

The Parliament of the Commonwealth of Australia

Goodbye Bad Buys

**Australian Government Purchasing Policies
and Commonwealth Authorities and
Companies**

Interim Second Report

House of Representatives
Standing Committee on Industry,
Science and Technology

November 1995

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PREFACE

The House of Representatives Standing Committee on Industry, Science and Technology is one of eight general purpose standing committees established pursuant to Standing Order 28B of the House of Representatives. Each of the general purpose standing committees corresponds in its area of interest with a Federal Government department or group of departments. In the case of the Industry, Science and Technology Committee those departments are: Industry, Science and Technology; Small Business, Customs and Construction; Primary Industries and Energy; Resources; Industrial Relations and Tourism.

Under the Standing Orders the Committee is empowered to inquire into and report on any matters referred to it by either House or a Minister, including any pre-legislation proposal, bill, motion, petition, vote or expenditure, other financial matter, report or paper. In addition, annual reports of government departments and statutory authorities stand referred automatically to the relevant Committee for any inquiry the Committee wishes to make.

On 20 August 1992 the then Minister for Administrative Services, Senator the Hon Nick Bolkus, requested the Industry, Science and Technology Committee in the 36th Parliament to inquire into and report on the efficiency and effectiveness of Commonwealth Government procurement policies.

The inquiry lapsed with the dissolution of Parliament on 8 February 1993. Following the re-appointment of the Committee in the 37th Parliament the Minister for the Arts and Administrative Services, Senator the Hon Bob McMullan, referred the inquiry to the Committee on 27 May 1993. The inquiry was readvertised on 6 June 1993, with interested organisations being invited to provide further submissions to the Committee.

The First report of the Committee from this inquiry, entitled *Buying our Future*, was tabled in March 1994. This report focussed primarily on the purchasing policies and practices of Government Departments. A large number of the Committee's recommendations were adopted by the Government in its December 1994 response to the *Buying our Future* report.

This second stage of the Committee's inquiry into Government purchasing has focussed on the purchasing activities of Commonwealth Authorities and Companies which are not currently required to adhere to the purchasing guidelines set down for Government Departments.

The Committee is concerned that some the problems with Government purchasing which it identified in the *Buying our Future* report may also exist in Commonwealth Authorities and Companies. Current guidelines for these bodies request them to take Government purchasing and industry development policies into account. However, there is no requirement enforcing this.

In the context of the recent reforms to Government purchasing and the passage of the *Financial Management and Accountability Act* and the *Commonwealth Authorities and Companies Act* it is appropriate to reconsider the role of Government owned organisations in purchasing and industry development.

The Committee received 49 submissions and 38 exhibits in the course of this second stage of the inquiry. One public hearing was held in Canberra. Twenty witnesses appeared before the Committee, recording 38 pages of evidence

This is an interim report. The views of the organisations under consideration and other interested parties are sought prior to the Committee making a final report on this matter.

I wish to thank all those who gave their time and effort to contribute to the inquiry

Hon. Alan Griffiths, MP
Chair
November 1995

TERMS OF REFERENCE OF THE INQUIRY

The House of Representatives Standing Committee on Industry, Science and Technology is undertaking an inquiry into Government purchasing policies, with particular reference to:

- the efficiency and effectiveness of Commonwealth Government procurement policies to maximise commercial opportunities for Australian suppliers:
 - ⇒ selling to Commonwealth Government Departments, Agencies and Government Business Enterprises, and
 - ⇒ participating in major development projects;
- the application of those policies by Departments, Agencies and Government Business Enterprises;
- measures adopted by Departments, Agencies and Government Business Enterprises to develop their supply bases in Australia;
- the regulation of Made in Australia labelling;
- Commonwealth Government efforts to promote the use of Australian Made goods and services;
- agreements and cooperative arrangements with State and Territory Governments and the New Zealand Government; and
- the contribution that industry support programs make to the use of Australian and New Zealand goods and services.

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MEMBERSHIP OF THE COMMITTEE

37TH PARLIAMENT

Chairman (from 10 May 1994):	Hon A G Griffiths MP
Chairman (to 10 May 1994):	Mr A R Bevis MP
Deputy Chairman:	Hon N B Reid MP
Members:	Mr R E Charles MP
	Mr P R Cleary MP
	Mr M R Cobb MP
	Mr B T Cunningham MP
	Mrs M Easson MP
	Hon M J Evans MP (from 22 September 1994)
	Mr L D Ferguson MP
	Mr R H Horne MP (to 22 September 1994)
	Hon L S Lieberman MP
	Mr A A Morris MP
	Mr G M O'Connor MP
Secretary:	Mr P McMahon
Research Officer:	Mr B Egan
Other staff who assisted the Committee in the course of the inquiry:	
	Mrs F Wilson
	Mr J Winton

ACRONYMS/ABBREVIATIONS

ACCI	Australian Chamber of Commerce and Industry
ASTA	Aerospace Technologies of Australia Ltd
CAA	Civil Aviation Authority
CACs	Commonwealth Authorities and Companies
CAC Act	<i>Commonwealth Authorities and Companies Act 1995</i>
CASA	Civil Air Safety Authority
CFM	Commonwealth Funds Management Ltd
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DAS	Department of Administrative Services
DIST	Department of Industry, Science and Technology
DoF	Department of Finance
FAC	Federal Airports Corporation
FMA Act	<i>Financial Management and Accountability Act 1995</i>
GBE	Government Business Enterprise
IIS	Industry Impact Statement
ISO	Industrial Supplies Office
JCPA	Joint Committee of Public Accounts
NPB	National Procurement Board
SME	Small to Medium sized Enterprise
TIDA	Telecommunications Industry Development Authority

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SUMMARY

This is the second report from the Committee concerning its inquiry into Australian Government Purchasing Policies and the promotion of Australian made goods and services. This report concentrates on the purchasing policies of Commonwealth Authorities and Companies (CACs) including most statutory authorities and Government Business Enterprises (GBEs).

This is an interim report which has been prepared for public consideration and comment.

In March 1994 the Committee presented the *Buying our Future* report into government purchasing policies. This report proposed major changes to the structure by which purchasing policy was developed and by which its implementation was monitored. The Committee discovered that opportunities which Commonwealth procurement should have been providing for industry were not being fully grasped. The Government accepted most of the Committee's recommendations in the *Working Nation* statement of May 1994 and its formal response to the report in December 1994.

Recent legislation has divided Commonwealth Government organisations into two broad categories. Organisations which come under the *Financial Management and Accountability Act* (FMA Act), and those which come under the *Commonwealth Authorities and Companies Act* (CAC Act). Only the former will be required to follow Commonwealth purchasing policies. In this category are Government departments and some statutory authorities and other bodies.

CAC Act entities include all Commonwealth authorities that are incorporated and hold money on their own account and all Corporations Law companies in which the Commonwealth has a direct controlling interest. These organisations include the majority of Commonwealth statutory authorities, Government Business Enterprises (GBEs) and some wholly owned non-GBE Commonwealth companies.

Much of the Committee's investigation has focussed on GBEs because it is the application of purchasing reforms to these bodies which poses the most difficulty. GBEs operate in a broad range of areas and are characterised by their separate legal status from the Commonwealth, corporate structure and board of management.

In 1992 the Government decided that GBEs should be requested to operate in accordance with the Government's industry development and procurement policies. GBEs were also requested to have industry development objectives, prepare industry development plans, plan purchasing activities to provide support for local firms and emerging technologies, and to undertake industry impact statements for large purchases. Most GBEs appear to adhere quite closely to these guidelines. However, eight organisations have been exempted from the 1992 policy.

There are a number of arguments in favour of extending recent purchasing reforms to CACs. Extending the reforms would have benefits for industry, the economy and CACs themselves. It would also help to break down the impediments to local suppliers in obtaining government business.

The benefits of a strong industry development policy in purchasing, can be demonstrated by the example of Telstra. Telstra has had a strong policy over many years of using its purchasing power to develop a local supply industry. This commitment is partly owing to licence conditions which require the preparation of an industry development plan which outlines the basis of Telstra's relationship with Australian suppliers.

The industry development policies of Telstra have helped the development of a strong local telecommunications supply industry with significant export prospects.

General economic benefits of increased local procurement include employment creation, increased taxation revenue, increased consumer expenditure and welfare savings. The knowledge that a product is being purchased by a company's own government also gives credibility in export markets.

Commonwealth Authorities and Companies would also benefit from the adoption of a number of purchasing reforms. A number of the recent changes were aimed at encouraging more considered procurement decisions based on a rigorous examination of value for money. Reforms such as electronic commerce, staff training and career enhancement for purchasing staff and better provision of information on purchasing will produce improved efficiency, productivity and cost savings. These reforms are consistent with best practice objectives.

