two departments now, because of the individual at the top, there were very clear directions that this is the direction they wanted to take and

then the whole department went that way. The procurement officer at the bottom is really only going to do as he is directed, so why wouldn't that occur from the top?

**Ms Sullivan**—This is in addition to the normal public advertisement of contract opportunities?

**Mr BROUGH**—Yes.

**Ms Sullivan**—The answer is that I would have to consider that. I do not know. I cannot give you a clear-cut answer. I had understood that the public advertising of opportunities would have been adequate to attract the attention of people who were interested in those opportunities. I am perfectly happy to consider the additional route of talking with ISONET to see whether they in fact pick up that information. I do not know, from their side, whether they also scrutinise opportunities.

**Mr BROUGH**—I do not want to labour the point. I will just make one last point on this and then I will leave it alone. I think we have covered it enough. Yes, you advertise and, yes, you will get all of those people who are interested in it. However, every department has told us that they may have purchased—in Environment's case, 97 per cent—from Australian based companies but they do not have a clue what percentage of their purchases are actually Australian made. ISONET's job is to seek out products and services which are Australian made. It therefore goes beyond the superficial and gets to the substance which can assist business in Australia. That is the point that I would like to make.

**Mr GEORGIU**—In the context of this discussion, what do you mean in your submission when you say, 'We attempt to utilise Australian made goods and services'? What does that actually mean in practice?

**Mr Davies**—It means in practice that we have a chief executive's instruction that requires our procurement officers to try to source from Australian companies on every conceivable occasion where value for money, open and effective competition and the other criteria are met.

**Mr GRIFFIN**—But you add on the fact that you have no details that actually show—

**Mr GEORGIU**—But we would not know.

**Mr GRIFFIN**—You cannot tell whether—

**Mr Davies**—No, we cannot verify that.

**Mr GEORGIU**—So how can you sustain your proposition, 'We attempt to utilise Australian made goods and services'?

**Ms Sullivan**—That is part of the judgment that the procurement officers make within the overall elements that we take into account.

**Mr GEORGIU**—I take the overall elements, but what you are telling me is—

**Ms Sullivan**—We cannot give them a direction to use Australian content on all occasions.

**Mr GEORGIU**—No, I am across that point. What I am saying is that, within the context of value for money, on what basis can you assert that you attempt to utilise Australian made goods and services when you do not know what you are actually purchasing?

**Ms Sullivan**—We do know what we are purchasing.

**Mr GEORGIU**—But you do not know the country of origin.

**Ms Sullivan**—That is correct. I doubt whether we ever could know, other than the sort of audit trails that our colleagues from Social Security were talking about.

**Mr GEORGIU**—No, we are not—

**CHAIR**—But you did say in your submission that a good example of your attempt to adhere to ANZ industry policy was a contract with IPEC for the supply of \$30 million worth of desktop machines. Congratulations, they are Australian.

**Mr Davidson**—They are manufactured in Australia.

**CHAIR**—They certainly are.

**Mr Davidson**—But as to the—

**CHAIR**—They are an Australian company and they manufacture in Australia.

**Mr Davidson**—Yes, but the actual percentage of ANZ content of their goods is not something which is particularly easy to put down. The majority, if not all, of the componentry of what they manufacture is certainly from overseas.

**CHAIR**—Yes, some of their components but not all. Anyhow, by the time they add labour to it, I bet you they can put ‘Australian made’ on the label of that stuff.

**Mr Davidson**—Certainly.

**Mr GEORGIU**—We are going around in circles. You say, ‘We try but we would not know.’ But you are very firm that you try without knowing.

**Mr Davies**—Yes.

**Mr GEORGIU**—At page 17, the guidelines say:

Where agencies purchase overseas goods in preference to ANZ goods, they must be able to demonstrate that ANZ suppliers have had fair opportunity to compete.

Where you discover that somehow you have bought overseas products, how do you demonstrate that ANZ suppliers have had a fair opportunity to compete? Trust me; it is there.

**Ms Sullivan**—I am not debating that.

**Mr Davidson**—Within the IT procurement sector, we worked under the endorsed supplier arrangements. We rely on DOFA's processes of endorsing suppliers, which are there to allow, in part, SMEs to participate in business. Our constriction there is to deal with endorsed suppliers, and we do that. When going out to tender we go to the widest selection from those suppliers who can supply the sort of product that we are looking for, and we certainly look to make sure that we include Australian manufacturers in that. IPEC is a case in point. But as to actually being able to specifically quantify it—

**Mr GEORGIU**—To demonstrate? You cannot.

**Mr GRIFFIN**—On your overall procurement profile for the year—and we were just talking to the Department of Family and Community Services about that—I note that you have provided some figures, but I would like to go through that with you very quickly. How much do you spend per annum—ballpark figure—on procurement? Attachment A had about \$421 million for 1997-98. Is that the total? Is that everything?

**Ms Sullivan**—Yes, that is essentially non-salary expenditure in the ATO and they are cash figures.

**Mr GRIFFIN**—In cash figures?

**Mr Davies**—It is not an accrual figure.

**Mr GRIFFIN**—I gather that is one of the reasons it jumps around so much year by year.

**Ms Sullivan**—Yes, that is one of the major reasons.

**Mr GRIFFIN**—The Department of Family and Community Services were saying that it is about \$600 million per annum and about 85 per cent of the expenditure is done through purchasing offices with transactions on government credit cards for, in effect, \$2,000 or less. I note that you have three procurement offices within the ATO. Can you explain to me how that works in terms of that? For example, in your submission under corporate services APU it talks about all contracts over \$100,000, the IT area over \$1,000, and then there is the accommodation one. Does everything fit into one of those three?

**Ms Sullivan**—Yes.

**Mr GRIFFIN**—So there is no discretionary expenditure available for purchasing officers on the ground?

**Ms Sullivan**—If I could just put a framework around it first. Basically, the accredited procurement units deal with higher aggregate value types of procurements. By nature, they

are cleaning, property or whatever. The people in those APUs are our most skilled people. They have been specifically trained and accredited. Within our chief executive instruction, which is the organisation's instructions from the CEO to staff around procurement, we have a profile—

**Mr GRIFFIN**—We would like a copy of that, if we could.

**Ms Sullivan**—Yes, we have one available. We brought one today. It has a matrix in it which defines the levels and the nature of procurements that can be made by people with different skill levels in the organisation. It might be easier to have the matrix in front of you rather than for me to try to describe it.

**Mr GRIFFIN**—I am particularly interested in the situation with Family and Community Services in which they were saying that about 85 per cent of their expenditure is done in lumps of under \$2,000 right out in the local and regional area—the point being that the overwhelming majority of their expenditure is in the context and at a level which makes it extremely difficult to ever be able to ascertain what is happening around the question of Australian and New Zealand purchases. It also makes it difficult for guidelines to work, down at that level. I am interested in what the profile is for ATO in the same context.

**Ms Sullivan**—I am just glancing at Graham to see whether we brought those figures along with us.

**Mr Davies**—Yes we did. Below \$2,000 represents 93 per cent of the volume of procurement—the transactions.

**Ms Sullivan**—Invoices.

**Mr GRIFFIN**—Volume of transactions. What about value of transactions?

**Mr Davies**—That represents nine per cent of the total value. So there is a volume and value—

**CHAIR**—It is a different sort of operation.

**Mr Davies**—In fact, for the expenditure between \$2,000 and \$5,000 it rises to 96 per cent.

**Mr GRIFFIN**—Of transactions?

**Mr Davies**—Volume of transactions.

**Ms Sullivan**—It is a very inverse relationship—if that is the right term.

**Mr Davies**—That represents 12 per cent of the cumulative value.

**Mr GRIFFIN**—Between two and five.

**Mr Davies**—Between \$2,000 and \$5,000 is four per cent of the value, and it comes out to a total of 12 if you are looking at it from zero to five.

**CHAIR**—You were talking about the CSAPU—whatever that is.

**Ms Sullivan**—It is the Corporate Services Accredited Procurement Unit. We lapse into tax talk occasionally.

**CHAIR**—You refer to ‘National bulk supply and delivery of photocopy paper, free in store to all ATO sites’. Who makes the paper?

**Ms Sullivan**—I could not answer that off the top of my head.

**CHAIR**—We would be interested in your telling us who ATO buys their paper supplies from—not just photocopying paper.

**Mr BROUGH**—Not who they buy it from, whether it is Australian made.

**CHAIR**—Yes, whether it is Australian made.

**Ms Sullivan**—We can follow that up fairly quickly and get it back to you.

**Mr BROUGH**—Most of your paper supplies are bought centrally, though, aren’t they?

**Ms Sullivan**—Again, I would like to respond when I have had that information, because I have a memory that that is in fact one of the major procurement items that is currently being reviewed and pulled back to a more centralised approach.

**Mr BROUGH**—In fact Family Services suggested that they might be looking at doing some sort of a contract with you people for paper—

**Ms Sullivan**—We are organisationally starting to explore the possibility of consortiums between agencies. We have done that with the recent travel contract where it worked quite effectively. This is in terms of bulking up the acquisition value to get value for the users.

**Mr BROUGH**—To get a reduced price.

**Ms Sullivan**—It is really an exploration at the moment about whether it is a potential track to go down.

**Mr GEORGIU**—I want to bring this down to one fundamental. If I am an Australian manufacturer that has just made one million pencils that are identical to a million pencils made by an American manufacturer, the department wants to buy a million pencils and the prices are the same, can you guarantee to me that I would get the order rather than the American?

**Mr Davies**—I think we can guarantee you would get equal consideration. I cannot guarantee that we would—

**Ms Sullivan**—You are putting the proposition of everything else being equal?

**Mr GEORGIU**—That was the proposition; I did not get an unequivocal response.

**Senator HOGG**—Is it just an issue of lowest price?

**Mr GEORGIU**—No, they are two identical items—same price—

**CHAIR**—Same delivery, same service.

**Mr GEORGIU**—I am an Australian, same delivery date, everything. Can you tell me that because of the way your system operates I can go home to bed happy that I will get that order in those circumstances—no problems?

**Ms Sullivan**—You are going to hate this answer, because it is equivocal. We do not necessarily buy pencils as an item.

**Mr GEORGIU**—No, take whatever you like—

**Ms Sullivan**—What we do is enter into contract for stationery supplies.

**Mr GEORGIU**—You know exactly the intent of my question. I am saying: if I am an Australian with an identical product at the same price and quality and it meets the specifications, am I guaranteed the sale? If you cannot give me an unequivocal answer, thanks for your attempts.

**Senator HOGG**—And there is the same capacity to give ongoing supplies as well—in other words, everything is equal.

**Mr GEORGIU**—They have all of that built in.

**Mr BROUGH**—Something that was said earlier was that one of the reasons that that may not occur is that everything is equal but the big firm from America says that its value for money includes putting a bit more R&D or whatever else in but this bloke produces exactly the same product with all of the backup service, it is locally produced and so on—

**Ms Sullivan**—I am sorry, I did not say that.

**Mr BROUGH**—No, I am just saying that that was a reason given earlier as to why that may not occur.

**Ms Sullivan**—Not by this group—by some earlier representatives.

**Mr GEORGIU**—Can you understand our concern—it is hypothetical; no problems there—that you cannot say, ‘Yes. Not a problem. You will get it, because we have a policy of Australian preference’? You cannot say that and I would like to understand why.

**Mr Davies**—I do not think we can say that, because the government policy is not Australian preference; it is giving Australian industry an opportunity to compete and to be given equal consideration.

**Mr GEORGIU**—So, on an identical product with identical price and backup, you can see a situation where you would not give it to an Australian producer? We attempt to use Australian made goods and services—

**Ms Sullivan**—I would see it as very unlikely that that would be anything other than the outcome.

**Mr GEORGIU**—Under what circumstances do you believe that the unlikely would occur?

**Ms Sullivan**—I have no idea. You are looking for an absolute answer, and I cannot quite give you one. The intention would be, everything else being equal—

**Mr GEORGIU**—I am not being arch—

**Ms Sullivan**—I understand what you are getting at, but I think we are reflecting some of the ambiguity in the general framework our procurement people work in. If I said unequivocally that the answer would be yes in all circumstances, I could easily be caught out by some example—

**Mr GEORGIU**—No, because the circumstances are unlikely—

**Mr BROUGH**—But, from what we have heard, if this same question were given to Defence, the answer would be an unequivocal, ‘Yes, they would get it because that is the direction that has come from the top.’ I think it says a lot about the mind-set of various departments and the variations which exist that you are not comfortable about being able to say that. I think therefore that, if you are not comfortable about saying that, that same attitude will push down the line further until it gets to a point where it is so watered down that it perhaps has no significance at all, whereas in Defence it is apparently so much an overriding factor that it is uppermost in everybody’s mind that you must look for that opportunity on each and every occasion. Obviously, that is not the case with the ATO.

**Ms Sullivan**—I would suggest there are very different natures of procurement as well.

**Mr BROUGH**—I am not condemning—don’t get me wrong.

**Mr GEORGIU**—Could you explain to me the difference in your mind between ‘preference’ and ‘equal opportunity’ or whatever? There is a term that you resorted to that I would like to understand.

