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JOINT COMMITTEE OF PUBLIC ACCOUNTS AND
AUDIT

Reference: Australian government purchasing policy and practice

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JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Friday, 26 March 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 Somlyay and Mr St Clair

Sectional committee members: Senator Hogg and Mr Brough, Mr Charles, Mr Georgiou, Mr Griffin, Ms Plibersek and Mr St Clair

Senators and members in attendance: Senator Hogg and Mr Brough, Mr Charles, Mr Griffin and Ms Plibersek

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.

PARTICIPANTS

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ALLAN, Mr Gary James, General Manager, Government Business Improvement, Office for Government Online

ANDERSON, Mr Peter, Councillor, ACT/South Eastern Regional Council, Australian Business Ltd

BOX, Mrs Coleen Margaret, Acting Assistant Commissioner, Infrastructure Service Delivery, Australian Taxation Office

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JOHANNES, Mr Eric Gregory, Manager, Industry Policy, Australian Industry Group

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POWER, Mrs Mary Genevieve, Chairman, Commercial Furniture Industry Association of Australia

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TEMPLETON, Mr Darren, Manager, Market Analysis and Performance, Telstra

UPTON, Mr Peter, Executive Director, Australian Information Industry Association

VERNEY, Dr Guy, Assistant Secretary, Business Entry Point

WILLIAMSON, Mr Arthur William, General Manager, Marketing, Australian Paper

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

Committee met at 9.06 a.m.

CHAIR—Good morning, ladies and gentlemen. 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. I declare open this round table forum of the Joint Committee of Public Accounts and Audit inquiry into Australian government purchasing policy and practice.

The JCPAA has received over 60 submissions and has conducted public hearings on this matter in Canberra, Sydney and Melbourne. In 1997-98 the total value of purchases by the Commonwealth budget funded agencies was about \$8.8 billion. It is essential, therefore, that the purchasing function is managed effectively and appropriate guidelines are in place. Commonwealth agencies must ensure that Commonwealth moneys are spent wisely and outcomes for the Australian public are maximised. The committee will examine the performance of Commonwealth agencies in managing, reporting and complying with the Commonwealth procurement guidelines. Some of the key areas that will be examined include how Commonwealth agencies interpret and apply the core purchasing principles of value for money, open and effective competition, ethics and fair dealing, accountability and reporting, national competitiveness and industry development.

Today's round table forum brings together some of the major groups to debate the key issues of the inquiry. The discussion papers sent to you highlight a range of issues that have been raised during the inquiry. To help structure the forum, five key discussion issues have been selected. I will introduce each discussion issue as we progress through the day. Before we get under way, I would like to remind participants about the procedure and conduct of the forum. All witnesses will have the opportunity to raise issues and seek comment from other witnesses at the forum. However, in these instances the committee prefers that witnesses should direct their questions through the committee chairman. This will ensure that the events constitute formal proceedings of the parliament and therefore attract parliamentary privilege.

Statements and comments by witnesses should, as far as possible, be brief and succinct so that all the issues can be covered in the time available. If I could expand on that just slightly, we had one of these sessions last year when we were completing our inquiry into Internet commerce. It was a terrific day and we got a lot out of it. All the private sector people spoke very clearly and addressed the issues quite succinctly, but I have to say that some of our colleagues—and this applies to parliamentarians as well as to our Public Service people—tend to speak in paragraphs rather than sentences; I would prefer sentences. Thank you.

No more than two representatives from each agency should be at the witness table at any one time. As the topics under discussion change, other representatives may replace those at the table as appropriate. Note that the number of places is limited and that sometimes there may be only one space for some agencies.

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 proceedings of the committee. Copies of the statement are available from secretariat staff present at this hearing. I now welcome witnesses to the round table forum.

Thank you for coming today. We really found the round table in Internet commerce to be more than useful. We really sorted out some issues. The first issue today is centralised versus decentralised purchasing. If I could say on behalf of the committee, I think this is one of the most serious issues that we will address today. Following the 1997 review of government purchasing, the Commonwealth moved from a centralised purchasing system to a devolved system where individual departments and agencies assumed greater control and responsibility for purchasing decisions. At the department level there are varying degrees of decentralisation of purchasing responsibility. The committee is keen to examine the efficiency and effectiveness of the whole of government arrangements and the degree of decentralisation being used in some agencies. I now hand over to Mr Hayden Kelly, Director of Corporate Services, Telstra, who will introduce this issue.

Issue 1 - Centralised versus decentralised purchasing

Mr Kelly—Thanks, Bob. By way of introduction I intend to outline to the group what Telstra has done with its supply or sourcing function over the past 12 months, where we were and where we have got to, and where we expect to go. Telstra, about five years out evolved, to be quite candid, into a group of fiefdoms and, whilst we publicly stated that we had a centralised purchasing process, the reality was that it had become decentralised on a de facto basis. About this time last year we undertook a review of our sourcing across Telstra. We spend \$8½ billion every year on goods and services; of that, arguably \$7½ billion is truly sourceable.

We undertook the review to find out as much about ourselves as anything else. We really did not understand what we were doing, so we set ourselves a number of key objectives. One was to find out how much we really did spend with external suppliers, how the expenditure was distributed across Telstra, whether there were any sourcing opportunities, did we have the right organisation in place to achieve those opportunities, did we have the right skills and expertise in place to achieve the opportunities, and did our processes, policies and infrastructure compare with the practices adopted by industry leaders, and could we implement leadership practices to enable us to take advantage of whatever opportunity existed.

We used A.T. Kearney for a short period of time to help us in the review, but we found out some interesting things about ourselves when we were prepared to sit down and analyse ourselves in the light of day. We believed we had an opportunity of somewhere between \$200 million and \$450 million sitting there in front of us that we had not realised. We clearly understood that our sourcing practices lagged behind global leaders. We believed we had an excessive number of suppliers, our skill levels were way off the mark, our guidelines and policies had not been looked at since 1992—so they were clearly out of date—and our process was fragmented, drawn out, and tactically orientated.

Whilst we had a corporate supply unit, the business units lacked confidence in that and, as a consequence, had set up their own units and were doing their own thing. Some units

were using corporate supply, but it was more in the context of, 'Here's a done deal. Fix the contract for us,' rather than 'Help us purchase efficiently'. The company had no targets on what we expected to achieve every time we went to the market, and they were not embedded into our ongoing budgetary process, and our coding of what we bought was—well, 'inconsistent' is probably a kind word. We have a code in our accounts payable system of G999 which is 'other incidentals', and up to eight per cent of our expenditure was going through 'other incidentals', and we uncovered a \$2½ million spend which went through 'other incidentals', which is a fairly loose interpretation of the term, I would suggest. That was the big number we found there.

When we looked objectively at ourselves, we thought at best we were either a high follower, if we were looking at leadership practices, or a low leader. I think the reality is we were a high follower, but the reality was we were a fair way off the pace for an organisation which is expected to compete in the commercial environment. We found that, again, the data was fairly flimsy, but we had somewhere between 25,000 and 43,000 suppliers, depending on the interpretation. The high number is overstated because the data is as good as how the people coding in the expenditure name the companies, so a company like BHP, for example, could appear 10 times with slightly different variations on the name.

We found that 75 per cent of our spend was common in that it crossed more than one business unit, and we found that in a number of cases simple goods and services were being purchased by individual business units from the same supplier under different contracts at different prices. We did find that 1,300 of our suppliers make up 90 per cent of our spend, and that is an outcome that we expected to be able to find.

We consciously decided that if there was an opportunity there we needed to take advantage of it, so we undertook to establish what we call a centre of expertise in strategic sourcing. We turned a number of people over: I think we had 70 people in the group when the review started, and 38 of those people are no longer with us. We have recruited internally and externally and have got what we believe is the right skill mix.

We also made a conscious decision to separate but coordinate the responsibilities for periodic sourcing and ongoing management of suppliers. We have found that we had been holding the same people accountable, whether it was in business units or in the central group, for the negotiation and then the ongoing management of the supplier, and we found that was not necessarily working. Sometimes we had contracts which were too soft or loose because of the closeness of the person to the supply base. In other cases, we had contracts where the person for that three months or six months when the negotiation went on tended to be a bit overzealous, and as a result we set up contracts which were not realisable because there was no margin there in the cold, hard light of day for the supplier and eventually they came unstuck. So we determined we would separate ongoing management of our supplier base from the sourcing event, which is the up-front negotiation of the contract.

We consciously elevated the profile of sourcing in Telstra. It was just a line on our P&L. It is now a very high focus activity as we try to achieve the outcomes that our shareholders expect. We report now monthly to the CEO on achievements. We keep a score card and that goes to the six senior people in the company. This has received a more serious profile over

the last six to 12 months. We clearly understood that we needed to revamp our policies and guidelines to enable us to compete in the market we want to compete in.

To separate the functions, as I mentioned before, we separated into three distinct streams in the company. We have a core group of negotiators and analysts who are our strategic sourcing group, and they lead the commercial negotiation for Telstra on anything that we buy over \$250,000. Those people are generally part of a team. They lead the team, and we have the technical experts from the business units engaged with them, some analysts and other people from the business units that we believe can add some value.

We have a market analysis group, whose role is to be up front of our works program, if you like, and do the appropriate analysis, research indexes, et cetera, and provide the negotiating team with as much data about the industry that they are negotiating with as they can possibly give them so that they have some knowledge and are in a position of some strength when they go to the table.

The separated group is the contract management group. They take the contract, once it is signed, and work with the supplier over the length of the contract with a view to sharing in incremental gain along the way, ensuring that supply levels are met and that the quality of the supply is okay. We have some of those in the corporate group and they look after purchasing for activity that might transcend the whole of the company. Examples of that are travel and labour and things like that. The contract managers, where the product purchased is specific or is highly weighted to one business unit, are then located back out in the business units, which are the lead houses for that ongoing relationship.

Six or nine months into the process, we are a couple of months off having our final policy and procedures ready to go, including using e-commerce for day-to-day purchasing. We realistically expect to start with the complete model by 1 July this year. We have been strategically sourcing for six months and our score card at this point in time is, we truly believe, in excess of \$100 million in the first six months of buying this way. We are also finding as we go along that by doing it properly we are removing a lot of internal costs as well, because what happens when things are not sourced properly to start with is that a cottage industry springs up around the supply base to make sure that we get the material out to the field or wherever it has to go. So we are taking internal process costs out along the way as well.

As I said, we have almost finished our policies. We intend to work under a broad principle that we will empower the business units to spend up to \$250,000 where those goods and/or services are not currently under contract for Telstra. They will have electronic interface into existing contracts so that if they decide to buy something and it is already under contract, they deal on that contract, and if it is not on contract and it is below the \$250,000 benchmark, they can buy direct and then register that contract as the company contract. They will, however, be armed with a suite of contracts which we believe will protect the individual, the supplier and Telstra. So we are moving away from business units writing their own contracts, seeking their own legal advice, and Telstra ending up with myriad contracts with varying terms and conditions, sometimes with the same suppliers for the same goods and products.

That is about all I want to say to move this session off. Our experience has been that we had, via de facto arrangements, turned into a decentralised buying group. We are consciously going back to a centralised control buying arrangement, but underpinning that is a desire to have the business units able to buy daily against existing contracts much more easily than they can today, and also where they are empowered to buy to be armed with the right contracts so that they do not do themselves or the company or the supplier any damage. That concludes my statement.

CHAIR—Thanks very much for that. Telstra is, of course, very much a commercial activity and no longer a government department. I guess you are now our largest corporation and Telstra is now the ‘big Australian’—would that be about right?

Mr Kelly—Yes.

CHAIR—I note that your spending is almost as much as the total of the Commonwealth government in-house spending, so that is a lot of money that you spend. Have you talked to other senior executives in other companies, and can you tell us at least your view of how the private sector handles purchasing versus how Commonwealth entities now seem to be handling purchasing generally?

Mr Kelly—I cannot really speak to how they handle it now but, to make a broad statement, in my view there is a move back to centralised control. The same people who worked with us are working with Ansett and BHP and another similar company is working with Westpac and a couple of the other major banks. So the model that these companies is selling is essentially the same—it is a centralist model—with variations to suit the individual company they deal with. So my view would be that, given the number of companies that are moving this way and dealing with these consultants, I would expect there will be a trend back to a more centralist, controlled environment.

CHAIR—Is there a basic reason for that?

Mr Kelly—It is out of control. If I can relate our experience, I think major corporations go through a cycle on delivering cost reductions, and it typically starts with, ‘How many staff have we got that really aren’t adding value? What can we outsource and do a bit cheaper or a bit more efficiently?’ and then ultimately somebody wanders along and says, ‘Have you really ever addressed the dollars that you spend externally?’ I believe that is the cycle of things. If I reference Ansett, they are probably under the same cost pressures as Telstra, so there is a natural evolution there. BHP clearly are under the same pressures as we are. So I see it as a natural evolution for major corporations.

CHAIR—So major corporations are under cost pressures to perform better in the procurement function. How does that relate to government entities?

Mr Kelly—I could not answer that. I have not focused on how it relates to government.

CHAIR—Okay. Does somebody else wish to comment?

Mr Chalker—I understand there are some moves back to get greater control in a number of private sector areas. I know within our own organisation, which is quite a bit smaller than Telstra—we have 218 employees and a reasonable spend each year—we are certainly looking at all of our internal procedures and policies in terms of purchasing because we have had a devolved spending pattern and we are looking now at whether we can manage those contracts a lot better. An example is stationery and paper and so on where we have just allowed each of our regional offices to look after their own needs.

CHAIR—Ms Sabic, do you have a view on behalf of small business?

Ms Sabic—In terms of what small business would like from the government as a purchaser or provider, small business would like lower transaction costs. They would like to know who they are buying from, they would like certainty of knowledge and information, they would like to know where they can obtain that information, who they are dealing with, and that the person they are dealing with is fully competent. I guess they are the basics of a successful procurement system within an organisation. I am not qualified to talk about how my department has developed a system because I am not involved in the purchasing side. Certainly when I was on the Small Business Deregulation Task Force Secretariat these were the concerns that small business had, and they still continue to voice these concerns.

Last year at the National Small Business Forum over 100 business delegates met the day before the ministers met. Procurement was on the agenda, and these were the issues raised. They would prefer to see centralised and consistent decision making across the board. That does not come from a decentralised system.

Mr Neil—Through you, Mr Chairman, could I ask Hayden for clarification on one of the issues. I appreciate the distinction that has been made between the sourcing of suppliers and the management of suppliers, but what I would like to establish is whether or not the contracts that have been raised that are used by the managers of the supply chain are on price, or are they similar to the endorsed supplier arrangement where the supply base has been set up and the supply managers are then allowed to negotiate their own prices?

Mr Kelly—No, the contracts are all-encompassing. They are on price as well as terms and conditions, apart from, as I stated, where the amount is under \$250,000 and it is a new one-off purchase, then we empower the lines of business to negotiate price.

CHAIR—Hayden, when you started trying to come to grips with where you were, did you find the same problems that Ms Sabic talked about where your small and medium sized suppliers, for whom Telstra might be their bread and butter, had difficulty in understanding where across the whole organisation their opportunities would come from?

Mr Kelly—I guess we had two types of suppliers, whether they be big or small to medium. We had those who really liked the way we were operating because it created an enormous amount of opportunity if you knew where to go but, equally, we had a number of suppliers who just did not understand how you could knock on Telstra's door and even begin to sell to the company. So it was a bit of a mixed bag. A number of suppliers took the opportunity that was presented, and they were the ones we found—and I would like to clearly state it is entirely our own doing—to have different contracts at different prices for

the same goods and services across Telstra business units. Equally, we had a number of good suppliers that we have come across since who, because we were a bit undisciplined, were really having trouble getting in the door.

Mr BROUGH—How did you deal with your regions with the centralised system with obviously no large suppliers in particularly smaller country towns? You still have service obligations and service personnel there, et cetera.

Mr Kelly—Sure.

Mr BROUGH—How do you deal with that?

Mr Kelly—Most of our supply arrangements out of small country towns are typically in the areas of things like cleaning and that sort of thing. We do do a number of suppliers out of regional centres, and actually since we have gone into the centralised model a number of those suppliers have been strengthened; they have actually been determined as the best organisation to do it. But if we are going to resource something, for want of a better word, all our existing suppliers are notified, and they are given the opportunity to compete. If we get down to small country centres, it is more in the services area.

We have just seriously changed the way we support our properties around Australia. We had 7,000 suppliers we were dealing with direct, which creates a whole management problem in its own right. We have put in two consortia to look after that, but with regional suppliers—cleaners, security and so on—we have virtually said to them, ‘We want you to continue to employ these people if their quality of service is okay.’ The difference for those people is that, if they are a cleaner, they will not get a cheque from Telstra every month; they will get a cheque from Tempo Services.

Mr BROUGH—That is basically the point I was making. If a supplier—whether it be of goods or services—cannot meet Telstra’s needs nationally, they produce themselves a joint venture with whatever other smaller partners are there.

Mr Kelly—Yes.

Mr Williamson—With regard to the elevated role of purchasing activity in Telstra, you talked about the need for revamped policies. Did the policies take any more than the bottom line considerations that we have heard you reference this morning? Did they take into account societal impacts and Telstra’s impact there, and maybe environmental issues and the like as an example? What I am saying is: is the value for money consideration more broadly impacting or considered—

Mr Templeton—Yes, it is a value for money policy, and it was before we did the review. How well it was applied may be another question. But it is not just focused on price; it includes terms and conditions which include environmental issues and other risks, with Australian content being the other key part of the policy.

Mr BROUGH—Can you expand on the Australian content?

Mr Templeton—Yes. The policy basically states best value for money with a preference for Australian suppliers. If you had two suppliers, an offshore supplier and an Australian supplier, and they had the same unit price and the same service offerings, the preference would be to go for the Australian content.

CHAIR—How do you ensure that happens?

Mr Templeton—As part of reviewing purchasing, just making sure you are complying with the policy, I guess, in reviewing the two offerings and making a judgment between the two.

Mr Kelly—And we do issue tenders that call for a statement of Australian content in the responses.

Senator HOGG—Just following on, how do you test value for money, or do you test it at any stage of the process?

Mr Templeton—Yes, we have criteria that we use. We go through price, service, quality—the key elements that make up what we define as value for money. I think they are fairly common criteria which are generally used for value for money or whole-of-life cost. Through our sourcing assessment of the tenderers we rate the suppliers on each of those elements.

Senator HOGG—One of the criticisms we have had before this inquiry is the fact that in many instances it is simply a matter of the cheapest price that wins and, whilst value for money may well be a criterion, in the end most people take the simplest way out and go for the lowest price, and also budgetary constraints that may well be placed upon them drive them down that path. How do you test that that is not the ultimate result and conclusion that they come to?

Mr Kelly—It would be fair to say that I think we were driven at lowest unit price. I do not believe Telstra understood whole-of-life costing up until probably 12 or 18 months ago. We were largely driven, particularly on the service side of things rather than the goods side, by lowest unit price. As I said earlier, we are finding along the way with contracts we are now looking to re-let that that lowest unit price has effectively turned into middle or highest unit price; when you look at the industry you have to cobble around it internally to sustain the supply. So we are loading in things like demonstrated performance and all the sorts of things which go into whole-of-life costing.

We had not typically loaded in before into an evaluation the price of changing a supplier. Nobody had understood that it is not as simple as signing the contract and saying, ‘You are out, A, and you are in, B,’ and it does not cost us anything to change. Depending on the product, when we do the evaluation we estimate what it would cost us to change. If the incumbent is a good quality supplier, that is loaded on or taken off their price, if you like, to try and make it an apples for apples comparison.

Senator HOGG—So there was obviously a culture there that made people not understand the whole-of-life concept. How did you change that culture?

Mr Kelly—I am not quite sure we have yet.

Senator HOGG—You are not quite sure you have?

Mr Kelly—But we are working on it.

Senator HOGG—Can you give us some idea then of the processes that you have undertaken to change that culture?

Mr Kelly—We have elevated the profile of sourcing, for a start. We are, and have been since the changeover of CEO, empowered to look at more than just the unit price of the good that sits in the middle. We have been told to go to the business units. We have one such exercise going on at the moment with mobile handsets. Whilst our unit prices are fairly good we are now pointing out to the business units, ‘You haven’t done badly on this, but look at all this stuff you have set up around it to sustain it. This is truly in your price.’ That is the cultural change which, in a company the size of Telstra, takes some time to infuse down. It is not an overnight sensation that happens and we are doing better with some business units than others. The reality is that we are doing better with those business units that are beginning to come to grips with their costs more than some of the other business units that perhaps do not have the costs pressures on them, internally or externally.

We are also holding a number of briefings throughout the company. We have finished what I would call the senior management level and we are now down to middle managers, explaining to them the process and how decisions taken in isolation can affect the whole of the company rather than the small patch which that person might be dealing with, and the need to understand that there is a group responsible for sourcing and they are there to help them. It will take time. We are just starting to get to middle management level.

