

## Department of Finance

### Response to Question on Notice

#### JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

#### *Australian Government Procurement Contract Reporting Auditor-General's report No. 19 (2017-18)*

Friday, 16 February 2018

#### GENERAL COMMENTS

*Nil.*

#### SPECIFIC QUESTIONS ON NOTICE

##### Question 1 (Hansard Proof, Page 12)

**Mr HILL:** I think there'll be an outbreak of joy across the APS from that statement. Could you, perhaps, take on notice—because there was another element to the question—to come back and explain precisely what the costing features or elements that make up each type of employment would be—an APS staff member and a labour hire. What would be the normal elements of that costing?

**Dr Helgeby:** We'll take that on notice, yes.

#### Response

Costing elements for APS staff include the average staffing level (ASL) remuneration based on the APS classification (i.e. salary, superannuation, long service leave) and the following:

- worker's compensation premium,
- staff training and development costs,
- organisational service costs,
- ICT service costs, and
- property operating expenses.

The cost of labour hire engagements can vary depending on:

- the type of work,
- the level of expertise/qualifications required, and
- the timeframe for engagement.

The above elements will determine the labour hire rates used in costing a proposal.

Costing considerations for ASL and labour hire engagements include:

- cost effectiveness of the individual elements of the proposal,
- efficiency of the delivery mechanisms proposed,
- the extent to which existing entity activities could be used to deliver the proposal, and
- possible flow-on impacts to other programs within the entity or in other entities.

**Question 2** (Hansard Proof, Page 12)

**Mr HILL:** Some of the functions from the DSS would have been put out into the NDIA as part of that creation?

**Dr Helgeby:** I'm not personally familiar with all the intricacies of that. I might take that one on notice

**Response**

The National Disability Insurance Agency (NDIA) was established as a new Commonwealth corporate entity in 2013 to implement a new Commonwealth program, the National Disability Insurance Scheme. Questions regarding transfers of any existing functions to the NDIA at the time should be directed to the Department of Social Services.

**Question 3** (Hansard Proof, Page 12)

**Mr HILL:** You're trying to have it both ways. You can put forward what tables you like, but it would be more helpful to have, as a comparator, a table that did include the NDIS and defence and, if you could see your way clear, to at least count the defence department, which is growing by 700 APS staff. Otherwise you could have saved the paper and the ink.

**Dr Helgeby:** We'll provide you with that table. We will split out, in that table, defence operations of an overseas nature, so that that is clear.

**Response**

Graph 1 was provided in Budget Paper 4 to show the ordinary operating costs of government entities as a proportion of the total cost of Government expenses. Department of Defence and NDIA departmental expenditure was excluded from the ordinary operating costs of government because although classified as departmental expenditure, these expenses were considered to be more like administered funding, and hence were not considered as ordinary operating costs for either entity.

- All NDIA funding is provided via a departmental appropriation, as it is a corporate Commonwealth entity. The majority of its expenses are for programs providing reasonable and necessary care and support to clients, delivered by external providers are therefore considered to be more like administered funding than departmental.
- The majority of Department of Defence funding is provided through a departmental appropriation. Only a small percentage of Defence's departmental funding is used for departmental activities (covering a range of civilian and non-operational areas).

Table 1 below, contains the data underpinning Graph 1, and was provided as part of the Department of Finance February 2018 Submission to the JCPAA.

**Table 1 – Departmental Expenses as a proportion percentage of total Government expenses**

	<b>Departmental expenses*</b>	<b>Total GGS expenses</b>	<b>Proportion Departmental</b>
2007-08	23,775	280,471	8.5%
2008-09	25,304	324,414	7.8%
2009-10	26,391	339,139	7.8%
2010-11	27,796	356,467	7.8%
2011-12	29,975	377,642	7.9%
2012-13	28,892	382,988	7.5%
2013-14	29,998	414,455	7.2%
2014-15	29,532	417,895	7.1%
2015-16	30,278	428,688	7.1%
2016-17	31,771	450,757	7.0%
2017-18	32,227	464,262	6.9%
2018-19	31,160	486,863	6.4%
2019-20	30,185	503,198	6.0%
2020-21	29,354	522,907	5.6%

\*Excludes Defence operations and the NDIS.

Table 2 below sets out departmental expenses that include elements of Defence and NDIA expenses that are subject to the efficiency dividend as a proxy for their 'departmental-like' expenses across the time series. The underlying trend is no different from Graph 1 as published in Budget Paper 4. While this shows a higher proportion of departmental expenses compared to that of Graph 1 (or Table 1 above), in both cases the overall proportion of departmental expenses to total cost of Government expenses falls over the period 2007-08 to 2015-16 (actuals) and is estimated to further fall over the period 2016-17 to 2020-21.

