



Australian Government
Department of Finance

Submission to the Standing Committee on Finance and Public Administration Inquiry into Commonwealth Procurement Procedures

26 FEBRUARY 2014

1. Introduction

The Department of Finance (Finance) provides this submission to the Standing Committee on Finance and Public Administration Inquiry into Commonwealth Procurement Procedures (the Inquiry) to clarify a range of incorrect statements made by the Construction, Forestry, Mining and Energy Union (CFMEU) regarding the Stationery and Office Supplies (SOS) Whole of Australian Government (WOAG) panel arrangement.

The incorrect statements have been made by the CFMEU in its submission to the Inquiry, dated December 2013.

2. Australian Industry Participation

The CMFEU has made several statements in relation to the requirements for Australian Industry Participation (AIP) plans and the operation of the SOS arrangement. These statements include:

“the Department of Finance did not require the tenderers in the Request for Tender for the establishment of the WoG SOS arrangement to submit Australian Industry Participation Plans despite just one item in the arrangement (copy paper) meeting the requirements of the \$20 million threshold.” (pg 14)

“The non-requirement for AIP plans appears to have resulted in a lack of full, fair and reasonable access for Australian paper manufacturers” (pg 14)

“Compulsory submission of an approved AIP plan should have required the panellists of the WoG SOS to demonstrate how they would provide Australian manufacturers with full, fair and reasonable participation in the delivery of the contract. If this had occurred, suppliers would have been contractually required to implement these actions, and to develop an Implementation Report detailing evidence of AIP Plan implementation and the outcomes achieved.” (pg 14)

Each of these statements is incorrect. The Request for Tender (RFT) for the SOS panel arrangement required that the *“Tenderer must have an Approved AIP Plan that covers this RFT process in accordance with the AIP policy prior to executing a Head Agreement with Finance”*. Compliance with this requirement was assessed as part of the tender evaluation process.

The Head Agreement for the SOS panel arrangement requires each panellist to have and maintain a valid AIP plan approved by the Department of Innovation, Industry, Science and Research (Department of Industry). Panellists are also required to submit an annual AIP Plan Implementation report to document the actions and activities that have been undertaken to implement its AIP plan.

Since the execution of the SOS arrangement on 7 March 2012, each panellist has maintained a valid AIP plan approved by Department of Industry and has complied with contractual requirements for the provision of an annual AIP Plan Implementation report.

3. Value for Money

The CFMEU states:

“It appears that many Agencies’ procurement officers and other procurers simply believe that value for money was assessed when selecting panelists for the WoG SOS arrangement.” (pg 13)

“This arrangement does not provide value for money to the Australian taxpayer. In fact, the current arrangement has the effect of discriminating against Australian manufacturers with subsequent economic, environmental and social detriments to the Australian public and to the goal of achieving value for money.” (pg 12)

In establishing the SOS arrangement, Finance conducted a value for money assessment, in accordance with the *Commonwealth Procurement Guidelines 2008*, to determine if Tenderers offered value for money. The assessment took into account factors such as the Tenderers’ capabilities, price, ability to comply with government policy and capability to provide the range of goods and services requested.

The SOS panel provides efficiencies and benefits through a single government approach to market and tender evaluation process, consistent contract processes and the value for money determination.

A SOS scoping study conducted prior to an approach to market estimated a coordinated arrangement would save the government approximately \$7m per year. This figure was supported by the savings analysis completed as part of the tender evaluation, which confirmed that annual savings would be achieved. Modelling undertaken in late 2013 has verified that savings achieved through the arrangement are exceeding initial estimates.

4. Australian Government Paper Volumes

The CFMEU has stated that the:

“Australian Government and its agencies procure conservatively 6,500 tonnes of copy paper per year. This amounts to approximately \$13 million per annum.” (pg 14)

The estimate of 6,500 tonnes appears to be based on the Australian National Audit Office (ANAO) *“Green Office Procurement and Sustainable Office Management”*, Audit Report No.25 2008–09. The data for this report is more than five years old and does not take account of a range of government initiatives implemented since then to reduce the use of copy paper, such as the *“Digital Transition Policy”* and electronic document records management systems (EDRMS).

