THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

COMMONWEALTH GOVERNMENT PURCHASING

House of Representatives
Standing Committee on Expenditure

Report

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1. Chairman of the Joint Committee of Public Accounts, who, in accordance with Clause (2) of the Resolution of Appointment, is a member of the Expenditure Committee.
2. Appointed 5 June 1979, discharged 29 October 1979
3. Appointed 29 October 1979
4. Deceased 16 April 1979
5. Discharged 7 April 1981
6. Appointed 7 April 1981

Contents

Recommendations

The Committee recommends that:

1. As a first step to consolidating information on purchasing requirements for all departments, a pilot study should be conducted in two Commonwealth departments to assess the costs and benefits of these departments extracting and compiling information on purchasing requirements manually. The results of the study should be used to ascertain whether a manual or an automated collection system should be implemented. (Paragraph 38).
2. The Department of Finance amend the relevant Directions in the Finance Manual to require departments to include, for each furniture item in their assets register, details on location, condition and degree of utilisation. (Paragraph 43).
3. The Government require departments to forward to the Department of Administrative Services, at the time of first bids, that is April and May, details of surplus furniture extracted from the assets registers. (Paragraph 44).
4. The Department of Finance amend the relevant Directions in the Finance Manual to require departments to submit to the Department of Administrative Services, at the time of first bids, that is April and May, details of furniture estimates. (Paragraph 49).
5. The Government require departments to submit to the Department of Administrative Services, at the time of first bids, that is April and May, copies of equipment estimates. (Paragraph 51).
6. The NATO catalogue system be adopted by all departments for classification of items purchased. (Paragraph 53).
7. Departments and authorities use the discounted cash flow technique as an aid in making the decision whether to buy or lease equipment. (Paragraph 59).
8. Departments and authorities which currently lease equipment use the discounted cash flow technique to determine whether continued leasing is warranted. (Paragraph 67).
9. The Department of Administrative Services, in consultation with the Department of Finance, prepare guidelines on the use of the discounted cash flow technique for inclusion in the Purchasing Manual. (Paragraph 70(a)).
10. The Appropriation Ledger contain, for each department, a separate item on the costs of leasing equipment and the details of such leases form part of the explanatory notes accompanying departmental estimates. (Paragraph 70(b)).
11. A Section be created from existing staff within the Purchasing Division of the Department of Administrative Services for the purpose of:
    (a) advising departments and authorities on the preparation of specifications;
    (b) liaising with industry organisations on problems encountered in interpretation of government specifications;
    (c) reviewing, from a purchasing aspect, all specifications issued by the Department of Administrative Services and departments using its services; and
    (d) preparing guidelines on specifications for incorporation in the Purchasing Manual. (Paragraph 86).
12. The Government:
    (a) require departments to purchase commercial, off the shelf products wherever possible; and

(b) review compliance with this directive at a later date. (Paragraph 97).

13. For the purpose of standardising specifications of non- commercial, off the shelf products the Government authorise the Department of Administrative Services to implement procedures that would facilitate such standardisation. (Paragraph 101).
14. When compiling tender documentation, departments use performance specifications whenever possible. (Paragraph 104).
15. In preparing specifications departments use the standards produced by the Standards Association of Australia whenever possible. (Paragraph 106(a)).
16. The Department of Administrative Services be the agency for the collection and dissemination of commercial standards held by individual government departments and advise specification writers on the appropriate standards to use. (Paragraph 106(b)).
17. The Department of Administrative Services arrange regular training seminars for specification writers. (Paragraph 109).
18. The Department of Administrative Services conduct negotiations and arrange contracts for common use hospital supplies for all hospitals operated by the Commonwealth Government. (Paragraph 115).
19. Commonwealth contracts for common use hospital supplies specify volumes of the supplies to be purchased for the period of the contract, where estimates of usage can be made with a reasonable degree of certainty. (Paragraph 116).
20. The Department of Administrative Services investigate application of the principles embodied in the previous two recommendations in other areas of Commonwealth Government purchasing. (Paragraph 117).
21. The purchase of all hospital supplies for the Capital Territory Health Commission be centralised, with supplies stored in and distributed from the existing warehouse at Mitchell. (Paragraph 119).
22. The Department of Administrative Services devise an effective system for programming period contracts so that new contracts come into effect as soon as the old contracts expire. (Paragraph 126).
23. The Finance Directions be amended to include a requirement that when departments arrange their own period contracts the details of such contracts be advised to the Department of Administrative Services for inclusion in the Period Contracts Awareness Service. (Paragraph 129).
24. As a matter of urgency the Department of Administrative Services:
    (a) negotiate with the Australian Telecommunications Commission (Telecom) for a reduction in the 20% administrative charge levied on goods Telecom distributes through its common use stores; and
    (b) while conducting these negotiations examine alternatives to purchasing through Telecom-operated common use stores, including: dispensing with common use stores; the Department of Administrative Services operating them; and purchasing common use items through State government stores boards. (Paragraph 136).
25. The Department of Finance request departments and authorities to pay for items bought from common use stores within thirty days. (Paragraph 139).
26. A regular review of threshold levels be conducted by the Department of Finance in consultation with major government purchasing bodies. This review is to take place at least once every two years. (Paragraph 144).
27. The monetary amounts applicable to threshold levels included in Finance Regulations 50-53 form part of the Finance Directions and details of all changes to these

amounts be outlined in the Department of Finance annual report. (Paragraph 149).

28. The Department of Finance amend the Finance Directions to:
    (a) require all departments to place details of tender invitations in the Commonwealth of Australia Gazette; and
    (b) allow departments to use lists of recognised suppliers for inviting tenders where there is a small number of known suppliers. (Paragraph 160(a)).
29. Each tenderer be responsible for satisfying departments of the tenderer's financial stability, technical ability and capacity to supply products within the required time. (Paragraph 160(b)).
30. The Department of Finance establish a system for monitoring the use of certificates of inexpediency and include in its annual report the numbers of these certificates issued and the percentages they represent of total contracts issued. (Paragraph 165).
31. The Government:
    (a) introduce the system of two phase tendering in appropriate circumstances; and
    (b) amend the Finance Regulations to allow for two phase tendering in defined circumstances. (Paragraph 176).
32. Tender Boards be constituted only for consideration of certificates of inexpediency in accordance with Finance Regulation 52AA and to arbitrate on contested decisions concerning the selection of a tender. (Paragraph 189(a)).
33. Officers be delegated to approve contracts. (Paragraph 189(b)).
34. The Government amend the Finance Regulations to provide authority to Ministers to enter into contracts. (Paragraph 191).
35. The name and telephone number of a contact officer within the department concerned be included on all tender documentation. The same information should be included against each entry in the Commonwealth of Australia Gazette concerning that particular purchase. (Paragraph 195).
36. The Department of Administrative Services again examine the Scott Committee's recommendation on offer codes in conjunction with the offer codes suggested by the Confederation of Australian Industry. (Paragraph 199).
37. Procedures be established for the regular collection, from all departments and authorities, of data on the additional costs incurred by the Commonwealth as a result of the application of the policy of Australian preference. Specifically, all purchasing authorities should be required to submit to the Department of Administrative Services quarterly returns identifying, for all purchases for whichthe lowest costs suitable items were not purchased, the actual purchase costs and the lowest cost alternative. (Paragraph 233(a)).
38. The data collected on the extra costs of Australian preference be collated and published by the Department of Administrative Services. Each year in Administrative Services' annual report, or in the Budget papers, the information on Australian preference should be published in the form of a program statement, identifying objectives, activities and costs. (Paragraph 233(b)).
39. The Government should send a reference to the I.A.C. to review the impact and effectiveness of the Australian preference policy as a means of assisting Australian industries, and to consider alternative means of achieving the objectives of the policy. (Paragraph 233(c)).
40. A review be initiated with the purpose of assessing the benefits and costs of the first decade of operation of the Offsets/Australian Industry Participation Program. (Paragraph 249).

41. Each department institute procedures whereby complaints concerning items purchased can be monitored and, where necessary, remedial action taken. (Paragraph 261(a)).
42. The Department of Administrative Services should be responsible for the investigation of complaints in relation to period contract and common use store purchases. (Paragraph 261(b)).
43. (a) Tenderers be required to indicate the degree of compliance with the relevant Australian Standards;
    (b) Firms who comply with the above standards be subject to less frequent government inspections; and
    (c) The receipt of complaints be monitored by departments, and government inspection requirements be adjusted accordingly. (Paragraph 268).
44. The Department of Defence be responsible for:
    (a) liaison with private industry quality assurance organisations;
    (b) dissemination of information relating to current quality inspection procedures to government organisations; and
    (c) liaison with other government quality assurance inspectors for the purpose of co-ordinating inspection programs. (Paragraph 275).
45. A time limit acceptable to both parties to the contract be imposed on any cost investigation undertaken. If the investigation exceeds this time limit then an initial payment should be made in accordance with the contract rate previously agreed and a further payment made to reflect the new rate on completion of the review. (Paragraph 283).
46. The Public Service Board and the Department of Administrative Services conduct a review to consider employing academically unqualified personnel in certain areas of cost investigation. (Paragraph 287).
47. The Finance Services Section, Department of Administrative Services, provide assistance as requested in an advisory capacity to other departments and liaise with private industry organisations on matters relating to cost investigation procedures. (Paragraph 289).
48. (a) Government purchasing bodies be requested to incorporate pricing formulae in contracts where variable costs form a major proportion of the tender price;
    (b) guidelines relating to the compilation of pricing formulae be prepared by the Finance Services Section, Department of Administrative Services, for inclusion in the Purchasing Manual;
    (c) a listing of standard price formulae be compiled by the Finance Services Section for use by all departments; and
    (d) the Finance Services Section monitor the use of pricing formulae by departments in those cases where other than agreed standard formulae are used. (Paragraph 295).
49. The Public Service Board conduct as soon as possible a joint management review of the purchasing function throughout the public service, but excluding the recently reviewed Purchasing Division of the Department of Administrative Services. (Paragraph 307).
50. The Department of Administrative Services, in conjunction with the Public Service Board, develop self-learning packages and conduct courses and seminars for purchasing officers within the Commonwealth Public Service. (Paragraph 313).
51. The Public Service Board raise the priority for updating its handbook 'Work Control and Review' to incorporate the latest developments in work measurement. The handbook should then be distributed to all Commonwealth departments and

authorities with strong encouragement to implement work measurement in purchasing areas. (Paragraph 320(a)).

52. The Public Service Board encourage expansion of the use of work measurement in purchasing areas throughout the Commonwealth further by conducting courses, designed in conjunction with the Department of Administrative Services, with the objective of explaining how to implement the technique. (Paragraph 320(b)).

53. The Government require:
    (a) departments and authorities which have management information systems not incorporating their purchasing functions to give high priority to amending their systems so that they do cover purchasing; and
    (b) departments and authorities which do not have management information systems to give high priority to arranging for the design and installation of them, while ensuring that their purchasing functions are incorporated. (Paragraph 325).

54. (a) The Department of Administrative Services continue with the development of the Purchasing Manual, under the direction of an interdepartmental committee consisting of representatives of the departments of Administrative Services, Defence and Finance.
    (b) The Manual should provide guidelines for all aspects of purchasing in the Commonwealth and be issued as part of the Finance Manual.
    (c) All departments and non-trading authorities should follow the guidelines, except in so far as the guidelines conflict with their legislation. (Paragraph 336).

Chapter I

Introduction

Overview of Report

1. Deficiencies in the administrative efficiency of the Commonwealth purchasing function are located mostly at the level of departments and authorities rather than at the central level of the Purchasing Division of the Department of Administrative Services (DAS).

2. DAS has prime responsibility for government purchasing and has made significant advances in its operations, becoming both more efficient and more effective. This process has continued during the inquiry but some deficiencies remain. In other departments and authorities there are many elements of purchasing which have glaring weaknesses. The exceptions to this broad comment are the trading statutory authorities, that is those engaged in commercial enterprises, where purchasing sections appear to be functioning more efficiently. The Committee has formed the impression that in many departments and non-trading authorities the attention of senior management is confined to matters associated with achieving organisational objectives with the result that ancillary matters, including purchasing, tend to get less attention. While the Committee appreciates that for many individual government agencies purchasing is but one service element, its total size in both absolute and relative financial terms is very significant.

3. The Committee's recommendations seek to remedy the deficiencies identified. The main thrust of the recommendations is to make purchasing more efficient by:

- avoiding unnecessary expenditure;
- paying less for goods purchased; and
- reducing staffing requirements.

4. The first category of recommendations is directed at eliminating waste in government purchasing. For example, there are recommendations which, if implemented, would avoid purchasing new goods where there are already available unused goods which would meet requirements.

5. The second, and largest category of recommendations, are designed to reduce costs for goods purchased. The Committee is recommending that in deciding whether to buy or lease equipment, the assessment should incorporate expenditure commitments anticipated in later years, and the costs of such future commitments should be discounted to the present value. The consequence of adopting these recommendations would be consider able savings in the medium and longer terms on equipment currently being leased. Another example of reduced costs for goods is the series of recommendations proposing greater use of the government's bulk purchasing power. The Committee believes that bulk purchasing should be used when the same or similar goods can be so purchased more cheaply, while meeting delivery requirements. Although some of the recommendations in the first two categories would require small increases in staff resources, at least in the period of changeover to new procedures, the net result would be considerable expenditure savings to government.

6. The third category of recommendations are those which reduce staffing requirements by eliminating unnecessary procedures or replacing existing procedures with simpler ones. For example, the Committee recommends revised procedures which would

reduce the incidence of government inspections of factories filling tenders and would place greater reliance on factories' quality control. If implemented, this would save staff resources but not affect the quality of goods supplied.

7. Other recommendations may be grouped in the following categories:

- improve public accountability;
- examine the effectiveness of programs; and
- improve the management and use of resources.

8. The Committee believes that government purchasing should be conducted in a manner which renders it accountable to the Parliament and the public. Several recommendations are designed to improve accountability by providing Parliament with additional information about the costs and benefits of particular procedures. For example, the Committee is recommending that details of the uses of certificates of inexpediency be presented annually to Parliament. This category of recommendations would require small additional staff resources, but these would be significantly outweighed by improved accountability.

9. The category of recommendations proposing examination of program effectiveness is important. One recommendation proposes reviewing the effectiveness of the Australian Preference Program and the other proposes reviewing the Offsets/Australian Industry Participation Program. Both reviews would require short-term additional staff resources.

10. The final category of recommendations, for improving the management and use of resources, is aimed at further reducing expenditure indirectly, by ensuring that the purchasing function is managed more effectively. For example, the Committee is recommending the development within the public service of training aids and courses for purchasing officers.

11. In proposing remedies for deficiencies in purchasing operations the Committee has avoided increasing the number of external controls. While it appreciates the value of some controls in large organisations, especially in the public sector where public accountability is fundamental, the Committee is concerned that too many rules and regulations would hamper the smooth operation of the purchasing function. Departmental Permanent Heads are responsible for the efficient conduct of their own departments and authorities. Consequently it is up to them to implement a majority of the recommendations without outside bodies monitoring their every move. If future reviews found that problems identified in this inquiry were not being remedied an increase in controls then might be justified.

The Importance of Commonwealth Government Purchasing

12. Expenditure on purchases by the Government is significant. In 1979-80 the net expenditure on goods and services, less salaries and wages, was $3541 million which was 11.17% of Government outlays[1] and 3.11% of GDP.[2] In 1980-81 the estimate is for $4461 million which is 12.38% of estimated Government outlays.[1]

13. In addition to these direct costs there are the indirect costs of purchasing to departments and authorities. From submissions the Committee estimates that there are about 2000 purchasing staff in the Commonwealth, with salaries totalling approximatley $25 million in 1980-81. Employing the multiplier 1.74 suggested by the Public Service Board in estimating overheads from staff salaries[3], the indirect costs of purchasing would total approximately $44 million in 1980-81.

14. The most recent comprehensive review of Commonwealth purchasing was conducted by the Committee of Inquiry into Government Procurement Policy, chaired by Sir Walter Scott, which reported in 1974. That report disclosed twelve fundamental

shortcomings, which it summarised in the following fashion: 'It is the lack of endeavour to improve the principles and practices of purchasing, to press towards better methods, to search continuously for ways and means to improve, to reach consistently towards optimum or better results, to institute a periodic, if not constant review of results achieved, that has resulted in the Government procurement function failing to move ahead with the times and be in line with the best procurement practices'.[4]

15. The Scott Committee made 39 recommendations which can be divided into three categories. The first category, proposing the setting up of a Purchasing Commission, were, in the main, not adopted although the Purchasing Division of DAS has been reorganised along similar lines to that suggested. Secondly, there were recommendations which dealt with the revision of current purchasing policies, practices and procedures and their co-ordination to form a code of practice. The third category of recommendations was directed at improving liaison on procurement matters between government departments, authorities and suppliers.

16. Since the Scott Committee inquiry, there have been a number of aspects of Government procurement examined by various committees of the Parliament. The Joint Committee of Public Accounts has been inquiring into the acquisition of computers and related automatic data processing equipment.[5] The Senate Standing Committee on Finance and Government Operations reported in September 1978 on the use of Consultants by the Commonwealth Public Service.[6] The Joint Committee on Foreign Affairs and Defence tabled a report in November 1979 entitled 'Australian Defence Procurement'.[7] These inquiries have concentrated on important areas within the purchasing function but have not provided a comprehensive coverage of this important area of government administration. In choosing to concentrate on the broader issues the Expenditure Committee decided not to examine in detail the specialised fields covered by these inquiries.

17. Despite assurances from the Government that shortcomings detailed by the Scott Committee were being overcome, criticism and dissatisfaction among sectors of private industry continued. Complaints included long delays in awarding contracts, a proliferation of approaches to purchasing, poor estimates of requirements, unduly rigorous standards, over-specification of requirements and delays in payments for goods.

The Objectives of Government Purchasing

18. Assessment of the efficiency, and especially the effectiveness, of any public sector program must be based on a clear understanding of its objectives. In the case of Commonwealth Government purchasing, such an assessment is made difficult by complexities introduced by a series of government directives which have the effect of modifying what might be regarded as the central objective.

19. The basic principles and procedural guidelines for Commonwealth Government procurement have evolved over the years, guided by the *Audit Act* 1901 and Finance Regulations and Directions. In particular, Section 71 of the Audit Act empowers the Governor-General to make regulations for carrying out the various provisions of the Act, especially in relation to the purchase of goods and property for and by the Commonwealth. Finance Regulations 46-53 lay down the basic framework.

20. The Background to Section 25 of the Finance Manual explains the purpose of government purchasing in the following manner: 'The underlying intention of regulations 51, 52, 52AA and 53 is that government procurement procedures should be, and be seen to be, beyond reproach: ie that all who wish to participate in government business are given the opportunity to do so; that the government maintains a reputation for

fair dealing; and that public money is spent effectively and economically'. DAS interprets the objectives of government purchasing as being 'to obtain the goods and services required by Commonwealth departments and authorities to carry out their functions, as approved by the Government, responsible Ministers, or their delegates, within funds appropriated by the Parliament for these purposes and to obtain the best value for the Government's money within policies laid down'.[8]

21. The notion of 'best value for the Government's money' does not necessarily mean that the lowest bid or the the lowest cost item should invariably be accepted. Certain non-price characteristics are also important and include: the reliability of potential suppliers; availability of spare parts; servicing facilities; and compatibility with existing equipment. In the public sector environment there are also certain constraints imposed through the need to place purchasing procedures beyond reproach. Thus while regulations governing tenders and quotations seek to provide for fair dealing and competition, their very existence must create delays in the procurement chain that involve a cost to the purchasing department in terms of manpower, time and perhaps ultimately price. In attempting to achieve the objective of public accountability care must be taken not to create an unwarranted degree of inflexibility with a consequent excessive cost to the purchasing process and which, possibly, might create frustration amongst suppliers.

22. A series of government directives exist which have the effect of modifying the best value for money principle. As currently applied those directives provide for:

- the maintenance and development of defence industries and other industries of more general strategic significance e.g. telecommunications;
- the encouragement of particular industries or aspects of national development, that is the Offsets/Australian Industry Participation Program; and
- assistance to firms and industries producing within Australia which supply Government needs, that is the Australian Preference Program.

The essential feature of these directives is that they require that some of the government's needs be met from within Australia or, where that is not possible, that the government's overseas purchases be partially offset by the provision of work to domestic industries. As such they are clearly a part of industry policy.

23. To the extent that these directives are effective in their intention of diverting business to Australian firms that otherwise would not have obtained that business, they must raise the cost of acquiring public sector requirements and/or result in changes in the allocation of resources within the Australian economy. To that extent, the objective of best value for money is modified, qualified or in some cases abandoned.

Approach to Inquiry

24. The Committee has educed the essential elements necessary for effective and efficient purchasing in the Commonwealth, which together constitute what the Committee calls a 'model' of how purchasing should be conducted. This it did for three main reasons. Firstly, the Committee wished to highlight the elements of purchasing worth examining. Secondly the Committee wished to ensure that the interrelationships of elements were not ignored. That is, it did not want to recommend improvements to one element at the expense of others. Also, the Committee was aware that there may be factors affecting several elements, each to a relatively minor extent, but which together have a significant impact. Thirdly, the Committee wished to have a basis against which it could compare how well purchasing is being conducted, and where the opportunities for improvement lay.

25. *The Committee developed the model and the relationships of its elements, based* on consideration of the evidence and submissions, a Report by the United States General Accounting Office (GAO) on purchasing,[9] the Scott Committee Report and other reports and evaluations of purchasing. The objectives described above pervade the model and provide the goals to which it should aim. The model incorporates all the elements which, if well conducted, would result in effective and efficient purchasing in government.

Chapter II

Requirements Determination and Planning

Introduction

26. The figures in Chapter I indicate that large sums of money are voted by Parliament annually to obtain goods and services required by Commonwealth departments and agencies. It is most important therefore that the processes used and the information obtained permit organisations to plan their needs for goods and services in an economical and efficient manner. For this to happen management must find out with as much precision as possible:

- what is needed;
- how much is needed;
- how much of needs can be supplied from surplus stocks;
- how much of what is to be purchased requires consolidated purchasing; and
- how much of the balance should be purchased or leased.

27. The question of what is need will be decided by each department or agency. To find out how much is needed one needs to have, as a starting point, adequate information on what has and is being purchased. Information on stocks indicate what quantities are already available which, together with data on usage, assists in the estimation of future consumption. Where millions of dollars of government funds are involved the estimating process should be optimised to prevent over or under ordering, and to allow best use to be made of price discounts. In the absence of adequate information on what has and is being purchased estimation may be on a less precise basis.

28. In addition to this purpose, there are other uses for data on purchases. Historical information allows comparisons of usage in a department over time, and between departments. This may point to areas of excessive usage and hence to the need for further investigation by departmental management.

29. Also, the aggregation of accurate data on purchases would be useful in determining the total size of the purchasing activity. It also would constitute an essential part of the statistical base for assessing the impact of government purchasing on industry and the effects of policies such as Australian preference. As explained below in Chapter VII, to determine whether government purchasing policies are being effective the impact of the policies on industry should be known. One of the criticisms of purchasing made by the Scott Committee[1] was the lack of available statistics. Finally, if published, such data would be valuable to manufacturers and suppliers in determining the size of the government market for particular goods.

30. The next step in the estimation process is to determine whether goods required are available from surplus stock. It is wasteful of resources if goods are purchased for use by one department when similar or identical goods are idle or under utilised by another department. Equipment inventories and information on utilisation of assets when coordinated should be used to provide data on surpluses.

31. By employing information on what has and is being purchased and details of surplus items departments can compile estimates of future requirements. The estimates should then be consolidated so as to maximise opportunities for volume buying, with consequential benefits of volume discounts. DAS currently arranges contracts for some goods required by more than one department so as to use the resulting larger volumes as

a lever on suppliers to obtain the lowest possible prices (this is discussed below in Chapter IV, Collective Purchasing). Data on purchases, aggregated across departments, would expose further opportunities for collective purchasing.

32. Before deciding whether to lease or purchase goods, mainly equipment, information should be obtained on benefits, costs, advantages and disadvantages of leasing and buying. Financial techniques, such as discounted cash flow analysis, can then be used to aid decision making on these matters.

33. The determination of what and how much is needed takes place within the budgetary framework. Therefore the provision of purchasing information and its timing is critical for calculating departmental expenditure requirements in the budget process. process.

What is Needed

34. Each department determines its needs for goods and services in order to meet government policy objectives and according to priorities set by government. The Committee is concerned that departments, in estimating annual requirements, do not simply take the previous year's figures, add to them a percentage to allow for inflation, then see what items can be purchased within those figures. The recommendations in this chapter point to the need for departments to consider their actual requirements based on variations to their programs and not to a pre-determined level of expenditure.

How Much is Needed

35. To assess the adequacy of currently produced data on purchasing, the Committee requested departments and authorities to indicate how they compiled historical information. Of 30 departments, only 5 maintained adequate records and information systems. To establish the degree of detail included in the statistical records held, departments and authorities were further asked to supply an analysis of purchases below $5000 over the last three years. Six departments and one statutory authority were able to supply a limited analysis while the remaining 28 departments and authorities indicated that the information was not readily available. The main, and in many cases the only, record of past purchases held by departments is a copy of the order issued. If details are required concerning prior annual usage and prices paid an inordinate amount of time and staff resources can be tied up in extracting the information by searching through completed orders.

36. The Committee concluded that the present procedures employed in departments and authorities for the collection and recording of data on purchases are not satisfactory and improvements are necessary. Consequently accurate information for estimates and other purposes is not available.

37. The ideal solution to the collection and compilation of information would be an automated collection system with data taken from the requisition purchase order, or the Claim for Payment forms. The forms would be processed centrally, and the purchasing information could be aggregated across departments, supply items, suppliers, and so on. However the costs of developing the computer system, clerically entering the information on the forms, and the computer time for processing the data for such a comprehensive system would be considerable. The Department of Finance and Administrative Services told the Committee that development alone would take two to three years and that the benefits would need to be tangible and considerable for it to be worthwhile proceeding.[2] The Committee concluded that the potential benefits of an automated collection system for purchasing details only do not appear to justify the

considerable costs. However, it left open the question of whether the costs of an automated collection system which would include stock control would be justified.

38. An alternative to an automated system is manual extraction by each department of the purchasing details for each item and totalling them for the year. Estimates of requirements come from individual departments for their own supplies and it is their responsibility to improve their estimation procedures. The advantage of manual compilation of purchasing data is that it is departmental management which both bear the costs and reap the benefits of improved estimation. The Department of Finance stated that what are needed 'are reasonable estimates of various categories that are required by departments and . . . that could . . . be obtained from departments directly, without the need for an ADP processing facility'.[3] Moreover, using the totals from each department DAS would be able to consolidate the data to disclose opportunities for volume buying. A continuous manual extraction would not incur the development cost of the automated system. The Committee does not know how much it would cost but it appears to be low. Further study of both the manual and automated system are justified. Consequently, the Committee recommends that:

> *As a first step to consolidating information on purchasing requirements for all departments, a pilot study should be conducted in two Commonwealth departments to assess the costs and benefits of these departments extracting and compiling information on purchasing requirements manually. The results of the study should be used to ascertain whether a manual or an automated collection system should be implemented.*

Identification of Surplus Assets

39. An integral part of the estimating process is determining what requirements for furniture, equipment and stores can be met from excess stocks. The Committee considers that public funds should not be spent on new goods when surplus goods in reasonable condition exist either in the same department or another and where transport costs do not prohibit reallocation.

40. Finance Directions 26(19)-(22), (24) require departments to notify DAS of surplus stores and furniture so that they may be transferred to other departments or sold. Despite these directions, in a preliminary survey of storage space, DAS discovered what it described as 'caches'[4]: large amounts of furniture were being held on behalf of various government departments as surplus to immediate requirements. This finding came at a time when considerable financial restraint had been placed on the level of funds available for furniture and a number of departments were complaining that essential requirements were not being met from the allocation they received.[5] The Minister for Administrative Services wrote to all Ministers in January 1979 requesting that all surplus furniture be declared and forwarded to his department for redistribution. The response to that letter was, to say the least, disappointing with the majority of departments ignoring the request and the rest forwarding items which were in a very poor condition and were only fit to be declared for disposal.[6] The Committee considers this action of departments in ignoring explicit government directives to be reprehensible.