**Mr Davies**—‘Preference’ to me would mean that you would weight the results in a particular direction, whereas ‘equal opportunity’ would be that, having got everything equal—given everyone the same opportunities and queries et cetera—and, as you said, having measured up the two, then you would have to make a decision. Having considered



everything, you would then make that decision on your criteria, but you would then go back. In a major contract you would have your selection criteria depending on exactly what you said in the RFT. When you went out to the market or to the manufacturer, you would say—

**CHAIR**—So, if all things are equal, why would you not support Australian industry?

**Ms Sullivan**—We would.

**Mr Davies**—We would expect to.

**Ms Sullivan**—All things being equal.

**Mr Davies**—But I do not believe we can say unequivocally that it is always going to be the Australian company.

**Mr GEORGIU**—But that is shifting the ground because you did not say, ‘All things being equal, we would therefore give the order or whatever to the Australian firm.’ You stopped short of that.

**Ms Sullivan**—We would expect it to be given to the Australian firm in that situation.

**Senator HOGG**—Can I raise the issue of value for money, because I think this follows on. What criteria do you have in terms of value for money, because most of the evidence that we have heard tells us that value for money has just been determined by many agencies as the lowest price. Do you have a set of criteria by which your purchasing officers determine value for money?

**Ms Sullivan**—Could I split that into slightly different areas, because the sort of value for money that you might be looking for in the IT world would obviously be defined by the contracts there. In terms of our property leases, which are a very big expenditure, it is defined by the standard of the buildings we require to be in. The concept relates to the purpose for which we are seeking to acquire goods or services and at what standard.

**Senator HOGG**—So you do have benchmarks?

**Ms Sullivan**—The definitions are in fact in the RFTs we take to the market.

**Senator HOGG**—Are those readily interpreted by the tenderers?

**Ms Sullivan**—I understand them to be; yes. We provide briefings.

**Mr Davidson**—We provide briefings. In the IT sphere at least, we issue tenders in draft form to tenderers for their comments before we make them final and incorporate their comments into them.

**Senator HOGG**—But at the end of the day, when it comes to value for money, is it your experience that most of the tenders that you let end up going for the lowest price and that other considerations are not taken into account? Can you give us any instances?

**Mr Davidson**—No. Price typically ends up—from my perspective in IT purchasing—to be a smaller part of the consideration. Whole of life costs are certainly part of the consideration in terms of the cost side of the equation; the other side of the equation is the functionality or the benefit which can be accrued from the different bids and how they are measured relative to each other for the cost.

**Senator HOGG**—I can understand that in the IT area. What about in the other areas?

**Ms Sullivan**—In the property area basically it is very much dependent on what our business requirements are for accommodation. We tend to have fairly solid requirements around privacy and security, so our buildings are non-standard buildings—we lease our buildings, by the way—and in that sense the business needs define the standards of the property we are prepared to take. Typically, we look to very long leases; most of our property leases tend to be about 10 years with options for extension.

**Senator HOGG**—All right. What about outside of that? What if we come to Mr Georgiou's pencils?

**Mr GEORGIU**—I take it all back!

**Mr BROUGH**—I am coming to your pencils in a moment, too. I want to buy one.

**Senator HOGG**—So what if we come to Mr Georgiou's pencils? Does it become purely and simply a matter of price or are other considerations taken into account when we talk about value for money? What are the criteria? I can understand readily discernible criteria for IT and for property, but what about them in these other areas? Do you have a set of benchmarks there?

**Mr Davies**—Yes, we do. We say in our instructions to staff, which I have given to the committee's staff, that:

The test of the best available value for money is a comparison of relevant benefits and costs on a whole of life basis.

**Mr BROUGH**—If you had the following information available to you, would it perhaps have made it easier for you to answer Mr Georgiou's hypothetical question? This was provided to us by ISONET in their submission:

For every additional \$1 million of successful new or retained business—

to Australia—

the following effects flow through the economy:

\$328,105 worth of tax revenue is generated;

\$1,21,267 worth of value-added is generated;

\$210,082 worth of welfare benefits is saved; and

22 full-time jobs are created.

If you or your purchasing officers had that information at your fingertips and the pencils were the same price, then things are not equal—are they?—even though on the surface they are because the price is the same, the product is the same and the whole of life is the same. Well? A nod is as good as a shake to a blind man.

**Mr Davies**—We would have to agree with it because the procurement officer making the decision is going to be an Australian citizen who pays taxes, even though he works in the tax office.

**Mr BROUGH**—Forgetting about all of the nice stuff, that is very real, isn't it? The real issue is that information has not been made available to you and to your purchasing officers, so they do not have any benchmark to add into the equation of value for money. You just said that value for money is about whole of life, but without looking outside the circle as to what other benefits there would be in the contract.

**Ms Sullivan**—I am sorry—the whole of life relates to the item being procured.

**Mr BROUGH**—That is what I am saying.

**Ms Sullivan**—We have some very hardline views about the cost effective use of money. Indeed, we would be thoroughly slated if we did anything other than get the best value we can.

**Mr BROUGH**—I accept that.

**CHAIR**—You made a point about Transigo that I wanted to ask you about. You said that you had difficulty in getting access to Transigo via the Internet.

**Ms Sullivan**—I will hand over to Jim on this one. It is an IT technical matter.

**Mr Davidson**—Essentially, the issue is one of security and privacy of the ATO systems. The ATO has one large computer network connected on which we have information up to at least the protected level, and we have stringent privacy requirements for our taxpayer information that we keep there. For this reason, until very recently, and at the time of the submission, ATO's security policy was that there would be no connection of our internal networks to external networks such as the Internet, and that restricted access to Transigo from various stand-alone single computer points in the organisation.

Since that time, we have been given protected level certification by the Defence Signals Directorate for our proposed method of general connection of our desktop environment to the Internet. The commissioner has given approval for that to proceed in an orderly fashion, so we would see that the restriction which was mentioned will very soon disappear and we will be able to access Internet facilities for business purposes from the desktop.

**CHAIR**—DOFA tells us that all of the data which they give us on SMEs as a percentage of government purchasing and Australian or New Zealand suppliers as a percentage of

government purchasing come out of information which is required to be posted on Transigo. Are you telling me that ATO has not been included in any of that data?

**Ms Sullivan**—No, we are telling you that we do it manually.

**Mr Davidson**—We are saying that it is just an access issue to do with our security requirements.

**CHAIR**—Okay. You also mentioned take-up rate on Transigo by your suppliers, a very few of whom have taken out licences. Does it cost them money to get on Transigo?

**Ms Sullivan**—That is our understanding. Is it still current?

**CHAIR**—Do you know how much it is?

**Mr Davies**—It is \$398 per individual licence. If you register more buyers, you can get a sort of group concession, but it is basically just under \$400.

**CHAIR**—Is that for life or for a year?

**Mr Davies**—Per annum.

**Mr BROUGH**—So my little two-man business has to pay \$400 per annum?

**Ms Sullivan**—Yes, and we also pay from our end as well.

**CHAIR**—The industry representatives told us yesterday that their surveys indicate that a very low percentage of small and medium size businesses actually utilise electronic transactions. Very few have access to the Internet, let alone have web sites.

**Mr BROUGH**—Who gets the money? Is it Telstra?

**Mr Davies**—It is paid to Advantra, which is the holding company that owns Transigo.

**Mr BROUGH**—Which is a wholly owned subsidiary of Telstra, is it?

**Mr Davies**—No, it is 50 per cent Telstra, 25 per cent IBM and 25 per cent Lend Lease.

**CHAIR**—Thank you very much. We would appreciate receiving any further information, including where you buy your paper—and not whose paper you buy; ours or somebody else's.

**Ms Sullivan**—We will get that back to you as quickly as possible.

**Proceedings suspended from 12.34 p.m. to 1.33 p.m.**

**BUCKPITT, Mr Jeffrey, National Manager, Budgets, Australian Customs Service**

**ROCHE, Mr Michael John, Deputy Chief Executive Officer, Australian Customs Service**

**CHAIR**—Thank you very much for coming, and thank you for your submission. Do you have a brief opening statement before we ask you questions?

**Mr Roche**—No. We can proceed straight to questions if that is okay with you, Mr Chairman.

**CHAIR**—Okay, thank you. In your submission you said that ACS has devolved its procurement responsibility to the line areas that require goods and services. However, procurement methods for major purchases in excess of \$100,000 require the approval of the national manager of budgets. Could you tell us how you ensure that the Commonwealth purchasing guidelines, in terms of all the requirements of the guidelines, are met with such highly devolved purchasing responsibility?

**Mr Buckpitt**—I think the first part of the answer to that relates to training. We have had extensive training of officers involved in purchasing decisions. The last available statistics that I have seen indicate that, in 1995-96, 130 staff underwent intensive internal training. In addition to that there has been external training provided through various agencies, the current one being through some contracts that have been arranged by the Department of Defence.

There is also the issue of infrastructural arrangements for checks and balances. Specifically, I guess I am referring to the chief executive instructions. The chief executive instructions in Customs include specific references to the Commonwealth guidelines that you are referring to and spell out in some detail what the expectations are in practical terms.

For larger purchases it is quite common for the accredited purchasing unit to be involved, whether that is in an advisory capacity or much more formal in the sense that they might actually form a secretariat to a tender committee process. Their involvement can become quite intensive in terms of providing advice as to how to proceed.

**CHAIR**—Can you tell us the flavour of the guidelines for the purchases under \$100,000?

**Mr Roche**—Just before we do that, Mr Chairman, we have had a number of major purchases in Customs over recent years, including for Coastwatch, the provision of a marine fleet, and major IT outsourcing. We generally involve outside expertise in that as well. We have used people from the former Department of Administrative Services and from the Department of Finance and Administration to work with our people inside.

All of those purchases have been oversighted at a very senior level within the agency. The CEO and the deputies are all involved in the decision making that goes on there. So there is pretty close scrutiny of the major purchases.

**CHAIR**—For purchases under \$10,000, can you tell us the flavour of the instructions to purchasing officers?

**Mr Buckpitt**—The flavour of the instructions is that we encourage all officers responsible for such decisions to seek a number of quotations. It would depend upon the nature of the purchase involved. We do not have a strict requirement that it must be three, four or more, but that would be a guide. The more suppliers there are in the market, the more good reason you would expect for a larger number to be sought. It is not just price; it is also the complexity and sensitivity of the purchase. So we would expect that there may be occasions when there may be amounts considerably less than \$100,000 for which we would expect more involvement of our purchasing unit.

The processes are set out in some detail in the chief executive instructions. We start out by identifying the key principles. They are largely lifted from the Commonwealth guidelines. We would expect people to have regard to cost, certainly, but cost is not the only consideration in determining value for money. So our guidelines provide practical guidance to people in terms of making decisions about value for money.

The guidelines also emphasise the need for support for Australian and New Zealand industry. That has been a fairly significant area for Customs. I think it probably reflects Customs' awareness of our Australian identity—the fact that we have got a very significant presence at the border. That is, I believe, reflected in the statistics that we have seen that suggest that a number of our purchases reflect a high proportion of SME type providers winning our contracts.

The guidelines also provide some practical guidance in relation to things like ISONET, and officers are encouraged to make use of ISONET. There has been a memorandum of understanding in place with ISONET for a couple of years now. We have also made active use of common use arrangements up until the recent decision to considerably reduce the number of those. We have a number of procedures in house for centralisation of certain types of purchases. For example, we centralised printing and publishing through our public affairs unit and we centralised office furniture and accommodation through our property area. Whilst it has devolved, there are some areas of specialty where there is some degree of centralisation in terms of providing advice to make sure the best deal is taken advantage of.

The guidelines also provide advice about the different methods that might be considered in requests for proposals, requests for tender, best and final offers and the various options that are available in terms of procurement. Again, I would say that, whilst we have these guidelines in place, I think it is fairly important to actually have people in a centralised purchasing unit who other staff in the organisation are familiar with so they can ring them and talk in very practical terms about how to work through the process of procurement. That is really essential to ensure that best practice is followed.

**CHAIR**—You mentioned your memorandum of understanding with ISONET. In their submission to us, ISONET said:

Since the beginning of 1997 . . .

that is now two years—

. . . With the exception of Defence major procurement work, no significant inquiry has been made of ISO by Commonwealth agencies seeking to maximise opportunities for local manufacturers in their purchasing activities.

**Mr Buckpitt**—I am not sure what they mean by ‘significant inquiries’. In our guidelines to officers, we encourage them to ring ISONET and discuss with them what opportunities might be available.

**CHAIR**—Do they?

**Mr Buckpitt**—I do not have statistics. We do not require them to report back. We know of anecdotal cases of it happening. Whether it happens on the odd occasion or quite regularly, I do not have that sort of statistic available.

**Mr GEORGIU**—Do you have any anecdotal evidence about how frequently it happens?

**Mr Buckpitt**—I do not know how frequently it happens. I know that it does happen from time to time at least.

**Mr BROUGH**—Can we have a copy of those guidelines that you have?

**Mr Buckpitt**—The chief executive instructions?

**Mr BROUGH**—Yes.

**Mr Buckpitt**—Yes.

**CHAIR**—On page 2 of your submission at item 3, you said:

ACS has established centralised arrangements for certain categories of goods and services to obtain advantages (such as economies of scale, improvements in service) . . . These include travel, printing/publishing, office furniture and accommodation, building maintenance and minor repairs, purchase of books and periodicals and information technology.

Is paper included in that?

**Mr Buckpitt**—Not that I am aware of.

**CHAIR**—Could you tell us whether Customs buys Australian made paper or overseas manufactured paper?

**Mr Buckpitt**—It purchases its paper from Xerox, and I understand that that paper is produced at its Burnie mill in Tasmania.

**Mr BROUGH**—But you are not sure of that? Are you just presuming that?

**Mr Buckpitt**—No, that is what I was advised this morning.

**Mr Roche**—I think the bulk of our supplies are from Xerox. We cannot guarantee that there are not small purchases made here and there to meet immediate requirements that come from whatever source.