There are a number of impediments to local suppliers winning government contracts. One major problem is the risk averse attitude amongst government buyers based on the premise that purchasing from an established, well known international company would entail less risk. This attitude is often based on false assumptions about the quality and price competitiveness of Australian goods and services. The extension of recent purchasing reforms would help to break down this cultural cringe against Australian industry.

Additional major impediments faced by local suppliers are the application of very narrow criteria of what constitutes value for money and problems with access to procurement by small to medium sized enterprises (SMEs). The extension of Government purchasing reforms to CACs would help overcome these impediments as well as a number of others identified by the Committee in the course of this inquiry.

Arguments against extending the Government's purchasing reforms are largely based on the premise that agencies given autonomy from the Commonwealth would be adversely affected by any restrictions imposed on their purchasing decisions. The Committee does not accept the assumption that buying more locally will inevitably increase the cost of purchasing. However, some of the purchasing reforms may involve additional cost, particularly if some flexibility is not allowed in their application. The extension of the requirement for industry impact statements, two-envelope tendering and electronic commerce, while potentially beneficial, are examples of initiatives which could involve some cost.

GBEs are particularly sensitive to the potential for increased costs arising from purchasing reforms because their directors are directly accountable for commercial performance. The approach to extending purchasing reforms to these bodies must not undermine their autonomy.

A number of Commonwealth Authorities and Companies can claim to be already meeting, and in some cases exceeding, the Government's purchasing policy objectives. It could be argued that in these circumstances additional requirements would not produce any improvement and could actually be counter-productive. However, not all these bodies are as advanced in their purchasing practices as leading organisations such as Telstra, and even those with a good record could benefit from the application of some of the recent reforms. The adoption of the reforms as a minimum standard should be possible.

Legal problems may also exist in the application of specific purchasing reforms for a very small number of GBEs which are partly owned by the Commonwealth. The accountability framework of the Corporations Law allows for action to be taken against a company if it acts in a manner which is contrary to the interests of the members of that company as a whole. The adoption of purchasing reforms could provide grounds for action under this legislation.

Despite the concerns expressed, evidence received from the former Civil Aviation Authority suggests that the extension of the Government's purchasing reforms could be achieved without adversely affecting CACs. The key to success in this task is to gain the benefits of the reforms without compromising other objectives.

The current purchasing and industry development arrangements for GBEs emphasise requesting compliance and the ability to gain exemptions from the policy (something that a number of GBEs have done). The continuation of this approach would not maximise the potential efficiency gains or the benefits to industry and the economy from the reforms.

The Committee believes that the National Procurement Board (NPB) should be a conduit for CAC concerns about particular policies. CACs would be required to operate under the revised purchasing arrangements but, where particular initiatives cause problems, exemptions or amendments to the operation of the arrangements could be sought by applying through the NPB. The Board would consider each request and forward it to the appropriate Minister with a recommendation. In some cases the NPB may choose to recommend that the new arrangements not be applied to a particular organisation. This process would at least require these organisations to give serious consideration to implementing the purchasing reforms. Potentially an optimal result could be achieved for CACs, Government and Australian industry.

INTERIM RECOMMENDATIONS

Recommendation 1

The Committee recommends that the recent reforms to Government purchasing be extended to apply to all Commonwealth Authorities and Companies (paragraph 2.72).

Recommendation 2

The Committee recommends that any Commonwealth Authority or Company which does not wish to adhere to the Commonwealth's purchasing policies or parts thereof, be required to apply through the National Procurement Board for an exemption from, or amendment to, the policies' operation in their case (paragraph 2.73).

Recommendation 3

The Committee recommends that the National Procurement Board be given the task of considering requests for exemptions from, or amendments to, the operation of Government purchasing policies for particular Commonwealth Authorities and Companies, and that the Board prepare appropriate recommendations for the relevant Minister(s) on each request (paragraph 2.74).

CHAPTER 1 – BACKGROUND TO INQUIRY

INTRODUCTION

1.1 In this second stage of the inquiry of the Standing Committee on Industry, Science and Technology into Government Purchasing the Committee has focussed its attention on Government owned organisations, other than Departments of State, which were not investigated in the first *Buying Our Future* report. These organisations include statutory authorities and Government Business Enterprises (GBEs).

1.2 Organisations which fell outside the scope of the first inquiry cover a diverse range of activities. For the purposes of this inquiry the term Commonwealth Authorities and Companies (CACs) has been used. This term includes GBEs, some statutory authorities and Commonwealth owned companies. Where appropriate categories such as GBEs are discussed separately. However, the Committee believes that most of the issues in this inquiry apply broadly to all CACs.

1.3 The Committee would preferred to have undertaken a more extensive inquiry prior to producing a report on this subject. The options for consideration contained within this report are, in the opinion of the Committee, the correct direction for the Government to take in applying purchasing policies to CACs. The views of the organisations under consideration and other interested parties are sought prior to the Committee making a final report on this matter.

BUYING OUR FUTURE REPORT

1.4 In March 1994 the House of Representatives Standing Committee on Industry, Science and Technology presented its first report of this inquiry into government purchasing policies entitled *Buying our Future*.¹ This report made 45 recommendations which proposed major changes to the structure by which purchasing policy is developed and by which its implementation should be monitored.

1.5 In undertaking the inquiry into purchasing by Government Departments the Committee discovered that opportunities which Commonwealth procurement should have been providing for Australian industry development were not being fully grasped. Little evidence was available from, or had been sought by Government Departments on the investment and employment multipliers associated with local procurement. This was despite the strong evidence of the importance of government procurement to industry development provided by the example of organisations such as Telecom and Defence, and the practice of most other developed nations of extracting considerable leverage from their purchasing.

1.6 The report addressed a range of issues including:

- access to government procurement by small to medium sized enterprises (SME's);

1 House of Representatives Standing Committee on Industry, Science and Technology: *Australian Government Purchasing Policies: Buying our Future*, First Report, AGPS Canberra, March 1994

- problems associated with decentralisation and devolution;
- attitudinal problems among purchasers;
- training and career structures for purchasing staff;
- lack of statistics;
- Commonwealth Procurement Guidelines;
- the Australian Government Credit Card (AGCC);
- proposing the establishment of the National Procurement Board;
- electronic commerce; and
- Common Use Contracts (CUC's);

WORKING NATION STATEMENT

1.7 The Government initially responded to the Committee's report with a number of initiatives included in the *Working Nation* statement of May 1994.² Reforms announced in this statement included:

- an endorsed supplier approach for IT and major office machine purchases;
- a requirement for agencies to provide reasons for not purchasing from common use contracts;
- industry impact statements for acquisitions over \$10 million;
- a two envelope approach for acquisitions over \$10 million, with one envelope outlining Australian industry involvement and the other dealing with specifications and offer price;
- establishment of an Australian Suppliers Information Program;
- establishment of a National Procurement Board;
- improved training and career paths for purchasing officers; and
- the development of electronic commerce.³

GOVERNMENT RESPONSE TO REPORT

1.8 The final Government response to the *Buying our Future* report was presented in December 1994. This provided more detail on the initiatives announced in *Working Nation* including outlining the role of the National Procurement Board. The Board is to provide independent advice to Ministers on:

- government purchasing policies and procedures, particularly from an industry perspective;
- development and implementation of electronic commerce;
- development and dissemination of statistics on purchasing; and
- review of industry submissions on procurement.⁴

1.9 In addition the Board monitors and reviews, inter-alia:

- costs of tendering;

2 *Working Nation: Policies and Programs*, AGPS Canberra, May 1994

3 *ibid.*, pp 76-78

4 *Australian Government Purchasing Policies*, Commonwealth Government response to the House of Representatives Standing Committee on Industry, Science and Technology, December 1994, p 2

- access of SME's to government procurement;
- application of whole of life costing;
- compliance with common use contract arrangements; and
- effectiveness of purchasing training.⁵

1.10 Additional initiatives announced in the December 1994 Government response included:

- a review by agencies of purchasing arrangements and the establishment of accredited purchasing units for procurement over \$100,000;
- introduction of further measures to enhance professionalism, such as mandatory competency requirements;
- abolition of the commission on sales made under common use contracts;⁶
- revision of Commonwealth Procurement Guidelines;⁷ and
- reforms to Australian Government Credit Card procedures.⁸

1.11 The Government deferred its response to recommendations dealing with the Systems Integration Panel, capping of liability in Commonwealth contracts, and intellectual property arrangements pending the outcome of separate reviews being undertaken into these areas.⁹

THE DIFFERENT TYPES OF GOVERNMENT ORGANISATIONS

1.12 Recent legislation has divided Commonwealth Government organisations into two broad categories:

- Organisations which come under the *Financial Management and Accountability Act* (FMA Act) including:
 - ⇒ Commonwealth Departments;
 - ⇒ a number of statutory authorities; and
 - ⇒ entities prescribed as an agency on the basis of dealings with the Commonwealth
- Organisations which come under the *Commonwealth Authorities and Companies Act* (CAC Act) including:
 - ⇒ all Commonwealth authorities that are incorporated and hold money on their own account, including most statutory authorities and some Government Business Enterprises (GBEs); and
 - ⇒ all Corporations Law companies in which the Commonwealth has a direct controlling interest, also including a number of GBEs.¹⁰

1.13 According to the Department of Finance the main difference between the two categories for the purpose of this inquiry is that agencies which fall under the FMA Act will be subject to the Government's recently revised purchasing practices, whereas no such

5 *ibid.*, p 2

6 *ibid.*, pp 2-3.

