

## Chapter 6

### Case study: Commonwealth government procurement of paper

6.1 Using the procurement of paper as an example, this chapter examines concerns around the assessment of value for money as outlined in the Commonwealth Procurement Rules (CPRs). In particular, the discussion focuses on the application and operation of the procurement-connected policies relevant to the procurement of paper in determining value for money.

#### The Stationery and Office Supplies Panel

6.2 The procurement of stationery and office supplies by the Commonwealth government is undertaken pursuant to a whole-of-government arrangement, the Stationery and Office Supplies (SOS) panel. The SOS panel commenced on 7 March 2012, with the execution of a Heads of Agreement between the Department of Finance (Finance) and three panellists: Complete Office Supplies; Staples Australia; and OfficeMax Australia. The SOS panel arrangement is for an initial period of three years.<sup>1</sup>

6.3 In its submission, Finance noted that a number of whole-of-government procurement arrangements have been established. The submission stated:

[W]hole-of-government procurement arrangements have been established where efficiencies have been identified to maximise market benefits and deliver savings for the Government. These arrangements have been established by Finance in areas where the supply of goods and services to agencies are substantial and are in common use by all or most agencies with minimal diversity.<sup>2</sup>

6.4 In the case of the SOS panel, Finance stated the whole-of-government arrangement:

[I]s providing efficiencies and benefits through a single government approach to market and tender evaluation process, consistent contract processes and determination.<sup>3</sup>

6.5 Government agencies subject to the *Financial Management and Accountability Act 1997* (FMA Act) must procure stationery through the SOS panel.

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1 There are two options of one year each to extend the SOS Panel, which may be exercised at the discretion of the Department of Finance. See Department of Finance website, *Stationery and Office Supplies Panel Arrangement*, at [www.finance.gov.au/procurement/StationeryandOfficeSupplies.html](http://www.finance.gov.au/procurement/StationeryandOfficeSupplies.html) (accessed 5 May 2014).

2 *Submission 12*, p. 3. There are currently 22 whole-of-government procurement arrangements covering 10 categories of goods and services.

3 Department of Finance, *Submission 12, supplementary submission 1*, p. 11.

Agencies under the *Commonwealth Authorities and Companies Act 1997* (CAC Act) are encouraged to use the SOS Panel, although this is not compulsory.<sup>4</sup>

### **How much copy paper does the Commonwealth use?**

6.6 Finance estimates the government will spend \$8.5m on copy paper in 2013-14, which is around nine reams per employee.<sup>5</sup> This represents a substantial reduction on an aggregate use of over 6,500 tonnes of office paper per year, with an average of 18.6 reams of paper per person per year, as determined in 2008-09 by the Australian National Audit Office (ANAO).<sup>6</sup>

6.7 A number of submissions referred to the 2008-09 ANAO figures as indicative of current Commonwealth use of copy paper.<sup>7</sup> However, Finance indicated to the committee that these figures are out-of-date, so any calculations based on them are inaccurate.<sup>8</sup>

### **Value for money**

6.8 Submissions and witnesses expressed concern that the 'value for money' criteria was being interpreted too narrowly by agencies when procuring paper, with the result that procurement decisions are based on lowest price alone.<sup>9</sup>

6.9 The Australian Forest Products Association (AFPA) submitted they were aware of contracts being awarded to overseas companies on the basis of slightly more competitive price margins, sometimes as small as 1 per cent and argued:

Such narrow margins highlight the many challenges faced by domestic manufacturers and the issue as to whether the full suite of relevant non-financial and environmental sustainability factors have been adequately considered in assessing 'value for money'.<sup>10</sup>

6.10 One specific example referred to by several witnesses and submitters was the procurement of envelopes in 2013 by the Department of Human Services (DHS),

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4 *Stationery and office supplies panel arrangement*, at [www.finance.gov.au/procurement/StationeryandOfficeSupplies.html](http://www.finance.gov.au/procurement/StationeryandOfficeSupplies.html) (accessed 5 May 2014). Use of the SOS panel is mandatory for all non-corporate Commonwealth entities subject to the *Public Governance, Performance and Accountability Act 2013* and corporate Commonwealth entities can opt in at any time.

5 Department of Finance, *Submission 12, supplementary submission 1*, p. 5.

6 ANAO, *Audit Report No 25 2008-09, Green Office Procurement and Sustainable Office Management* (2009), p. 58.

7 Australian Forest Products Association, *Submission 13*, p. 3; Australian Paper, *Submission 17*, p. 4; Construction, Forestry, Mining and Energy Union (CFMEU), *Submission 39*, p. 14.