**Mr GEORGIU**—Under the heading ‘National Competitiveness and industry development’ on page 4 of your submission, you say that you are ‘eliminating practices which may favour foreign suppliers’. Can you tell me which practices you have eliminated that favour foreign suppliers?

**Mr Buckpitt**—I would give as an example the practice that you might require some guarantees of financial viability where the purchase involved is one which basically seeks an off-the-shelf type product. To give you a quite specific example, some 12 to 18 months ago, Customs introduced a new range of uniforms for all its staff. That was a purchase in effect which amounted to \$3 million to \$4 million. The way we went about that was that, rather than put it out as one big contract and perhaps have some guarantees of financial viability, we broke the contract up into a number of parts. The outcome was that we have ended up with about 15 contracts of which I think all bar one have gone to Australian SMEs. Had we gone with the one big hit, we may have ended up with an overseas supplier of uniforms, given that SMEs might have had some difficulty with the scale of the purchase that we were looking at.

**Mr GEORGIU**—And what was the intent of that?

**Mr Buckpitt**—To maximise opportunities for Australian SMEs.

**Mr BROUGH**—And is that part of those guidelines? Is it actually written in those guidelines that that is important?

**Mr Buckpitt**—Certainly the guidelines talk about maximising opportunities for SMEs. I am not sure that you will find anything explicit in terms of the sorts of examples I have provided to you.

**Mr GEORGIU**—Has it now become part of your operational practice that, whenever possible, you break up contracts? I am just trying to understand whether this is an incident or an ongoing commitment.

**Mr Buckpitt**—I could not confidently answer that because I would have to go back and research to what extent that has been the case. Certainly, in our guidelines and all of the large tender documents that we have produced, we have restated our commitment to Australian industry and SMEs. Whether there have been some opportunities to break contracts into smaller blocks that we have missed, I could not be 100 per cent confident.

**Mr Roche**—It is very much a horses for courses issue. We completed last year the acquisition of a marine fleet of eight new 37-metre boats for a total value of about \$50 million. They are being built in Australia. In fact, the first one is undergoing sea trials right now in Western Australia. That is a contract for the provision of the boats—the building of the boats, the leasing of the boats for 10 years and the maintenance for the first three years with options for further maintenance. We chose to bundle that because we wanted to



establish a linkage between the builder of the boats and the people who had to maintain them. We did not want any finger pointing, with the people responsible for maintenance claiming there were inherent faults in the way the boats were built. So we look at each on a case by case basis. I think we have the right answer there. We have got Australian companies building the boats; we have got an Australian company maintaining the boats.

**Mr GEORGIU**—Overall, what proportion of your purchases are from Australian companies?

**Mr Roche**—I do not know that we have a figure on that.

**Mr Buckpitt**—The difficulty goes to the definition of what is an Australian purchase. Even if we did have that definition, I would have to admit that we have not collected that type of data to date.

**Mr GEORGIU**—But in the two instances that you have raised—the uniforms and the boats—there was no difficulty of definition. Rather, why wasn't there a difficulty of definition?

**Mr Roche**—The boats were an interesting one. There is a fair amount of imported equipment in them. There is imported electronic equipment and the engines are manufactured in Germany.

**Mr GEORGIU**—But you do take my point. On the one hand, you say, 'I have an instance here that is Australian. That is good.' On the other hand, when asked for the proportion of Australian produced materials and services that you buy, you say, 'I can't tell you.' Can you explain why?

**Mr Buckpitt**—The difficulty for us would be what dollar value to attach to the purchase of the boats.

**Mr GEORGIU**—We just had a value attached to the boats.

**Mr Buckpitt**—Whilst the full \$58 million might be—

**Mr GEORGIU**—Yes, that was the number that was cited.

**Mr Buckpitt**—That is right. Whilst the full \$58 million might be transferring from us to an Australian company, the Australian company presumably is transferring a good deal of that to a German company, a Japanese company and various others. So is it appropriate to say, 'Here's a \$58 million purchase that is Australian made'?

**Mr GEORGIU**—You thought it was appropriate to say that three minutes ago.

**Mr Roche**—What I said was that the boats were being manufactured in Australia and that the maintenance would be carried out by an Australian company. I think it would take quite some study to determine exactly how much of those boats was Australian content.

**Mr BROUGH**—That is not important though. Realistically, your steel could have come from Japan or the steel could have come from Australia. It does not matter. You have given a contract to an Australian company to produce something in Australia. We all recognise that 100 per cent of those components are not going to come from there. In relation to that major purchase and the uniforms, the material might have come from China or the material might have come from Japan or wherever, but they were manufactured here. So what do we call it—elaborately transformed so therefore it becomes an Australian product? I think what Mr Georgiou is trying to say is that isn't there some way of determining that across the board on most major and significant purchases?

**Mr Buckpitt**—I suspect the answer is yes, we would, but at the end of the process you would come up with an estimate rather than a precise figure, given the rubbery nature of what we are talking about. The other part of it is that there is no formal requirement on agencies to do so. Up until now there has been—at least not to my knowledge—no specific request for that sort of information, so we have not collected it.

**Mr BROUGH**—There sort of is. If you go back to the guidelines—and I am going to push your point here, Mr Georgiou, if you do not mind—we keep referring to page 17 which says that, where agencies purchase overseas goods in preference to ANZ goods, they must be able to demonstrate that the ANZ suppliers had a fair opportunity to compete.

If you do not know and you are able to ascertain even an estimation of the percentage, then at the end of a financial year it would certainly ring alarm bells within your organisation if your estimation said that it appears that 10 per cent of your purchases have been from Australian production. Perhaps you would then say that you needed to review what you are doing to come in line with why you are not giving Australian agencies preference. If you do not have that information, how can you make a judgment on it?

**Mr Buckpitt**—The way we go about making a judgment is, as I read the guidelines, case by case. In each case where you are not giving preference to Australian industry, the reasons for doing so need to be looked at. We believe that the processes we have in place enable us to do that.

**Mr BROUGH**—What do you do in that case? Let us say the boats have gone somewhere else in preference to the Australian goods. You obviously had reasons. What formula or procedures do you then follow?

**Mr Buckpitt**—Perhaps as an aside before I answer your question I might state that we made it a requirement that the boats be built in Australia as part of our proposal. So the question is academic.

**Mr BROUGH**—How could you do that?

**Mr Buckpitt**—That was a judgment call on our part as to a number of factors. One was the capability of Australian industry to fulfil the requirements that we sought. One related to the nature of our ongoing requirements in that we were seeking maintenance and support for the boats. We saw that it was more likely that that would be done by an Australian supplier than an overseas supplier. Another factor was the nature of the financing arrangements that

we were looking into and the stability of the Australian dollar. We thought we would be better off with boats that were in Australian dollars. So there were a number of factors.

**Mr Roche**—I think it was unusual that we did actually require that. A number of overseas companies were involved in the bidding, but they were involved by licensing designs to Australian manufacturers. The design we ended up with was actually an Australian design. Given that we were leasing the boats, we were requiring maintenance and so on. We believed that we wanted to deal with a local company and not to have to negotiate with somebody 12,000 miles away if we were having a difficulty with availability of these boats.

**Mr BROUGH**—Can we come back to the original question then. The original question was: if you had elected another company—and, in this case, as you say, it is academic, but—

**Mr GEORGIU**—Let us take a case where you actually did select a non-Australian company. You are required to demonstrate that the Australian company had a fair go. I do not want to get sidetracked on an academic question, but there is substance there.

**Mr Roche**—I guess the short answer is that we do do it on a case by case basis. In a contract of that size, it is not about maintaining statistics and looking at the end of the year and saying that \$58 million—

**Mr GEORGIU**—Fine, but there is substance.

**Mr Roche**—It was a decision that was made at the chief executive officer level and very much in our minds would have been the thought that it would have drawn a lot of comment if Customs had elected to buy a patrol boat.

**Mr BROUGH**—Sorry, you are missing the point. We agree with that. We get the boat. We have another example.

**Mr GEORGIU**—In a case where you select a non-Australian supplier you are required to demonstrate—

**Mr Buckpitt**—I can give you a case and I can respond to the point you have raised. A case might be some of our X-ray technology. Some of our X-ray technology is sourced from overseas.

**Mr Roche**—Most of it.

**Mr BROUGH**—Is it technology that is available to be made in Australia or is it not? Is it only exclusive?

**Mr Roche**—No.

**Mr BROUGH**—Well, that is not a good example. We want something—Mr Georgiou's pencil from the last time—which we have the capacity to make in Australia and a capacity

to make overseas. All things being equal, you are going to get people tender from overseas and Australia and, for whatever good reason, you select the overseas product. The question was: what procedures do you follow then to be able to satisfy and show why you purchased those goods in preference to the ANZ goods? That is all.

**Mr Roche**—I would make the comment that, in relation to any major purchases, we still work on a case by case basis, but I will give you a specific example. In relation to the uniforms that Mr Buckpitt referred to earlier, the fact that some of the material could not allegedly be sourced in Australia for the initial making of the uniforms was something that was elevated to the chief executive level. The chief executive said, ‘I cannot believe that we cannot have this material made in Australia.’

We went back to our parent department—at that stage the Department of Industry, Science and Technology—and sought advice from them. We actually sought advice from consultants and we went out and we tested industry and we tried damned hard to get that material in Australia. The weight of advice was that the particular material that we needed—and we went back and checked our specifications to see that we were not being unreasonable—given the type of printing that was necessary, could not be provided in Australia. It was at that stage that we reluctantly conceded that the material could come from Japan.

**Mr GEORGIU**—That is fair enough. We understand.

**Mr Roche**—I guess what I am saying is that, on a case by case basis, being in the Customs organisation, we are very alive to this question of Australian manufacture. If we believe that there is a half reasonable chance that the product can be provided in Australia at the right price, then we go out and we test it like mad.

**Mr BROUGH**—I am not having a go at you here at all. I am trying to find out whether you have a procedure which fulfils that requirement so that you can hang your hat on it at the end of the day. You have demonstrated there that there is a one-off type of thing. Let us go down to something a little less significant.

**Mr Roche**—I guess I am saying that, for any major purchase—anything over \$100,000—it will come to the attention of the executive and the process there is case by case.

**Mr Buckpitt**—Under \$100,000 we are reliant upon things such as training of officers and application of the guidelines that have been provided.

**Mr BROUGH**—So in this part of your training are you providing that there is an alert mechanism in that, bang, it is going to an overseas company and therefore you have to be able to justify this if you are ever asked to do so? Do you have a reporting process? Do you have something that is there?

**Mr Buckpitt**—Officers are required to indicate that as part of the documentation of the individual decision. There is not a reporting process back to central office on each case.

**Mr BROUGH**—Okay. Thank you.

**Senator HOGG**—Whilst all this discussion is centred around some of your letting out of contracts to SMEs, what definition do you use of an SME? We have had a variety of definitions used here today and yesterday.

**Mr Buckpitt**—I have to admit that we have not sought to define it. We have fallen back on the Department of Finance and Administration study that has been done in this area. I would have to take the question on notice as to what the exact wording of that definition was. That is why we quoted the department of finance study when we gave those statistics in our submission.

**Mr GEORGIU**—I think you should pursue that, because then I am puzzled. If you give priority to SMEs but you have not defined SMEs and you are dependent on Finance to analyse your data to find out how many you gave to SMEs, how do you feed that process? How do you give priority to SMEs in so far as you can, whatever the hell they may be?

**Mr BROUGH**—Or does it only happen by accident?

**Senator HOGG**—Do you give priority to SMEs in some areas but not other areas? For example, in the area of consultancies it is quite understandable that most of your consultancies may well be SMEs. In other areas you may find that SMEs do not get a look in and that most of your contracts go out to bigger firms. Are you able to differentiate the treatment of SMEs under those circumstances?

**Mr Buckpitt**—We have not done a study within Customs to determine where the break-up is. Once the Department of Finance and Administration study is released it would be useful for us to get that sort of information, if it is available.

**Senator HOGG**—Some SMEs reckon that they are not getting a fair go—that the system is loaded against them. For whatever reasons, whether they are right or wrong, that is their view of the world.

**Mr BROUGH**—And you will come to know that once DOFA releases its study.

**Mr Buckpitt**—I would hope that that information will be released, even if not as part of the report, and that some of it will be fed back to agencies so we can see what the split suggests.

**Mr GEORGIU**—Don't you regard it as anomalous that you are making a priority of SMEs yet you do not have a definition? You do not have a notion of what an SME is.

**Mr Buckpitt**—I see the logical problem that you are alluding to. We see it ourselves and we have sought a definition from other agencies, but to date it has been a thorny problem which I understand they are still wrestling with.

**Mr BROUGH**—Even with that, it seems a real anomaly that you can say you give a priority to SMEs—you take DOFA's example of what an SME is; their definition—but you

are going to find out in hindsight whether or not you have actually fulfilled that requirement. I am at a loss to work out how you make it a priority.

**Mr Roche**—We are saying that we do not bundle purchases unnecessarily in a way that would preclude the smaller companies from bidding. We look at each purchase and decide what is a reasonable block of supply, to give us the widest possible access to the market. I think we could quite legitimately claim—

**Mr BROUGH**—So it is more of a practical step on your part of saying, ‘We’ll break it up this way so that we know there will be more opportunities for SMEs. That is the line we take as opposed to any more direct approach.’ It is sort of one step back. It is a very positive step, I might say.