Mr Brady—I would just like to discuss a little further a couple of the issues that have been raised because they are at the heart of the issues which our industry has with government business. In the Telstra example we raised some issues about the fact that no margin for a supplier often caused the supply arrangement to flounder, in practicality, in the business environment, and that you ended up embarking on regional supply differentiation, and you took into account things like societal impact and value for money policy, et cetera. This is the heart of our industry’s difficulty.

The Business Technology Association traditionally represents small business in regional areas. In our particular situation, government and major multinational manufacturers contract a government arrangement, and then in regional areas the ongoing support, consumable parts and support costs of that get passed onto the dealer at unprofitable levels and sometimes in loss situations. What we are looking for is the separation of the ongoing support costs out of the price of the tendered hardware so that whatever arrangement can be struck for the supply of the hardware they can do directly, but where the support is provided by a third party that third party should negotiate at a local level.

It would seem to me that a lot of the conclusions that Telstra has arrived at would support that. It is no good if you pass an oncost onto somebody that is unsustainable. Secondly, there is a societal impact—which somebody else raised—that if you pass that

unprofitable business on consistently and you damage that business, then that affects employment, it affects ethics and fair play and all the types of things which supposedly the government purchasing policy is trying to address. I just wanted to raise that point because it is very much the heart of what we are all about.

Mr Kelly—Just to add to that, one of the things that we are consciously doing now is that we have actually put in a system whereby we can determine what we spend by postcode. We actually now can home into where we spend our dollars. That has only happened over the last six months in Telstra. We have really decided to understand where our dollars are going. We did some work on a state basis, but we actually can pull it out by postcode now.

Mr BROUGH—I just want to compare what Centrelink is doing with what you are doing. I pick on Centrelink because it is decentralised—I use the term ‘pick on’ loosely. What percentage of Centrelink’s overall spend is its small purchases?

Mr Goodwin—From the last survey we did I believe it is roughly 85 to 88 per cent of the total number and about 67 per cent of the total value.

Mr BROUGH—So it is about 67 per cent of your value, and that is predominantly used on cards, isn’t it?

Mr Goodwin—No, it is a mixture of credit cards, direct invoicing, statement payments.

Mr BROUGH—I just want to get a feel for that, because that is very decentralised. There are very few centralised contracts, and the purchasing is left up to the purchasing officer—I know there is training under way. Can you give us some idea of what the percentage break-up is? You talked a lot about a quarter of a million and above—this is very small-time stuff but it actually still represents a substantial part of the overall spend that Centrelink has. I am just trying to get a handle on how you deal with those so-called small-scale purchases but which at the same time add up to a very large dollar value, particularly out of \$8.8 billion. I want to compare it to what Centrelink does. For argument’s sake, do you operate credit cards and the like?

Mr Kelly—We have a Mastercard. I think we have about 7,000 of those out in the field. For certain travel related expenditure we have a Diners Card. I think there are about 10,000 of those on issue. Our purchase orders can either be a local purchase order or against a contract. So we operate in that environment. I could not put a percentage on the descriptor that was given as to where our spend goes.

Mr BROUGH—I was just trying to ascertain whether your centralised policy is really only predominantly controlling the large expenditure areas in individual expenditure, or as a cost of a particular line item, such as paper that has been highlighted several times during this particular inquiry.

Mr Kelly—We do things like stationery—and we have done for a number of years—off one supplier, so that is clearly centralised purchasing. We do understand and expect to have some leakage against those sorts of contracts however, because, depending on where people

are, it is not always practical to deal via Corporate Express, who are currently our stationery and office suppliers. So we tend to bundle those up and treat them as a major source, but we have an expectation there will be a leakage against those. What we are trying to come to grips with is what is the appropriate level of leakage. We do not believe that we would ever buy 100 per cent of our stuff through our stationery supplier—practicalities just do not permit that. And if somebody in a regional area was buying outside the supply, typically they would be using a Mastercard.

Mr Williamson—Again, a question for Telstra. Firstly, was the move to centralise purchasing important to ensure value for money considerations and outcomes? Secondly, are Telstra's contracts real contracts as opposed to panel contracts that do not mean necessarily that the successful tenderer will actually receive any orders?

Mr Kelly—The answer to the first question is yes, the move to look at sourcing was about obtaining quality supply at what we believe is the right price for us, and also to remove as much needless internal infrastructure supporting suppliers as we could. We have a mix of contracts. We have sole contracts, but we do have a number of panel contracts. For agency labour we really tend to go panel. For our clerical agency labour we have four companies on the panel. We are about to put IT development labour on the market and we will come to a panel of four or five for that. So we have a mix, and you are right, being on the panel does not necessarily guarantee our supply, and even our airline contract, to be quite frank, is a panel. We deal with both airlines. So we mix it, basically. As an extension to that, some of our panel type contracts do have guaranteed business levels. The airline one is a case in point.

CHAIR—We have heard briefly from Centrelink. They are very decentralised. Could Foreign Affairs and Trade tell us how their department handles this issue.

Mr Hardy—In 1991, in an effort to counter the perception that the resources were not being managed well, we devolved to our divisions the responsibility for our procurement and the processing of procurement. Very quickly, it was discovered the error rate was unacceptable in the processing of accounts—something in the order of 50 per cent—so we recentralised the certification function. That persisted with an unacceptably high error rate, towards 30 per cent, and then, with the introduction of the new financial management legislation, we simplified processes. As the means of eradicating the problem and streamlining and gaining efficiencies in processing, we recentralised the processing of procurement.

The responsibility for decision making processes was left with our divisions, 11 of them in the department and state offices, but processing and policy advice, particularly in terms of consultancies, et cetera, is now centralised and has been since the beginning of December. We have halved, through processing alone, the number of full-time equivalent staff involved in procurement—the number has gone from 36 down to 18. That is, in processing alone we have eliminated errors through greater efficiencies and synergies; through better contract management we will deliver further efficiencies from July. We are in the process of configuring the SAP/R3 FMIS and that will again deliver further efficiencies through processing.

We have introduced a home designed electronic workflow system, which flows between approvers and the officers originating the expenditure, and that is working very well. That will be again linked to the new SAP/R3 system and then modified with a new platform, possibly Lotus, later in the calendar year, but the efficiencies are already there. We have recently gone for a number of contracts in the IT realm and stationery, which was in last week's press. We are also revising our policy papers and procurement instructions to keep them as brief as possible and to make sure that officers are aware that it is the case that cheapest is not best. We have accentuated the whole-of-life qualities of a contract and a product, and certainly in the centralised procurement unit all staff have now been on training courses where this is emphasised, and it is working very well and the early stages are delivering very positive results.

CHAIR—Thank you for that.

Mr Sams—Mr Chairman, just to add to that, in terms of the mix between small purchases with credit cards, we do that as well and our credit cards are used overseas as well pretty extensively. Where the post does not set up a contract for supply, a lot of that small purchasing is done on credit card also.

CHAIR—What about the Australian Taxation Office?

Ms Sullivan—We have actually an interesting mix. Historically, our IT procurement has never been decentralised, so that has been held extremely tightly. However, we did decentralise what I would call more general procurement. In the last year and a half that has been recentralised, with the higher value procurements—that is, in excess of \$100,000—being handled by accredited and skilled procurement units but with a network of staff skilled at the less complex level in our offices around Australia to handle the smaller value procurement items. We are in 26 offices but there are large chunks of staff in each office, so we have got a different distribution from Centrelink, for example. That process has been in place probably for about 18 months, so we are really still at the stage of finetuning it.

We have also moved to introduce SAP/R3 and are also investigating where we can make better effectiveness type arrangements around procurement within the organisation. We are not utilising the full capability of SAP/R3 yet.

CHAIR—How about Defence? You do spend about half the Commonwealth's value of purchasing, so it is a rather important organisation.

Mr FitzGerald—Indeed, we do spend quite a lot of money on goods and services. Given the scale and the scope and the complexity of what we do—and the geography—we are quite comfortable with the balance between centralisation and decentralisation at the moment. We think we have got the mix about right. We have lots of centralised buying. We have the Defence Acquisition Organisation spending about half of that money and that is centred here in Canberra. We have our Support Command. There is one central organisation with three major parts to it buying for the three services. We have the Defence Estate Organisation buying all our facilities and properties and things of that nature. We have centralised buying in our defence science and technology organisations in Adelaide and Melbourne.

Here in Canberra we have groupings in various places buying goods and services that they need, some of which are actually supported by the Defence Acquisition Organisation itself here in Canberra. Each of these large buying centres use common use arrangements or panel standing offers or whatever. At the local level we do have quite a bit of devolution for the local bases when they go out and buy cabbages for the mess, or whatever it might be.

We think we have the balance about right. We back that up with policy that is issued centrally from Canberra from the Defence Acquisition Organisation actually through the whole portfolio. We back it up with training of our people right throughout the organisation, with establishing competencies for procuring officers and project managers and making the delegates responsible for their decisions on buying—the liability delegation. We do some internal auditing to make sure that happens, and we will be doing some more of that. We also have the spectre, I guess, of my colleagues on my left here looking over our shoulders every now and again.

CHAIR—And us.

Mr FitzGerald—And indeed, your committee, and lots of others—and lots of media! We are reasonably comfortable with the balance between centralisation and devolution which we have at the moment. It is fairly heavily centralised into major buying centres.

CHAIR—Mr McPhee, how about ANAO? Do you have a broader view outside your own responsibility?

Mr McPhee—Yes, and I guess that is probably the more pertinent one.

CHAIR—We would like to hear about what ANAO does.

Mr McPhee—We certainly have realised, too, the value of centralising the expertise in procurement but leaving the decision making to the line managers, if you like, and the relationship management to the line managers, but put the expertise in a central section or core and let them worry about the documentation and the process that is required. I think that is the trend that many agencies in the public sector are moving to. Best practice that we have researched would suggest you do need the central expertise to guide the procurement process. I think it is true to say there is a move towards centralisation.

The other thing I would like to comment on is value for money. Recent work we have been doing suggests that agencies are aware of the value for money requirement. It has been around since certainly the early eighties and probably before, so in terms of a cultural change the bureaucracy ought to understand today what value for money means. Our work suggests that it is pretty well understood by the way they go about assessing the various tenders, et cetera. So we are not seeing, as a general statement, concerns with understanding what value for money is.

Mr Templeton—Chairman, could I just ask a general question to the floor?

CHAIR—Yes, certainly.

Mr Templeton—From what I am hearing there is a lot of centralised policy, or there is a balance between centralised and decentralised procurement and ordering. One thing that Telstra has focused on as a result of this review is measurement—actually measuring whether we are complying with a policy or whether the business units are buying against the contracts as far as contract utilisation and leakage outside contract, measuring the number of suppliers, measuring the supplier performance against the KPIs in the contracts. I would just like to ask a general question of the floor to get an understanding of what measurement metrics are in place with maybe some of the key agencies.

CHAIR—I do not want to slow you down because it is an extremely important issue, but we are going to cover that at 1.30 this afternoon for about an hour.

Mr Templeton—Okay.

CHAIR—Could I ask Australia Post, which is also a GBE, to tell us what their recent experiences are.

Mr Flanagan—I will throw a third thing in: we have probably got what I call a decentralised centralised approach. At our national headquarters we have just established a strategic procurement and logistics group that will really focus on all of the policy issues to make sure that the practices we have in place around the corporation meet the various objectives we have set. Some of the things are the societal issues that Arthur mentioned before, as well as the basic purchasing issues of value for money, industry development and the like.

We have my group, which essentially is looking at the contract maintenance side for the major general contracts throughout the corporation, but within our headquarters we have four principal core areas, which essentially look after their own contractual arrangements within the framework of policy. We have our property division, our core mail unit, our information technology area, and we have what we call a sprintpak division, which is the manufacturer or part-manufacturer of our postage stamps. They purchase all of the basic consumables that we think are essential to buy centrally and then, through requisition arrangements, issue out to the work centres. They are operating a fulfilment business which fits in with that logistical pattern.

Outside that, our states operate as autonomous business units, and we have supply branches in Queensland, South Australia and Western Australia, partly because of their remoteness. The far ends of Queensland and Western Australia, and the Northern Territory, for example, are fairly remote from the centres of Melbourne and Sydney where most of the manufacturing is done. We have suffered from some of the problems—albeit on a smaller scale—that Telstra has. After all, we did come from the same family 20 years ago, so I suppose some of the culture still prevails. To some extent I think we are repairing some of the work that McKinseys did in the early nineties in a lot of organisations in telling everybody to sort of ‘Go west, young man, and decentralise.’ We found down the years that perhaps that was not the smartest move.

CHAIR—Perhaps the Department of Finance and Administration has a view as you have some central responsibilities for this issue about centralisation versus decentralisation, although I recognise it is a government decision. Does DOFA have a view?

Mr Irvin—DOFA itself is a very small purchaser but on a whole of government basis the review into purchasing that was conducted in 1997 identified that some of the centralised purchasing arrangements that were in operation there for the Commonwealth were not working; they were not effective and they were not representing value for money. There was a lot of leakage. Departments were doing their own things. They were not supported by industry or departments.

So the centralisation at a Commonwealth level was I guess dropped in the end of 1997. The introduction of the FMA act—I think it was introduced in January 1998—also devolves responsibility for procurement to the CEOs of agencies, so having a whole of Commonwealth centralised arrangement did not fit in with the concept of letting CEOs be totally responsible for all their procurement activities. So the responsibility for purchasing has been devolved to agencies. It is up to the individual CEOs of DFAT or ATO to decide whether they wish to have a centralised or decentralised environment in which they can achieve value for money. DOFA's role sets the policy framework. It sets the high-level policy that we want departments to achieve—things like value for money and open and effective competition—and we let individual CEOs issue their own instructions to their staff to determine how they are actually going to achieve the policy principles that DOFA issues.

CHAIR—Hayden, having heard what Mr Irvin said, would the chief executive officer of Telstra consider that it is important for him to know where the \$8.5 billion that you spend a year goes, regardless of how many business units you have that are almost like individual companies?

Mr Kelly—Unquestionably.

CHAIR—That might have been a leading question.

Mr Kelly—Actually if you go back to the day it was announced, I think his statement led with four things he was looking at, and expense—and this is a vast expense in the company now—was one of the four things he was going to concentrate on. So clearly it is a high priority in his mind. I will be back to see him at 4 o'clock this afternoon, so obviously he is focusing on it.

CHAIR—Does ISONET have a view of government arrangements in this area?

Mr McLachlan—Mr Chairman, I think we have heard both the centralised and the decentralised propositions and we have heard how government policy allows it at the moment to be decided by the CEO but, irrespective of where purchasing sits, whether it is centralised or decentralised, there is no doubt in our minds that what we have seen of the way in which government purchasing occurs at the level that we are involved requires there to be clearly stated policy in regard to how purchasing is to be conducted. There needs to be adequate training of those people who are executing that policy and delivering the

purchasing process, and there needs to be then a final element, which is the measurement of the effectiveness of both the policy and the purchasing outcomes.

I believe that along the path those three elements come to a successful execution of the purchasing function in terms of achieving goods and services for the Commonwealth and, from the point of view that we have in ISONET, of looking to use government purchasing to some extent as a leverage for industry development.

CHAIR—You have a long experience in the supply chain. What is your personal view about the degree to which we have devolved purchasing responsibility in the Commonwealth?

Mr McLachlan—If I go back into the area where I was involved initially, I think a lot of devolution occurred, particularly in the Department of Defence, and I think it was a process that was absolutely essential at that stage to free up the supply chain costs in many ways, and to reduce those costs. I think it was very effective. I think it still continues to be effective in organisations which are decentralised around the nation and, to that end, I would not like to see that decentralisation whipped back into a centralisation process where you get into higher delegate submissions and all that sort of thing, which slows down the overhead times involved in it. But I do believe that there has to be some process whereby the policy and the implementation of that policy is constantly monitored and reviewed.

CHAIR—Is there anybody here who believes that it would be appropriate to go back to a totally centralised model where all purchasing decisions are made in one place by one group of people, regardless of how spread out the organisation is? Anybody? Nobody. Thank you for that. Yes, Mr Hardy.

Mr Hardy—Mr Chairman, I am not sure we are saying that all purchasing should be centralised in one place; certainly DFAT would register that small agencies within the department, with the exception of IT matters, with communications, both secured and unsecured networks, we were very keen users of the common use arrangements. We were disappointed that they in fact fell apart. I am very pleased to see that in fact the endorsed supply arrangements were resurrected for IT items.

There are a couple of points that need to be made, I think, in terms of smaller agencies who now are going to tenders themselves and striking new contracts on similar items—stationery being a good one. And a very important one is travel. I note a number of agencies round this table were represented on the working committee for a whole of government travel fair. This was a very good, very active working committee that fell apart. It fell apart on the savings issue, and I think it is something that needs to be looked at again, where we have the airlines playing off one department and one portfolio against another—‘Why does Defence get a better deal than I do at DFAT and get a better one at Centrelink?’ et cetera, and the smaller agencies, too.

Certainly the government departments are getting together by clustering—and, in fact, we do it on the portfolio basis as well—but I really think things like the common elements, such as stationery and travel, should be looked at again on a whole of government basis. So whilst not necessarily agreeing that everything should be centralised in one place, there are

certainly some expenditure items which could be centralised for the benefit of government as a whole, and particularly to benefit the smaller agencies.

Ms Sabic—What we have not addressed this morning is: is small business in a position to market itself to decentralised government agencies? How many buyers and sellers are there out there in the marketplace? Telstra made the comment that a lot of your small business suppliers had trouble negotiating contracts or selling to you. Do you undertake any training, or do you see it as an obligation to assist small business to become a better provider or to compete for contracts?

Mr Kelly—We certainly see it as an obligation to assist small business. I guess we have not got our mind around actually working direct with small business on training in regard to how to sell into Telstra, to be quite frank.

Mr Chalker—Can I just follow up perhaps on that. There has been some discussion around the table about people having an understanding of issues like value for money and so on, but we get a great deal of cynicism coming back from our members; they still see price being a very major decider in terms of contracts decided. They find that devolution has actually led to a loss of expertise in the purchasing function performed by a lot of people they deal with in areas like printing and so on. People will come out with a job and say, ‘I need this one next week. Get it done,’ and the printer says, ‘Well, did you know there’s another way you can go around that sort of task?’ and in fact the person says, ‘No, look, I’ve been told by my boss that this has got to be done this way; it’s got to be this colour,’ and it ends up costing the agency of the people who come out quite a bit more than it probably otherwise would have when there was someone who actually understood what the printing game, for example, was about.

So devolution has led to a loss of expertise in government, often at an extra cost, they believe, for the agency, and a difficult arrangement for the supplier back into the agency. So I think one of the elements that Defence and a few others seem to have realised is the importance of training people in the procurement function. Perhaps through you I might ask the Telstra people if training is a big part of the new arrangements that they have put in place.

Mr Kelly—Yes, training of the 70 people in the core group is a big part of the agenda. A number of the people we have recruited externally are already trained. For our internals we have a number of internal courses that our training people run. If you want my honest opinion, they are no longer appropriate, so we are now looking at, for our internal people, what sort of training we can source for them outside, noting that we believe they are already good. We had a chance to start greenfields, but we are trying to boost their abilities with whatever external training we can find from this point in time. We had internal buying courses and, to be quite frank, they are so far off the mark now it is not funny.

CHAIR—Mr Williamson.

Mr Williamson—We have talked this morning about various considerations. Perhaps it is an unfair question, but I would like to ask it anyway. Perhaps if may assist you in your

inquiry. Would you be able to give us an indication of the average margin in consideration of value for money in federal government purchasing?

CHAIR—Mr Williamson, no-one can answer that question for you. We are going to talk about statistics at 1.30, and it falls into that area. We do not have data. We think we know what the Commonwealth spends altogether but we are not even positive of that. We certainly do not know what it is spent on or where it all goes. We have some data about small and medium sized business because the Office of Small Business and DOFA did pay for a survey, which has been most useful, but we will come to that when we do statistics.

Mr Brady—In our particular instance where our issue is about the impact on small business in regional areas, whether it is centralised purchasing to the extent of full common use arrangements or it is fairly decentralised as in departmental, which you are talking about now, the reality is that for the small dealer sitting out in the rural areas it is still fairly centralised because the Department of Defence will do their own thing to get their copier contract with a particular company, et cetera. They do their own thing. The difficulty is that they contract for whole of life, which is the provision of, say, the photocopier and the consumables and the maintenance, at an unsustainable level, and when the dealer in the outside area has to support that it is an open chequebook and it is always at his cost. It is unsustainable business.