41. There appears to be a number of other factors which inhibit reallocation of surplus furniture. The first is the meaning of the term surplus. Many departments appear to assume that assets are 'surplus' only when their poor condition includes them in the list in Finance Direction 26(17)(b): 'condemned, obsolete, unserviceable, unrepairable, worn out, damaged, etc'. It will be apparent from the preceding discussion that the Committee considers that items which are still in reasonable condition but which are

not being used, or expected to be used, in the near future are also surplus to departmental requirements. The term 'surplus' encompasses the broader meaning in this Report.

42. Responses from departments to our questionnaires indicated that assets registers[7] do not show whether a piece of furniture is in use, surplus to present requirements and/or unserviceable. This means that departmental management would be unable to identify from the assets register, furniture which could be reallocated to another section, branch or department thereby reducing the number of items to be purchased. At present, management becomes aware of an item's availability when it is declared surplus by the user section. This frequently happens when the item has reached the end of its economic life and is fit only for disposal.[8]

43. If assets registers showed each item's condition and degree of utilisation, items surplus to requirements would be identified readily by departmental management and reallocated to another section or branch. If there were no internal demand the department would notify DAS which would then redistribute or dispose of the items, according to Finance Directions and subject to audit examination. The Committee therefore recommends that:

The Department of Finance amend the relevant Directions in the Finance Manual to require departments to include, for each furniture item in their assets register, details on location, condition and degree of utilisation.

44. DAS became responsible for the purchase of furniture on behalf of Commonwealth departments in the 1978-79 financial year. Procedures for furniture are different to those for other goods in the Commonwealth Inventory in that one department is responsible for purchasing all furniture items required. Each department should therefore send to DAS the details of its furniture as listed in the assets register. To allow DAS to use this information in formulating the annual furniture program the details should be forwarded at the same time as estimates of furniture requirements. This should be at the time of first bids, in April and May. Consequently the Committee recommends that:

The Government require departments to forward to the Department of Administrative Services, at the time of first bids, that is April and May, details of surplus furniture extracted from the assets registers.

45. Departments questioned by the Committee expressed their reluctance to declare items surplus particularly if there was any doubt at all about future needs for a particular item. For example, Social Security stated that it made absolutely sure that it had no further need for an item before declaring the item surplus because 'we would have to battle for funds to replace the item if we made the wrong decision'.[9] This was confirmed by DAS which stated that departments are left with the 'feeling that the furniture was obtained with funds which were hard to get', and yet 'there is no credit anywhere along the line for surrender'.[10] This argument does not take account of the fact that retention of surplus goods by departments, based on their speculation that there may possibly be a future requirement, results in scarce funds being used unnecessarily to buy new goods for other, needy departments. There is the further problem that where surpluses are a consequence of inaccurate estimating any compensation for declaring the assests surplus may be seen to be encouraging over estimation. The Committee concluded that no incentive should be introduced to encourage declaration of surplus assets to DAS.

46. Departments hold onto other surplus goods as well as furniture. DAS told the Committee one problem area was intermediary buffer stocks of stationery. It quoted examples of departments holding twenty years supply of computer paper for a computer which may well be out of date in twenty years.[11]

Estimates and Consolidation

47. Consideration of how estimates are and should be compiled will be considered below in two parts—furniture and equipment—as the two are compiled separately and are subject to differing procedures. The terms 'furniture' and 'equipment' comprehend all goods except stores. Stores are consumable or non-asset items.

48. Early each year departments are required to lodge with DAS detailed estimates of furniture required, including not only a description of each item but also an estimated date of delivery. Responses from departments indicated that DAS is advised of furniture requirements at various times between October when forward estimates are prepared and July or August when the level of funds has been finalised. As a result DAS is left with the task of formulating a purchasing program based on information supplied over a long period of time and likely to be based on differing unit prices. The early submissions, from October to March, are also subject to pruning by Cabinet during the forward estimates process. Therefore the earlier the estimates are made the less accurate they are likely to be.

49. Submissions should be submitted after forward estimates have been finalised but still allowing DAS sufficient time to formulate a program of furniture procurement. An appropriate time would be when departments submit their first bids for Cabinet consideration, in April and May. This would have an additional advantage of giving DAS time to take account of surplus furniture which had been declared. The Committee therefore recommends that:

> *The Department of Finance amend the relevant Directions in the Finance Manual to require departments to submit to the Department of Administrative Services, at the time of first bids, that is April and May, details of furniture estimates.*

50. For the purposes of this inquiry the term 'equipment' is used to cover those items of an asset nature which are required by a department to fulfil the responsibilities and activities of that organisation but excluding major projects and specialist items such as defence armaments, ADP equipment and furniture. Departments indicated that detailed estimates of equipment to be purchased are prepared for the Department of Finance but, unlike furniture estimates, a copy is not forwarded to DAS. Departments purchase equipment for their own use, although many departments use the facilities of DAS for purchases over $10 000 where tenders are called.

51. As with furniture, DAS needs to be advised of requirements so that surplus equipment can be diverted to departments needing it. Moreover, in order to maximise the opportunities for collective purchasing, estimates from all departments must be consolidated. To achieve this the Committee recommends that:

> *The Government require departments to submit to the Department of Administrative Services, at the time of first bids, that is April and May, copies of equipment estimates.*

52. A further prerequisite to consolidation is that DAS needs to be able to match items required by one department with the same items required by other departments. At present this is not possible as there are a variety of cataloguing systems for supplies. A suitable uniform cataloguing system which would allow estimates to be consolidated is the NATO supply system of classification which is used by the major purchasing department, Defence, to catalogue its items.[12] The NATO system consists of a four digit code, which is the broad classification with about 600 categories, and which expands into a 13 digit code for detailed classification.[13] It facilitates stockkeeping records and generates estimates information.[14] The NATO system has been adopted officially by the United States Government and is universally accepted as a method of classifying supply items. In Australia, in addition to Defence, it is used by the Bureau of Meteorology and

in part by other Commonwealth and State departments and authorities.[15] The former Department of Productivity encouraged the use of the NATO classification in private industry.[16]

53. The costs of adopting the NATO system uniformly throughout departments and authorities are minimal whereas the benefits of consolidating estimates leading to collective purchasing are considerable. DAS strongly supports such an adoption.[17] The only exceptions to the adoption that are justified are the Australian Postal and Australian Telecommunications Commissions which have their own sophisticated supply system based on criteria relevant to their operations.[18] The Committee therefore recommends that:

The NATO catalogue system be adopted by all departments for classification of items purchased.

Lease/Buy Options

54. After the need to obtain a particular piece of equipment has been determined, the next logical step is the evaluation of the comparative advantages of leasing[19] or buying. Responsibility for this evaluation rests with the department concerned rather than DAS or the Department of Finance.[20] Although the Public Service Board is required to assess proposals for certain types of office machines, this function does not extend to the less expensive machines or to the examination of alternatives to purchasing.[21]

55. Departments and authorities were asked by the Committee how they identify opportunities for leasing rather than purchasing, what evaluations they carried out, and to provide details of recent leasing agreements. The replies indicated that assessment varied from negligible to sophisticated techniques, including discounted cash flow (DCF). In many cases only one of the options had been given serious consideration.

56. The appropriate basis for comparing lease and buy options, in terms of least cost, is by calculating for each alternative the present value of whole-of-life costs using the DCF technique. Simply comparing initial outlays is not an economically or politically rational procedure since it ignores the expenditure commitments incurred in later years.

57. By the same token, simply adding up the whole-of-life costs for each alternative ignores the fact that costs incurred in later years, while relevant to the decision, are less burdensome in present value terms. That is, by delaying a payment for a year or more, a lesser amount could be invested today which together with interest received would be sufficient to meet the payment when it arose: the longer the payment is delayed, the smaller is the amount that would have to be set aside (i.e. the smaller is the present value of the future outlay).

58. DCF takes full account of these considerations by adding up the outlays to be incurred at different times after discounting the value of each future outlay by a factor which reflects the lesser amount that would have to be notionally invested today to ensure that, with interest earned, that outlay could be met when it actually arose. DCF is slightly more complex than some rule-of-thumb alternatives but with electronic calculators its application is a simple matter and essential in a comparison between leasing and buying. DCF was confirmed as the appropriate technique by Finance.[22]

59. The Committee therefore recommends that:

Departments and authorities use the discounted cash flow technique as an aid in making the decision whether to buy or lease equipment.

60. Departments and authorities supplied brief details of all leasing agreements entered into for the twelve months ending 30 June 1979. The items most commonly leased, apart from computers, were about 240 photocopiers and about 95 word processors and automatic typewriters. The Committee selected two common photocopiers, the Rank Xerox 3600, of which there were 72, and the Rank Xerox 3100, of which there were 28, and the word processors and automatic typewriters for more detailed examination. It wished to determine why they were being leased rather than purchased, and whether leasing was justified according to the criteria of least long term cost.

61. DAS provided confidential details of a twelve-month period contract with Rank Xerox for the purchase of the 3600 and 3100 photocopiers. The contract covered the period 1 December 1979 to 30 November 1980. Prior to the contract, leasing was the only option available. After obtaining details of the number of copies and leasing costs for 61 of the 3600 and 24 of the 3100 photocopiers the Committee conducted its analysis, the results of which follow. The assumptions and method of analysis are given at Appendix 2.

62. Six of the 3600 copiers, one in each of the Departments of Defence, Industry and Commerce, Transport and Veterans' Affairs, and two in the Department of National Development and Energy, and eight of the 3100 copiers, four in CSIRO, one in each of the Departments of Attorney-General's, National Development and Energy and Social Security, and one in the Overseas Telecommunications Commission, were operating below the ranges recommended in the Rank Xerox contract. If there are no good grounds for expecting demand for these twelve particular machines to increase substantially, they should be replaced by machines which operate at lower volumes.

63. Using DCF the Committee concluded that, within the ranges of recommended usages for the two types of machines, it would be cheaper to buy than to lease all of them. Over the estimated machine lives of seven years, for various usage levels, buying is less than leasing.[23] The savings that would result from buying amount to $1.4 million for both machines.[24] Even more significantly, the analysis disclosed that eight of the 3600 and two of the 3100 photocopiers had monthly usage volumes such that the leasing costs for one year were greater than the costs of buying the machines and operating them for a year. The particular machines are in the Departments of Health, Industry and Commerce, Social Security, Taxation and Transport. The savings to the Commonwealth of buying these machines would be over $17 000 in the first year. These photocopiers should be purchased as soon as it can be arranged.

64. Of course least long term cost, as indicated by DCF, is not and should not be the sole criterion for deciding whether to lease or buy. Departments and authorities suggested, in evidence, several other conditions which affect the decision. For example, short term leases may be appropriate during trial and evaluation of machines or where the requirement is only short term. A consideration for government-owned companies is that for purposes of DCF calculation, taxation lowers the effective size of lease payments. Also, where equipment is based upon rapidly changing technology, with the risk of being outdated in the near future, and the organisation operates in a competitive field, leasing may be given greater consideration. However, no departments and few authorities are in market competition and their services to the public seldom require them to employ the most recent technology. The Committee concluded that departments and non-competitive authorities cannot justify leasing when it is more expensive than buying, on the pretext of possible technological changes. Finally, in submissions to

the Committee several departments and authorities stated that lack of available funds was an important limitation on their ability to buy as opposed to lease. The Department of Finance stated that 'within the context of budgetary restraints there has been a temptation for departments to put forward proposals for leasing major items of equipment'.[25]

65. As well as the Rank Xerox photocopiers, details of leases of word processors and automatic typewriters were examined. Only six departments and authorities were leasing word processors, with CSIRO accounting for two-thirds of the total number. The DCF analysis indicates that buying the most common word processor currently being leased, an IBM machine, would result in savings of approximately $3750 over the seven year estimated life of the machine.[26] For the two authorities leasing this type of machine, the projected seven year savings in present value terms are: Australia Post, $15 000, and CSIRO, $184 000. Lack of sufficient details on leases and purchases of other word processors did not allow calculation of possible savings by the Committee.

66. This examination of the lease/buy options for photocopiers and word processors indicates very clearly that in many cases the leases should be terminated as soon as possible and the equipment bought. While the Committee has concentrated on these items by way of example, it considers that it is likely that there are leases for other equipment which also should be terminated if the government is to obtain equipment as economically as possible. The Committee is of the view that equipment should be purchased unless there are compelling reasons for leasing.

67. Consequently, the Committee recommends that:

Departments and authorities which currently lease equipment use the discounted cash flow technique to determine whether continued leasing is warranted.

68. Each department or authority is responsible for the assessment of whether to lease or buy equipment for its own use. Officers from DAS and Finance told the Committee that their departments provided no guidance as to how the assessment might best be made, nor do they monitor the assessment once it has been made.[27] If guidelines were included in DAS' Purchasing Manual, departments would be able to conduct effective assessments.

69. Moreover, the current method of presentation of departmental estimates does not allow the costs of leases of office equipment to be readily identified. The Department of Finance explained that there were two solutions to this problem: a separate leasing item in the Appropriation Ledger and provision of leasing costs in the explanatory notes attached to departmental estimates.[26] These would allow more ready scrutiny of leasing decisions by either Finance or Parliamentary Estimates Committees.

70. Accordingly, the Committee recommends that:

(a) *The Department of Administrative Services, in consultation with the Department of Finance, prepare guidelines on the use of the discounted cash flow technique for inclusion in the Purchasing Manual.*

(b) *The Appropriation Ledger contain, for each department, a separate item on the costs of leasing equipment and the details of such leases form part of the explanatory notes accompanying departmental estimates.*

Chapter III

Specifications

71. Once funds have been appropriated and approval given for the purchase to proceed, the contract and contract administration processes come into force. In the next few chapters the various aspects associated with these processes will be discussed and considered within the procurement framework.

72. These processes should:

- ensure that items specified are actually provided by the vendor;
- ensure that optimum use is made of collective purchasing;
- produce full and fair competition among all qualified vendors;
- secure needed items in time to facilitate agency programs; and
- provide items of a quality suitable for their intended use.

73. When these goals are set in the examination of a procurement process, any recommendations which are in line with them should result in an increase in competition, reduction in prices and the timely production of items at a quality level acceptable to the vendor. Balanced against these benefits must be any additional costs which may be incurred if the proposed changes were implemented. It has become apparent that cost savings will be achieved by the contractor and the department concerned if the recommendations are implemented.

74. The first goal relates to the need for adequate specifications which will describe the item required and ensure that this is the product finally delivered to the user. The achievement of this goal will assist in achieving full and fair competition and result in lower prices as more firms compete for the contract. Specifications must therefore not be written in a way which will restrict competition by excluding consideration of alternative products which could perform the task. There should be minimum use of brand names, trade marks or any other form of description which prohibit products other than one particular item from being considered. The more detailed the specification, the less opportunity exists for other manufacturers with similar products to submit tenders and thus competition becomes limited. This last aspect may appear to place both goals in direct confrontation but it is part of the skill of a specification writer to include sufficient detail in the specifications to ensure delivery of the required item but not at the same time overspecifying to the extent that suppliers of alternative products are discouraged from competing for the contract.

75. The government buys products for which it is the only user and also products for which it is one of many users. Items for which the government is the sole user are normally highly sophisticated with no commercial market and includes such things as major weapons systems. Commercial products are developed to meet the needs of many users rather than those of any single customer. These items are subject to competitive market forces which generally act to set the price of the product. The Committee examined each category separately and assessed the adequacy of the specifications currently used by departments and authorities.

Sole User

76. Specifications for items falling into this category can be very exacting and may require the services of professionally qualified people who are aware of what that particular piece of equipment is required to do, the environment in which it is to operate as

well as how it is to be maintained, and who can then convey these features succinctly to the manufacturer. The Department of Defence by reason of its specialised purchases must employ staff capable of compiling specifications in a manner which will give the supplier an exact description of the equipment required. Defence told the Committee that 50-60% of all orders by value placed by the department would be in the sole user, single service category.[1]

77. Defence uses a large team of over 200 professionally qualified engineers to write specifications.[2] Each service arm has its own group of specialists in this area and they are augmented by advisory and clerical staff totalling a further 1300.[3] Preparing specifications is not the sole duty of these staff. There are a number of other large purchasing departments who employed staff for the purpose of writing specifications including the Department of Veterans' Affairs in which there are about 300 specialist medical personnel whose duties include drafting specifications.[4]

78. The Committee was satisfied that in the major areas where sophisticated equipment was purchased, staff had been employed for the purpose of defining requirements. However, concern was expressed at the lack of assistance offered to small departments who did not normally purchase items in this category. DAS said 'the real problem is there are no common-sense, down to earth guidelines available for people to write specifications'.[5]

79. When a person who is not trained in this area wishes to prepare specifications his first step is usually to pick up another specification to use as a guide.[6] This means that he is almost solely dependent on the quality of the specification he selects and if there is any doubt concerning what should be included, there would be a tendency to leave in all the items of information even though they may appear superfluous.

80. The result is a set of specifications compiled by a 'cut-and-stick system' with clauses included which appear to be inappropriate. DAS indicated that specification writers will frequently include contractual clauses, warranty clauses, delivery clauses and project management clauses in a technical description of the equipment. It is realised that although these are necessary clauses they would normally form part of a contractual document and not the tender specifications issued prior to the selection of a successful tender.[7]

81. Submissions from private industry organisations were received concerning problems experienced as a result of poor specifications. Many submissions included complaints that the specifications were unrealistically tight and lacked flexibility thereby eliminating the possibility of introducing alternative products or improved technology. Specifications included in textile tenders were outmoded and in one instance the wrong standards were quoted.[8] In a submission from the Melbourne Chamber of Commerce, the wording of some tenders was criticised as they appeared to use a particular supplier's specifications. In one case the tender showed 'F.O.B. Perth for delivery in Melbourne and Sydney' which restricted the tenders to suppliers in the Perth area.[9]

82. The compilation of specifications is an exacting science requiring certain expertise to ensure that the purchasing officer is sufficiently aware of what he is to purchase. The specification must not be too loose as this could result in the wrong item being purchased, nor must it be too rigid thus inhibiting competition or preventing suppliers from suggesting alternatives. The Scott Committee commented that the Department of Supply and Services in Canada had a section of experts and specification writers who examined all specifications to ensure validity in practice and their effects on cost.[10] Nothing of this type is available to officers within the Australian Public Service and small departments or service departments could not justify the employment of professional engineers solely for the purpose of writing specifications, particularly when items of this nature are very rarely required.

83. Departments should be allowed to write their own specifications as they will ultimately use the product and know what they want it to do. It would be of assistance, particularly to departments not having specialist specification writers, to call on a group within the public service which had this expertise for advice. The group would liaise with industry and be aware of current specification terminology, standards and technology. Co-operation between the buying department and the proposed group would result in the compilation of specifications which would be more readily acceptable to private industry thus increasing competition and achieving better prices with a reduction in costs.

84. As the buying arm of many departments, DAS is more aware of the problems and frustrations experienced by the supplier when trying to understand some of the more difficult sections of the tender schedule. We would therefore see an expansion of the role of DAS to one of adviser to specification writers in all departments and authorities.

85. The new section would also review specifications received by DAS for suitability in the purchasing area. This does not mean that the section would have the power to amend the requirements of departments but would examine the specifications and consider questions dealing with ambiguity, restrictiveness, contractual problems and whether procurement can be effected smoothly. Therefore the role of DAS when looking at specifications would be from a purchasing point of view and not in a manner which appears to usurp the role of the department concerned.[11]

86. The Committee recommends that:

A Section be created from existing staff within the Purchasing Division of the Department of Administrative Services for the purpose of:

(a) *advising departments and authorities on the preparation of specifications;*

(b) *liaising with industry organisations on problems encountered in interpretation of government specifications;*

(c) *reviewing, from a purchasing aspect, all specifications issued by the Department of Administrative Services and departments using its services; and*

(d) *preparing guidelines on specifications for incorporation in the Purchasing Manual.*

Commercial Products

87. From industry submissions and discussion with various organisations, the main criticism in this area of specifications has been the preparation by departments of detailed specifications for products which are similar in design and operation to commercially produced articles. Again, the use of rigid technical specifications inhibits the supplier from suggesting alternative products particularly where technological advances have been made.

88. It is always easier to buy an item which has been tried and tested over a number of years rather than to evaluate a new product, set new specifications and conduct various tests on the delivered article. Departments have realised this and as a result, the same specifications are issued each time tenders are called but what is not always recognised is that the products have changed and the commercially produced counterpart has different standards and, in some cases, varies markedly from its predecessor. If the department insists on the specifications included in the tender schedule then it must expect prices which are higher than those in the market-place. The supplier will need to re-tool for that particular run, purchase stocks of raw material which differ from his normal requirements and rearrange production schedules to fulfil the contract. This action would not only increase production costs but could deter other possible suppliers

from submitting tenders thus reducing competition. There would also be a cost to the department in higher prices coupled with a lost opportunity cost through not taking advantage of improved technology.

89. When confronted with the criticism that emphasis was placed on detailed specifications rather than purchasing an alternative commercial product, departments considered that the opposite was the case.[12] Department of Defence representatives produced extracts from the Australian Defence Standardisation Manual which required prospective purchasers to use 'nationally recognised industry, technical society and S.A.A. standards, specifications, codes etc. to the maximum practical extent in the design and development of materiel'.[13]

90. Despite what was said on the lack of overspecification, evidence showed the contrary to be the case. The Department of Veterans' Affairs indicated they had detailed specifications for cutlery and crockery used in Repatriation Hospitals. The specifications required that all items were to be of a quality classified as vitrified hotel-ware and one of the main require ments was that they be stackable and the saucer be made so that the base of the cup fitted snugly. The crockery was subjected to certain tests which were so stringent that until only recently Australian products were considered unacceptable. In evidence representatives from the Department stated that local manufacturers had requested modification of the specifications in line with commercially produced crockery but this suggestion had been rejected and the high quality standards remained.[14] In contrast the Capital Territory Health Commission stated that the standard of crockery purchased by their hospitals was not subject to any detailed technical specifications but simply defined as being 'hotel-ware quality standard' and was readily available in commercial quantities.[15] Both organisations required crockery which would be used in portable food warmers known as bainmaries.

91. A comparison of costs for selected pieces of crockery purchased by the Department of Veterans' Affairs and the Capital Territory Health Commission showed:

Table 1: Price Comparisons

Description	*Veterans' Affairs price per dozen*	*Royal Canberra Hospital price per dozen*
	$	$
Cups, white, vitrified, 227 grams	16.56	9.80
Saucers, white, vitrified, 143mm	10.95	5.40
Plates, dinner, white, vitrified, 229mm	20.81	13.50
Plates, coupe, white, vitrified, 165mm	16.71	12.00

Source: Exhibit numbers 146, 234.

92. It will be seen from this table that there are savings which can accrue from the purchase of commercially produced articles rather than resorting to the need for detailed specifications to achieve a similar result.

93. Detailed specifications had also been issued for cutlery and crockery to be used in the public cafeteria of the High Court of Australia.[16] The specifications for cutlery were contained in 9 pages which outlined details of tests to be performed on the items manufactured and included diagrams of machines to be used to test the strength of knives, spoons, forks and ladles. The hardness of knives was to be tested and also detailed corrosion tests were applied where samples would be intermittently immersed at the rate of 2 to 3 times per minute in a solution consisting of one part by mass of sodium chloride in 99 parts of demineralised or distilled water maintained at 60°C for six hours. A corrosion pit assessment would then be carried out by means of a microscope or calibrated lens after the samples had been removed from the solution and

washed. The glazed ceramic tableware undertook a similar detailed description totalling 9 pages and included such tests as water absorption, crazing resistance and reactions with certain reagents including acetic acid to measure the concentration of lead and cadmium present.

94. The Department of Defence stated that its specification used for all crockery orders did not call for a quality higher than that normally produced on a commercial basis by the Australian crockery industry.[17] However the practice did not accord with the theory. A very detailed tender schedule totalling 12 pages was prepared under the Australian Defence Standard for ceramic tableware, to be used in other ranks' and Serjeants' messes. This was somewhat overshadowed by the 18 page specification for chinaware to be used in the Officers' mess. Among the tests required for the chinaware samples were a water absorption test, metal release test, surface staining test, thermal shock test, resistance of badging and gold rings to detergents test and an impact test for chipping. For the manufacturer to conduct the last test detailed engineering drawings were prepared to manufacture an impact machine.[18]

95. The Committee considers that there is no need for such detailed specifications, exhaustive tests and high level of quality when the items are for day to day use in an environment similar to that of a restaurant or cafeteria. The additional administrative costs of such overspecification are quite unnecessary.

96. DAS at present usually assumes that the buying department has analysed the market availability of the product when drawing up each purchase request and will rarely question the need for separate specifications in lieu of an alternative commercially produced product. As stated by an officer of DAS: 'We do not attempt to tell any of our customer departments that there is a commercial product which is almost the same as the one they want. If a department writes a specification for it we will go out to tender for it and the tenderer will outline the differences in the specification'.[19] The Committee considers that DAS should exercise reasonable responsibility in providing informal advice in these matters.

97. The Committee recommends that:

The Government:

(a) *require departments to purchase commercial, off the shelf products wherever possible; and*

(b) *review compliance with this directive at a later date.*

Standardisation

98. Evidence before the Committee indicated that attempts to standardise specifications for similar commercial products have been resisted by many departments and very little action has been taken to achieve any co-operative effort. Although period contracts and bulk purchasing are advantageous, where departments insist on minor variations from the standard product these cost savings will not be maximised.

99. A review of State Government procurement procedures revealed a tendency towards centralised purchasing. This required all users to standardise their requirements whenever possible to gain advantage from bulk purchasing. Naturally there were departments with particular requirements which varied from the standard product but, by bringing the various users together for informal discussions, the majority of the differences were reconciled. If maximum cost savings are to be achieved in the area of period contracts and collective purchasing, there must be a process whereby the differences between departments in relation to a common product can be overcome.

100. The Committee noted that attempts had been made to introduce standardisation in a number of areas such as motor vehicles, forklift trucks, drugs and surgical dressings.[20] As DAS indicated, they can only try and influence departments in standardising these requirements. If the department concerned is adamant that they require a particular variation then this request will be complied with.[21]

101. If departments and authorities cannot get together and settle their differences concerning requirements then the advantages accruing from collective purchasing will be lost. DAS through its role in the Period Contract Awareness Service and as the purchasing agent for many departments is able to ascertain various items which could be purchased on a collective basis. It would be preferable that DAS bring together the various users for informal discussions with a view to standardising requirements. In circumstances where it is apparent that major savings would accrue from bulk purchase of the particular item and the departments will not agree on standardisation then DAS should seek assistance through its Minister. The Committee therefore recommends that:

For the purpose of standardising specifications of non-commercial, off the shelf products the Government authorise the Department of Administrative Services to implement procedures that would facilitate such standardisation.

Performance Specifications

102. Technical specifications detail the physical description of the item required including such things as size, capacity, horsepower, tolerances, materials and tensile strength. These aspects would need to be considered and included in specifica tions for sole user items and, where modifications are required, for commercial products.

103. Performance specifications outline the proposed functions the desired item should perform and generally describes the functional role to be played by that product in the overall program. The use of performance specifications is relevant to the area of two phase tendering where suppliers submit proposals for consideration and then at a later stage, technical specifications are prepared.

104. The Committee recommends that:

When compiling tender documentation, departments use performance specifications whenever possible.

Standards

105. Standards establish the material, engineering and technical limitations of the required product and form part of the specifications. The Department of Defence indicated that additional standards cannot be added to products which are bought off the shelf.

106. The Scott Committee recognised the need for tender schedules to conform with standards used by private industry.[22] By imposing commercial standards, the government would be moving towards a rationalisation of purchasing while maintaining an acceptable quality standard. There needs to be available to specification writers details of commercial standards applicable to products under consideration. A number of Departments including Defence and Administrative Services already maintain central information services which were considered to adequately cater for this requirement.[23] There is however a need for a contact point between the groups operating these registers and those seeking to find applicable standards. It is therefore recommended that:

(a) *In preparing specifications departments use the standards produced by the Standards Association of Australia whenever possible.*

(b) *The Department of Administrative Services be the agency for the collection and dissemination of commercial standards held by individual government departments and advise specification writers on the appropriate standards to use.*

Training

107. The Committee has endeavoured to formulate recommendations which will allow departments to compile their own specifications with assistance from DAS when necessary. However, it is apparent that there is a need for personnel employed in this area to be fully conversant with the current state of the art.

