

DEVOLUTION AND DECENTRALISATION

Background

- 2.1 Commonwealth purchasing is being conducted in a devolved environment with individual agencies having a high degree of decision-making capacity. Before examining the evidence relating to the Commonwealth's devolved approach to purchasing, there is a need to review some of the broad concepts and recent trends in this area. Various studies, for example, have shown that devolution, when managed correctly can create efficiency improvements. The often quoted saying during the early 90s was 'let the managers manage'.
- 2.2 The terms devolution and decentralisation are often confused. **Devolution** is 'the transfer of decision-making capacity from higher levels in an organisation to lower levels, that is it is about who is best placed in an organisation to make decisions'.¹ **Decentralisation** is 'the redistribution of functions or tasks from central units in organisations to more widely dispersed units, that is it is about where in an organisation particular functions are best carried out.'²
- 2.3 In 1992, the Management Advisory Board/Management Improvement Advisory Committee (MAB/MIAC) completed a study on the devolution of corporate services. MAB/MIAC in relation to corporate services concluded that 'when properly carried out and fully implemented, devolution should result in substantial improvements in effectiveness and efficiency.'³ MAB/MIAC commented that devolution and decentralisation

1 Management Advisory Board/Management Improvement Advisory Committee (MAB/MIAC), *Devolution of Corporate Services*, No. 6, April 1992, p. 2.
2 MAB/MIAC, *Devolution of Corporate Services*, No. 6, April 1992, p. 2.
3 MAB/MIAC, *Devolution of Corporate Services*, No. 6, April 1992, p. ix.

are part of a strategy to improve efficiency and effectiveness, achieve greater accountability, focus on results and service, and provide individuals with greater scope to improve their performance'.⁴ In the last 10 to 15 years, there has been a program by central agencies to devolve financial, industrial and personnel responsibilities to agencies.⁵

2.4 MAB/MIAC identified a range of benefits and negative perceptions relating to devolution of corporate services. Some of the reported benefits included:

- devolution is a powerful tool to promote and implement organisational change;
- managers are more in control of achieving outcomes;
- managers become more familiar with corporate management issues and are better able to contribute to the development of acquisition of management tools;
- people have the opportunity for increased job satisfaction through increased responsibility; and
- managers have more scope for initiative in determining both the type and level of service required to achieve outcomes, and the method of service delivery.

2.5 Some of the negative perceptions about devolution included:

- loss of quality and increased inconsistency in decision-making;
- loss of purchasing power and other economies of scale;
- duplication of tasks or functions;
- a reduction in the number of people skilled in providing corporate services which has led to a loss of efficiency;
- diminution of expertise (especially in some personnel functions); and
- loss of corporate identity.⁶

2.6 In relation to the negative concerns about devolution, MAB/MIAC stated that they could be avoided 'with careful attention to planning, communicating to staff at all levels, ensuring that staff are appropriately trained, implementing well designed automated systems, and identifying clear lines of authority and accountability'.⁷

4 MAB/MIAC, *Devolution of Corporate Services*, No. 6, April 1992, p. 3.

5 MAB/MIAC, *Devolution of Corporate Services*, No. 6, April 1992, p. 6.

6 MAB/MIAC, *Devolution of Corporate Services*, No. 6, April 1992, pp. 3–4.

7 MAB/MIAC, *Devolution of Corporate Services*, No. 6, April 1992, p. 4.

- 2.7 MAB/MIAC pointed out that serious inefficiencies have resulted because devolution has been confused with the transfer of procedures or processes from central to line areas which is decentralisation and not devolution.⁸ Apart from these concerns, MAB/MIAC was favourable towards devolution commenting that:

...devolution should be viewed as the appropriate transfer of authority to make decisions. It is about empowering people, giving managers a choice as to how outcomes will be achieved, and removing unnecessary managerial layers which typified the centralised bureaucracies of recent times.⁹

- 2.8 The Australian National Audit Office (ANAO) commented that there were efficiency savings in centralising the payment of accounts. The ANAO stated:

One significant trend, with particular relevance to decentralised organisations, is the move toward centralised processing of accounts. The economies of scale offered by such an approach enabled one US firm to reduce total finance staff numbers by 12 per cent. Another organisation was able to achieve over 50 per cent reduction in staff when this approach was combined with other better practices.¹⁰

