

INTRODUCTION

Background

- 1.1 On 1 July 1998 the Joint Committee of Public Accounts and Audit (the Committee) resolved that it would conduct an inquiry into Australian Government purchasing policy and practice. The inquiry lapsed with the dissolution of the House of Representatives and the prorogation of the Parliament on 31 August 1998. On 10 December 1998 the Committee of the 39th Parliament resolved to re-open the inquiry.
- 1.2 In March 1994, the House of Representatives Standing Committee on Industry, Science and Technology (HORIST) tabled a report entitled *Australian Government Purchasing Policies: Buying our Future* (the Bevis Report). The HORIST inquiry focused on:
 - whether the Commonwealth Government had programs in place to ensure the maximum involvement of Australian suppliers in its acquisition of goods and services; and
 - the impact of decentralisation and devolution of the purchasing function.
- 1.3 Some of the key statements and findings in the report included:
 - ‘the Committee is concerned that the opportunities which Commonwealth procurement ought to provide for Australian industry development are not being fully grasped’;
 - ‘there is a large amount of anecdotal evidence that there is an attitudinal problem among government purchasers which results in a

- reluctance to purchase from Australian suppliers or in a lack of knowledge concerning the capabilities of Australian suppliers’; and
- ‘the most effective method for removing bias or discrimination favouring foreign suppliers is to require the maximisation of competitive local content. In other words, where ANZ suppliers are price and quality competitive, government agencies should be required to purchase from ANZ suppliers’.
- 1.4 The HORIST made 45 recommendations addressing the bias and problems with Australian purchasing policies. In November 1995, HORIST released a second report, entitled *Goodbye Bad Buys*, focusing on the purchasing policies of Commonwealth Authorities and Companies.
- 1.5 The then Government accepted some of the HORIST recommendations in the *Working Nation* statement of May 1994 and in its response to the report in December 1994.

Reasons for the inquiry

- 1.6 There are several reasons why the Committee chose to review the purchasing activities of Commonwealth entities. First, is the large expenditure of public monies associated with purchasing. In 1997–98, the total value of purchases by Commonwealth Budget funded agencies was about \$8.8 billion. This excludes purchases made by government business enterprises. Telstra, for example, spent \$8.5 billion on goods and services in 1997–98. The Committee, therefore, has a clear responsibility, on behalf of the Parliament, to scrutinise the receipts and expenditure of the Commonwealth and help to ensure the best outcomes for the Australian public.
- 1.7 Second is the need to examine the efficiency and effectiveness by which Commonwealth entities manage their purchasing function. Purchasing is a complex task and involves consideration of a number of competing objectives.
- 1.8 Third, the Committee sought to determine whether Commonwealth entities had learnt from the recommendations made in the Bevis Report and improved their performance during the last five years.

Objectives, scope and focus

- 1.9 The broad objective of the inquiry is to assess how efficiently and effectively government agencies manage their purchasing responsibilities. From this examination, the Committee is seeking to identify areas where purchasing policy and practice can be improved. The Committee's examination was at the framework level and focused on general policies and principles which influence purchasing practice. The Committee did not focus on specific goods or services purchased by the Commonwealth or the conduct of individual tenders.
- 1.10 The following key issues were identified by the Committee as warranting close examination. Within each of these sections, the Committee identifies a range of objectives which it sought to achieve.

Devolution and decentralisation

- 1.11 Following a review of government purchasing in 1997, purchasing responsibility was devolved to individual agencies. Individual agencies could then choose to decentralise their purchasing arrangements even further depending on their needs. The Committee focused its investigations on the speed with which purchasing was devolved and whether there was sufficient oversight and coordination to ensure effective purchasing outcomes.
- 1.12 The extent of devolution and the outcomes arising from the decentralised arrangements became a prominent issue as the inquiry developed. A key objective of the Committee, in any performance assessment, is whether key outcomes are achieved efficiently, effectively and on time. If any shortfalls are identified then this immediately draws attention to the quality of administration and the degree to which implementation is reflecting policy objectives. The next step is to evaluate the effectiveness of the policy.
- 1.13 The Committee has identified a range of concerns with the speed and the way devolution of the purchasing function has been managed. The extent of decentralisation varied between agencies. The Committee's investigation showed that some agencies are pulling back from the high degree of decentralisation and creating centralised purchasing units in order to provide more consistency and coordination in the way they manage their purchasing responsibilities.