In addition, other WoAG government arrangements, such as the Major Office Machines panels, in place since early 2011, have provided agencies access to technologies like *“Print on Demand”* solutions that can reduce print volumes by up to 20%. Since FY 07/08, 26 agencies have implemented or are in the process of implementing *“Print on Demand”* solutions.

In a submission to the Anti Dumping Commission¹ (12 November 2013), Australian Paper states that the Australian fine paper market, which include copy paper is *“645,000 tonnes per annum”*, with its market share being *“159,000 tonnes”*. Even if the government used 6,500 tonnes of copy paper per annum, this would represent only 1% of total volume of the fine paper market and 4% of Australian Paper’s market share.

Based on an analysis for FY 13/14 data, the majority (57%) of copy paper² purchased by agencies to the end of December 2013 has been sourced from Australia. Four times more copy paper was purchased from Australia than any other single country of manufacture.

¹ <http://www.adcommission.gov.au/cases/documents/006-Submission-AustralianIndustry-AustralianPaper.pdf>

² This analysis is based on the 84 copy paper products available on the SOS arrangement that would generally be used by agencies for day-to-day copying, and includes a range of A3 paper and paper used in agency print rooms.

5. Australian Government Copy Paper Expenditure

The CFMEU has stated that the:

“The Australian Government, its departments, agencies and bodies are significant users of paper and paper products. For instance, departments and agencies use \$13 million worth of copy and office papers per annum and \$117 million worth of external printing papers (that is paper for publications, pamphlets, forms and brochures) per annum” (pg 2)

Expenditure of “\$13 million per annum” may have occurred in 2008, but has significantly reduced since then. Further, the *Australian Government ICT Sustainability Plan 2010-2015* has a target to “reduce internal office copy paper use to 9 reams per person by July 2015”, which is a 50 per cent reduction in internal office copy paper use from the 2008 baseline level of 18.6 reams per person.

The government is on track to achieve this target and it is estimated that government expenditure on copy paper in FY 13/14 will be approximately \$8.5m. This figure includes high grade paper used exclusively in print rooms by agencies such as the Department of Human Services. This represents a \$4.5m (or 35%) reduction in copy paper expenditure across government based on the CFMEU estimate.

This data does not support the CFMEU’s view that:

“The WoG SOS arrangement is for a three year period with the option of two one-year extensions so the copy paper component alone represents between \$39 million and \$65 million.” (pg 14)

Copy paper expenditure of approximately \$8.5m (based on FY 13/14 data) would represent \$25.5m to \$42m over the life of the SOS arrangement. However, actual expenditure is expected to reduce as a result of government initiatives and the *ICT Sustainability Plan* target.

6. Card Stock, Speciality Paper and Manufactured Paper Products

Agencies purchase a small quantity of cardboard, envelopes and other speciality papers products through the SOS arrangement under the Paper and Card Stock product category. Table 1 shows that estimated expenditure on these products for FY 13/14 is \$0.84m, with an actual expenditure to the end of December 2013 of \$0.45m.

Table 1 – SOS Arrangement, Purchases for the Paper and Card Stock Product Category (FY 13/14)

Product Category	FY 13/14 Actual Expenditure (to end Dec 13)	FY 13/14 Estimated Annual Expenditure
Envelopes	\$231,342	\$430,000
Business Cards	\$32,564	\$50,000
Miscellaneous ³	\$182,061	\$360,000
Total	\$445,967	\$840,000

Finance has analysed AusTender data for the period FY 10/11 to FY 13/14 covering some 2,317 Paper and Printing Services contracts. Table 2 shows there is a decline in the number and total value of paper and printing services contracts since FY 10/11. The values in Table 2 are total contract values and can include other costs such as wages, consumables, packaging, delivery and other service fees.

Table 2 – Australian Government Paper and Printing Services Contracts Reported on AusTender (FY 10/11 to FY 13/14)

Financial Year	\$ Value	Contracts Reported
10/11	\$126,086,585.66	738
11/12	\$98,440,526.86	731
12/13	\$95,350,938.36	572
13/14	\$31,629,351.57 ⁴	276
Total	\$351,507,402.45	2,317

³ Miscellaneous "Paper and Card Stock" products include fax rolls, plotter paper, small quantities of cardboard and various types of specialist heavy weight papers such as parchment, metallic and shimmer papers from 120 gsm to 300 gsm.