- 2.9 The ANAO's key point is the efficiency savings that can accrue from centralised processing of accounts. The preference for centralisation in this case is distinct from the concept of devolution. The ANAO supports the concept of devolution commenting that 'better practice suggests that the authority to approve, and responsibility for, expenditure should be as close as possible to the decision-maker committing the organisation to the payment'.¹¹

- 2.10 In 1992 the Joint Committee of Public Accounts (JCPA) examined devolution, decentralisation and delegation in relation to the efficiency and effectiveness of the management of human services in the Australian Public Service (APS).¹² The JCPA examined the 1987 structural reforms to the APS which resulted in the abolition of the Public Service Board as the central controlling agency for the APS and the decentralisation of its

8 MAB/MIAC, *Devolution of Corporate Services*, No. 6, April 1992, p. 4.

9 MAB/MIAC, *Devolution of Corporate Services*, No. 6, April 1992, p. 5.

10 Australian National Audit Office, *Paying Accounts, Better Practice Guide Handbook* — November 1996, p. 7.

11 Australian National Audit Office, *Paying Accounts, Better Practice Guide Handbook* — November 1996, pp. 7–8.

12 Joint Committee of Public Accounts, *Managing People in the Australia Public Service, Dilemmas of Devolution and Diversity*, Report 323, AGPS, Canberra, December 1992.

functions to other coordinating agencies and line departments. The JCPA examined the impact of decentralisation and concluded:

The Committee is concerned that in this climate of decentralisation and devolution, a balance between central controls and decentralised and devolved responsibilities is required...the Committee is not convinced that the current levels of decentralisation and devolution are appropriate for the APS at this time and that there are areas which now require improvement. In particular, the Committee remains concerned that with so many coordinating agencies having responsibility for aspects of human resource management across the APS, the current decentralised arrangements are failing to meet the needs of HRM in the APS.¹³

- 2.11 The issue of devolution was also dealt with in the Bevis Report. This report found that, in 1994, 'devolution has fragmented Government purchasing to such an extent that it is now difficult for any coordinated national procurement policy to be effective'.¹⁴ The Bevis Report, however, did not suggest that all purchasing should be recentralised within agencies. The conclusion was that low value purchasing could be done more efficiently by purchasing officers at a devolved level. The Bevis Report recommended that purchases over \$100 000 should be managed by an accredited purchasing unit.¹⁵

The Commonwealth's approach

- 2.12 Following the 1997 Review of government purchasing, the Commonwealth moved from a centralised purchasing system to a devolved system where individual departments and agencies assume greater control and responsibility for purchasing decisions. The National Procurement Board ceased operations in March 1998. The United States General Accounting Office, through informal advice to the Committee, noted that the Commonwealth has a more devolved purchasing arrangement than the United States, Britain, Canada and New Zealand.

13 Joint Committee of Public Accounts, *Managing People in the Australia Public Service, Dilemmas of Devolution and Diversity*, Report 323, p. 18.

14 House of Representatives Standing Committee on Industry, Science and Technology, *Australian Government Purchasing Policies: Buying Our Future, First Report*, 1994, p. 59.

15 House of Representatives Standing Committee on Industry, Science and Technology, *Australian Government Purchasing Policies: Buying Our Future, First Report*, 1994, p. 61.

- 2.13 The Department of Finance and Administration (DoFA) commented that the objectives of the new arrangements are ‘to streamline and simplify Commonwealth purchasing, strengthen flexibility and accountability at agency level and remove unnecessary central prescription and regulation of suppliers and buyers’.¹⁶
- 2.14 In this devolved environment, the Competitive Tendering and Contracting Branch of DoFA is ‘primarily responsible for advising and providing guidance on the policy framework rather than one of centralised control and coordination’.¹⁷
- 2.15 The Commonwealth Procurement Guidelines (CPGs) set out aspects of senior executive responsibility and the need for accredited purchasing units. The CPGs state that ‘government policy requires each agency to appoint a senior executive officer, or officers, to be responsible and accountable for Accredited Purchasing Units (APUs).’¹⁸ It should be noted that Commonwealth Procurement Circular 98/3 (CPC 98/3) changed this requirement from mandatory to best practise.¹⁹ The CPGs outline three main structural options that have been identified for agency management of procurement:
- establishing APUs to work with program management in undertaking, supervising and approving purchases over a threshold of \$100 000 (defined as expenditure on a single contract or total expenditure per annum within a specific goods and services group).²⁰
- 2.16 In relation to purchases of lesser value, the CPGs state that agencies should consider:
- entering into an arrangement to outsource purchasing services to another agency’s APU; and
 - obtaining the approval of their Minister for other procurement arrangements and structures that meet the principles of an APU.²¹ CPC 98/3 changed the requirements in the previous three dot points from mandatory to best practise.