8 Department of Finance, *Submission 12, supplementary submission 1*, p. 5.

9 Australian Forest Products Association, *Submission 13*, p. 8; Australian Paper, *Submission 17*, p. 4; CFMEU, *Submission 39*, p. 13.

10 *Submission 13*, p. 8.

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where the contract was awarded to an overseas supplier.<sup>11</sup> The Australian Made Campaign outlined the details:

Australian manufacturer Australian Paper lost a contract for the supply of envelopes to Centrelink during 2013 by \$8,256, a margin less than 1% of the winning tender (\$843,744).<sup>12</sup>

6.11 The Australian Made Campaign argued this small upfront saving would cost the government far more in lost revenue over the longer term:

Australian Paper estimates the Government lost tax and excise revenue of [approximately] \$173,760 on the production of the 240 tonnes of paper that would have gone into the envelopes had the Australian product been selected.<sup>13</sup>

6.12 Mr Stuart Turnbull, Executive Director, Defence, Performance Audit Services Group, ANAO, told the committee of the difficulty of auditing value for money decisions made by agencies in procurement processes. Mr Turnbull stated it can be difficult to evaluate how agencies assessed value for money in their procurement deliberations, due to insufficient record keeping:

One of the key failings that we have identified is that often, when [agencies] write down why something supplies the best value for money, they have not given the range of reasons or the range of considerations. Then it is difficult for the auditors to come along and make an assessment about their judgements and the appropriateness.<sup>14</sup>

6.13 However, DHS provided the committee with the following information in relation to the assessment of value for money used for the procurement of envelopes:

DHS sources envelopes in accordance with established policy, both in the context of value for money and also the use of recycled and/or Australian sourced paper wherever it is appropriate to do so...

The tender process [for envelopes] involved the consideration of a broad range of factors when establishing whether each supplier's proposal represented value for money. In addition to pricing, the assessment included risk (including risk to surety of supply), quality, flexibility to adapt rapidly to changing requirements, fitness-for-purpose, and environmental impacts.

DHS also applies a value for money assessment every six months when sourcing the individual batches of envelopes.<sup>15</sup>

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11 Australian Made Campaign, *Submission 27*, p. 3; CFMEU, *Submission 39*, p. 20; Mr Travis Wacey, CFMEU, *Committee Hansard*, 28 April 2014, p. 13; Ms Michelle Melbourne, Canberra Business Council, *Committee Hansard*, 28 April 2014, p. 24.

12 *Submission 27*, p. 3.

13 *Submission 27*, p. 3.

14 *Committee Hansard*, 21 March 2015, p. 15.

15 *Submission 40*, p. 2.

### *Economic and social benefits*

6.14 The committee received evidence suggesting the procurement of locally produced stationery had definite economic benefits for government, including greater government tax revenues from individuals and companies, and the benefit of supporting Australian jobs and skills.

6.15 Mr Travis Wacey, National Policy Research Officer, Construction, Forestry, Mining and Energy Union (CFMEU), provided the committee with the following estimate of job losses in the paper and forestry industries as a result of Australian Paper not being awarded the envelopes contract in 2013 by DHS:

We are not just talking about one or two jobs; we think that 15 to 20 direct production jobs were triggered by the loss of this contract, and it is a situation representing literally hundreds of thousands of dollars, if not millions of dollars in lost taxpayer revenue in the short, medium and longer term just for the \$8,000 benefit.<sup>16</sup>

6.16 Mr Wacey added that this action reduced government tax revenue and potentially increased government spending on welfare.<sup>17</sup> On this point, Australian Paper provided an indication of the amount their business contributes in taxes:

Australian Paper also provides significant revenue to all levels of government, equivalent to \$1.81 for each and every actual ream of copy paper that we make and totalling \$432 million in 2012, a value that we feel can't but is being ignored by the government's procurement decisions.<sup>18</sup>

6.17 Mr Craig Dunn, Senior Marketing Manager Sustainability, Australian Paper, told the committee how the economic benefits of purchasing Australian products also brings social benefits, particularly to regional communities:

Certainly from a social perspective it is interesting how social benefits often link into economic benefits. We are all aware of the social amenities created by high-quality manufacturing jobs in this country, then when we have a situation where a manufacturing plant closes down because the importers have won the day [and] the economic impacts of the loss of that social amenity are often quite great for regional communities in particular.<sup>19</sup>

6.18 Furthermore, the CFMEU pointed out that there are potential national security implications in sourcing certain types of paper from overseas. The CFMEU referred to the Shoalhaven Paper Mill which is the only Australian paper manufacturer with the capacity to make the secure paper used for Australian passports and birth certificates.<sup>20</sup> The CFMEU argued that if local capacity to manufacture secure paper is lost, this paper will be sourced from overseas:

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16 *Committee Hansard*, 28 April 2014, p. 13.

