

Senate Finance and Public Administration Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
SUPPLEMENTARY BUDGET ESTIMATES 2011-2012

Finance and Deregulation Portfolio

Department/Agency: Department of Finance and Deregulation

Outcome/Program: 2/ 2.1

Topic: Procurement – direct sourcing, Commonwealth Procurement Guidelines

Senator: Ryan

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Question:

- a) Finance has recently released documents showing that nearly 40 per cent of procurement is directly sourced, do you think it is efficient to utilise so much direct sourcing?
- b) What proportion of government procurement was directly sourced in the last financial year?
- c) Why is so much procurement not subject to the stipulations of the Commonwealth Procurement Guidelines?
- d) Given that it is a Finance responsibility to manage policies that impact upon procurement do you think the procurement framework is adequate?
- e) The Finance Red Book (p.5.4) specifies that there are 23 policies that must be considered by officials undertaking procurement, do you not think that there is scope to make this less onerous?

Answer:

- a) Direct source procurement is a legitimate procurement method that can be used in a range of situations to optimise value for money for Government, and reduce costs associated with tendering for business. Paragraph 8.33 of the *Commonwealth Procurement Guidelines* (CPGs) lists the conditions for undertaking direct source procurement approaches.

It should also be noted that it appears that some officials confuse the direct use of a Panel Contract to select a supplier with Direct Sourcing. This leads to the incorrect categorisation of the procurement selection method as Direct Sourcing, when it should reflect the procurement method used to establish the panel contract. Panel contracts can only be established through either an open or select approach. The Department of Finance and Deregulation is taking actions to improve the understanding of the procurement methods, to address the misreporting.

- b) Approximately 51 per cent of contracts reported on AusTender for the 2010/11 financial year were reported as direct source procurements. The requirement to report the procurement method arises from our Free Trade Agreement obligations, with a reporting threshold of \$80 000. Notwithstanding this, the procurement framework requires that the procurement method be recorded for all contracts reported on AusTender. Of those contracts above \$80 000 in value, approximately 38 per cent were reported as direct source procurements.
- c) The CPGs apply to all procurement activities undertaken by FMA Act agencies and relevant CAC Act bodies.
- d) The Australian Government procurement policy framework is primarily principles-based and provides flexibility for agencies to undertake processes that are commensurate with the relative size, complexity and, or risk of the procurement. As a matter of good practice, the procurement policy framework is continually reviewed with a view to improving procurement operations and outcomes.
- e) There are currently 24 procurement connected policies that may need to be considered by officials when undertaking procurement. Not all of those policies relate to all procurements. Government procurement is used by most jurisdictions to pursue a range of non-procurement policies. Often these approaches aim to provide an exemplar for other sectors or jurisdictions. Details of procurement-connected policies can be found at: <http://www.finance.gov.au/procurement/procurement-policy-and-guidance/buying/policy-framework/procurement-policies/principles.html>