**Mr Roche**—It is a process approach. Using the Department of Finance and Administration definition on SMEs seems to indicate that we are travelling okay on that—with 49 per cent of our contracts with them and 25 per cent of the value. It seems to be okay. If those numbers were lower or getting close to the threshold then, yes, we would be going out and doing even more work.

**Mr GEORGIU**—Are you really saying, ‘I do not know what an SME is, but through careful planning we have actually hit the right numbers’? It was previously described as a logical problem—it is actually a substantive problem. You have a priority to SMEs, yet you do not define it. You bring in the Finance figures showing that somehow you got there. The relationship between the administrative actions of the customs department and the outcome is serendipitous.

**Mr Roche**—I think that is a bit unfair. I do not think we are unnecessarily tied up in a highly precise definition of an SME in terms of turnover or number of employees. We are saying that we are putting out our contracts in such a way as not to exclude any person who can reasonably bid. If we do do that and not bundle unnecessarily, then by definition a larger number of the smaller suppliers will have a guernsey. Whether we push somebody out of the count because they have 101 employees rather than 99, or whatever it is, is not material.

**Mr GEORGIU**—Now who is being unfair?

**Mr BROUGH**—You raise something which no-one else has. You said earlier that the material was a good example—you really looked hard for material. We have taken evidence from several different departments who have said that if the company is Australian based—it does not matter what their origins are or anything else—they have met their criterion. One said that 97 per cent of their purchases were from Australian based companies. That is fabulous, but at the end of the day we have no idea where their products come from. But you seem to have taken it to the degree which we have been looking for, at least in the clothing instance. You have gone beyond the company that is providing the product to the product itself. Is that something you do widespread? Is that something that you try to do with all purchases over \$100,000? If you do, how much more trouble has that been for you? Has it been a really onerous task?

**Mr Roche**—I would like to claim that we did, but in truth I cannot. In the case of the material, it was something we were familiar with from our role in customs. We had a lot of trouble believing the advice we were getting. There are other cases where the starting assumption is that there is going to be a fair bit of overseas content. I can give an example there with the acquisition of a video surveillance network that is currently being installed in ports around Australia. It is being coordinated by an Australian firm, Gutteridge, Haskins and Davey. We know that a large amount of the video equipment will come from overseas—it will come from Japan and places like that. But we equally know that a lot of the infrastructure and supporting equipment—masts and so on—will be built from Australian material. There is no logical way to do it otherwise.

**Mr BROUGH**—So the material was a one-off, was it?

**Mr Roche**—No, it is illustrative of the situation where we know there is something; where we know that there is a substantial component that can be made in Australia, we actually want to know that it is made in Australia. We will dive below it.

**Mr BROUGH**—It is very commendable. It is something that has not been attempted, from what we have heard so far from other departments.

**Mr GEORGIU**—Is it generally true that where you know about what is available you tend to look for Australian product more?

**Mr Roche**—Yes, and we do have special knowledge on that, being in Customs.

**Mr GEORGIU**—Is the role of your CEO in saying, ‘For God’s sake, you guys must be joking,’ an important driver of the mechanism’?

**Mr Roche**—Absolutely.

**Mr GEORGIU**—How far does that influence the culture—when an organisation is predisposed to look further rather than say, ‘That’s it; who cares’? I always have a problem with the term ‘leadership role’, but how far does that top-level focus influence the organisation’s culture of pursuing this objective?

**Mr Roche**—I would like to say it goes a fair way down in the organisation. Certainly most of our senior managers are thinking along those lines. But, again, because of our role in tariff and tariff concessions and so on, we have a lot of contact with Australian industry. We have a pretty fair idea of what is available out there and I would think that that was something the average working officer in Customs would come in contact with at some stage of his working career. The people who are actually doing the purchasing may well be in the corporate areas but, generally, they have come up through the Customs ranks.

**Mr GEORGIU**—That is interesting.

**CHAIR**—This has absolutely nothing to do with the hearing but, as you brought up tariffs, did you read the article last week on manufacturing in bond?

**Mr Roche**—Yes, I did.

**CHAIR**—Any comment?

**Mr Roche**—I think it was unfair. This was the one in the *Bulletin*. Customs is working very hard to make that happen. The problem is connected with our cost recovery processes. We introduced cost recovery I think in the 1997 budget. On advice, we included very detailed descriptions of the costs that we must charge in the act itself. It is in principal legislation; it is not in delegated legislation. What is required here is for us to actually introduce a new class of transaction for manufacturing in bond and to charge an appropriately lower fee for it—all of which we have agreed to do. There is no problem with that at all; the difficulty is that, to make it happen, we have to change the principal act. Regrettably there is no very quick way to do that.

What we are canvassing with government is whether some of the enabling of that charging legislation could go into regulations. The concern initially was that the parliament might be worried about the ability of Customs to set its own charges and to in fact push the envelope rather further than they should. So the charges themselves were built into the principal act and into a separate charges act. What has happened is that, in most cases, we have wanted to reduce the charges.

We have a couple of other cases in which we want to reduce the charges: one where we are moving into partnerships with companies to allow periodic reporting and another where we have identified a particular type of transaction which is high volume, low value. We are constrained by the legislation from doing that. I think that, if we were to go back into the parliament and ask for simply a head of power in the main act with detail in the regulations, parliament might perhaps be amenable to agreeing to legislative changes along those lines.

**CHAIR**—That had nothing to do with this inquiry; you volunteered so I thought I would ask.

**Mr Roche**—That is the story. I know that our minister is seriously concerned about trying to make it happen. A lot of people have been working very hard on trying to do it.

**CHAIR**—I participated in the steel industry inquiry and I have a personal interest. I grew up in the steel industry. I am interested personally in seeing manufacturing in bond, if that is what we are going to call it here, actually happen. It would be good.

**Mr Roche**—Again, as soon as we can get some legislation up I think it can happen. The difficulty is that the chief executive officer is obliged by law to collect the charges. He has no option on this. There is no way to get around it.

**Mr GEORGIU**—This is, in a sense, a feedback question. You have been sitting here being asked questions; does this make you rethink any of what you have been doing? In particular, you are under an obligation to be able to explain why, when an overseas supplier gets a contract, an Australian potential supplier did not get it. You have been a bit caught up, unfortunately, in the fact that you do not know what the definition of an SME is. Does this reflect on your practices? This is just for me as a member of the committee.



**Mr Roche**—Clearly we will go back and have a look at the issue of the definition of SMEs. My instincts are still that the processes we have in place are about getting people to do the right thing and to think about smaller suppliers without being terribly precise about the definition. Your point about the Australian content percentage of our acquisitions is a fair question, but I think the answer is going to be pretty damn hard to produce.

**Mr GEORGIU**—I am being genuine.

**Mr Roche**—My concern is that, if I give them the part of counting the whole value, even of elaborately transformed manufactures, I am still going to overstate the Australian content of what we buy at the end of the day. There are an awful lot of transactions. Sorry to use the boat segment but it is a good example. I do not know what the manufacturer is paying for the engines from Germany, nor am I terribly interested. I know exactly what I am paying for each boat.

**Mr GEORGIU**—I appreciate that. Every so often I wonder about communication or what values cross the table.

**Mr Buckpitt**—I think these sorts of questions do reinforce certain practices too, like the practices around the uniform. It is good feedback and suggests you have seen that as a positive step.

**CHAIR**—You will remember that the new, official classification of manufactured in Australia is 50 per cent and that it not be radically transformed here.

**Mr Roche**—The new classifications should help.

**CHAIR**—Yes, 50 per cent of the content is Australian, including labour, advertising, overheads and all the rest. You have to undertake substantial transformation of the product or the product itself has to be whatever.

**Mr Roche**—I am familiar with the definition of ‘product of Australia’ and ‘Australian made’. I understand that very clearly. My problem is that, if I count 100 per cent of something that even qualifies as a product of Australia, at the end of the day I will still overstate the total Australian proportion of our acquisitions.

**CHAIR**—With a product of Australia, you are not going to buy much of anything; but manufactured in Australia is different.

**Mr Roche**—Yes. I think Mr Georgiou’s point has made me think a little bit about some of the lower level purchases we make that are devolved. Paper is an obvious one, and we keep an eye on that, but there are probably dozens of others that are similar where it would not be too onerous to actually record whether or not they are Australian made. I think we need to go back and have a look at that.

**CHAIR**—There are simple products like little plastic trays that hold floppy disks. I am sure there are many varieties and brands that are made in China, Malaysia and the Philippines. They are also made in Australia.

**Mr Roche**—An excellent point. I could not tell you and I should be able to tell you, I suppose.

**Mr GEORGIU**—No, we are just exploring.

**CHAIR**—Tiny companies make them, but they have a hard time getting to the right places. If you look at the proliferation of purchasing offices over the last 10 years across the whole Public Service, it is very difficult for them to get individual purchasing offices or individual locations. You are in a lot of locations, as are DSS, Centrelink and the tax office, and so it goes on.

**Mr BROUGH**—Say it was for stationery, you would normally fax a list over and they would put it together. I think what we are all coming to is that some of these things can be incredibly buried in red tape and all the rest of it, bureaucracy, when there could be a simple directive from the top saying that priority must be given when making these small purchases and that every effort should be made to ensure that your supplier provides Australian made products. A simple thing like that, with the odd check and balance just to see that it is done, makes it a heck of a lot easier. Instead of the three or four pencils, they choose the Australian one rather than the American one or whatever else it might be. That can have a big impact on some small company without causing one iota of extra paperwork for the departments, or any additional costs. All the other procurement guidelines are not followed at that level anyway; they just go and buy what they need to buy and try to get good value for money.

**CHAIR**—We have got to go, but I ask you a question about culture. We accept what you say here today that Customs now has a buy Australia culture. Was that true five years ago?

**Mr Roche**—The easy answer is that five years ago I did not work in Customs.

**Mr GEORGIU**—Give us the hard answer. What is your impression? Has it got more priority?

**Mr Roche**—I have been involved in purchasing in the government for a long time and I think it goes in swings and roundabouts, but I can recall even back in the 1970s being involved in some groundbreaking IT purchases in the then Department of Finance from a small Australian company. I think that there has probably been a bit of a buy Australian ethic. Maybe it just has not been properly articulated and maybe it has not always come down in an organisation from the top; that might be part of the issue. I think what you are seeing now is a greater preparedness to articulate that direction from the top.

**CHAIR**—The Standing Committee on Industry, Science and Technology took submissions in 1994 which produced the so-called Bevis report. I can tell you that the majority of outside submissions, both industry bodies and individual companies and contractors, led us to the conclusion that there was a severe government culture that actually favoured overseas suppliers, not Australian. There was no question about it. It was not open to interpretation—that was clear from the inquiry. There were a variety of reasons.

**Mr Roche**—I guess that people in the purchasing area are often treading a fine line between the safe decision, the value for money decision, and the buy Australian decision. I know that particularly in IT purchasing, going back 20 years, with a lot of the smaller companies it certainly involved a level of risk. It increased your costs of managing the contract; you had to nurse them along a lot more than you did the off-the-shelf overseas company. I think a lot of that has changed.

**CHAIR**—Thirty years ago, if you wanted to buy a quality motor vehicle, if you wanted it delivered on time and you wanted it to be serviceable, you probably did not buy Australian.

**Senator HOGG**—What a fine note to end on!

**Mr GEORGIU**—My old man worked at General Motors for 25 years. He made good cars.

**CHAIR**—Thank you for coming.

[2.30 p.m.]

**FETTELL, Mrs Cath, Acting Director, Asia Contracts Section, Contracts Services Group, AusAID**

**RUSSELL, Mr John, Acting Deputy Director-General, Program Quality Group, AusAID**

**CHAIR**—I welcome representatives of AusAID to today's hearings. Thank you for your submission. Would you like to make a brief opening statement before we ask you our terribly punishing questions?

**Mr Russell**—I thought it might be of some help if I made a few comments to put our operations in context with the business of your inquiry. There are perhaps four areas that I could quickly cover. One is the context in which we contract, the second is the nature of our suppliers—who our market really is—the third is the importance of ANZ suppliers and SMEs. The fourth area covers the changes to our policies and practices since 1994—to give you an idea of where we are and some of the things that are troubling us.

In terms of the context of our contracting, most of our purchasing is actually done in support of the bilateral aid program. About 75 per cent of our aid is bilateral aid and 25 per cent of Australia's aid is multilateral. It is in the bilateral area that our contracting is centred. The bilateral program is designed, as the name suggests, in consultation with governments. We follow a process of examining what projects we might do.

As part of that process, of course, we look at Australia's capacity to provide what has been requested. We spend a bit of time trying to work out exactly what Australia should be doing in this aid project. Then there is a memorandum of understanding between the two governments which sets out what will be in a project and what is required from Australia. We effectively take what we are to provide and contract that out. AusAID itself does not deliver aid programs. Almost all its bilateral programs are contracted out. We go through the normal processes of tenders and tender assessments, negotiation on contract and awarding the contract.

The process I have just described is basically our bread and butter work. We do some other procurement. We do things like place students at universities around Australia. We buy food aid—wheat and so on. We also do some administrative work—the sort of common use arrangements—but most of our work is in this bilateral program to support aid projects. In my normal capacity, I am head of the Contracts Services Group. We have a centralised area that looks after contracting. There are three sections in that, one of which is the Asia Contracts Section that Cath is heading at the moment.

In terms of the nature of our suppliers—the people who are our market—our typical suppliers are Australian consulting firms of which there are basically two subsets. Firstly, there are consulting firms which are essentially client focused. Their business is international aid or international development, and their clients—if they are not AusAID—would be organisations like the World Bank or the Asian Development Bank. So they see their niche

as very much in what we do. They do not go looking for other government contracting, they come looking for us.