The issue is not centralised versus decentralised or the degrees of it; the issue is, in whatever policy is available, whether there is a mechanism and a flexibility to look after the concern of the person on the receiving end of having to support that service? Flexibility is the key, and even Telecom have acknowledged that by differentiating in regional areas. That is what has not been available. Even in the months since our last inquiry meeting in Sydney in February, I can give you two examples of how that has impacted on our industry. One major manufacturer have upped by 18 per cent the price of their parts and consumables to the dealer network without changing the government contracted rate. That is an impact straight on the profitability of the dealer network who have to support that cost.

The second one is that digital photocopiers are now able to be connected on the network as multifunctional printers so the toner usage now goes through the roof. Instead of six or eight per cent density on the page the toner usage triples because people have graphics on their screen, et cetera. The cost of that is all-inclusive in that prearranged contract. The costs skyrocket and the sell price does not change. So the impact of that is astronomical.

Mr Allan—I might go backwards slightly, Mr Chairman, on one of the previous points with respect to the common use arrangements. There are in place some opportunities for whole of government savings. The Office for Government Online manages the whole of government telecommunications arrangements and, by aggregating the buying power of all the departments, was able to save in the last several years \$10 million in 1996-97 and a bit over \$20 million last financial year—and we are on track to save the same this year. So there are opportunities in the mix between centralised and distributed models to save money within the government sector. Each of the departments has the right to take up those standing arrangements or the prices that we can obtain. We are now working towards a similar situation for software licensing, and that is in negotiation at the moment with the head agreement among major vendors.

CHAIR—After morning tea we will talk about some of these arrangements and those supply arrangements under the Commonwealth purchasing framework.

Mr Aizenstros—Telstra have obviously moved from a decentralised system to a highly centralised system and have put in place what seems to be a lot of infrastructure to support that with a lot of expertise. Certainly the centralised systems reflect Telstra's objective policies.

Mr Kelly—We have not put in a lot of infrastructure. We had 70 people supposedly managing centrally a system which was out of control. We have now got 70 people so we have not necessarily put in any extra infrastructure to support it. But the focus of those 70 people has changed considerably from being people who embellish contracts to people who actually get out and do the negotiation. We have changed the skill mix, I guess, is the right answer.

Mr Aizenstros—[inaudible] From what I have heard around the table with government agencies, it seems that there are very mixed degrees of centralisation and decentralisation within agencies, and it just seems to me that this leads to the question as to whether this would lead to confusion within agencies regarding value for money determination, as well as confusion for suppliers who sell to those agencies? I personally believe it does, but I would welcome answers from the floor.

CHAIR—We are just about out of time on this topic; we can talk about value for money in the next session, which is where it was already scheduled to be discussed. We will break for morning tea. I thank all of you for that. This is a critical question in the committee's mind and it will be reflected in whatever recommendations we make to government when we bring down our report. I cannot tell you what those recommendations can be, any more than you can tell me what they are likely to be either. We will certainly consider the views we have heard around the table and we appreciate the expertise and the advice people have given us.

Can I say thanks very much, Hayden. We did lean on Telstra to come today and give us the benefit of their experience because certainly we were very impressed with the evidence they gave us when they talked to us in Melbourne. We thought it was quite refreshing for such a large organisation to say, 'We got out of control, we got it wrong and we are now attempting to address it in this manner.' It may not be 100 per cent—and it probably isn't; nothing ever is, is it?—and it takes time, but we were impressed with that evidence and I personally was determined, if at all possible, to have Telstra lead this first session of the round table.

Proceedings suspended from 10.24 a.m. to 10.41 a.m.

CHAIR—In 1994, when the House Standing Committee on Industry, Science and Technology held its inquiry into government purchasing policy we had organisation after organisation, company after company, come to that committee and complain about an ethos within government agencies that was detrimental to Australia's industry interest. They said that there was in fact a culture that, if I could simplify it, said that if it is Australian it is

probably of poor quality, probably you will get poor service, and why would you want to buy it?

This committee, in considering the same matter some five years later, has not had that degree of concern expressed. Nonetheless, there are still issues surrounding the purchasing function which are important, and this session will deal with a whole range of those. Under the Financial Management and Accountability Act 1997, chief executive officers of the Commonwealth agencies are individually responsible for managing their organisations' purchasing activities. The Commonwealth procurement guidelines, core policies and principles state that when developing their own chief executive instructions about procurement, agencies should take account of the Commonwealth procurement guidelines.

Financial management and accountability regulation 8 requires that officials performing duties in relation to the procurement of property or services must have regard to the CPGs, and must make written records of any actions that are not consistent with the guidelines and their reasons for doing so.

Some of the topics in this session of the round table include: the appropriateness and effectiveness of the Commonwealth procurement guidelines; agency compliance with CPGs and the adequacy of financial management and accountability regulation 8; the application of the value for money principle; the culture, education, training and competencies of government purchasing officers; the contract management framework; and the scaling down of common use agreements, arrangements, and the enhancement of endorsed supply arrangements. Representatives of the Department of Finance and Administration will now introduce this discussion issue.

Dr Wright—I would like to set the context for this session and recap on the introduction from our chairman. There have been a number of changes since the 1994 Bevis inquiry. We have had the introduction of the FMA Act which commenced in January 1998, and that clearly devolved responsibility for the efficient, effective and ethical use of Commonwealth resources to the chief executives of agencies. We have also had the review of Commonwealth purchasing which occurred in 1997. Together these two have engendered change and resulted in a much more devolved approach to purchasing and procurement, with the Department of Finance and Administration performing a role of providing a framework and guidelines rather than a compliance role.

Overhead transparencies were then shown—

Dr Wright—What is shown on the screen just recaps the government's reform agenda and how that applies to the devolution of responsibility for purchasing. What I would like to do is to just step you through how the different instruments interact. As I said, we have the new Financial Management Accountability Act. Sitting underneath that act is a range of regulations of which a key number—I think it is about five, but I have not actually counted them—relate to purchasing and procurement directly, and also provide for the Department of Finance and Administration to issue what we call CPGs, which are Commonwealth Procurement Guidelines. The FMA Act also provides for the chief executive of each agency to issue instructions to their officials on the use of resources.

If I could just step you through the way these three key sets of instruments interact, first of all, under the FMA Act, section 44 provides for the chief executive to make efficient, effective and ethical use of Commonwealth resources. That provides the overarching framework. Sitting underneath that, FMA section 52(2) provides for regulations that may authorise the chief executive to give officials instructions on any matter on which regulations can be made under the act. Flowing from that specific section 52, under FMA regulation 6, as you can see, that provides for the chief executive to give instructions, which are colloquially known as CEIs, on the commitment, expenditure, management and accountability of public money.

FMA regulation 7 provides that the Finance Minister may issue guidelines, CPGs, about procurement of property and services, and this includes contracts, publication of contracts, disposal of property and the like. So regulation 6 provides for chief executive instructions to be issued, and regulation 7 provides for guidelines to be issued. Regulation 8 is a key one. This provides that officials must have regard to the CPGs, the Commonwealth Procurement Guidelines, but it also provides that if an official takes an action which is not consistent with the CPGs, they must make a written record. Therefore, if there is a reason under the efficient, effective and ethical application of resources to vary from the CPGs, there is discretion provided and a written record is made. That provides for accountability.

Regulation 9 provides that an approver can approve expenditure provided they are satisfied that the expenditure is in accordance with the policies of the Commonwealth, and that it will make efficient and effective use of resources, so there is a link into Commonwealth policies. There is an overarching link there. There are two more regulations, regulation 10 and regulation 13, which are about ensuring that approval is appropriately authorised. I will not go into detail there. As I said, the CPGs sit under regulation 7, and I will step through those in a minute, and the CEIs, the chief executive instructions, flow from regulation 6. So what we have is a suite of instruments which are designed to work together but to give flexibility to allow for some discretion in purchasing and procurement under the guidelines.

If I could now move on to the core purchasing principles, these are in our Commonwealth Procurement Guidelines, which are also available on the CTC web site. As you can see from the screen, the first one is value for money, the second one is open and effective competition, and then ethics and fair dealing, accountability and reporting, national competitiveness in industry, and support for other Commonwealth policies. I think we will probably be discussing these during the session, so I will not go into them in any detail.

If I could just give an overview, the reforms have sought to streamline purchasing and procurement to make it more flexible, cut out red tape, and facilitate working together with industry. The purchasing guidelines have been reduced from a cumbersome 212 pages to 22, and they are designed to provide a framework. This is not an instruction book, it is a framework.

Common use arrangements—apart from one which is for the provision of archival services which runs for another two years—have ceased, and in their place an endorsed supplier arrangement (ESA) has been established. The two-envelope tendering system has been abolished and we have got ESA. In tandem with those reforms, model industry

development criteria have just been issued. They were issued in February and they provide for specific criteria to be met for projects, proposals and tenders that are over \$10 million. Agencies can, of course, apply them to any tender process which is less than that value, but that is at their discretion.

We have complementing purchasing reforms, the application of service charters, which seek to improve the quality of service for those agencies delivering directly to the public. We also have established a purchasing advisory and complaints service which is a toll-free number. I think since it has been opened we have had 6½ thousand calls, of which only 0.4 per cent—which is about 25—were complaints, and those have all been satisfactorily resolved through getting the agency and the provider talking together. That has been very well used and provides an avenue for people who have concerns to get access to information. Also, on the CTC web site, there is a whole range of case studies on the best practice approach to purchasing and procurement, and the Commonwealth Procurement Guidelines are also there. I think I will stop there. That was just to give an overview and some context, because we will be talking about the detail in the session, I believe. Thank you.

CHAIR—Thank you very much for that, Dr Wright. In your presentation you said that the Commonwealth procurement guidelines must be adhered to by agencies. We have had evidence that sometimes they are not and we have conflicting evidence about whether or not there is actually a legal requirement for agencies to follow the guidelines and whether or not GBEs must follow the guidelines. Would you like to comment on that?

Dr Wright—Yes, I think you might have misunderstood what I said. FMA regulation 8 says that officials ‘must have regard to’ the CPGs, not ‘must comply with’. Part 2 of that regulation provides that if they take an action which is not consistent with the CPGs then they must make a written record. There is some flexibility there. They must have regard to the guidelines overall but it does not mean adherence to every single one every time. They are guidelines.

CHAIR—All right. What procedure is in place to police the regulation that says there has to be an explanation in writing if you do not follow the guidelines? To what extent do you police that?

Dr Wright—The Department of Finance and Administration does not perform a compliance monitoring role. The extent to which agencies do or do not comply would really be the accountability responsibility of the CEO of the agency.

CHAIR—That is terrific. How would this committee then get an answer to the question of whether or not the guidelines are being followed?

Dr Wright—Through the current mechanisms for accountability and review; mechanisms such as ANAO’s performance audits and Senate estimates.

CHAIR—This is not a Senate committee, Dr Wright, with respect. We have some rights and powers in this regard, too. What should we do—once a year or once every six months require all the agency heads to come, together or one by one, and tell us whether or not they have met the guidelines?

Dr Wright—There is currently no centralised role or mechanism for undertaking the activity that you are referring to and this is consistent with the FMA Act which devolves responsibility for purchasing and procurement and, having regard to the guidelines, to the heads of agencies.

CHAIR—Mr Chin, have you a legal view or opinion on this issue of the requirement of agencies and of GBEs to follow the guidelines?

Mr Chin—Yes. The Australian Government Solicitor's view is that it is not mandatory to comply with the guidelines. Where regulation 8 says 'must have regard to the Commonwealth procurement guidelines' we take a plain and ordinary meaning of this provision. 'Must' means mandatory, but 'have regard to' does not mean mandatory. We take it that 'have regard to' means 'must take into account'. Our view is consistent with that of the Department of Finance and Administration, that it is obligatory to take into account the guidelines but there is a discretion. Having taken into account the guidelines, there is a discretion as to whether or not to comply. We expressed it in terms of 'a rebuttable presumption' when we appeared a couple of weeks ago.

CHAIR—Thank you for that. Do some of the private sector organisations that are here today have a view about this issue?

Mr BROUGH—Can I just ask a couple of things before I disappear, Mr Chairman?

CHAIR—Yes, go ahead.

Mr BROUGH—Do you feel that there is some sort of a conflict then in having words such as 'must' in the guidelines? For argument's sake, with endorsed supplier arrangements goods and services must be purchased from them basically—I just cannot find the exact words here—and for IT it says that use of the pre-qualification scheme is optional for agents except in the area of IT and major office machines where the use of suppliers under the endorsed supplier arrangements is mandatory. 'Mandatory' is unequivocal. They use the word 'must' further on. And yet the overarching principle, you are saying, is that this is not in fact enforceable because it only has to 'have regard to'. That is an act of parliament. Others have presented that they have taken legal advice and the legal advice to their department was that this is in fact enforceable and that they are breaking the law if they do not do it. It concerns me that there is a conflict between legal advice—and I know that is not uncommon—but I presume they would have got it from the Australian Government Solicitor. I could not imagine they would have got it from outside.

Secondly, why put things such as 'mandatory' and 'must' in there when we have company representatives around this table who go to a lot of expense to get that sort of undertaking because they believe they are a preferred supplier, and then it means absolutely nothing whatsoever because it is up to the individual what they do?

Mr Chin—You have raised a number of issues there. I think what I was interpreting was the provision in the regulations. I think the references you were making were in the guidelines themselves. The regulations are an umbrella for the guidelines and it does not

prevent the guidelines from internally providing either for a discretion or for something to be mandatory. The umbrella provision is an obligation to take into account the guidelines.

Mr BROUGH—So are the guidelines enforceable?

Mr Chin—They are not legally enforceable. They operate as a policy statement of government.

Mr BROUGH—So ‘having regard to’ is not enforceable. The guidelines are not enforceable. So it all comes down to the CEO having his own discretion as to whether or not he wishes to apply this in the broader sense. As Dr Wright has said, they are to show where they have not followed them, but even that is not necessarily so in all cases, simply because that is only another section of the guidelines.

Mr Chin—Again I think there is an issue here about the CEO’s instructions. The CEO’s instructions are made under regulation 6, and I have not specifically focused on this but I doubt whether there would be provision for the CEO to issue guidelines that were inconsistent with the CPG. I think when we are talking about regulation 9 we are talking about a situation where a specific official is making a purchasing decision, and a specific official has an obligation to take into account the guidelines, but then has a discretion as to whether to comply with the guidelines. As I said, I have not specifically focused on this, but I do not think regulation 6 would provide the CEO with that authority.

Mr BROUGH—Perhaps if I just make the point, Mr Chairman—and if you can lead this on because unfortunately I have to depart—that this has left a lot of the IT people and other potential suppliers to government feeling as though, if they fulfil these requirements, particularly in the IT and business office equipment areas, they are putting themselves in front of the game, and that obviously is not the case, and they can go to a lot of expense and not be any further advanced. I apologise that I have to leave, but I will certainly read the transcript with some interest. Thank you.

CHAIR—Any further comments?

Senator HOGG—I just want to follow up the issue of compliance with the guidelines. As I understand you, Dr Wright, it is a matter for the CEO to ensure that there is compliance, so really am I to assume that there is no interest on the part of your department in whether individual agencies are complying with the standards, with the guidelines, because you are not making a check on that?

Dr Wright—It is not our role, and the FMA Act does not provide for us to perform that sort of role.

Senator HOGG—So there is no centralised organisation or body or agency checking that every agency is complying?

Dr Wright—As I said earlier on, there is no central compliance monitoring because that really runs contrary to the principle of devolution that is enshrined in the FMA Act. However, there are a number of ways in which issues can be raised. There is the Purchasing

Advisory and Complaints Service, through which specific issues can be brought to the attention of the department and we can help look into those, and there are other mechanisms for accountability in the public domain, and that is where accountability is currently applied.

Senator HOGG—When you say that there is a complaints mechanism and you can help look into that, what sort of authority do you have over the agency that you might be looking into? Any?

Dr Wright—We do not have any specific authority, it is a facilitation role, but we do have responsibility for the purchasing and procurement framework and the guidelines, so clearly there is an interest and a role for us there.

Senator HOGG—But there is no authority as such?

Mr Williamson—Dr Wright, regarding a definition of value for money, is there an overall or, perhaps more appropriately, a sectoral definition of value for money? Does it embrace point 6 of the guidelines—that is, support for Commonwealth policy? Examples of that may be environment, regional development, full employment, import replacements, et cetera.

Dr Wright—I am just considering what the question actually means. Could you clarify? I am not sure specifically what your concern is with a sectoral definition applying to the value for money guidelines. Could you clarify?

Mr Williamson—We have not been able to find any definition of what value for money means and how that might be taken into account when the Commonwealth is assessing tenders for any particular product or service. Possibly realistically it would not be absolutely appropriate that there is an overall guideline, and perhaps it might need to be sectoral for it to be meaningful. We are trying, as a supplier to government, to understand what they value and what they do not. I guess as a commercial enterprise we do a lot of things that we regard as valuable and which we think embrace government policy. To the extent that they are not valued, I guess we should then basically consider whether we should do them.

Dr Wright—The use of ‘value for money’ is very much one of a case-by-case basis and that is in line with the flexibility provided under the new framework. How that is applied would be specified in a particular tender or procurement process. The sorts of things that value for money should cover are whole-of-life cycle cost, fitness for purposes, quality, the capability of the organisation, the nature of the services, and the ability to service and support given geographical location, so even on a sectoral basis a black and white definition could possibly hinder rather than help.

Ms PLIBERSEK—Thank you, Dr Wright. Can you tell us a little bit more about the Purchasing Advisory Complaints Service? Can you tell us firstly where this service is advertised?

Dr Wright—I might just need to consult on the details. The details are on our web site and we have a whole range of publications and brochures. The publications are available at

AusInfo bookshops and brochures are handed out at a whole range of fora, both with agencies and with the private sector.

Ms PLIBERSEK—Are they brochures about doing business with government? What are the brochures about?

Dr Wright—They are summary brochures of the purchasing framework. We have got one on the scheme itself, which we supplied to the earlier hearing and, as I said, in the green book the details on the complaints service are at the back.

Ms PLIBERSEK—So would you say that particularly small and medium businesses would all be aware of that complaints line?

Dr Wright—I could not speak on behalf of all small to medium businesses.

Ms PLIBERSEK—But would you say it is widely advertised or not?

Dr Wright—The fact that it is available on the web site, and we hold fora about once every six weeks, and that it is contained in the purchasing guidelines, which most suppliers would look at before attempting to do business with government agencies, we think suggests that it is quite well known. If there are any suggestions that we could do more, then we would certainly take those into account.

Ms PLIBERSEK—How many people would call the complaints line in a month or a year? Do you have any figures on that?

Dr Wright—The complaints service was established in March 1998 and since that time we have had 7,423 inquiries. In fact I must correct the record because it has changed since I took my last notes. We have had 28 calls which we have identified as being complaints, and all of those have been satisfactorily resolved.

Ms PLIBERSEK—And what is the resolution process? What is the complaint handling process?

Dr Wright—The process is that we have the complaints line staffed by the CTC group's officers and they will talk with the people who call the line to establish the nature of their concern. As I have said, most of it appears to be need for information or clarification. When it seems to be a complaint, then our officers seek to engage both the person who has raised the issue and the organisation involved to talk the matter through, and to date that has been totally successful.

Ms PLIBERSEK—Does that usually happen face to face? If a complaint is made over the telephone, I suspect that they are not often resolved over the telephone. What happens then? Do you invite these people in?

Dr Wright—I would like to take advice on that. We do both of those. We do invite people in and have a face-to-face talk with them and facilitate resolution.

Ms PLIBERSEK—Who would facilitate that sort of a meeting?

Dr Wright—The officers from the CTC group.

Ms PLIBERSEK—Are they purchasing officer trained? What is normally their background? What are their particular skills?

Dr Wright—We have a range of skills. We do have staff who have formal qualifications in purchasing. We also have staff who support the endorsed supply arrangement and therefore have in-depth understanding of those arrangements, and we have skilled policy people, so there is a range, and it clearly depends on the nature of the issue as to who or what number of people we would draw in to help resolve that.

Ms PLIBERSEK—So just let me understand this. The people who are staffing the phone lines are not necessarily dedicated to that particular position.

Dr Wright—No.

Ms PLIBERSEK—They are your general staff who take it in turns to answer the complaints. Is that how it would work?

Dr Wright—The calls are answered and the caller is passed on to the person with the relevant expertise.

Ms PLIBERSEK—Okay. Without giving away too much information, can you tell us about the nature of some of the complaints that you have had and the appropriate resolution?

Dr Wright—I do not have those details with me. Could you give me a bit more information on what sorts of things you are asking about?

Ms PLIBERSEK—I am just interested in the sorts of problems people are coming to you with and the sorts of solutions you are coming up with.

Dr Wright—I could take that on notice and see what information we can give you that does not—

Ms PLIBERSEK—You can black the names out.

Senator HOGG—Which does not breach their privacy.

Dr Wright—Yes, and certainly we would not want to inhibit people from calling our line through making discussions publicly available. It might not be appropriate.

Ms PLIBERSEK—No, absolutely, but I guess it is very instructive to this committee to know the sorts of problems that people are having with government purchasing. It is the centre of what we are examining.