16 DoFA, *Submission*, p. S200.

17 DoFA, *Submission*, p. S199.

18 Department of Finance and Administration, *Commonwealth Procurement Guidelines, Core Policies and Principles*, Commonwealth of Australia, March 1998, p. 13.

19 DoFA, CTC, *Commonwealth Procurement Circular 98/3*, August 1998.

20 Department of Finance and Administration, *Commonwealth Procurement Guidelines, Core Policies and Principles*, p. 13.

21 Department of Finance and Administration, *Commonwealth Procurement Guidelines, Core Policies and Principles*, p. 14.

- 2.17 The CPGs conclude that in addition to the previous options, ‘agencies may devolve less complex purchasing to line management or outsource it to other government agencies or the private sector.’²²
- 2.18 At the departmental level, there are varying degrees of devolution and decentralisation. For example, the Australian Customs Service indicated that it ‘has devolved its procurement responsibilities to the line areas that require the goods and services’ but major purchases in excess of \$100 000 require the approval of the National Manager, Budgets.²³ The Department of Agriculture, Fisheries and Forestry – Australia (DAFFA) operates in a devolved environment with program managers being responsible for their own purchasing activities. DAFFA noted, however, that in 1998 it conducted an internal audit of its purchasing activity that found ‘some requirements were not being consistently applied in some program areas’.²⁴
- 2.19 Some agencies, however, are moving to centralised purchasing arrangements. The Department of Foreign Affairs and Trade (DFAT) advised that in 1991 it devolved to divisions responsibility for processing of procurement. DFAT, however, discovered that the error rate for the processing of accounts was unacceptably high and, therefore, recentralised the processing of procurement.²⁵ In addition, DFAT indicated that it had halved, through processing alone, the number of full-time equivalent staff involved in procurement. DFAT stated:

Recently, we have re-engineered the whole of our accounts processing and procurement process to centralise it within one area of the department. This enables us to capture that information and to enable us to be more efficient in our procurement in terms of the skill level of the officers undertaking that activity. We can also monitor more closely issues such as value for money and what the profile of our suppliers is.²⁶

22 Department of Finance and Administration, *Commonwealth Procurement Guidelines, Core Policies and Principles*, p. 14.

23 ACS, *Submission*, p. S120.

24 DAFFA, *Submission*, p. S354.

25 Mr Keith Hardy, DFAT, *Transcript*, p. 501.

26 Mr Peter Baxter, DFAT, *Transcript*, p. 66.

- 2.20 It needs to be noted that DFAT is still operating in an internal devolved purchasing environment in which responsibility for initiating a purchase still remains with 11 divisions representing the department and state offices. However, the responsibility for the actual purchase, processing of accounts and policy advice has been centralised.²⁷ This is consistent with the ANAO better practice model described above.
- 2.21 DFAT indicated two benefits from its centralised arrangements for processing of accounts. First, in a centralised environment there is greater 'scope to enforce the rules, whereas in a devolved arrangement it is much more difficult to control what people are doing'. Second, the centralised system resulted in efficiency improvements and less complexity for department and suppliers by having a central purchasing unit rather than 11.²⁸
- 2.22 DFAT advised that, in developing its new purchasing arrangements, it examined benchmarks in the private sector against which it could compare performance. The research showed that a significant number of private sector companies have centralised processing arrangements.²⁹
- 2.23 Telstra also indicated that it had moved to a centralised purchasing model which has resulted in greater control and information at the management level, and with reduced complexity for suppliers. Telstra reported that under the previous decentralised arrangements there was a loss of management information about purchasing expenditure, how the expenditure was distributed across Telstra, information about suppliers and whether purchasing officers had the appropriate skills and expertise.³⁰ Telstra stated:
- Contrary to a number of other government organisations, we have probably moved back to a centralised model of sourcing, because we see that that is the way we can apply discipline across the process. We really had evolved to a degree into an organisation where we had varying levels of sourcing competence and end results, depending on who was doing it, on a decentralised basis. We have moved back to a more centralised model to try to capture the discipline that we need in our sourcing activity.³¹
- 2.24 Again, while Telstra has moved to centralised purchasing arrangements, it still operates in a devolved arrangement where discrete business units are responsible for initiating the need to purchase. Telstra stated:
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27 Mr Keith Hardy, DFAT, *Transcript*, p. 501.