There is another area, which is more sectorally based—like an engineering consulting firm that might come along from time to time and do work for us. Less than 15 or 20 per cent of their business would be AusAID work compared with those that are really client focused towards us. At the highest level, one of our suppliers gets 90 per cent of their revenue from AusAID. So they are very much geared to what we do.

In terms of the importance of ANZ suppliers and SMEs, I think it is crucial to remember that one of the important aspects of our aid is that it is identifiably Australian. So it is important to us that what we provide is Australian. Because of our concentration on what we call technical assistance, it is about services and expertise that we are providing. It is not so much goods. Goods is a fairly minor part of our aid. In fact, almost all our procurement of goods is now contracted out. What we concentrate on is services, which is our core business, so to speak. The ability to identify our assistance as Australian is important and, for that reason, we have eligibility criteria. Basically, the firms that bid for our work should be Australian or New Zealand and most of the teams that go out there as consultants need to be Australians or New Zealanders.

In regard to SMEs, I would estimate that more than 90 per cent of our regular suppliers are SMEs. They are consulting firms. That is really our business. Our largest regular supplier would be SMEC—Snowy Mountains Engineering Corporation—which, I think, has about 500 employees now. But they would be the exception, not the rule.

The next area covers some of the changes to our procurement practices and policies since 1994. We have been contracting out since the mid-1970s. So we have been doing this for a while, but it is one of those things that you really have to keep on top of. Some of the major changes we have made since 1994 include the introduction of price into the selection process. Before that, we used to judge our proposals on the quality of the proposal—get a preferred tenderer, bring them in and negotiate the price for the contract at that stage—but now price is part of the selection process.

The second major change was to introduce what we would call outputs contracts or fixed price contracts. Instead of being charged for a consultant's time, we are saying, 'No, we are not really interested in your time, we are interested in what you are going to produce.' Whether it be for a feasibility study or something like that, we are into fixed price contracts now more often than not. They are pretty fundamental changes.

Some of the other changes since 1994 include the introduction of financial risk assessments if we have some doubt that the tenderer has the capacity to do the job at a profit. If it looks like it could be a loss, we can assess whether they have a balance sheet to support a loss if need be. They are pretty important considerations in terms of risk to the Commonwealth in proceeding with a particular contract.

Another more recent reform is that we have entered into quite extensive contracts training; not only for people that work in my branch but more generally through the

organisation. We are, in fact, a contracting out organisation, and most of our staff that work in program areas need to know quite a lot about contracts.

Last year the Director General moved to centralise the contracting function within the agency. It was in two separate areas but they have now been combined. He has done that basically to lift the profile of contracting in AusAID and to have a little push on quality and consistency in the way we deal with our suppliers.

Those are a few of the thoughts to give you an idea of what we are doing in AusAID and where we are heading.

**CHAIR**—As a humanitarian measure, if people in Indonesia were starving and we offered wheat, would we buy Australian wheat or subsidised American wheat if it were cheaper?

**Mr Russell**—I can recall only one time when we have not bought Australian wheat. The reason for that is that we sign an international treaty about how much wheat we are going to deliver in any year. If the Australian Wheat Board cannot provide it, we do what we did one year when the harvest was low and we had to buy Canadian wheat. I heard about that from the Canadians for a long time. But that is how rare it is. No, we provide Australian wheat from the Australian Wheat Board. There have been times when we have bought rice. In the circumstances you put forward we have on occasions bought rice out of Singapore to put into Indochina, because in a starvation situation it is quicker, cheaper and more effective to get that rice in there as quickly as possible. But barring some humanitarian dire need, it is Australian.

**CHAIR**—You say:

Although only one-third of the program is officially tied to Australian goods and services, about 80 per cent of the aid budget is spent in Australia.

Do you mean that that is spent on Australian goods and services and contracts or just that it is spent here to whomever?

**Mr Russell**—That figure comes from estimates program by program of what we operate. For instance, with multilateral aid, although we might give money to the World Bank, some of it will come back in contracts to Australian firms. So it is almost a program by program question of what the history has been of what percentage comes back, and that is added up.

**Mr GEORGIU**—I was wondering what the other 20 per cent was—where that was spent.

**Mr Russell**—For instance, we give a couple of hundred million dollars a year to the international banks—the development banks, the World Bank and the Asian Development Bank. Most of that money will not come back to Australia. It will either be spent in the developing countries themselves, where the projects are, or it will go out for international competitive bidding and Australia has not won it. That is basically the way it would work. Similarly, money going to the United Nations does not necessarily come back.

**Mr GEORGIU**—In terms of the official tying to Australian goods and services, the relationship between that 30 and the total 80, we have 30 per cent tied and in total we spend 80 per cent: how does that translation actually work? Why do we get as much as 80?

**Mr Russell**—Why is it not 30 per cent?

**Mr GEORGIU**—It was not an argumentative question—

**Mr Russell**—For instance, even though some things might be opened up for international competitive bidding, we do not often get interest in those contracts from overseas. If we were to advertise a tender in Australia, international competitive bidding to produce a school somewhere in Fiji, the chances of an international bid coming in are probably very slim.

**Mr BROUGH**—Because 30 per cent has to be Australian—and you achieve 80 per cent?

**Mr Russell**—Yes.

**Mr BROUGH**—I was not quite with you there.

**Mr Russell**—That is the best way of putting it. At least 30 per cent would have to be Australian simply by our rules.

**Mr BROUGH**—But you do achieve 80. And that is pretty normal, is it, year in, year out?

**Mr Russell**—Yes.

**Mr GEORGIU**—Is it something in the nature of the projects that makes them unattractive to international non-Australian providers?

**Mr Russell**—If we were to advertise in Australian newspapers, the chances of, say, a United States engineering or construction company finding out about the tender are probably fairly slim, I would say.

**Mr GEORGIU**—They find out about other projects.

**Mr Russell**—We do not seem to get them. Whether they think that it is really a fixed thing and that an Australian is going to win it anyway and they are not going to be bothered bidding I do not know. But there is not a lot of interest from overseas companies, even when we go to ICB.

**Mr GEORGIU**—What would be a larger size contract?

**Mr Russell**—The largest contract that I can think of in the construction area would have been the My Thuan Bridge in Vietnam, the latest figures for which would be around \$85 million. In terms of a consultancy project, the largest we have had is about \$80 million in

Papua New Guinea. Papua New Guinea is an area where we are expanding quite a lot and where most of our big contracts are likely to be in the future.

**Mr BROUGH**—But that is because we are cutting back direct funding, isn't it, and changing it to programs?

**Mr GEORGIU**—And there is no better answer than 'They don't read Australian newspapers'?

**Mr Russell**—In a sense, we have not spent a lot of time going out asking them why they have not bid, but yes, that is the way it works out.

**Mr BROUGH**—There is an opportunity there. If you get a consultant to deliver a program in PNG or wherever else and they win the contract, would it then be reasonable to presume that they then subcontract a good bit of that work as well?

**Mr Russell**—Yes, very much so.

**Mr BROUGH**—Is that all part of your tendering process so that you know where the subcontractors and their equipment and supplies are coming from as well?

**Mr Russell**—No, we do not. When we go out to tender, we are tendering normally the whole Australian contribution to a project. We know that some of it will be subcontracted but it is not specified at the time how that subcontracting will be done.

Sometimes in bidding they will give us some idea of their own expertise in the areas where they would have to subcontract, but it is certainly part of our operations that subcontracting is fairly normal. Part of the reason for that is that what we are demanding of some of our contractors now is so wide in terms of the disciplines—health, engineering, gender development, education and so on—and that sometimes construction is part of an overall project. For instance, if you are going to do a health project in PNG, there might be some building of health centres in Papua New Guinea where you would expect that the main contractor would not be a construction specialist in their own right. They would subcontract some of that.

**Mr BROUGH**—But what if a consultant wins a contract to build a school in the Philippines? Say an Australian company has won the contract and it then employs a Philippine company to do it and uses Philippine materials and everything else. Are there any safeguards against that?

**Mr Russell**—No, in fact many times we would encourage it. Certainly schools is an area where, because they are fairly small, the prospect of shipping everything over and using Australian labour would not make sense.

**Mr BROUGH**—That was only an example. When we come down to that 80 per cent, that passes through Australian hands but a good percentage could still end up elsewhere, wouldn't it? We heard earlier from another witness that their only concern was that it was an Australian based company, so therefore it could be a US company or whatever else that has



an office in Australia. Is that taken into account here? What comments do you have to make on that?

**Mr Russell**—That is very much something that we have to think about. Years ago an Australian based company was normally Australian owned. In the consulting industry that we are dealing with now that is less common. A number of the firms have been taken over. What we require now is a headquarters operation in Australia or New Zealand.

**Mr BROUGH**—Sorry—you require a headquarters operation in Australia?

**Mr Russell**—A headquarters and an operation—more than just a post box number. It has to be what you would reasonably call an Australian operation. Normally an ACN is good enough to qualify for that.

**Mr GEORGIU**—What do you mean by ‘we require’?

**Mr Russell**—For a firm to be eligible to bid, they must be Australian or New Zealand. To interpret that, we say they would have to have a headquarters and operations in Australia or New Zealand.

**Mr BROUGH**—Not a salesperson and a post box.

**Mr Russell**—Exactly.

**Mr GEORGIU**—So I couldn’t bid from the US?

**Mr Russell**—If you are a US citizen with a US company—

**Mr GEORGIU**—Say I’m a US citizen with a contract, I can do it well and I bid. Okay?

**Mr Russell**—No.

**Mr GEORGIU**—So is that what explains the 80 per cent?

**Mr Russell**—Partly, yes.

**Mr BROUGH**—But the 80 per cent really is a bit ambiguous. As I say, it is really passing through their hands. We do not really have a handle on what percentage of that goes into Australian manufacturing or whatever else, but there is a very good reason for that, as you pointed out. In Port Moresby I visited a little Victorian company that was making an AIDS clinic. That was totally pre-fab. They took it up from Australia so everything was Australian. This is an issue—particularly in my part of the world being from Queensland—which is of interest to the public, so I am just trying to get a little bit more of a handle on how much further you can go just in knowledge. I understand all the reasons, but once you get beyond that first layer that is about it really, isn’t it?

**Mr Russell**—It is very difficult to be sure. As I said, we have done it from time to time by simply trying to estimate, on the information we have, what we think that figure is. Sometimes it is easy; sometimes it is not so easy.

**Mr BROUGH**—You have 550 staff?

**Mr Russell**—In AusAID, yes.

**Mr BROUGH**—Are about 36 in the procurement area?

**Mr Russell**—Yes.

**Mr BROUGH**—Does that mean that only about 36 decide on or are involved with the letting of these contracts?

**Mr Russell**—No, because the 36 are involved in the larger projects. We have in fact devolved what we call ‘smaller value contracts’ to the program areas themselves. If you are on the Papua New Guinea desk, you may let a small contract. For instance, if you want to send somebody up to Papua New Guinea for three months to do a study, you will do your own tender assessment on that. If it starts to get into a fairly large, complex undertaking, then it goes to the branch that I head—those 36.

**Mr GRIFFIN**—Is that decided by monetary sum or value?

**Mr Russell**—We try to get away from using a monetary sum. We try and get the question asked, ‘How complicated is this? Is this something that should be handled by the program desk or is it so particularly sensitive or complex for some reason that it should be handled by a more central area?’

**Mr BROUGH**—You must have detailed internal guidelines to handle all of these things.

**Mr Russell**—I wish we had them as up to date and as detailed as we should have. We have had them in the past and they get a bit out of date. We are in the process of updating them again now. In fact we are doing it in two ways. One is an updating of procedures right across AusAID and then there is a companion piece on contracting. Both of those are being written again now, but I think it must be about five years since the last ones.

**Mr BROUGH**—Could you provide us with a copy of what you have, because we are just trying to get some comparisons about what is around?

**Mr Russell**—Yes. Do you want where we are with the current ones?

**Mr BROUGH**—Whatever is going to be the best. Obviously, if a thing is half-written, it is not going to be of much use to us.

**Mr GEORGIU**—Could we have, in particular, what your definition of an Australian company is?

**Mr Russell**—I can provide that. We have a publication called *Contracting out* and the back of it has eligibility criteria for bidding for our work, so it is all spelt out in that.

**Mr GEORGIU**—So in fact the reason why you have 80 per cent of the aid budget being spent in Australia is that companies that do not have a head office in Australia do not get to bid?

**Mr Russell**—They do not get to bid for services contracts, consultancy contracts—which is most of our work.

**Mr GEORGIU**—So that is the simple answer why other people do not bid.

**Mr Russell**—My answer about the lack of interest was more to do with construction contracts which are ICB, but they are fairly small in our work. Even when it is ICB, they do not seem to be interested.

**Mr GEORGIU**—But basically overseas consultants do not bid because they will not get the job?

**Mr Russell**—Consultants, yes.

**Mr GEORGIU**—So what I thought was an awful puzzle has a simple solution.

**Mr Russell**—Sorry about that.

**CHAIR**—You commented in your submission that AusAID ‘has signed a Memorandum of Understanding with the Industrial Supplies Office (ISONET) which promotes the sourcing of procurement from ANZ suppliers, particularly SMEs’ and that some notable Australian firms have used their involvement in the aid program as a springboard for international work. We received a submission from ISONET. They said that since the beginning of 1997:

With the exception of Defence major procurement work, no significant inquiry had been made of ISO by Commonwealth agencies seeking to maximise opportunities for local manufacturers in their purchasing activities.