17 *Committee Hansard*, 28 April 2014, p. 13.

18 *Submission 17*, p. 3.

19 *Committee Hansard*, 21 March 2014, p. 40.

20 CFMEU, *Submission 39*, pp 21-23.

Not having a capacity to produce fine writing, newsprint and especially security papers and documents [that are] as important to national security as Australian passports is incompatible with Australia's essential security interests.<sup>21</sup>

### ***Procurement-connected policies***

6.19 Concerns were raised with the committee that government agencies do not take sufficient account of environmental sustainability in paper procurement. Specifically, submissions and witnesses contended that procurement-connected policies relevant to environmental sustainability were not being taken into account in the assessment of value for money by government agencies.

6.20 As discussed in Chapter 5, there are 24 procurement-connected policies. Finance's procurement guide, *Buying for the Australian Government*, states 'officials are responsible for informing themselves of the policies that apply to a specific procurement'.<sup>22</sup>

6.21 The two most relevant to the procurement of paper are the National Waste Policy; and the ICT Sustainability Plan 2010-2015 (ICT Plan). Both policies are administered by the Department of the Environment (Environment).<sup>23</sup>

6.22 The National Waste Policy sets out a policy aimed at producing less waste for disposal, and managing waste as a resource to deliver economic, environmental and social benefits.<sup>24</sup> In particular, the policy contains a strategy to promote and embed sustainable procurement principles in government procurement practice.

6.23 The ICT Plan requires agencies to adopt mandatory environmental standards for information and communication technology (ICT) acquisitions. Regarding paper, it stipulates government agencies must reduce average annual paper use to nine reams per employee by July 2015,<sup>25</sup> which, according to Finance, is on track to be fulfilled in the 2013-14 financial year.<sup>26</sup>

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21 CFMEU, *Submission 39*, p. 22; see also Mr James Evans, CFMEU, *Committee Hansard*, 28 April 2014, pp 16-17.

22 See Department of Finance, *Buying for the Australian Government*, at [www.finance.gov.au/procurement/procurement-policy-and-guidance/buying/policy-framework/procurement-policies/principles.html](http://www.finance.gov.au/procurement/procurement-policy-and-guidance/buying/policy-framework/procurement-policies/principles.html) (accessed 11 June 2014).

23 Department of the Environment, Water, Heritage and the Arts, *National waste policy: Less waste, more resources* (November 2009) at [www.environment.gov.au/topics/environment-protection/national-waste-policy](http://www.environment.gov.au/topics/environment-protection/national-waste-policy) (accessed 12 April 2014) and Australian Government, *Australian Government ICT Sustainability Plan 2010-2015* (2010) at [www.environment.gov.au/resource/australian-government-ict-sustainability-plan-contents](http://www.environment.gov.au/resource/australian-government-ict-sustainability-plan-contents) (accessed 11 June 2014).

24 *National waste policy: Less waste, more resources* (November 2009), p. 6.

25 *Australian Government ICT Sustainability Plan 2010-2015*, p. 4.

26 Department of Finance, *Submission 12, supplementary submission 1*, p. 5.

6.24 Moreover, the ICT Plan states this paper must:

...have a minimum post-consumer recycled content of 50 per cent by July 2011, with progression to 100 per cent post-consumer recycled content by July 2015.<sup>27</sup>

6.25 Additional requirements stipulate that non-recycled paper content should come from wood that complies with Forest Stewardship Council (FSC) certified sources, Program for the Endorsement of Forest Certification (PEFC) schemes or from sustainably managed forests.<sup>28</sup>

*Application of procurement-connected policies*

6.26 In its submission, the AFPA referred to the volume of imported copy paper being used by Commonwealth agencies:

Overall, Australian Government agencies in 2011-12 entered into contracts for procurement of goods valued at \$9.8 billion with Australian suppliers and \$8.8 billion with overseas suppliers (Department of Finance and Deregulation, 2013), producing a ratio of 0.9 imported goods to every domestically supplied good.