7 *ibid.*, p 14

8 *ibid.*, pp 21-23

9 *ibid.*, p 3

10 Department of Finance: Submission 40, p 3

requirement will exist for CAC Act entities.¹¹ The different types of Commonwealth Authorities and Companies (CACs) are categorised below.

Commonwealth statutory authorities

1.14 The majority of Commonwealth statutory authorities are classed as CACs. There are about seventy organisations in this category that are mainly funded by budget appropriation or industry levies including CSIRO, the National Library, the Australian Broadcasting Corporation, the Australian Wheat Board and the Australian Wool Research and Promotion Organisation.¹² These bodies are currently encouraged to take into account the Government's purchasing policies. Not all statutory authorities fall under this category – some are FMA Act agencies and two are GBEs.

Wholly owned Commonwealth companies which are not classified as GBEs.

1.15 There are about ten organisations in this category which have primarily been established for non-profit purposes and are supported financially from the budget to a large extent.¹³ These bodies have a more commercial structure and are more independent than statutory authorities but do not operate in a competitive market as do most GBEs. These companies are also encouraged to take into account the Government's purchasing policies.

Government Business Enterprises (GBEs).

1.16 GBEs operate in a broad range of areas and are characterised by their separate legal status from the Commonwealth, corporate structure and board of management. Apart from these broad characteristics GBEs have few common traits. The Joint Committee of Public Accounts noted that:

- most GBEs are expected to earn a commercial return, although some (such as the Snowy Mountains Hydro-Electric Authority) are currently constrained from earning a commercial return by legislation or by legally binding agreements;
- some GBEs are statutory authorities with their own enabling legislation (such as the Civil Aviation Authority - CAA¹⁴ - and the [Federal Airports Corporation] FAC) and some are companies incorporated under the Corporations Law (such as Telstra Corporation Ltd);
- some GBEs provide services in monopoly markets while others operate mainly in competitive markets; and

11 *ibid.*

12 *ibid.*, p 4

13 *ibid.*

14 The Civil Aviation Authority has subsequently been split into two organisations: Air Services Australia and the Civil Air Safety Authority (CASA). Only the former remains a GBE.

- most GBEs are fully owned by the Commonwealth, the main exceptions being Qantas and the Commonwealth Bank of Australia.^{15,16}

1.17 Much of the Committee's investigation has focussed on GBEs because it is the application of purchasing reforms to these bodies which poses the most difficulty.

Current List of GBEs

1.18 The list of organisations categorised as GBEs has changed a number of times over recent years. As at October 1995 the following organisations can be classified by portfolio as GBEs:¹⁷

PORTFOLIO	GBEs
Communication and the Arts	Australian Postal Corporation Telstra Corporation
Defence	Defence Housing Authority Australian Defence Industries Ltd Avalon Airport Geelong Ltd (s)
Finance	Commonwealth Funds Management Ltd
Industry, Science and Technology	Australian Industry Development Corporation (p) Export Finance and Insurance Corporation Australian Technology Group Ltd (p)
Primary Industries and Energy	The Pipeline Authority Snowy-Mountains Hydro-Electric Authority
Transport	Air Services Australia Federal Airports Corporation (s) Australian National Railways Commission ANL Ltd (s)
Treasury	Commonwealth Bank of Australia (p) (s) Housing Loans Insurance Corporation

15 Qantas has been subsequently fully privatised and the Government has announced that similar action will be taken with the Commonwealth Bank.

16 Joint Committee of Public Accounts: *Public Business in the Public Interest: An inquiry into commercialisation in the Commonwealth Public Sector*, Report 336, AGPS Canberra, April 1995, p 20

17 Department of Finance: Submission 40.1

- (p) indicates GBE, or subsidiary of GBE, is partly owned by the Commonwealth
 (s) indicates GBE is subject to a sale process

1.19 In addition to the GBEs outlined above, the National Rail Corporation could be placed in a similar category but for its ownership being held jointly by the Commonwealth and the Governments of NSW and Victoria. It is not subject to the CAC Act.¹⁸

Government Purchasing Policies and GBEs

1.20 The number of GBEs in Australia increased considerably in the 1980s owing to changes in the public sector which favoured smaller government and were designed to increase efficiency and effectiveness. Commercialisation and corporatisation were undertaken across the spectrum of government activity. One of the primary reasons for commercialisation and corporatisation was to enable government entities to operate as if they were private companies, without the constraints of many of the regulations and procedures which exist in Departments of State. This was intended to increase the efficiency of organisations and also their responsiveness to the public. The Joint Committee of Public Accounts (JCPA) in its recent *Public Business in the Public Interest* report stated:

‘In addition to these general advantages, the corporatisation of government businesses is said to generate further efficiencies in management. By conferring a greater degree of operational independence on GBE boards and management, and by clearly defining financial and other objectives, GBEs are able to operate in a more focussed, cost effective and competitive fashion.’¹⁹

1.21 In 1987 the Commonwealth reformed the administrative arrangements applying to GBEs which removed most of the detailed controls then in place and instituted a policy of accountability for results. These arrangements, which were amended and strengthened in 1992, make GBE boards accountable for the performance of the GBE, the development of business strategies and day to day management policies. Relevant Ministers have responsibility for overseeing the strategic direction of GBEs on behalf of the Parliament and the community.²⁰

1.22 It was in this context that procurement and industry development policies were designed for GBEs in 1992. GBEs were requested to:

- ‘operate in accordance with the Government's industry development strategies and procurement policies, including the Commonwealth Procurement Guidelines, but excluding the requirements concerning gazettal and use of common use contracts;
- include industry development objectives in corporate plans, commencing in 1993-94, and review performance against objectives at least on an annual basis;

18 *ibid.*

19 Joint Committee of Public Accounts: *op.cit.*, p 4

20 Department of Finance: Submission 40, p 5

- prepare industry development plans and make them public;
- plan purchasing activities to provide active support for local firms and emerging technologies, consistent with the objective of operating at world best practice; and
- undertake industry impact statements for purchases over \$30m.²¹

1.23 The 1992 decision allowed for exemptions to be given to any of the guidelines by the agreement of the portfolio Minister, the Minister for Industry, Science and Technology and the Minister for Administrative Services.²² As National Rail is not technically a Commonwealth GBE the 1992 decision was deemed not to apply to it from the outset. GBEs subsequently exempted from the 1992 policy were:

- Commonwealth Funds Management Ltd (CFM);
- Aerospace Technologies of Australia Ltd (ASTA);
- Commonwealth Bank of Australia;
- Qantas Airways Ltd (subsequently sold);
- Telstra Corporation Ltd;
- ANL Ltd;
- Australian Defence Industries Ltd; and
- the Pipeline Authority.

1.24 As with statutory authorities, most GBEs, even those exempted from the 1992 policy, claim to follow at least the principles of Commonwealth purchasing policy. To emphasise this a number of GBEs have provided the Committee with copies of their purchasing guidelines. Some of the GBEs were exempted from the 1992 policy because they already had established comprehensive procurement and industry development policies and procedures. The question could be asked – if the GBEs have such comprehensive policies which mirror Government requirements, why did they require the exemption.

21 *ibid.*, p 6

22 *ibid.*



CHAPTER 2 – EXTENDING THE PURCHASING REFORMS

2.1 The main focus of this second stage of the inquiry is to consider whether the reforms to Government purchasing which followed the *Buying our Future* report should be extended to all Commonwealth authorities and companies. In effect this means those bodies which fall under the provisions of the *Commonwealth Authorities and Companies Act*, in particular GBEs with the possible addition of the National Rail Corporation.

