

**Division 20: State Supply Commission, \$1 516 000 -**

Mr Dean, Chairman.

Hon John Kobelke, Minister for Consumer and Employment Protection; Training; Leader of the House.

Ms C.M. Gwilliam, Chief Executive Officer, State Supply Commission.

Mr KOBELKE: Thank you, Mr Acting Speaker. Ms Cheryl Gwilliam is the Chief Executive Officer of the State Supply Commission. We do have some other officers who are on their way here, because we have moved ahead a bit. I will introduce them when they come to the table.

The CHAIRMAN: The question is in respect of division 20; appropriation be recommended.

Mr BIRNEY: Thank you, Mr Chairman. I refer, Minister, to page 383 and the additional funding for the RSPCA of some \$250 000 in this year's budget.

The CHAIRMAN: 383? No, we are not -

Mr BIRNEY: Sorry. We are on division 20.

The CHAIRMAN: Division 20.

Mr BIRNEY: Sorry, I jumped ahead.

The CHAIRMAN: No questions on division 20?

Mr SWEETMAN: Minister, in relation to page 356, dot point 2 under "Significant Issues and Trends" -

Mr KOBELKE: Let me catch up, please.

Mr SWEETMAN: 356 and it is dot point 3 in fact under "significant issues and trends" -

The commission's focus in 2001-02 will be addressing transparency in Government contracting and maintaining opportunities through Government buying for small businesses.

The regional buying compact and then the Buy Local program, which gives a preference to local regional businesses in particular - this is a good initiative that obviously the agency is having a look at because a lot of Buy Local and the regional buying compact objectives have been undermined simply by the way quotes or tenders are assessed where they don't use price as an initial reference point. It is just taken into account, particularly in larger contracts where you have the allocation of points for various items within the tender and it excludes price during those deliberations. Price is simply looked at later on, tick a box type assessment, "Does the tender or the schedule of items represent value for money?" How can a regional preference or local preference be applied in that scenario where it does not go in and form a part of the points by which tenders are graded?

Mr KOBELKE: You are talking about the tendering overall in addition to the Buy Local. You carry across both or you are basically picking up the dot point about contracting?

Mr SWEETMAN: Where they are trying to look after smaller businesses and greater transparency and maintaining opportunities through Government for buying for small businesses.

Mr KOBELKE: I will get Ms Gwilliam to comment in more detail in a moment but if I could respond in part. The program that was put in place by the last Government was a big step in the right direction. It is now a matter of making sure that it works and works well. What the member, I think, was also alluding to - I do not want to put words into his mouth - was that it was undermined to some extent by other factors related to the way things were bundled up and the way the contract actually worked. When it was bundled up into large contracts, then even though there may have been talk of using local contractors and passing it on, very often nothing happened. There was a whole range of issues - how the whole system was managed - but the actual tendering system was put in place on 1 November 2000, which is what this Government is pursuing. It is doing a lot of work to make sure that when it is implemented, it is going to be effective and I will certainly ask Ms Gwilliam if she could go over some of the details there and what is being done.

Ms GWILLIAM: Thanks, Minister. In relation to the Buy Local review the focus will be on how we can strengthen the policy in line with what you are saying. How can we strengthen the policy to maximise opportunities for small businesses throughout the State? We have had comments by suppliers and community reps about the extent to which the tender process, the evaluation process on the criteria is such that small businesses are not being recognised in a value for money approach but rather it is dominated by price. What we are saying with the review is that really all issues are on the table. The review is about strengthening the policy. Any way of doing that will be welcomed.

The areas that we are looking at are in particular subcontracting arrangements, increased delegation to offices in the region by chief executive officers and also issues to do with how contracts, quotes, tenders are designed such that we are looking at smaller contract award recommendations rather than larger jobs. We are hoping to commence that process of consultation in November. We are looking at doing a significant roll out throughout the State, all over the State, looking at receiving public submissions. The State Supply Commission board hopes to be able to put a recommendation to the Minister for Housing and Works and services in January in terms of ways of strengthening this policy.

Mr D'ORAZIO: Mr Minister, this is a question to you. Wearing my other hat as chairman of public accounts, we have been looking at IT - in relation to provision of IT to the State - and it relates to again transparency in Government contract and maintaining -

The CHAIRMAN: Which page are you on?

Mr D'ORAZIO: Page 356, dot point 3. In relation to the transparency, especially in IT, there seems to be a problem wherever we have the provision of IT services to major departments and even to smaller departments. Has CAMS, or the State Supply Commission, looked at ways or intends to look at ways of trying to shore up this process because there seems to be a problem wherever these facilities are provided to government departments and queries of non-transparency and selected preference. It is a very difficult area to police but have you any policies forthcoming in the next budget to actually shore up this area?

[11.20 am]

Mr KOBELKE: Again I would ask Ms Gwilliam to respond, please.