The Commonwealth procurement guidelines

- 1.14 The Committee examined the appropriateness of the Commonwealth Procurement Guidelines (CPGs) and the way in which government agencies interpret and apply the guidelines. The CPGs identify six core principles which are meant to guide agencies in managing their purchasing function. The Committee sought to identify the extent to which agencies are following the CPGs and whether there was sufficient consistency in interpretation and application.
- 1.15 Under the *Financial Management and Accountability Act 1997*, the onus of responsibility for purchasing is placed on the Chief Executive Officer of individual agencies. The Financial Management and Accountability Regulations state that purchasing officers *must have regard* to the CPGs. The issue of the degree to which agencies must comply with the CPGs is addressed by the Committee.
- 1.16 Further issues that were addressed in this section include the level of accountability demonstrated by Chief Executive Officers (CEOs), the interpretation and application of value for money, the culture, training and education of purchasing officers, and the quality of contract management.

Australian industry development

- 1.17 The Committee's objective was to examine the appropriateness and effectiveness of the industry development objectives in the CPGs. In 1994, the Bevis Report indicated that government purchasing officers had an attitudinal problem or culture which resulted in a reluctance to purchase from Australian suppliers. The Committee examined, at every opportunity, whether such an attitude still exists. Government purchasing can create significant opportunities for Australian-New Zealand (ANZ)¹ suppliers and the wider community. Therefore, the Committee's overall concern under this section is to determine whether the Commonwealth's procurement policy and practice maximises the opportunities for ANZ suppliers.

¹ Australian procurement objectives support obligations under the Australia and New Zealand Government Procurement Agreement, and the Australia and New Zealand Closer Economic Relations Trade Agreement.

Electronic commerce and the statistical data base

1.18 Electronic commerce systems in relation to purchasing are still being developed. Transigo did not achieve adequate take-up rates by suppliers and was dropped by the government as the sole electronic commerce system. The availability of indicative purchasing statistics has historically been deficient. Very few government agencies, for example, could provide, at call, information on the proportion of their purchasing that was awarded to ANZ suppliers. It is essential that the Parliament, through the JCPAA and other committees, have adequate statistical information to assist with accountability and scrutiny of agency performance in achieving stated purchasing objectives. Therefore, the Committee sought information from government about the nature of future electronic commerce models and the adequacy and timeliness of statistical information which would be a product of the electronic commerce systems.

Relevant reports and inquiries

- 1.19 Government purchasing has been the subject of previous parliamentary inquiries. The Committee's consideration of previous reports is not necessarily comprehensive but seeks to indicate the attention that government purchasing has received during the last 20 years, and draw on any significant findings or recommendations.
- 1.20 In November 1978, the Joint Committee of Public Accounts (JCPA) conducted an inquiry into the acquisition of medium-scale and large-scale computer systems. The JCPA made a series of recommendations designed to reduce the direct cost of the acquisition process to both government and suppliers.²
- 1.21 In 1979, the Joint Committee on Foreign Affairs and Defence conducted an inquiry into Australian Defence Procurement.³ This report focused on strategic policy, Defence Force capabilities, industrial infrastructure and Government organisation as they relate to defence procurement. In relation to local versus overseas production, the Joint Committee on

2 Joint Committee of Public Accounts, *Use of ADP in the Commonwealth Public Sector—Acquisition of Systems in the Public Service*, Report 174, Parliamentary Paper, 341/78 AGPS, Canberra, November 1978.

3 Joint Committee of Foreign Affairs and Defence, *Australian Defence Procurement*, Parliamentary Paper No. 260/1979, AGPS, Canberra, November 1979.