2.2 This chapter outlines arguments in favour of and against the extension of these reforms to CACs and concludes with interim recommendations which the Committee hopes will stimulate further discussion.

ARGUMENTS IN FAVOUR OF EXTENDING PURCHASING REFORMS

Industry Benefits

Telstra's Industry Development Strategy

2.3 In addition to the general purchasing and industry development policies applied to GBEs, at least one GBE (Telstra) is subject to specific policy direction in relation to its procurement practices and industry development.

2.4 Telstra has had a strong policy over many years of using its purchasing power to develop a local supply industry, and is committed to continuing with this policy.¹ This commitment is partly due to the licence conditions imposed on Telstra which require the preparation of an industry development plan outlining the basis of the licensee's relationship with Australian suppliers. Private sector telecommunications carriers are subject to the same conditions and also must prepare industry development plans. These plans have the broad objective of ensuring that optimal benefits flow to the Australian economy from telecommunications infrastructure development.² Telstra sets out targets for a high level of local sourcing as well as commitments in relation to exports, research and development and training.

2.5 These industry development plans are reviewed by the Telecommunications Industry Development Authority (TIDA) which reports to the Government annually on the performance of the carriers in relation to these undertakings.³

2.6 The industry development strategy of Telstra and the other private carriers has become part of their core objectives. Mr Alex Gosman of the Australian Chamber of Commerce and Industry told the Committee:

1 Telstra Corporation Ltd: Submission 36, appendix 1

2 Australian Telecommunications Industry Association: Submission 37, p 12

3 *ibid.*, p 13

'In the context of the government's review of the post-1997 telecommunications environment, the Department of Communications and Arts review team wrote to the free carriers to ask them whether the existing industry policy arrangements incurred any cost....I am delighted to respond that the free carriers came back and said that there was no cost and that, in fact, the industry development arrangements were part of their core activities.'⁴

2.7 The benefits to industry of strong GBE industry development policies are evident from the example of Telstra. Telstra's long history of supporting a local supply industry as one of its core objectives has helped to create one of Australia's manufacturing successes. The Australian Telecommunications Industry Association gave evidence that:

'The telecommunications equipment industry is the only integrated manufacturing industry of any significance within the Australian information industries sector. ...In 1993 industry turnover exceeded \$3.2 billion – more than that of the Australian computer hardware and packaged software industries combined.'⁵

2.8 Telstra told the Committee:

'In terms of the benefits to the Australian economy as a result of Telstra's industry development activities, we believe that they have been largely responsible for the mature industry that exists today. We are told that the industry employs 13,000 people directly and a further 20,000 indirectly, and much of that employment would be generated as a result of orders from Telstra.'⁶

2.9 Australia exports telecommunications equipment to over 100 countries. The current annual value of these exports is \$600 million with \$1 billion of exports expected by 1996.⁷ The International Telecommunications Union estimates that \$200 billion will be invested in Asia in this area over the next few years.⁸ Australia is well placed to take advantage of this opportunity largely as a result of Telstra's industry development policies.

2.10 The evident success of the purchasing and industry development policies of Telstra provides a good example of the potential benefits of a broader adoption of similar policies across the public sector.

2.11 The size of Telstra and its purchasing budget (\$4.25 billion in 1994-95⁹) gives it significant leverage for industry development. Other CACs would have a smaller impact but

4 Gosman A., Member, Australian Chamber of Commerce and Industry Purchasing Reference Group: Transcript, p 37

5 Australian Telecommunications Industry Association: op.cit., p 9

6 Orwin, M., Manager, Corporate Supply, Telstra Corporation Ltd: Transcript p 7

7 Australian Telecommunications Industry Association: op.cit.

8 *ibid.*, p 10

9 Orwin, M., op.cit., p 6

there could clearly be benefits to industry from their adoption of strong purchasing and industry development policies.

Benefits for the Economy

2.12 The *Buying our Future* report identified some evidence of the multiplier effect on the economy of increasing local procurement. According to a study by Professor R C Jensen of the University of Queensland, each million dollars worth of new or retained manufacturing activity could be expected to produce:

- approximately 29.5 person/years of employment (direct and indirect);
- \$280,000 in taxes and charges to all levels of government;
- \$255,000 in direct consumer expenditure; and
- \$231,000 in welfare savings to governments.¹⁰

2.13 The Institute of Purchasing and Supply Management gave evidence to the Committee on employment generation from increased local procurement:

‘...by using the Employment Indicator produced by the Industrial Supplies office (ISO), it can be calculated that by taking the conservative figure of \$30 billion of imports per annum, and by assuming that just a mere 10% could be converted to Australian manufactures, 100,000 person years of employment would be generated in Australia.’¹¹

2.14 The Committee is, of course, aware of the ‘opportunity cost’ and ‘resource misallocation’ arguments against diverting Government procurement to local suppliers. These were discussed in the first section of chapter 3 of the *Buying our Future* report.¹² The Committee’s concern, expressed in that report, is that there has been an emphasis on the cost side of the theoretical argument without a serious examination of the benefits to the economy as a whole. The thrust of the Committee’s recommendations has never been to artificially support inefficient local suppliers but to provide the opportunity for world competitive suppliers to emerge.

2.15 As is the case with much Government purchasing, the knowledge that a product is being purchased by a company’s own government, or major enterprise in a particular area, gives credibility in export markets. The Department of Administrative Services Submission points out that:

‘...some GBEs are leading edge users of new technologies and provide a substantial domestic market for innovative local companies. By providing reference sites for locally developed

10 Jensen, R: Exhibit 59 (1st inquiry), p 8

11 Institute of Purchasing and Supply Management: Submission 29, p 1

12 House of Representatives Standing Committee on Industry, Science and Technology: op.cit., pp 15-17

technologies, GBEs can provide the credibility necessary for success in world markets.’¹³

2.16 The Australian Chamber of Commerce and Industry (ACCI) submission also refers to this:

‘Government purchasing can also assist companies to penetrate *certain foreign markets, where governments in those markets derive comfort from the knowledge that the product is sufficiently well regarded to be purchased by the company’s own government.*’¹⁴

Benefits for CACs

2.17 The recent reforms to Government Purchasing were not solely aimed at assisting industry development. A number of changes were aimed at encouraging more considered procurement decisions based on a rigorous examination of value for money. Ideally this should include whole of life costing considerations such as the benefits of local supply. Other reforms such as electronic commerce, staff training and career enhancement initiatives and better provision of information and statistics on purchasing are designed to produce improved efficiency, productivity and cost savings, as well as assist local industry.

Best practice

2.18 Much of the purchasing reform which has taken place in the public sector recently is aimed at achieving ‘best practice’. Mr Neil Edwards of the Department of Industry, Science and Technology told the Committee that this is consistent with GBE objectives:

‘...we note that there is a strong consistency between the government’s purchasing related industry policies for GBEs and their objective and the application of best practice in supply chain management in all enterprises. ...Enterprises that establish relationships with suppliers, particularly the small to medium enterprises, can foster innovation, product development, ensure quality accreditation, encourage technology diffusion in their supply communities, and all of these are in their own best interests.’¹⁵

2.19 The extension of the recent government purchasing reforms to CACs would help to foster best practice in supply management across the Commonwealth public sector.

13 Department of Administrative Services: Submission 44.01, p1

14 Australian Chamber of Commerce and Industry (ACCI): Submission 35, p 2

15 Edwards, N., First Assistant Secretary, ITCEI Division, Department of Industry, Science and Technology: Transcript, p 11

The importance of local suppliers

2.20 One of the key factors in Telstra's industry development strategy is the development and maintenance of strong local supply industries. The development of its local supply base has given Telstra a number of benefits. Telstra stated that:

'There are many advantages for Telstra in promoting import replacement and dealing with Australian companies. These include reduced delivery lead times, lower inventory levels and, consequently reduced costs. Local suppliers can tailor goods and services to individual requirements, and spare and service back-up is generally available in hours rather than weeks.'¹⁶

2.21 The advantages of developing a local supply base have helped to improve Telstra's competitiveness. Other GBEs and statutory authorities could benefit from similar arrangements.

Electronic commerce

2.22 The Committee's recommendations on electronic commerce were an important part of the reforms proposed in the *Buying our Future* report. The Committee then stated:

'The adoption of electronic commerce by Commonwealth agencies will improve the management of the purchasing function, allowing for the adoption of more flexible purchasing practices such as Just-In-Time purchasing and reduce administrative costs. Furthermore the adoption of electronic commerce will enable improved implementation of Government purchasing policies by making the collection of purchasing performance data much faster and simpler.'¹⁷

2.23 The Commonwealth Government is currently planning to implement electronic commerce for purchasing by 1997. All CACs could potentially benefit by being part of the Commonwealth's electronic commerce system.