28 Mr Peter Baxter, DFAT, *Transcript*, p. 73.

29 Mr Peter Baxter, DFAT, *Transcript*, p. 68.

30 Mr Hayden Kelly, Telstra, *Transcript*, p. 492.

31 Mr Hayden Kelly, Telstra, *Transcript*, p. 339.

We are consciously going back to a centralised control buying arrangement, but underpinning that is a desire to have the business units able to buy daily against existing contracts much more easily than they can today, and also where they are empowered to buy, armed with the right contracts so that they do not do themselves or the company or the supplier any damage.³²

- 2.25 The power to initiate a purchase still remains devolved to the various Telstra business units. These business units have the power to spend up to \$250 000 where those goods and services are not currently under contract to Telstra. An electronic interface informs the business units of what is already on contract to Telstra. If a good is not on contract, the business units can buy direct and then register that contract as the company contract.³³
- 2.26 The Department of Defence indicated that its purchasing guidelines are developed in a centralised unit and circulated to the entire organisation. This centralised unit also collects data and monitors the purchasing performance of the defence organisation. However, purchasing functions are devolved to the 14 groups which comprise the Defence organisation.³⁴
- 2.27 The ANAO concluded that there was merit in having, within agencies, a centralised cell on purchasing but, 'in this era of devolution, it is also important to allow program managers to make decisions which affect the achievement of their program objectives'.³⁵ The ANAO stated:

We certainly have realised, too, the value of centralising the expertise in procurement but leaving the decision making to the line managers, if you like, and the relationship management to the line managers, but put the expertise in a central section or core and let them worry about the documentation and the process that is required. I think that is the trend that many agencies in the public sector are moving to. Best practice that we have researched would suggest you do need the central expertise to guide the procurement process. I think it is true to say there is a move towards centralisation.³⁶

32 Mr Hayden Kelly, Telstra, *Transcript*, p. 495.

33 Mr Hayden Kelly, Telstra, *Transcript*, p. 495.

34 Dr Graham Kearns, Department of Defence, *Transcript*, p. 410.

35 Mr Ian McPhee, Australian National Audit Office, *Transcript*, p. 108.

36 Mr Ian McPhee, Australian National Audit Office, *Transcript*, p. 503.

- 2.28 During the inquiry, some of the major concerns that were raised about devolution and decentralisation within agencies included:
- consistency, oversight and coordination of the purchasing function at the whole of government and agency level;
 - the impact on purchasing officers; and
 - problems for small and medium enterprises (SMEs).

Consistency, oversight and coordination

- 2.29 Claims were made during the inquiry that the process of devolution has not been matched by sufficient oversight or coordination to ensure consistency in service delivery. The Australian Industry Group supported certain objectives of purchasing policy but commented that to be effective ‘guidelines must be comprehensively and consistently applied’.³⁷
- 2.30 At the agency level, DAFFA reported that an internal review had identified ‘that some requirements were not being consistently applied in some program areas’.³⁸
- 2.31 At the whole of government level, the ANAO commented that ‘particularly in view of the range of changes made to purchasing policies in recent years, there would be benefit in the agencies with responsibility for purchasing policy articulating the broad purchasing framework for all Australian Public Service (APS) procurement activity’.³⁹ The ANAO suggests this would assist individual agencies and industry to better understand the Government’s purchasing framework. The need for more effective oversight and coordination was raised by a number of organisations. The Office of Small Business (OSB) stated:
- While Commonwealth departments and agencies assume greater individual responsibility for the purchasing function, the OSB believes that this approach warrants strong central oversight to ensure that purchasing continues to deliver cohesive and accountable purchasing outcomes for Australian small business and the Australian taxpayer alike.⁴⁰
- 2.32 The Australian Institute of Purchasing and Materials Management Ltd disagreed with the current changes to Commonwealth purchasing and criticised the disbandment of the Department of Administrative Services,