Foreign Affairs and Defence stated that there are 'cogent strategic reasons for developing progressively the highest possible degree of self-reliance at the highest possible technological level'.⁴

- 1.22 In 1981 a broader inquiry into Commonwealth Government Purchasing was conducted by the House of Representatives Standing Committee on Expenditure.⁵ The Expenditure Committee reported that deficiencies in the administration of Commonwealth purchasing were located mostly at the departmental level rather than at the central level of purchasing in the Department of Administrative Services. In particular, the Expenditure Committee commented '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'.⁶
- 1.23 In addition, the Expenditure Committee also commented on the quality of departmental reporting concluding that 'government purchasing should be conducted in a manner which renders it accountable to the Parliament and the public'.⁷
- 1.24 As discussed previously, the House of Representatives Standing Committee on Industry, Science and Technology completed two reports into government purchasing during 1994 and 1995.⁸
- 1.25 Various Senate Committee inquiries have addressed the issue of government procurement. In 1997 the Senate Finance and Public Administration References Committee conducted an inquiry into the contracting out of government services. In relation to Information Technology outsourcing the Finance Committee's principle concern was 'to ensure that local industry has a genuine opportunity to participate in the supply of outsourced services'.⁹

4 Joint Committee of Foreign Affairs and Defence, *Australian Defence Procurement*, p. 67.

5 House of Representatives Standing Committee on Expenditure, *Commonwealth Government Purchasing*, Parliamentary Paper No. 107/1981, AGPS, Canberra, May 1981.

6 House of Representatives Standing Committee on Expenditure, *Commonwealth Government Purchasing*, p. 1.

7 House of Representatives Standing Committee on Expenditure, *Commonwealth Government Purchasing*, p. 2.

8 House of Representatives Standing Committee on Industry, Science and Technology, *Australian Government Purchasing Policies: Buying our Future*, First Report, AGPS, Canberra; March 1994. *Goodbye Bad Buys, Australian Government Purchasing Policies and Commonwealth Authorities and Companies*, Interim Second Report, AGPS, Canberra, November 1995.

9 Senate Finance and Public Administration References Committee, *Contracting out of Government Services, First Report, Information Technology*, Senate Printing Unit, Canberra, November 1997, p. 35.

- 1.26 In July 1998 the Senate Economics References Committee reported on aspects of Australian industry development. In relation to government procurement, the Senate Economics Committee stated that ‘when Australian products are equal to overseas counterparts and are a competitive price, or where a local sale would offer a benefit to the whole community, the Committee agrees with industry that the local procurement option should be given the fullest consideration.’¹⁰
- 1.27 In 1997, a committee of senior Commonwealth officials undertook the *Review of Commonwealth Purchasing* and provided a report to Ministers. In December 1997, the Government considered the findings of this review and decided to ‘pursue a more devolved approach to purchasing in which individual agencies are required to meet their procurement responsibilities within a centrally developed framework of policies and principles.’¹¹ Some of the findings from the 1997 review will be used throughout this report and will be referred to as the 1997 Review.

Methodology and conduct of the inquiry

- 1.28 In conducting this inquiry, the Committee employed a range of tools to gather evidence. The inquiry was advertised in the normal manner and submissions were sought from interested individuals and organisations. Next, the top 10 purchasing agencies by value, and a range of Government Business Enterprises (GBEs), were required to provide information on their purchasing activities.
- 1.29 This combination of information ensured that a range of general information about purchasing was received in addition to specific information about individual agencies. The inquiry included both a qualitative and quantitative assessment of available evidence, through:
- examining the views of Australian business to determine whether attitudinal problems among government purchasers has improved;
 - examining Commonwealth Government purchasing statistics from the last four years;
 - writing to the top 10 purchasing agencies by value and seeking information from them about their procurement operations, performance and outcomes as measured by available statistics, and

10 Senate Economics References Committee, *Promoting Australian Industry*, Senate Printing Unit, Canberra, July 1998, p. 173.

11 Department of Industry, Science and Resources, *Submission*, p. S446.

how they interpret and apply the Commonwealth Procurement Guidelines;

- writing to key GBEs and seeking information from them about their procurement operations, performance and outcomes as measured by available statistics; and
- investigating the previous issues and information raised in submissions at public hearings.