Staff training and career structures

2.24 Improved training and better career structures for purchasing staff can clearly offer organisations an improved purchasing performance. Purchasing training and purchasing career structures in Commonwealth Departments prior to the *Buying our Future* report were in urgent need of reform. Commonwealth reforms in this area could also benefit CACs.

16 Telstra: Submission 36, p 2

17 House of Representatives Standing Committee on Industry, Science and Technology: op.cit., p 65

Breaking down the impediments to local suppliers

2.25 There are a number of impediments which the Committee identified as operating against local suppliers in general government purchasing decisions. It is likely that these impediments also exist in a number of CACs. Poor training and career structures can exacerbate these problems. A lack of procurement statistics makes it very difficult to identify the extent to which those impediments exist and the effect they may be having..

The 'cultural cringe'

2.26 One of the major problems which the Committee identified in its first inquiry was a risk averse attitude to buying locally produced goods and services and the premise that purchasing from an established well known international company would entail less risk. This attitude was often based on false assumptions about the quality and price competitiveness of Australian goods and services. Some witnesses have referred to this as a 'cultural cringe' against local suppliers. This bias ranges from discriminatory tender specifications to lack of knowledge of the local ANZ product by the purchaser.¹⁸

2.27 The 'cultural cringe' is also evident in the assumption often made in the discussion of procurement issues that buying locally inevitably involves a cost penalty to the purchaser. This assumption was evident in some of the evidence given in this second stage of the Committee's inquiry . The Committee has taken a large amount of evidence on Australian industry capability over the course of its investigations into Government purchasing which clearly shows that this assumption is unwarranted and a generalisation.

2.28 Adoption of the recent reforms to Government purchasing by CACs would help to break down the 'cultural cringe' against Australian industry.

Value for money

2.29 In the course of the first stage of Committee's inquiry it became clear that many purchasing staff in the Commonwealth equate value for money with the lowest bid or purchase price. The real costs of a purchase or contract including maintenance costs, quality and reliability were not properly considered or understood. In relation to GBEs the Committee received evidence that purchasing decisions are being made on too narrow criteria of what constitutes value for money. A submission from the Department of Industry Science and Technology stated:

'The Government moved away from a system of Ministerial control over GBEs during the mid 1980s. The aim of these changes was to vest responsibility and accountability for commercial performance in the management of the GBEs. However, as a consequence of these changes, there can be a tendency now for GBEs to take a narrow approach to the purchase of goods and

services. This is reflected in purchasing decisions focussed on price rather than issues of longer term value for money and the benefits derived from the development of an innovative and reliable local supplier base.¹⁹

2.30 Reforms adopted following the Committee's first report into Government purchasing policies have seen the rewriting of the procurement guidelines to change the emphasis on value for money, a review of the application of whole of life costing by the National Procurement Board and the establishment of a specialised whole of life costing cell in the Department of Administrative Services.²⁰ CACs would benefit from examining the application of these initiatives.

Access to procurement by small to medium sized enterprises (SMEs)

2.31 The Committee identified the importance of SMEs in the economy in the *Buying our Future* report:

'Recognition of the importance of small to medium enterprises (SMEs) to a healthy industrial base is being increasingly reflected in industry development policy. Government purchasing leverage is often used in other countries for small business development. The USA, for example, has adopted specific measures to assist SMEs in securing government sales.'²¹

2.32 Because of their size SMEs often find it difficult to gain government contracts. A problem identified in the first stage of the inquiry was the difficulty of marketing effectively to 30,000 to 40,000 public sector purchasing staff.²² The Committee does not have information on the number of people involved in purchasing in CACs. However, as there are around 100 different organisations in this category, if each has even a moderately small number of purchasing staff the marketing task for SMEs becomes formidable.

2.33 A recent market research study commissioned by the Department of Administrative Services identified a number of significant barriers perceived by SMEs to the Government market. Summarised, these barriers include:

- cultural differences between small business personnel and government buyers;
- locating the right buyers in large and complex bureaucracies;
- poor information to identifying contracts and tenders of relevance;
- lengthy and complicated tender processes;
- problems with Common Use Contracts (CUCs) – unfair decisions, non-use of or ignorance of CUCs, and contraventions of official purchasing policy;
- excessive paperwork;
- slow payments;

19 Department of Industry, Science and Technology: Submission 45.01, p 1

20 *Australian Government Purchasing Policies*, Government Response: op.cit., p 13

21 House of Representatives Standing Committee on Industry, Science and Technology: op.cit., p 43

22 *ibid.*, p 44

- a perceived bias towards large corporations;
- excessive quality assurance requirements; and
- geographic distance from buyers.²³

2.34 SMEs tend to be the most common victims of the risk averse attitude because their size gives purchasers an additional reason to doubt their capability.

2.35 The importance of CACs to small to medium sized enterprises is enhanced by the nature of the businesses in which CACs are involved. A number of CACs are involved in substantial procurement of new technologies. SMEs need contracts from these local leading edge users to develop production expertise and credibility for export markets.

2.36 Key recommendations of the *Buying our Future* report relating to SMEs which have been adopted by the Government involved a requirement for:

- a description of SME involvement in Industry Impact Statements for tenders over \$10 million;
- identification of SMEs in electronic purchasing system databases;
- approved supplier lists and industry capability databases; and
- encouraging regional buyers to purchase from local approved SMEs.²⁴

2.37 The extension of these reforms to all CACs would give SMEs a considerable boost.

Other impediments

2.38 Other impediments to local suppliers identified in the first report were:

- unlimited liability clauses in contracts;
- cost of tendering;
- complexity of tender documentation;
- quality accreditation being encouraged but then ignored;
- Commonwealth policy concerning ownership and exploitation of intellectual property;
- slow payment by the Commonwealth;
- lack of access by local companies to the supply of embedded services such as freight and insurance;
- lack of clarity in the definition of Australian content; and
- the application of Government policies (such as environmental requirements, affirmative action etc) to local suppliers but not to foreign suppliers..²⁵

2.39 Not all of the Committee's recommendations on these issues were adopted by the Government. However, a number of reforms are being made to overcome the problems identified in these areas.²⁶ Again, many of these changes will improve efficiency and

23 Purchasing Australia, Department of Administrative Services: *Small Business—Big Opportunity*, SMEs and the Government Marketplace, Report, November 1995, pp 11-15.

24 House of Representatives Standing Committee on Industry, Science and Technology: op.cit., p 46

25 ibid., pp 99-122

26 *Australian Government Purchasing Policies*, Government Response: op.cit., pp 23-28

productivity as well as providing a fairer system for local suppliers. All CACs could benefit from their implementation.

ARGUMENTS AGAINST EXTENDING PURCHASING REFORMS

2.40 *Arguments against extending the Government's purchasing reforms are largely based on the premise that agencies given autonomy from the Commonwealth would be adversely affected by any restrictions imposed on their purchasing decisions. This is most strongly argued in the case of GBEs operating in a commercial environment where such requirements could potentially affect their competitiveness and commercial performance.*

Additional cost and complexity

2.41 The Committee does not accept the assumption that buying more locally will inevitably increase the cost of purchasing. However, there may be some agencies that would experience increased costs if purchasing reforms were applied inflexibly.

2.42 An important feature of CACs is the autonomy they are given to determine management priorities. Independence allows these bodies to operate more efficiently and to be more focussed on their core business and objectives. It is also designed to make them more responsive to the public. The blanket imposition of Government procurement policies on CACs potentially could result in a loss of operational efficiency. Increase costs could be incurred if a reasonable degree of autonomy over procurement were not maintained.

2.43 Some of the recent purchasing reforms would have the potential to increase costs if applied to CACs. One example is the requirement for industry impact statements (IIS) for purchases over \$10 million. Currently GBEs are requested to undertake this procedure for purchases over \$30 million. The reduction in threshold would increase the number of purchases for which IIS were prepared and therefore involve more resources and an increased cost.

2.44 Similarly, the adoption of two-envelope tendering would add to the complexity of purchasing processes and to increase costs. Under two-envelope tendering bidders are required to submit offers in two envelopes – one envelope containing details of how the tender meets functional specifications as well as contractual and pricing details, and the other including ANZ industry development proposals.²⁷ Both envelopes may be evaluated by one committee, or two separate evaluation teams can be established. The Department of Industry, Science and Technology must be involved in evaluating the industry development envelope.²⁸ This process does add some complexity.