108. Later in this report there is discussion concerning the use of uniform guidelines. It is considered that part of the Purchasing Manual (proposed in Chapter IX) should be devoted to a basic outline for specification writers. The Manual would include the definition of various terminologies used in tender documenta tion, an outline of the structure of tender documents and a guide to the departments maintaining registers of commonly used standards and specifications.

109. The Committee recommends that:

The Department of Administrative Services arrange regular training seminars for specification writers.

Chapter IV

Collective Purchasing

Introduction

110. A large proportion of government purchases of goods and services is represented by more than one department or authority buying identical goods. Obvious examples are stationery, office machines and motor vehicles. This provides the Government with the opportunity of using its collective purchasing power as a lever on suppliers to obtain the lowest possible prices. The prerequisite for effective use of collective purchasing is comprehensive and accurate data on what has and is being purchased, and what will be required in the near future. This has been considered sufficiently in Chapter III above and will not be pursued here.

111. The Committee examined whether the government is making full use of collective purchasing, whether the most appropriate avenues are being employed and whether the contract details are exchanged effectively between departments. The decision on whether goods will be collectively purchased should be based on the criterion of lowest cost to the Commonwealth while meeting delivery requirements. Similarly, choosing the most appropriate avenue for collective purchasing should be based on the cost to departments and convenience of delivery and storage. Finally, for purchasing officers in all departments and authorities to be able to utilise fully collective purchasing they must have readily available sufficient details about goods and contracts to allow orders to be placed easily and speedily. To make judgements about how well collective purchasing is currently conducted the Committee examined in detail a major area of government purchasing, hospital supplies. This case study is included in the report at Appendix 3. The Committee also considered the advantages, disadvantages and operations of the three main avenues for collective purchasing: period contracts, fixed contracts and common use stores. Period contracts involve departments and authorities undertaking to purchase an item from the supplier for an agreed price and for an agreed period of time. Although the Commonwealth indicates the expected volume of the item which will be required, and the supplier may know from previous experience how much will be needed, there is no agreed, fixed volume, for the period in the contract. Fixed value contracts are similar, but fixed volumes are included. Common use stores are warehouses in the capital cities containing commonly used items which are not bought through period or fixed contracts.

Hospital Purchases

112. The purchase of hospital supplies by the Commonwealth is currently conducted independently by each of the departments and authorities responsible for hospitals: the Departments of Defence and Veterans' Affairs and the Capital Territory Health Commission (CTHC). The organisational arrangements for such purchasing are different for each of the three organisations.[1] There is also currently very little exchange of information on contract prices between purchasing officers of the different agencies. This uncoordinated approach does not allow the Commonwealth to buy hospital supplies most advantageously. The Committee obtained detailed information from Defence and Veterans' Affairs and the CTHC on the prices paid for a selection of

nineteen commonly used hospital items.[2] Examination of this information showed that the prices paid varied significantly from hospital to hospital.

113. The lack of exchange of price information among purchasing officers appears to have contributed to price variations. Witnesses from the departments seemed unaware that prices paid for certain items were higher than those that others were paying without there being a difference in quality, packaging or delivery. The Committee also determined that prices were affected by the volume of purchases, especially where the hospital used a group purchasing arrangement.

114. In order to determine the savings that might accrue from the consolidation of hospital purchases the Committee contacted nine large manufacturers and distributors. Employing some reasonable assumptions the Committee calculated the total annual savings from consolidation to be in the order of $250 000.[3] Evidence before the Committee suggested that if purchases were made under State government contracts the savings could be even larger. DAS is the logical organisation to determine the total requirement and to determine whether State contracts could be used or whether new Commonwealth contracts should be arranged. The net result of consolidation would appear to be a marginal saving in staff resources.

115. Consequently, the Committee recommends that:

> *The Department of Administrative Services conduct negotiations and arrange contracts for common use hospital supplies for all hospitals operated by the Commonwealth Government.*

116. Currently government contracts for hospital, and other supplies, are period contracts. The absence from these of fixed volumes hinders price reductions. Without fairly precise estimates, manufacturers cannot plan accurately for production over the contract period. Fixed volume contracts would allow better planning, with consequent discounts on prices flowing to the Commonwealth. Consequently the Committee recommends that:

> *Commonwealth contracts for common use hospital supplies specify volumes of the supplies to be purchased for the period of the contract, where estimates of usage can be made with a reasonable degree of certainty.*

117. Fixed volume contracts would be an improvement on period contracts for goods other than hospital supplies, notably goods for which precise estimates of usage can be compiled. Although the Committee has not pursued the possibility it considers that a study by DAS of goods which would fit into this category would be timely. The Committee therefore recommends that:

> *The Department of Administrative Services investigate application of the principles embodied in the previous two recommendations in other areas of Commonwealth Government purchasing.*

118. The Capital Territory Health Commission is a special case within the Commonwealth in that the hospitals are in close proximity and there exists a warehouse in the suburb of Mitchell, specifically designed for centralised storage and distribution. These factors, together with the fact that committed volume purchasing provides leverage for obtaining price discounts, make the argument for fully centralising hospital purchasing within CTHC quite compelling. Comments by manufacturers contacted by the Committee indicated that this would simplify supply to CTHC and therefore would encourage greater discounts. Consolidation of all hospital purchasing within CTHC would be in harmony with the views of the Commission of Inquiry into the Efficiency and Administration of Hospitals.

119. Consequently, the Committee recommends that:

The purchase of all hospital supplies for the Capital Territory Health Commission be centralised, with supplies stored in and distributed from the existing warehouse at Mitchell.

Period Contracts

120. Period contracts provide goods and services over a specified period during which purchasing officers may, as demand requires, order quantities of the goods or provision of the services under the terms and conditions laid down in the contract. Period contracts are in fact not a legally enforceable contract but a standing offer by the supplier to provide certain products at an agreed price to departments on request. From submissions received this feature does not seem to be appreciated by many private contractors who assume that period contracts are synonomous with firm order bulk purchases.

121. Period contracts are particularly suitable where it is difficult to specify with precision the service required, such as repairs to motor vehicles, office machines, electronic and radio appliances. In these cases no firm description of the requirement is possible until the item is examined or where a price estimate is based on the cost of examination, estimated manhours by a rate per hour, plus costs of materials, spares and so on. One major advantage of period contracts is that the local purchasing officer can deal directly with the supplier and arrange delivery of items requested from the contractor rather than through a centralised purchasing authority.

122. It is not obligatory that one period contract cover only one supplier. Where it appears the capacity of a particular supplier will not reach the annual requirements of departments, a number of suppliers may be selected and departments would then have the opportunity to select the supplier best able to meet their needs. Period contracts may be let for periods of 12 months or more, or may be for shorter periods in such circumstances as the purchase of perishable items. The Committee suggests that two years be considered a maximum after which fresh tenders would be called.

123. The Scott Committee recognised the advantages of period contracts and recommended that the use of these contracts be progressively expanded.[4] The Committee endorses the recommendation.

124. Private industry representatives indicated their acceptance of period contracts but also outlined certain unsatisfactory features for further consideration. Estimated quantities were claimed to be out of line with actual requirements and insufficient knowledge of when future supplies will be required were claimed to cause disruption to production programs. Industry representatives also claimed that tenders are called too late to allow continuity of supply between the expiration of one contract and the beginning of the next. DAS admitted that the criticisms were valid and that efforts were being made to alleviate these problems. It emphasised that no guarantee could be given for providing a constant stream of orders.[5] The recommendations in Chapter II for improving purchasing data and estimates should provide DAS with sufficiently detailed information to be able to indicate to suppliers the required volumes and delivery dates more accurately. It should also encourage the use of fixed volume contracts, which should result in greater price discounts.

125. The problem of discontinuity of supply between the expiration of one period contract and the start of the next was mentioned in submissions to the Committee by departments, as well as private industry. For example, the Department of the Treasury complained that on expiration of period contracts lengthy and time consuming proposals have to be prepared before tenders are called and let by DAS and the goods

eventually received. Such delays would be eliminated if a new contract commenced immediately the old one expired.[6] The Taxation Office stated that 'cost savings would be achieved if contracts for office machines and consumables (period contracts) are renewed prior to expiry to avoid the necessity of buying outside the contract, generally at greatly increased prices'.[7]

126. As DAS is responsible for the majority of period contracts it is they who should be solving the problem of discontinuity of supply from one period contract to the next. The Committee therefore recommends that:

> *The Department of Administrative Services devise an effective system for programming period contracts so that new contracts come into effect as soon as the old contracts expire.*

Period Contract Awareness Service

127. Finance Regulation 46A states 'where supplies that are required by a department can be executed, furnished or performed under an existing contract between the Commonwealth and a supplier or, where two or more such contracts exist, under two or more of those contracts, those supplies shall not be obtained otherwise than under that contract or one or more of those contracts.' If departments independently purchase items from a different supplier to that in the period contract, then the objectives of the fair and open process for soliciting and selecting tenders will not be achieved. Moreover, more cost effective procurement is possible where consolidation of requirements provides greater competitive leverage and scale economies in contract arrangement and administration. Ideally, every purchasing officer in every Commonwealth department and authority should have readily available sufficient information on every item covered by existing Commonwealth and State government period contracts to enable the officer to determine what items may be purchased under such contracts. At the moment, purchasing officers are hindered in such endeavours by the size and complexity of such an operation.

128. Since August 1977 DAS has been developing a Period Contracts Awareness Service which currently takes the form of a condensed index of selected information on a wide range of period contracts. At this stage the condensed index contains some 10 000 entries, encompassing contracts arranged by DAS, the Australian Government Publishing Service and the New South Wales, South Australia and Queensland State Government supply authorities. The Index is issued monthly on microfiche by DAS.[8] It identifies that a contract is available for a particular item, where one can obtain a copy of the contract and includes a suppliers' code to obtain the name and address of the particular supplier.[9]

129. Few departments have been cooperating in advising DAS of their period contracts. In 1977 DAS forwarded to all departments a letter outlining the new service and requesting copies of contracts for inclusion. Very few responses resulted from this request although since then detailed approaches to individuals in certain selected departments have seen a gradual increase in the replies received. For example, the Department of Veterans' Affairs did not forward copies of its contracts until just one week prior to the Committee's public hearings on the subject, to which Veterans' Affairs was called as a witness.[10] Veterans' Affairs' explanation for its reluctance was that it should have first option on supplies provided under period contracts which it had effected. Veterans' Affairs was of the opinion that if other groups were able to take advantage of the pricing and other benefits won by it through tendering and negotiation procedures it may not be able to receive adequate supplies, particularly from small manufacturers, owing to excess demand. DAS indicated that problems of this nature had not occurred

and if there was a known demand it was possible to arrange period contracts for one or more contractors to supply the same item.[11] The Committee therefore recommends that:

The Finance Directions be amended to include a requirement that when departments arrange their own period contracts the details of such contracts be advised to the Department of Administrative Services for inclusion in the Period Contracts Awareness Service.

130. A major limitation of the current Period Contracts Awareness Service is that, even when it is fully developed, it will provide only sufficient information to enable a purchasing officer to determine if a period contract meets his or her needs and where to obtain the additional information needed to place an order.[12] Ideally the Service should provide sufficient additional information about the contract, such as price and discounts available, delivery options, minimum delivery size and major contract conditions, to allow the purchasing officer to place an order without going further than the microfiche. DAS told the Committee that although these additional details are part of its long-term plans, it is not feasible in the short or medium term, given limited ADP resources.

Common Use Stores

131. Common use stores are warehouses in the capital cities containing commonly used items which are bought by departments and authorities because there are long lead times, future supplies cannot be guaranteed, reserve stocks are necessary or the minimum ordering quantity provisions in the contracts may be too large for small volume users. Included are items such as stationery, writing implements and certain types of office equipment and machines. Under current arrangements DAS maintains stores in the A.C.T. and Darwin while in the six State capital cities, the common use store forms part of the main store warehousing activities within the Australian Telecommunications Commission (Telecom). DAS and Telecom are responsible, within the stores under their control, for store-handling facilities, stocking and re-ordering of common use stores as well as the issue and distribution of requirements to the various departments.[13] The Purchasing Division of DAS is responsible for general accounting functions associated with the store including payment of invoices from suppliers and the billing of departments for issues for all stores except in Canberra, where it is the responsibility of the Australian Government Publishing Service.[14]

132. Telecom conducts an integrated warehouse operation with separate accounting records kept for the common use stores in relation to material, stock records and replenishment orders. Although it is impossible to separate in an accounting sense the direct costs associated with running the store,[15] Telecom estimates that in 1977-78 the cost of operating was $1.113 million based on an apportionment of costs.[16] A common use store catalogue is published in each State annually showing for each item the rates which will apply over the ensuing 12 months. The rates are determined from the contract price plus an allowance to cover anticipated price rises during the year. On top of this is added an administrative charge of 20%.[17]

133. There is no requirement for departments to use the common use store if it holds the goods they need. Nevertheless, if the objective of fair dealing is to be achieved and if stock turnover is to be kept at a reasonable level, common use store prices should be sufficiently competitive for departments to be attracted to it when, for the reasons mentioned above, departments cannot buy commonly used items through period or fixed contracts. In 1978-79 Telecom issued goods worth $5.516 million and finished the year with stock valued at $1.783 million.[18] The Committee was surprised at the slow turn

over of stock. It indicates to the Committee that, in proportion to sales and considering the nature of common use stores, there is an unnecessary amount of capital involved.

134. The Department of Business and Consumer Affairs, in suggesting that this 20% surcharge be lowered, claimed that the charge 'is sometimes instrumental in raising the costs of goods to a prohibitive level'.[19] In support, the Department provided examples of items where the surcharge resulted in the common use store price becoming much less attractive than those available from other sources. These included distributors and the N.S.W. Government Store, which employs a 5% only surcharge.[20] As a consequence, for Business and Consumer Affairs, in fact for all departments and authorities, to achieve the objective of best value for money they are obliged to purchase such items outside the common use stores.

135. Telecom explained that before it was separated from Australia Post in 1975 the surcharge had been 12.5%. It has re-examined the size of the surcharge twice since then and believes that 20% is appropriate.[21] Telecom's conclusion was based on the fact that the value of issues to departments and authorities other than Telecom was about 50% of total issues from the common use store in 1977-78. It admitted, however, that in 1978-79 the number of issues to other departments was only about 28% of the total number issued.[22] It seems to the Committee that, in determining the size of the surcharge, consideration should be given to the number of issues as well as the value of issues, which would result in a smaller surcharge. If, for example, equal weight were given to number and value, the reduction in the surcharge would result in an annual saving of about $120 000 (on 1977-78 figures).[23] Furthermore Telecom admitted that in currently charging 20% it recovers its costs plus a 10% mark-up on the cost of the item.[24] DAS indicated that the 20% appears to be higher than it should be when compared with certain State government stores.[25]

136. As explained above DAS undertakes the major portion of accounting associated with common use stores but it levies no charge against Telecom or other departments for the service. The Committee considers that DAS should approach Telecom to re negotiate the surcharge with the aim of having it lowered, and the free accounting service provided to Telecom should be used as a lever in such negotiations. The Committee therefore recommends that:

As a matter of urgency the Department of Administrative Services:

(a) *negotiate with the Australian Telecommunications Commission (Telecom) for a reduction in the 20% administrative charge levied on goods Telecom distributes through its common use stores; and*

(b) *while conducting these negotiations examine alternatives to purchasing through Telecom-operated common use stores, including: dispensing with common use stores; the Department of Administrative Services operating them; and purchasing common use items through State government stores boards.*

137. The Auditor-General's Report for 1978-79 referred to a review which disclosed significant purchases from sources outside common use stores because of the unavailability of items and because prices on current stores circulars were amended after the new rates had become effective. Telecom indicated that orders are generally completed in three days.[26] In contrast evidence was submitted to the Committee by the Department of Business and Consumer Affairs indicating that delays are common and were sometimes as long as two months. Even worse, orders are sometimes not filled and reordering or purchasing from another supplier is necessary, resulting in further delays.[27] In response Telecom claimed that delays occur only where there is insufficient stock on hand to satisfy the particular demand.[28]

138. The Committee considers that larger stocks of items required could be held without further funds being necessary if obsolete or slow-moving stocks were minimised and if departments paid for goods issued from common use stores more quickly than they do. Telecom stated that a system of review identifies slow-moving stock and requests for approval to dispose of it are submitted to DAS. Delays are occurring within DAS because delegations to dispose of goods are inadequate in regional offices.[29] Slow payment of accounts by departments has been, and still is, a problem. The Department of Finance has assisted DAS in its efforts to reduce sundry debtors by sending severely worded letters urging payment as soon as possible. Despite these entreaties the total figures for sundry debtors at 29 June 1979 and 31 May 1980 were $643 000 and $715 000 respectively. These represented six to eight weeks credit and almost a quarter of the working capital required for common use stores.[30]

139. The Committee therefore recommends that:

The Department of Finance request departments and authorities to pay for items bought from common use stores within thirty days.

CHAPTER V

Contracting and Contract Administration

140. 'Full and fair competition' necessitates procedures which allow all who wish to participate in selling goods and services to the government to do so without restriction or bias. Greater emphasis should be placed on allowing Government Regulations to remain in line with current commercial practice and provide flexibility in the procurement process.

141. The Background to Section 25 of the Finance Manual outlines the government's view on the need for full and fair competition in the following manner: 'The underlying intention of regulations 51, 52, 52AA and 53 is that government procurement procedures should be, and be seen to be, beyond reproach: i.e. that all who wish to participate in government business are given the opportunity to do so; that the government maintains a reputation for fair dealing, and that public money is spent effectively and economically'.

142. The Background to Section 25 further states that the best way to achieve this intention is by the public invitation of tenders and the subsequent publishing in the Commonwealth of Australia Gazette of details of contracts arranged. Although this may be the best method, the administrative cost involved must be considered when such a procedure is suggested for the purchase of small value items. The practice has therefore arisen of setting monetary limits or thresholds which indicate the level at which oral quotes, written quotes or tenders should be called. This provides an increasing degree of accountability related to the value of the purchases.

143. In 1979, the Committee sought the views of departments concerning the threshold levels applicable at that time and it was generally considered that an increase in the monetary value at which quotes and tenders were required, was warranted. On 1 April 1980 the Committee forwarded to the Department of Finance a memorandum outlining revised threshold levels which were considered appropriate in view of current prices and sought the department's views concerning these recommended changes. Finance replied that the views expressed by the Committee were similar to conclusions reached within the department. Amendments have subsequently been made to the Finance Regulations to incorporate the revised threshold values and are in accord with the Committee's recommendations.[1]

144. In 1902, the level for calling public tenders was $200, $1000 in 1961, $5000 in 1975 and $10 000 in 1980. The rise in prices over the last decade has brought more and more items, which were previously purchased by using written quotations, above the threshold at which tenders are required. The Committee is concerned that if full and fair competition is to take place, the threshold levels must remain in line with commercial realities and accordingly recommends that:

> *A regular review of threshold levels be conducted by the Department of Finance in consultation with major government purchasing bodies. This review is to take place at least once every two years.*

145. This recommendation was forwarded to the Department of Finance for comment in April 1980. In reply the Department agreed with the Committee's conclusions and considered that a biennial review would be appropriate.[2]

146. One of the problems associated with such a regular review is that the threshold levels are at present incorporated in the Finance Regulations and can only be altered by the issue of amending regulations. This process involves the preparation of Statutory Rules which must then pass through the normal legislative procedures before being proclaimed and becoming operative.

147. The procedures could be simplified and threshold amendments could be made in less time if the actual amounts applicable to each level were included in the Finance Directions rather than the Finance Regulations. It is stressed that the provisions contained in Finance Regulations 51 and 52 should remain but the Finance Directions would be expanded to include details concerning the monetary amount associated with each level.

148. Amendments to Finance Regulations are subject to parliamentary scrutiny but changes to Finance Directions can be made by the Secretary, Department of Finance, without reference to the Parliament. This reduction in parliamentary oversight could be overcome by including details of all changes to threshold values in the annual report of the Department of Finance.

149. The Committee recommends that:

The monetary amounts applicable to threshold levels included in Finance Regulations 50-53 form part of the Finance Directions and details of all changes to these amounts be outlined in the Department of Finance annual report.

Tendering Procedures

150. The Department of Finance said that the directions which it has promulgated do not attempt to define the words 'public invitation to tender'. Finance assumes that the interpretation is clear and that the process will achieve full and fair competition.

151. The main advantages and disadvantages of the current approach of public tendering were identified by DAS for the Committee. The advantages are, firstly, that it ensures open competition among all suppliers by affording them equal opportunity to submit tenders for government requirements. Secondly, it can lead to new sources of supply as well as evaluation of possible alternative products. Thirdly, it reduces the possibility of accusations concerning favouritism and unfair selection practices. Finally, the purchasing body can, through selection of the most suitable supplier, implement the objectives of 'best value for money'. One disadvantage of public tendering is that protracted delays may be caused by the statutory requirement to advertise, develop and issue tender documents, and conduct a detailed assessment of all bids received. Also, clear, unambiguous specifications must be produced requiring extensive clerical effort. Finally, the detailed information required for certain complex tenders may deter potential suppliers who are unwilling to bear the cost of preparing a tender.[3]

152. The Joint Committee of Public Accounts (PAC), in its Forty-Second Report, called for a detailed investigation of the Trades List system similar to that which was in use in the United Kingdom at the time. The British system provided for tender invitations to be confined to firms, not necessarily all firms, which had applied to be, and had been, admitted after careful inquiry as to their suitability as Government contractors. In reference to the procedures operating in the United Kingdom, Treasury told the PAC that: 'If the proposition of the Committee is that purchases under Regulation 52, so far as the public invitation of tenders is concerned, should mean (a) the establishment of lists of all who are willing and fit to supply; and (b) when supplies are to be obtained the despatch of invitations to all who are on lists, then in my opinion, as I said on the first day, the spirit of the public invitation of tenders is completely met'.[4]

153. On the basis of the evidence presented, the PAC concluded that: 'under competitive conditions, there should be little difference between the prices obtained after publicly calling tenders and under a trades list procedure providing for the issue of invitations to quote or tender to all or a substantial proportion of listed firms. We agree that a system which . . . would permit, as a general practice, a relatively small selection of the available suppliers only to be invited to (tender) . . . would result overall in higher prices to the Commonwealth. Where, however, there is no competition or restricted competition or conditions of undersupply, we consider that the trades list procedure, followed if necessary by direct negotiation, could show to some advantage. However, this advantage would be largely offset under a tendering system based on public advertisment, by use of the inexpediency process'.[5]

154. As a consequence of the PAC conclusions, the then Treasury Direction 31/26 was amended to provide that lists of potential suppliers were used by departments as part of their purchasing procedures.

155. The Committee has ascertained that the majority of Government departments maintain a mailing list of known suppliers in conformity with the abovementioned Finance Direction. However, the mailing list approach was criticised for being 'costly, cumbersome and open to error, and it also involves the use of a great deal of scarce manpower'.[6] At present many suppliers write to ask to be included on the mailing list and enclose a list of items in which they have manufacturing or supply capabilities. Departments add such names as those appearing in trade journals, telephone directories and lists of previous known suppliers to the mailing list.

156. Addresses are often changed and a lot of mail is returned because firms have gone out of business. Occasionally because of human error the firm on the list has not received the letter and complains that it has not received a particular notice. An example was quoted by DAS of a document of 40 pages being sent to 400 known suppliers included on the mailing list. There were 3 offers received in response to this invitation. The cost of maintaining the DAS mailing lists involving thousands of suppliers and the administrative expense of forwarding invitations to prospective tenderers in terms of typing, checking and paper must be extremely high.

157. DAS is considering employing the Commonwealth of Australia Gazette as the main vehicle for informing prospective tenderers of government requirements, supplemented by selective newspaper advertising.[7] A notice in the Gazette would supply a common reference point and suppliers would know that each Tuesday the Government's requirements are published in one document. At present there is no requirement for departments to use the Gazette provided they comply with the underlying intention of Regulation 52 in that all who wish to participate in government business are given the opportunity to do so. The use of the Gazette in the manner suggested would require amendment to the existing Finance Directions to make it obligatory for all departments to use this form of advertising.

158. Over the years private industry has come to rely on tender advertising through newspapers and trade publications. To exclude these traditional forms of advertising will require a certain amount of educative advertising to ensure suppliers are familiar with the new system. Another difficulty associated with using the Gazette is the lead time required to submit advertisements for inclusion. If this time is too great then it will unduly add to the overall delays in delivery of the items.[8] Already both the purchasing department and the supplier face the problem of the long time between issue of a request and delivery of the goods. The purchasing department must be able to assess lead times which consist of production and delivery by the supplier, administrative time involved in determining requirements and procurement time. If efforts are not made to

minimise the lead times then increased reserve stock, delays in completion of the project and the freezing of funds pending the issue of a contract will all add to the costs of the supplier.

159. Where there is no prior history of the supplier's capability, financial liquidity, or quality of product, it may be necessary for the tenderer to submit sufficient details of these matters to be assessed at the same time as the tender.

160. The Committee recommends that:

(a) *The Department of Finance amend the Finance Directions to:*

(i) *require all departments to place details of tender invitations in the Commonwealth of Australia Gazette; and*

(ii) *allow departments to use lists of recognised suppliers for inviting tenders where there is a small number of known suppliers.*

(b) *Each tenderer be responsible for satisfying departments of the tenderer's financial stability, technical ability and capacity to supply products within the required time.*

Certificates of Inexpediency

161. Finance Regulation 52AA outlines the circumstances in which the requirement for calling tenders or quotations would be impracticable or inexpedient and could therefore be waived by the issue of a certificate of inexpediency. Certificates of inexpediency allow the purchasing section within the government department flexibility in its approach to procurement of the required item.[9] The Committee considers the term 'certificate of inexpediency' a misnomer: 'certificate of expediency' encompasses more accurately the intention and use of the certificate. In using this flexibility however, the underlying intention of government procedures, that they be, or be seen to be, beyond reproach, should be borne in mind as well as the goal of full and fair competition.

162. A certificate of inexpediency can only be issued by the Secretary, Department of Finance, or officers in other departments authorized in writing by him in accordance with Finance Regulation 52AA(4). The Secretary has issued authorisations to departments having tender boards and also those departments where significant working difficulties would occur if certificate of inexpediency power was not granted.[10] The officers delegated are in senior positions and their authorization is restricted to purchases within their area of responsibility.

163. In an endeavour to ascertain the incidence of certificates of inexpediency, the Committee sought statistics from departments but was informed that these were not available.[11] DAS was able to submit details concerning contracts arranged by it on behalf of other departments where quotes were confined or tenders restricted. The Committee is concerned at the reduction in accountability resulting from the use of these certificates, and the inability of departments to account for the extent of contracts which are the subject of such certificates.

Table 2: Number of Contracts Arranged where Quotes were Confined or Tenders Restricted

Year	*Under $5000 (% of total contracts)*		*Over $5 000 (% of total contracts)*		*Total*	
75-76 and 76-77	9 920	(39%)	2 420	(10%)	12 340	(49%)
77-78	2 187	(23.9%)	1 410	(15%)	3 597	(38.9%)
78-79	979	(13.6%)	1 595	(22%)	2 574	(35.6%)
79-80	1 564	(19.2%)	2 016	(25%)	3 562	(44.3%)

Source: Exhibit number 236 (1979/80). Special Statistical Report No. 38 (1978/79). Special Statistical Report No. 30 (1977/78). Statistical Report No. 15 (75/76, 76/77).

Table 3: Value of Contracts Arranged where Quotes were Confined or Tenders Restricted

Year	*Under $5000 (% of total contracts)*		*Over $5000 (% of total contracts)*		*Total (% of total contracts)*	
	$ million		$ million		$ million	
75-76 and 76-77	21.05	(6%)	128.83	(40%)	149.88	(46%)
77-78	3.4	(1%)	235.9	(56.1%)	239.3	(57.1%)
78-79	1.4	(0.5%)	118.3	(44.2%)	119.7	(44.7%)
79-80	1.7	(0.3%)	216.8	(36.4%)	218.5	(36.7%)

Source: (as for Table 2).

164. These tables show prima facie that the incidence of restricted tenders and quotes within DAS is high. The Committee is concerned that a similar situation may exist in other departments where officers are authorized to issue certificates of inexpediency. Although the Secretary, Department of Finance, has issued this authority to officers, no mechanisms exist whereby the exercise of that delegation can be monitored to ensure that full and free competition applies whenever possible and is not curtailed by the unnecessary issue of inexpediency certificates.