This implies that for copy paper, Australian Government agencies are procuring 25 per cent more imported goods for every domestic good than for the average of total goods sourced.<sup>29</sup>

6.27 AFPA argued:

[S]uch an outcome reflects a failure of Australian Government agencies to fully implement the stated goal and aims of the Commonwealth Procurement Rules, particularly with respect to assessing 'value for money' and environmental sustainability for paper products.<sup>30</sup>

6.28 Mr Julian Mathers, General Manager External Affairs, Australian Paper, argued that in interpreting the environmental sustainability of goods and services to determine value for money in the CPRs, the application of the relevant procurement-connected policies should be considered:

We look for guidelines under the Commonwealth Procurement Rules regarding the types of things that should be taken into account in environment, and we find that in other policies—sustainable procurement policies, ICT guidelines and the rest of it. So yes, we say that there is a direct connection, as we see it, between the Commonwealth Procurement Rules and those other policies that guide how the procurement rules are to be implemented.<sup>31</sup>

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27 *Australian Government ICT Sustainability Plan 2010-2015*, p. 15.

28 *Australian Government ICT Sustainability Plan 2010-2015*, p. 15.

29 *Submission 13*, p. 7.

30 *Submission 13*, p. 7.

31 *Committee Hansard*, 21 March 2014, p. 36.

6.29 At the first public hearing, Mr Michael Stephens, Manager Strategic Policy; Pulp and Paper, AFPA, told the committee that Commonwealth agencies generally considered sustainable procurement too narrowly. He suggested that most procurement officials thought they had fulfilled their obligations just by using the SOS panel arrangements to buy paper meeting ICT Plan recycled content requirements.<sup>32</sup>

6.30 Mr Dunn agreed, saying that some agencies felt meeting the ICT guidelines was sufficient:

...the strong impression I get [from meetings with departments] is that they feel that their task, from a sustainability perspective, begins and ends with the ICT guidelines, which specify recycled paper, 50 per cent post-consumer. Any additional issues about, say, sustainability within that context are really not looked into any further.<sup>33</sup>

6.31 Mr Mathers told the committee this kind of limited assessment did not consider the environmental benefits of using paper produced in Australia. He stated:

There is just a simple proposition here, I think, which is: you recycle product in Australia, you remove that product from landfill here and you get all the benefits of that here—the carbon emissions and other benefits of recycling. You bring it in from overseas and you do not get any of those benefits.<sup>34</sup>

6.32 The environmental benefits were also emphasised by Mr Dunn:

Local recycled products reduce Australian landfill, but landfill increases every time a ream of recycled paper is imported from overseas.<sup>35</sup>

6.33 Mr Dunn suggested that consideration should be given in cases where the government has provided funding to assist business to comply with relevant procurement-connected policies. For example Australian Paper's Maryvale paper mill was being redeveloped to comply with the ICT Plan recycling stipulations, with a \$9.5m co-investment by the government. Given government co-investment, and the environmental and economic benefits of the mill, Mr Dunn asked why the government was not more supportive of recycled paper produced in Australia.<sup>36</sup>

6.34 Mr Dunn concluded:

It is vital that the government fully applies its own sustainability considerations as part of value-for-money procurement for copy paper across all agencies so that the benefits of initiatives like the Maryvale plant—which is a closed loop recycling solution, where we are taking full

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32 *Committee Hansard*, 21 March 2014, p. 42.

33 *Committee Hansard*, 21 March 2014, p. 36.

34 *Committee Hansard*, 21 March 2014, p. 38.

35 *Committee Hansard*, 21 March 2014, p. 35.

36 *Committee Hansard*, 21 March 2014, p. 35.

responsibility for local wastepaper—can be more accurately assessed and valued.<sup>37</sup>

### *Compliance with standards in procurement-connected policies*

6.35 The committee heard assertions the sustainability of some imported paper sold under the SOS panel arrangements could not be guaranteed, as regulatory frameworks in Australia were more stringent than in other countries.<sup>38</sup> At the first public hearing, Mr Hampton of AFPA informed the committee that his organisation found 'time and time again that standards that are applied rigorously in Australia are pretty much \$10 stamps that you can buy in a market in other countries'.<sup>39</sup> Australian Paper gave the example that a basic term like 'recycled content' was not defined consistently internationally, and imported products could contain far less recycled content than Australian equivalents.<sup>40</sup>