Dr Wright—We will see if we can give you some information.

Senator HOGG—And, in supplying that information, it would be helpful if you could tell us whether they are large or small business operators, because I think part of our concern is that the small business people are not being looked after.

CHAIR—I would point out to you that the information in the green guide on this issue is on page 22, the last page, and it is a single sentence and that is all that is on the page. It is hardly prominent.

Dr Wright—We do have a brochure which has quite a lot of detail on the nature of the service and we have provided that to you, and that is what we hand out at public fora.

Ms PLIBERSEK—I guess one of the problems would be that, particularly with small and medium businesses, they might not get into these sorts of fora very often if they are in regional areas, for example, and I am sure with small and medium businesses as well they probably do not sit down with the procurement guidelines and read them very carefully and find this last line on the last page of the procurement guidelines. I suspect that that is a mistaken assumption, if that is the assumption at the core of this.

Dr Wright—Certainly at the time the guidelines were issued, there was a media release by our minister which also included information on the purchasing of advisory type services.

Mr Macdonald—I am from the Australian Information Industry Association. Just in reference to the point that was raised previously about the mandated use of the endorsed supply arrangement, we understand that there was a separate cabinet decision on the mandated use of IT&T suppliers who were under the endorsed supply arrangements, which are quite separate to the Commonwealth procurement guidelines, and I think that might cover that issue that was raised previously about that. From an industry point of view, I suppose there is some recommendation of the benefit that business gets from pre-qualification by government, but the issue that I want to raise on what we are talking about at the moment is that the problem with this is the confusion and the inconsistency that this is all raising.

Prior to the review of the arrangements in 1997, the common use arrangements were not being properly used by government or by industry and, as a result of that, there was the review. As a result of that review, it was established that where those common use arrangements were to be used they would be mandated and, of course, they would be put in place by the Department of Finance and Administration. I am not commenting on whether common use arrangements are beneficial or applicable, but I am just trying to point out that at the moment there is some confusion for industry.

We have already heard from the Office for Government Online that they are seeking to put in place some common use arrangements and their being outside the department of finance, but again we have heard that they will not be mandated for use but used on the basis of whether they might provide some benefit to the departments and agencies. So the end result of these arrangements that are being put in place is a very confusing and inconsistent policy approach for industry to try and understand and to comply with.

CHAIR—Are there any other representatives of private sector organisations that would like to comment on the appropriateness and effectiveness of the guidelines, and the application of the value for money principle in particular?

Mr Kyle—I am from Business Technology. We are only on a single issue, as you may have realised. Our people are third-party installers of photocopiers and the like. There is no Australian content whatever in these products. They are wholly imported. Nobody buys a machine on its own. The end user, be it commercial or government, buys a package of service plus the machine to sustain the thing, so the opportunity for Australian content is wholly within the servicing. The prices being put down upon dealers, so often now at a loss, mean that an increasing number of them are withdrawing from servicing that type of equipment. They rely for 60 per cent of their turnover, at least for cash flow, on government business, and we have surveyed them recently to reaffirm this.

Our proposal to the group here was put in terms of there being a crisis. As we are speaking, some of these small people are going out of business today, this week. They are family businesses in mainly rural areas. They are probably the only people doing technology in those places. Personally, I am terrified and exhilarated at the same time. I think to have some more expertise in government, to be able to talk to somebody is going to be helpful, but I am really fearful for the original dialogue, which was with DAS and then passed to DOFA, and then from this discussion this morning it is so apparent that it is not concrete what happens or with whom.

We have been referred to talk individually to each of the 36 agencies. We do not have the resources to come down to Canberra 110 times and do that, and I just plead with everyone in the room here today: if it is in order, may we communicate with you separately after this meeting for us to put the practical case for these third-party people to be there and service the equipment in a viable way in free market forces and just get on with doing that job and have the approved suppliers be all of the suppliers?

Unless they are not solid citizens or they have done something wrong, they all should be able to comply and all put in a price, and when an application occurs in a remote area somebody in government can sensibly say, ‘Gosh, there’s three technicians 100 yards from my office. I’ll go a couple of points higher on the machinery price to link in with the service price that will be good sensible buying for the government. I won’t be forced from some central area to take a package price of both service and machine, where someone from 150 kilometres away has got to come and service me.’ Government is last on the list with all these dealers now to get serviced in these areas because there is no money in it.

Mr Chalker—I am from Australian Business. I just wanted to go back to some of the specifics of the appeals mechanism because, if I heard rightly through you, 7,400 inquiries have been made since March last year. Only 28 were actual complaints. It seems to me that a point that we have been making for some time is that this is indicative of difficulties people have accessing information. I suspect one of those calls was from myself, trying to find out who I could send one of my members to to go out and find possible markets, and I do not think we were able to find it through that advice line.

On your last point, I personally cannot see how government can gauge the effectiveness of a policy with guidelines that are not mandatory which everyone has a different way of interpreting. I cannot see how the government can actually see whether its policy for industry development, for small business and so on, can be measured.

Mr Lockett—I work for an SME as a corporate adviser on negotiating the Defence contracting labyrinth. I have found in my experience there does not seem to be, or I have yet to find, evidence that the endorsed supplier status enjoys anything down at the lower levels where initial evaluations of SME tenders are done. I think that has a distinct effect on local and regional economies. I have a thing about that. I also have a bit of a problem with the two-envelope system, which has been abolished—unless I misunderstand it. Only as recently as last week I see it is alive and well and certainly in one defence program. So something should be looked at there if the message is not getting through.

In the application of the wider government policies that some of the purchasing guidelines are trying to meet, I believe when the initial evaluations are done for SMEs at the lower level they are eliminated on all sorts of other grounds before anybody has really given any consideration to some of these wider issues, such as the development of regional and local economies. The people who are doing the evaluations at the initial level have got the drinking straw approach: looking at the world through a very small window. So I would suggest that a wider angle needs to get down to a lower level in evaluation.

CHAIR—How?

Mr Lockett—That is a training problem that I hand back to Defence, which is the one I deal with. I guess the commercial exposure that some people in Defence have in some of these lower positions where they are evaluated is probably minimal, and they change people quite regularly, as you know. My suggestion would be that there needs to be some well structured training organisation in addition to some enforced—and rigorously enforced—audit of the process. I have seen documentation presented for SMEs to bid on that simply is not biddable in my view.

Mr Anderson—Mr Lockett actually works for me. I am here with the Australian Business Chamber. What the process needs is some clear rules. It does not need guidelines. It needs rules; it needs regulations that people are forced to follow. I am sorry to contradict you, but the whole terminology of value for money no-one has actually incorporated into any tender document that I have seen coming out of the Department of Defence or the department of transport—and I can list them all out for you if you really wish. I have not seen a clear definition of what value for money means. I was staggered when I heard that. The two-envelope process is alive and well, very much alive and well.

Mr Pool—Mr Chairman, you said, ‘How can we come to grips with this?’ It appears to me that we have had inquiry after inquiry for the last decade. In Defence alone we had the Price report. I was ridiculed by those in Defence in very high positions, at a very high level, for standing up for SMEs and I suffered because of it. Again, because I am here today, I will probably fall on my sword again. It appears to me the balance there is, as our friends over here also suggested and the rest of the SMEs are aware of in this country, that, firstly, we tend to do the same thing in government all of the time: we put those persons on committees

at a very high level, the captains of industry. The captains of industry are usually defined by CEOs of very large corporations. It seems to me that those SMEs who work at the coalface never get the opportunity to really sit on any government boards to influence the situations and outcomes.

When we talk of value for money do we talk about economic benefit to the country? Do we talk about employment for young people and giving them an opportunity? I have just returned from the Middle East. I deal with and compete against America, France, Britain, Germany—all those countries that really not only support their major industries but really support their SMEs. In my case alone, where I was denied the supply of a field hospital to the Australian ADF, and the Swedes were given it, there was no value for money judgment. The whole thing was flawed and the government solicitor's office is well aware of that and so are the ministers. At the end of the day because I am an SME I cannot stand up, I cannot take the Commonwealth on.

Again, we are just digging up the same issues over and over again. They have not been addressed. They are fundamental issues to this country and unless we address them at the coalface, unless we are really concerned about SMEs getting a fair go—even in the recent defence industry strategy paper, which is the result of some of my complaints—again, it is hearsay; again, it is words without action. Once again, the senior people who do the inquiries are the captains of industry who are not really SMEs. They do not really understand that when we lose a contract we hurt 18 other Australian SMEs. Again, it is the young people, the business opportunities, the employment opportunities that we are losing and, finally, the export opportunities. It is my view that at the coalface SMEs are not being heard because they do not appear anywhere in government committees. The captains of industry do not understand what the problems of SMEs are, nor have they really felt it.

CHAIR—Mr Anderson, I think it was you who said that we ought to have not guidelines but rules. Why would you say that when there are no rules that apply to you? We let you buy what you want from who you want for whatever reason you want and if you do it badly you will probably go bust. Right?

Mr Anderson—Yes.

CHAIR—But we do not tell you how you have to buy, what the principles should be or what considerations you must put in place in terms of Australian industry development, small business interest, medium size business interest. We do not do that, do we? Why should you sit there and say, 'The government must mandate these issues'?

Mr Anderson—Apart from you representing the people and representing me, I suppose there is no reason. I would just like to make a point that the process itself needs to be defined and the people administering it at the grassroots level need some close guidelines. I will just give you an example. The purchasing officers have no initiative to engage SMEs, which clearly can deliver a purchasing product. Basically what is happening is that they are going to buy from somebody who they feel most comfortable with. The old adage, 'No-one has ever been sacked for buying IBM,' is very much alive and well. The problem is that if something goes wrong with a contract the purchasing officer is going to get a big kick, but if it goes right there is no kudos for him. There is no encouragement. So they are going to go

for a risk averse proposal every time. The bigger the better, so they feel protected themselves. That is the trouble with SMEs. We deal directly with Defence. Defence is by far our largest client, and we feel very comfortable in that field.

We are an SME. I employ 30 people. We currently manage facilities across 13 Defence establishments, but indirectly we employ 293 subcontractors, about 2,500 people, and, if you multiply it out regionally, it is getting close towards having an effect across 10,000 people's lives. An SME can deliver if we are given the chance. The trouble is that the Commonwealth is not giving the tools, the mechanisms, the training, the encouragement and the protection to the people that are making the decision. They would like to engage SMEs. They just feel threatened if they turn around there and go against somebody, and these large multinational corporations which have been doing it for ever which say, 'Just trust us,' when in actual fact they are not necessarily delivering.

CHAIR—Ms Sabic, have you got any comments to make on these issues?

Ms Sabic—If we look at the criteria that have been set in CPGs—the last one, which is support for other Commonwealth policies—very much small business is on this government's agenda, and we would be arguing that in the tendering process the needs of SMEs need to be taken into account by government purchasing officers, and this has not really happened. We would be arguing for increased training. The Office of Small Business does have a policy role, but it is a very small office and we work at high levels. In a devolved environment it is really up to the agencies and the people administering the policy to get their purchasing officers to focus on the needs of SMEs. To a degree DOFA and the Office of Small Business have been trying to promote this, and the Office of Small Business itself is embarking on a program of cultural change with the slogan 'Think small first' but, as we all know, cultural change takes a long time.

This government has achieved significant gains for small business in the last two to three years, but there is a long way to go, and I think with purchasing, where the government is active in the marketplace, that the Commonwealth can go a lot further and support small business, and if we start promoting the last criteria we might get somewhere.

CHAIR—If I recall rightly, in your submission to the committee in this inquiry you quoted some leverage statistics, that for every purchasing dollar or every \$100,000 or whatever, so many jobs were—

Ms Sabic—It was not us.

CHAIR—It was an ISONET developed statistic. I will just read this out. These fora sometimes are culture instructive as well as helping to instruct the committee. It states:

For every additional \$1 million of successful new or retained business, the following effects flow through to the economy: \$328,105 worth of tax revenue is generated, \$1,216,267 worth of value added is generated, \$210,082 worth of welfare benefits is saved, and 22 full-time jobs are created.

If you think about it like that, there seems to be one hell of a lot of leverage advantage to the Commonwealth, the people of Australia, for buying Australian goods and services,

doesn't there? Would anybody disagree with that? It would be pretty hard to disagree with, wouldn't it? And would it not perhaps be of some advantage—and I believe they paid a good deal of money to research and prove that—if we said that over and over again to Commonwealth agencies and those people doing the purchasing? Would that help effect the change in culture?

Ms Sabic—Are you asking me personally? I think so, and I think this is taken up on overseas research into government performance that you do not get any improvement in performance until you start publicly reporting on that performance. So until we start scoring departments on their purchasing, I do not see that we will get an improvement. We have noted, I think, that governments are starting to report on their improvements in regulatory performance. This year we will be starting to do that, disaggregated, and it will be public reporting and we expect to see a big improvement in how regulatory agencies are performing. The Productivity Commission is starting to do that. I think if we are serious we could start doing that in the area of government purchasing. When we put out that data on government performance in the area of the SME proportion of total purchasing, you can see that that generated a lot of interest. So until we start reporting on government activity in a public and transparent way, I do not think you are going to see improvement, and that does require commitment, resources and training, and cultural change.

CHAIR—Mr McPhee.

Mr McPhee—On that particular issue, Chairman?

CHAIR—On that issue; on broadcast reporting of purchasing activity by government. Would the Audit Office have a view on that?

Mr McPhee—It is a matter for the government, obviously, at the end of the day, Chairman, but transparency assists. The bureaucracy has been through a lot of detailed reporting on a whole range of issues over the last decade, if you like, and the trend recently has been to pull back from that. Particularly I am thinking in terms of annual reports, et cetera. But if this is important information for government to understand, where its purchasing dollars are going, so as to influence government policy—if it is that important—then clearly government would, I guess, look closely at the benefits of such an approach. But I think to load up agency annual reports with this sort of information—it has really been against the trend to pick on particular issues of that kind.

CHAIR—Dr Wright?

Dr Wright—I think I covered this issue when we last met on additional reporting requirements. I think it would be a decision for government and clearly one would need to look at the overhead which that created on both industry and government and the nature of the information, the usefulness of it and how you would apply it. Clearly if it produces a significant overhead for SMEs in terms of data that they have to continue to supply, then the value would need to be looked at.

CHAIR—Mr Flanagan.

Mr Flanagan—We have reported in our annual report each year since 1994-95 on the proportion of Australian content as part of our industry development plan. We find it is, from an organisational point of view, a demonstration of what we are achieving and hopefully to provide information to the people who supply to us and the customers who buy from us.

Ms PLIBERSEK—Telstra report they are also able to pull out the proportion of small and medium enterprises that they are buying from. I cannot remember whether Australia Post is able to do that as well.

Mr Flanagan—Not quite as accurately at this stage.

Ms PLIBERSEK—But you are planning to, aren't you?

Mr Flanagan—We are. We have put in the SAP/R3 system progressively over the last 18 months and we are endeavouring to identify each of the vendors. At the moment, to go back historically with all the vendors we have currently got is not easy, because you have to basically go back to the company, but we do deal with a lot of small to medium enterprises, such as our licensed post offices, the road mail contractors, cleaners in rural areas and the like, as well as a lot of small contracting businesses in the IT area.

Ms PLIBERSEK—When Telstra described to us the new computer system that they will be using to track this information, the basic impression I think we all got was once you set the system up it is not an onerous task to collect this information, once you have actually tagged your supplier and you have described the characteristics of that particular supplier. Do you think that is a fair thing to say?

Mr Flanagan—We think it is. The retrieval of it is quite simple. The discipline is, when people are establishing a new vendor on the system, that they have to categorise them as either being a small to medium enterprise or not.

Ms PLIBERSEK—And their geographic location is not an onerous thing to find, so that you can have a regional development component to the information that you are collecting as well?

Mr Flanagan—Yes. We can identify them by postcode.

Ms PLIBERSEK—I actually had a number of other questions.

CHAIR—On the same issue?

Ms PLIBERSEK—No, on a few related issues. I think we were speaking earlier a little bit about the training of purchasing officers, the culture of purchasing officers, the education of purchasing officers, whether they are competent or not, and I think that the evidence that we have received from a number of departments in the course of this inquiry has been that the training of purchasing officers is patchy at best. We had some evidence from the Victorian Procurement and Contracting Centre for Education and Research and we also had

some evidence from AGS that you are able to help people in developing the initial tender process and with contract writing.

I just wanted to go around the table and ask for some general impressions of the competency and training of purchasing officers in government departments. I wanted to ask the government departments what sorts of things you are doing in relation to training and competencies across government departments, whether there is any attempt to actually make sure that a training officer in one department has the same basic skill level as a purchasing officer in another training department, and perhaps to ask some of the organisations whether your impression of the competency of training officers is that there are improvements being made or whether that is just not the case.

CHAIR—Can we do this pretty quickly?

Ms PLIBERSEK—I think that there are probably people who have a more pressing desire to say something on this issue than others. Is there anyone that wants to make a comment on it?

Mr Pool—Could I just comment, Mr Chairman. We are talking about training. I do not believe it is the lower level, I really do not. I approached the director-general of export policy on defence matters when a Swedish field hospital was being competed against ours, and said, ‘Do you realise the implications if that hospital is given to the Swedes for Australian industry and do you realise the loss of export opportunities in our region in the Middle East?’ and he said he would put a flea in someone’s ear. That is the way he treats me as an SME. I am sure he would not treat the Managing Director of Tenex or the Managing Director of Transfield in the same manner. So that is at the top level.

Let me explain another thing. When I was told by a brigadier that the papers were just put on his desk for signature and he was unaware that the purchase was going to impact on an Australian SME, he said, ‘It wasn’t my fault. I just signed the papers.’ Where are we going wrong in this country? That is not at the level of training someone. These are senior personnel within government, purchasing and having impact on Australian industry. When we talk about value for money, I tell you what, there is not much value for money in those senior people that I talk to. But if I am John White—and I do not mean to say this disrespectfully to John White—he gets more than a flea in someone’s ear. If you are the Chairman of Qantas or the Chairman of Lockheed Martin, you get more than a flea in someone’s ear. So when it is the little SME, we get done all the time, right through, and that is where it stops. Unless we are prepared to really take it where it is, we are not going to change anything.

CHAIR—Anybody else?

Mr Aizenstros—There is no doubting that the core principles of the purchasing guidelines are very commendable. I think the point you made when you read out the ISO statistics on the leveraging of \$1 purchased by government and what that translates to is probably the thing that is missing out of those guidelines. If you do not have a mandate and you have not got those numbers then it is very difficult to make decisions about what is value for money.

With respect to value for money, with the sort of swing from centralised to decentralisation in government agencies, the degree of devolution of purchasing in itself really does dilute the application of government policy and support for the sorts of policies that government is trying to implement. Even if purchasing officers are trained, you are not going to train the whole range of purchasing activities or purchasing transactions that take place at this sort of devolved level. It is just not possible to do it, particularly when you look at complex issues such as value for money considerations, because these things are not tangible unless you actually put in the hard numbers as I have attempted to do.

So to talk about training in isolation, to think that that is going to be the panacea of the purchasing issue, I think is a little bit delusional. I think you need to really look at what are the purchasing activities and, if you are a purchasing officer, can you make a well-judged consideration of value for money and take into consideration other government purchasing policies when you are making a small purchase decision or a medium purchase decision. These things are very complex and involve complex value for money considerations, complex present value calculations, complex whole of life considerations; not the sort of thing that you can take into account in a devolved environment, which is where government has gone.

CHAIR—We are going to have to bring this session to a close because we are demonstrably behind.

Ms PLIBERSEK—I just have one other quick question. In relation to the purchasing advisory and complaints service that we were speaking about earlier, I just wanted to ask some of the private sector people whether you have heard of this service and you use it or whether your members have heard of it and use it.

Mr Chalker—I have heard of it and we have advised our members of its existence but, as I mentioned earlier on, when I rang up for a more general inquiry, there was not a great deal of benefit for the sort of thing I was looking for.

Mr Kyle—I have never heard of it, on behalf of our members. I am a little puzzled: if there were 7,500 inquiries, what happened to the rest of them? It is a complaint line. If 26 of them turned out to be complaints, what were the others?

Ms PLIBERSEK—Were they just requests for information?

Dr Wright—It is a purchasing advisory and complaints line, and the others were for information on a range of issues associated with the framework.

Mr Kyle—Thank you.

CHAIR—We will move on. We are demonstrably behind.

Issue 3—Australian industry development

CHAIR—Principle 5 of the Commonwealth Procurement Guidelines focuses on national competitiveness and industry development. The CPGs state that ‘through its procurement, the

government seeks to promote the development of ANZ industry, including SMEs, by means that are consistent with the achievement of value for money objectives.