⁴ The amount for FY 13/14 is as reported on AusTender at 20 February 2014.

In addition to the above government contracts, agencies may also purchase envelopes and other printed products through the Department of Human Services (DHS) - Print Management Services panel or Bulk Mail Envelopes panel. From Table 3, the total value of contracts reported on AusTender for these panels from FY10/11 to the end of December FY 13/14 is \$52.8m.

Table 3 – DHS - Print Management Services panel and Bulk Mail Envelopes panel (FY 10/11 to FY 13/14)

Financial Year	\$ Value	Contracts Reported
10/11	\$50,000,000 ⁵	1
11/12	\$0	0
12/13	\$2,248,445	12
13/14	\$558,008	12
Total	\$52,806,453	25

This analysis shows that government expenditure on paper products of these types is minimal and has been reducing each financial year for a range of reasons presented in section 4 of this submission.

The analysis in Table 1, Table 2 and Table 3 does not support the CFMEU statement that the Australian Government use “\$117 million worth of external printing papers (that is paper for publications, pamphlets, forms and brochures) per annum”..

⁵ This is the DHS’s estimated contract value for the life of the Print Management Services panel, including sub-reporting threshold contracts.

7. Australian Government Tissue Paper Expenditure

The CFMEU estimates that the government's purchase of tissue paper (used to make napkins, bathroom tissue, paper towels) is:

"the Australian Government uses approximately \$100 million worth of this product per annum." (pg 2)

An exhaustive search of the SOS records shows that, during FY 13/14, 111 agencies have purchased approximately 41,000 tissue paper products under the Janitorial and Kitchen Supplies product categories. Table 3 shows expenditure on the tissue paper product in these categories.

Table 3 – SOS Arrangement, Tissue Paper Product Purchases by Product Category (FY 13/14)

Product Category	FY 13/14 Actual Expenditure (to end Dec 13)	FY 13/14 Estimated Annual Expenditure
Janitorial Supplies	\$213,894	\$430,000
Kitchen Supplies	\$4,276	\$10,000
Total	\$218,170	\$440,000

Finance has also consulted with a number of agencies on tissue paper products purchased by agencies outside of the SOS arrangement. These agencies, which have a total of 38,734 full time equivalent (FTE) employees, advised Finance that they spend a total of \$1.14m on tissue paper products per annum through other contract arrangements. This equates to \$29.32 per FTE per annum.

Based on a government work force of 230,327⁶ and taking the FTE expenditure of \$29.32, this equates to a government expenditure on tissue paper products of \$6.75m per year. Adding this estimate to the expenditure through the SOS arrangement, results in an annual government expenditure on tissue paper products of \$7.2m.

This analysis does not support the CFMEU's estimate that the government purchases approximately \$100 million of tissue paper products per annum.

⁶ The figure of 238,126 government employees includes 152,230 Australian Public Service Employees and 78,097 Australian Defence Force (ADF) Reserves, ADF Permanent and Defence contractors. The ADF and Defence contractor employee numbers have been taken from the Defence Annual Report 2012-13, Department of Defence <http://www.defence.gov.au/AnnualReports/12-13/pdf/Defence%20Annual%20Report%202012-13.pdf#page=84>

8. Environmental Issues

The CFMEU has made a number of incorrect statements in relation to environmental considerations and the operation of the SOS arrangement, such as:

“Government’s current procurement arrangements for paper and paper products do not adequately consider the need to promote the objective of the conservation of natural resources and the environment.” (pg 12)

The SOS and other WoAG arrangements, such as the Major Office Machines (MOMs), head agreements include all pertinent government environmental legislation and policies such as the *Environment Protection and Biodiversity Conservation Act 1999 (Cth)*, *Australian Government ICT Sustainability Plan 2010-2015*, the *Commonwealth Waste Policy* and the *Commonwealth Energy Efficiency in Government Operations (EEGO) Policy*.