**Table 2 – Departmental Expenses (including Defence and NDIA subject to the Efficiency Dividend) as a proportion percentage of total Government expenses**

	<b>Departmental expenses incl. Defence and NDIA*</b>	<b>Total GGS expenses</b>	<b>Proportion Departmental</b>
2007-08	27,174	280,471	9.7%
2008-09	28,167	324,414	8.7%
2009-10	28,817	339,139	8.5%
2010-11	30,062	356,467	8.4%
2011-12	32,449	377,642	8.6%
2012-13	31,331	382,988	8.2%
2013-14	32,636	414,455	7.9%
2014-15	32,409	417,895	7.8%
2015-16	33,499	428,688	7.8%
2016-17	35,592	450,757	7.9%
2017-18	36,579	464,262	7.9%
2018-19	35,839	486,863	7.4%
2019-20	34,845	503,198	6.9%
2020-21	34,175	522,907	6.5%

\* Includes Department of Defence expenses subject to the efficiency dividend (14 per cent in 2007-08 and 11 per cent in all other years) and NDIA agency costs subject to the efficiency dividend (approximately 7 per cent per year).

The key point is that excluding the Department of Defence and NDIA from the total departmental expenses in Graph 1 published in Budget paper 4 does not change the underlying trend that departmental expenses as a proportion of the total cost of Government expenses are decreasing over time.

**Question 4** (Hansard Proof, Page 12-13)

**Mr HILL:** Sure. If the committee or the parliament were of a mind to say, 'We would like a line of sight, in exactly the same way that we can have to the number of APS staff, to the number of temporary labour hire personnel,' on notice, could you give us some advice in a submission of exactly how we could achieve that in a sensible fashion? What kinds of recommendations would the finance department suggest we make to improve transparency around the costs, the overheads and the numbers in each agency? And where would we put that in the system—in the PGPA Act or the annual reporting rule?

**Dr Helgeby:** We'll take that on notice.

**Response**

Currently, there are a number of ways in which contracts and expenditure are reported by Commonwealth entities.

The *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* sets out the financial reporting requirements for all Commonwealth entities. Annual Financial Statements for each entity are included in their annual report, as is other information. Under section 46 of the PGPA Act, the Joint Committee of Public Accounts and Audit approves the requirements for annual reporting prescribed by the rules made under the Act.

The requirement for entities to publish information on AusTender is set by the *Commonwealth Procurement Rules* issued under section 105B of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

The Senate Order, also known as the *Murray Motion*, requires Ministers to table letters of advice twice a year that all non-corporate Commonwealth entities, that they administer, have placed lists of their contracts on the internet. Letters refer to contracts (and contract listings) from the respective preceding calendar or financial year. Contract listings include contracts valued at or above \$100,000 (GST inclusive), along with details relating to each of those contracts. The Murray Motion requirements are set out in a Senate Order issued under section 50 of the Constitution, which empowers the Senate to make rules and orders.

There are currently no specific requirements for the reporting of expenditure on temporary labour hire personnel at the entity level or at the whole of government level.

Consistent with Australian Accounting Standards, the purpose of financial statements is to provide users with information that is useful in making economic decisions. Decisions on grouping transactions are made using the principle that items not large enough to influence decision-makers are aggregated with other items, unless disclosure is mandatory under an accounting standard. There is no requirement to separately report consultant and contractor costs in financial statements, nor are these concepts defined in the standards. Accordingly, individual entities decide whether consultant and contractor costs should be separately reported in their audited financial statements.

The Consolidated Financial Statements do not disaggregate contract and consultant costs from suppliers' expense as it is not material at this level. Contractors and consultants are not a concept recognised as a separate item in the ABS GFS (Government Finance Statistics).

**Question 5** (Hansard Proof page 13)

**CHAIR:** How often would republishing happen? Is it a regular occurrence?

**Mr Edge:** That's right. For instance, if a contract has been varied a number of times, the original contract's published and each of the variations is published. Where there have been a number of variations, for instance, it's up to an agency to roll all of those together and republish that. In doing that, there would be a link back to the other notices in the original publication so it can be tracked through.

**CHAIR:** How often would that happen? Is it a regular occurrence?

**Mr Edge:** We'd have to take that on notice.

**Mr Hunt:** I think we would. Individual agencies, obviously, have different behaviours. It depends on the scale of the very large contracts they enter into. I know that Defence does this in instances where they have a contract that runs over many years. It has a large number of amendments. For transparency purposes, it gets hard to track the big picture through all of that, so they bundle all of those contract notices up and republish them in a single place.

**Mr Edge:** We will take it on notice.

**Response**

Finance has selectively reviewed AusTender data and has concluded that republishing contracts primarily occurs in a relatively small number of high cost and long-term Department of Defence (Defence) contracts. Since June 2016, Defence has advised that they have republished 21 major contracts, with a combined value of \$9.3 billion. Given the significant value, republished contracts can have a material impact on the total value of published contract notices in a given year.