Ms GWILLIAM: The answer is yes. In fact in relation to output 2 you will see reference to the Health Check program. The next Health Check to be undertaken is in fact into IT contracting. IT contracting in the WA Government is hundreds of millions dollars and there are issues about the extent to which appropriate and good contract planning is occurring. If you have good contract planning, you have good contract formation and good contracts that you can then manage. If you have poor contract planning, you are getting scope creep, budget creep.

I will not refer to the numerous public examples that exist in relation to how poor contract planning has led to significant budget overruns in IT contracting. In terms of Health Check number 4 the focus is on IT contracting. We expect to look at approximately 14 public authorities. Those agencies will be chosen on the basis of being major IT spenders so we are talking health, education, police, etc, and the focus will be on how have they gone about planning, forming and managing those contracts and it will have significant implications for policies.

We have moved already to tighten up some of the policies as a result of some of the early indications with IT contracting. There is now the requirement for all contract award recommendations above a certain figure to go to the State Tenders Committee. So the State Tenders Committee is putting a strong focus in particular on IT contracts because they are high risk.

Mr D'ORAZIO: I could say I am glad the public accounts committee has had some effect.

Mrs MARTIN: Page 356, significant issues and trends, third dot point -

The commission's focus in 2001-02 will be of addressing transparency in Government contracting and maintaining opportunities through Government buying for small business.

Is that for or from small businesses? More importantly, what are we doing to assist small business? It is one of our key election promises - I got that in - and I am just wondering what we are doing to actually achieve that. Another part to that question is locations like the Kimberley - dear to my heart - the cost of services is anything from 10 per cent to 20 per cent than what you would pay here in Perth. My dollar in Perth is worth a dollar. We need 20c more to actually get a product. I am wondering how we are going to factor that in, and it is a part of, as I said, our election promises to the region.

Mr KOBELKE: Just coming to the dot point, clearly what we are talking about is opportunities for small business and it is Government buying from them. So it is the opportunities which are to be created for small businesses, and the member for Ningaloo also raised this issue. It is a complex one where the approach of bundling up contracts so that they could actually be tendered for on simply a bottom line figure out of Perth cut out small businesses in the regions. There is a whole range of other issues which I am not an expert on which also have meant that small business has not been able to access a range of contracts and what this is about is trying to open that up for them.

Another issue which the member for Ningaloo raised in a different committee yesterday, we also require that there be training, and I am not objecting to that. That is not appropriate, but the issue that then arises is, do those extra requirements create red tape problems for small businesses who do not necessarily have the back office

people to help them deal with that? Often it is just a husband and wife with one employee or something. When you put those extra requirements in, it makes it difficult. That does not deter us from ensuring that training is a component, but it means we need to look at how we educate small businesses as to what the requirements are, so there is a range of issues. There is the structural approach to try and ensure more work is actually available so they can tender for it.

Then there is a whole range of issues which I will ask Ms Gwilliam to comment on in terms of how we make the process as simple as possible, even though we have clear standards we wish to establish there, training and other issues so that small business has a fair chance of actually getting more of the business, and we are talking here of the Government purchasing and contracting out being in excess of \$5 billion a year so there is a lot of business there and we want to make sure that small business, Western Australian based businesses, have every opportunity to get their fair share of that work.

Mrs MARTIN: Does that include remote - like the Kimberley?

Mr KOBELKE: Absolutely, yes. I would ask Ms Gwilliam to make further comment on that.

Ms GWILLIAM: Thank you, Minister. As the minister has said, there is \$5 billion of Government buying. That \$5 billion is controlled by the Buy Local policy which the State Supply Commission administers. The key mechanism we are using this financial year is in fact strengthening that policy because that policy has to be applied by departments, agencies and government trading enterprises. What we have done as well is, we have strengthened the supply policies. Supply policies are mandatory and have to be followed by public authorities. What we have done there is put a mandatory requirement in that procurement planning must address local industry capability, so when you are planning for a procurement, you must identify local industry capability and address it and you must identify selection criteria that will then be used for when that tender is called. In addition we have mandated the requirement to put up the opportunities on the early tender advice on the government contracting information bulletin board.

The other measure I would comment on is the reporting. For the first time this financial year we will have information by public authorities, by departments and by government trading enterprises in terms of the number of contracts that are awarded to small businesses.

Mrs MARTIN: Local small businesses?

Ms GWILLIAM: Local as well. The data is about collecting information on small businesses and a small business is less than 20 employees. That will be broken down in terms of regional development commission zones as well as a WA figure as well as an Australian figure so that we see the extent to which contracts are in the State, in the region, and also the extent to which contracts are going to small businesses or not and that information should be available for this financial year by about October next year.