The SOS arrangement has 84 copy paper products that are used by agencies for day-to-day copying, which includes a range of A3 paper and paper used in agency print rooms. Each of these 84 products has recognised environmental chain of custody certification, such as the Forest Stewardship Council (FSC), the Program for the Endorsement of Forest Certification (PEFC) or the Australian Forestry Standard (AFS). Agencies are able to purchase any copy paper product from the SOS arrangement knowing it is compliant with Environmental Standard 4 (ES4) of the ICT Sustainability Plan. Further, Copy paper environmental compliance is audited annually.

The CMFEU states:

“What is clear by observation of current arrangements is that adhering to procurement guidelines and rules is the responsibility of the procuring entity. For example the Department of Finance confirmed that through the WoG SOS Panel it has made ES4 compliant general use office copy paper available to agencies but that, ‘it is each agency’s responsibility to comply with the requirements of the ICT Sustainability Plan’.” (pg 13)

This statement is misleading and as identified above, the SOS arrangement includes copy paper products that comply with the requirements of the *ICT Sustainability Plan*.

Individual agencies are responsible for complying with the *ICT Sustainability Plan* and declare compliance on their annual Certificate of Compliance.

In the following CFMEU statement it is implied that Finance endorses alleged “false and misleading information” provided by OfficeMax on Forestry certification.

“The CFMEU has written evidence of OfficeMax providing false and misleading information to a potential procurer in Government regarding the source of wood fibre and the environmental sustainability of the non-recycled component of the Australian made alternative. This evidence is in addition to publically available procurement advice. The decision of the Department of Finance to endorse this advice walks a very fine line in regards to consistency with the policies of the Commonwealth regarding Forestry certification²³.” (pg 14)

Finance does not promote one environmental certification scheme over another. A link was provided by Finance to the OfficeMax Environment Accreditation webpage, which was purely informative and provided details on the various environmental accreditations for the entire OfficeMax product range. In relation to certification descriptions, OfficeMax has confirmed that the descriptions are provided by accrediting organisations. As part of its 2014 product update, OfficeMax has included information on AFS environmental certifications in its hard copy catalogue and on the website.

²³ The Department of Finance currently provides a link: http://maps.finance.gov.au/office_administration/docs/Environmental_Symbols%20Accreditations.pdf to the company OfficeMax’s Environment accreditation page (View symbols used to identify environment accreditations) On this page the description for PEFC is somewhat less enthusiastic than the description for FSC: **Forest Stewardship Council**: When you buy products with the FSC logo, your purchase is supporting healthy forests and strong communities. Under FSC certification, forests are certified against a set of strict environmental and social standards and material from certified forests is tracked all the way to the consumer through the chain of custody certification system.
Program for the Endorsement of Forest Certification: Certification that assures buyers of wood and paper products that they are supporting the sustainable management of forests.
There is no advice about the **Australian Forestry Standard**

9. Conclusion

Through this response to the Standing Committee on Finance and Public Administration Inquiry into Commonwealth Procurement Procedures, Finance has provided clarification on a range of statements made by the CFMEU in relation to the SOS arrangement and the volume and value of paper products used by the government.

Clarifications include that:

- Australian Industry Participation (AIP) plans and annual AIP plan reporting are required by the SOS arrangement;
- The value for money assessment for the SOS arrangement covered a number of elements and that savings are being achieved;
- Analysis showing the volume and value of copy paper purchased by the government are significantly lower than that indicated by the CMFEU;
- Finance does not promote one environmental certification scheme over another and that each of the 84 copy paper products that are used by agencies for day-to-day copying has a recognised environmental chain of custody certification;
- Government initiatives being implemented since 2008 have reduced copy paper use;
- Analysis shows that government expenditure on external printing papers is reducing substantially each financial year; and
- Government expenditure on tissue paper products is estimated at \$7.2m per year, not \$100 million per year as estimated by the CFMEU.

The SOS arrangement is providing efficiencies and benefits through a single government approach to market and tender evaluation process, consistent contract processes and determination.

Should the Inquiry require further information on the operation of the SOS WoAG arrangement or any of the data presented in this submission, please contact the Assistant Secretary – Procurement Management Branch,