2.45 Electronic commerce is another reform, which, while offering significant long term benefits and savings, does have some initial cost implications. Some flexibility may be needed in the extension of electronic commerce. There may be some CACs for which electronic commerce is not appropriate at present.

27 Purchasing Australia, Commonwealth Department of Administrative Services, Commonwealth Procurement Circular CPC 95/2: Industry impact statements and two envelope tendering, p 5

28 *ibid.*, p 6

2.46 The Committee believes that industry impact statements, two-envelope tendering and electronic commerce will be of great benefit to Australian industry and as a general rule the extension of these reforms to CACs would be worthwhile. However, there is potential for additional costs being incurred.

GBE performance and accountability

2.47 GBEs are particularly sensitive to the potential for increased costs arising from the extension of Government purchasing reforms because of the accountability measures used to assess their performance. The Department of Finance stated:

‘Any general government policies need to be applied sensitively to GBEs because under the GBE accountability arrangements endorsed by the Government, directors of a GBE are accountable for the performance of the GBE and have responsibility for developing business strategies and handling day-to-day management issues. GBEs are required to be results oriented and the Government intends that they work towards a financial target which means that the performance of equivalent firms/industries in the private sector are used as a yardstick to derive financial targets.’²⁹

2.48 The broader Government policy objectives for GBEs restrict somewhat the ability to broadly apply purchasing policies in a prescriptive manner. The current purchasing and industry development policies for GBEs operate very flexibly. GBEs are requested to undertake certain policies. Exemptions for particular organisations can and have been granted by relevant ministers to either purchasing or industry development policies. This requests and exemptions policy has been designed not to interfere with the core business and objectives of GBEs.

2.49 The Committee believes that more comprehensive purchasing and industry development policies should be developed for GBEs. However, such policies must be carefully applied. While the sensitivity of these issues in non-GBE CACs is somewhat less, an approach which does not undermine the autonomy of these organisations is also desirable.

Close adherence to Government purchasing policies by CACs

2.50 From the evidence received by the Committee to date, the majority of GBEs already closely follow the Government’s purchasing policies. The Committee has not received evidence on this issue from non-GBE CACs. A number of GBEs, however, can with some justification, claim to be more advanced in their purchasing and industry development practices than Government departments. Telstra’s industry development and purchasing strategy has already been mentioned. GBEs, largely as a result of the 1992 changes to their purchasing and industry development policies, generally are more focussed on industry

29 Department of Finance: Submission 40, p 6

development as part of their purchasing objectives than was the case for Government departments prior to the Committee's first report.

GBEs ahead of the game?

2.51 One view which has been put to the Committee is that in the case of GBEs, the application of purchasing reforms would be inappropriate because they are already operating ahead of the Commonwealth in this area:

'I would say that the Department of Administrative Services is endeavouring to move towards world best practice supply and procurement arrangements. Our view ... is that we are ahead of that game. Even though they may be going forward, from our perspective we do not want to be pulled back to a position that we think we are ahead of. So that is really a concern to us.'³⁰

2.52 A number of GBEs provided the Committee with details of their purchasing practices. This information showed that while some GBEs were not strongly focussed on purchasing and industry development, most of those responsible for higher levels of procurement, such as Telstra, the Civil Aviation Authority and Australia Post are focussed on these issues. To the extent that CACs are operating at a higher level than that being implemented in the rest of Government, any policy to extend purchasing reforms would have to take this into account.

2.53 It could also be argued that the purchasing policies of CACs are already meeting the Government's policy objectives and that additional requirements would not produce any improvements and could actually be counter-productive. The Committee has not yet received enough evidence to make a definitive judgement about CAC purchasing practices but, in the case of GBEs at least, apart from the evidence from the Department of Industry, Science and Technology about value for money (see page 14) the evidence does point to a generally positive assessment. The relative absence of specific complaints from suppliers about CAC purchasing, when compared to complaints received about departmental purchasing practices during the course of the first stage of the inquiry, is also encouraging.

2.54 While the evidence received on CAC purchasing by the Committee to date is encouraging, there is no doubt that improvements could be made. In response to specific requests for information directed at GBEs, a number of these organisations demonstrated that their purchasing policies were not nearly as advanced and comprehensive as those mentioned above. In addition, even those GBEs with a good record could potentially benefit from application of some of the recent reforms. Indeed, if GBEs or other CACs claim to have more advanced purchasing and industry development policies than Government departments the adoption of the recent reforms as a minimum standard should not pose any significant difficulties.

30 Stanhope, J., Executive General Manager, Business Support Services, Telstra Corporation: Transcript p 28

Possible legal difficulties

2.55 A small number of GBEs which are partly owned by the Commonwealth are subject to the accountability provisions of the Corporations Law. Under section 260 of the Corporations Law:

*'a member or members of a company can bring action against a company if they consider the affairs of the company are being conducted in a manner that is oppressive or unduly prejudicial to, or unfairly discriminatory against, a member or members or in a manner that is contrary to the interests of the members as a whole.'*³¹

2.56 GBEs in this category are the Commonwealth Bank, Australian Technology Group Ltd and AIDC Ltd. The application of specific procurement policies to these GBEs may be in contravention of the Corporations Law.

POTENTIAL IMPACT OF THE REFORMS ON CACS

2.57 The Civil Aviation Authority considered the potential impact of the recent purchasing reforms on its operations in a submission to the Committee and made the following observations (summarised below):

- The CAA supports preparation of industry impact statements (IIS) for contracts over \$10 million and its corporate plan already commits the Authority to this.
- The inclusion of a statement on SMEs in IIS is supported on the condition that the CAA is not obliged to purchase from a local supplier. Proven products are preferred by the CAA due to the high development risks associated with high technology systems.
- Two envelope tendering could be implemented by the CAA.
- Industry development performance clauses in contracts are not supported because the CAA does not wish to be responsible for monitoring this. The CAA supports the DIST Partnerships for Development and Fixed Term Agreements schemes to achieve industry development outcomes. The deed of agreement for the Australian Advanced Air Traffic System (TAAATS) is proposed as a good industry development model.
- The CAA supports Endorsed Supplier Arrangements and Common Use Contracts but would wish to retain the ability to negotiate better trading terms with individual suppliers. The CAA would be prepared to report to the National Procurement Board in such circumstances.
- The CAA supports the approved supplier scheme and maintains cooperative relationships with DAS and DIST.
- The CAA supports the establishment of the National Industry Capability Database and may use the ISO.
- The CAA supports the National Procurement Board and electronic commerce but believes that decisions on whether to provide finance to retender for

suppliers affected by aborted tender processes should be made on a case by case basis using commercial criteria.

- The CAA supports purchasing staff training initiatives;
- The CAA would consider using the “one stop shop”.
- The CAA would gather and provide information and statistics on purchasing if requested.
- Continuous monitoring of CAA purchasing procedures already occurs.
- The CAA supports the quality management approach.³²

2.58 On the whole the CAA supports the reforms and, with certain qualifications, could implement them without difficulty. The CAA provides the most detail on the impact of the reforms of all the submissions received from GBEs. However, apart from the CAA submission relatively little information is available on the potential impact of specific initiatives.

2.59 Subsequent to providing their submission to the Committee, the Civil Aviation Authority was split into two organisations: Air Services Australia and the Civil Air Safety Authority (CASA). No further information has been received to indicate the position of these new bodies on procurement (only the former remains a GBE). Nevertheless the CAA submission provides a useful example of the way a GBE might approach implementing the new purchasing framework.

IMPLEMENTING THE REFORMS

2.60 While there are arguments against applying stronger purchasing and industry development policies to CACs, the Committee believes that the reforms have sufficient merit to warrant their extension across the whole of Government. The key to success in this task is to gain the benefits of the reforms without compromising other objectives.

2.61 From the CAA’s viewpoint the key factor in applying the reforms is the method of their implementation:

‘In general, the CAA supports the Bevis Report recommendations endorsed by the Government, in December 1994, to apply to Departments of State. It is the manner of their implementation which has the potential to conflict with the CAA’s ability to achieve its primary objectives.’³³

2.62 The Committee agrees that, the manner in which purchasing reforms are implemented is vital to a successful outcome.

2.63 The most difficult problems will arise in the application of the reforms to GBEs. The Department of Finance advocates retention of the existing arrangements for applying procurement policies to GBEs:

32 Civil Aviation Authority: Submission 30, pp 3-8
33 *ibid.*, p 3

'Finance considers that application of the Government's purchasing policies to GBEs should preserve the responsibility of GBE managers to make final decisions about purchasing proposals within the GBE framework. The current industry development policies agreed to by the Government in 1992, are consistent with the GBE framework. Of course GBEs may find it advantageous to use elements of the Government's agency purchasing arrangements and this should be encouraged. At the end of the day, however, Finance considers this is a matter primarily for GBE decision.'³⁴

2.64 The DoF solution has the advantage of preserving GBE autonomy over business decisions. However, it is likely that under this approach some GBEs would not give procurement policy a very high priority. One of the problems which became evident in the first stage of the Committee's inquiry was that many purchasers, rather than deliberately discriminating against local suppliers, simply were not aware of their existence or ability to perform particular tasks. To the extent that this problem exists in GBEs the DoF method would not be likely to overcome it.