The committee is seeking to examine a number of separate issues: firstly, the need for agreed, clearly articulated and consistently applied definitions relating to SME and Australian made; secondly, the adequacy of industry development objectives in the Commonwealth Procurement Guidelines; thirdly, key initiatives of the Defence and Industry Strategic Policy Statement that may have relevance to broader government purchasing; fourthly, the adequacy of agency use of ISONETS; fifthly, the appropriateness of the current requirement for industry development criteria for purchases over \$10 million; sixth, the appropriateness of the current requirement that Commonwealth departments and agencies will source at least 10 per cent of their purchasing from SMEs; and, lastly, the appropriateness of certain tender processes such as mega-contracting and grouping together dissimilar goods.

Representatives from the Australian Chamber of Commerce and Industry will introduce the discussion topic.

Mr Martin—I note that I am joined here today by a range of people who I would hope will have things to say on this issue. I think there are some good points in the areas that the committee is wishing to focus on. Having listened to the previous session, I found it quite revealing. Clearly there is an issue here, we would feel, of the need for cultural change and coordination. To some extent I think the issue came down to challenges faced particularly by small businesses which are not being picked up by the developments that are occurring. In ACCI, I can tell you that the feedback we are getting is very much along the lines of some of the speakers from the medium and small enterprise end of town who are feeling chagrin at the capacity of the system to respond to what they can offer and to give feedback. As I say, the culture within the whole of the purchasing arrangements is not just a Commonwealth issue—we are looking today at Commonwealth—but a range of issues that is feeding back on us in terms of the challenges.

I think in trying to characterise the situation there is a danger of us doing a Pontius Pilate on the challenge that lies ahead of us, or throwing the baby out with the bathwater. I believe there is nobody here today from the industry department participating in the seminar. I would have thought, given the nature of this particular issue that we are addressing of industry development, that if we were coordinating our approach to the opportunities under purchasing and the link to industry development that we would have representatives from that department here, at the very least.

From the ACCI point of view, we agree very much in principle with many of the things that are being produced and published in terms of developments in purchasing policy and an approach to outsourcing of goods and services. However, it is not just the policy that matters, as we have heard in the discussions in the two sessions we have had so far, it is very much the implementation of the policies at a management and operational level that is of critical importance. The success, we believe, depends largely on a few things: firstly, the creation of efficient, consistent and transparent contracting out procedures and coordination in reporting mechanisms; secondly, the recognition at both policy and implementation level of the strategic value of active purchasing policies in industry development—so, once again, I am very surprised that the industry department are not actively here today participating—

and, thirdly, transparent and user-friendly methods of informing potential suppliers about purchasing practices and opportunities.

Of the issues that are raised by this, I would like to mention three areas of concern because I think others around this table will be able to raise and respond to some of the issues you have listed in the discussion paper: firstly, the impact which, with the devolution and outsourcing, has led to mega-contracts and the implications that they are having in some areas; secondly, making value for money approach and the whole of life costing actually work and having suppliers being able to respond appropriately but, more importantly, buyers being able to consistently apply that principle—and we have had some discussion on that already; and, thirdly, intelligent buyer capacity which, I think, as some people have said, runs through the whole system and presents not only a training and competencies issue but goes back to the cultural issue and the united approach to an industry development approach.

In the area of the growing practice of mega-contracting by Commonwealth agencies, it appears to us that this is creating a barrier against many small enterprises taking advantage of new opportunities which are created by the public demand for goods and services. While in the short term it may create savings for agencies, it means that they become entirely captive of a single large supplier, with little or no technical purchasing expertise housed in the client agency. This reduces the ability of the Commonwealth to make strategic purchasing decisions, especially in relation to developing or regional industries. Further, the practice will result more generally in Commonwealth purchasing that does not maximise efficiency and effectiveness in the long run, as the relative bargaining position of agencies will be weakened.

Secondly, the issue of value for money criteria: the only way that this can be successful is if it is applied in a manner which recognises the product life cycle, continuity of service and reliability, and this is a very big challenge. It includes the building up of locally available capacity and enduring commercial relationships. Simply focusing on the lowest price involves ignoring many elements of inherent value and leaves an agency open to future exploitation, as I have mentioned previously.

I might bring to your attention, Chairman, something that was brought to our attention last week when our ACCI General Council had a very wide discussion on this issue, being conscious of the fact that there is an evolving situation in relation to purchasing at the national level, and many of the states are also doing it. In Western Australia there has been a lot of discussion, and I think a lot of it has been along the lines of things that are occurring today here in the seminar. They have produced a document 'Buying wisely'. I do not know if it has been brought to the committee's attention. It has been very much prepared in a collaborative effort between the government and industry. The President of the West Australian Chamber of Commerce and Industry is a member of the task force that has assisted in developing this. The four components that come out in this document relate to integrity, continuing competition, intelligent buyers and active contract management. We will be exploring further with the Commonwealth government how the type of approach that is clearly being adopted here could be taken further in terms of the industry development interests that we have.

The third point I want to raise is this whole question of information available to potential suppliers and the role of intelligent, trained and fully equipped buyers. We believe that there needs to be a more balanced and considered approach to contracting out to ensure that separate goods and service requirements are met as efficiently as possible and with regard to the impact of spending decisions on small business and regional industries. Given the fact that we are looking at a decentralisation of purchasing responsibility, we believe that there is a real challenge in how this is coordinated and how it is managed across the agencies, and we do not believe it can be left to the individual agencies just to report. We believe that there has to be a coordinated approach. It is our feeling that there is now something of a vacuum emerging, that there is a lack of championing the cause.

In finalising my short comments today, we would like to refer to two areas where we believe there need to be some initiatives taken to fill the vacuum we believe is occurring—apart from following a more general line of where there is this coordination and partnership approach to developing the overall purchasing policies and their implementation, as is occurring in West Australia. The two practical initiatives we would like to refer to are, firstly, some form—and we have a very open mind on this—of referral service. This is based on feedback that we have had from many small enterprises which indicates that there is a need for this type of service, which provides information on public sector purchasing requirements, procedures and specific contacts. This is more than a telephone line. This kind of service would be certainly much leaner and more business oriented than what perhaps had been offered under Purchasing Australia. I think we had a rather top heavy and perhaps bureaucratic arrangement there. Perhaps the role could be handled by a small unit of people who, to some extent, are quasi separate from the government—certainly we believe the ACCI Association network and the ISO arrangements provide a potential approach, a network that could be used—and should draw on business or use some business oriented people to play some intermediation role. We are not talking about major resources here but something that in fact would provide a link between the suppliers and the purchasers.

The second point or initiative that we would be suggesting is some form of industry reference group. I use that term very generally. We had previously a body called the National Procurement Board. That, I think, finished up about 18 months ago. We are not saying we should go back to the Procurement Board, but we believe that there has to be established some form of interaction process with industry to give feedback on the policy framework, the implementation and the refinements and finetuning that need to go on in these processes. That covers the whole aspect of training and information for buyers, giving agencies feedback, and perhaps this would cover some of the issues or the vacuum that we see occurring at the moment.

I would like to stop there, Chairman, but I would say that although there have been some comments about the defence department and how they could do things better, the general feedback we have had is that the approaches adopted by the defence department in the area of purchasing are generally seen as positive, in that they are structured and tend to provide support that, at the moment, we think is disappearing at a fast rate on the non-defence area. I ask if I could hand over to my colleague, Graham Chalker, to pick up that and some of the cultural issues as we see them.

CHAIR—Yes, briefly, please.

Mr Chalker—Yes. I was going to go through some of the initiatives in the Defence statement that we thought were very important and relevant. Obviously you have the feel from some of the small business representatives here today that they still find purchasing a daunting task, both through lack of information and through this culture, I guess, of the purchasing agencies. I refer you to the items you have listed on page 16 of your document. We think a lot of those initiatives, particularly training of officers—increasing their awareness of Australian industries' capabilities—would transfer well across to civilian purchasing.

I also just wanted to make a brief comment, which again has been picked up in the statement, and that is the issue of the industry development guidelines which have just been released after quite a long gestation period. We welcome those finally coming out. I was pleased to hear today that in fact there may be some discretion for CEOs to go beyond the \$10 million threshold. We think that is an artificially high level for purchasing and in fact a lot of smaller purchasers could have significant industry development implications. I will just leave it at that and ask Peter if there is anything more he wanted to say.

Mr Anderson—The only thing I would like to reiterate is that the \$10 million is too high. Normally, from our experience, an SME is not turning over \$10 million in a lot of instances—particularly the 'S' of the SME. It is beyond their capacity to undertake that type of work. Yet from a regional point of view contracts may be only worth in the order of \$1 million to \$2 million, and it has a major impact within that region. We can certainly provide you with some good examples of that, particularly in the Northern Territory.

CHAIR—You raised quite a lot of important issues that this committee is trying to consider. Telstra did tell us today—and in fact it is my view, as supported by the 1994 so-called Bevis inquiry—that it has always had both an engineering ethos and a buy Australian culture which, generally speaking, one would believe, if you listen to industry, has not been spread through the rest of the Commonwealth purchasing procedures. You did say—and I thank you for that because it does conform with most of the evidence the committee has received—that the majority of submissions the committee has received, notwithstanding some very negative comments about Defence around the table today, have in fact said that while they can still do better, Defence's current procedures might become a model for other Commonwealth agencies. That is true, isn't it? So a majority of submissions have supported the direction that Defence has taken with the Strategic and Defence Review.

One of the issues you raised was mega-contracting. We are interested in that. We heard, for instance, that one or more agencies have lumped together office supplies and office furniture in one huge contract. We also heard there is no Australian company that lumps those two together as an offering. Comments back say, 'If there is not any, then why don't they get together and form consortia?' Obviously they will. They will have to. But the question I raise is, 'Should industry have to change the way they do business because of a change in purchasing focus?'

Mr Martin—Chairman, I think that would be avoided in terms of being a confrontational issue if we had a little bit more intermediation about how these approaches are developed. I would say that, just to shift your purchasing in that direction when it may be contrary to your interests, particularly if we have an Australian industry development

objective that we feel we all have, perhaps needs to be reconsidered. That is not to say that we cannot move in those directions if that was the appropriate response to the best form of supply. But we are getting a lot of feedback—and it is not just in furniture, it is in airconditioning and areas like that where things are being pushed together—that Australian suppliers just cannot meet the magnitude.

CHAIR—Do those contracts preclude Australian SMEs participating in them?

Mr Anderson—Yes, they do. The advantage the SME has is to be client focused. They usually do not have the resources to actually come together and form a consortium such as a lot of large organisations will. I will confirm your thoughts about the Department of Defence. It is proactive. The criticism I made earlier on was not levelled at the department; it was levelled at the process they are trying to work under. They have broad guidelines and you can interpret those guidelines whichever way you want because there is no definition—that is, of value for money. They are working under a difficult situation. We work very well with them. But the trouble is that, when you are trying to get an SME to come together, they are trying to focus on what they do best and quite often these projects are lumped in such huge volumes that they cannot form this consortium because it may require four or five, and sometimes anything up to six or seven companies to come together. Whereas one company which is a multinational or a very large corporation can supply as is. That is the difficulty they have got.

CHAIR—But let us say that your products and services were also applicable to the private sector. If you are trying to deal with BHP, Telstra, ACI or ICI or whatever you are going to run into this same problem, because they have a responsibility to their shareholders to get the biggest bang for their buck. If that, in their view after analysis, is by placing a large contract rather than a whole series of smaller ones, then it is incumbent on them to do that.

Mr Anderson—But it is not necessarily cheaper to devolve everything—the responsibility, the delivery of a service—to one large mega-company.

CHAIR—Mr Martin, one of the things you said was that there was no champion for industry, but I think perhaps Ms Sabic might disagree with you. I have formed a view from their submission and discussions that the Office of Small Business is in fact a champion of industry development. Would you like to comment on that?

Ms Sabic—As I said previously, the Office of Small Business is there to advise the minister and to influence other government departments about how they approach small business issues. We are a very small agency so what we have to do—much like DOFA—is try and develop principles, to try and change attitudes, that other departments can develop. In terms of purchasing it seems to us it is quite clear—from the comments from small business—that government officials, when they develop contracts, are not aware of the operating environment of small business and they do not develop their contracts to suit the operating environment; they are devoid of commercial reality. We need to change that perspective. I think John's point has merit, in an independent industry or a small business advisory group advising on how government might meet these needs.

Mr McLachlan—The point related to mega-contracting emerged in the latter days of the National Procurement Board when we were addressing the Prime Minister's initiative in reducing the cost of doing business with government. We found in our discussions with officials in the various departments that the immediate thought in reducing the cost of doing business with government was related to the cost to government of doing business and there was very little recognition that really the true cost was the cost effect on the small to medium enterprise in Australia. That is where it came about: where reducing the cost of doing business with government was seen through the government's eyes, as opposed to what the impost of that cost was on bringing these small organisations together into consortia, and the cost to them to be able to react to the mega type contracts that were brought about. That was a real cultural change that we in the National Procurement Board at that time felt had to be precipitated back out into government departments in looking at that reduction of cost.

Mrs Power—Following on from Mr McLachlan, it seems to us that in these mega-contracts the government itself has perhaps misread the situation. I refer particularly to the ESA program where, when the CUAs were cancelled, the government itself selected commercial furniture as one of the areas that was of such vital importance to it that it would be raised to ESA status. That was particularly so because of the occupational health and safety implications of the correct type of furniture for such a large employer.

But by going to outsourcing and now to mega-contracting and mega-tendering, that has almost wiped out the effect, or appears to be wiping out the effect, of raising furniture to ESA status. We worked very closely with government—DOFA—to ensure that there were very good guidelines in the ESA program, but under a mega-contract all of those guidelines are ignored and it becomes simply the cheapest price. Following on from Mr Martin, everybody involved and particularly in the small enterprise which is where, by your definition in this paper, most of the furniture people sit, then they are not in a position to come together. Even as a large group of furniture suppliers, the cost impost is enormous, but then to be asked to get into a mega-contract with pens, pencils, stationery, printing, storage—all of those things—it is just stopping the enterprises from doing that.

All of the good work that has been done with DOFA—and it is early days yet, and we have worked very closely with DOFA—appears to be going out the window under these mega-contracts because, as Mr Martin said, you are handing it to a single source provider—multinational or not, it is a single source provider—and their sole interest for all of the people below them is money, the cheapest price; no thought of industry development, no thought or very little thought to Australian made, very little thought to occupational health and safety. They want the small business to provide a subcontract to them that is the cheapest price.

CHAIR—On the other hand, I gained the impression somewhere through this inquiry that 98 to 99 per cent of government's purchasing of furniture is Australian sourced, from Australian manufacturers.

Mrs Power—It has been to this point, quite correct.

CHAIR—Are you saying that is in the process of changing?

Mrs Power—I think this is now in the process of change, due to all of the things Mr Martin has enumerated.

Mr Pool—Mr Chairman, I have been in this game a long time and, again, as part of the defence industry strategy, Defence have put in there, as approved by the minister and of course cabinet, an Australian industry technology grants scheme for Australian industry products where it meets the criteria of a requirement that may be needed by the ADF and has export potential and so on. There is a little bit more in the criteria. Again, I am only aware of the grants that have been given to multinationals. There are quite a few grants that SMEs have applied for; again, no consideration to SMEs.

The grants that have been given so far under that scheme are given to multinationals. Again, we are disadvantaged. It is the same old story. We are not being treated properly. Even though on paper it is there, it does not work in reality. Of the people who have applied for grants, some have approached me to speak on their behalf: Motive Power Australia, for example. They have a product that is currently being trialled by the Australian Army. They have applied for that grant; again, they cannot get an answer. That grant scheme has been in process for 12 months, but the big multinationals are given every preference under that scheme.

CHAIR—Does Defence have a comment?

Mr FitzGerald—Not I, Mr Chairman. I do not know, I am sorry. I will have to take that on notice. I cannot help on that all.

CHAIR—I have another issue. Either Mr Martin or Mr Chalker talked about the \$10 million industry development criteria level as being potentially too high. I note that Defence has used \$5 million. Do you have a view or do other participants have a view of what might be a satisfactory level, without taking it down so low that indeed the bureaucratic procedures become so great that it is costing the Commonwealth money? And I remind you that they are your taxes as well as mine.

Mr Chalker—I was glad to hear that there was some discretion in fact in CEIs. I think it is hard to set an artificial level. There could be purchases for several hundred thousand dollars, for example, which may have very significant flow-on effects. If industry itself can go in to the purchasing body and demonstrate that perhaps there is another contract coming up in Singapore or somewhere offshore, somewhere else in another state, that will lead to significant growth of this particular industry, this particular product or service, they should be allowed to make the case for it. Currently with the threshold as high as \$10 million, there is just not that opportunity. It puts the onus back on industry, I believe, to prove that there is a case.

CHAIR—Does industry have enough information to be able to go to government and say you are considering buying this? How do we make that work?

Mr Anderson—Mr Chairman, I will reiterate. It gets back to being risk averse. It is an artificially high level because a lot of industry—and particularly SMEs which are developing products—are not of a significant size and the products they are developing are at the bottom

end. Ten million dollars is quite a large turnover for an SME and, as such, whatever government sector is buying they are risk averse and they will say, 'Well, hang on. That's probably 25, it could be 50 per cent, it could be 75 per cent of your turnover. You're relying on us. No, we really want to buy it from somebody else, so we're only accounting for, say, 10 or 20 per cent of your business.' That is what turns them away and that is what I think Graham is trying to get across—that it is too high. Sometimes you have got to make industry actually say, 'Okay, we're developing a product or a service we can provide to you.' It may be as little as a couple of hundred thousand dollars, but we can then take it further out.

CHAIR—Dr Wright, can you think of some simple mechanism that could make that sort of suggestion work? The representatives we have here from industry are saying this really ought to be an industry responsibility, but then how do we plug that into the system? Have you got any ideas?

Dr Wright—The model industry development criteria were developed in consultation with industry and our department worked in conjunction with others. As you have said, there is discretion in application of these criteria and certainly, as I mentioned at the previous hearing, in the Department of Finance and Administration we applied the then draft model industry development criteria to our corporate support outsourcing exercise which was about half the value of the \$10 million. So I think it is a case that agencies do have the discretion and they could use the development criteria where they think it is applicable. Rather than artificially reducing the ceiling or making it greater, \$10 million is a threshold that was developed in consultation with industry, but there is discretion to apply those criteria to lower level value contracts.

CHAIR—But what I am asking is, whatever the contract is—let us say it is for furniture and it is \$3 million—a group of furniture manufacturers, through their association or however, got together and wanted to come to a particular department to argue the case for having industry development criteria as part of that proposed contract before the contract is actually formally announced. Can you foresee any sort of mechanism to help that process along? Do you understand what I am saying?

Dr Wright—I can understand your point. I cannot think at the moment of a specific mechanism but agencies really should explore the market before going out to tender and take these sorts of issues on board when developing their tender process.

CHAIR—Lots of people should do lots of things. It does not mean they necessarily happen, as you know.

Mr Williamson—Mr Chairman, I do not have the whole answer, but I think the kernel of the issue really comes back to value for money. If we could get some kind of a sectoral calculation of that value, it may mean that small business is disadvantaged in some ways, in that it is easier to do business with one large rather than a number of small, and that might be a disadvantage, but small business might bring to that calculation substantial other values—the value that they might make to regional development, industry development and things of that nature. Then I think if you could get to a situation based on that sectoral calculation that small business needs to be encouraged, then perhaps the grants that might be made available from government could take that into account. So I think it comes back to

some kind of a definition of what is value for money, ideally taking into account a quite specifically designed calculus that needs to be industry specific.

Mr Brady—I am not quite clear on what represents the definition of small to medium enterprise as far as industry development is concerned.

CHAIR—Good luck! Welcome to the crew.

Mr Brady—Looking around the room here—even with Peter speaking before about Defence, which is very large to us—a lot of our members are small businesses out in rural areas—that is, their whole turnover in a business is \$1 million or \$2 million a year—family business, et cetera. When you look at manufacturing in our particular industry, which is the IT and business equipment industry, it is all offshore—it is Japanese manufacturers, American manufacturers, et cetera. The only involvement for Australian business development is basically in service provision, so it is a service provision industry, and that is the key.

Once you get out of the negotiation with the multinational manufacturers in the contract, the provision of the services happens by small business in the regional areas; therefore, the only way to alleviate the situation or to give any guidelines is to allow small business to compete at a local level in a normal commercial environment as far as service provision is concerned. That is the key to everything. You do not even need guidelines there because normal market forces prevail. If you allow a small business to go into a department and provide services and justify the value of what they have to offer in a normal commercial environment, that is all they have to do.

Mr FitzGerald—In Defence we do have a well-developed industry development program. I have got to say to you that we view it as far more than merely helping SMEs. We have two main thrusts in our industry development program: support for the equipment that we buy and technology acquisition, if you like, to be able to provide that support and hopefully for our industries to develop business opportunities and export opportunities beyond that. Our industry development program goes far beyond the CPGs, although we are reviewing currently the model industry development criteria that have just come out. Industry development indeed is a key factor in our value for money considerations.