**Mr Russell**—As I said, we have actually contracted out our procurement of goods. A series of contracts cover most of our procurement of goods, and that is held by the Snowy Mountains Engineering Corporation, which is required to consult with ISONET. I would be surprised if we had been mentioned, because we do not do it ourselves. For instance, SMEC would do a cost and availability study for us.

**Mr BROUGH**—I do not get the connection with the Snowy River scheme. I missed that earlier on. What is that all about?

**Mr Russell**—Since the Snowy Mountains scheme days, the Snowy Mountains Engineering Corporation has hived off and become a consulting firm in Australia. It then became international and was privatised, and so on. The link between the company as it now is and the name ‘Snowy Mountains’ is somewhat loose. However, they are a fairly major consulting company in their own right in international development work. I would say that

they have around 20 contracts with us. Two or three of those contracts are to do with procurement of goods for us. They won those contracts in open tendering. As part of the conditions that we set for them they are to liaise with ISONET in identifying suppliers.

**CHAIR**—Do they also follow Commonwealth procurement guidelines?

**Mr Russell**—They are contracted to do that.

**CHAIR**—My second question is on electronic commerce. You said that you use Transigo for advertising tender opportunities and details of contracts awarded. One of the problems we are learning about with Transigo is that industry is telling us that a very small percentage of SMEs actually have electronic commerce capability in that they are on the Internet. We also learned today that there is an annual fee for buying into the opportunity to log on to Transigo. Other departments have told us that they are getting almost no joy out of it whatsoever. That is, they can use it to put out the information of what is available for tender; they use it to advise DOFA of all their purchases over \$2,000 and whether SMEs are involved and all that stuff, but they are not doing any commerce on Transigo. Do you have a comment on that?

**Mr Russell**—Firstly, most of our suppliers are keen to get AusAID work. They either get AusAID work or Asian Development Bank work; they are not interested in across-the-board Commonwealth business. They tend to look at our site rather than the Transigo site. In fact, we are operating a duplicate system. Transigo is there and also our own site. We have more flexibility with our own site about the amount of information that we are going to put on it. Most of our contractors have dealt with us before, they know that our site exists and they go to our site rather than to Transigo.

Transigo is still useful to us in keeping our name up there. If somebody is looking to find what sort of business may be around then it is probably helpful, but I do not think it does much for us beyond that now. It gives notification of contracts, but in terms of getting people interested in our business I think our site is better than Transigo for the people who want to do business with us.

**CHAIR**—On page 4 of your submission you talk about the emphasis on the achievement of outputs by contractors rather than the processing of inputs which serve to increase the value for money. That is fair enough. You say that the final ranking of bidders is based on a score with a weighting of 70 per cent for technical merit, with price becoming a factor of 30 per cent after technically unsuitable tenders have been rejected. You say that you are currently reviewing the weighting measure. Could you tell us how that works?

**Mr Russell**—I would say that there are four steps in our tender assessment. The first, and probably the major one in terms of the resource put into it, is the technical assessment and that is done by internal AusAID people and external sectoral experts in that area. They will judge against selection criteria for the technical side and score each of the submissions. At the end, they will add those up and decide where to draw the line between technically suitable and unsuitable. Those above the line in terms of technical suitability then go to the second stage, which is the price assessment. We try to do a like for like assessment of the bid prices. The technical score will total 700 and the price score will total 300, so you get a

combined score to give the 70 to 30 weighting. The third step is financial risk assessment if we think it should be done on that particular project. The fourth step is to look at contractor past performance. So there are the four steps. The technical and the price weighting come in quite early.

**CHAIR**—Do you have any data on the percentage of times that the lowest price loses?

**Mr Russell**—I can say now that in about 15 per cent of cases the highest technical bidder will be overturned because of price. So it is about one in six times that you would expect price to have determined that. If you talk to our suppliers, they think it is closer to 50 per cent because they remember the ones that they lose when they are technically best, but that is our figure. It used to be around 25 per cent but it is now 15 per cent. The reason why it came down is that we widened the technical scores because in the past everybody was getting around the same score. So it is about 15 per cent now.

**Mr BROUGH**—As your whole focus is on giving money away, that makes very close scrutiny of staff and procedures necessary. Are you satisfied with what you have?

**Mr Russell**—In terms of scrutinising our own people or in terms of the quality of the staff?

**Mr BROUGH**—Not so much the quality of your staff, but your procedures so that cosy relationships do not develop so that a particular consultancy is preferred over another and you see them continually getting it. As members of parliament we hear all the time that XYZ gets this contract because they know someone in the department or whatever else. It is all hearsay, speculation and accusations, but it must be an incredibly serious issue for you given that your main thrust is giving contracts.

**Mr Russell**—It is a very serious matter. The way that we try to encourage suppliers to believe in the transparency and accountability of the process is to have external people on our technical assessment panels. Normally, you would expect about three or four people to be on a technical assessment panel, of which two are likely to be from outside. A third would be likely to be a technical expert in the sector. For example, an agriculturalist would look at an agricultural project, and an education specialist would look at a project on education. We open it up that way. We also from time to time have the suppliers themselves sit on technical assessment panels for projects that they have not put in for. If our suppliers do not think it is a fair and above board process, we are dead. We really need to encourage them to participate and to believe that the system is fair and above board.

**CHAIR**—How many complaints do you get?

**Mr Russell**—I do not think we get that many. We debrief as well, and fairly fully on the reasons why they were not selected. If you go for a job and you are not selected, you are obviously disappointed. Most of them are prepared to listen to what is said, take it on board and use it next time.

**Mr GEORGIU**—What has been the impact of the shift from the technical assessment to the technical plus price assessment? Has there been any negative adverse impact as a

result of the change from the first stage, which I understand was just a technical assessment plus the negotiation of a price, to a mixed system involving technical based plus price considerations?

**Mr Russell**—If you just go on technical merit, there is almost an in-built incentive to overservice. If a bidder is in doubt about whether to put in six months of a veterinarian's time on a project or four, they will put in for six.

**Mr GEORGIU**—I appreciate the rationale. What has been the suppliers' response to that? Have they smiled and said, 'This is fantastic'?

**Mr Russell**—The first time they were quite nervous about it. They would not go back now. They understand the logic of it. Their concerns are now about the degree to which price gets taken into account, not whether price gets taken into account. Some argue that 30 per cent is too high. That is partly to do with the history of these consulting firms. They are not used to bringing in price. You competed on a proposal. It was a profession where you said, 'This is what I am going to do. I am the best. Take me.'

**Mr GEORGIU**—Cost plus. What is the review going to throw up in terms of the ratio? Where is it heading?

**Mr Russell**—At this stage, it is a bit hard to say. We are really trying to say to ourselves, 'Do we have the balance right? What is the evidence that people are not overemphasising price? Is the balance there?' If you do not have a balance, you will have either too much technical input to your projects or the prices will be too low to really work. It is about discussions and thinking about where that balance should be and whether 30 per cent is right.

**Senator HOGG**—Are some SMEs daunted by your processes and, therefore, do not come into the tendering process? Do you have any evidence of that?

**Mr Russell**—As I said, most of our suppliers are SMEs anyway. In terms of new players, so to speak—

**Senator HOGG**—New players or people who think the processes you have in place make it impossible for them to tender because of red tape or other obstacles that they may perceive as being in their path?

**Mr Russell**—Most of them are very concerned about the degree to which their company experience will be taken into account. They are concerned, if they do not have much overseas experience, about how to get overseas experience to get contracts. It is the old chicken and the egg situation. That is their first concern. In terms of the procedures, we try to allay that. We have seminars around Australia about our procedures. We have a booklet that we give them called *Contracting out*. It tries to explain our procedures. They come to see us and we put them on these technical assessment panels. We encourage them, if they do not yet have enough experience, to go into alliance with other consulting companies for a while to build up experience.

We are unusual in the Commonwealth in that we have had to grow our own industry. When we started, there were not a lot of companies that could do the sorts of things we wanted to. We are constantly trying to bring in new players to build them up so that we have a very strong set of proposals coming in for bids.

**Mr GRIFFIN**—It has been a while since there has been a shortage in consultants.

**Mr Russell**—There is a shortage of consultants in some areas, particularly in health, which is a fairly new area for the aid program. We are very hard pressed to get good consultants to work in the health program.

**Senator HOGG**—Are the seminars you hold predominantly in capital cities, or do you go into the regional areas as well?

**Mr Russell**—We go into the regional areas as well. For a while we used to just do them in the capitals. In the last few years, we have had them in Townsville and Rockhampton. We are thinking of Ballarat, Bendigo, Wollongong, Newcastle and some in Tasmania; we are thinking of running one in Launceston. There is a mixture. It was predominantly capital cities, but it is not necessarily so now.

**Mrs Fettell**—We also hold briefings during the tender period. Intending bidders can come to a meeting and find out more not only about AusAID but how to tender for a particular project. It is a project specific briefing for the tender.

**Senator HOGG**—That is where you outline your benchmarks as to the assessment of the tenders and so on?

**Mrs Fettell**—That is right. It is outlined in the RFT documentation but is further expanded on should there be further questions along those lines.

My last question has nothing to do with this inquiry. I read an article in one of the national newspapers over the last couple of weeks about wells in Bangladesh.

**Mr Russell**—Possibly. We used to do some tube wells in Bangladesh. I did not read the article.

**CHAIR**—It said that the whole thing was a disaster and that they were closing them all up. No consideration had been given to what raising or lowering the water table would do.

**Mr Russell**—This is not my area of great expertise. It is certainly true that tube wells are very controversial, be they right or wrong. I have heard experts argue both sides. It is not always easy to know exactly the right answer for some of these problems. Quite often, aid work is involved at the very front end of trying to work out what some of these options are.

**Senator HOGG**—I have one more question. Where do you get your paper from? Where do you source it? Is it Australian?

**CHAIR**—Who manufactures the paper you buy?

**Senator HOGG**—Is it overseas made?

**Mr Russell**—I am not in the area that buys it.

**Mrs Fettell**—It is Reflex.

**CHAIR**—That is made in the La Trobe Valley. Would you check that out, please.

**Mr Russell**—Certainly around our photocopiers there is Reflex paper.

**Mr BROUGH**—See if you have some centralised buying and whether it is predominantly Australian made product.

**CHAIR**—We want to know whether the paper you buy is Australian made or overseas made. It is to satisfy our curiosity regarding another submission, which said that it probably is not. Thank you for appearing.



[3.16 p.m.]

**MacDONALD, Mr John Rowan, Manager, Industry Issues/Government Purchasing, Australian Information Industry Association**

**ROBEY, Mr Peter, Deputy Chairman, Australian Information Industry Association**

**UPTON, Mr Peter, Executive Director, Australian Information Industry Association**

**CHAIR**—Welcome. We have received your brief submission. Would you like to make a brief opening statement before we ask questions?

**Mr Upton**—Yes. Since the publication of this particular report, which I understand the committee is inquiring into at the moment, government purchasing has been a pretty active zone. There are a number of general points that I would like to make. The first of those is that a major influence on the direction of government procurement, at least from the industry's viewpoint, will be the outcome of the current government outsourcing program. That will happen simply because, under that program, a good deal of purchasing which was once done directly by government agencies will be done by the prime contractors to outsourcing dealers. It is not part of our particular intention to go into those arrangements, which are still unfolding in some respects.

There is an overlap in some key areas, which my colleagues will be dealing with in a little more detail in a moment. We would like to comment on aspects of that. The abolition of the Department of Administrative Services removed the former division whereby there was a specialist Commonwealth government agency for overseeing the procurement process, and some of the machinery that was set up as a result of the Bevis report has been dismantled. By that, I mean specifically the National Procurement Board. The other developments that have occurred have turned upon the removal of the common use contracting framework arrangements.

The final thing I would like to say is that the Bevis report looked far more widely at issues of government procurement than simply those relating to information technology and telecommunications. Information technology and telecommunications has been, within the government purchasing constellation, something of a special case in the sense that a range of separate and specific provisions have applied to it, some now in the process of being generalised—for example, the partnership for development scheme, the fixed term agreements, the industry development arrangements under the old Telecommunications Act, the current requirement for industry development plans and the genesis of the endorsed supplier arrangements all had their place in specific reference to the information technology and telecommunications industry. So they are almost a subset, as it were, of recommendations made by the Bevis report. They are the ones which are of particular concern to us, and it is those that we will be seeking to make a few comments on in addition this afternoon. My colleague Mr MacDonald is going to mention about four or five specific things.

**Mr MacDonald**—We have five specific points that we would like to make this afternoon. The first of those is the prequalification of suppliers or, as it is more widely

known in the IT industry, the endorsed supplier arrangements. AIIA has welcomed the scheme, and recently we have worked very closely with the federal government in reviewing the program. However, there is a reasonable amount of anecdotal evidence to suggest that there is still a lot of business going to companies which are not endorsed. Put simply, AIIA would like to see that the ESA is either used or it is not, and that there is consistency in its use. Having said that, agencies might be given the opportunity to report promptly on a case by case basis when they have been required to buy goods and services outside the endorsed supplier scheme.

The second point is on the limitation of liability. The 1994 report recommended that liability provisions of the Commonwealth be reviewed with a view to capping the liability of suppliers. We are pleased to report the recent progress we have been able to make with the Department of Finance and Administration—specifically, the competitive tendering and contracting group—on moving these clauses forward in terms of government procurement policy, and we hope to finalise those within the next few months.