165. The Committee therefore recommends that:

The Department of Finance establish a system for monitoring the use of certificates of inexpediency and include in its annual report the numbers of these certificates issued and the percentages they represent of total contracts issued.

166. In 1977-78, 1031 or about 14% by number and about $173 000 or 55% by value of all contracts for the Department of Defence were arranged after issue of a certificate of inexpediency.[12] When asked to explain the incidence of these certificates Defence explained that the purchase of complex equipment comprising many individual components necessitated action to restrict quotes and tenders.

167. If, for example, Defence decided to design and construct a ship in Australia using Australian components, there would arise many problems both for the Department and industry which would be time consuming and costly to resolve.[13] Under the provisions of current Finance Regulations, the Department would be required to consider each component individually, prepare detailed specifications, call tenders, evaluate the tenders received and select a supplier.[14] The item concerned, however, may not be required for many months and when eventually an order was placed, the specifications could require amendment to allow compatability with other components purchased during the interim period. In these circumstances, there is a waste of administrative effort and time within the department both at the design stage and at final purchase where changes may need to be made. The contractor would tender on the basis that the item would be manufactured and supplied when the contract was let and the price quoted would reflect current costs. Tooling of machinery may have commenced to undertake that particular job and design and administrative staff could have been assigned to prepare job instructions. With everything in readiness, he is then informed that there will be a delay which, according to the task, could range from a few days to more than a year. This situation not only causes frustration to the supplier but costs will change, and stock of raw material held in readiness will need to be reassigned and stored and through-factory programs re-arranged. The additional costs associated with such a delay will be reflected in price changes submitted by the supplier to the department when the contract finally becomes operative.

168. If Defence wishes to overcome this situation under current procedural requirements they would need to seek a certificate of inexpediency, but under present Finance

Regulations, the certificate could only be issued for each component, not for the complete project. This action would, of itself, necessitate lengthy delays as a submission would need to be prepared, considered and approved for each item. Meanwhile, costs associated with the item may increase the overall cost of the project.

169. A similar situation arises where complex equipment is to be purchased where the department concerned is the sole user and a commercially produced article is unavailable. In these circumstances, a supplier may consider assigning a team of designers and costing staff to prepare the tender after detailed evaluation of the specifications. Evidence suggested that costs associated with this phase could be as high as $500 000.[15] A small manufacturer would not normally have staff of this nature employed full time and would have to hire the required services which would involve a cost outlay. If the supplier wins the contract then the costs are justified. If he loses then these costs will increase his overhead. If the firm continues to lose contracts then it will cease submitting tenders and eventually the competition will diminish to one or two large firms.

170. The Committee is anxious that all who wish to participate in government business be given the opportunity to do so and as such is seeking to encourage small business to submit tenders for these large and complex jobs where they are confident that they have the capacity to complete the contract. The issue of a certificate of inexpediency in these circumstances to a selected manufacturer would unnecessarily prohibit competition. For either major projects involving many components or the design and manufacture of complex, sole user items, the use of certificates of inexpediency does not appear to be the most appropriate vehicle.

Two Phase Tendering

171. The concept of two phase tendering has been considered by the Committee as a means of overcoming the problems faced in the two situations previously outlined. Phase I would require the department to issue a performance specification or, in the case of major projects, seek an expression of interest. The tenders submitted would be in the form of proposals to complete a certain task and include such information as a basic technical summary, cost estimates and production timetable.

172. Discussions would then be held between tenderers and the department when further information would be given concerning the project timetable, consideration of alternative proposals submitted by the supplier, capability of the firm to complete the contract and evaluation of the cost estimates submitted. After these negotiations have been completed, a short list of tenderers would be compiled by the department and detailed technical specifications prepared.

173. Phase II would require suppliers on the short list to compile and submit detailed tenders for the manufacture of the item concerned. These tenders would be based on the technical specifications issued by the department which were the result of previous discussions during Phase I. The compilation of the short list would not preclude other suppliers from tendering and an invitation would be placed in the Commonwealth of Australia Gazette in the normal manner.

174. Where major projects are envisaged such as a ship building exercise, tenderers who expressed their interest would discuss with the department the timing of the project and supply a general outline of their tender. The department would be able to evaluate alternative products, consider new technology and plan the project within a more realistic timetable. Design and construction time would be reduced, industry would be encouraged to be involved and the tenderer's costs would be minimal until

Phase II of the selection process. Phase II would not be programmed until the item is required and purchase would be undertaken with the minimum of delay. This concept of tendering could not only apply to Defence contracts but also areas where:

- concentration of particular expertise is required;
- delays in selection of equipment would mean overall cost increases; and
- research and development contracts are involved.

175. For complex sole user purchases, smaller firms would be able to submit proposals at the Phase 1 stage without employing extra staff and incurring additional costs. If the firm finds that they have been included on the short list for Phase II then there is an incentive to proceed to the compilation of detailed tenders. Costs for large firms would be reduced if they decide not to go ahead after negotiations at the Phase I stage. The end result then is increased competition, reduction in tendering costs, encouragement of new technology and overall reduction in costs to departments both in price and administrative effort.

176. For such a system to be implemented there is a need for an alternative to the normal public tendering process. The certificate of inexpediency procedure is not considered appropriate and the Committee therefore recommends that:

The Government:

(a) *introduce the system of two phase tendering in appropriate circumstances; and*

(b) *amend the Finance Regulations to allow for two phase tendering in defined circumstances.*

Purchase of Office Machines

177. Prior to February 1980, departments were required under the then Finance Directions 31/46-52 to seek approval from the Public Service Board when purchasing office machines. Several departments complained to the Committee that inordinate delays were caused by this apparently unnecessary step.

178. On December 14, 1979, the Committee wrote to the Public Service Board seeking its comments on this matter and said that the Committee proposed to recommend deletion of the relevant Finance Directions. In reply the Board indicated that a review of its role in the procurement of office machines had recently commenced in conjunction with the Departments of Administrative Services and Finance.[16] Subsequently, Finance Circular 1980/6 was issued deleting Finance Directions 31/46-50 and requiring departments to seek the Public Service Board's approval in relation to office machines only where they incorporated digital equipment and were valued in excess of $100 000 for certain nominated categories or $25 000 in all other cases. Other controls which apply to the purchase of equipment still apply to the purchase of office machines.

Chapter VI

Tender Selection

179. The fourth goal dealing with contract and contract administration is the need to ensure that items are secured in time to facilitate agency programs. The selection of a supplier must be based on time as well as price considerations and includes such factors as the capability of the supplier to fulfil the contract, his financial stability, the quality of the product, whether warranty and servicing arrangements apply and what lead time is required.

180. Any decision made which is based on the above factors requires a detailed analysis including a comparative schedule and a comprehensive report setting out the reasons why a particular tender is preferred. The majority of departments and authorities follow similar procedures in preparing tender schedules for submission to the delegated approving authority.

181. The supply section within a department would receive tenders and record them in price order as well as details such as the discounts offered, the level of Australian content, whether the price is firm or variable and the current contract price. The demanding section would examine the technical details of the tenders for compliance with specifications and quality standards. A report would be prepared recommending the acceptance of a particular tender and the reasons for such a selection particularly where other than the lowest price is suggested.[1]

182. The Finance Section would indicate the availability of funds and in some cases comment on the financial stability of the tenderers being considered. The tender board secretary would check to see that all necessary action had been taken and prepare a submission for consideration by the approving authority.[2]

183. The final approving authority may be either a tender board or, as applies within DAS, a system of individual delegations to approve contract proposals. In this latter case, tender boards are maintained only for the purpose of approving certificates of inexpediency.[3]

Tender Boards

184. Tender boards have been a tradition in Australia for the selection of contractors. No statutory base has been identified for the institution of tender boards although references are made in the Finance Regulations in such areas as certificate of inexpediency and disclosure of information to unsuccessful tenderers.[4]

185. The Committee sought to ascertain the contribution made by tender boards in the evaluation of tenders. From discussion with various departments it was found that the tender submissions were generally passed from one board member to another and rarely did the board meet as a body to approve contracts.[5] Using this procedure, the time taken to approve a supplier was generally one week, but for some complex tenders it might be one or two months which is in addition to the time taken to prepare tender schedules.[6] These delays mean increased costs because the government, retailer and supplier are concerned and it is therefore necessary to attend to tenders as expeditiously as possible whilst bearing in mind the need for adequate examination.

186. The Committee examined the composition of tender boards operating in six departments as well as CSIRO and the Australian Postal and Telecommunications Commissions. In most cases, the boards comprised three officers drawn from the Second or upper Third Division of the organisation. The Committee considers that this is an unnecessary involvement and that the members of the boards examined would better serve their departments in attending the duties directly related to their sphere of influence.

187. The Committee noted that officers who served as members of the tender board were selected from sections within the department which would already have examined in detail each tender and supplied their conclusions in the form of written recommendations.[7] Departments were asked to indicate what further role the tender board played and what additional aspects were examined which had not already been considered. They agreed that evaluation work had been completed by the time the business paper was prepared and the board's role was generally to ensure that all necessary steps in the process had been completed and all government directives had been applied.[8] Submissions from the various departments showed that of the 3360 tender schedules submitted to tender boards only 75 or 2% were deferred, the main reason being for clarification of a certain detail and the majority were later accepted on resubmission.[9]

188. DAS dispensed with tender boards at the time the former Department of Supply was disbanded. The essential reasons submitted by the Department for dispensing with the boards related to the delays involved in submitting proposals for approval of the contract.[10] It was also considered unnecessary to have three people looking at the final recommendation or in fact subjecting the proposal to three times as much scrutiny. Tender boards seem to be an arrangment peculiar to Australia. They are not used either in the United States or the United Kingdom and, as outlined above, they do not contribute to the evaluation process.[11] It is generally the chairman of the tender board who signs the approval and it therefore appears sensible to fix the responsibility for the approval of a contract clearly on one officer.

189. The Committee recommends that:

(a) *Tender Boards be constituted only for consideration of certificates of inexpediency in accordance with Finance Regulation 52AA and to arbitrate on contested decisions concerning the selection of a tender.*

(b) *Officers be delegated to approve contracts.*

190. This recommendation in no way reduces the detail or depth of investigation required in the preparation of tender evaluation documents for submission to the delegated officer. Individual officers should be delegated to a certain monetary limit under delegations issued by the Minister responsible. These delegations should be reviewed every two years to retain monetary limits in line with price variations.

191. The delegation to enter into a contract on behalf of the Commonwealth rests with the Minister responsible. This authority is not stated in the Finance Regulations and can only be viewed as an implied power inherited by the Minister under Constitutional provisions. The Committee considers that this important delegation should be specifically stated in appropriate legislation and therefore recommends that:

The Government amend the Finance Regulations to provide authority to Ministers to enter into contracts.

Advice to Unsuccessful Tenderers

192. For the procurement procedures to be seen to be beyond reproach and to maintain a reputation for fair competition, there must be some avenue whereby public accountability can operate to forestall any suspicion of improper practice. At informal

Committee discussions with industry leaders in December 1978 a number of those present criticised the lack of information available to unsuccessful tenderers concerning the reason why their offer had not been accepted. P.J. Lloyd comments in his book, 'Non-Tariff Distortions of Australian Trade' that, 'Australian practices compare unfavourably with some countries. The complete secrecy concerning the number and terms of the unsuccessful tenders or offers received, the lists of potential suppliers, the grounds of inexpediency under which a purchase is made without tender and the grounds on which the Cabinet Committee may prefer a locally manufactured good to a competitive import mean that there is very little 'ex post publicity'. There is general agreement at the OECD and elsewhere that comprehensive ex post information on contracts is essential for surveillances of Government purchasing practices but there is disagreement concerning the details which would be published'.[13]

193. In 1976 a report was published by the Organisation for Economic Cooperation and Development on comparative purchasing procedures in operation by various governments throughout the world. The Purchasing Procedures of 23 countries were examined including those operating within Australia and included a review of the information available to unsuccessful tenderers as well as avenues available whereby an appeal can be made by persons who consider they have been treated unfavourably. Of the 23 countries under investigation, 12 opened all bids in the presence of tenderers and full disclosure was made of the tender information. Procedures employed by the remaining 11 countries were similar to that of Australia; however, West Germany was the only one that was more secretive. Australia was the only country which published the name of the winning contractor. The criticism of secrecy was contested by officers from DAS who stated that procedures in operation allowed for sufficient disclosure of information to unsuccessful tenderers.[14] They agreed that this information was generally only available following a specific request and the only information published in the Gazette was the name of the winning contractor and the amount of the contract.

194. The Committee considers that the information available to unsuccessful tenderers is sufficient to acquaint the inquirer with the reasons why his offer was rejected. We believe that if a tenderer is concerned enough to try to find out why he was unsuccessful then there should be an effort made on the part of the department concerned to supply the requested information. It appears however, that the problem confronting inquirers is not the lack of information but where the information can be obtained.[15]

195. The Committee recommends that:

The name and telephone number of a contact officer within the department concerned be included on all tender documentation. The same information should be included against each entry in the Commonwealth of Australia Gazette concerning that particular purchase.

196. If dissatisfied with the explanations given by purchasing departments unsuccessful tenderers would retain the option now available to them of referring complaints to the Minister or to the Commonwealth Ombudsman.

197. The Scott Committee recommended amendment to Finance Regulation 53 (1) by requiring, among other matters, the insertion of 'offer codes' when publishing details of contracts let in the Gazette.[16] The offer codes were designed to provide unsuccessful tenderers with sufficient information to allow them to ascertain the basis on which selection was made and the manner in which the tender was invited. Codes were suggested to save the space in the Gazette that would be necessary for a full description. If after considering this information the supplier still had doubts as to why he or she was unsuccessful then he or she would contact the department concerned.

198. DAS indicated that the Scott Committee recommendation was examined but the codes suggested did not really supply any additional information which would

benefit tenderers. DAS was also concerned at the difficulties which may occur in obtaining absolutely clear differentiation between the meaning of each code.[17] The Confederation of Australian Industry suggested to the Committee that offer codes could be used if they were expanded to supply the following information where the decision to accept an offer has been made on the basis of Australian content rather than price:

- more than one suitable offer received following invitation of public tenders or quotations;
- only one suitable offer received following invitation of public tenders or quotations;
- more than one suitable offer received following invitation of restricted tenders or quotations;
- only one suitable offer received following invitation of restricted tenders or quotations;
- offer received following confining of inquiry to a single firm; and
- offer accepted after consideration under the Australian Preference Program.[18]

199. The Committee considers that the inclusion of this information in the Gazette will reduce the number of inquiries from unsuccessful tenderers and will encourage future competition by prospective suppliers. It is therefore recommended that:

The Department of Administrative Services again examine the Scott Committee's recommendation on offer codes in conjunction with the offer codes suggested by the Confederation of Australian Industry.

Chapter VII

Preference for Australian-made Goods

Australian Preference

200. Although preference in various forms has been given to Australian producers through government purchasing over the years, the current policy has its origin in statements by the Prime Minister in 1976 and 1977. The September 1976 announcement was based on the traditional approach of giving selective protection in special cases, such as where assistance would be provided to a depressed area or to a strategically significant industry.

201. The 1977 election policy speech announced a substantial shift in policy, such that general preference was to be given to Australian goods unless substantial reasons to the contrary existed. Where it was proposed to pass over products of higher Australian content Ministerial consideration and approval was required from a Committee of Cabinet in major cases.

202. Several aspects of the 1977 policy proved unsatisfactory. For example, the Ministerial case-load proved to be high, with large numbers of small value cases being brought up for decision; there were problems with defining Australian content and with implementing and enforcing the content arrangements; and the legislation of some Commonwealth authorities prevented them from implementing the policy, or did not provide for government direction with respect to purchasing.

203. As a result, a new approach to preference for Australian-made goods, together with new administrative arrangements to secure a more rational and simplified approach to the policy, was announced by the Minister for Administrative Services in October 1979, and were later extended to include all Commonwealth Authorities unless explicitly exempted by the *Preference to Australian Goods (Commonwealth Authorities) Act* 1980. The new arrangements can be summarised as follows:

(i) For purchases of value $10 000 or less, i.e. below the public tender threshold: 20% is to be added to the duty-paid tender price of imported goods and the tender with the lowest adjusted tender price is to be accepted whether this is Australian or otherwise. The effect is to give Australian goods a 20% margin of preference.

(ii) For purchase of value $10 001-$99 999: 20% of the value of Australian content, defined as duty-paid tender price less the duty-paid value of imported goods and services, is to be deducted from each actual tender price. The tender with lowest adjusted tender price is to be accepted, unless special reasons exist for doing otherwise, even if this is not the tender with the highest Australian content. The effect is to give Australian content a 25% margin of preference.

(iii) For purchases of value $100 000 or greater: The same adjustment as in (ii) is to be made to arrive at an adjusted tender price. However, if on this basis a tender with higher Australian content would be excluded, the decision is to be referred to Ministers for consideration. Australian content is thus to be given a minimum margin of preference of 25%.

Compared with the previous arrangements, the features of these arrangements are that: a margin of preference is to be routinely applied to Australian goods or the Australian content of goods; and the need to seek Ministerial approval for purchases of goods with

less than the highest Australian content is removed for all purchases of less than $100 000 value.

204. The new arrangements include: a number of modifications to administrative procedures for obtaining, verifying and enforcing estimates of Australian content including the introduction of penalties for discretionary variations in Australian content after contracts have been let; new guidelines on drawing up specifications to ensure that competitive prices are secured and to prevent suitable or reasonably adaptable Australian supplies from being excluded; a requirement that tenders to be excluded as unsuitable must be justified, in writing, in terms of a public scrutiny test i.e. sufficient to allow the responsible Minister, or the Government, to publicly justify the decision; and a requirement that quarterly statistical returns be sent to DAS detailing all purchases valued at over $10 000 for which public tenders were not called in Australia, identifying separately those cases in which only overseas tenders were called.

205. In summary, the overall effect of these administrative aspects is to reduce the risk that essentially administrative procedures can be used to introduce preference against, or even for, Australian goods. On the Committee's understanding of the new arrangements, apart from some continuing difficulties with verifying stated content, it can now be said that the effect of the Australian preference policy is exerted primarily through (a) the procedures for defining Australian content and (b) the rules for evaluating alternative tenders.

206. The most dramatic and important effect of the new procedures is to give tenders with Australian content a margin of preference. In the case of tenders with 100% Australian content the margin of preference is a minimum of 20%. Without implying anything about the general policy of giving such preference, it is clear that this new procedure has administrative advantages over the old, and not merely in terms of reducing the case-load for Ministers. The new procedure removes elements of administrative discretion that existed when administrators had to make prior judgments about whether price differences were sufficiently great to warrant putting a case to Ministers for an exemption from the general principle of giving contracts to Australian suppliers, though it still leaves some discretion in relation to suitability; and it makes the process of giving preference more accountable, and more open, especially for purchases less than $100 000. Specifically, Australian preference is no longer equivalent to an unknown additional tariff of variable proportions. It is now an additional fixed percentage, known to suppliers and applied to the cost of most public sector imports. The major exception is for cases over $100 000, where there is a minimum preference to Australian goods, but with a system of reference to Ministers so that the preference rate could, sometimes, be higher.

207. The Committee's primary purpose in reviewing the Australian Preference Program was to assess its effectiveness. For this purpose a clear understanding of the objectives of the policy is necessary. The October 1979 announcement of the new preference arrangements was not accompanied by a restatement of the policy objectives. The new policy does not represent a major departure from the general intent of the previous policy as introduced in October 1977.

OBJECTIVES OF AUSTRALIAN PREFERENCE POLICY

208. In announcing the preference policy in 1977, the then Minister for Industry and Commerce indicated that its aims were:

- to increase purchases of locally manufactured goods to aid industry recovery; and
- to assist in the take-up of unused capacity in manufacturing industry, increasing employment and productivity.

The Prime Minister, in his 1977 election policy speech, stated the aim of the preference policy, in more general terms, to be 'to assist Australian industry and employment'.

209. It is clear to the Committee that the intent of the Australian preference policy is to increase the output, employment and productivity of Australian industry. In this sense, its objectives are more-or-less identical to a wide variety of protection policies promoted through tariffs, subsidies, tax concessions and so on. On the other hand, Australian preference provides additional assistance only to those who do business with government and, unlike other forms of assistance, is not subject to the scrutiny of the government's independent advisory body on industry assistance, the Industries Assistance Commission (IAC).

THE COSTS

210. Costs associated with the Australian preference policy arise at several levels. There are clearly additional administrative costs associated with the purchasing function, arising from the time and effort required in seeking information, calculating, verifying and enforcing margins of preference. The extent of increase of administrative costs is not known and, as DAS suggested perhaps cannot be calculated.[1]

211. There is, moreover, a cost in terms of resource allocation. The structure of Australian industry and employment is further changed from what it would be in the absence of protection, which, it is generally agreed, does have a cost in terms of potential real income foregone. This form of protection is not subject to the scrutiny of the government's adviser on assistance to industry, the IAC, and it may well involve increasing short-term support for industries that government policy would want to have reduced support in the long-term. This suggests another form of cost to be set against the benefits, but it is a cost which is extremely hard to measure.

212. Finally, though not of least importance, there are the financial costs: the additional cost to the public sector of acquiring its inputs, and hence the extra taxes or prices that consumer-taxpayers must bear for government provided goods and services.

213. The information currently available on the financial costs of the policy is extremely limited as complete records have been kept only of cases referred to Ministers for decision. Prior to November 1977 this related only to cases where departments believed special circumstances warranted giving preference to higher priced Australian goods; and since then until November 1979 it related to cases where departments thought circumstances warranted not giving preference to higher priced goods. Moreover, introduction of the new policy—giving a minimum preference margin in all cases, and possibly a higher margin for cases above $100 000—renders this information less valuable as a guide to future costs than it might have otherwise been.

214. Statistics reveal that in the earlier period, October 1976—October 1977, 34 contracts were awarded to higher priced Australian goods as a result of Ministerial decisions.[2] The contracts were valued at $8 884 000, and involved an additional cost of $1 681 000—or a margin of 23% on the cost of the alternative, lower-price, purchases.

215. For the period October 1977—August 1979, when departments were required to always give preference to Australian goods except where they believed Ministers might want to decide otherwise, 88 cases were referred to Ministers where Australian content goods were both suitable and higher priced, and 32 were decided in favour of the higher priced, higher Australian content goods. The total value of tenders thus accepted was $8 911 000, of which the additional cost represented $1 164 000—or a 15% average extra cost. Some individual items received preference despite having excess cost of more than 50% of the lowest alternative tender.

216. Since at the time for which this last figure applied all purchases were to be of Australian goods unless Ministers otherwise approved; the additional cost of $1 164 000 is only part of the cost. We have no way of knowing the total additional cost but some informed guesstimates are possible. The total value of all government purchases was stated by the then Minister for Administrative Services to be approximately $5000 million.[3] If the average extra margin of 15% applied to all purchases, it would have cost $700 million extra. And if it applied to only one quarter of the total purchase it would still cost an additional $175 million.

217. The new policy certainly introduces some limits to the cost of giving preference, but since it implies the possibility of margins of 20-25%, the figures cited above may still apply. If a 20% margin applied to only 10% of purchases, the cost of the preference policy would exceed $100 million. The greater the policy's impact, the more it must cost.

218. The fact that we do not know what the policy costs is itself an important observation. There are administrative costs in obtaining information concerning the costs of this policy. In the Committee's view, the requirements of accountability, and the importance of an information base on which assessments of policies and their effectiveness can be conducted, dictate that records of the financial cost of giving preference to Australian-made goods must be collected. The Committee is convinced that the policy, whatever its benefits, involves a level of cost to taxpayers about which they are entitled to be fully informed.

219. The policy of using government purchasing to assist in the objectives of increasing output and employment by Australian industries increases the cost of acquiring inputs for public sector use. Whether the policy is worth its cost is an important question, and one which the Committee has been unable to answer, primarily because information currently available is totally inadequate. The objectives themselves are unquestionably laudable. The central issue is whether pursuit of the objectives in this particular way generated the greatest possible impact for the additional outlays of taxpayers' funds that are involved.

THE BENEFITS

220. The policy of giving preference to Australian goods will mean more sales by Australian firms than otherwise and may have a favourable effect on employment and units costs. The Committee was anxious to obtain more concrete evidence that would allow an explicit measure of the policy's effectiveness to be constructed.

221. In November 1979, the Committee questioned DAS, Industry and Commerce and Productivity about the evidence available on the effects of the preference policy on employment, output, productivity and balance of payments.[4] Apart from some statistics which bear directly on the balance of payments impact, and which do not appear to be other than indirectly related to the policy's objectives, the witnesses were obliged to admit that the impact of the preference policy on its objectives is unknown and, they thought, maybe unknowable.

222. One witness suggested that there were indications of increased competition in tendering from domestic suppliers which might be taken to indicate that government contracts are now seen as more profitable than previously.[5] It was also suggested that complaints or support by industry sources might be a reasonable measure of success.[6] In this connection, it was said that the Confederation of Australian Industry had asked that Australia should not sign the proposed code on government procurement being

considered by the recent round of multi-lateral trade negotiations because that code prohibited the policy of giving preference to domestic suppliers.

223. Industry apparently prefers to have some form of preference policy to none at all. Generally they thought it had been beneficial, but were vague about its precise impact.[7]

224. The Committee was unable to obtain any concrete evidence of the policy's effects. Perhaps, as some witnesses suggested, the question can never be completely answered. In this age of sophisticated computer supported econometric modelling policies must be based on more than intuition. Despite the lack of concrete evidence, there is more that can be said about the benefits of the Australian preference policy.

225. First, the policy only gives additional protection to those industries that supply public sector requirements and the protection will be greatest for those industries for which government purchases are a large part of total turnover. Data provided by DAS indicates that for the following industries in Australia Commonwealth government purchases within Australia in 1975/76 accounted for: 24% of turnover in electronic equipment; 19% for aircraft building and repair; 6% for photographic and scientific equipment; and less than 5% for all other industries.[8]

226. Although the figures are not entirely satisfactory in that they relate only to departments plus Telecom and Australia Post, and exclude some purchases even for those authorities, the same data reveals that for all industries supplying government, the value of government purchases in 1975/76 amounted to only 1.4% of total turnover. The effects of preference policy are thus, in aggregate terms, slight and discriminate in favour of some industries relative to others.

227. Second, even for those industries which do benefit from the preference policy, there is nothing in the policy to ensure that firms which are most likely to collapse, or which would provide maximum additions to employment or productivity, receive most support.

228. Third, in any event, the policy will have an impact only when it results in business being diverted to Australian firms when overeas firms would otherwise have won the contracts. We cannot know, without very detailed analysis of purchases, just what proportion of government purchases would be imported but for the preference margin. Statistics suggest that the proportion of purchases imported has fallen from 10% in the period 1972-75, when preference policies did not apply, to around 5% today.[9] The real impact of the policy on purchasing decisions may not be very large.

229. Fourth, even where the policy does increase output and employment, the consequence of using a general preference approach is to subsidise production in general. To the extent that the primary intention of the policy is to influence employment, its impact is diminished by the fact that it is not focused on subsidising labour inputs alone.

230. The Committee is thus obliged to conclude that, without doubting that the policy has had some impact on output and employment, the preference policy is a fairly blunt instrument in general terms, especially as far as employment is concerned, and its impact is both selective and random—selective in that it affects most those industries which are large suppliers of government, and random in the sense that it fails to focus specifically on particular firms or areas that are most at risk so far as employment prospects are concerned.

CONCLUSION

231. The Committee believes that the present policy may not be highly effective. The extra protection offered by Australian preference is small in aggregate, discriminates in favour of industries relatively heavily involved in supplying government, and does not focus specifically on employment. It does not appear, however, that the policy has been subject to any form of in-depth review designed, in particular, to assess whether the extra outlay involved could be used in other ways that would increase their impact on output and employment.

232. The Committee believes that there is, therefore, an urgent need both for improvements in the collection of information on the costs and the benefits of the Australian preference policy, and for a detailed review of the policy's impact and possible alternatives to it.