**Question 6** (Hansard Proof page 13)

**CHAIR:** That brings me back to Mr Hunt's comment about scale. At the beginning of the conversation, earlier in the hearing, I think people might have been forgiven for thinking, 'It might be a \$1,000 update; it might be a \$5,000 update.' What's the extreme of the quantum that has been updated in a contract?

**Mr Edge:** I think we'd have to take that on notice.

**Mr Hunt:** We would have to, to get an absolute example.

**CHAIR:** Defence ones come to mind.

**Mr Hunt:** I am aware of some significant ones. There was a republishing of a contract to do with submarine maintenance. This was a contract that started a large number of years ago and had multiple amendments. I think it was republished in 2016-17, and the value was, from recollection, between \$1.8 billion and \$2 billion. It was a large, significant number of historical contracts wrapped up and republished for transparency purposes in a single place.

**CHAIR:** So it was reported under the regime of one government but was incurred in previous governments?

**Mr Hunt:** I don't know exactly when the contract—

**Mr Edge:** We would have to take the detail of that on notice, but we certainly can. In regard to your earlier question about the largest value, we can certainly take that on notice. It may be that contract or some other contract.

**Response**

The most significant individual republished contract that Finance is aware of was valued at \$2.0 billion. The Contract Notice for the republished contract, CN3375971, was published on 13 September 2016 and replaced 36 earlier individual Contract Notices dating back to 2012 related to the Defence Submarine Maintenance contract.

**Question 7** (Hansard Proof, Page 18)

**Mr HILL:** In that case, if the committee is of a mind to make recommendations to improve the transparency around expenditure, can you then provide us with clear advice, building on the requests earlier, on how we would do that, where we would do that and what the basis of such a system would be? You've heard the two core concerns. At the moment there's no transparency across the entire Commonwealth about labour hire contractors—human beings—doing APS work, there's no transparency about how many billions of dollars are spent on the four large firms and, indeed, their travelling companions, and there's no transparency about how many former senior public servants with ABNs are wandering around departments on daily rates. None of this is clear, and it's adding up to billions of dollars of taxpayers' money.

**Mr Hart:** We can take that on notice.

**Response**

Each entity has internal reporting and tracking systems appropriate to its operations. The effective tracking and reporting of temporary labour hire arrangements could only be implemented at the entity level. The information produced would therefore be subject to important caveats and qualification.

Even if data were to be shared centrally to try to provide a whole-of-government view of contractor numbers and on-hire labour, it would not be possible to guarantee complete coverage of the indirect workforce employed to support departmental activity. For example, where an entity enters a contract with a third party, that third party may engage individuals as their own employees or sub-contractors, and the sub-contractors may have their own employees. Some of these individuals may only be working part-time on Commonwealth work, in parallel with work on unrelated commercial projects.



**Question 8** (Hansard Proof, Page 19)

**Mr Helgeby:** It seems to me that some of the discussion today has been around the distinction between a forward-looking and real-time source of information about contracts and reporting, which is typically ex-post, lags by quite a bit and has a different set of arrangements around it. In one sense, the committee appears to be exploring whether it wants to bring together the reporting of certain types of financial arrangements with the real-time discovery of a forward-looking approach. It may be that when we respond to the questions on notice we might want to consider some of that also from the annual reporting perspective.

**Response**

Currently, real time reporting of contracts and expenditure in the Commonwealth is undertaken in very limited circumstances.

AusTender provides point in time reporting of contracts awarded by procuring entities. Under the Commonwealth Procurement Rules, entities are required to report contracts and amendments on AusTender within 42 days of entering into or amending a contract. By its nature, this information is reported after the fact.

The Murray Motion also requires Ministers to table letters of advice twice a year that all non-corporate Commonwealth entities that they administer have placed lists of their contracts on the internet. Letters refer to contracts (and contract listings) from the respective preceding calendar or financial year. Contract listings include contracts valued at or above \$100,000 (GST inclusive), along with details relating to each of those contracts.

Contracts established through procurements, grants, sales of goods/services by an entity, disposals by an entity, and other financial arrangements are to be included in the internet listing under the Murray Motion.

Information about Commonwealth consultancy expenditure is also provided in entity annual reports and relates to the relevant reporting period. The majority of annual reports are tabled in September for the financial year that concludes on 30 June.

Section 17AG(7) of the PGPA Rule requires entities to include in their annual report information on the entity's use of contracts that engage consultants or consultancy services. The PGPA Rule requires that the annual report include a summary statement detailing the number of new and ongoing consultancy contracts and the total expenditure on new and ongoing consultancy contracts. It also requires entities to provide a summary of the entity's policy on the selection and engagement of consultants, its selection procedures, and the main categories of purposes for which consultants were engaged. Readers are also referred to the AusTender website ([www.tenders.gov.au](http://www.tenders.gov.au)) for further information on the value of contracts and consultancies.

There is no requirement in accounting standards to separately report consultant and contractor costs in financial statements unless they are individually material. Some entities choose to aggregate this information, others split out larger volume contracts (material from the perspective of their financial statements) for separate reporting.