Contrary to evidence here, we do define value for money in our Defence procurement policy manual. There are four pages trying to explain what people ought to look at in determining value for money. When we look at value for money, we also look at risk—risk of the organisation that is supplying us, are they going to go broke, and do they have the capacity to deliver what we ask them to deliver or contract them to deliver? There is no point in entering into a contract with someone you know cannot deliver the product that is required by the time that it is required and at the agreed price. We are held accountable for that and we try and do that.

In terms of SMEs, we do have a couple of initiatives under the Defence and Industry Strategic Policy Statement that people have mentioned. We have set and we are funding, I think, a network—the Australian Industry Defence Network, AIDN—and that is a mechanism for SMEs to feed their views into the Defence procurement machine, if you

would like to call it that. We are developing through ISONET, in cohorts with ISONET, and have put into our contracts that tenderers for the larger products or larger equipment should consult with ISONET, and we actually ask them to come back to us and feed back information to see that that happens. I think we also ought to not miss the point that SMEs at times are subcontractors or sub-subcontractors to some of the sort of people that we deal with, and I think that is just getting swept away.

CHAIR—Yes. Good point.

Mr FitzGerald—We do, as I think the documentation says, have industry development down to projects of the order of \$5 million, not \$10 million. We are hamstrung a little bit, I guess, as we all are, by what is actually a definition of an SME. And I guess one of the posers to us and to a lot of people around the table today is who ought to be driving this process? Should the customer be driving it, should the supplier be driving it, or should it be some form of teaming arrangement? I ask the rhetorical question: should we as a buying agency suboptimise our requirements to develop business opportunities for small and medium businesses. That is a good question. I do not know what the answer to that is. We get conflicting directions from everywhere.

CHAIR—It is a good question.

Mr FitzGerald—We are funded to defend the country and that is our main objective. We are not funded to develop industry. We do develop industry in the areas that I have mentioned. But it is a rhetorical question. I am not sure what the answer is.

CHAIR—Do we go to a Buy America policy and call it Buy Australia policy?

Mr FitzGerald—Can we get what we want if we were to do that? I do not know. I suspect we cannot in the high tech areas; in the smaller business opportunities, yes. But should we pay premiums for lots of things that we do not have to pay premiums for? As taxpayers I am sure we would all be concerned about that. There are trade-offs here, and this is the value for money equation that we go through.

CHAIR—That is right. It is a very difficult question. It is very difficult to resolve the interests of government in conserving taxpayers' dollars, and inefficiency and ineffectiveness versus nationalism and industry development and the things that flow from that. The stats that I quoted from ISONET are instructive. I think about those a bit and that impacts on my thinking of what is truly value for money. If the government is receiving more tax dollars in by placing more orders with Australian companies that actually manufacture here and are not just front offices, then the flow-on effects could be tremendous. Perhaps that represents value for money but, as you say, it is very difficult to resolve.

Mr FitzGerald—It is very hard to get to what you might loosely call the Australian content. We try and determine it as being value added in Australia but lots of people that purport to be Australian companies dealing with us are merely shopfronts and importers. It is very hard to get underneath that at times.

CHAIR—One of the issues that Senator Hogg and I are particularly concerned about—and I think Defence tries to do this but I am not convinced that other departments necessarily do—is that if there are industry development criteria in a contract, or in fact a contract without industry development criteria, where whatever it was that a contractor says in their tender document becomes part of the contract that they are going to supply a certain percentage of Australian made goods and/or services, and then when it comes time to deliver the contract they go merrily on their way doing whatever they like, there appears to be in some instances lack of testing those contract bona fides through the project management stage of the contract. Do I understand correctly that Defence religiously determines that where there is a requirement in the contract or someone quotes to you that it will be Australian, that that is in fact what they deliver?

Mr FitzGerald—Religiously, I am not sure.

Senator HOGG—Take the religion out of it.

Mr FitzGerald—Take the religion out and the answer is yes, I think we do. We do this through lots of mechanisms; through our quality systems, through the test and evaluation processes that we go through, through inspection. If we are dealing with an overseas company, for example, and there is an Australian program that has been set up to go to company X in Australia, we will go out and check with that company. We will be in dialogue. Our project people, and some people that are a bit more independent than project people from time to time, actually go out and ask those Australian companies, ‘Have you got this work? Are you getting this development? Can you apply it for other activities, value add and develop other business in the country?’

Mr Pool—I am not here to take on the defence department but let us take the field hospital as an example again. Eighteen Australian companies that were bona fide participated in that contract with me—all SMEs. No-one from Mr John FitzGerald’s department or Defence checked that out or had any consideration for those SMEs. They bought a Swedish field hospital that was NATO designed for cold, climatic conditions. We designed a field hospital. It was designed for a hot and wet climate. That was not even taken into consideration. The decision was made—and I was told that, before the tender was decided—that it was a Swedish hospital they were going to buy.

When we talk about development funding—we had not been around since yesterday—we were given money from the defence department to design and develop an Australian field hospital system and to start that off. We did in 1989. As I said in my previous evidence, we put nine months of SMEs’ effort, a great deal of effort—Australian industry products and raw materials—into that design. We were bypassed with the rest of the funding, so it would look good for the minister on the preceding Kangaroo exercise—they went out and bought some Swedish ones because we were not quite finished, just so Minister Beazley could go up to the Kangaroo exercise and it would look good.

We were then told by Defence that we would eventually be looked after, we would eventually have our consideration met. Eventually in 1997 they did the same; they went and bought the Swedish field hospital designed for cold, climatic conditions for NATO forces in Europe. I am appalled. When we talk about value for money, I served in Vietnam and we

bought two Swedish products, an aircraft and weapons. We were not given the support for those products because they, the Swedes, chose to be neutral. At the end of the day where are we coming from? America does not do it, France does not do it, Britain does not do it, the US does not do it, but we keep doing it.

I have been in this game for 20 years. Prior to that I served for my country and I am appalled at the way we continue to do it and the answers that still come from the bureaucrats. It is not on. We talk about risk assessment. SMEs are given a risk assessment—they are an SME; they are a risk. That is the view. Do we take risk assessment over another Swedish group that is in partnership with the government—the Australian Submarine Corporation? May I ask Mr John FitzGerald what risk assessment was done on our submarines? All the money is repatriated to Sweden. At the end of the day we are in a mess. Let us get to the bottom of it. I am sick and tired of being ridiculed by Defence.

CHAIR—We will now call an end to this session.

Proceedings suspended from 12.39 p.m. to 1.34 p.m.

Issue 4—The statistical database and electronic commerce

CHAIR—We are assembled this afternoon to address the fourth issue that we have on the schedule for today. The government in the ‘Investing for Growth’ document stated its commitment to delivering all appropriate Commonwealth services electronically on the Internet by 2001. This will complement, not replace, existing written, telephone, fax and counter services. Enhanced delivery mechanisms will greatly improve the quality, user-friendliness and consistency of government services provided to Australia. An objective of the committee is to examine the performance of government in delivering an electronic commerce system relevant to procurement that will provide clear gains for both government and industry. In addition to this is the need for an integrated statistical package that will provide reliable and timely purchasing statistics for government and for the parliament.

We touched on this a number of times this morning and the committee considers that this is particularly relevant and particularly difficult, and we will appreciate comments from everyone. I ask representatives from the Office for Government Online and the Office of Small Business to introduce the issue.

Mr Allan—I am from the Office for Government Online. I am joined here today with Mr Guy Verney from the Office of Small Business side. I will start the proceedings in the sense of a brief introduction.

Dr Verney—Ms Dusanka Sabic is from the Office of Small Business.

Mr Allan—Mr Saul Schneider is also from the Office for Government Online. As you would be aware, Senator Alston recently announced changes to the government’s implementation approach in regard to electronic purchasing. My presentation today will focus on what the changes will mean for agencies and their suppliers and will cover basically the following issues: OGO’s role in that, the new approach for electronic

procurement—and in that I include both the process of purchase and payment—and where we are going from here.

I think it is very important first to get a definition of what we are talking about. There are many definitions out there with respect to what electronic commerce is. On the board I have indicated that it is the use of electronic technologies—for example, email, electronic data interchange, the Internet, telecommunications, and the interactive voice type services that are now common, and others—basically to do work and to do business electronically.

As you would be aware, as a result of the administrative audit changes last October, IT policy areas were consolidated within DOCITA. OGO, formerly OGIT, transferred to the new DOCITA, and OGO and DOCITA—you will have to bear with me on some of these!—became responsible for the electronic purchasing and payment framework, including development of an implementation strategy and implementing new facilities for gazettal. DOFA remains responsible for purchasing policy, excluding electronic commerce related issues, including gazettal policy. A service level agreement has been established, under which DOCITA will work very closely with DOFA to implement new gazettal arrangements.

Senator Alston announced changes to the government's arrangements for electronic commerce in January this year. You may be aware that previously we had been using Transigo, the electronic commerce service established for us by Telstra, as the main vehicle to introduce electronic commerce. Under the new arrangements agreed by the Commonwealth and Telstra, Telstra will continue to provide gazettal services through Transigo until the middle of the year. The Commonwealth will test the market for replacement arrangements in the interim, and agencies will be free to use those service providers for purposes of electronic procurement.

Transigo was an ambitious project using a centralist electronic commerce model to provide two functions: firstly, the mandatory reporting requirements, which we did discuss this morning—as a reminder, the requirement to gazette public business opportunities and contracts and standing offers valued at \$2,000 or more—and electronic procurement was the second role of Transigo; that is, trading electronically with suppliers.

Both the Commonwealth and Telstra agreed in late 1998 that the environment had changed significantly since 1995—that was when the original tender was released—and that these industry changes required changes in the Commonwealth's electronic commerce strategy. Agencies had not adopted electronic procurement as quickly as expected, nor had the estimated 30,000 suppliers subscribed to Transigo—signed up as a subscription member—in any great numbers. A new strategy was therefore required to provide greater encouragement to agencies to take up the e-commerce initiatives. A distributed model is now being considered.

This new strategy also reflects the greater maturity of the marketplace, with increased product availability and an increase in the number of electronic commerce service providers. The new strategy will introduce greater competition in the Commonwealth marketplace for electronic commerce services and allow agencies to put in place arrangements which best meet their needs, given a minimum of controls. I will talk about that a bit later—what we are calling a framework. This is consistent with other trends to devolve greater responsibility

to agencies, as we discussed this morning again—the FMA act, the devolution of transactional banking arrangements—and it has to fit in under the current outsourcing arrangements.

On the board—I am not sure if you can read that right at the back, but let me proceed—this is a much simplified representation of how we envisage the new procurement arrangements operating. Agencies will be free to select the electronic commerce service provider and bank—transactional banker—of their choice to conduct business with their suppliers, but this activity takes place within an overarching framework of standards, indicated in this case by the dotted line on the diagram, which ensures interoperability and consistency so that suppliers are not faced with having to deal with a multitude of incompatible systems. We hope that this will give agencies the opportunity to put in place the arrangements that meet their individual needs, but we will still retain a whole of government perspective so that the Commonwealth presents a reasonably uniform face to suppliers.

How are we going to progress these issues for the mandatories? We have appointed a consultant, ETC—Electronic Trading Concepts—to advise on options for the new gazettal arrangements. The consultancy will conclude in April and will recommend a model for reporting arrangements. Some of the members of this round table were present at a meeting yesterday where we were requesting feedback from the various associations and SMEs. This will form the basis of a possible market testing process for new gazettal arrangements.

One of the things we want the new facilities to do is to provide enhanced public access to the information gazetted by agencies, which is the source of the purchasing statistics database. We want to make gazettal arrangements more efficient. For instance, we are considering, at least in the case of business opportunities, using the system being established by AIS Media for PM&C department. The Government Communications Unit, GCU, is using it for lodging advertisements in newspapers. It is intended that all lodgings would be registered with the BEP, which will address us shortly, to assist business users to discover opportunities. This would mean that agencies could use a single process to advertise and gazette all their business opportunities, instead of two separate processes as is currently the case.

In relation to the second part of the e-commerce agenda, the broader electronic procurement framework, we intend seeking expert consultancy advice—in fact, that goes out tomorrow into the press—to develop a detailed implementation strategy. The requests for tenders will go open and we look forward to results later in April.

In developing the implementation strategy we will consult widely with agencies and industry. The first stage of the consultancy will result in selection of a preferred implementation option. At that point we envisage releasing a discussion paper inviting public comments on the recommended approach. On the basis of further research and feedback on the discussion paper the consultant will develop a detailed implementation strategy and the output of the consultancy will form the basis of a submission to government later this year recommending endorsement of the preferred implementation strategy. Mr Chairman, that concludes my part of the presentation. Thank you very much.

CHAIR—Thank you.

Dr Verney—Mr Chairman, committee members and others, this initiative came from the Prime Minister's *More time for business* report, and it came from a plea from business for these sorts of requirements. It particularly talked about the consistent provision of information and the coordination of that information to businesses about their compliance requirements and the provision of information across levels of government. If you want to register for a business in New South Wales you will get your business name from New South Wales, but you will also require a tax file number which is a Commonwealth transaction. Surely it should be possible to put the two together, or have a go at putting the two together. The third point was about consistent processes for making required payments. If we are going to operate in an electronic environment—and businesses are more likely to do that in the future—we do not want a series of arrangements which requires businesses to have different digital certificates and public keys and different payment processes across jurisdictions in the Commonwealth.

The government decided in August 1998 to make the BEP the primary consolidated channel for Commonwealth agencies in dealing with small business. The point of this decision is that it is about businesses being able to discover information and carry out their transactions—that means the related requirements that they have. It means you do not have to have something that is centralised with information held centrally; it can be discovered through a myriad of sources and across jurisdictions.

As Gary has pointed out, centralised models do not tend to succeed. In this exercise I can assure you that this distributed approach has the full support of Commonwealth, states and local governments. Because different jurisdictions are at different stages of development and different agencies are at different stages of development, we have to accommodate that and we have to accommodate what is their task or their responsibility. But how we present that to business in a seamless and accessible way is particularly important. The distributed model is one of the principles of the BEP framework. That has just about been signed off formally with Commonwealth, state and local governments as part of the process.

What are the implications for agencies who are dealing with clients? Agencies are responsible for their information and the transactions they can put up electronically for businesses. The BEP provides standards and guidelines on how you document or how you register the documentation so that it can be discovered by businesses, and we will provide some central facilities as appropriate and we have a facilitating role in that process. I expect, on Saturday week, we will be putting out an RFT to the market for the provision of Internet providers and products in the area of electronic payments. We have a role in that sort of area.

This is just a high-level description of the technical environment framework we have. As I mentioned the discovery module is able to discover what you need to do, whether it is on superannuation, tax, codes of practice or workplace relations issues. The transaction management module is able to do transactions online and you can already do a range of those online. We have proved that concept. You can apply for your tax file number as you register as a business, you can get your company registration with the ASIC and there will be other transactions rolled out. I would mention there the Australian business number.

Agency information systems really provide the information and transactions because it is their responsibility but it has to come together and be discovered. Then there is the area of common services that will need to be worked through in terms of authentication and payments, which are challenging issues.

I have mentioned the transaction management here and I will just go into it a bit more. What we are doing at the moment is extending the information discovery component that has been developed through the business information service and AusIndustry and we are now extending that to cover the metadata tagging for transactions. We have to develop menus so that they can be easily studied and found and also to generate forms automatically when a business is seeking to do a transaction.

The future challenges are here. It is managing whole of governments, because we do have demonstration projects likely in the local government area, which are particularly important, and again with state and territory governments. It is getting a critical mass in the next phase. The issues for resolution there are authentication payments, security and privacy and we are working on that at the moment. Thank you very much.

CHAIR—One of the critical issues that this committee is interested in is definitions. What is a small business? What is a medium sized business? We do have a requirement in a key statement in the Commonwealth Procurement Guidelines which says:

The government maintains its commitment. The Commonwealth departments and agencies will source at least 10 per cent of their purchasing from SME.

The Office of Small Business has submitted to us that that is far too low, being exceeded already, and we need to up the ante. But what is a small business and what is a medium business? Why can't we get to a common resolution of this issue not only within the Commonwealth but also across the states? How long is it going to take? Does anybody have any ideas?

Ms Sabic—The Office of Small Business is very keen to see a standardised definition and we have accepted the one put out by the ABS previously which was non-manufacturing 20 and under, and for manufacturing under 100. When the Small Business Deregulation Task Force attempted to refine the definition of small business so that it would have more meaning, they took the ABS for the 20 and 100, but they also added characteristics. The characteristics were principally owner-operator and the owner injected most of the capital and it had a turnover of \$10 million. This is generally accepted as the definition of small business, but since that time the ABS has now defined all small business to be 20 and under. That is the definition that OSB accepts for small business, but there has not been an agreement on the medium sized enterprise.

The definition that we adopted when we were working with DOFA—to disaggregate the data to see what the purchasing was—was based in one sense on expediency in how data had been collected so that we could compare the proportions. But that is by no means a set definition and it would be quite useful, I think, in terms of broad government policy to have agreed definitions. I believe in the United States there are definitions and they are mandated in legislation. As I said, I think that would help us because it would overcome a lot of the

discrepancies and different legislation that we currently have, such as unfair dismissals, 15; affirmative action, under 100. There are lots of different definitions in place.

Senator HOGG—On that issue, is there a difference between the Australian definition and what the Americans might use? It may well be that an Australian company may be dealing with a small business, and if they dealt with a company 10 times its size overseas they may still be dealing with a small business, so their reporting will say that they are dealing with a small business overseas. Does that dilemma come up?

Ms Sabic—In the way we have defined it in our Dun and Bradstreet data, I do not think we accept those. Is that right, John? No. In our definition we have tried to include that they are Australian owned.

CHAIR—Would it be helpful for this committee to make a recommendation that, whatever the definitions are, they be legislated, and that be the end of it?

Ms Sabic—I do not know whether I would be bold enough to go that far, but I certainly think we need to standardise our definition. I think there is general acceptance now on what small business is because ABS uses it, but in terms of the medium sized enterprises there needs to be discussion and a definition.

CHAIR—We can have discussions for the next 50 years. We seem to have had discussions for a long time.

Ms Sabic—I think you need to recommend more of a discussion, because if we are looking at procurement policy—as you point out we have got a policy commitment—then we really need to define what we mean by the medium sized enterprises.

CHAIR—We also have another policy commitment and that is at the moment any purchase document of \$10 million or more requires an Australian industry development statement, but we have not defined what is Australian industry, have we?

Ms Sabic—Not as far as I am aware.

CHAIR—Is anybody aware of a definition of Australian industry? Other than the now legal requirements for ‘Australian made’ and ‘Product of Australia’, is anybody aware of any other definitions of what was really Australian manufactured or produced goods or services?

Mr McLachlan—Mr Chairman, during the period of time that the National Procurement Board was in existence, they took up the issue of Australian industry measures. In trying to get to the bottom of that, there was an attempt to define what was Australian industry and, indeed, what was an Australian company. It fell short of resolution on the basis that there were legal interpretations. It went back, I think, to the food industry’s involvement at one particular time as to what was an Australian product, what was a product of Australia, whether it was an Australian company in terms of ownership and what percentage of ownership, and it was put aside as being something that could not be defined at that point in time. There was an attempt made to do it, but it fell by the wayside.

CHAIR—I would remind you, Mr McLachlan, that since that time government has legislated and ‘Made in Australia’ and ‘Product of Australia’ are now well defined.

Mr McLachlan—It has, but it has not identified what is Australian industry.

CHAIR—True. Is this desirable? One of the things we hear from some of the respondents in this inquiry in submissions to us is that, in the data we do collect now, it is entirely possible that a shelf company—that is, a shopfront, a door and a person and a telephone—registers in Australia, becomes an Australian company. We then report that there is very high purchasing from an Australian company when in fact the company is only a front for an overseas company and imports 100 per cent of the product or service. Is it so hard? Other countries have been able to do it? Why do we find it so hard? Does anybody have a view on that? No?

Senator HOGG—What do they do in the United States?

CHAIR—If the Yanks can do it, why can’t we?

Mr Neil—Do you want a personal view, Mr Chairman?

CHAIR—Absolutely.

Mr Neil—The view is that in the United States—and I have lived there for a number of years—they have an attitude, an arrogant attitude, that if you cannot get it from the United States, why not, whereas we in Australia seem to have an attitude that we cannot get anything smart here. We have got to import it if it is smart. What we have got to do is change the culture; not change the rules, not change the definitions, not change the lines over which you fall to become an SME or an ME, but we have got to change the attitude.

CHAIR—How do we do that?

Mr Neil—Education.

CHAIR—Who does it?

Mr Neil—The schools, to start with. Start at the age of five and work up.

CHAIR—You want to add to the curriculum.

Mr Neil—Not add to; change perhaps.

CHAIR—I really do not understand how.