1.30 The top 10 Budget funded purchasing agencies by value for the last three financial years are shown below.

1995-96			1996-97		
Agency	Value	% of total value	Agency	Value	% of total value
Defence	\$4 536m	52.96%	Defence	\$2 580m	50.42%
DEETYA	\$1 453m	16.93%	Administrative Services	\$356m	6.96 %
Administrative Services	\$540m	6.31%	Foreign Affairs and Trade	\$336m	6.56%
AUSAID	\$315m	3.68%	Social Security	\$233m	4.55%
Australian Taxation Office	\$242m	2.82%	Australian Taxation Office	\$164m	3.21%
Primary Industries and Energy	\$168m	1.97%	Australian Agency for International Development	\$163m	3.19%
Social Security	\$154m	1.80%	Communications and the Arts	\$144m	2.83%
DFAT	\$116m	1.35%	DEETYA	\$123m	2.40%
Environment, Sport and Territories	\$102m	1.19%	Primary Industries and Energy	\$104m	2.03%
Australian Customs Service	\$96m	1.12%	Australian Bureau of Statistics	\$86m	1.69%
All other agencies	\$842m	9.84%	All other agencies	\$827m	15.28%
TOTAL	\$8 564m	100%	TOTAL	\$5 116m	100%

1997-98		
Agency	Value	% of total value
Defence	\$5 502m	62.52%
Australian Agency for International Development	\$388m	4.41%
Environment, Sport and Territories	\$281m	3.20%
Centrelink	\$262m	2.98%
Commonwealth Services Delivery Agency	\$251m	2.85%
ATO	\$243m	2.76%
Transport and Regional Development	\$143m	1.62%
DAS	\$130m	1.47%
Office of Asset Sales	\$129m	1.47%
Health and Family Services	\$126m	1.43%
All other agencies	\$1 345m	15.28%
TOTAL	\$8 800m	100%

Source: Department of Finance and Administration, *Submission*, pp. S216-218.

- 1.31 On 4 and 8 July 1998, the Committee advertised, in *The Weekend Australian* and the *Australian Financial Review*, terms of reference for an inquiry into Australian Government purchasing policy and practice and invited submissions from interested individuals and organisations. In addition, the Committee wrote to a range of industry organisations and government agencies seeking submissions. As with all inquiries in recent times, the terms of reference and other information about the inquiry were advertised on the Committee's internet homepage at:
- www.aph.gov.au/house/committe/jpaa/index.htm
- 1.32 More than 70 submissions were received and are listed at Appendix 1. The submissions come from individuals, industry organisations and government agencies. The Committee also received 65 exhibits which are listed at Appendix 2.
- 1.33 During the inquiry, the Committee received a private briefing from the Victorian Government Purchasing Board.
- 1.34 Evidence was taken at public hearings held in Canberra, Sydney and Melbourne during January, February and March 1999. A round table forum was conducted in Canberra in March 1999. The round table forum brought together the major groups that had appeared at earlier public

hearings, and provided for constructive discussion on the issues under consideration by the Committee. A list of witnesses appearing at the hearings can be found at Appendix 3.

1.35 Copies of the transcripts of evidence from the public hearings and the volume of submissions are available from the Committee secretariat and for inspection at the National Library of Australia. The transcripts of evidence are also available on the Hansard website at:

- www.aph.gov.au/hansard/joint/commtee/comjoint.htm

Report structure

1.36 The report structure reflects the key objectives of the inquiry. Chapter 2 addresses the implications of the devolution of purchasing responsibility, and assesses the quality of coordination and control under the existing system.

1.37 Chapter 3 examines the Commonwealth Procurement Guidelines (CPGs) and focuses on ways to improve the purchasing framework.

1.38 The fourth chapter examines the industry development objectives of the CPGs. This issue received significant comment from industry sources. Some groups claimed that the Commonwealth could be doing more to maximise the opportunities of Australian and New Zealand industry.

1.39 The final chapter examines electronic commerce systems and the statistical data base for purchasing information. Statistical information on government purchasing is currently inadequate. This chapter examines what can be expected from future electronic commerce models and the accompanying statistics that should become available.