37 Australian Industry Group, *Submission*, p. S65.

38 Department of Agriculture, Fisheries and Forestry-Australia, *Submission*, p. S354.

39 ANAO, *Submission*, p. S82.

40 Office of Small Business, *Submission*, p. S316.

Purchasing Australia and the National Procurement Board.⁴¹ ISONET indicated that the former National Procurement Board was beneficial from the perspective of ensuring adequate industry representation which provided some balance to purchasing arrangements.⁴² The Australian Purchasing and Supply Consultants proposed that the National Procurement Board should be reconvened.⁴³ Australian Business commented that there has been a vacuum since the demise of the National Procurement Board but there was not the need for 'a structure quite the same size'.⁴⁴ ISONET Ltd suggested that there could be merit in the 're-introduction of an independent monitoring body that oversees implementation of Commonwealth purchasing policy on a regular basis'.⁴⁵

- 2.33 In relation to monitoring, the OSB pointed out that in the devolved environment there is even greater 'need for timely and accurate feedback on Government purchasing. The OSB stated:

The recent reforms to purchasing included the establishment of the Purchasing Complaints and Advisory Service (PCAS) within DoFA. The OSB submits that the role of PCAS should be strengthened to recognise the important role it should play as a conduit of information between small business and Commonwealth purchasing decision makers. This would enable the Government to identify and respond early to emerging trends in Commonwealth purchasing.

The role of PCAS could also be more actively marketed to suppliers and potential suppliers to raise awareness of this facility. ⁴⁶

- 2.34 DoFA reported that since the Purchasing Complaints and Advisory Service (PCAS) was established in March 1998, 7 423 inquiries have been received. Of these calls, 28 were identified as being complaints.⁴⁷ At the Committee's round table forum, information was sought on the extent to which the PCAS was publicised. Information about the PCAS is provided through DoFA's website, through purchasing forums and in a two line statement on the very last page of the CPGs.⁴⁸ The CPGs state that 'DoFA provides assistance through its advice line on 1800 650 531.'

41 Australian Institute of Purchasing and Materials Management Ltd, *Submission*, p. S94.

42 Mr David McLachlan, ISONET, *Transcript*, p. 47.

43 Australian Purchasing and Supply Consultants, *Submission*, p. S95.

44 Mr Graham Chalker, Australian Business, *Transcript*, p. 562.

45 ISONET, *Submission*, p. S264.

46 Office of Small Business, *Submission*, pp. S315–316.

47 Dr Diana Wright, DoFA, *Transcript*, p. 516.

48 Dr Diana Wright, DoFA, *Transcript*, p. 516.

The impact on purchasing officers

- 2.35 The impact that devolution is having on the skills and competency of government purchasing officers was also raised. ISONET commented that the devolution of authority to officers at lower levels in the public service was creating a greater workload and resulting in purchasing being a smaller part of an officer's role 'where it could be seen as less important'.⁴⁹ The Australian Chamber of Commerce and Industry, and Australian Business both reported that, with devolution, there had been a clear loss of expertise. Australian Business stated:

...the feedback we get from our members is that, with devolution of purchasing and some uncertainty over the last few years, there has been a loss of expertise in the purchasing area in a lot of departments. They are finding that at division level or branch level someone is coming to them with a requirement, where previously they would get the purchasing officer of the department coming who had knowledge of the printing industry, for example. That purchasing expertise has been lost in a lot of departments and that understanding of industry and its requirements has been lost, it seems to us.⁵⁰

- 2.36 The Australian Institute of Purchasing and Materials Management Ltd also raised the point that not only are there significant changes occurring such as downsizing, fragmentation of skills, but this is all happening at a time when purchasing is appreciably more complex.⁵¹