Mr Neil—You asked for an opinion, Chairman, and that is what I am giving you. I believe that we need to somehow or other change the culture of this nation to stop us having this myth that we do not produce smart things here, that we cannot do it, that we automatically have to look offshore for something that is good or bright. The only means I

can think of to achieve that is education. You cannot do it through training. Training is a process issue; education is a cultural issue.

Mr FitzGerald—We do not have any internal definitions or things like that, but we do use the notion of Australian content, looking at value added in Australia. We do gross things like what is the selling price, what was the imported content, and the rest is Australian value added, for example. We do look to getting our minds around what is an Australian company and we do not look at equity ownership. We do look at the facilities that the company has in Australia, the people that are employed—are they mostly Australians?—the commitment to things like R&D, development and export opportunities; the substance of the matter, rather than particular definitions.

For example, when using a company like General Motors-Holden's, it is wholly owned offshore but it is an Australian company. I think everyone would agree with that. Get down below some of those sorts of things and there are an awful lot of grey lines. But we use that notion of what is the substance of the organisation in Australia? Does it employ Australians? Does it contribute to R&D? Does it have facilities? Does it have a long-term intention to stay in Australia?

Mr McLachlan—Again, Mr Chairman, following on from that and the point you made about the shelf company, one of the difficulties that exists at the moment with the government's requirement for 10 per cent of purchasing to come from SMEs is we do not define the type of SME—whether it is to be an Australian owned, an Australian registered or an Australian manufacturer—and as you quite rightly point out, those SMEs could be importing 100 per cent of their product.

Mr Hardy—Mr Chairman, I think if we are going to have any meaningfulness in our reporting mechanisms across whole of government and across agencies, there have to be some uniform standards. Many of us now are configuring FMISs—financial management information systems; SAP/R3, for example—and in configuring you are setting standards for what is to be recorded, and this can be recorded electronically in recording your suppliers, first-up, and any reporting you can do at an individual department level can be qualified by defining what you see as an ANZ and SME. But in terms of whole of government reporting, it would not be possible for you to compare, say, Defence's definition of an SME or an ANZ as against a smaller agency's. So there have to be uniform standards. I just cannot think it can be debated. In response to an earlier question of whether or not this inquiry should recommend whether there should be standards, I think absolutely it must.

CHAIR—Thank you for that.

Ms PLIBERSEK—Standards across the way that information is collected—

Mr Hardy—Yes.

Ms PLIBERSEK—as well as the purchasing requirements, and the information about what is being purchased. That is what you are suggesting, isn't it?

Mr Hardy—Yes, certainly. It would be spelt out. In terms of the reporting mechanism, that would dictate therefore how you would and what you would need to record.

Ms PLIBERSEK—Has there been any attempt made, that you know of, for agencies to have these discussions—inter-agency discussions—about what sort of data should be captured in the systems that are being developed?

Mr Hardy—There is the Procurement Forum that meets once every six weeks, and I see a number of faces in this room which attend that forum as well. A number of issues are discovered, but I do not know that the definitions of SMEs and ANZs have ever been raised as a formal agenda item. It could be done, and perhaps we might raise it. There is a meeting on the 30th of this month. We might do that.

Ms PLIBERSEK—Do you need this committee to do anything to facilitate that?

Mr Hardy—Not in the sense of that forum. It is a very good forum and ideas exchange quite freely, but in terms of recommendation and giving something definite, a target to achieve—and people do work better when there is something to be achieved under direction rather than wondering about it and simply talking, as the chairman mentioned earlier—I think it is possibly time that we do set a target and set a date that a number of things be established.

CHAIR—I think this came out in the last session: if we actually focus on somehow advertising how we are going against some of these objectives in the guidelines. For instance, what percentage of business is going to small business and medium size business? What percentage of Commonwealth purchasing is actually buying Australian goods and services, reasonably defined? And if we keep pointing to higher and higher objectives, might that not be as good a way of changing the culture as anything else, without having to go back and introduce another school curriculum subject? But if we create targets and say to industry, ‘The Australian government believes in you and we believe that for every dollar we spend we get leverage that helps the Australian community, so we are now trying to get 50 per cent of our business to go to SMEs. That is the target’—not like an unemployment target, but that is a target—‘and we are determined to get there,’ and we constantly publish statistics against it, is that so expensive, so bureaucratic, that it would not help?

Mr McLachlan—From where we come, Mr Chairman, that is an ideal because it is promoting the government involvement in Australian industry, but again it becomes a matter of measuring it and gaining those statistics, and you would know better than most that that has not been possible till now. There was some thought in the early days of Transigo that there would be fields put in there that would identify the percentage that went to small and medium enterprises and a percentage that went to Australian industry, but that has not been forthcoming and it should be something that can be readily called up rather than being an impost on the government department or, indeed, on industry to have to provide that information. That should be part of the overall financial system in some form or another.

Ms Sabic—Our submission recommended higher targets, but I would caution against setting a target that is too high. We would have to put the setting of targets in context with other government requirements, the current changes in terms of accrual accounting, other

mandatory reporting requirements such as service charters, annual regulatory plans, regulatory performance indicators. There is a whole pile of new requirements on departments to re-engineer the way they are thinking, so to set a target that is too high—I would suggest even 50 per cent would be too high—would not be able to be achieved, so you would be looking at setting incremental targets.

CHAIR—I thought that is what I said.

Ms Sabic—Sorry, yes. We believe that 20 per cent is achievable in the first year, and perhaps build it up from there, so that departments can feel that they are able to achieve these requirements.

CHAIR—You are talking about the other requirements of government departments, and I accept that there is a lot of change, and accrual budgeting and accounting are going to take a lot of resources; there is no question in my mind about that. This issue that we are inquiring into at this point in time is a recurrent issue. This is not the first, the second or the third inquiry or report into government purchasing. It is one in a long continuum over a long period of time, so it is in the business community a high-profile area because over and over again we have heard that so many businesses depend—not all of them, certainly—on the flag of being able to say, ‘I supply to the Australian government in order to get business externally—overseas,’ when they go to export, and it is critical for them to be able to say, ‘The Australian government buys my product’ or ‘uses my services.’

No matter what we come up with or what government accepts out of what we come up with, the issue is going to be around forever. It is one of those things like banks. Somebody is forever inquiring into the banks, aren’t they, because it is a high-profile public issue. So is this. And I do not think we can ignore it just because the departments are having to do other things at the same time.

Mr Anderson—Just to go back to your earlier point, how do you educate? You educate, I think, by example, and I think that is the one thing the Commonwealth can do. They can lead by example. It is not even to the stage of creating or giving an impression that the Australian government has confidence in buying products from a company so that company can even export. It is to give companies within Australia the confidence that they will buy Australian as well. So if we are going to try and get out of this mentality of ‘overseas is better’, then I think it can start here, as well as the education. The Commonwealth can be proactive in actually leading by example. It can start off by building up those percentages as to what is bought from Australian companies, be it an SME or a large corporation—who cares, as long as we are buying Australian and we keep lifting those levels—and by publishing them. I think it is the best thing that could happen.

CHAIR—Years ago, we used to have a preferential Buy Australia policy, up to 20 per cent differential in favour of an Australian company, Australian product and service. Why didn’t that work?

Mr Anderson—I think it was manipulated.

Dr Verney—I am talking from recollections about the 20 per cent preference margin. I understood the previous government's decision to reduce it to zero per cent was that the preference policy was not effective and there had been very few cases in which it had been carried through, and in terms of the amount of effort, I suppose, and the costs of looking at that and the results, it was decided to not proceed with that 20 per cent preference margin.

CHAIR—The generic question I pose to Mr Anderson and to anybody else is if that very overt statement by government of support for Australianness of 20 per cent differential did not do the job, then how is just collecting the data and publishing the statistics going to do the job?

Mr Anderson—It is the mechanism that you actually police that guideline by. My experience was that there were always ways of circumnavigating it. It is an education process which, as Mr McLachlan said, has to start in the schools, but at the same time it has to start here and work together. Somehow we have got to stop the purchasing officers being able to walk around that idea and say, 'Okay, I really want that. I don't want that.'

CHAIR—Okay.

Mr Brady—We are talking about the ideal goals of a certain percentage of government business, the small to medium enterprises and Australian industry content and such things, and we spoke a moment ago with the Office of Small Business, that there was a definition of a small business being 20 employees or under, et cetera. Maybe we need to go one step further and also define it by type of business. For instance, a small business of 20 employees or under being Australian content if it was services only is basically 100 per cent Australian content, because there are only service providers. But if it is manufacturing, then maybe there is some overseas content in the technologies, et cetera. So possibly if we were able to actually define what is an accepted definition of small business and what is Australian content by industry type, services, manufacturing, et cetera, then it is easy to chase goals. At the moment you cannot measure it because there is no definition of what represents Australian content and what represents small to medium enterprise, so you have to have the clarification first.

Mr Williamson—I think it admirable to measure increments and measure components of purchases and set targets but I think to be able to do that you need to be able to measure the fundamentals of how much government is purchasing. We are a large manufacturer of paper, much of which is basically sold into government by small business as a raw material in the form of copying paper or as printed matter. We as a large manufacturer made a concerted effort to try and establish how much government buys, without success; I think probably better success than government itself but nonetheless they are estimates rather than actuals. So whilst I commend setting standards for small business increments or what have you, you would have to be able to measure the very fundamental of what is being purchased in a meaningful way.

CHAIR—I will ask Mr Allan if I am correct in thinking that at the moment any purchase over \$2,000 is registered on Transigo.

Mr Allan—Except, Mr Chairman, in the case of devolution, which we spoke about this morning. The departmental secretary has the right to exempt a particular procurement above \$2,000 or standing offer based on generally a security type of requirement or it could be something else, but it is up to the departmental secretary to make that call.

CHAIR—Does that happen much?

Mr Allan—I asked that question of a particular large department yesterday and the indication was not very often. We do not know what the scope of that is.

CHAIR—But do we have any feel for the percentage of dollars spent that is actually registered on Transigo?

Mr Allan—Yes, we do. We can bring that up. We write quarterly reports that are provided to—

CHAIR—How do you know what is spent below \$2,000?

Mr Allan—We have a rough feel—and note the word there. That is from two sources. One is that we have looked at the procurements on Transigo at the moment from \$2,000 to \$5,000 of which we can do a statistical analysis. That represents between four and five per cent of the overall Transigo data for, say, a quarter or a year. We are now extrapolating back in saying that it is in that region. For instance, in my own agency where we have done some sums it is in the same sort of area; between four and 10 per cent is below the \$2,000 line.

CHAIR—How much?

Mr Allan—Between four and 10 per cent, so that is consistent there. That is a small agency that does not have the big bang projects; a lot of them are small transactions. Mr Schneider has some more details on that.

Mr Schneider—As Mr Allan said, we do not have firm figures on the spending under \$2,000 but, based on anecdotal evidence and some of the work we have done ourselves that he was mentioning, the split between \$2,000 and \$5,000, we would be surprised if it was very much more than five per cent. For large agencies it would probably be quite a bit less than that.

CHAIR—Ms Sabic, when you were doing the work—and Dr Wright too, if you like—together on coming up with a figure of how we are going against the 10 per cent SME guideline, what did you do about the less than \$2,000?

Ms Sabic—I am not able to answer that question.

Dr Wright—The data that has been provided was taken from Transigo. That was a Dun and Bradstreet survey. It did not cover the less than \$2,000 because that information is not captured.

CHAIR—But the less than \$2,000 would be almost 100 per cent SME, wouldn't it? Or would it necessarily? It would certainly be very high Australian content, I would have thought.

Mr Allan—In fact, Mr Chairman, we have the statistics for the Australian content over the last couple of years and something like 98 per cent of the contracts issued above \$2,000 are actually Australian and New Zealand companies.

CHAIR—Companies—that is different.

Mr Allan—Content we do not have.

CHAIR—Let us change the topic. Let us go back now to electronic commerce, if we could. Why did Transigo fail?

Mr Allan—Input was requested from both the supplier side and also the government agencies side on that particular question, Mr Chairman. Remember that Transigo was conceived in 1995. That was the tender time. It went to contract in 1996 and the first version was 1997, followed in 1998 by a second version of the software. One early adopter—some of the software that was put there—was slow and was not responsive enough from the users' side. That came from feedback from the users. It was not flexible enough in some areas in the data that was able to be provided. Many members of the committee and here have probably realised that. We have hit on one of the issues already—the ability to break out, for instance, SMEs from others that we have had to do, for instance the Australian-New Zealand part of that, the companies side of that manual.

There was a number of these things that made it very difficult for Transigo to meet the full government requirement of being able to report. As I mentioned earlier with the service level agreement we have with DOFA, we have to do that quarterly and that is aggregated as well for an annual report.

CHAIR—But where it really failed was in attracting suppliers to tender for government requirements electronically.

Mr Allan—Yes, that is right. Of the roughly 30,000 suppliers that are doing business on a regular basis with government, less than one per cent actually signed up and subscribed to Transigo.

CHAIR—Does Australian Business have a view about this?

Mr Chalker—We did have an involvement as sort of a part player with Transigo. I think we provided some electronic cataloguing. Like everyone else, the people who were involved in that are no longer with the organisation so it is a bit hard to know. I think we supplied our part of it as one part of it. The question you are asking is why perhaps only one per cent are using it. I suspect that a lot of players—I think as we have said—still do not actually use electronic commerce. They are utilising computer methods within their businesses but they have not got to the stage of doing business online as yet. I guess we have made a fair investment in trying to get some of our members online but it is still taking us some time.

We talk about maybe 10 or 15 per cent of our members who might be up to that sort of level. That still leaves a heck of a lot outside there who are not.

CHAIR—If that is true, how successful is the Business Entry Point going to be?

Dr Verney—That will depend on the take up of e-commerce in the market, in the economy, and how businesses relate to themselves and how they compete. It also depends on the services that the Business Entry Point can offer to clients and encourage them to deal electronically. The beauty of the Business Entry Point is that it is not just an Internet accessed system. You can still access the information via hotline because not everybody will use computers and the Internet to access it. What it will bring together will be a comprehensive suite of information about government compliance requirements across jurisdictions. I do not think there is anything quite like that in the paper based world. For example, if you wanted to find out about aquaculture in Western Australia, South Australia, the Northern Territory, you can do that electronically if the documents are discoverable. If it is a paper based system you will be writing off to each individual jurisdiction to get that information.

The issue which we are focusing on here is the way in which it can reduce the compliance burden for small business, which we by the way talk about as most Australian businesses or businesses in Australia. There is a big end of town of course but it is mostly the businesses in this country. If you are able to discover and to do these things, such as your transactions, and deal with agencies, you should be able to attract people to use that. I think it will have relevance in terms of the Australian business number—the legislation is before the Senate at the moment—because that is one apparatus or potential apparatus for enabling business to provide common details once. If it were able to be linked electronically with appropriate systems, that would meet one of the requirements that business has said is one of its greatest burdens, and if you read *More time for business* and all those sorts of reports, the other burden that they have of course is tax and tax and tax.

So my projection, I suppose, if I am looking into the future, in saying where the Business Entry Point will be in 2002 or 2003 is that there will be an uptake of the use of the electronic mechanisms to deal with government, particularly by business, that it will be part of the competitive infrastructure that businesses require, and I think that will depend on how businesses relate to each other in this country and form their networks electronically. So I believe in the longer term the Business Entry Point or the concept of the way that it is able to operate will be something that is just there as second nature.

Senator HOGG—Can I just ask you a question there? You are talking about the longer term. What is the longer term? I am not trying to ask you about how long is a piece of string because obviously it has got to be in a transitional period.

Dr Verney—We are in a transitional period, I believe, in terms of the impact of electronic technologies on the way government businesses operate. The things that we thought would not be possible in the early nineties have already happened, and they are going to happen, and I think they are going to leapfrog at a pretty dramatic pace. I think the challenges we face here are things like in the lead-up to the change of the century, and the Y2K problem is going to distract attention from some of these things, but there are other

broader issues that I think will continue to encourage people to take this up. In the sort of assessment we have done, we think there will be a greater take-up of this in the early stages of the next century, 2001-02.

I think the important thing is that, if you do not have your oar in water—if I can talk about it in a very blunt way, not in a refined way at all—you will be caught out. It is another way in which this technology is infiltrating the way we will manage our information and manage our client relationships. It is all-pervasive. That is my assessment on the time line at this stage.

Mr Macdonald—Mr Chairman, just answering your question and commenting on the take-up of e-commerce, I suppose from AIIA's point of view, there are a number of factors, and we are working with governments on these—Dr Verney covered them before—including privacy, authentication, security, some of those things, but probably one of the central issues, we believe, is consistency both within governments and across them. I suppose it is our view that e-commerce will be driven by the business to business transactions for a start, but business is not going to invest into this technology if they find out that, to get in to deal with governments on e-commerce things, there is going to be one system for one government or one agency in government and then a completely different system, a new set of things to be learned, more training, if there is not that consistency across governments. I suppose we have been working fairly closely with the Australian Procurement and Construction Council which is fairly central in bringing governments together, and they are putting forward an e-commerce framework on government procurement which is very heartening. They are the things that are really going to make the difference, I think, in the take-up of e-commerce.

CHAIR—Is there any way you can ensure the committee that if you have got an SME that deals across the whole spectrum of government departments in terms of supplying them goods or services that they are not going to have to have five systems now that we have unmandated Transigo?

Mr Allan—Mr Chairman, our intent clearly is, as I indicated during my presentation, to make it one system with a framework which you can read standards at. Ultimately in the department there may be some things that are required to satisfy the requirements of that department, but in general it is intended that it be one. For instance, Dr Verney mentioned the security architecture, as did Mr MacDonald. Clearly the Gatekeeper project from within the Office for Government Online has got to go forward, likewise the enabling legislation, the transaction bill which I believe is coming up in the April sitting time, is just critical. And the take-up of e-commerce, I think, and the success or otherwise of Transigo, as it is now phasing out, is directly attributable, I believe, to the lack of confidence in some businesses, as it is with the citizens of the country, to trust the electronic media in handling their personal information and their financial information.

I believe once this enabling security and the Electronic Transactions Bill gets up, we then from a marketing side can go forward fairly confidently, and we will see the change as a result. IDC, I think, and Ernst and Young and many other consultants are looking at the year 2002 where Australian industry, and mainly business to business in that case, is something in the order of \$6.2 billion per year. I believe that the Australian government has an

opportunity under the current policies to take a fair chunk of that by the way we do business.

Ms PLIBERSEK—Can you just clarify which statistics will be collected under your system compared with which statistics are collected under Transigo, or are able to be collected?

Mr Allan—If you get down to what we call metadata, the individual data on the data—I will have to ask Mr Schneider—in generic form there is a handbook which was produced in 1997, which is the one which says to all departments, ‘This is the sort of mandatory data that is required for reporting on the existing Transigo.’ The discussion we had yesterday with small business and the associations plus government was designed to take beyond this to what is missing—and I mentioned a few of those points earlier, Mr Chairman—to what can best meet the requirements of the reporting in the DOFA requirements and small business and individual departments. So as a minimum we are going forward from this. There are a couple of things in here which for instance are non-year 2000 compliant that we are obviously going to change, but there are some other things that we want to be consultative about. We are in that process right now with the tenders that are on the street or the one that is in train with ETC consulting.

Ms PLIBERSEK—So you are finalising what data will be collected now. You are finalising that now?

Mr Allan—Over the next six to eight weeks our intent is to do that. Not all the Australian bodies are represented here in industry but quite a few of them are represented—in getting that feedback in.

Ms PLIBERSEK—I also want to ask you, we had some evidence from the Victorian purchasing organisation, and they estimate substantial savings already in their transition to electronic commerce. Have you done any projections about what you expect government can save by using electronic commerce?

Mr Allan—Some of it is anecdotal evidence. I believe the benchmarking that is required clearly will be put in place before we move forward, so we know where we have come from and the savings that are there. One department—this is now a back brief from a consultant—indicated they wanted to reduce transaction costs from \$47 down to below \$10 by automating.

Ms PLIBERSEK—Per transaction.

Mr Allan—Transaction could be, for instance, a purchasing requirement, purchasing officer, or it could be anything from visas and those sorts of things, say, through customs, automation of their particular processes. We believe that we will see considerable savings of more than 50 per cent in the transaction side by automation of a lot of these processes, and that has proven true in reports I have read out of the United States in a number of cases.

Ms PLIBERSEK—What about savings on actual purchases because of opening up different types of competition? Are you anticipating those sorts of savings as well—not on transactions but on the unit price of goods?

Mr Allan—I am not in that particular area but I believe some of that should flow on to the individual price tag because of the savings within. In fact Australian business—small business as well in that case—to remain competitive has got to drive down those transactional costs. If they do not, they will not get the business in the future.

Ms PLIBERSEK—This is supposed to apply to all three levels of government. Is that correct? And what mechanism have you initiated to communicate with local governments around the country, of which there are many, to ensure that they are properly involved in the process?