6.36 The Department of Finance in its supplementary submission advised that the SOS panel included all pertinent government environmental legislation and policies, such as the ICT Plan. Therefore:

Agencies are able to purchase any copy paper product from the SOS arrangement knowing it is compliant with...the ICT Sustainability Plan.<sup>41</sup>

### *Lack of tools to consider sustainability issues*

6.37 The National Waste Policy provides that:

Guidance on sustainable procurement such as standard specifications and model contract clauses are available to procurement officials within four years.<sup>42</sup>

6.38 That guidance is the Sustainable Procurement Guide, which was released in 2013.<sup>43</sup> Mr Michael Stephens, of AFPA, described the Sustainable Procurement Guide as 'very generic, not very specific and not very practical in terms of interpretation'.<sup>44</sup>

6.39 Mr Ross Hampton, Chief Executive Officer of AFPA, stated there was a lack of tools available for procurement areas to consider sustainability issues, which also affected private sector businesses that wanted to understand government procurement decisions:

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37 *Committee Hansard*, 21 March 2014, p. 36.

38 Australian Paper, *Submission 17*, p. 4.

39 *Committee Hansard*, 21 March 2014, p. 41.

40 Mr Craig Dunn, Australian Paper, *Committee Hansard*, 21 March 2014, p. 43.

41 *Submission 12, supplementary submission 1*, p. 9.

42 *National waste policy: Less waste, more resources* (November 2009), p. 9.

43 See Department of the Environment, *Sustainable procurement guide*, 2013, available at: [www.environment.gov.au/resource/sustainable-procurement-guide](http://www.environment.gov.au/resource/sustainable-procurement-guide) (accessed 5 June 2014).

44 *Committee Hansard*, 28 April 2014, p. 38.



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AFPA believes there is a lack of robust risk assessment tools and due diligence for the adequate consideration of sustainability issues. This can have a direct impact on the way in which tenders are specified and considered, which can also have a detrimental impact on domestic suppliers.<sup>45</sup>

6.40 Mr Edwards, of the Department of the Environment, provided the following information on the Sustainable Procurement Guide:

The sustainable procurement guideline is simply a guide for procurement officers. It is designed to help them understand the concept of sustainable procurement. It does not require sustainable procurement, but it helps them understand the value-for-money proposition in procurement. So the role of that document is guidance; it is not designed to provide detailed risk, to the level suggested, around sustainable procurement.<sup>46</sup>

[It] it is fair to say [the Sustainable Procurement Guide is] not prescriptive. Sustainable procurement is very much in its infant days, and the first step in that process was just helping to understand the concept. That guideline goes a little bit further, which is to help them understand how you might consider sustainable procurement principles as part of a general procurement process. So it is very much a document to aid them to understand that and start navigating those concepts.<sup>47</sup>

## Conclusion

6.41 As detailed in both Chapters 5 and 6 of this report, this case study on paper procurement has drawn out the lack of clarity about the application of procurement-connected policies. It shows the responsible departments do not appear to have a clear understanding of their role in monitoring the application of procurement-connected policies and there is a lack of and whole-of-government reporting on the application of these policies.

6.42 The committee has made a number of recommendations throughout this report which, it believes, will address the issues detailed in this chapter. In relation to determining value of money, the committee has recommended that the ANAO look specifically at the application of the explanation for assessing non-financial factors in the revised CPRs. This will determine whether the revised guidance in the CPRs is clear and sufficient. The committee also recommended that the ANAO look at the application of procurement-connected policies. This will provide a clear baseline for the performance of agencies and determine whether any further specific training and guidance is required. The inclusion of reporting on procurement-connected policies in agencies' annual reports will ensure lead agencies do more than just develop and publish policies but also take an active role in monitoring and compliance. The recommended audit of the procurement competencies of agencies will also ensure appropriate targeting of education and information. To address the concerns regarding

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45 *Committee Hansard*, 21 March 2015, p. 34.

46 *Committee Hansard*, 28 April 2014, p. 33.

47 *Committee Hansard*, 28 April 2014, p. 33.

the failure of imported goods to meet Australian standards, the committee has recommended Finance provide training for agencies so they are aware that tender documents can include a requirement that tenderers adhere to relevant standards. Finally, the recommendation for an independent complaints mechanism will ensure continuous improvement in procurement processes.

**Senator Kate Lundy**

**Chair**