Problems for SMEs

- 2.37 Some groups reported that the level of devolution and lack of coordination of activities has resulted in some impediments to SMEs. Ballistics Innovations indicated that it would like to have a single point of contact that is available to all Commonwealth users.⁵² The OSB reported that one of the findings of a National Small Business Forum held in 1998 was the need for centralised and consistent decision making relating to government procurement. OSB stated:

Small business, particularly regional small business, is concerned that the move to devolved purchasing may make it difficult for them to market their product to the large and geographically diverse Commonwealth market place...Small business would also

49 ISONET Ltd, *Submission*, p. S262.

50 Mr Graham Chalker, Australian Business Ltd, *Transcript*, p. 314.

51 Australian Institute of Purchasing and Materials Management Ltd, *Submission*, p. S106.

52 Ballistics Innovations, *Submission*, p. S54.

like to see the development of a 'one stop shop' where their products can be tested and evaluated by Government representatives.⁵³

- 2.38 At the agency level, this view was confirmed by Telstra which reported that most of its suppliers prefer Telstra's new centralised purchasing arrangements because in the past they had difficulties in dealing with different parts of Telstra.⁵⁴ DFAT also reported that with one centralised purchasing cell, rather than the previous 11, there is less complexity for suppliers.⁵⁵

Victorian Government purchasing arrangements

- 2.39 The Victorian Government Purchasing Board (VGPB) provided evidence relating to the recent history of purchasing in that state and reforms that had taken place. The Victorian Government also has a devolved purchasing arrangement but has put in place systems to guide the progress of devolution. Prior to the recent reforms, the VGPB reported that purchasing in Victoria was characterised by:

- **Government contracts:** Three years ago the Victorian State Tender Board managed over 300 contracts. These contracts were mostly for goods, and all were managed centrally by the State Tender Board;
- **Purchasing approval:** All tenders had to be approved by the State Tender Board. In some respects this was a 'rubber stamp' action which added little value and often delayed the process;
- **Training:** No organisation provided training or set training standards for purchasing. As a result skills were uneven across the public service;
- **Systems:** No 'whole of government' purchasing systems were in place, and little incentive existed for specialist systems development. As a result, there were many and varied systems across the public service, and little prospect for integration or for aspiring to national standards;
- **Warehouses:** Big inventories were often locked up in government warehouses supporting more than 300 contracts managed by the State Tender Board. Little prospect existed for 'just in time' approaches or other sophisticated supply arrangements; and

53 Office of Small Business, *Submission*, p. S311.

54 Mr Hayden Kelly, Telstra, *Transcript*, p. 341.

55 Mr Peter Baxter, Department of Foreign Affairs and Trade, *Transcript*, p. 73.

- **Professionally:** Purchasing was seen as an operational backroom issue not deserving of strategic attention by executive management.⁵⁶
- 2.40 In response to these concerns the VGPB announced key strategic reforms focusing on:
- making those doing the purchase accountable for it;
 - building new purchasing systems using new technology;
 - lifting professional skill standards and training staff; and
 - accrediting agencies as a means of ensuring policies were followed and standards upgraded.⁵⁷
- 2.41 In relation to the last dot point, the VGPB has managed the devolution of decision-making capacity by assessing departmental performance. The VGPB stated:
- Within the Victorian Government, departmental Accredited Purchasing Units (APUs) have been established to assume many of the powers and operations of the VGPB provided they meet key standards. This devolution of powers and operations also reflects the Government's desire for departments to become more accountable for their decisions. As a consequence, departments are able to focus on the operational aspects of purchasing as it best reflects their needs whilst the VGPB can focus on strategic policy development and performance reporting roles. Departments can gain five levels of accreditation through improved skills, systems and practices which permit APUs to attain greater purchasing authority.⁵⁸
- 2.42 The VGPB accredited framework consists of five levels and, depending upon departmental performance, empowers an agency to spend up to five approved limits. The framework is shown in Table 1.
- 2.43 The VGPB claims that one benefit of its accreditation system is the competition that has been created between agencies in seeking to achieve higher levels of accreditation. The VGPB, in the devolved environment, is responsible for whole of government benchmarking and the production of an Annual Procurement Report to the Parliament.⁵⁹

56 Victorian Government Purchasing Board, *Getting the Purchasing House in Order*, 1998, p. 1.

57 Victorian Government Purchasing Board, *Getting the Purchasing House in Order*, 1997, p. 3.

58 Victorian Government Purchasing Board, *Towards Procurement Professionalism, Procurement Reforms in Victoria*, 1997, p. 5.