Dr Verney—I mentioned, in terms of the principles of our initiative, what we have. We mentioned discoverability, the distributed model, standards, and then collaborational cooperation. What we have done is set up a framework for collaborational cooperation. We have three main bedrock groups. One is at the Commonwealth level, one is state, territory and local government, and the other one is a business consultative group. We have a steering committee above that. We are utilising that to take through our framework and the decisions that we are making so that people can participate in the initiative.

Below that structure we have some very interesting focus groups—for example, electronic payments, because electronic payments is one of the nuts to crack in this exercise. We started it out as a Commonwealth exercise, but we now have state governments and we now have the banks participating in that—people like St George, ANZ, the Reserve and so on—on the legal front to progress the framework in that area, because the initiative brings a lot of those things together. On the legal front we have a legal issues group, which is predominantly Commonwealth, but we have developed a draft privacy policy there that will be put out for public comment in the very near future, as will a security policy, and we have another group dealing with authentication. So we have the sort of participative forums where these things can go forward and I think people are participating in them because it is not only an exchange of information but there are some things that might be decided in terms of the way ahead in these areas, particularly with our initiative. So in that sense we are talking to all levels of government through that.

We have a demonstration program and we are talking to a number of local governments about that at the moment, as well as some state and Commonwealth agencies in that area, to look at applications that can be replicated across governments. So if we can develop something, say, with a council in the western region of Sydney, it can be put right across the country, and likewise at the state or the Commonwealth level in what we are doing. That has proven very good and, in terms of stakeholder management, has been a key plank of what we have been doing. We have tried to be as transparent as we can so that everybody is aware of what we are doing and it can be tested, so that it can go forward, and this is available in the procurement area. The Australian tax office are using us in those forums for their work at the moment as well. It also complements, in the Office of Small Business, the Small Business Consultative Committee and it is part of the tax process as well.

Ms PLIBERSEK—How much is it going to cost a business to access BEP?

Dr Verney—That depends on what stage they are at. If they are already online and have got Internet access, that is just part of their running costs, but if they have not got a computer it will be the cost of a computer and connection.

Ms PLIBERSEK—But there is no registration fee, as there is with Transigo?

Dr Verney—No. It is there. What we propose in terms of the business opportunities and the tenders is that if they are registered with the BEP system—this is the metadata tagging—so that it can be discovered, it is there, it is discovered. You do not have to pay a fee to get into that. You have got it, it is there, and it is a matter of ensuring that it is comprehensive and that the agencies continue to put their stuff up electronically.

Ms PLIBERSEK—Can you explain metadata tagging to me, please.

Dr Verney—If you go to your local library and you want to access a book like *Economics I*, you go to the catalogue and you look up under the subject heading the head 'Economics I'. What that would say is it is at 9.03 of whatever. Metadata is the same sort of thing except in terms of documents in the electronic world. It is like a library catalogue system and it depends how you actually catalogue what, say, a company is, or an industry, or a document coming out of an organisation. That is essentially what it is.

Ms PLIBERSEK—I understand.

Dr Verney—Is that all right?

Ms PLIBERSEK—I did not understand the term.

Dr Verney—I should not use those words.

Ms PLIBERSEK—No, I understand what you mean now. So basically anyone who is online already will be able to—

Dr Verney—If they are connected to the World Wide Web. It can be accessed through a hotline as well. The people who are behind the hotline are Internet trained and they would be able to go through and zip through it and say to the caller, 'Yes, there's a tender on, or X, or there's this documentation over here.'

Ms PLIBERSEK—What happens to Transigo after the changeover period? Is Transigo just going to wither and die on the vine?

Mr Allan—Transigo had its last update in about April last year. It has not had a major update since then, and will not. Telstra continues to develop the product using the newer technologies that are there. It has one which it currently is marketing which is showing some good improvements. I would expect, based on this next tender that we are putting out, that they would also be one of the bidders using this new product and they are obviously quite welcome to bid.

Ms PLIBERSEK—Thanks.

CHAIR—We will break for afternoon tea.

Proceedings suspended from 2.40 p.m. to 2.48 p.m.

Issue 5—Other issues and conclusions

CHAIR—The segment will focus on additional issues of concern to industry. Representatives of ISONET will introduce this session, please.

Mr Neil—Thank you, Mr Chairman. We welcome the ability to be able to address this last session of your investigation. We appreciate the faith you put in us being able to come up with a number of issues without any agenda. You might remember, Chairman, that when we put our submission in there were three areas of main contention that ISONET believed the committee should be investigating and one of them was that while the principles of good purchasing published as guidance for Commonwealth government agencies remained satisfactory, it appeared that there may have been a reduction in emphasis on how to implement the policy.

As that emphasis diminished, purchasing officers appeared to have lost access to information or interpretation of purchasing policy, particularly as it relates to SMEs and value for money and implicit in that was an issue regarding training. The third point we raised was we believed that many of the perceived deficiencies could be corrected by having a function to measure, assess and report on the procurement function. In fact, if that measurement, assessment and reporting function had been in place we may have been able to avoid a number of the issues raised in this committee.

Most of those issues have been addressed to a greater or lesser extent today already. There are no new issues that appear to have been raised which the committee has not already discussed. We have been through your discussion paper and analysed the industry issues you raised in the discussion paper which may not have been fully addressed and we have caucused the industry associations to see which of the discussion points may require a little more discussion to fully draw out all of the issues involved.

We have established there may be four discussion points people may wish to still comment on. One of them is the issue of common use arrangements versus endorsed supplier arrangements. Parties around the table have raised pros and cons for both common use arrangements and endorsed supplier arrangements, without any resolution appearing on whether or not endorsed supplier arrangements were a better way of proceeding.

The second point that may need some more discussion is the issue of training and education of procurement agencies. You have heard my personal opinion about education. Hayden Kelly from Telstra this morning pointed out that there was great value in having influence and willingness driven down through an organisation in an educational sense to change the culture of an organisation from the top, rather than having training at the bottom attempting to resolve the issues. John Martin also, in his session earlier on today, talked

about having intelligent buyers. There may be merit in opening up the discussion about training and education again.

A third issue that appears to some to need more comment is the access to information and opportunities for purchasing. That topic has been pretty well discussed, except that the area implicit in that is access to the people who are doing the buying. While there is access to information at the moment there may not be readily available an understanding of how you get to the person who is doing the buying. The fourth and last issue which we believe may need more discussion, Chairman, is the measurement, assessment and feedback function. There has been a lot of talk around the table today about having a measurement, assessment and feedback function of purchasing. If that function is in place, what form should it take? How could it be engineered to avoid having to revisit this question on government purchasing every three or four years? I throw the floor back to you, Mr Chairman.

CHAIR—I have your four issues as: common use agreements versus endorsed supplier; training and education; access to information and opportunities; and measure, assess and report. I will deal with the first. Is there any view around the table that other than the two, I think, common use agreements that are currently in place and administered through DOFA, there is any sense in revisiting that issue? That is to say, were common use agreements so good that we should consider telling government that we should go back to them in some limited form?

Mr Hardy—Again, repeating my comments made earlier in the day, for small agencies particularly, which, unlike DFAT, are not large procurement agencies whose scope is very wide—the depth of the volume for each area is not large at all—we found the common use arrangements very useful indeed, and the ESA arrangements as they relate to IT products, again, very much used indeed. So we would be strong advocates for their reintroduction on some limited scale; perhaps not the same scale as existed previously, but very much for reintroduction of CUAs on certain products. Perhaps this could be a definition problem—the scope of what those subjects could be—but we would happily be involved in that.

CHAIR—I think one of the broad complaints about common use agreements was that they were designed—and correct me if I am wrong—basically to be able to place a purchase order against an offer.

Mr Hardy—Yes, a standing offer.

CHAIR—In fact, my understanding of the practicality of it is that purchasing officers used it as a starting point instead, and that the majority of times, instead of buying that item at that price, the supplier said, ‘Okay, your stuff is all right. You have got a common use agreement, now what is your best price today?’

Mr Hardy—Certainly I know of some agencies that considered if they paid in fact the listed price they had failed. That was the case. But again, for small products—and again it comes to scale, Mr Chairman—those agencies that do not have large volume are happy to go and get that price and, usually, where there is not a large volume there is not a large number of staff to be doing the function and therefore not the time to spend searching out and going through further marketing research exercises and they are happy to take the catalogue price.

CHAIR—Thank you.

Mr FitzGerald—We were a bit miffed—that might be the word; I am not sure—when the DAS successors did away with the CUAs. That caused us a bit of a kafuffle and concern. We had to take over and set up 20-odd standing offer arrangements taken over from DAS, or we did our own, that were being previously run by the CUA people. To do that caused quite a considerable drain on our resources. Whilst I am not sure whether we needed 300 or 400 of them, there did seem to us to be a need for some, so we did it ourselves. They are open for others to use, I might add, but we had to take over the administration and that was a resource cost on us.

CHAIR—Under the old CUA arrangements, when we had DAS, did you not have to pay DAS for that service?

Mr FitzGerald—I am told two per cent, yes.

CHAIR—Because as I recall that was also a deterrent to using them.

Mr FitzGerald—It may have been built into the cost of the product, which we probably did not see. I am just guessing on that point. The second thing I would like to mention is that we have set up around Australia—who knows—200-odd standing offer panel type arrangements for local area CUAs. We use them quite extensively right around Australia.

Mr Macdonald—I suppose I am reiterating the comment I made before. From an AIIA point of view, we have an open mind about the CUAs and the endorsed supplier arrangement. There are pros and cons depending on what particular benefit you are trying to get, but the issue really is this consistency, and the confusion at the moment, and the fact that, as John has described, Defence is doing something, OGO is doing something, states are doing something else and there is great confusion. One of the benefits that could be achieved is if we could get some understanding on who is doing what and have a common vision for what we might use these CUAs for and how they might be implemented.

CHAIR—Thank you.

Mr Sams—I was just going to add that in my time I have not been aware of DFAT ever paying any contribution to DAS. I was aware of the suppliers paying a premium on the volumes through the common use arrangements. Again, the CUAs were tremendously useful to us and they were a good deal.

CHAIR—All right. Anyone else? The committee will consider those comments. That is most helpful to expand on that issue.

The next issue raised by ISONET was training and education, from the top rather than from the bottom. Who would like to start off on that one? Come on, don't be bashful! I can tell you that we took evidence from the Victorian government Purchasing Board that they had instituted some modern and what they thought were flexible and up to date training programs which were in modular form and sometimes amounted to no more than two hours on a very limited topic and sometimes up to two or three days, but of variable length, and

this led to certification in degrees of competence across the purchasing agenda. Defence has set up an extensive system, but our investigations would lead me to believe that very few agencies within the overall Australian bureaucracy have done really very much about training or highlighting it as an important item on the agenda, leading up to the issue of reporting to the chairman of the board, the secretary of the department.

Mr Chalker—Mr Chairman, we have argued for some time that training is a critical area for not only purchasing officers but for senior managers in departments. They should be much more aware of the purchasing function, and we in our submissions have endorsed some of the initiatives that Defence have taken up in this area. It should be a much broader spread. As you suggest, there are people like the Australian Institute of Purchasing Managers and so on who run a variety of courses. Maybe some of this could be outsourced to them.

Mr FitzGerald—We are fairly proud of our training regime, and we have put a lot of effort and time into doing it and getting it right—what we believe to be right. A lot of the training is outsourced. We train at three levels—simple, complex and strategic. We do that down through Deakin University and that is something that I guess is unique to us. That is a 12-month course, part time, and I think we have got something like 20-odd candidates on that this year. That is for the big end of town. We were a little surprised that the procurement guides—the CPCs—about six months ago did away with making procurement competencies mandatory. That was the case up until CPC No. 3 of 98. We have left our mandatory arrangements to stand at the moment. We have not yet changed our CEIs; we may not. We are putting in a lot of effort in that area.

Mr Davies—I think I can add that Tax shares Defence's concern about the need for training and as such we have six of our staff currently undertaking the tertiary level strategic course through Deakin University. We have qualified 24 of our staff for complex procurement and 35 at simple procurement level. All of that training is outsourced to Deakin University, Canberra Institute of Technology and some private sector providers in other states. The standards are also endorsed by the Australian National Training Authority so they are industry standards around procurement. Also in our CEI the commissioner has mandated that if you are going to buy goods of certain value—and you have this copy of our CEI as evidence—that as you work up into the higher values you must have this competency, otherwise you cannot buy the goods and services. That is our view: it is the big end of our procurement that really needs to be covered by experts who have been trained and who have had experience in procurement over a number of years, who can bring to bear that training and the experience to do it right.

CHAIR—The third issue was access to information and opportunities.

Mr Neil—Mr Chairman, actually the issue was access to the people. Information and opportunities already is accessible. One of the issues was that the small end wants to have access to the people who are doing the buying so that they can do their own promotion.

CHAIR—How will we do that across all of government? I do not know. In 1994 I think there were 30,000 people in government who had purchasing authority and we had 13,000 Australian government credit cards floating around—euphemistically; I do not think they

were floating. This is a common complaint. I wonder also if the private sector does not have trouble accessing BHP and ICI and Western Mining and so on.

Mr Chalker—I would hate to disagree with Chris, but one of our biggest complaints is they do not have access to information. It goes back to perhaps some of the things we were talking about earlier in e-commerce. We are concerned if government goes directly down the route of providing all information on the Internet—for example, we have members in northern New South Wales who can take up to 15 minutes to get onto Big Pond or something; and perhaps if they do get on they start to get into some of these complicated government sites, start to try and download a PDF file and, boom, the whole system goes dead and they have to go through the whole process again. So I am not so convinced that perhaps they do have that access to information, and I think that any movement that government has towards this has to take into account the problems of those sorts of people.

Ms PLIBERSEK—Do you think, looking 10 or 20 years into the future, that in itself is a problem? If we cannot give those people access to online services for a whole range of services, they are going to fall behind, not just in a business sense but in all sorts of senses. If businesses do not now have the capacity to go online, we have to address the fact that they do not have the capacity.

Mr Chalker—I think we have an infrastructure problem, yes. That is the feedback we get from our regional offices.

Ms PLIBERSEK—If you are not au fait with computer technology and online systems in the next decade and after that, you will be left behind.

Mr Chalker—I suspect it is an even smaller time frame than that the way it is. But I raise it as an issue and it is a concern amongst our regional members.

Mr Macdonald—How do you meet these buyers? Purchasing Australia used to do it by running meet the buyers seminars around Australia which, as far as I was concerned, were fairly successful. I do not know whether the government wants to institute that again, but that is the sort of forum that could be used to address this problem that Chris was raising.

CHAIR—Any other suggestions?

Mr FitzGerald—We conduct a procurement conference each year for, again, the big end of town, the large equipments mainly, for two to three days here in Canberra, and we then conduct a series of regional briefings around the regional capitals, debriefing out of that procurement conference. So there is that opportunity. I have got to say it is mostly the major capital, but there is a lot of work in major capital that flows down at subcontractor and sub-subcontractor levels to SMEs and others. We do that at least to try and help.

CHAIR—It has always been the case, whether it is government business or it is private business, particularly in technologically difficult projects, that there will be lots of subcontractors and if the subbies do not find who the majors are in price to them, then they are not in the game and it is their problem, not, may I say, the final client's problem.

Mr FitzGerald—That is right.

CHAIR—Do we all agree with that?

Mr FitzGerald—Yes.

CHAIR—The onus is on the business enterprise itself to find the business if it wants to do business. Surely it is not government's responsibility to tell every company in Australia that there is some business they ought to be chasing. You agree with that?

Mr FitzGerald—Yes.

CHAIR—The last item was measure, assess and report. What did you want to say about this beyond what we have said?

Mr Neil—Beyond what I have said, Mr Chairman, the monitoring function appears to have been diminished. We are sitting around a table at the moment with a large range of issues to do with purchasing, and a large number of perceived deficiencies on the part of the industry associations and industry bodies represented here. Is it necessary to wait until they get to such a critical mass that we have to have a parliamentary committee to analyse them or would it have been better to have some sort of monitoring function available to progressively do it? I am talking about something that is probably independent of the people who make the policy and independent of the people who publish the policy and probably has got to have industry involvement at all levels of industry—small, medium and large enterprise.

I am not suggesting that we reintroduce the National Procurement Board, but the National Procurement Board has been mentioned today as having a number of salutary functions. Maybe some of those functions could be reintroduced in a like body or there could be functions introduced into the policy that require departments to do it for themselves. The reporting function may be a reporting function that government requires, it may be a reporting function that the minister requires, it may be a reporting function that the CEO requires, and it might also be a reporting function that the purchasing officers themselves require once they become aware of all of the needs that they should be meeting in their purchasing activities. They might want the reporting function themselves. So I suggest that, without putting any onerous impost onto the supplying businesses or the government departments themselves, we need to assess what is the minimum necessary to avoid us having to come back again in 2003 and meet with you again.

Senator HOGG—Are you suggesting that this would be a reporting function within the annual report of an agency or a department and thereby it becomes open to the scrutiny of Senate estimates?

Mr Neil—Senator, I really believe it should be an ongoing function. I do not think it should be something that is done once a year. I think it should be an ingrained part of the psyche of the department and the buying public.

Mr Williamson—Mr Chairman, could I comment on that. I concur and, in accord with the evidence we gave, as a company that does supply government—and many of our specifications are specifications that find their way into use as a converted material—it is very important to us that the loop is closed, that after we have been successful in basically satisfying government criteria, which ideally will take into account a broad value, not just the purchase cost, that the product that then is supplied government and that we have tendered on is the product that is ultimately purchased by government, knowingly or unknowingly.

CHAIR—Anyone else?

Mr Kyle—Yes, Mr Chairman. With all the best endeavours in the world by people in various government areas, we have found it has been impossible in recent years to talk to the definitive person. We have come to Canberra, we have been treated politely, we have been passed from here to there. The form of greeting from people in the former DAS instead of ‘Good morning’ was ‘We’re just restructuring it.’ So with everyone we met it was Chinese whispers all over the place like this, for years—not just once or twice, but for years. That is why we are so excited about this particular inquiry. Things might be able to happen, they might not be able to happen, but if you can get to the bottom of it and say, ‘Well, these are the things. It’s all on the table. Can this be done, can this not be done?’ Somebody definitely will be able to then respond and say, ‘No, that’s not realistic’ or, ‘Yes, this is possible.’

We have got one on the table here today, and the chairman has a copy of it. Is it possible to be able to direct that rural and regional areas where manufacturers in the area we are interested in do not sell and service directly, that sales and service may be negotiated locally in a competitive marketplace environment? The answer to that may be yes, maybe, partly, whatever, but who do we talk to? You are the big decision makers around the table and we, representing these small companies, have never been able to get someone to say, ‘Yes, you can,’ ‘No, you can’t,’ ‘That’s realistic,’ ‘That’s not realistic.’ We plead with you: can we get into that situation? This may be the very suggestion that something practical could be done to facilitate those sorts of things happening.

CHAIR—Anyone else?

Mr Chalker—I was just going to add a point that I think there has been a vacuum since the demise of the National Procurement Board. As Mr McLachlan said, maybe we do not need a structure quite the same size as that, but I think there is room for somewhere in between. If we came out of this with that it would be—

CHAIR—ISONET made that point very strongly in their submission when they came and sat before us, and many others have made the same sort of submission, that the National Procurement Board, most everybody says, got too bureaucratic, too big, too layered, too structured, but there is possibly room for some oversight mechanism. Whether it be totally internally or part external and part internal is a matter for judgment, but from an industry viewpoint and probably from the government’s viewpoint that might be desirable. But that is one of the things we will consider.

On behalf of the committee, I want to thank all of you. This is not a very high profile, sexy project like Collins class subs or JORN or even Internet commerce, with respect, but it is one that the committee thinks is important and, for those of you who do not know, and those who do, I will remind you that this committee is made up of members and senators from all four major political parties. We work together in a constructive way to try to improve government processes in instances, play in the policy arena, and do so in a rather quiet, measured way. We will now work on our report and recommendations. I would be surprised if we had the 45 recommendations that the Bevis report had—we tend to have very few, but we intend that they be accepted by government and implemented by the bureaucracy. Our reports are always unanimous and a very high percentage of the time our recommendations are accepted.

We will be cautious. We will not try and go overboard and ask for the moon, but I think we have heard a number of issues raised through the entirety of the inquiry that require comment and careful deliberation. We will consider those issues and see if we cannot come up with something that does not cost the world and does not become overly bureaucratic or constrain the organisations themselves, but makes it easier for business to do business with government, makes it more effective for government itself to be a purchaser of goods and services from, hopefully, the Australian community, and that is what we are all about. So thank you, once again, for your submissions, for talking to us before and for your participation in this round table.

Resolved (on motion by **Ms Plibersek**)

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of evidence given before it at public hearing this day.

Committee adjourned at 3.27 p.m.