233. Accordingly, the Committee recommends that:

(a) *Procedures be established for the regular collection, from all departments and authorities, of data on the additional costs incurred by the Commonwealth as a result of the application of the policy of Australian preference. Specifically, all purchasing authorities should be required to submit to the Department of Administrative Services quarterly returns identifying, for all purchases for which the lowest costs suitable items were not purchased, the actual purchase costs and the lowest cost alternative.*

(b) *The data collected on the extra costs of Australian preference be collated and published by the Department of Administrative Services. Each year in Administrative Services' annual report, or in the Budget papers, the information on Australian preference should be published in the form of a Program statement, identifying objectives, activities and costs.*

(c) *The Government should send a reference to the I.A.C. to review the impact and effectiveness of the Australian preference policy as a means of assisting Australian industries, and to consider alternative means of achieving the objectives of the policy.*

Offsets and Australian Industry Participation Programs

234. When tenders are called for major government purchases i.e. $500 000 or greater in value, which are expected to be supplied from overseas, or to have exceptionally high import content, a clause is normally included in the tender schedule requiring the tenderer to incorporate proposals for work to be placed in Australia. This work is broadly termed 'Offsets', denoting the fact that it is essentially designed to offset the consequences of placing the order overseas. However, the work can take two forms: it can be closely related to the product being procured overseas, in which case it is often referred to as Australian Industry Participation (A.I.P.), or it can be work not particularly related to the particular overseas purchase, in which case it is referred to as offset work. The often subtle differences between these types of work, and the confusing differences in terms used by different departments suggest the composite term Offsets/A.I.P.

235. The Offsets/A.I.P. arrangements were introduced in 1970, originally for major overseas Defence and Civil Aviation purchases, but now extend to cover all major purchases, including a series of related purchases that in total would exceed $500 000. In its first 9 years of operation, it has resulted in orders worth $274 million being placed with Australian industries, representing approximately 17.5% of the value of all relevant contracts.[10] The current requirement, however, is for 30% Offsets/A.I.P. work to be included in the tender proposals, though there are some Defence purchases on which a

lower percent age Offsets/A.I.P. would be applied: for example, on U.S. contracts where the U.S. Government allows overseas countries to purchase at the price it pays for equipment. Moreover, there have been suggestions of difficulty in getting Australian industry to participate in some cases.

236. The Offset/A.I.P. proposals are evaluated along with all other aspects of the tender, such as price and suitability, and the types of proposals that are especially sought include those which offer: part production, Australian production of assemb lies, sub-assemblies or parts of the equipment to be procured by the Australian government; co-production, an extension of part production to involve the Australian producer in manufacturing items which the overseas company may also provide to other customers; collaborative arrangements, the Australian industry may participate in several or all stages of concept, design, development and production; or reciprocal purchase arrangements, where the overseas company purchases, or arranges export orders for, Australian products of defence or technological significance. Other offsets that may be accepted include transfers of related technology, waiving of licence fees and royalties, and introduction of research programs.

237. Normally Offset/A.I.P. commitments must be fully met within 3-5 years; offset credits against expected future sales can be earned by exceeding the agreed level of Offset/A.I.P. in existing contracts; and where closely related and/or high technology Offset/A.I.P. arrangements prove difficult to secure, less closely related and/or low technology work may be substituted. Defence contracts may include further variations: Defence may invest money in setting up facilities to undertake A.I.P.-type work, and apparently often adds further requirements in its contracts e.g. designated work which must be carried out in Australia in addition to any general Offset/ A.I.P. requirements, such as aircraft or engine assembly.[11]

238. Two committees exist to provide advice on policy formulation and implementation of Offsets/A.I.P.; the Industry Committee for Development of Offset to Overseas Procurement, which is composed of eminent businessmen who advise the government, through the Minister for Industry and Commerce on offset matters as they relate to industry; and the Standing I.D.C. (Offsets) which comprises DAS, Defence, Industry and Commerce, and Trade and Resources, and is responsible for policy formulation and implementation.

239. DAS identified the stated purpose of the program as being 'to encourage greater efforts by Australian industry to secure work from overseas manufacturers of defence and other equipment purchased on Australian government account or purchased with funds guaranteed by the government'.[12] The former Department of Productivity added that the work is expected to: broaden the capabilities of industries of technological or strategic significance to Australia; stimulate technological advancement in key Australian industries; or provide ongoing support for the life-of-type of the equipment to be purchased.[13]

240. The Committee has found it difficult to distill hard objectives against which effectiveness can be tested. To say Offsets/A.I.P. is intended to ensure that Australian industry has some part in the production of equipment to be bought overseas is to simply state the obvious. The Committee was unable to ascertain whether it was for employment purposes, balance of payments purposes, or for some other objective. These issues received little comment from witnesses or in submissions. In fact the central purpose was emphasised to be in obtaining technological transfers and in meeting strategic supply requirements.[14]

241. The impact of Offsets/A.I.P. can be stated fairly clearly in a purely financial sense. The former Department of Productivity provided the following data.

Table 4: Offsets/A.I.P. accumulated up to 30.6.79

Component	*Defence*	*Commercial*	*Total*
	($ million)	($ million)	($ million)
Aircraft	32.807	40.265	73.072
plus offsets credits	..	..	54.528
			127.600
Electronics	14.747	.201	14.948
Major Defence Equipment	30.614	..	30.614
Computers	..	63.170	63.170
Vehicles	..	.743	.743
M.O.D. (U.K.)	35.9	..	35.9
D.O.D. (U.S.)	0.908	..	0.908
	114.976	**104.379**	**273.883**

Source: Evidence pp. 356-357.

It was also reported that the $274 million total could be broken down into: offsets $110 million; part production plus coproduction $160 million; and training $4 million.[15]

242. While it could not estimate a value for licensing arrangements that had arisen through Offsets/A.I.P., the former Department of Productivity claimed that it was good business. It should perhaps be recalled that this sum of $274 million i.e. approximately $30 million per annum over the first nine years of the policy, amounts to approximately 17.5% of the total of major purchases involved in that period —a not insignificant proportion. However, as a proportion of the output of the Australian industries concerned it would pale into insignificance—except, perhaps in relation to aircraft production where for the Government Aircraft Factory (G.A.F.), and for Hawker de Havilland (H.D.H.), it was suggested that workers directly employed on Offsets/A.I.P. work would amount to 15% and 20%, respectively, of the direct labour force of the establishment.

243. This evidence relates only to the soft objective—i.e. making sure that part of the equipment to be purchased overseas involves Australian production. Evidence on the extent to which technology has been transferred, management and workshop practices improved, and quality control procedures upgraded is much more subjective in nature. Nearly half of the Offsets/A.I.P. have been in aircraft, and have focused primarily on aircraft wing ribs, rudders and elevators. H.D.H. and G.A.F. are the sole source of Boeing 727 elevators, wing ribs and rudders. The former Department of Productivity also referred to a number of other components in aircraft and other areas which involve technology transfers, including computer production technology, and the electronics industry.[16]

244. Defence and the former Department of Productivity also drew attention particularly to the fact that a number of Australian firms now compete successfully with overseas manufacturers for orders for sophisticated high cost equipment e.g. H.D.H., G.A.F., Commonwealth Aircraft Corporation, Ordinance Factory Bendigo, and Wormalds Ltd. This they adduced as evidence that management and workshop practices must have been improved. They further pointed to the fact that a number of Australian firms have qualified for listing on the U.S. Qualified Products Listing which implies that the U.S. Department of Defence will accept their products without further testing, accepting, therefore, the level of the Australian firms' quality control.

245. The Committee does not claim to be expert on the issue of whether this represents real technological transfer and productivity improvement. However, it cannot help but be struck by the limited range of examples, the narrowness of industries that are benefitting and the technology they are acquiring, and the lack of evidence that this has application through a wider range of Australian industries. Moreover, there appears to have been little consideration given to the possible costs of achieving these benefits. It is possible, for example, that the price the public sector must pay for its overseas purchases is raised by the requirement that Offsets/A.I.P. must be incorporated; a significant number of man-hours have evidently been devoted by Defence and the former Department of Productivity to promoting and implementing the program; and the allocation of resources is altered from what it otherwise would be.

246. On the basis of evidence available, the Committee is unable to come to any clear conclusion about the effectiveness of the Offsets/A.I.P. program. In fact, the evidence suggests that no-one is in a position to come to any such conclusions, and it would appear appropriate that the nature and success or otherwise of the program be subject to review.

247. Offsets/A.I.P. appears to be an inexpensive way of getting new technology into Australia. However, what technology is transferred depends on the public sector's current needs, which may have little relationship to what technology transfer is desirable for Australia as a whole. Short of developing a key industry approach, a concept rejected by the Government in its White Paper on Manufacturing Industry in 1976, there is no generally satisfactory way of securing an expansion of technologically appropriate industries, and we should not assume that this program has had dramatic results.

248. In relation to defence industries, Offsets/A.I.P. may be more appropriate because it can be seen as part of a wider program of meeting essential strategic requirements which may involve the Defence Department even investing money in creating new production facilities for the Offsets/A.I.P. requirements. The Committee did not take evidence on how well this function was carried on.

249. The Committee recommends that:

A review be initiated with the purpose of assessing the benefits and costs of the first decade of operation of the Offsets/Australian Industry Participation Program.

Chapter VIII

Quality Control and Cost Investigation

Quality Control

250. The last goal in the contracting process is to provide items of a quality suitable for their intended use. The level of quality control will depend on the adequacy of the specifications prepared at the time the contract was let and therefore there needs to be close attention given to this aspect of contract administration.

251. In discussing quality control, certain terms should be defined:

Inspection is the activity of measuring, testing or otherwise examining products to determine the conformity with the requirements stated in the contract.

Quality control comprises the methods used during manufacture to ensure that the required quality is received.

Quality assurance is the provision of evidence or proof that the requirements for quality have been met.[1]

252. The Committee recognised that there are varying degrees of quality control which should be exercised under government contracts. The standards which apply to commercial products purchased off the shelf are those which apply to all equivalent commercial products. However, for these products separate or one-off specifications and standards cannot be formulated and little quality control can be exercised other than by returning to the supplier items which are found to be defective during use.[2] Some items covered by specifications may require only a brief inspection and acceptance on delivery while in other circumstances an inspection of the factory's capacity and quality control is necessary. Finally, there are the more complex items of equipment which will require in-plant inspection and detailed quality control exercised both by the supplier and through departmental inspectors.[3]

253. Private industry accepts that one of the inescapable elements of supplying goods and services to government departments and instrumentalities is the involvement of quality assurance inspectors. The Government Inspector is often looked upon as a necessary or unnecessary evil responsible for much of the frustration experienced by the supplier of goods to the government.[4]

254. The Department of Defence has the largest complement of quality assurance inspectors within the Commonwealth Public Service. A staff of 1479 are employed in the following areas:

Table 5: Staffing

	No. of factories	*No. of defence inspectors*
Resident inspectors:		
Government factories	13	204
Private factories	35	125
Itinerant inspections:		
Private factories	6 540	288
		617
Administration, engineering, stores, laboratory and weapons personnel		862
		1 479

Source: Evidence pp. 557, 565-568.

255. The Committee accepts that armaments and complex sole user items require stringent quality control supplemented by a constant monitoring by quality assurance inspectors, particularly where human life is at stake. The Department of Defence is employing 1479 personnel with a salary cost in excess of $20 million per annum.[5]

256. The Department of Defence has indicated three phases in the exercise of quality control:

- to provide clear and unambiguous specifications which will include the criteria for acceptability of the goods i.e. the tests and measurements the goods must satisfy;
- a contractor must be found who can satisfy these requirements, control the quality of the goods during manufacture and demonstrate to the Department that the goods conform to specifications; and
- the supplier's activity must be subject to oversight to ensure that the supplier does meet the contractual requirement.

In other words the Department firstly says clearly what it wants, secondly finds a supplier who can do it and thirdly satisfies itself that the supplier has done it.[6] These phases would not only relate to Defence purchases but apply to any government purchasing body.

PHASE 1

257. Defence specifications are required to be prepared in accordance with guidelines set down by the Defence Standardisation Committee and will include a definition of quality assurance requirements. When the specifications are being drafted they are examined by quality assurance representatives to ensure that the appropriate quality elements in the specifications include requisite tests. Where a new piece of equipment is to be purchased the first stage of the evaluation is to request suppliers to forward a sample for testing. These samples are subjected to trials performed by specialist personnel under service conditions to verify whether in fact the item complies with specifications. Proceeding from there, the Department issues detailed specifications and awards the contract. Normal commercial standards are used where the equipment is to be utilised in an environment similar to a non-defence area. In other words, according to representatives from the Department of Defence, the requirements are not specified any tighter than they have to be, but the Department must be mindful that a piece of equipment is not necessarily designed to be used in a military environment.[7]

258. Similar procedures have been noted in other departments although not necessarily as detailed. The Committee is concerned at the cost in time and administrative effort to compile these quality standards particularly where similar items are produced commercially or S.A.A. standards are available. Problems are experienced by suppliers when trying to comply with standards that are obsolete or greater than commercially accepted requirements.

259. DAS acts as the buying arm for many departments including Defence. Unless specified by the department concerned, DAS would rely on the manufacturer's guarantee, on the conditions of the contract and on common law.[8] Quality control is minimal in these circumstances and reliance is placed on user's complaints to ascertain whether or not acceptable quality standards have been reached.[9] The inclusion of any quality requirements over and above those generally accepted for the commercially produced item will necessitate additional processing and inspection and increase the cost to government. If the item is acceptable to private industry at the level of quality reached in commercial production then it should only be in isolated circumstances that government departments require an increase in those standards.

260. The Committee considers that there is a need for all departments to place greater reliance on manufacturers' warranties rather than to try and set their own levels

of quality. The test of whether or not an item was satisfactory would be in its application by the department concerned. If numerous complaints were received by the purchasing body concerning a particular product then further purchases would be curtailed until an investigation was made concerning the circumstances surrounding the complaints and, if necessary, the manufacturer's quality control assessed. If it were found that the level of quality agreed in the contract could not be attained then renegotiations should take place or the contract cancelled.

261. The Committee therefore recommends that:

(a) *Each department institute procedures whereby complaints concerning items purchased can be monitored and, where necessary, remedial action taken.*

(b) *The Department of Administrative Services should be responsible for the investigation of complaints in relation to period contract and common use store purchases.*

PHASE 2

262. Australian Standards describe the essential features of quality control systems which can be established by the supplier. The standards can be used as the yardstick measuring the capability of the supplier to control the quality of products during manufacture. The prescribed systems are on three levels.

- Level 1 is to apply where the buyer considers quality control to be essential in all phases of manufacture. The supplier may be required to design and develop as well as manufacture, assemble and test the supplies and services. (Australian Standard AS1821)
- Level 2 establishes requirements less stringent than Level 1 and would apply where the quality control to be exercised by the manufacturer is directed towards the manufacture, assembly and testing of supplies and services. (Australian Standard AS1822)
- Level 3 is less extensive than either Levels 1 and 2 and is applicable where conformity with contract requirements can be established by inspections conducted on the finished product and, where appropriate, at specific stages of production. (Australian Standard AS1823)[10]

263. The Department of Defence stated that if a supplier is able to demonstrate conformity with the above standards then in-factory inspection and monitoring by Defence would be reduced accordingly. The Department went on to state that one of the disappointing aspects is that although these Australian Standards were published in 1975—and they were produced by a committee comprising government and industry representatives—Australian industry had been fairly slow to adopt them. Of 6500 suppliers throughout Australia, only about 100 have quality control systems which Defence assesses as satisfying its standards.[11] This matter was further pursued in discussion with private industry organisations who maintained that there was a difference between the Australian Standards and standards set by the Department of Defence which were considered to be more stringent.[12]

264. We would again stress the need to differentiate between complex sole user items, particularly where human life is involved, and requirements similar to products produced commercially. It is not this Committee's role to arbitrate and decide whether or not the standards of quality control implemented by a manufacturer are sufficient but we would state that the control standards applicable to sole user requirements need not necessarily be the accepted level for all items produced by that firm for government departments. Further, the control standards applicable to one sole user item may not

need to be as stringent as another but in each case there needs to be close liaison between the supplier, purchasing body and the user to establish minimum standards before manufacture begins.

265. The Committee favours a move away from the use of in-factory inspections by departmental representatives for non-military items and towards encouraging manufacturers to implement quality control systems which will comply with Australian Standards augmented by minimum testing. Any reduction in the number of inspections will correspondingly reduce production time and costs. Delays caused by numerous inspections will also increase the time the department must wait before receipt of the item and implementation of any project involving the supply of that product. Any reduction in the existing inspection procedures and their associated costs must be weighed against the effects such action would have on the level of quality control exercised by the manufacturer.

266. In circumstances other than the purchase of commercial products, specifications are required and these will include certain quality standards. Tenders received would indicate the degree of compliance with Australian Standards and at the time of finalising the contract, agreement would be reached on the degree of government inspection necessary. In most circumstances, the in-factory inspections would be kept to a minimum and quality levels gauged by the number of complaints received by users. If the incidence of complaints becomes abnormally high then the contractor would be subject to a detailed inspection by government quality assurance staff of the quality controls implemented by the manufacturer during production.

267. It is envisaged that the revised procedures would reduce the incidence of government inspections and place a greater reliance on the firm's quality control. Government inspection staff would be reduced and delays caused by government intervention would be minimised. As a result, costs of production should be less and competition greater with the benefit of lower prices being evident in future contracts.

268. The Committee recommends that:

(a) *Tenderers be required to indicate the degree of compliance with the relevant Australian standards;*

(b) *Firms who comply with the above standards be subject to less frequent government inspections; and*

(c) *the receipt of complaints be monitored by departments, and government inspection requirements be adjusted accordingly.*

269. The above recommendation and alternative procedures would not apply to complex equipment where the government is the sole user, or for armaments, ships, aircraft and items where there is the possibility of loss of life or limb. In those cases, quality inspectors from government departments would maintain a constant monitoring of production processes.

PHASE 3

270. Each of the three services has its own Quality Assurance Unit which conducts inspections on items ordered by that defence group. The Department of Defence indicated that there is a 13% overlap in the firms visited by these Units or in other words 13% of all inspections made are duplicating inspections conducted by another group.[13]

271. The Munitions Supply Division, Department of Industry and Commerce operates 8 factories which are mainly concerned with the production of defence armament requirements. These government factories have experienced problems associated with overlapping inspections by at least two and sometimes three separate service representatives. It was stated that in some cases the various Defence offices purchased similar

items from the same contractor but quality assurance inspections were conducted separately by representatives from the various units with each group differing in the detail examined thus causing considerable problems to the contractor.[14]

272. In most factories there are procedures which are common for any item being manufactured. It is both unnecessary and time consuming for a succession of quality assurance inspectors from different government organisations to conduct the same inspection of these common processes. If a government inspection is necessary, there should be a detailed examination of the firm's quality control systems at the time the contract is let provided a similar review has not been conducted in the previous six months. If a review has been conducted by another government organisation then the details of that review should be made available to the department about to finalise the contract and only those inspections necessary to update existing information on the quality control systems should be instituted. Those processes which are peculiar to the item being manufactured will need to be separately evaluated but for common processes, previous investigations should be reviewed before any further examination is contemplated. This action would avoid duplication in quality inspections and reduce the time taken to let the contract and produce the requested items. Costs of production would be reduced by reducing the number of inspections required during manufacture and this would result in lower costs to the department concerned. Administrative time and departmental resources would be reduced in relation to the contract as reliance would be placed on recent inspections undertaken by another group thus reducing the time between submission of a request from the user and supply of the item.

273. For such a procedure to take place, there needs to be close liaison between the various quality assurance groups within government departments and authorities. Similar groups exist in a number of other government organisations. Defence stated that approximately 20% of the Army quality assurance work-load related to inspections on behalf of other departments.[15]

274. The Committee recognises the need for some co-ordination of inspections and the maintaining of liaison not only between quality assurance groups within departments but also with private industry quality assurance organisations. DAS has been recognised throughout this report as playing a major role in the procurement process by purchasing on behalf of many departments and advising other departments on aspects of purchasing but no quality assurance staff are employed by DAS. The facilities available within the Department of Defence are used.

275. It is therefore recommended that:

The Department of Defence be responsible for:

(a) *liaison with private industry quality assurance organisations;*

(b) *dissemination of information relating to current quality inspection procedures to government organisations; and*

(c) *liaison with other government quality assurance inspectors for the purpose of co-ordinating inspection programs.*

Cost Investigation

276. There are three main types of contract pricing in use by government departments and in each case some form of cost investigation may be required.

277. Fixed price contracts do not permit any price variation due to the movement in cost levels. The contractor is able to estimate fairly accurately the cost of supplying the item and he will increase his profit if he can complete the contract at a lower actual cost. Any additional payments by the government would be on an 'ex gratia' basis and generally the involvement of cost investigation staff is minimal.

278. This type of contractual arrangement is preferred by departments and should be effected wherever possible. In times of inflation however the contractor will only use this type of contract if delivery and payment takes place shortly after the contract is awarded. Due to the limitations of DAS' present ADP system it is not possible to provide an accurate measure of the incidence of firm, as opposed to variable, price contracts over the last two years. However it is believed that, apart from special cases such as fresh meat contracts, there has been little change in the mix of firm and variable price contracts.

279. 'Cost-plus' contracts or cost-reimbursement contracts are entered into where there is a high element of risk and uncertainty regarding the task itself and costs are incapable of being determined with any degree of accuracy. A 'cost-plus' contract would be let for research and development of new equipment and the contractor's profit would be a fixed percentage margin on costs. The cost investigator would be required to check the contractor's costing records to ensure that costs charged have been fairly and accurately assessed. This task may be complex with lengthy discussions taking place between the contractor, cost investigator and the department concerned. The investigation can only take place when the contractor submits an invoice and payment will be delayed until the costing is verified.

280. Variable price contracts incorporate pricing arrangements which allow for increased costs for some aspects over time according to the movement of certain specific cost factors e.g. labour, material and exchange rate. Variable price contracts are normally used where the contract costs vary due to factors beyond the reasonable control of the contractor.

281. This type of contract is preferred by suppliers, particularly in times of inflation. Price changes will be examined by cost investigators using as a basis the terms and conditions of the original contract and it is therefore necessary that clear details are given in the contract concerning allowable costs increases. The job of the cost investigator can be difficult in evaluating allowable increases and may involve not only an in-plant assessment but lengthy negotiations with the contractor and the department. While these investigations are being conducted, the supplier is awaiting payment and in some cases may face a severe liquidity problem.

282. The Committee has received a number of submissions from private industry which have indicated that delays in payment have occurred whilst detailed cost investigation procedures are undertaken. It is also recognised by the Committee that a responsibility exists for the prudent use of public funds bearing in mind that a policy objective of government purchasing is to obtain the best value for money. It is therefore necessary that adequate investigation of price increases takes place whilst causing minor inconvenience to the contractor.

283. It is recommended that:

A time limit acceptable to both parties to the contract be imposed on any cost investigation undertaken. If the investigation exceeds this time limit then an initial payment should be made in accordance with the contract rate previously agreed and a further payment made to reflect the new rate on completion of the review.

284. DAS indicated that there were at present 64 staff employed in the Purchasing Division to undertake cost investigation.[16] It was also noted that the approved establishment for the Financial Services Section was 74. From submissions received it has been established that no other section in the public service is directly comparable to the Financial Services Section within DAS which carries out a range of tasks over a wide spectrum of secondary and tertiary industries. A decision by the Government in 1977 stated that as part of the overall role of DAS, cost investigation, now in Financial Services Section, would provide services to departments and authorities as required. DAS

has stated that the section was not able to provide all the assistance sought by other departments and authorities because of work priorities within DAS and staff shortages within the Section. The Section is stretched to provide proper service to existing customers without taking new customers.[17] Assistance is at present provided to the following departments and authorities: Defence, Finance, Health, Industry and Commerce, Science and Technology, Australian Industry Development Corporation, Australian Meat and Livestock Corporation, Australian National Line and the Commonwealth Ombudsman.[18]

285. The work undertaken in the cost investigation field is a most important facet of government procurement and requires the services of qualified cost accountants rather than general clerical staff. It is for this reason that there is a barrier to promotion beyond Clerk Class 4 without qualifications, and the department stated that the majority of people at Clerk Class 4 level had almost completed accountancy studies.[19] From Clerk Class 5 upwards the staffing structure contains only qualified accountants making the field from which staff can be selected somewhat limited. It was suggested to DAS by the Committee that consideration be given to removing the qualifications barrier as occurred in the Auditor-General's Office, or to recruiting general clerical staff at levels below Class 5 for routine checking, or a combination of both these suggestions.[20] As personnel employed by factories in the area of pricing and job costing are generally qualified, staff within the Financial Services Section who are required to undertake direct negotiations with private industry should be able to display a professional competence and generally hold the requisite accounting qualifications. In 1966 position classification standards were introduced to cover various cost investigations positions that had been created over the years. In addition, salary levels for the various cost investigation positions were determined by a separate arbitration board. The last movement in salary ranges was in 1972 when the position of Chief Cost Investigator was established at Class 10 level, and the position of Senior Cost Investigator at Class 8 level. No reclassification has been sought for the lower level since 1966.[21] DAS has now found that over the last two years some 12 experienced cost investigators and trainee cost investigators from the Regional Office, New South Wales, have been lost to other public sector areas such as the Prices Justification Tribunal and the Trade Practices Commission as well as to private enterprise. The cost investigation area has now become a training ground from which, once expertise is developed, more lucrative positions seem to be attainable elsewhere.

286. This movement of staff away from the Financial Services Section has resulted in delays in the investigation of cost increases not only through staff shortages but also through the use of inexperienced staff. A joint review has been in progress for some time where the classifications of cost investigation staff were under examination and the Committee would express its concern that the present structure does not give incentive to adequately qualified personnel and the base level for qualified officers should be at Class 6 rather than Class 5. The department should also further investigate the filling of positions below Class 6 level with officers who have practical experience in the field, but are not academically qualified. It is our opinion that people with natural abilities, a lot of expertise and years of experience in this field could work under the supervision of senior staff in cost investigation.[22]

287. The Committee therefore recommends that:

The Public Service Board and the Department of Administrative Services conduct a review to consider employing academically unqualified personnel in certain areas of cost investigation.

288. At present very few departments employ cost investigation staff but it is understood that there are in many government organisations clerks who are designated other

than cost investigators who are employed to undertake similar duties. DAS indicated that the Department of Defence was now advertising for financial investigators Class 5. Telecom has never used the designation 'cost investigator' but employed clerks at about the Class 5 level who later become Finance Officers, Senior Finance Officers and Chief Finance Officers.[23]

289. There is no liaison between public service groups performing similar work and no uniform policy or procedures. The Finance Service Section officers are of necessity in continuous contact with contractors and with industry organisations.[24] Many of the officers are also involved in specialist groups within the Australian Society of Accountants. It appears however that there is very little communication outside the working environment between public service officers and cost accountants in private industry. Therefore there is no group or procedure whereby staff become aware of practical problems faced within industry and vice versa. The Committee therefore recommends that:

> *The Finance Services Section, Department of Administrative Services, provide assistance as requested in an advisory capacity to other departments and liaise with private industry organisations on matters relating to cost investigation procedures.*

Pricing Formula

290. Firm price contracts should be effected whenever possible particularly if the contract period is 12 months or less. There are, however, occasions where it is realised that unavoidable price increases will occur during the period of the contract and in these circumstances, there are three methods of effecting the price variation:

- determination of actual price increases;
- price variation by formula; or
- a combination of formula and actual price increases.

291. Private industry contractors have criticised the extensive investigation undertaken when price increases have been requested. The extent of any investigation should be dependent upon such things as the value of the claim, relationship between the value of the claim and the total order, whether the supplier has had previous contracts with the government and the quality of cost records maintained by the firm. Present staffing problems within the Finance Services Section will delay finalisation of the claim but other factors such as the need for supplementary information from other organisations and the lack of detail from the contractors when lodging the claim will also add to delays.

292. If at the time the contract is prepared, agreement could be reached concerning a price formula to be employed for cost increases then delays in the future should be minimised. The administrative costs associated with actual price increases arise from the need for contractors to supply information and government cost investigators to verify the details. The resources involved, both for the supplier and the department, can be considerable and will add to the cost of future contracts through increased overheads. A price variation formula reduces the need for the recording and verification of actual price increases, thereby reducing administrative costs for the contractor and the Commonwealth.

293. At the time the contract is prepared, the contractor and the purchasing authority should agree on the components of the formula including the proportion of fixed cost, the index to be used for each component of variable cost, the base date index month and the timing of adjustment. Once these are agreed then any cost increases or

reductions will be reflected in an automatic adjustment to the price from the agreed date of effect.