The third point is on late payment penalties. The 1994 report also recommended that all Commonwealth contracts include automatic penalties for late payment. This remains a significant issue, particularly for small business which does not have the ability to carry that debt. AIIA would welcome the government's speedy introduction of such a late payment penalty.

The fourth point is consistency. We would like to see consistency in two vital areas: first of all, contractual conditions and, secondly, in the pre-qualification criteria that I have already spoken of. In terms of contractual conditions, we have also been working with the federal government over the last two years to develop a common set of clauses, called the GITC version 3. We would like to see that as the preferred method for doing business and would like agencies again to be given the opportunity of reporting when they have been required to use alternative terms and conditions apart from the GITC.

Secondly, in terms of the prequalification criteria, we would look forward to those criteria being used nationally. They have been introduced at the federal government level but we would like to see them introduced at the state government level. This has the potential to significantly reduce the cost of doing business with governments.

The fifth and final point that we would like to make this afternoon is on the commission on sales. We welcome the federal government's decision to remove the two per cent commission on sales, and note that this has been mirrored around Australia, except in New South Wales. We look forward to the commission being dropped also in New South Wales.

**Senator HOGG**—I would like to get a profile of your membership. How many of the 330 members that you mention in your submission are SMEs and how many are larger companies?

**Mr Upton**—Of the total membership, which approaches 400 at the present moment, 68 per cent are SMEs—defined as having a turnover of less than \$15 million. Seventy per cent of our membership are Australian owned companies.

**CHAIR**—Are things better since the so-called Bevis report?

**Mr Upton**—It is difficult to characterise that at the moment and that is because of the significant changes that have taken place in procurement administration. Of those, the most significant over time will become the Commonwealth's outsourcing approach for the very simple reason that, as I have already mentioned, the outsourcers themselves will be the major purchases on behalf of the government. So that is a work in progress and it is very difficult to say whether that is going to result in a better deal, a worse deal or just a totally different deal. For those small and medium enterprises that are involved in those contracts, I would say that it is likely to prove relatively much more straightforward. But for those who are not, it is very hard to gauge.

**Mr Robey**—I might expand that and take it outside what is going to happen as a result of outsourcing. Outsourcing at the moment is pretty much affecting the infrastructure side of the IT market, which is a very major component but it is probably not the largest playing field for the biggest group of SMEs, who tend to be working in the applications development and provision of services around that and training type services. It is those people who still have the problem that selling as SMEs limits their ability to provide credentials that are acceptable to Commonwealth buyers and is still basically an impediment. Unlike in other parts of the world where there is truly an endeavour to buy from those people in preference, in Australia, whilst there is a stated preference to buy from SMEs and to give them a share of the market, the reality is that it is difficult for SMEs. It has been for years and nothing has really changed much to convince the Commonwealth to buy from a supplier of that size.

That has a lot of ramifications for Australia in the long term because they are the people who, if you look at the United States example, are basically the source of all the new wealth creation in the IT industry. We will not have that wealth creation in Australia if we cannot get the biggest procurer in the country to buy regularly and in an amiable fashion from SMEs.

To some extent the benchmark is higher for an SME than it is for someone who has actually made it past that point—be it an Australian company or a multinational. Once the runs are on the board it is much easier to do business with government because of the risk averse nature of government procurement. But unfortunately that is not good for the country as a whole and it is an issue that the government of the country needs to take on board.

**Senator HOGG**—Are you talking about SMEs dealing directly with government as opposed to going through a major tenderer?

**Mr Robey**—At the moment I am dealing with that particular issue. An SME that is going through with a major tenderer is a much different issue and it tends to be a lot more black and white. An SME that has an alignment with a major tenderer who is successful will probably, as Peter has alluded to, do very well. An SME who may have been doing very well with the Commonwealth prior to that situation, but who does not have those sorts of alignments with major outsourcing type companies, will probably do very badly.

**Senator HOGG**—So it is that second scenario that you are saying is really in our better interests in the longer term?

**Mr Robey**—What is in our better interests in the longer term is just a more open market for small suppliers. I think this applies beyond IT, but my expertise is in IT.

**CHAIR**—Doesn't outsourcing give you a more open market?

**Mr Robey**—No, it gives you a more closed market.

**CHAIR**—Ordering from the private sector is a closed market? Heaven on earth. How did we ever build any companies in Australia with private enterprise? My goodness. We must be in diabolical trouble.

**Mr Robey**—Let me answer that in a particular way. The way outsourcing is going to happen is that it is most likely that the vast bulk of outsourcing will be done by a very limited number of companies. Any company, even a small company, tends to have a limited set of suppliers so it can manage its sources of supply. Currently, if over 100 government agencies are doing most of their buying through a few—four or five—outsourcing suppliers then the avenues for supply are going to be a lot more limited and the number of suppliers who will be on those avenues will be limited as well.

As I said, some may do very well but for others it will obviously be significantly negative. There are other negatives that come with that as well. They will no longer have the government as a client, and when they go to trade overseas, particularly in Asia where it is a very big credential to have the government as your client, they will no longer have that badge of honour, so to speak.

**Mr GRIFFIN**—You briefly mentioned the treatment of companies by government overseas. I took it that you meant the US. I think you said something about there being a stated preference there for these sorts of companies. Could you briefly expand on that?

**Mr Robey**—I think we could make it much more general than that. There is an endeavour in nearly every one of the First World countries to do as much as they can to generate internally their own IT industry because of the pervasiveness of IT and the growth of IT.

**Mr GRIFFIN**—What do they do there that is different to what we do here?

**Mr Robey**—In the United States, for example, there is an unwritten—I have to use that word because I have not seen it written—rule, which is followed enormously closely, that you procure domestically. You will note, if you look at American procurement, that very little of the procurement in IT is done from foreign suppliers, even when there are significant foreign suppliers in that particular niche in the IT marketplace. They have achieved that through a number of processes, some of which are what I would call good internal PR. It is understood that you will buy domestic product unless it is absolutely not possible to do that. If you talk to anybody, particularly in US government procurement, they will tell you that that is the case.

**Mr GRIFFIN**—But you have not seen it written down; it is a nationalistic, cultural thing.

**Mr Robey**—It is a cultural thing and, by and large, I think it should be a cultural thing here as well.

**Mr GRIFFIN**—When you do not have a culture like that—and it appears from what you are saying that we do not—what do you do about it? Are there overseas examples? Is it legislated in Europe?

**Mr Robey**—I cannot tell you of anywhere where it is legislated that they must buy domestically. There are places where there are reporting mechanisms, which is a very good process. One of the things that is easy for government to institute is a reporting mechanism that says: I am not buying domestically and this is why I am not buying domestically.

**Mr GRIFFIN**—Where does that happens overseas?

**Mr Robey**—Sitting here, I cannot tell you the answer, but I am as certain as I can be that the French used to do it two or three years ago. Whether they do it today, I cannot tell you. But I believe it is not uncommon practice anywhere in Europe.

**Mr GRIFFIN**—We would be very keen to get some information about overseas experience on these sorts of issues if you are able to get your hands on it without too much trouble. We will make some inquiries ourselves but we would be very interested in that sort of information.

What I would like to agree with you on is the fact that we do not have the same nationalistic buying tendencies that nearly any of the other countries we are going to talk about have. Consequently, there is a need for something significant to be done here which may not necessarily parallel what happens overseas. By that I am not saying it should be legislative; I think there are problems with that in terms of world trade arrangements and so on. However, I believe there should be a reporting system that says: this is who we buy from, this is why we buy and this is what we are doing.

They are the sorts of things that Rowan alluded to before about this being why we are going outside the bounds of things like using the endorsed supplier program. All of those things are very helpful to domestic industry, but they are also helpful to the government of the country because they provide information back to committees like this in relation to how procurement is actually happening. One of the issues we have is that it is very difficult to get good statistics about the procurement practices within our own government.

**CHAIR**—To clarify that, in the industry, science and technology report in 1994 we said:

United States Government procurement policy discriminates against all foreign suppliers. Discriminatory practices used by the US Government in procurement include Buy American legislation, discriminatory preferences, sectoral import prohibitions and small business set asides. . .

The Buy American Act requires Federal agencies to buy domestic goods and services unless:

- . the cost is unreasonable in comparison with foreign goods;
- . the use of domestic goods would be contrary to the United States political interest; or

the products are unavailable in the United States.

It goes on and on. So, to clarify the situation, it is in legislation, unless the legislation has changed since 1994—and I doubt that.

**Mr Upton**—If I can interpolate here, the subject of overseas buying practices was considered in an extensive report prepared for the former Department of Administrative Services. It ran to a considerable length.

**CHAIR**—Do you know when that was?

**Mr Upton**—It was about the 1994 mark that you mentioned before. It did pick up on the Buy American Act but it also considered it country by country. I think the work was commissioned towards the end of DAS's existence. Where it went, I do not know.

**CHAIR**—As I recall, we said in the report that something like over 90 per cent of US government purchases were US manufactured goods and services. It was something like 94 per cent in Germany and more than 95 per cent in Japan. That is off the top of my head; it has been a long time since 1994.

**Mr BROUGH**—Mr Robey, when you made your comments earlier you said that outsourcing could potentially be a very negative thing for SMEs and for business, making it more decentralised and keeping a limited number of suppliers. Are you saying it is going to end up being very similar to the clustering system? Will it be just as negative?

**Mr Robey**—I do not know whether or not the clustering system plays a particularly large role in what is going to happen. By and large, unless there is a different model for outsourcing we will be stuck with the problem that there will be SME big winners and SME big losers. I suppose the difficulty one faces, looking at it from the outside and trying to take some sort of purist line, is that organisations may well lose their clients, not because they have not had a very good rapport with and done a very good job for the Commonwealth but because they do not have the right business alliance to be in the winning team.

In some cases the guys that have done a very good job in getting that relationship with government and serving government well are the people who, because they are able to do that against the odds—it is not easy to sell to the Australian government if you are Australian, which is a sad thing to say—are showing the sort of initiative and often have the products and services that we need for export. Consequently, there is an issue—and I am not saying it is easy to overcome—that to some extent through this process we may now be picking as suppliers to government the people who are less likely to be winners rather than the people who actually had the greatest chance of being winners but who perhaps did not as easily form natural alliances with large multinationals.

**Mr BROUGH**—We heard yesterday from the Australian Industry Group that SMEs, when attached to a multinational or whatever else as part of a bidding process, were quite often only there to fulfil the requirement that an SME get some of the business and that they would be thrown the crumbs, quite often at no profit. That is quite contrary to what you

have said today. You obviously have a different view and a different experience of that occurring.

**Mr Robey**—At this point we do not have any real hard evidence. As Peter was pointing out, we are early in the process and consequently we do not have a lot of runs on the board to judge by. It is certainly true that we are in industry where it has happened, not just here but overseas, that the small suppliers have often found it very hard to work with the big suppliers because of the discrepancy in size. We are talking about some of the world's largest companies and the start-up companies have often a fraction of the daily revenues of the companies that they are in business with. Consequently, these people are about as valuable as their immediate value. That does mean that there are occasions when those relationships do not work well at all, and you will find examples of that all around the world, not just in Australia.

It is too early in the process to say whether it is going to work well here or not. There is obviously a deliberate industry policy in the outsourcing program and, if that is well administered and if the government kept its eye on that, the SMEs should in fact get their slice of the cake and they should have a reasonable opportunity. We can sit here in a year's time and probably begin to look at the outcome of the cluster 3 and maybe begin to see what the impact of that has or has not been for the subcontractors there.

**Mr GRIFFIN**—What you are saying is that the evidence you have seen in terms of the way that outsourcing has generally worked, combined with your view on the current culture within the government purchasing areas, suggests that outsourcing is not likely to be the panacea.

**Mr Robey**—It won't be a panacea. It may be good for a few companies but it won't be a panacea. Not only that but, as I said before, a lot of companies do not play currently in what is the outsourced area, they play in other parts of the IT industry, and there is a real requirement to do something about getting more usage there of Australian companies. I go back to the fact that, whatever the number is, whether it is \$30 billion or \$40 billion as a trade deficit in five years time, I cannot imagine there is any Australian who really wants to see that number achieved.

**Mr GEORGIU**—Can I pursue one point? Your submission says that 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. But I do not get much sense of that angst in your presentation.

**Mr Robey**—I am happy to pick that up in the first instance. What we were highlighting here is a number of factors that are important. I pick up on the endorsed supplier, to start with. The endorsed supplier process is designed, firstly, to help the government so that it has a set of suppliers that it can go to with comfort. At the same time, it is therefore important that it is used properly, that the endorsed supplies on it all get a reasonable chance of getting into the business, so that it does not suddenly become a subset of that that does all the business or, and the thing that seems to be happening more at the moment, that a vast number of players outside the process seem to be able to infiltrate the process without being

endorsed. That is an issue that Rowan raised, and it is important that that be resolved. We do have angst on that area.

**Mr GEORGIU**—My confusion is that this seemed to be a fairly negative—almost unqualifiedly negative—judgment on what you regarded as being a good report inadequately or inappropriately implemented.

**Mr Robey**—I suppose there are a lot of opportunities in that report that have not been taken up or have not been taken to a point where they are truly successful for both government as a buyer and our industry as suppliers. At the same time, we are making some progress, and it would be unreasonable not to highlight the fact that, if we look at the limitation of liability, that has been a very big issue for the industry. It is a very big issue for endorsed suppliers. But I can put a nuance on that which is not complete either, and that is the fact that at the moment, if you are a negotiator from a very big organisation, you are just about bound to get a better set of terms and conditions out of the Commonwealth than if you are a negotiator for a small organisation. That is an issue in itself, because that is another barrier to the smaller Australian companies successfully competing in the Commonwealth government marketplace.