Mr HYDE: Referring to page 356, Minister, dot points 3 and 4, it was a commitment from your Government regarding transparency and accountability and I notice the structures that have been outlined, so the structures are there, but what are we doing about transparency so people can see that the actual process, the tender process, is fair and accountable?

Mr BIRNEY: You said that without even reading.

Mr HYDE: I think I asked it last year or I wrote it last year under your Government.

Mr BIRNEY: We probably knocked it back in that case.

Mr KOBELKE: This is an important issue and in terms of giving the member an accurate and fuller answer, I would ask Ms Gwilliam if she would like to help me with that.

Ms GWILLIAM: Thank you, Minister. In relation to transparency, we have done one thing and we are still working up another initiative. What we have done is that through a supply policy which, as I said, is mandatory, we have lowered the reporting requirements on the government contracting information bulletin board for all contracts in terms of summary information about who has won the contracts, how many bids were received and at what price they were awarded to \$10 000, so on the bulletin board you can see that information readily.

The second part is, the Government came in with an electoral commitment to make contracts publicly available. We are currently reviewing the policies that are in place, in particular in South Australia and Victoria. We have had preliminary discussions about the form of a policy in Western Australia and we hope to be in a position to put a detailed policy to the Minister for House and Works for his consideration and for really implementation next year.

[11.30 am]

Mr John Kobelke; Chairman; Mr Matt Birney; Mr Rod Sweetman; Mr John D'Orazio; Mr John Hyde

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Mr HYDE: Just a supplementary. There have been cases, say, in the Kimberley, particularly Kununurra, where contracts have gone to companies that have not delivered and part of your contracting process is regarding statutory declarations. What further can you do if somebody writes in a statutory declaration that they have the money to pay wages or deliver on a service? What transparency is there from your part to make sure that they deliver on those issues when you give them a contract?

Mr KOBELKE: This is actually going to a different issue of security for payment. It is an important issue and it is a matter that I think fits within here. Do you want to make a comment on where we are advancing the matter of security of payment for subcontractors?

Ms GWILLIAM: If I just comment generally, what the commission is focusing on is, a lot of these issues are about contract management and so our focus is really with public authorities, with the agencies, about how they are managing these contracts. Arrangements need to be in place so that if there are subcontracting arrangements, we know that people are operating in accordance with the contract requirements. If not, then we need to have contracts which have mechanisms in there for dealing with disputes or failure to deliver. With the Buy Local policy, there were lots of comments from suppliers that firms were able to claim a regional preference, but in fact the principal contractor was not dealing with those regional firms that they said they would, so what we have in Buy Local policy, and it is there, is this issue of having breaches in there so that legal action can be taken if required. Often the issue is really about contract design and contract management to make sure you are getting the outcomes you are looking for.

Mr HYDE: Just further -

The CHAIRMAN: Another supplementary?

Mr HYDE: A supplementary.

The CHAIRMAN: Yes, through the Chair.

Mr HYDE: Through the Chair to the minister. I am appreciating all of that, but surely we are after the supply commission to provide that template so every government authority or whatever is not reinventing the wheel.

Ms GWILLIAM: Minister, we have provided the template and the words in the Buy Local policy, but the challenge for us, if I may, is really the educative role to public authorities which is continuous.

The CHAIRMAN: The question then is in respect to division 20 that the appropriation be recommended.

Mr SWEETMAN: Mr Chairman, I would just like to follow that with a supplementary, if I am able.

The CHAIRMAN: You can have a real one if you like.

Mr SWEETMAN: A real question. No, I just wanted to follow the same line that the member for Perth and the minister have been pursuing and that is in relation to trying to cover the scenario where a tender goes in on the basis that includes a large local component. He then gets the points during the assessment process for that, but there are no contracts written when local contractors submit their price. After the main contractor then is appointed, he goes back and what is called squeezing the dollar, ratchets the prices down, because he is then saying, "Look, I'd love to use you, but we've got other prices," and all of a sudden the main contractor has all the benefit of the regional preferencing, but then does not apply any of that to the local contract. He nails that down to the last cent and normally negotiations start about five per cent and usually end up about 10 per cent reduction in the prices submitted during tenders from the material supply or other contractor of various services. I know we are not going to be write that out of it, but realise that goes on, so it would be good if somehow we could come up with a scheme that genuinely protected that preference that local businesses and suppliers get.

Mr KOBELKE: I accept the point in the question and that is an issue that does need to be addressed. I would ask Ms Gwilliam to add further comment to that.

Ms GWILLIAM: Minister, this is a major issue in the review of the Buy Local policy. The major focuses are very much subcontracting because, as the member says, that is occurring and, secondly, the industry development opportunities through the \$5 billion of Government buying, and, picking up the comments by the other members, what can we do to enhance opportunities for small businesses.

The CHAIRMAN: The question is, in respect of division 20 the appropriation be recommended? All those in favour raise your hands. Against? I think it is carried.