294. It is realised that the formulation of such a pricing arrangement may be difficult for those who do not have expertise in this area. It is envisaged that eventually there will be a stock of standard formulae for various types of contracts but until that stage is reached, departments should closely liaise with the Finance Services Section of DAS on this matter.

295. The Committee recommends that:

(a) *Government purchasing bodies be requested to incorporate pricing formulae in contracts where variable costs form a major proportion of the tender price;*

(b) *guidelines relating to the compilation of pricing formulae be prepared by the Finance Services Section, Department of Administrative Services, for inclusion in the Purchasing Manual;*

(c) *a listing of standard price formulae be compiled by the Finance Services Section for use by all departments; and*

(d) *the Finance Services Section monitor the use of pricing formulae by departments in those cases where other than agreed standard formulae are used.*

296. DAS disclosed that through the efforts of cost investigation staff in New South Wales the savings were: 1974-75, $1.47 million; 1975-76, $1.7 million; 1976-77, $1 million; 1977-78, $1.6 million; 1978-79, $652 851.

297. In addition to these figures there are the psychological effects of having financial investigators for the Commonwealth looking at cost increases with the objective of obtaining best value for money. There are other intangible benefits such as the development of ability to negotiate price variation arrangements with expertise before contracts are placed, the ability to construct prices and costs in a professional manner, and the conducting of pre-contract investigation particularly where tenders are confined or on a non-competitive basis. It is for this reason that the Committee is concerned that the staffing and operational capability of this Section be maintained at a level which will adequately serve the various government procurement bodies.

CHAPTER IX

Management and Staffing

Introduction

298. The final element of Commonwealth Government purchasing to be considered is the administration of the purchasing function. Administration affects each of the essential elements necessary for effective and efficient purchasing. The activities that come under the umbrella of administration—staffing, use of modern management techniques and provision of guidelines for action—are important to the successful operation of any function of government. Failures in these activities, such as inadequate training, insufficient guidance on procedures and lack of management oversight can result in delays in purchasing, poor choice of items, paying more than necessary and treating suppliers unfairly.

Staffing

299. Even though the procurement process is a support function its importance within departments should not be minimised. The extent to which procurement staff operate at less than optimum level will be reflected in a lack of achievement of departmental programs. The recruitment, selection, development and numbers of staff will have a direct bearing on the efficiency of the procurement process and the costs involved. Sir Derek Rayner stated in a report to the British Parliament in 1971: 'It is people, not systems, who ultimately remedy defects. All management decisions call for judgment and no amount of organisation charts, rules and regulations can make up for inexperience and inefficient management'.[1]

300. The first staffing issue to be considered is the classification of purchasing personnel. If the task of purchasing has changed over recent years, and there is considerable evidence that it has, then the classification of staff, which is reflected in remuneration, should be adjusted to ensure that staff with appropriate qualifications, experience and capabilities are attracted and retained.

301. DAS stated that the purchasing field has become more difficult and complex over recent years, requiring a higher level of skills.[2] It suggested several factors contributing to the complexities. First, governments have been anxious to use the procurement process as a way of advancing certain policies, such as preference for Australian-made goods. Second, changes in technology have meant that generally there are fewer producers of much more complex equipment thus making it more difficult to use the public tendering system. With changes in technology there is a greater need than there might have been in the past for skilful negotiating and multi-stage tendering. Third, the increasing importance of standardisation in government purchasing means that staff need to be sensitive to industry requirements and departmental needs. Fourth, the complexity involved in amending specifications and contracts during production of needed goods is becoming very common. Inflation is also a factor as it means that rise and fall clauses in contracts have become a sensitive negotiating issue. Similarly, floating exchange rates make evaluating tenders involving overseas goods or spare parts more difficult. New regulations, especially relating to metrication and trade practices, also affect contracting arrangements. Finally, greater scrutiny of official decisions, as a

consequence of the existence of the Commonwealth Ombudsman, the Administrative Appeals Tribunal and new approaches to auditing, means that purchasing staff are more conscious of the need to be fair and equitable.[3]

302. The Institute of Purchasing Supply Management (IPSM), the professional society representing purchasing personnel in both the private and public sectors, submitted that purchasing staff are required to specify adequately the goods and services required, identify and compare alternative products, negotiate with sources of supply, arrive at agreed terms of trading, make contracts, place orders, receive the goods and services and check invoices prior to payment for these items. This process can be complex and time consuming, relying to a great degree on the expertise of the staff.[4] IPSM stressed that while skills in actually buying the goods are important in keeping down costs, a host of other factors can cancel any benefit accruing from simply being effective on the buying front. These include inappropriate forecasting techniques, inappropriate transport modes selected for conveying stock, poor value analysis or no value analysis carried out, inappropriate approaches to negotiation and poor stock control techniques.[5]

303. Both DAS and IPSM suggested that as a consequence of the changed circumstances the existing classifications of purchasing officers, particularly those at the field level, are too low.[6] DAS offered the opinion that the classifications at senior levels in its central office are reasonable.[7] However it stated that purchasing officers at all levels have lower classifications than the equivalent officers, with whom they deal, in the user departments and authorities. DAS admitted that this is a disability, though not a major one.[8]

304. The Committee considers that the evidence is sufficient to justify a review of staff classifications. Workloads may have changed over recent years as a result of changes to departmental administrative arrangements, in addition to the changes described above in the conduct of purchasing. Departments have changed roles and responsibilities with successive governments. In some cases these have led to the elimination of departments, the amalgamation of others and the creation of new departments. With each change there is imposed a different work load on staff employed in the procurement areas.

305. This again suggests the need for staff reviews. The Committee sought details from departments and authorities concerning the number and extent of staff reviews conducted over the last three years where emphasis had been placed on the procurement staff. Response to this request indicated a general absence of reviews either by departments or the Public Service Board, with the exception of a recent review of the Purchasing Division of DAS. Where a review had included a procurement area, it was ancillary to either an overall departmental investigation or to a review of a major section within the department. The reviews also evidenced little or no involvement by the Public Service Board, although private consultants were used wherever external assistance was required. The attitude of departments questioned by the Committee was that the staffing of purchasing and stores sections did not rank as a high priority. Senior management considered that the first priority was to adequately staff those sections directly involved in achieving the objectives of the department and attention would be given to ancillary areas only when time permitted.

306. The Public Service Board and DAS completed a joint management review of the Purchasing Division in 1980 although the consequential restructuring has not yet been implemented. There has been no review by the Public Service Board of purchasing areas in all or a group of departments. Nor have there been any other joint reviews of individual purchasing areas.[9]

307. The Committee concludes that a review of staffing of the purchasing function throughout the public service is now necessary. The Public Service Board has already conducted joint reviews of several service-wide functions including internal audit, accounts processing and management advisory services.[10] The Committee therefore recommends that:

The Public Service Board conduct as soon as possible a joint management review of the purchasing function throughout the public service, but excluding the recently reviewed Purchasing Division of the Department of Administrative Services.

308. The final staffing issue to be considered is professional development and training. Staff who are well trained are of benefit to departments and authorities for several reasons. Firstly, they are able to ascertain the requesting section's requirements without continual referral and subsequent time delays. Secondly, they are able to produce specifications that will readily convey to the supplier the necessary information. Thirdly, they have a sound knowledge of the market and the firms able to complete a particular order and can converse with suppliers on both technical and administrative problems in a knowledgeable manner. Fourthly, they have the capacity to reach a decision on problems experienced by the supplier during production. Finally, well-trained staff are able to inspect the finished product on delivery and to know that it either complies with or deviates from the ordering departments requirements. For these reasons training contributes directly to reducing the time taken for requesting sections to receive items and indirectly to completing or implementing projects being undertaken by the department. Further benefit can be derived from the input of new ideas and suggestions relating to procurement procedures resulting in more efficient operations within departments.

309. Where officers are not sufficiently trained it is necessary to establish rigid day-to-day procedures, which can create delays, extra paper work and duplication of effort in identifying requirements. Insufficient training can also lead to staff failing to assess least cost alternatives. For the Purchasing Manual to be effective it is necessary that staff be adequately trained and understand the requirements as detailed in the Manual. It is also necessary for staff to be fully conversant with government directives issued in relation to procurement, such as Australian preference policy, and to allay any suspicion of unfair practices as a consequence of insufficient knowledge.

310. Promotion in the Commonwealth Public Service is primarily on merit and in assessing merit, qualifications are a major factor. Qualifications are evidence of having obtained a certain knowledge of the subject matter. The Tasmanian State Government has made certain qualification requirements necessary for advancement from one level to the next within the purchasing and supply sections of its departments.[11] It is the Committee's opinion that while qualifications are highly desirable the lack of them should not be used as a barrier for further promotion. By making qualifications mandatory or obligatory the advancement of officers with long and valued experience would be prohibited.

311. The Committee has examined the extent of formal training, conducted either externally or in-house, available to purchasing staff in the Commonwealth. At present the Institute of Purchasing Supply Management and various tertiary colleges conduct courses in supply management varying from 12 months to 3 years as well as short seminars for persons involved in procurement. Submissions disclosed that the majority of statutory authorities include some formal training courses within their organisations specifically designed for staff employed in purchasing and store keeping while departments rely primarily on informal on-the-job training. In a submission from private enterprise a perspective of purchasing was expressed which is generally overlooked within government departments: profits, or reduced annual expenditure, can be

achieved not only by increased sales, or austerity programs, but also by by experienced staff who achieve good purchasing results.[12] This philosophy appears to have been heeded by many statutory authorities particularly where the organisation is competing with private industry but generally not by departments.

312. DAS, however, has been making advances in this direction. It has developed a basic course in purchasing for junior officers, at the clerk class 2/3 and 4 level. This course seeks to explain the way purchasing is conducted throughout the Commonwealth, delineates purchasing policies and describes the procedures and conduct of purchasing. The Purchasing Division is in the process of converting this course into a self-learning package. It is also conducting short seminars lasting half or one day and told the Committee it was planning a conference for middle managers involved in purchasing.[13]

313. The Public Service Board has run various courses for officers covering topics such as internal consultancy and establishments.[14] The Committee considers that the experience of the Board in service-wide training should be combined with DAS' expertise gained in developing its courses on purchasing, to design and conduct regular courses and seminars on purchasing for staff from all other departments. Although the Committee did not obtain evidence from Defence in this matter it would expect that because of its considerable involvement in purchasing it could also contribute to such an exercise. The proposed in-house training would not replace courses run by IPSM and tertiary institutions, but rather would supplement them. IPSM currently is attempting to inject elements of government systems into NSW Department of Education courses on purchasing.[15] While the Committee encourages the spirit of cooperation between these bodies it does not believe that IPSM or State education departments could or should have the responsibility for all training of purchasing staff from Commonwealth departments which currently rely solely on informal on-the-job staff development. The Committee therefore recommends that:

> *The Department of Administrative Services, in conjunction with the Public Service Board, develop self-learning packages and conduct courses and seminars for purchasing officers within the Commonwealth Public Service.*

314. The Committee would expect that all departments would strongly encourage their staff to attend.

Use of Modern Management Techniques

315. There are various tools available to public service management for monitoring the purchasing function so that a close watch can be kept on the efficiency of operations. Performance or work measurement can be used to provide indicators of workloads and staff efficiency thus allowing for staff responsibilities and numbers to be adjusted or for work output to be improved. Management information systems indicate what and how much work is being completed for particular periods of time and can compare the results with previous periods. They also help to identify points at which work flows are being impeded and thus allow for improved scheduling. These techniques are not only valuable for day-to-day administration but they also provide indispensable data for reviews of organisation structure, staff, procedures and so on. The Scott Committee viewed 'the institution of modern management analysis and measurement techniques in government procurement as a matter of fundamental importance to the future efficiency and cost-effectiveness of this function'.[16] The Expenditure Committee concurs.

316. The objective of work measurement[17] is to establish information on standards which managers at all levels of organisations can use for resource and output planning,

procurement, allocation, monitoring and control, and review action. Once established the standards provide evidence to support objective estimates of the staff required to perform tasks in given time periods. Such estimates based on documented argument are valuable in supporting financial and staffing estimates, and establishment proposals, both within individual departments and in submissions to authorities such as the Public Service Board and the Department of Finance. Therefore work measurement assists in the internal resource allocation process and as a means of establishing defensible norms of output expected from individuals or purchasing sections, as well as a basis for planning and staffing new positions.[18]

317. For a number of years the Public Service Board has been developing work measurement systems which it sees as contributing to improving efficiency and economy in the public service. To encourage the expanded use of work measurement the Board includes segments on it in several of its service-wide courses and has produced a training handbook titled 'Work Control and Review' which explains how to implement work measurement.[19] The handbook is now out of date but the Board hopes to issue a revised version in the near future.[20] Moreover, the Board told the Committee that it exerts strong pressure on departments to include supporting evidence, particularly workload indicators, in forward staffing estimates. This results in better analysis by the Board of the estimates and so a more rational allocation of staff resources between and within departments.[21]

318. As part of the joint management review of the Purchasing Division of DAS, four standard categories of work were developed. These were used as the basis for determining staffing requirements in the Division's routine purchasing areas, primarily the regional offices. They were not appropriate, however, in the major projects area of the Purchasing Division.[22]

319. In spite of DAS' success in implementing work measurement it is not always straightforward. Several problems were described to the Committee. For example, the above-mentioned four standards of work for purchasing could not be applied across the Commonwealth. About 80% of the Purchasing Division's work concerns Department of Defence purchases. For other departments there might be a very different mix of processing times for purchases. Different suppliers will be involved as well. Although the principles of determining the processing time are presumably the same the actual times might be quite different.[23] Another problem can be the temptation to concentrate on what is measurable and neglect what is not measurable, to the detriment of the process to which work measurement is being introduced. DAS explained how a particular work measurement system, when introduced to purchasing several years ago, did not give credit for consultation with industry. As a consequence contracting officers reduced significantly their contacts with industry.[24] The Public Service Board warned about another problem: concentration by both management and operators on the work measurement system to the extent that the priorities and objectives of the work group are forgotten. Management should treat work measurement as just one of the tools available.

320. While conscious of the need to be wary of these problems the Committee considers that work measurement holds considerable potential for public service management in maximising the efficiency of purchasing operations. The Committee therefore recommends that:

(a) *The Public Service Board raise the priority for updating its handbook 'Work Control and Review' to incorporate the latest developments in work measurement. The handbook should then be distributed to all Commonwealth departments and authorities with strong encouragement to implement work measurement in purchasing areas.*

(b) *The Public Service Board encourage expansion of the use of work measurement in purchasing areas throughout the Commonwealth further by conducting courses, designed in conjunction with the Department of Administrative Services, with the objective of explaining how to implement the technique.*

321. Management information systems assist departmental management in monitoring the efficiency of operations by providing details of what and how many tasks under its control are complete, and if incomplete, by how much, and comparing this with previous periods. Peaks and lulls in workloads and bottlenecks in workflows can be readily identified. It may be argued that a good manager knows these matters by keeping in personal contact with the workplace or by simple oral or written reporting systems. While this may be so in small or simple organisations, in large government departments where the procurement function is but one element of a branch servicing the needs of a department with many matters more pressing than procurement, more sophisticated approaches are required.

322. DAS described to the Committee the system it will be using. It has been designed, a computer on which to run it has been purchased, and the system is being tested. The information system comprises 5 sub-systems. The major sub-system, project control, is designed to account for those tasks which are derived from the receipt of a procurement demand or period contract request and to follow the day-by-day progress of the resultant tasks through to completion. The objective of the second sub-system, a minor part of the overall system, is to provide a flexible mile-stone recording system for tasks which result only indirectly from a procurement demand or period contract request. The third is a new Period Contract Awareness System which will take over from the existing system and will disseminate information on availability of all period contracts in operation in the Commonwealth and State governments. Fourthly, there is a Gazettal sub-system which is designed to capture data on other Commonwealth purchasing activity outside that of DAS. This will provide the government with more comprehensive details on government purchasing activity. Finally, there is a statistical sub-system which is designed to combine the Gazettal data with the period contract data to provide an overall statistical reference to government purchasing.[25]

323. The main process control sub-system will have a number of features including an on-line data base with remote access via video display units, which will provide officers with the whole range of regional purchasing data. Regional offices will be able to generate their own reports without going through central office. Data in the system will be up-to-date and reports will be produced in less than 24 hours, rather than the week it currently takes for regional offices to obtain reports. The process control sub-system will be based on a 'milestone' concept which will extend from issue of a contract to final delivery, with details being recorded down to the level of the individual item purchased.[26]

324. The Public Service Board and DAS indicated that the only other management information systems designed specifically to monitor procurement that they know of are in the Department of Housing and Construction and the Australian Telecommunications Commission.[27] Without the benefit of detailed studies in a range of departments the Committee is able only to speculate on the possible inefficient administration of procurement in departments and authorities lacking well-designed information systems. An indication of the types of problems which might be occurring was afforded by DAS when it described its situation before installation of the new system: 'at the moment some significant delays are emerging in our large offices as the increase in Defence expenditure gets under way. We do not have an adequate system to pinpoint what is going on. We have only hearsay from officers who think they are in difficulties. I think we need a system which will tell across the board where we are coping, how soon demands are being processed and to what extent the plan times are being met. We also

need some statistical output'.[28] The Committee has examples of problems from the point of view of suppliers, who in evidence and submissions complained that there are frequent delays at various stages in the procurement process. While the major part of this report has been concerned with improving the mechanisms of purchasing, many of the delays disclosed by suppliers appear to be related to poor administrative control. As such they are precisely the types of problems that information systems can aid management to minimise.

325. The Public Service Board sees its role in the development of procurement information systems as twofold: firstly, advising departments that they should consider the implementation of information systems; secondly, providing technical and methodological advice on the nature of the systems.[29] The Board stated that for most fields it or the departments have the expertise to conduct staff reviews or to design and install management information systems, but that sometimes there are not sufficient staff available, or the staff do not have the appropriate expertise. The gap may be filled by external consultants, whom departments can engage.[30] The Committee concludes, therefore, that departments and authorities ought to have effective systems to cover purchasing sections, even if not as sophisticated as that proposed by DAS, and that there are mechanisms which allow departments to have such systems designed and implemented. The Committee appreciates that it is cheaper to install a management information system which incorporates all aspects of an organisation's responsibilities, including purchasing, rather than a multiplicity of small systems. An examination of what broad scale systems are now in use is outside the scope of this inquiry. Consequently the Committee recommends that:

The Government require:

(a) *departments and authorities which have management information systems not incorporating their purchasing functions to give high priority to amending their systems so that they do cover purchasing; and*

(b) *departments and authorities which do not have management information systems to give high priority to arranging for the design and installation of them, while ensuring that their purchasing functions are incorporated.*

Guidelines for Action

326. The foundation of any government procurement system is the legislation and related directives. It is these statutes which set down the objectives, authorise and delegate certain powers, indicate procedures to be adopted and promote consistency in the approach by Departments to this aspect of their administration. In the Australian context, the legislative base is found in the Audit Act as well as Finance Regulations and Directions. Included in these are: guidance on tendering; authority for certain persons to approve requisitions; issue of purchase orders; and exemption in certain circumstances from seeking quotes and tenders. The Finance Directions expand on the Regulations and in so doing present basic guidelines for departments when purchasing services and supplies. Government directives have mainly concerned preference for Australian goods.

327. DAS informed the Committee that they had grappled with the question of whether the Audit Act and Finance Regulations and Directions are wide enough in scope and sufficiently up-to-date to provide adequate operational instructions for purchasing staff. The conclusion reached was that as a guide to purchasing the present Finance instructions are inadequate. The Department of Finance agreed that, for the

level of detail required, the Finance Manual was not sufficiently comprehensive. In fact Finance said that it would be impractical to include such detail in the Finance Manual.[31]

328. Similar comments, though from a different perspective, were made by suppliers. One of the main themes of private industry submissions received by the Committee was the lack of standardisation between departments. Each purchasing body appears to be independent of other similar groups and although there is adherence to the Audit Act and its associated directions, there is a proliferation of individual forms and requirements which results in confusion and frustration among suppliers and a reluctance to compete for further government contracts. The Victorian Chamber of Manufactures submitted that there is an identifiable cost to industry in terms of monitoring and making the clerical effort to keep up with the differences.[32]

329. While fully appreciating the right and responsibility of individual departments to manage their own affairs the Committee believes that the government is more likely to achieve its objectives of dealing fairly with suppliers and of obtaining best value for money if there is consistency in approaches to purchasing. In addition, one objective of government purchasing policies, relating to preference for Australian-made goods, may be detrimentally affected by differences in the operations of departments. Before the 1979 changes to preference policy came into effect the Committee asked departments what internal guidelines they employed for matters where they were allowed discretion. The variations were considerable. In the Department of Veterans' Affairs, for example, there appears to have been no guidelines although a loading of about 10% was added, in some cases, to the costs of imported products.[33] In the Department of Housing and Construction there were explicit directions: suitable Australian-made goods would be bought whenever possible, up to a value of $250; up to 10% preference would be given for goods up to a value of $5000; for goods over $5000, where the recommendation was for the goods with lower Australian content, the matter would be referred to DAS for Ministerial approval.[34] In CSIRO the matter was left largely to judgment, with a 15% to 20% loading considered reasonable.[35] The 1979 changes have remedied the problem highlighted by these examples, but the case is illustrative of what operational differences can arise which can put government policy objectives at risk.

330. Inadequacies in the current evaluation of leasing and buying provide an excellent example of inconsistency of approach between departments leading to poor purchasing decisions, thereby limiting achievement of the policy goal of best value for money.

331. In agreeing with the Committee that inconsistency of approach may be a serious problem DAS explained that it had started developing what had been its own internal manual for wider use by all Commonwealth departments and authorities.[36] The manual is being developed in conjunction with the Department of Finance and chapters of it are being distributed to particular departments for comment. To test the reception of a Purchasing Manual the Committee asked the Departments of Finance, Defence and Veterans' Affairs and CSIRO whether they agreed with the concept: they all did.[37] The Committee concurs that a Purchasing Manual is the solution to the problems, but there are several matters that need to be resolved.

332. The Committee considers that there are at least four elements which should be included. Firstly, the Manual should expand upon and explain government directives and provide guidelines for their implementation. For example, it should include information on the Australian Preference Program. Secondly, the Manual should expand on the Finance Regulations and Directions by detailing the conditions necessary to fulfill the requirements. For example, it should describe the requirements for issuing a certificate of inexpediency and what criteria to employ when assessing quotations and

tenders. Thirdly, the Manual should outline contract law as it applies to departments and should describe the types of contracts which can be arranged. Fourthly, it should describe techniques for improving the planning process, including assessment of lease/buy options and methods of estimating requirements.

333. DAS and user departments suggested that the Manual should not go into the detail of describing procedures step by step. Such an approach, they claimed, would be too limiting on departmental independence and it would be very difficult to define one best way of achieving what is necessary.[38] While the Committee recognises these limitations it considers that the Manual should circumscribe to a reasonable extent the approaches used in most elements of the purchasing function if it is to achieve its main goal of promoting consistency. That is, the Manual should have both positive and negative implications: it should establish limits within which purchasing should be conducted; and within those limits allow a number of ways for efficient and consistent purchasing to take place. The Manual should be given the status of Finance Directions and not be treated as merely a handbook.

334. The Department of Defence stated that as a result of its special interest and expertise, especially in fields such as specifications, it should be involved in drafting the Manual.[39] The Committee agrees. It would be logical if the Department of Finance, with its responsibilities for Finance Directions, were involved also. An interdepartmental committee, consisting of representatives from DAS, Defence and Finance, with responsibility for oversight of the Manual's preparation and distribution would be an appropriate mechanism.

335. Factors such as taxation and the Companies Act, which do not apply to non-trading enterprises, affect commercial decisions in trading enterprises, such as TAA, QANTAS and ANR, whose legislation also requires them to maximise their profits. As the guidelines do not take such factors into account, the Committee considers that trading enterprises should not be required to comply with the Manual. Other statutory authorities, such as CSIRO, and some departments, such as Veterans' Affairs, derive limited autonomy from the Audit Act and Finance directions as a consequence of their own legislation.[40] The Committee considers that the goal of consistency should apply to these agencies. Hence they should comply with the Manual as far as their legislation permits.

336. Consequently the Committee recommends that:

(a) *The Department of Administrative Services continue with the development of the Purchasing Manual, under the direction of an interdepartmental committee consisting of representatives of the departments of Administrative Services, Defence and Finance.*

(b) *The Manual should provide guidelines for all aspects of purchasing in the Commonwealth and be issued as part of the Finance Manual.*

(c) *All departments and non-trading authorities should follow the guidelines, except in so far as the guidelines conflict with their legislation.*

14 May 1981

STEPHEN LUSHER
Chairman

Endnotes

Chapter I

1. Australia, Parliament, *Budget Paper Number 1, 1980-81*, Statement 1, p. 3, and *Budget Paper Number 4, 1980-81*, Table 9, p. 49.
2. Australia, Parliament, *Budget Paper Number 9, 1980-81*, Table 1, p. 11.
3. Australia, Parliament, *Australia's Overseas Representation: Report from the House of Representatives Standing Committee on Expenditure*, Parl. Paper 100, Canberra, May 1977, p. 4.
4. Australia, Parliament, *Government Procurement Policy Report by Committee of Inquiry*, Parl. Paper 124, Canberra, May 1974, p. 64.
5. Australia, Parliament, *Use of ADP in the Commonwealth Public Sector—Acquisition of Systems in the Public Service: One Hundred and Seventy-Fourth Report of the Joint Committee of Public Accounts*, Parl. Paper 341, Canberra, November 1978; and
   Australia, Parliament, *Use of ADP in the Commonwealth Public Sector—The MANDATA Project: One hundred and Seventy-Fifth Report of the Joint Committee of Public Account*, Parl. Paper 218, Canberra, October 1979.
6. Australia, Parliament, *Use of Consultants by the Commonwealth Public Service: Report of the Senate Standing Committee on Finance and Government Operations*, Parl. Paper 204, Canberra, September 1978.
7. Australia, Parliament, *Australian Defence Procurement: Report of the Joint Committee on Foreign Affairs and Defence*, Parl. Paper 260, Canberra, 1979.
8. Evidence p. 6
9. United States General Accounting Office, *Audit of the Procurement System of the State of Oregon: A Case Study*, Washington, January 1977.