59 Victorian Government Purchasing Board, *Towards Procurement Professionalism, Procurement Reforms in the Victorian Government*, 1997, p. 5.

Table 1: VGPB Purchasing Accreditation Framework		
Accreditation Level	Agency Approval Limit	Requirements
1	\$250 000	Establish APU Policy Awareness Training
2	\$500 000	Computerised System Management Plan Operational Training
3	\$1 000 000	Information Electronically Intermediate training
4	\$5 000 000	Advanced training
5	Unlimited	Strategic training

Source: Victorian Government Purchasing Board, Towards Procurement Professionalism, Procurement Reforms in the Victorian Government, 1997.

Conclusions

- 2.44 The Committee, in examining the issue of devolution and decentralisation, is struck by the cyclical nature of this debate. It seems that, depending on the prevailing management theory, organisations will choose a management style that is in vogue at the time. In 1994, the Bevis Report, for example, criticised the degree of devolution and called for purchasing over a certain value to be managed by accredited purchasing units.
- 2.45 In 1997, an internal review of Commonwealth purchasing rejected the existing purchasing arrangements and recommended that a devolved system be introduced where individual departments and agencies assume greater control and responsibility for purchasing decisions. Before discussing the merits or otherwise of these arrangements it is necessary to be clear on the difference between devolution and decentralisation as the meanings of these concepts are often confused.
- 2.46 Devolution is the transfer of decision-making capacity from higher levels in an organisation to lower levels, that is it is about who is best placed in an organisation to make decisions. Decentralisation is the redistribution of functions or tasks from central units in organisations to more widely dispersed units, that is it is about where in an organisation particular functions are best carried out.

- 2.47 At the whole of government level, the purchasing arrangements have been devolved to individual agencies. Some of the criticisms that were raised with this approach focused on the need for more consistency, oversight and coordination, and monitoring of the impact on purchasing officers. From the point of consistency, the Committee noted that agencies had different interpretations of Financial Management and Accountability Regulation 8, and different definitions of 'Australian made' and 'small and medium enterprise'. On these and other significant matters there must be consistency. To achieve consistency, there must be an effective level of oversight and coordination. However, this does not necessarily mean more resources will need to be allocated to the Department of Finance and Administration to manage a more intensive oversight role.
- 2.48 The Victorian Government Purchasing Board is responsible for coordinating the Victorian Government's devolved purchasing arrangements. Consistency and quality of service delivered by the individual agencies is governed by a rigorous accreditation system. Individual agencies must prove that they have the capacity to provide purchasing services at certain standards. Only once this capacity has been proven will an agency receive purchasing responsibility. So therefore, the devolution is managed within a tight framework of controls based on evidentiary proof of competency.
- 2.49 The Committee supports the devolution of purchasing authority and responsibility to individual agencies. At a whole of government level, devolution of responsibilities and greater accountability are consistent with the objectives of the *Financial Management and Accountability Act 1997*. There are merits in allowing agencies to tailor their services and to provide a flexible response free of central bureaucracy. However, it is clear that the scale and speed of devolution in the Commonwealth context has resulted in some inefficiencies, and a lack of opportunities for some SMEs. There was never a management framework or system of accreditation to ensure that agencies were in a position to take up the purchasing responsibilities.
- 2.50 The Committee, therefore, recommends that the Department of Finance and Administration (DoFA) develop and administer an accreditation system for assessing the purchasing performance of individual agencies. Agencies should be encouraged to attain standards of accreditation that best meet their needs. Agencies that do not meet suitable standards will need to develop a strategy to improve performance.
- 2.51 Some groups suggested that there is the need for an independent organisation to monitor purchasing policy and administration. The Australian Purchasing and Supply Consultants proposed that the National

Procurement Board (NPB) should be reconvened. ISONET also suggested that there could be merit in the reintroduction of an independent monitoring body to oversee implementation of Commonwealth purchasing policy. Australian Business, however, commented that there was a vacuum since the demise of the NPB but there was not the need for a structure quite the same size.