2.65 In addition, the approach advocated by DoF would not maximise the potential efficiency gains to GBEs from initiatives such as purchasing training and career structure reforms, electronic commerce and improved provision of statistics. Those GBEs that take an active interest in these issues (such as the CAA) would benefit through their own initiative but others would *not* be required to closely examine the reforms and therefore would probably miss out on some of the benefits.

2.66 The difficulty in moving away from the DoF method to a stronger policy is finding a way to preserve the autonomy of GBEs to make procurement decisions. It would be relatively simple to provide a requirement for GBEs to implement all Commonwealth procurement policies. However, the lack of flexibility in this approach could potentially cause considerable harm to GBEs where specific requirements conflict with basic operational needs. It is not possible to generalise about which aspects of the policies should not be implemented for GBEs because this will vary depending on the nature of business and structure of each organisation. Any policy which strengthens the purchasing arrangements for GBEs will need to have some flexibility built into it.

2.67 The method chosen for implementing purchasing reforms in all CACs must be flexible, but it must also force a serious evaluation by CACs of the benefits of the reforms with a presumption that they will be applied. Organisations should be made to justify 'opting out' of the system, or parts thereof, rather than being requested to 'opt in'.

The National Procurement Board

2.68 The Committee believes that the National Procurement Board (NPB) should play a role in the implementation of purchasing reforms in CACs. The NPB was established following the Committee's first report into Government purchasing (see page 2). The Board

has considerable expertise in purchasing issues and is ideally placed as an adviser to Ministers to evaluate the purchasing practices of CACs.

2.69 The Committee favours including the National Procurement Board (NPB) as a conduit for CAC concerns about particular policies. CACs would be required to operate under the revised purchasing arrangements but, where particular initiatives cause problems, CACs could apply through the National Procurement Board for an exemption to those initiatives, or for particular guidelines to operate in an amended form in their case. The NPB would consider the request and forward it to the Minister with an appropriate recommendation.

2.70 The major advantages of this approach are:

- the onus would be on CACs to comply with the policy unless they gain an exemption;
- requests for exemption would be examined by an independent body with expertise in procurement issues ; and
- the responsible Minister(s) would have better information on which to base a decision on exemption requests.

2.71 Where CACs are not wholly Commonwealth owned, such as the National Rail Corporation, agreement with the other shareholders to apply the new arrangements should be sought. CACs with advanced industry development and procurement policies such as Telstra could still be required to examine the revised Commonwealth purchasing arrangements and report to the NPB on their applicability. In such cases the NPB may choose to recommend that the new guidelines not be applied to a particular organisation. This process would at least require these organisations to give serious consideration to implementing the purchasing reforms. Potentially, an optimal result could be achieved for CACs, Government and Australian industry.

INTERIM RECOMMENDATIONS

Recommendation 1

2.72 The Committee recommends that the recent reforms to Government purchasing be extended to apply to all Commonwealth Authorities and Companies.

Recommendation 2

2.73 The Committee recommends that any Commonwealth Authority or Company which does not wish to adhere to the Commonwealth's purchasing policies, or parts thereof, be required to apply through the National Procurement Board for an exemption from, or amendment to, the policies' operation in their case.

Recommendation 3

2.74 The Committee recommends that the National Procurement Board be given the task of considering requests for exemptions from, or amendments to, the operation of Government purchasing policies for particular Commonwealth Authorities and Companies, and that the Board prepare appropriate recommendations for the relevant Minister(s) on each request.

Hon. Alan Griffiths, MP
Chair
November 1995

APPENDIX I

CONDUCT OF THE INQUIRY

On 20 August 1992 the then Minister for Administrative Services, Senator the Hon Nick Bolkus, requested the Industry, Science and Technology Committee in the 36th Parliament to inquire into and report on the efficiency and effectiveness of Commonwealth Government procurement policies.

The inquiry lapsed with the dissolution of Parliament on 8 February 1993. Following the re-appointment of the Committee in the 37th Parliament the Minister for the Arts and Administrative Services, Senator the Hon Bob McMullan, referred the inquiry to the Committee on 27 May 1993. The inquiry was readvertised on 6 June 1993, with interested organisations being invited to provide further submissions to the Committee.

The first report of the Committee from this inquiry, entitled *Buying our Future*, was tabled in March 1994. In November 1994 the Committee advertised the second stage of this inquiry nationally in major metropolitan newspapers. In addition, submissions were again sought directly from relevant Commonwealth Government Ministers, State governments, Government Business Enterprises and industry.

The Committee has received 49 submissions (not including supplementary submissions) in this second stage of the inquiry. These are listed at Appendix II. In addition the Committee has received 38 exhibits which are listed at Appendix IV.

Over the course of both stages of this inquiry 14 public hearings have been held in Canberra, Sydney, Melbourne and Brisbane. One hundred and fifteen witnesses have appeared before the Committee and over 1100 pages of evidence have been recorded. The witnesses that appeared before the Committee in the second stage of the inquiry are listed in Appendix III. The transcript of all evidence will be available for inspection at the Committee office of the House of Representatives and at the National Library of Australia.

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APPENDIX II

LIST OF SUBMISSIONS

SUBMISSION NUMBER	DATE	PERSON OR ORGANISATION
1	18/11/94	Mr Philip Waugh Executive Director Dept of Business Systems, University of Wollongong
2	24/11/94	Mr Stewart van Raalte Managing Director Pennant House Flags
3	30/11/94	Mr Neil Callow Director Town Properties Corporation Pty Ltd
4	5/12/94	Ms A M L Baylis Chief Executive Logical Technologies Pty Ltd
5	5/12/94	Mr Geoff Croker Managing Director Graphics Computer Systems Pty Ltd
6	5/12/94	Mr Philip Andersen National Director The Printing & Allied Trades Employers' Federation of Australia
7	5/12/94	Mr Earl Baskerville Chief Executive Inprint Limited
8	8/12/94	Mr Kohtaro Miyagi Managing Director Cannon Australia Pty Ltd
9	16/01/95	Ms Margot Maasackers Secretary AIDC
10	22/12/94	Mr C W Perrett General Manager Hydro Services Snow Mountains Hydro-Electric Authority

SUBMISSION NUMBER	DATE	PERSON OR ORGANISATION
11	16/01/95	Mr Jeffrey C Roberts President Australian Institute of Purchasing & Materials Management Limited
12	16/01/95	Ms Rosina Luttrell A/Chief Operating Officer Australian Made Campaign
13	16/01/95	Mr J D Henington Executive Director NSW Industrial Supplies Office Ltd
14	16/01/95	Mr Peter Robson A/Chief Executive Officer FAC
15	16/01/95	Mr Barry McGuiness Chief Executive Officer ANL Limited
16	16/01/95	Dr Stephen Gumley Chief Executive Officer Global Lightning Technologies
17	16/01/95	Mr Ian Thompson Managing Director CFM Limited
18	16/01/95	Mr Guy Callender Co-ordinator Strategic Supply University of Technology Sydney
19	18/01/95	Mr Fred Affleck General Manager, Corporate Affairs National Rail Corporation Ltd
20	20/01/95	Mr Richard V Tasso Head of Finance & Administration Export Finance & Insurance Corporation
21	27/01/95	Mr Peter Upton Executive Director Australian Information Industry Association Limited

SUBMISSION NUMBER	DATE	PERSON OR ORGANISATION
22	16/01/95	Mr Arthur Carr Managing Director Sebel Furniture Ltd
23	16/01/95	Mr Keith Orchison Executive Director Electricity Supply Association of Australia Limited
24	16/01/95	Mr John Cumming Founder Austand
25	16/01/95	Mr Len Cordiner Managing Director SGS Australia Pty Ltd
26	16/01/95	Mr Ernest Rodeck AM President The Society for Balanced Trade Inc
27	16/01/95	Mr Peter Davis National Manager Krone (Australia) Technique Pty Ltd
28	16/01/95	Mr Peter M Davies Managing Director JNA Telecommunications Limited
29	16/01/95	Mr R H Keeley President (NSW) Institute of Purchasing & Supply Management Limited
30	16/01/95	Mr Wayne Bajenoff Manager Cooper Tools Pty Limited
31	25/01/95	Mr P M McGrath Chief Executive Australian Maritime Safety Authority
32	3/02/95	Mr Clive Bubb General Manager Queensland Chamber of Commerce & Industry