Chapter II

1. Australia, Parliament, *Government Procurement Policy Report by Committee of Inquiry*, Parl. Paper 124, Canberra, May 1974, pp. 46-47.
2. Evidence pp. 127-134
3. Evidence p. 133
4. Evidence p. 81
5. Evidence p. 190
6. Evidence p. 192
7. Finance Direction 26(1) requires departments to maintain a register of assets under the control of the Permanent Head. For each item it includes a description, date and cost of acquisition and identification number.
8. Evidence p. 192
9. Evidence p. 200
10. Evidence p. 192
11. Evidence p. 81
12. Evidence p. 124
13. Evidence p. 126
14. Evidence p. 124
15. Evidence p. 144
16. Evidence p. 146
17. Evidence p. 144
18. Evidence p. 125
19. The term 'leasing', as used in this section, covers hiring as well. The main distinctions between lease and hire, that lease involves a specified period of time and includes servicing, would not materially affect the argument in this section. Furthermore, the Committee found that many departments and authorities do not distinguish between the terms, and use them interchangeably.
20. Evidence p. 240 and 247
21. Exhibit 223, p. 2-5
22. Evidence p. 239
23. Apppendix 2, Tables 7 and 8
24. Appendix 2, Table 9

25. Evidence p. 246.
26. Appendix 2, part (b)
27. Evidence pp. 224, 245, 253
28. Evidence p. 263

Chapter III

1. Evidence p. 476
2. Evidence p. 476
3. Evidence p. 477
4. Evidence p. 479
5. Evidence p. 482
6. Evidence p. 482
7. Evidence p. 482
8. Exhibit number 48
9. Exhibit number 50
10. Australia, Parliament, *Government Procurement Policy Report by Committee of Inquiry*, Parl. Paper 124, Canberra, May 1974, p. 98.
11. Evidence p. 487
12. Evidence p. 494-506
13. Evidence p. 494
14. Evidence p. 527
15. Exhibit number 152
16. Exhibit number 146
17. Exhibit number 149
18. Exhibit number 151
19. Evidence p. 497
20. Evidence p. 524
21. Evidence p. 84
22. Australia, Parliament, *Government Procurement Policy Report by Committee of Inquiry*, Parl. Paper 124, Canberra,, May 1974, p. 120.
23. Evidence pp. 513-514

Chapter IV

1. Evidence in camera p. 9, 30
2. Exhibit numbers 123, 130, 131
3. Appendix 3
4. Australia, Parliament, *Government Procurement Policy Report by Committee of Inquiry*, Parl. Paper 124, Canberra, May 1974, p. 98.
5. Evidence p. 548
6. Exhibit number 44 p. 4
7. Exhibit number 63 pp. 4-5
8. Exhibit number 233, attachment pp. 1-2
9. Evidence p. 541
10. Evidence pp. 538, 543
11. Evidence pp. 543-546
12. Exhibit number 3, p. 13
13. Evidence pp. 631-633
14. Evidence pp. 633-634
15. Evidence p. 633
16. Exhibit number 154 p. 1
17. Evidence pp. 636-637
18. Exhibit number 154 p. 2
19. Exhibit number 30, attachment pp. 7, 10
20. Exhibit number 180, attachment
21. Evidence p. 639
22. Exhibit number 154, pp. 1-2

23. The mid-point of the two percentages is 38.6%; 38.6% of the total 1977-78 cost of $1.113 million is $430,000; this amount is $117,400 less than the 1977-78 surcharge of $547,000 (exhibit number 154).
24. Evidence p. 641
25. Exhibit number 153, attachment p. 2
26. Evidence p. 648
27. Evidence pp. 645-646, 648 and exhibit number 30, attachment p. 10
28. Evidence p. 648
29. Evidence p. 649
30. Exhibit numbers 154 and 155

Chapter V

1. Exhibit number 186
2. Exhibit number 186
3. Exhibit number 139 pp. 2-3
4. Australia, Parliament, *Treasury Regulation 52: Forty Second Report of Joint Committee of Public Accounts*, Canberra, 1959, p. 51.
5. ibid., p. 52
6. Evidence p. 270
7. Evidence pp. 392-393
8. Evidence pp. 392-393
9. Evidence p. 401
10. Evidence p. 427
11. Evidence p. 401
12. Exhibit number 1, Table 4.1
13. Evidence p. 430
14. Evidence p. 431
15. Evidence p. 881
16. Evidence p. 625-626

Chapter VI

1. Evidence pp. 685-686
2. Evidence pp. 685-686
3. Evidence p. 688
4. Finance Regulations 52AA and 53
5. Evidence p. 689
6. Evidence p. 691
7. Evidence p. 698
8. Evidence p. 697
9. Evidence p. 700
10. Evidence p. 702
11. Evidence pp. 702-703
12. Evidence p. 705
13. Peter John Lloyd, *Non-Tariff Distortions of Australian Trade*, Australian National University Press, Canberra, 1973, p. 71.
14. Evidence p. 717
15. Evidence p. 729
16. Australia, Parliament, *Government Procurement Policy Report by Committee of Inquiry*, Parl. Paper 124, Canberra, May 1974, pp. 118-119.
17. Evidence p. 723
18. Exhibit number 73, Appendix D

Chapter VII

1. Evidence p. 279
2. Special Statistical Report No. 40, evidence pp. 290-302
3. Australia, House of Representatives, *Debates 1980*, pp. 3087-3090.
4. Evidence pp. 280-284
5. Evidence p. 310

6. Evidence p. 280
7. Evidence pp. 800-923
8. Special Statistical Report No. 14, evidence pp. 285-299
9. Special Statistical Report No. 14, evidence pp. 285-299
10. Evidence p. 356
11. Evidence pp. 319-385
12. Evidence pp. 12-13
13. Evidence pp. 339-340
14. Evidence pp. 310-321
15. Evidence p. 359
16. Evidence p. 375

Chapter VIII

1. Evidence p. 577
2. Evidence p. 582
3. Evidence pp. 583-584
4. Evidence p. 557
5. Evidence p. 615
6. Evidence p. 586
7. Evidence p. 583
8. Evidence p. 581
9. Evidence p. 582
10. Exhibit number 67
11. Evidence p. 587
12. Evidence pp. 824-829
13. Evidence pp. 568-606
14. Evidence pp. 555-556
15. Evidence p. 604
16. Exhibit number 145
17. Exhibit number 145 p. 4
18. Exhibit number 145 p. 5
19. Exhibit number 145 p. 344
20. Evidence p. 663
21. Exhibit number 145 p. 2
22. Evidence pp. 665-666
23. Evidence pp. 662-663
24. Evidence pp. 666-667

Chapter IX

1. United Kingdom, Parliament, *Government Organisation for Defence Procurement in Civil Aerospace, London*, 1971.
2. Evidence p. 773
3. Evidence pp. 776, 789-791
4. Evidence p. 777
5. Evidence pp. 778-779
6. Evidence pp. 780, 789
7. Evidence p. 791
8. Evidence p. 792
9. Evidence pp. 734, 745
10. Evidence p. 741
11. Exhibit number 83, attachment
12. Exhibit number 85
13. Evidence pp. 785-786
14. Evidence p. 740
15. Evidence p. 787
16. Australia, Parliament, *Government Procurement Policy Report by Committee of Inquiry*, Parl. Paper 124, Canberra, May 1974, p. 95.

17. Although the term 'work measurement' may have narrow and particular connotations for some people its broad meaning is commonly understood. Therefore it will be used here to encompass the field for which other terms are sometimes used, such as performance measurement and workload indicators, which are based on the same principles and have similar management uses.
18. M. Jacobs and R. McClelland, 'Work Measurement in Public Service Management —A Review of Australian and Overseas Developments', *Australian Journal of Public Administration*, June 1980.
19. Australia, Public Service Board, *Work Control and Review*, Canberra, 1972.
20. Evidence pp. 738, 740-741
21. Evidence pp. 796-797
22. Evidence pp. 734-735
23. Evidence p. 748
24. Evidence p. 754
25. Evidence pp. 759-760
26. Evidence p. 760
27. Evidence p. 764
28. Evidence p. 766
29. Evidence p. 764
30. Evidence p. 767
31. Evidence pp. 418-419
32. Exhibit number 47
33. Exhibit number 8, attachment A p. 6
34. Exhibit number 9, attachment A
35. Exhibit number 10 p. 9
36. Evidence p. 418
37. Evidence pp. 447-451
38. Evidence pp. 447-457
39. Evidence pp. 447-448
40. Evidence pp. 449, 451

Appendix 1

Conduct of Inquiry

(a) Hearings

After a preliminary hearing on 15 September 1978, the Committee resolved on 25 October 1978 that a sub-committee consisting of Mr K. Aldred (Chairman), Mr R. Braithwaite, and Mr F. Stewart was to inquire into Commonwealth Government Purchasing. The sub-committee defined purchasing as encompassing all the procedures necessary for obtaining goods and services, beginning with the identification of a need and ending at the point of delivery.

In the first phase of the inquiry, the sub-committee obtained submissions from private and public sector organisations. A number of specific areas within the purchasing cycle were selected for examination and further submissions sought. By November 1979 a number of emerging conclusions had been formulated. During the second phase, the sub-committee tested these at a series of hearings with selected departments. These were held on 6, 8, 13 and 15 November 1979, 19 and 22 February 1980 and 21 and 23 April 1980. Further discussions were held with private sector organisations at public hearings in Sydney and Melbourne on 26 and 27 June 1980. The inquiry procedures therefore gave witnesses ample opportunity to present submissions and comment on matters raised. In the final phase, the sub-committee drafted this report.

(b) List of Witnesses

	Dates of appearance before Sub-committee
DEPARTMENT OF ADMINISTRATIVE SERVICES	
Mr John Maxwell Cross, Principal Executive Officer, Canberra	15.9.78
Mr Peter Justin Dawson, Assistant Secretary, Purchasing Division, Canberra	15.9.79 19.2.80 21.4.80 23.4.80
Mr Leonard Alyn Gilmour, Director, Policy Projects, Purchasing Division, Canberra	6.11.79 8.11.79 13.11.79 15.11.79
Mr James Lawrence Kelly, Assistant Director, Canberra	13.11.79
Mr F. B. Long, Acting First Assistant Secretary, Purchasing Division, Canberra	21.4.80 23.4.80
Mr Gordon Alexander Low, First Assistant Secretary, Purchasing Division, Canberra	15.9.78 6.11.79 8.11.79 13.11.79 15.11.79 19.2.80 22.2.80

Mr Ronald Baird Muir, Contracts Officer, Purchasing Division, Melbourne	19.2.80 22.2.80
Mr Larry Neilson, Assistant Secretary, Policy Development, Canberra	15.11.79
Mr Arthur Robert Palmer, Deputy Secretary, Canberra	6.11.79 8.11.79 21.4.80 23.4.80
Mr Colin Lewis Roe, Assistant Director, Policy Development (Projects), Canberra	19.2.80 22.2.80 21.4.80 22.4.80
Mr Alan Alexander Sinclair, Acting Assistant Secretary, Canberra	15.9.79 6.11.79
Mr Kevin Parker Wyatt, Director, Technical Services Section, Victorian Regional Office, Purchasing Division, Canberra	19.2.80 22.2.80
AUSTRALIAN TELECOMMUNICATIONS COMMISSION	
Mr Ernest George Halse, Manager, Tender and Statistical Support Services Branch, Accounting and Supply Department, Melbourne	22.2.80
DEPARTMENT OF BUSINESS AND CONSUMER AFFAIRS	
Mr Bryan John Docherty, Acting Assistant Secretary, Management Services, Canberra	22.2.80
CAPITAL TERRITORY HEALTH COMMISSION	
Mr Douglas Creighton Smith, Supply Manager, Woden Valley Hospital, Canberra	8.11.79
Mr Arthur Joseph Tozer, Assistant Commissioner, Finance, Canberra	8.11.79
CSIRO	
Mr Francis Joseph Whitty, Assistant Secretary, Management Services, Canberra	15.11.79
DEPARTMENT OF DEFENCE	
Mr Colin William Barclay, Director, QA Policy, Canberra	19.2.80 22.2.80
Mr Colin Donald Campbell, Assistant Secretary, Supply Policy, Canberra	6.11.79 8.11.79 13.11.79 15.11.79 19.2.80
Air Vice-Marshal Ernest Michael Carroll, Chief of Supply, Canberra	19.2.80 22.2.80
Mr Thomas Plunkett Hayes, Chief of Supply and Support, Canberra	22.2.80
Air Vice-Marshal Rodney Noble, Chief of Air Force Technical Services, Canberra	19.2.80 22.2.80
Air Vice-Marshal Sydney Robert White, Chief of Supply, Canberra	6.11.79 8.11.79 15.11.79
Mr Donald David Wood, Assistant Secretary, Industry Policy and Planning, Canberra	6.11.79 8.11.79 13.11.79 15.11.79 19.2.80 22.2.80

DEPARTMENT OF FINANCE	
Mr Michael David Dando, Chief Finance Officer, Canberra	6.11.79 8.11.79
Mr Douglas John Hill, First Assistant Secretary, Accounting and Supply Division, Canberra	6.11.79 8.11.79 15.11.79
Mr Gary Potts, Acting Assistant Secretary, Canberra	8.11.79
Mr Clay Clifford Rush, Assistant Secretary, Accounting Policy, Canberra	8.11.79 15.11.79
Mr Kenneth Whalley, Assistant Secretary, Automatic Data Processing, Canberra	6.11.79
DEPARTMENT OF HOUSING AND CONSTRUCTION	
Mr Harold Ronald Byron, Director, Operations and General Works, Canberra	19.2.80
Mr Byrne William Kenny, Principal Executive Officer (Contracts), Canberra	19.2.80
Mr Colin McLean, Controller of Supply, Canberra	19.2.80
Mr Donald Richard Mitchell, Assistant Secretary (Plant), Canberra	19.2.80
DEPARTMENT OF INDUSTRY & COMMERCE	
Mr Graham Frederick Murphy, Assistant Secretary, Policy Development Branch, Canberra	
DEPARTMENT OF PRODUCTIVITY	
Mr Noel Roy Blick, Quality Manager, Government Aircraft Factories, Canberra	22.2.80
Mr Melville Ian Homewood, Assistant Secretary, Marketing, Canberra	13.11.79
Dr Victor Augustus Stewart, Acting Assistant Controller, Development, Canberra	22.2.80
Mr Knyvett Rhys Williams, First Assistant Secretary, Policy and Research, Canberra	19.2.80 22.2.80
Mr Lloyd James Wrigley, Assistant Controller, Projects and Planning, Canberra	22.2.80
PUBLIC SERVICE BOARD	
Mr Alan Guntar Auzins, Inspector, Canberra	3.11.79
Mr N.T. Kenway, Senior Assistant Commissioner, Departmental Structures Division, Canberra	21.4.80 23.4.80
Mr Robert Charles Poole, Assistant Commissioner, Canberra	8.11.79
Mr N. Quinn, Assistant Commissioner, Staff Development Branch, Canberra	21.4.80 23.4.80
Mr J.C. Russell, Assistant Commissioner, Management Systems and Efficiency Division, Canberra	21.4.80 23.4.80
DEPARTMENT OF SOCIAL SECURITY	
Mr Colin Calvert, Assistant Director-General, Finance, Canberra	6.11.79 8.11.79
Mr Dennis Corrigan, First Assistant Director-General, Management Division, Canberra	6.11.79 8.11.79
DEPARTMENT OF TRANSPORT	
Mr T.F. Hopkinson, Assistant Secretary, Commercial Branch, Canberra	21.4.80
Mr G.K. Verney, Director, Supply and Transport Section, Melbourne	21.4.80
DEPARTMENT OF VETERANS' AFFAIRS	
Mr John Hyland, Secretary, Procurements and Contracts Board, Canberra	6.11.79 8.11.79 21.4.80

Mr Norman Edward Stewart, Inspector, Stores, Canberra	6.11.79 8.11.79 21.4.80
Mr Gregory Allan Woodward, Director, Finance, Canberra	6.11.79 8.11.79 21.4.80
INSTITUTE OF PURCHASING AND SUPPLY MANAGEMENT	
Mr L.A. Gilmour, President (A.C.T. Division)	23.4.80
Mr R. Mair, Councillor (A.C.T. Division)	23.4.80
Mr J. Marshall, Vice-President (A.C.T. Division)	23.4.80
INDUSTRY ORGANISATIONS AND COMPANIES	
Mr Thomas Cooper, Managing Director, President Office Machines New South Wales Pty Ltd, Sydney	27.6.80
Mr Mark Diamond, Legal Officer, Employers Federation of New South Wales, Sydney	27.6.80
Mr John Harold Gregory, Director, Building and Construction Council of New South Wales, Sydney	27.6.80
Mr John Harrower, Managing Director, Victorian Chambers of Commerce and Industry, Melbourne	27.6.80
Mr Thomas Edwin Hodgkinson, Executive Director, Australian Telecommunications Development Association (ATDA), Chamber of Manufacturers of New South Wales, Sydney	27.6.80
Mr Anthony Eric Holmes, Executive Director, Building Industry Specialist Contractors, Organisation of Australia, Sydney	27.6.80
Mr Hayden Llewellyn, Economist, Australian Industries Development Association, Melbourne	26.6.80
Mr Ian McLachlan, Deputy Director, Melbourne Chamber of Commerce, Melbourne	26.6.80
Mr Gordon Gregory Hathams, National Executive Director, Australian Federation of Construction Contractors, Sydney	27.6.80
Mr James John Miller, General Manager, Miller Graphic Controls Pty Ltd, Melbourne	26.6.80
Mr Robert Blaxland Mills, Manager, Digital Process Control, Sydney	27.6.80
Mr Frank Victor Phillips, General Manager, Industry Operations Division, Victorian Chamber of Manufacturers, Melbourne	26.6.80
Mr Thomas Henry Kennedy Sheahan, Executive Secretary, National Council, Australian Organisation for Quality Control, Melbourne	26.6.80
Mr Ian Oswald Spicer, Executive Director, Victorian Employers Federation, Melbourne	26.6.80
Mr Max Sullivan, Deputy Director, Chambers of Manufactures of New South Wales, Sydney	27.6.80
Mr Robert McCallum Turnbull, Member, Australian Association of Independent Businesses, Canberra, and Member, Small Business Development Council of New South Wales, Sydney	27.6.80
Mr William Leslie Veness, Company Secretary and Legal Officer, Standard Telephones and Cables Pty Ltd, Sydney	27.6.80
Mr Peter Wellspring, Member of Council, Victoria Division, Australian Organisation for Quality Control, (National), Melbourne	26.6.80
Mr Ronald Arthur Wheeldon, Managing Director, PCM Electronics Pty Ltd, Melbourne	26.6.80

Mr Fred White, Administration Manager, The Shell Co. of Australia Ltd, Melbourne 26.6.80

Mr Richard Young, Councillor, Royal Australian Institute of Architects, Melbourne 26.6.80

(c) Index of Exhibits

Exhibit No.

1 Submission from the Assistant Secretary, Policy Development, Department of Administrative Services dated 11 December 1978

2 Submission from the Secretary, Department of Administrative Services dated 19 March 1979 and attachments including a Purchasing Manual, a Small Purchases Handbook and Statistical Information

3 Submission from the Secretary, Department of Administrative Services dated 23 March 1979 and attachments

4 Submission from the Secretary, Department of Administrative Services dated 6 April 1979 and attachments including A.D.P. Feasibility Study Volume 4 dated 4 October 1978

5 Submission from the Assistant Secretary, Policy Development Branch, Department of Administrative Services dated 6 April 1979 and titled 'Period Contracts for Pharmaceuticals'

6 Submission from the Secretary, Australian Telecommunications Commission dated 13 February 1979

7 Submission from the First Assistant Secretary, Management and Foreign Services Division, Department of Foreign Affairs dated 13 February 1979

8 Submission from the Secretary, Department of Veterans' Affairs dated 2 February 1979

9 Submission from the Secretary, Department of Housing and Construction dated 26 January 1979

10 Submission from the Secretary, C.S.I.R.O. dated 6 February 1979

11 Submission from the Secretary and Manager, National Capital Development Commission dated 22 February 1979

12 Submission from the Secretary, Department of Aboriginal Affairs dated 25 January 1979

13 Submission from the Secretary, Attorney-General's Department dated 26 January 1979

14 Submission from the Secretary, Department of the Capital Territory dated 26 January 1979

15 Submission from the Secretary, Department of Education dated 12 February 1979

16 Submission from the Secretary, Department of Employment and Youth Affairs dated 8 February 1979

17 Submission from the Director-General, Department of Health dated 6 April 1979

18 Submission from the Secretary, Department of Science and the Environment dated 9 February 1979

19 Submission from the Secretary, Department of Transport dated 26 January 1979

20 Submission from the Deputy General Manager, Qantas Airways dated 20 February 1979

21 Submission from the Chairman, Australian National Airlines Commission dated 31 January 1979

22 Submission from the General Manager, Australian National Railways Commission dated 18 January 1979

23 Submission from the Deputy Managing Director, Commonwealth Banking Corporation dated 24 January 1979

24 Submission including the Purchasing Manual from the Assistant General Manager, Non-Migrant Services, Commonwealth Accommodation and Catering Services Ltd dated 3 May 1979

25 Submission from the Chairman, Australian National Line dated 19 January 1979

Exhibit No.	
26	Submission from the Managing Director, Australian Postal Commission dated 13 February 1979
27	Submission from the General Manager, Overseas Telecommunications Commission dated 22 January 1979
28	Submission from the General Manager, Australian Broadcasting Commission dated 6 February 1979
29	Submission from the Secretary, Department of Business and Consumer Affairs dated 26 January 1979
30	Submission from the Secretary, Department of Finance dated 26 January 1979
31	Submission from the Secretary, Department of Immigration and Ethnic Affairs, dated 16 January 1979
32	Submission from the Secretary, Department of Industry and Commerce dated 2 March 1979
33	Submission from the Assistant Secretary, Management Services, Department of National Development dated 22 January 1979
34	Submission relating to the Pipeline Authority from the Assistant Secretary, Management Services, Department of National Development dated 20 April 1979
35	Submission from the Assistant Secretary, Management Branch, Department of Trade and Resources dated 26 January 1979
36	Submission from the Secretary, Postal and Telecommunications Department dated 30 January 1979
37	Submission from the Secretary, Department of Primary Industry dated 12 February 1979
38	Submission relating to the Australian Wool Testing Authority from the Assistant Secretary, Management Services Branch, Department of Primary Industry, dated 19 February 1979
39	Submission relating to the Australian Wine Board from the Assistant Secretary, Management Services Branch, Department of Primary Industry dated 7 March 1979
40	Submission relating to the Australian Canned Fruit Sales Promotion Committee from the Assistant Secretary, Management Services Branch, Department of Primary Industry dated 14 March 1979
41	Submission from the First Assistant Secretary, Services Branch, Department of the Prime Minister and Cabinet dated 20 February 1979
42	Submission from the Secretary, Department of Productivity dated 7 March 1979
43	Submission from the Director-General, Department of Social Security dated 25 January 1979
44	Submission from the Secretary to the Treasury dated 2 April 1979
45	Submission from the Executive Director, Victorian Employers' Federation dated 17 October 1978
46	Submission from the Executive Director, Victorian Employers' Federation dated 5 April 1979
47	Submission from the Director, Victorian Chamber of Manufactures dated 26 September 1978
48	Submission from the Director, Victorian Chamber of Manufactures dated 5 December 1978
49	Submission from the Director, Victorian Chamber of Manufactures dated 25 May 1979
50	Submission from the Director, Melbourne Chamber of Commerce dated 16 October 1978
51	Submission from the President, Victorian Chambers of Commerce and Industry dated 2 October 1978
52	Submission from the President, Victorian Chambers of Commerce and Industry dated 28 March 1979

Exhibit No.	
53	Submission from the Chairman, Public Service Board dated 5 February 1979
54	Submission from the Burser, Australian National University dated 25 January 1979
55	Submission from the Secretary, Australian Atomic Energy Commission dated 24 January 1979
56	Submission from the Principal, Canberra College of Advanced Education dated 21 December 1978
57	Submission from the Snowy Mountains Hydro-Electric Authority dated 16 March 1979
58	Submission from the Deputy Secretary C, Department of Defence dated 9 February 1979
59	Submission from the National Secretary, Australian Association of Independent Businesses Ltd. dated 23 January 1979
60	Submission from the Assistant Statistician, Mangement Services Branch, Australian Bureau of Statistics dated 25 January 1979
61	Submission from the First Assistant Auditor-General, Auditor-General's Office dated 17 January 1979
62	Submission and a booklet entitled 'Telecommunications 1978' from the Executive Director, Australian Telecommunications Development Association dated 10 April 1979
63	Submission from the Commissioner of Taxation dated 2 February 1979
64	Submission from the Ombudsman dated 5 March 1979
65	Submission from Miller Graphic Controls Pty. Ltd. dated 27 February 1979
66	Submission from President Office Machines N.S.W. Pty. Ltd. dated 21 March 1979
67	Submission from Australian Organisation for Quality Control dated 29 March 1979
68	Submission from D'Arcy Bros. (Qld) Pty. Ltd. dated 29 March 1979
69	Submission from Digital Process Control Pty. Ltd. dated 22 March 1979
70	Submission from Layton & Associates Pty. Ltd. dated 4 April 1979
71	Submission from the Royal Institute of Architects
72	Submission from Taylorcraft Transport (Development) Pty. Ltd.
73	Submission from the Confederation of Australian Industry dated 24 April 1979
74	Submission from the Amalgamated Wireless (Australasia) Ltd. dated 26 April 1979
75	Submission from M. Brobridd Pty. Ltd. dated 24 April 1979
76	Submission from the Australian Computer Equipment Suppliers' Association dated 1 May 1979
77	Submission from Bronson's Dry Cleaners Pty. Ltd. received 3 May 1979
78	Submission from the Building Industry Specialist Contractors Organisation of Australia dated 7 May 1979
79	Submission from Laser Electronics Pty. Ltd. dated 17 April 1979
80	Submission from P.C.M. Electronics Pty. Ltd. dated 19 September 1978
81	Submission from the Small Business Development Council of N.S.W. received 14 June 1979
82	Submission from Building and Construction Council, New South Wales dated 13 March 1979
83	Submission and seminar papers entitled 'Legal Aspects and Standard Terms and Conditions of Government Contracts' from the Institute of Purchasing and Supply Management Inc. dated 23 March 1979
84	Submission from Shell Australia Ltd. dated April 1979
85	Submission entitled 'Better Buying' from Shell Australia Ltd (in confidence)
86	Submission from Shell Australia Ltd. dated 4 May 1979 (in confidence)
87	Submission from the Assistant Statistician, Management Services Branch, Australian Bureau of Statistics dated 20 July 1979

Exhibit No.	
88	Submission from the Deputy Secretary, Department of Housing and Construction dated 19 July 1979
89	Submission from the Assistant Secretary, Administrative Services Branch, Department of Foreign Affairs dated 27 July 1979
90	Submission from the Secretary, Department of Science and the Environment dated 31 July 1979
91	Submission from the Secretary, Department of Industry and Commerce dated 19 July 1979
92	Submission from the Acting Secretary and Manager, National Capital Development Commission dated 12 July 1979
93	Submission from the First Assistant Secretary, Department of Finance dated 19 July 1979
94	Submission from the Assistant Secretary, Management Services Branch, Department of National Development dated 5 July 1979
95	Submission from the Acting Assistant Auditor-General, Auditor-General's Office dated 18 July 1979
96	Submission from the Secretary, Attorney-General's Department dated 19 July 1979
97	Submission from the Senior Assistant Ombudsman dated 18 July 1979
98	Submission from the General Manager, Trans Australian Airways dated 17 July 1979
99	Submission from the Assistant Secretary, Management Services Branch, Department of Primary Industry dated 24 July 1979
100	Submission from the Chairman, Australian National Line dated 18 July 1979
101	Submission from the Secretary, Department of Veterans' Affairs dated 1 August 1979
102	Submission from the First Assistant Director-General, Management, Department of Social Security dated 31 July 1979
103	Submission from the General Manager, Australian National Railways Commission dated 26 July 1979
104	Submission from the First Assistant Secretary, Department of Immigration and Ethnic Affairs, dated 26 July 1979
105	Submission from the General Manager, Overseas Telecommuniciations Commission (Australia) dated 26 July 1979
106	Submission from the Commissioner for Taxation, Australian Taxation Office dated 30 July 1979
107	Submission from the Secretary, C.S.I.R.O. dated 6 August 1979
108	Submission from the Secretary, Office of the Public Service Board dated 6 August 1979
109	Submission from the Secretary, Department of Business & Consumer Affairs dated 26 July 1979
110	Submission from the Secretary, Department of Aboriginal Affairs dated 24 July 1979
111	Submission from the Secretary, Department of the Capital Territory dated 25 July 1979
112	Submission from the Secretary to the Treasury received 26 July 1979
113	Submission from the First Assistant Secretary, Management Services Division, Department of Employment & Youth Affairs dated 6 August 1979
114	Submission from the Secretary, Department of Education dated 15 August 1979
115	Submission from the General Manager, Commonwealth Accommodation and Catering Services Ltd dated 17 July 1979
116	Submission from the Chairman, Australian Broadcasting Commission dated 10 August 1979
117	Submission from the Secretary, Postal & Telecommunications Department dated 14 August 1979