**Mr GEORGIU**—Okay, but you regard the output of the report as being significant improvements but not totally satisfactory improvements, whereas you said that these blokes are going to walk in, and I do not have a sense of that. Can you outline the areas where you think things have improved?

**Mr Upton**—We did to begin with, I think. The highest on the list would be the movement we have made towards getting capped liability.

**Mr GEORGIU**—I did hear that. I thought that was stuff in progress—incomplete but in progress. What has been tangibly delivered?

**Mr Upton**—In saying what I said about the significant changes in the structure of government procurement, I began to illustrate the fact that the target that this was aimed at had moved past. In 1994 it was dealing with a particular structure of Commonwealth administration in a pre-outsourcing time and had made what we regarded, from memory at the time, as about 27 recommendations.

**CHAIR**—More than 40, as I recall.

**Mr Upton**—My colleague tells me it was 45, to be exact. We were in general accord with the great bulk of them. With the abolition of the Department of Administrative Services and the commencement of the outsourcing initiative, without actually going through and counting them up, my calculation would be that more than half of the recommendations that were made in the report no longer are capable of having application. Of the things that are remaining, the frustration, I suppose, that is expressed in our submission is that government purchasing itself seems a moving target. I have been associated with the information industry only for a brief six years, and in that time I think I have had four reviews of government purchasing. I suppose that is necessary in the sense that if the target does move then clearly you have to move with the times. But there was an opportunity there which, had things



stayed the same, would have been well taken and could have structured things nicely. The frustration is that we are now rolling the counters back to zero and starting to gain purchase on some of the issues that were taken up in there.

**Mr GRIFFIN**—Do you think the fundamental changes that have occurred in terms of moving to outsourcing are positive, or was where we were up to before a better place to be?

**Mr Upton**—I think the jury has still got to be out in terms of outsourcing. It will very much depend on the standpoint of the observer. It is a relativistic question.

**Mr GEORGIU**—They usually are.

**Mr Upton**—If I am one of the SMEs, as Tony has put it, that is on a winning contract bid, I am probably going to be unequivocally enthusiastic about it. But if I am one of the SMEs that has seen my market disappear because one of my clients has been bundled up in a big cluster and just disappears from my marketing purview, I am going to think it is a terrible thing.

The hard trick is to maintain a balance which says, ‘Well, okay, looking down here, is this going to be good for the industry or not?’ Tony has expressed a view which is that it may well not be a good view because it may be snipping off a range of SMEs that might otherwise be doing innovative things. But you would find from the SMEs who are wrapped up in the contracts a view that says, ‘Hey, this is terrific because it is going to give us critical mass,’ and so on. I suppose the balance point the association has to come down with is that it is still a work in progress. We are still there.

**CHAIR**—Could I frame that question in a different way? Tony talked about the purchasing culture in the United States. One of the significant findings of the report was that, across the broad range of Australian government departments and authorities, there seemed to be generally an adverse culture towards Australian goods and services. I have to say to you honestly that, over the past two days, we have not sensed that in talking to a number of departments in the Australian Public Service. I would have said that I personally sensed a change in attitude. Have you, or not?

**Mr Robey**—I would have to say that, on the whole, I have not. I think that if the Australian supplier is well established in government—well known and has been there a long time—the chances are pretty good that they are treated the same as a large multinational supplier. But people coming up with innovative technology and new approaches to things, if they are Australians, will be treated—just about invariably—with far greater scepticism than if they walked through the door with a United States badge on their lapel in some way, shape or form. That is something I find very hard to explain. With exactly the same sorts of technologies coming out of the two countries, there is nearly no doubt—even from similar sized organisations—that the American sourced technology will be received as being likely to have more credibility.

**CHAIR**—Is that across departments?

**Mr Robey**—I would have trouble thinking of a department where that would not happen.

**Mr BROUGH**—Can you point to any specifics where something has actually been purchased—just something we can hang our hat on?

**Mr Robey**—I think I would like to go away and have a think about that. I think by and large what happens is that most Australian suppliers give up before they even get to the point of trying to bid for things, or they get in a bid and the overall losing nature of the bid is not as simple as, ‘Had you not bid this piece of technology, you would have won.’ However, it is probably pretty clear to them that bidding that piece of technology was not a clever thing to do.

**CHAIR**—Customs just told us that they placed a major contract last year—worth over \$50 million—for computer hardware with IPEC.

**Mr Robey**—That is fine; that is true. And I think, by and large, PC manufacture—if you want to call what we do in Australia PC manufacture—is probably the biggest example where this process does not hold true. It is something that has built up here over time, and there is a fair push for people to just consider PCs—wherever they come from as long as the parts are reasonable; bearing in mind that most of the parts are not made here—as being reasonable if they are sourced from an Australian fabricator rather than from anywhere else.

I am trying to talk today about where this is going to get us. It is wonderful that that happens, because that is very good import replacement. It is about zero export potential. There are not going to be boatloads or planeloads of PCs going out of Australia to start balancing the things we do have to import. The IT industry being what it is, there are very significant areas of IT that we will never make here in commercial quantity and we will have to buy—and that is reasonable. We do that with just about every other area of commerce as well. Therefore, we need to be looking at the innovative things that are capable of being exported.

**CHAIR**—Such as?

**Mr Robey**—Software is a good example. If you did an analysis of the software being bought by the federal government, where it is available from both Australian suppliers and international suppliers, very rarely would the Australian suppliers predominate in any field. In many fields they would be unsuccessful altogether.

**CHAIR**—Did you say that you had done an analysis?

**Mr Robey**—I said, ‘If you did an analysis.’ But some of these things are not that difficult to analyse. There are contracts out at the moment; for example, the OGO—as it now is—has contracts that relate to human resources and financial systems. If you looked at the amount of money expended under those contracts—and I am sure OGO would be able to provide that information without too much trouble—you would find out how much had been expended in relation to Australian products, some of which are on there, and how much had been expended in relation to foreign sourced products. You could ask yourself whether it was necessary in any of those cases to buy a foreign sourced product. In the United States, for example, no foreign sourced products would have been bought.

**Mr Upton**—I could mention one case which comes to mind, at the risk of maligning the unrepresented—

**Mr GRIFFIN**—It is okay. We will malign them ourselves later on.

**Mr Upton**—I could mention the Mincom experience in Queensland—that is in another jurisdiction, but I would just like to say, in relation to the cultural comments that are being made, that I do not think it would be wise to assume that that applies only to a public service culture. I think there is a more general ‘not invented here’ syndrome in relation to this industry which is fairly widespread, and I think it is genuinely difficult to combat.

The specific example I am thinking of involves the Queensland government. Mincom, for those who do not know it, is one of Australia’s leading software houses; it is a very successful exporting company. Eighty per cent of its sales are made outside of Australia, which is a very considerable achievement. It has some world-leading products, as evidenced by the fact that if you can sell them outside Australia in a very competitive market, you obviously have a world-leading product. I have the feeling of hairs rising on the back of my neck because it is always dangerous to mention specific names, but the Queensland government mandated the use of SAP throughout Queensland, totally excluding Mincom from any contention—despite the fact that Mincom sells and defeats SAP outside of Australia.

**Mr GRIFFIN**—When did they do that?

**Mr Upton**—Towards the end of last year. That, to us, is an inexplicable anomaly, if I can put it that way, because that allows a foreign company to not only defeat an Australian company on its home ground but for its sales representatives to go throughout the world and say, ‘Why would you buy from them when their own government will not buy from them?’

**CHAIR**—But, with respect, we are not inquiring into Queensland government purchasing.

**Mr Upton**—Exactly, but I was illustrating the case.

**CHAIR**—That is terrific. And you also say that the private sector has the same cultural problem, but we are really talking about what the Australian government can do to help support Australian industry. It is not the Queensland government and not the private sector.

**Mr GRIFFIN**—It is instructive in terms of the nature of the culture. He is saying that the culture is all pervading and I think that is accurate. It is relevant.

**Mr BROUGH**—Tony mentioned endorsed supplier arrangements and the frustrations. What does it cost a company to become recognised as an endorsed supplier?

**Mr Robey**—That has changed over time. Previously, it required quality certification. A company that had not been quality certified had to go through a quality certification process. That alone can cost a company, depending on how it is set up and what it has in place, anywhere from in the high tens of thousands to hundreds of thousands of dollars to achieve.

**Mr BROUGH**—So if I am a new software company today and I have not done anything for the government before and I feel I have products and, like Mincom, I am going to do it, what is it going to roughly cost in time, effort and money?

**Mr Robey**—I would imagine that it would be difficult to come into this marketplace from scratch without a six digit budget.

**Mr BROUGH**—Okay, so I have invested that and I have gone down that track—and I take it this is part of their huge frustration—and I have got my accreditation, for want of a better term, and yet I continue to see companies, which have not bothered to invest that time, effort and money to achieve what they thought the government wanted, continually getting contracts. Are you saying that it does not give them one extra tick in the box, one rung up the ladder, towards success? Is that your experience?

**Mr Robey**—Unfortunately, certainly in a large number of cases, it does not give them what it is supposed to give them. As I understand, it is mandated that the Commonwealth will procure only from endorsed suppliers. So, having gone along and sought the advice—and I am sure the advice they would get from government is that they have to be endorsed and have gone through the process—they will now see people selling around the process and will have trouble understanding why that occurs.

**Mr GEORGIU**—Sorry, what was that? Does that mean that the government has a directive that you can purchase only from endorsed suppliers and the government is purchasing from non-endorsed suppliers?

**Mr Robey**—Exactly.

**Mr BROUGH**—Can you help me out?

**Mr GEORGIU**—Do you know of instances of that?

**Mr BROUGH**—Do you happen to know where it states that?

**Mr Robey**—I understood it was a cabinet directive. I am sorry if I am wrong, but that was my understanding.

**Mr BROUGH**—How long ago? What sort of time frame are we looking at?

**Mr Robey**—Last year.

**Mr BROUGH**—So you think there was a cabinet directive of 1998 which says that, wherever possible and practical, the endorsed supplier arrangement program should be fulfilled?

**Mr MacDonald**—I think the federal government looked at the review of purchasing arrangements and it made a couple of recommendations and that these should be clarified through the competitive tendering and contracting group in the Department of Finance. The major ones referred to a review of the common use contracts that were in place at that stage.

The government's intent was to reduce the number of common use contracts to only those that were strategically required. The other main one was that it re-endorsed the fact that the government's agencies were to procure from endorsed suppliers.

**Mr BROUGH**—Not as part of the Financial Management and Accountability Act?

**Mr Robey**—I do not think so, but—

**Mr BROUGH**—No, that is fine. We appreciate that. It is important.

**Mr GRIFFIN**—When that has happened, have any of your members actually complained or tried to lodge any sort of appeal as to why they, as an endorsed manufacturer—

**Mr Robey**—I do not think it would be at all difficult to provide you with information. What I want to avoid here is naming particular organisations because I think it is unreasonable. I think you will find it is happening fairly broadly.

**Mr GRIFFIN**—The other thing I would say to you is that we can actually go in camera.

**Mr GEORGIU**—Did anybody actually complain? We do not want their names, but was there a complaint?

**Mr Robey**—Complaints have certainly happened within the industry. Whether they have complained—

**Mr GEORGIU**—So they have complained and said, 'You've made a decision. You're breaching that decision. Why are you doing it? Stop it.'

**Mr Robey**—That I cannot tell you. The industry is very loath to complain about procurement decisions directly to the procurers because, by and large, it excommunicates them from the site.

**Mr GEORGIU**—You are a very brave man then.

**Mr GRIFFIN**—You are aware that we can go in camera. We are not able to today because we have to catch planes soon, but we are able to take evidence in camera and submissions confidentially if there are issues that need to be discussed in that sort of an environment.

**Mr Robey**—I do not mind discussing these issues. The point I am making is that it is probably unreasonable to note a couple of cases that I know about here because that would be firing the gun at one party when there are probably plenty of examples of this. I do not know that we would have a great deal of trouble coming up with those examples. I really think the Commonwealth should have in place a process which requires people to report the non-use of endorsed supplier arrangements, which would overcome all these issues.

**Mr GRIFFIN**—I understand what you mean.

**Mr Robey**—It is always difficult. This has basically caused the industry to stand up and complain that this is what is happening to the industry when the government should be able to regulate itself.

**Mr GRIFFIN**—I agree with that. What I am saying is that, in order to have as much information as possible so as to enable us to put pressure on along those lines, sometimes examples are very important. I understand if you cannot give it to us today. What I am asking you to do is take the issue on notice and, if you want to come back and say anything, we can handle it in different fashions.

**CHAIR**—As a point of clarification, information that we have from DOFA goes back to the Financial Management Accountability Act 1997. Under that act, one of the activities of the CTC branch of DOFA is to establish and maintain strategic common use agreements and supply pre-qualification schemes in market sectors where they are appropriate.

**Mr BROUGH**—The 1998 Commonwealth Procurement Guidelines say:

Use of the pre-qualification scheme is optional for agencies except in the area of IT and major office machines, where the use of suppliers under the Endorsed Supplier Arrangements is mandatory.

So it is there in the guidelines. Are you are saying that you definitely know that that does not occur?

**Mr Robey**—Yes.

**CHAIR**—We will check it out. We are going to have to go. Thank you very much.

Resolved (on motion by **Mr Griffin**):

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 3.58 p.m.**