- 2.52 The Committee suggests that it is too early to recommend the creation of an independent monitoring body to oversight purchasing. The current purchasing framework is in need of refinement and the recommendations in this report seek to make it more effective. However, the purchasing framework is not at crisis point and wholesale changes are not required at this early point. The Committee believes, however, that there is a potential role for the Office of Small Business in monitoring how effectively agencies are maximising opportunities for SMEs. More about this will be discussed in Chapter four.
- 2.53 In relation to DoFA's Purchasing Complaints and Advisory Service (PCAS), there is a need for this to be more heavily promoted. The next version of the CPGs should include information about PCAS in a prominent part at the front of the CPGs. Its current position in the CPGs is restricting awareness of this service.
- 2.54 At the agency level, the Committee received evidence relating to the merits or otherwise of decentralisation. It became clear that there was greater efficiency and effectiveness created from having certain purchasing functions centralised within agencies. The evidence from three agencies is notable in this discussion. First, the Department of Foreign Affairs and Trade (DFAT) in 1991 decentralised the processing of accounts to divisions. An internal review soon discovered that the error rate for processing of accounts was unacceptably high and, therefore, DFAT recentralised the processing of accounts. It should be noted that the responsibility for initiating a purchase remained devolved to the divisions.
- 2.55 Second, the Department of Agriculture, Fisheries and Forestry – Australia (DAFFA) reported a similar situation to DFAT. DAFFA revealed, through an internal audit, that some requirements were not being consistently applied in some program areas.
- 2.56 The third example focuses on the financial administrative arrangements within Telstra. Telstra has moved to a centralised purchasing model which Telstra claims has resulted in greater control and information at the management level, and with reduced complexity for suppliers. It needs to be noted that, in 1997–98, Telstra spent \$8.5 billion on goods and services compared to \$8.8 billion for all Budget funded agencies. Telstra reported that in the previous decentralised model there were various levels of

sourcing competence, duplication of effort between business units, loss of bulk purchase buying power and more complexity for suppliers. Therefore, Telstra centralised its arrangements and created a centre of expertise in strategic sourcing. The power to initiate a purchase still remains devolved to the various business units. These business units have the power to spend up to \$250 000 where those goods and services are not currently under contract to Telstra. An electronic interface informs the business units of what is already on contract to Telstra and if it is not on contract the business units can buy direct and then register that contract as the company contract.

- 2.57 These examples are supported by general observations made by the Australian National Audit Office (ANAO). The ANAO commented that there was merit in having, within agencies, a centralised cell on purchasing but, ‘in this era of devolution, it is also important to allow program managers to make decisions which affect the achievement of their program objectives’.
- 2.58 Evidence from DFAT, Telstra and the ANAO confirmed that there was a move towards centralised processing arrangements in the private sector. The ANAO, through its examination of centralised processing of payments, reported that significant economies of scale had been achieved by US firms in conjunction with other better practices.
- 2.59 The Committee, therefore, concludes that all agencies should review their purchasing arrangements with a focus on evaluating the efficiency and effectiveness of the distribution of functions or tasks within the agency. The Committee is not in a position to make a generic recommendation that all agencies should centralise certain purchasing functions. We do not have that level of information for each agency. The Committee, however, reminds agencies that there are some persuasive case studies and general findings by the ANAO that a certain level of centralisation can create improvements in efficiency and effectiveness.
- 2.60 The Committee will monitor agencies’ administrative arrangements relating to purchasing through two approaches. First, will be through examining Auditor-General performance audits relating to the efficiency and effectiveness of agency purchasing arrangements.
- 2.61 Second, the Committee notes that Chief Executive Officers (CEOs) have distinct responsibilities in relation to procurement. More about these responsibilities will be discussed in the next chapter. The Committee asserts that CEOs should be asking questions relating to the most efficient and effective way that they should distribute functions or tasks within their agencies. In 12 months time, the Committee will request agency CEOs to outline their purchasing arrangements and provide evidence of

the efficiency gains and effectiveness accruing from those arrangements. Depending on the evidence provided, the Committee may summon CEOs to give an account of their agencies' arrangements.

Recommendation 1

- 2.62 **That the Department of Finance and Administration develop and administer an accreditation system for assessing the purchasing performance of individual agencies.**