SUBMISSION NUMBER	DATE	PERSON OR ORGANISATION
33	1/02/95	Mr Stan McLiesh General Manager (Pharmaceuticals) CSL Limited
34	2/02/95	Mr Stan Thomson
35	14/02/95	Mr Tony Bates Chairman Australian Chamber of Commerce & Industry
36	27/02/95	Mr Doug Campbell Group Managing Director, Network & Technology Telecom Australia (Telstra since July 1995)
37	21/03/95	Mr Alex Gosman Executive Director Australian Telecommunications Industry Association
38	10/03/95	Mr Buck Brooksbank A/Chief Executive Civil Aviation Authority
39	3/04/95	Mr W R Ellis First Assistant Secretary Corporate Management Department of Transport
39.1	6/06/95	The Hon Laurie Brereton Minister for Transport
40	4/04/95	Mr I McPhee First Assistant Secretary Transport & Government Department of Finance
40.1	18/10/95	Mr Gavin Ford Director GBE Policy Section Department of Finance
41	6/04/95	Ms Heather Howes Executive Officer Australian Council of Building Design Professions Ltd
42	20/04/95	Dr John Webster Chief Executive The Institution of Engineers Australia

SUBMISSION NUMBER	DATE	PERSON OR ORGANISATION
43	16/05/95	Hon Kim Beazley Minister for Finance
44	14/05/95	The Hon Frank Walker QC MP Minister for Administrative Services
44.1	9/06/95	Mr John Mellors Secretary Dept of Administrative Services
45	19/05/95	The Hon Peter Cook Minister for Industry Science & Technology
45.1	18/10/95	Mr Neil Edwards First Assistant Secretary (ITCEI) Division Dept of Industry Science & Technology
46	31/05/95	The Hon Michael Lee MP Minister for Communications & the Arts, Minister for Tourism
46.1	16/10/95	Mr G Ryan Secretary Australia Post
47	26/06/95	The Hon Ralph Willis, MP Treasurer
48	20/02/95	Mr Rod Badger A/Deputy Secretary Department of Communications and the Arts
49	12/10/95	Mr Trevor Matheson New Zealand High Commission

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APPENDIX III

LIST OF WITNESSES (2ND STAGE OF INQUIRY ONLY)

Canberra, 18 October 1995

Australia Post

Mr Maurice Castro, Group Manager, Strategic Planning
Mr Paul Flanagan, Group Manager, Purchasing and Headquarters Services

Australian Chamber of Commerce and Industry (ACCI)

Mr Graham Chalker, Adviser, Manufacturing
Mr Shane Coombe, Member, ACCI Purchasing Reference Group
Mr David Gaul, Member, ACCI Purchasing Reference Group
Mr Alex Gosman, Member, ACCI Purchasing Reference Group
Mr Rodney Palmer, Project Officer, Government Purchasing

Australian Maritime Safety Authority

Mr Brian Munro, Group Manager, Corporate and Commercial Services

Department of Administrative Services

Mr William Peel, General Manager, Corporate Policy and Government Relations
Mr David Rome, Acting Deputy Secretary, Business Development
Mr Paul Taylor, General Manager, Purchasing Australia

Department of Finance

Mr Gavin Ford, Director, GBE Policy Section
Mrs Maria Messner, Director, Commercialisation and Purchasing Policy Section

Department of Industry, Science and Technology

Mr Neil Edwards, First Assistant Secretary, Information Technology, Communications and Environment Industries Division (ITCEI)
Ms Patricia Kelly, Assistant Secretary, Purchasing, Pharmaceuticals and Defence, Industries Branch ITCEI Division

National Rail Corporation Ltd

Dr Fred Affleck, General Manager, Corporate Affairs
Mr John Staunton, Contracts Manager

Telstra Corporation Ltd

Mr Mike Orwin, Manager, Corporate Supply
Mr Robert Samarq, General Manager, Government Relations
Mr John Stanhope, Executive General Manager, Business Support Services

APPENDIX IV

LIST OF EXHIBITS

Exhibit No.	Title/Document
1	Commonwealth Law Enforcement Board: <i>Best Practice for Fraud Control in Fraud Control Policy of the Commonwealth, 1/06/94</i>
2	Cumming John Mr, Chairman Austand: <i>Letter to Treasury, 20/11/94</i>
3	Cumming John Mr, Chairman Austand: <i>Video Tape: Lucky be damned - Expose of the Treasury</i>
4	Cumming John Mr , Chairman Austand: <i>Media fax from Austand</i>
5	Cooper's Tools: <i>Advertising Brochures</i>
6	Federal Airport Corporation: <i>Industry Development Plan, 1/07/94</i>
7	ANL: <i>PC Policy Manual Chapter 3 - Purchasing Hardware, 24/03/94</i>
8	Global Lightning Technologies: <i>Powerful Solutions - Lightning protection for all applications</i>
9	National Rail Corporation: <i>Annual Report for 1993-94 - Statement of Corporate Intent, 1/12/94</i>
10	AIIA: <i>Submission to the Industry Commission Inquiry into Australia's Computer Hardware, Software & related Service Industries, 1/11/94</i>
11	AIIA: <i>Submission to the Information Technology Review Group on the More Cost Effective use of Government Information Technology Services, 1/12/94</i>
12	AIIA: <i>Cost of Tendering Committee - Draft Report, 1/09/95</i>
13	University of Technology Sydney: <i>1995 Post Graduate Studies - Faculty of Business, 1/01/95</i>
14	Department of Transport: <i>Consultancy to undertake a stocktake of Departmental assets.</i>
15	Federal Airports Corporation: <i>Industry Development Plan, July 1994</i>
16	Civil Aviation Authority: <i>Industry Development Plan, June 1994</i>
17	Thomson, Bob Mr: <i>Letter dated 5 June 1995</i>

Exhibit No.	Title/Document
18	<i>Auslang: Profile on Ausland and the range of Auslang services</i>
19	<i>Auslang: Supply cataloguing theory</i>
20	<i>Auslang: Auslang training fundamentals of cataloguing</i>
21	<i>Minister for Administrative Services: Commonwealth Procurement Policy - Framework</i>
22	<i>Dept of Administrative Services: Getting Value for money - Commonwealth Procurement Guideline 1</i>
23	<i>Dept of Administrative Service: Open & effective competition & gazettal of purchasing information - Commonwealth Procurement Guideline 2</i>
24	<i>Dept of Administrative Services: Ethics & fair dealing - Commonwealth Procurement Guideline 3, September 189</i>
25	<i>Dept of Administrative Services: Planning Government procurement - Commonwealth Procurement Guideline 4, October 1989</i>
26	<i>Department of Administrative Services: Using staged procurement - Commonwealth Procurement Guideline 5, September 1989</i>
27	<i>Dept of Administrative Services: Using Specifications - Commonwealth Procurement Guideline 6, September 1989</i>
28	<i>Dept of Administrative Services: Negotiation - Commonwealth Procurement Guideline 7, May 1990</i>
29	<i>Dept of Administrative Services: Managing risk in procurement - Commonwealth Procurement Guideline 8, June 1992</i>
30	<i>Department of Administrative Services: Managing Performance - Commonwealth Procurement Guideline 9, October 1989</i>
31	<i>Department of Administrative Services: Benchmarks for procurement decisions - Commonwealth Procurement Guideline 10, September 1989</i>
32	<i>Department of Administrative Services: Knowing your market - Commonwealth Procurement Guideline 11, November 1990</i>
33	<i>Dept of Administrative Services: Australian & New Zealand supplies - Commonwealth Procurement Guideline 12, December 1990</i>
34	<i>Dept of Administrative Services: Contracting for consultancy services - Commonwealth Procurement Guideline 13, November 1990</i>

Exhibit No.	Title/Document
35	Commonwealth & State Government: <i>Government Procurement Agreement</i> , October 1991
36	Button, Senator John & Bolkus, Senator Nick: <i>Government promotes opportunities for local firms - DITAC media release</i> , 17 Dec 1992
37	Australia Post: <i>Industry Development Plan</i> , June 1995
38	Telstra: <i>Telstra's Supply Operating Framework</i>

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