Exhibit No.	
118	Submission from the Acting Chief of Supply and Support, Department of Defence dated August 1979
119	Submission from the Managing Director, Australia Post, dated 23 August 1979
120	Submission from the Director-General, Department of Health, dated 24 August 1979
121	Submission from the Secretary, Australian Telecommunications Commission dated 21 August 1979
122	Submission from the Acting Secretary, Department of Productivity dated 22 August 1979
123	Submission from the Secretary, Department of Administrative Services dated 21 September 1979
124	Submission from the Secretary, Department of Veterans' Affairs dated 30 August 1979
125	Submission from the Australian Federation of Construction Contractors dated 27 September 1979
126	Submission from the First Assistant Secretary, Department of Transport dated 31 August 1979
127	Submission from the Deputy General Manager, Qantas Airways, dated 28 August 1979
128	Submission from the Deputy Managing Director, Commonwealth Banking Corporation dated 24 January 1979
129	Submission from the Assistant Secretary, Department of Trade and Resources dated 14 September 1979
130	Submission from the Secretary, Department of Veterans' Affairs dated 27 August 1979
131	Submission from the Capital Territory Health Commission dated 7 September 1979
132	Submission from the Secretary, Department of Administrative Services received 2 November 1979
133	Submission from the First Assistant Secretary Finance and Commercial Division, Department of Transport dated 2 November 1979
134	Submission from the Secretary, Department of Productivity dated 18 October 1979
135	Submission from the Assistant Commissioner, Capital Territory Health Commission dated 5 November 1979
136	Submission from the Chief of Supply, Department of Defence dated 14 November 1979
137	Contract relating to the development and manufacture of patrol ambush light system for Defence Research Centre, Salisbury, S.A. dated 15 August 1979 (in confidence)
138	Submission from the Department of Administrative Services entitled 'Review of Selective Tendering Procedures'
139	Paper from the Department of Administrative Services entitled 'Selective Tendering'
140	Special Statistical Report No. 40 issued by the Purchasing Division, Department of Administrative Services entitled 'Statistics on Preference Cases Referred to Ministers for period October 1977 to August 1979'
141	Submission from the Department of Defence entitled 'Tactical Fighter Force Project Industry Program Guidance Paper' dated November 1978
142	Submission from the Assistant Secretary, Policy Development Branch, Department of Administrative Services dated 6 February 1980
143	Submission from the First Assistant Secretary, Purchasing Division, Department of Administrative Servivces dated 10 December 1979 entitled 'Commonwealth Purchasing Circular 79/6' (in confidence)
144	Submission from the Assistant Secretary, Policy Development Branch, Department of Administrative Services dated 13 March 1980 (in confidence)
145	Submission from the First Assistant Secretary, Department of Administrative Services dated 16 April 1980

Exhibit No.	
146	Submission from the Assistant Secretary, Policy Development Branch, Department of Administrative Services dated 30 April 1980
147	Submission from the First Assistant Secretary, Purchasing Division, Department of Administrative Services dated 30 April 1980
148	Submission from the Assistant Secretary, Policy Development Branch, Department of Administrative Services dated 6 May 1980
149	Submission from the Assistant Secretary, Policy Development Branch, Department of Administrative Services dated 16 May 1980
150	Submission from the First Assistant Secretary, Department of Administrative Services dated 5 June 1980
151	Australian Defence Standard DEF (Austn) 5192 Tableware, Ceramic Specification
152	Submission from the First Assistant Commissioner, Policy, Planning and Administration, Capital Territory Health Commission dated 4 June 1980
153	Submission from the Assistant Secretary, Policy Development Branch, Department of Administrative Services dated 28 July 1980 (Annexure 1 in confidence)
154	Submission from the Secretary, Australian Telecommunications Commission dated 10 April 1980
155	Submission from the Secretary, Australian Telcommunications Commission dated 12 August 1980
156	Submission from the Secretary, Department of Veterans Affairs dated 24 March 1980 (attachment in confidence)
157	Submission from the Secretary, Department of Veterans Affairs dated 24 March 1980
158	Submission from the Secretary, Department of Veterans Affairs dated 29 May 1980 (in confidence)
159	Submission from the Secretary, Department of Veterans Affairs dated 19 June 1980
160	Submission from the Director, Operations and General Works, Department of Housing and Construction dated 25 March 1980
161	Submission from the Secretary, Department of Housing and Construction dated 19 May 1980
162	Submission from the Acting Secretary (Finance and Administration), Commonwealth Scientific and Industrial Research Organisation dated 2 May 1980
163	Submission from the President, Library Australia Association of Australia dated 28 June 1979
164	Submission from W.T. Partnership dated 29 February 1980
165	Submission from Utilux Pty Ltd received 27 June 1980
166	Submission from the Executive Secretary, the Australian Organisation for Quality Control dated 17 July 1980
167	Submission from the Secretary, Attorney-General's Department dated 23 April 1980
168	Submission from the Secretary, Department of Education dated 26 March 1980
169	Submission from the Director-General, Department of Health dated 28 March 1980
170	Submission from the Director-General, Department of Health dated 21 May 1980
171	Submission from the Secretary, Department of Science and the Environment dated 27 March 1980
172	Submission from the Secretary, Department of Science and the Environment dated 22 May 1980 headed 'Crockery Specifications'
173	Submission from the First Assistant Secretary, Finance and Commercial, Department of Transport dated 14 May 1980
174	Submission from the First Assistant Secretary, Finance and Commercial, Department of Transport dated 15 July 1980
175	Submission from the Secretary, Australian Postal Commission dated 23 April 1980
176	Submission from the Secretary, Australian Postal Commission dated 28 April 1980

Exhibit No.	
177	Submission from the General Manager, Overseas Telecommunications Commission (Australia) dated 1 April 1980
178	Submission from the General Manager, Overseas Telecommunications Commission (Australia) dated 14 April 1980
179	Submission from the Assistant Secretary, Management Services, Department of Business and Consumer Affairs dated 6 March 1980
180	Submission from the Assistant Secretary, Management Services, Department of Business and Consumer Affairs dated 6 March 1980
181	Submission from the Assistant Secretary, Management Services, Department of Business and Consumer Affairs dated 25 March 1980
182	Submission from the Assistant Secretary, Management Services, Department of Business and consumer Affairs dated 22 April 1980
183	Submission from the Assistant Secretary, Management Services, Department of Business and Consumer Affairs dated 25 March 1980
184	Submission from the First Assistant Secretary, Department of Finance dated 20 November 1979
185	Submission from the Assistant Secretary, Management Services, Department of Finance dated 28 March 1980
186	Submission from the Secretary, Department of Finance dated 30 April 1980
187	Submission from the First Assistant Secretary, Division 2, Department of Immigration and Ethnic Affairs received 1 April 1980.
188	Submission from the Secretary, Department of Industry and Commerce dated 31 March 1980
189	Submission from the Assistant Secretary, Policy Development Branch, Department of Industry and Commerce dated 12 June 1980
190	Submission from the Assistant Secretary, Management Services, Department of National Development and Energy dated 8 April 1980
191	Submission from the Assistant Secretary, Management Services, Department of National Development and Energy dated 8 April 1980
192	Submission from the Assistant Secretary, Management Branch, Department of Trade and Resources dated 31 March 1980
193	Submission from the Secretary, Department of Post and Telecommunications dated 24 June 1980
194	Submission from the Secretary, Department of Primary Industry dated 27 March 1980
195	Submission from the Assistant Secretary, Services Branch, Department of the Prime Minister and Cabinet dated 27 June 1980
196	Submission from the Secretary, Department of Productivity received January 1980
197	Submission from the Secretary, Department of Productivity dated 3 April 1980
198	Telex from the Secretary, Department of Productivity received May 1980
199	Submission from the First Assistant Director-General, Management Division, Department of Social Security dated 3 April 1980
200	Submission from the First-Assistant Director-General, Systems and Operations, Department of Social Security dated 23 April 1980
201	Submission from the Acting Assistant Director-General, Finance Branch, Department of Social Security dated 7 May 1980
202	Booklet produced by the Department of Administrative Services 'How to do Business with the Commonwealth Government' dated June 1980
203	Submission from the Secretary, Australian Telecommunications Commission dated 27 March 1980
204	Submission from the Secretary Department of Housing and Construction dated 2 July 1980
205	Submission from the Secretary, Australian Telecommunications Commission dated 17 March 1980

Exhibit No.	
206	Submission from the Assistant Secretary, Management Services, Department of the Treasury dated 2 April 1980
207	Submission from the Assistant Secretary, Management Services, Department of the Treasury dated 1 May 1980
208	Submission from the General Manager, Victorian Chamber of Manufactures dated 22 July 1980
209	Submission from the Secretary, Department of Defence dated 14 February 1980 in reference to the sub-committee's memorandum of 14 December 1979
210	Submission from the Chief of Supply and Support, Department of Defence dated 2 April 1980
211	Submission from the Chief of Supply and Support, Department of Defence dated 2 April 1980 (Enclosures 1 & 5 in confidence)
212	Submission from the Chief of Supply and Support, Department of Defence dated 28 April 1980 (in confidence)
213	Submission from the Minister for Defence dated 11 June 1980
214	Submission from the Director, Finance and General Services, Australian Bureau of Statistics dated 27 March 1980
215	Submission from the Assistant Auditor-General, Auditor-General's Office dated 28 March 1980
216	Submission from the Executive Director, Australian Telecommunications Development Association dated 23 July 1980
217	Submission from the Commissioner of Taxation dated 2 April 1980
218	Submission from the Commissioner of Taxation dated 29 April 1980
219	Submission from the Director, Institute of Purchasing & Supply Management Inc. dated 16 July 1980
220	Submission from the Chairman, Capital Territory Health Commission dated 19 May 1980
221	Submission from the Australian Federation of Construction Contractors dated 10 July 1980
222	Submission from the Australian Federation of Construction Contractors dated 16 July 1980
223	Submission from the Chairman, Public Service Board dated 20 February 1980
224	Submission from the Chairman, Public Service Board, dated 31 March 1980
225	Submission from the Director, Sales and Marketing, Medic Division, Beiersdorf (Australia) Ltd. dated 8 August 1980
226	Submission from the General Manager, Medical/Surgical Products Group, 3M Australia Pty. Ltd. dated 8 August 1980 (in confidence)
227	Submission from Supply Manager, Woden Valley Hospital
228	Submission from the Secretary, Department of Veterans' Affairs dated 28 November 1979
229	Submission from the Director, Smith and Nephew (Australia) Pty. Ltd. dated 1 September 1980
230	Submission from the Acting Secretary, Department of Industry and Commerce dated 22 December 1980
231	'Background Information on the Victorian Hospitals' Association Limited' supplied by VHA August 1980
232	Submission from Assistant Secretary, Policy Development Branch, Department of Administrative Services dated 30 March 1979 and attachments
233	Submission from Assistant Director, Purchasing Policy and Projects, Department of Administrative Services dated 13 July 1979 and attachments
234	Submission from Acting Supply Manager, Royal Canberra Hospital dated 14 April 1981
235	Submission from the Secretary, Department of Veterans' Affairs dated 11 May 1981
236	Submission from the Acting Assistant Secretary, Operations Management Branch, Department of Administrative Services dated 13 May 1981

Appendix 2

Lease versus buy analysis

(a) Costs for Rank Zerox 3600 and 3100 Photocopiers.

1. Due to the confidential nature of the information in the Rank zerox contract, details of the DCF calculations are not given. The tables below include only aggregate figures. A description of the method of calculation follows.

2. In determining the first year cost of purchase the following items were included:

- the purchase price of the machine;
- the 'consumables', which are necessary for the machine to operate (drum, toner and developer), estimated on the price and consumption rate given in the Rank zerox contract; and
- maintenance according to that available under the Rank zerox contract, with the assumptions (based on experience with machines in the House of Representatives) that maintenance calls are required every 110 000 copies for the 3600 and every 25 000 copies for the 3100, and that the cost of a maintenance call at the expiration of each yearly maintenance contract (only a limited number of calls are allowed under the contract) is $100.

3. For calculating the later year costs of purchase only the latter two items are included, discounted 10% each year. From the total seven year cost of purchase a discounted trade-in allowance has been subtracted, as allowed for under the contract.

4. The figures provided by departments and authorities have been used as the basis for determining the costs of leasing as given below. For each monthly usage rate in the table the costs of the two leases nearest in monthly usage have been adjusted proportionally. It is not possible to give an independently determined leasing cost for a particular usage, as charges depend on the extent of multiple photocopying (viz. making five copies of a particular document is cheaper than copying the same document on five separate occasions). Once again the discounting is at the rate of 10%.

5. The Committee conducted the same calculations employing several discount rates, but found that the results were not sensitive to the rate chosen. The rate of 10% was chosen because it is close to the current long-term bond rate. The determination of a seven year life for both photocopiers was made on the basis of the trade-in allowance scale, provided in the contract by Rank Xerox. After seven years the trade-in allowance is very small and just half what it is at seven years.

6. For the 3600 photocopier, the range of monthly usage rates in Table 6 below, from 25 000 to 100 000, is the range for which the machine is designed and priced, according to the Rank Xerox contract.

Table 6: Rank Xerox 3600: Total 7 Year Costs Discounted to Present Value

Monthly usage rate	*Lease*	*Buy*	*7 year savings (lease cost less buy cost)*
	$	$	$
25 000	30 719	17 673	13 046
40 000	51 143	19 274	31 869
60 000	62 441	21 736	40 705
80 000	75 416	25 075	50 341
100 000	88 644	28 414	60 230

Source: Calculated from Rank Xerox contract.

7. For the 3100 photocopier, the range of monthly usage rates in Table 7 below, from 6000 to 25 000, is the range for which the machine is designed and priced, according to the Rank Xerox contract.

Table 7: Rank Xerox 3100: Total 7 year costs discounted to present value

Monthly usage rate	*Lease*	*Buy*	*7 year savings (lease cost less buy cost)*
	$	$	$
6 000	12 061	7 467	4 594
10 000	16 488	8 559	7 929
15 000	29 985	10 606	19 379
20 000	37 273	13 295	23 978
25 000	46 591	15 450	31 141

Source: Calculated from Rank Xerox contract.

8. From the savings displayed in these two tables the Committee calculated the potential 7 year savings, at present values, for all machines currently leased by the government, excepting those which are not being fully utilised. The resultant departmental savings are given in Table 8 below.

Table 8: Projected savings (over 7 years) on currently leased Rank Xerox photocopiers

Department/Authority	*Savings on 3600*	*Savings on 3100*
	$	$
Administrative Services	..	4 500
Attorney-General's	95 000	8 000
Business and Consumer Affairs	40 000	6 000
CSIRO	..	13 500
Defence	84 000	..
Health	100 000	..
Industry and Commerce	89 000	35 000
Overseas Telecommunications Commission	15 000	15 000
Social Security	220 000	..
Taxation	297 000	5 000
Transport	301 000	19 000
Veterans Affairs	39 000	15 000
Total	**1 280 000**	**121 000**

Source: Exhibit numbers 150, 158, 162, 167, 170, 173, 178, 182, 200, 212, 218, 230.

(b) Cost of Word Processors

9. As an example the Committee used DCF to compare the lease and purchase of an IBM word processor leased by the Attorney-General's Department. The Department supplied the Committee with the detailed figures used below. A discount rate of 10% has been employed. The assessment is not particularly sensitive to the discount rate —8% or 12% would have resulted in the same conclusion.

Table 9: Word Processor: 7 Year Costs Discounted to Present Value

	Lease	*Buy (includes maintenance)*
Year 1	3 288	11 494
Year 2	2 989	491
Year 3	2 717	446
Year 4	2 470	406
Year 5	2 246	369
Year 6	2 042	335
Year 7	1 856	305
Total	**17 608**	**13 846**

Source: Exhibit number 167.

10. Over the seven year estimated life of the machine the savings as a result of buying are therefore calculated at $3762.

Appendix 3

Collective Purchasing Case Study: Hospital Supplies

Hospital Purchases

1. While the precise cost to the Commonwealth of hospital supplies cannot be readily identified, several figures are available which indicate the size of the purchases. The cost of administrative and other operational expenses for hospitals operated by the Capital Territory Health Commission (CTHC) is estimated at $9.6 million for 1980-81[1] The estimate of the cost of medical supplies for hospitals operated by the Department of Veterans Affairs is 102 million.[2] Similar estimates are not available for the Department of Defence.

2. The purchase of hospital supplies by the Commonwealth is currently conducted independently by each of the departments and authorities responsible for hospitals: the Departments of Defence and Veterans' Affairs and the CTHC. The organisational arrange ments for such purchasing are different for each of the three organisations. In Defence such purchasing is decentralised, but is oversighted by the Director-General of Army Health Services and his pharmaceutical officer. However, DAS does arrange period contracts for Defence for basic items common to the operation of all hospitals. Within Veterans' Affairs there is central co- ordination of purchasing for some hospital items but not others.[3]

3. By contrast, there is no centralised purchasing in CTHC, with Royal Canberra Hospital, Woden Valley Hospital and the central office each organising its own contracts and storage of hospital supplies.[4] This is in spite of the existence of a warehouse to 'provide on a centralised basis, full purchasing, receipt, storage and distribution of supplies for: the Central Hospital Services Complex; and government controlled hospital institutions and health facilities in the ACT'.[5] The cost of construction of the warehouse which is now being used as a staff cafeteria as well as for storage was estimated to be $930 000.

4. There is also currently very little exchange of information on contract prices between purchasing officers of the different agencies. A department, or hospital within a department wishing to call for tenders to supply a medical item does not know whether there is an existing Commonwealth contract for that item, and, if so, what price is being paid. In evidence to the Committee DAS stated that a Period Contracts Awareness Service is being developed to provide a condensed index of all period contracts to departments and authorities. A commencement date for the Service to include hospital supplies was not given.[6]

5. This uncoordinated approach does not allow the Commonwealth to buy hospital supplies for the lowest possible prices. The Committee obtained detailed information from Defence and Veterans' Affairs and the CTHC on the prices paid for a selection of nineteen commonly used hospital items. Examination of this information showed that the prices paid varied significantly from hospital to hospital. The explanation given for this by representatives of the agencies was that there were differences in the quality of the items, the size and quality of packaging and delivery requirements.[7] While these factors were important the Committee's analysis disclosed that other factors came into play. Still using the original 19 items, the Committee further compared the prices paid for the same item from the same manufacturer/distributor. Once again prices varied considerably, as displayed in the following table:

Table 10: Hospital supplies: Price variations

Item	*Percentage variation** %
Plaster of Paris bandage, 15 cm x 35 cm.	36
Basic dressing pack	5
Abdominal sponge, 31 cm x 31 cm	30
Pregelled electrode	38
Scalpel blade, no. 10	26
Surgeon's rubber gloves	8
Disposable Hypodermic syringe, 2.5 ml	7
Disposable Hypodermic syringe, 5 ml	14
Disposable Hypodermic syringe, 10 ml	12
Disposable Hypodermic syringe, 20 ml	17
Cervical collar	14
Preptic swab	12
Y-suction catheter	26

Source: Exhibit numbers 123, 130, 131.

* 'Percentage Variation' represents the variation between the highest and lowest prices amongst the Departments of Defence, Veterans' Affairs and CTHC.

6. In a similar survey of similar items, conducted in government hospitals in the United States, the United States General Accounting Office (GAO) found similar variations.[9]

7. The contracts from which the above figures were extracted do not all cover the same period, and the price increase from the commencement of one contract for a particular item to the commencement of another for the same item does contribute to the price variation. Nevertheless the Committee's analysis did not show this factor to be significant.

8. The lack of exchange of price information among purchasing officers appears to have contributed to price variations. Witnesses from the departments seemed unaware that prices paid for certain items were higher than those that others were paying without there being a difference in quality, packaging or delivery. In the U.S. study GAO also concluded that this was a major contributing factor to variations in prices paid.[10]

9. The Committee also determined that prices were affected by the volume of purchases, especially where the hospital used a group purchasing arrangement. For example, Woden Valley and Royal Canberra Hospitals, both under control of CTHC, buy some of their hospital supplies through N.S.W. Government Stores Contracts. The prices paid under such contracts are generally lower than those paid by other Commonwealth hospitals. As a manufacturer of hospital supplies explained in a submission to the Committee: 'Generally, the larger the quantity of goods, the lower the price, based on productivity and manufacturing gains'.[11]

10. *The Committee considered that consolidation of Commonwealth hospital pur*chases would maximise opportunities for volume buying, with consequential benefits of volume discounts. Certainly there are examples of successful group purchasing, with lower prices, such as the N.S.W. Government Stores Board. Another is the United States Federal Government which uses committed volume (fixed volume contract) purchasing as leverage in obtaining good prices for hospital supplies.[12] An Australian example of consolidation of hospital purchases is the Victorian Hospitals Association Limited (VHA), which has as one of its main roles central buying agency for public hospitals in Victoria. The high level of public hospital use of VHA's merchandising would appear to be as a result of its success in choosing the best available supplies and

VHA's policy that goods of comparable quality must be offered at a lower price than can be obtained from any other source.[13] A second Australian example is the Queensland Department of Health which exercises positive budgetary control over all hospitals including a centralised purchasing system.[14] In this case the State Stores and Tender Board arranges the purchase of all hospital supplies except for drugs which are purchased by the Central Supply Depot at Royal Brisbane Hospital.

11. The concept of centralised hospital purchasing was supported by the Commission of Inquiry into the Efficiency and Administration of Hospitals 'as a means of constraining costs'.[15] To improve efficiency the Commission recommended that: 'health authorities proceed forthwith to introduce centralised group purchasing either through government departments or independent bodies such as the Victorian Hospitals Association Ltd or private suppliers. The financial benefits of group purchasing should be passed on to the end user hospitals directly and not be retained as a profit or surplus by the purchasing authority nor passed on to others. Flexibility must be maintained so that individual hospitals may acquire the same goods at less total cost directly, so long as overall purchasing leverage is not significantly affected'.[16]

12. In order to determine the savings that might accrue from consolidating Commonwealth hospital purchases the Committee contacted nine large manufacturers and distributors. While some provided only oral advice rather than written evidence to the Committee, five companies stated that the size of the total Commonwealth requirement would result in discounts, all other things being equal, of approximately 5-7%. The other four companies said that the size of the Commonwealth's purchases were not sufficient to attract price reductions, or that it was policy to provide items at the same cost to all hospitals. Using the 5% discount figure it is possible to obtain an indication of the savings from consolidating the purchases of commonly used items. Commonly used items rather than all hospital supplies were chosen because the usage of other items is more likely to vary greatly from hospital to hospital and department to department and the low usage of other items is less likely to attract significant discounts. Also, commonly used items are believed to account for a relatively large proportion of the costs.

13. If, for example, it is assumed that half of the expenditure on hospital supplies is for commonly used items, and that half of these are purchased from companies which provide volume discounts of 5%, then the annual savings for hospitals under the control of Veterans' Affairs would be about $130 000 (savings 5% of ½ of ½ of $10.2 million). As there is no base figure for Defence, a similar calculation cannot be made. For CTHC, total running costs for hospitals are $45.533 million for 1980–81 (Budget Paper No. 4). If it is assumed that 8.5% of this amount is for medical and surgical supplies (the figure given in Table 16 of the Interim Report of the Commission of Inquiry into Efficiency and Administration of Hospitals), and that the same proportions as assumed for Veterans' Affairs apply, then an annual saving of about $48 000 would result (savings 5% of ½ of ½ of 8.5% of $45.533 million). If the savings from the Defence hospitals are assumed to be somewhere between the savings from Veterans' Affairs and CTHC, then the total annual savings from discounted prices could be of the order of $250 000.

14. DAS with its other purchasing responsibilities and expertise in contract management is the logical organisation to determine the total requirement and to determine whether State contracts could be used or whether new Commonwealth contracts should be arranged. It currently arranges contracts for Defence for commonly used hospital items. The small increase in staff that the extra responsibility would entail would be more than outweighed by the reduction in staff from Veterans' Affairs and CTHC, especially the former. Currently most of the 84 staff engaged on purchasing in Veterans' Affairs are engaged on hospital purchases.[17] This number would be expected

to be reduced considerably. Although the number of purchasing staff in CTHC appears to be smaller, reductions again would be expected. The net result of consolidation would therefore appear to be a marginal saving in staff resources.

15. Consequently, the Committee recommends that:

The Department of Administrative Services conduct negotiations and arrange contracts for common use hospital supplies for all hospitals operated by the Commonwealth Government.

16. Currently government contracts for hospital, and other supplies, are period contracts. The absence from these of fixed volumes hinders price reductions. Without fairly precise estimates, manufacturers cannot plan accurately for production over the contract period. Fixed volume contracts would allow better planning, with consequent discounts on prices flowing to the Commonwealth. A manufacturer stated in a submission that guaranteeing the quantities of goods to be purchased would insure against overstocking and hence over-capitalisation.[18] A hospital purchasing officer, in evidence to the Committee, stated the principle more bluntly: 'The feedback we have had is that if we give firm contracts for firm prices, we will get better prices'.[19]

17. The introduction of fixed contracts would require hospitals to specify their supply needs for the period in the contract. This should be a straightforward matter for common use items as estimating the use of such items would be an integral part of purchasing officers' planning and budgeting strategies. In fixed volume contracts, as in period contracts, a series of deliveries and predetermined times can be specified rendering additional warehousing unnecessary. Consequently, the Committee recommends that:

Commonwealth contracts for common use hospital supplies specify volumes of the supplies to be purchased for the period of the contract, where estimates of usage can be made with a reasonable degree of certainty.

18. Fixed volume contracts would be an improvement on period contracts for goods other than hospital supplies, notably goods for which precise estimates of usage can be compiled. Although the Committee has not pursued the possibility it considers that a study by DAS of goods which would fit into this category would be timely. The Committee therefore recommends that:

The Department of Administrative Services investigate application of the principles embodied in the previous two recommendations in other areas of Commonwealth Government purchasing.

19. The Capital Territory Health Commission is a special case within the Commonwealth in that the hospitals are in close proximity and there exists a warehouse in the suburb of Mitchell, specifically designed for centralised storage and distribution. These factors, together with the argument developed above that committed volume purchasing provides leverage for obtaining price discounts, make the argument for fully centralising hospital purchasing within CTHC quite compelling. Further, use of the CTHC warehouse would allow for a single invoice account and delivery point rather than at least two and possibly three, as at present. Comments by manufacturers contacted by the Committee indicated that this would simplify supply to CTHC and therefore would encourage greater discounts.

20. In evidence to the Committee CTHC stated that a staff utilisation review in supply practices areas was being conducted and that there was some encouragement for centralising within CTHC. Savings would result not only from larger, committed volumes but also on transportation and handling costs.[20] Four major studies within CTHC in the period 1974-1978 which either recommended consolidation or implied that such a policy would be of benefit to CTHC.[21] Evidence that consolidation is practical for CTHC is provided by a centralised hospital supply organisation which is currently

operating for three Sydney Hospitals: Randwick West, Prince of Wales and Prince Henry's Hospitals. The group buys as much as possible of its supplies through N.S.W. Government Stores and operates with the goal of purchasing, storing and distributing as economically as possible.

21. The proposal for consolidating all hospital purchasing within CTHC is in harmony with the views of the Commission of Inquiry into the Efficiency and Administration of Hospitals. As part of its recommendation on centralisation the Commission said: 'where appropriate, smaller, more manageable, geographically regional supply units should be set up, particularly where distance is a problem. These units should have the responsibility for supply in respect of their area. They will need some staff expertise and should have some stock carrying capacity for the more frequently used items'.[22]

22. Consequently, the Committee recommends that:

The purchase of all hospital supplies for the Capital Territory Health Commission should be centralised with supplies stored in and distributed from the existing warehouse at Mitchell.

Endnotes

1. Australia, Parliament, *Budget Paper Number 4, 1980-81*, Table 14, p. 221.
2. Australia, Parliament, *Budget Paper Number 2, 1980-81*, p. 127.
3. Evidence p. 929, 950
4. Evidence p. 946
5. Australia, Parliament, *Report Relating to the Proposed Construction of a Central Hospital Services Complex —Stage 2 in the A.C.T.: Parliamentary Standing Committee on Public Works*, Parl. Paper 2, 1975, p. 2.
6. Evidence pp. 942-943
7. Evidence pp. 929-938
8. 'Percentage Variation' represents the variation between the highest and lowest prices amongst the Departments of Defence, Veterans' Affairs and CTHC.
9. United States General Accounting Office, *Hospitals in the Same Area Often Pay Widely Different Prices for Comparable Supply Items*, 21 January 1980.
10. *ibid.*, pp. 6-8.
11. Exhibit number 226 p.1
12. *Modern Health Care*, June 1980.
13. Exhibit number 231
14. Answer by the Minister for Health to a Question Without Notice, 31 May 1979, *Hansard*, p. 2713.
15. Australia, Commission of Inquiry into the Efficiency and Administration of Hospitals, *Report*, (Chairman J.H. Jamison), Canberra, December 1980, volume 2, p. 398.
16. *ibid.*
17. Evidence pp. 947-948
18. Exhibit number 225
19. Evidence p. 946
20. Evidence p. 946
21. Exhibit number 227, attachment 2 p. 2
22. Australia, Commission of Inquiry into the Efficiency and Administration of Hospitals, *Report*, (Chairman J. H. Jamison), Canberra, December 1980, volume 2, p. 398.