

VAGO

Victorian Auditor-General's Office

State Purchase Contracts

September 2018

Independent assurance report to Parliament
2018–19: 12



State Purchase Contracts

Independent assurance report to Parliament

Ordered to be published

VICTORIAN GOVERNMENT PRINTER

September 2018

PP no 441, Session 2014–18

This report is printed on Monza Recycled paper. Monza Recycled is certified Carbon Neutral by The Carbon Reduction Institute (CRI) in accordance with the global Greenhouse Gas Protocol and ISO 14040 framework. The Lifecycle Analysis for Monza Recycled is cradle to grave including Scopes 1, 2 and 3. It has FSC Mix Certification combined with 99% recycled content.

ISBN 978 1 925678 36 9



The Hon Bruce Atkinson MLC
President
Legislative Council
Parliament House
Melbourne

The Hon Colin Brooks MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my report
State Purchase Contracts.

Yours faithfully

A handwritten signature in black ink, appearing to read "Andrew Greaves", with a long horizontal stroke extending to the right.

Andrew Greaves
Auditor-General

20 September 2018

Contents

Audit overview	7
Conclusion	8
Findings.....	8
Recommendations.....	13
Responses to recommendations	14
1 Audit context	17
1.1 Departmental goods and services expenditure.....	18
1.2 Victorian public sector procurement framework	18
1.3 Roles and responsibilities	21
1.4 State Purchase Contracts.....	23
1.5 Previous VAGO audits.....	29
1.6 Why this audit is important	30
1.7 What this audit examined and how	30
1.8 Report structure	31
2 Category planning	33
2.1 Conclusion	34
2.2 Development of category strategies	34
2.3 Department procurement spend	41
3 Overseeing and managing SPCs	49
3.1 Conclusion	49
3.2 VGPB oversight of SPCs	50
3.3 Lead agencies' development and management of SPCs	51
4 Realisation of SPC benefits	61
4.1 Conclusion	61
4.2 Targets	61
4.3 Measuring financial benefits	63
4.4 Benefits methodology	67
4.5 Non-financial benefits	68
4.6 Reliability of data	70
5 Understanding and managing contract leakage	73
5.1 Conclusion	73
5.2 Roles and responsibilities to manage leakage.....	74
5.3 Leakage from mandatory SPCs.....	75
5.4 Exemption process	85

Appendix A. <i>Audit Act 1994</i> section 16—submissions and comments	89
Appendix B. Entities bound by VGPB policies	107
Appendix C. State Purchase Contracts	109
Appendix D. Western Australian Department of Finance dashboard	113
Appendix E. Methodology for spend analysis	115
Appendix F. ANZSIC division descriptions	119
Appendix G. Goods and services spend by ANZSIC subdivision, group and class categories	123
Appendix H. Spend and benefits	129

Acronyms and abbreviations

ANZSIC	Australian and New Zealand Standard Industrial Classification	ICT	information and communication technology
ASR	Annual Supply Report	IT	information technology
CAFAS	Commercial and Financial Advisory Services	NSW	New South Wales
CMP	Category Management Plan	PAS	Professional Advisory Services
DEDJTR	Department of Economic Development, Jobs, Transport and Resources	SPC	State Purchase Contract
DELWP	Department of Environment, Land, Water and Planning	VAGO	Victorian Auditor-General's Office
DET	Department of Education and Training	VGPB	Victorian Government Purchasing Board
DHHS	Department of Health and Human Services	VPS	Victorian public sector
DJR	Department of Justice and Regulation	VPS 5	Victorian Public Service Grade 5
DPC	Department of Premier and Cabinet	WA	Western Australia
DTF	Department of Treasury and Finance		
FMA	<i>Financial Management Act 1994</i>		

Audit overview

The Victorian public sector (VPS) buys a lot of goods and services—\$18.6 billion worth in 2016–17. One way that this purchasing power is harnessed is through State Purchase Contracts (SPC). SPCs aggregate demand for commonly used goods and services such as utilities, office consumables, information and communication technology (ICT), staffing and travel services.

The primary benefit of an SPC is financial—that is, government achieves direct savings through lower unit costs and prices than would be possible through fragmented VPS procurement. Other benefits include reduced transaction costs for suppliers and buyers, as well as the ability to influence and improve the quality of service offerings.

In 2016–17 the Victorian Government’s 34 SPCs had a combined annual spend of approximately \$1.47 billion, growing from \$1.06 billion in 2014–15.

The Victorian Government Purchasing Board (VGPB) is responsible for monitoring the compliance of departments and specified entities with VGPB supply policies. The *Market analysis and review* policy includes the requirement for these agencies to use mandated SPCs and outlines the process that lead agencies must follow to establish an SPC. Four lead agencies manage SPCs—primarily the Department of Premier and Cabinet (DPC) and the Department of Treasury and Finance (DTF), but also the Department of Justice and Regulation (DJR) and Cenitex. Each SPC can involve either a sole supplier or a panel arrangement. The typical term for an SPC is three years with provision for two one-year extensions. During the term, the panel may be open, admitting new suppliers, or closed.

Of the 34 SPCs, 23 are mandatory for use by all 34 agencies subject to VGPB policies, with the remaining being optional. Statutory authorities, local councils, organisations that government partly funds, and charitable or not-for-profit organisations can use SPCs voluntarily, subject to approval from lead agencies.

VGPB reports to the Minister for Finance, with DTF providing it with secretariat and other support. VGPB was established in 1995 under the *Financial Management Act 1994* (FMA) to:

- develop, implement and review supply policies and practices
- monitor compliance with supply policies
- develop procurement capability
- establish and maintain a comprehensive database of departments’ and supply markets’ purchasing data, for access by departments
- provide strategic oversight of major procurements
- engage with stakeholders to drive greater procurement efficiencies.

Our overall objective for this audit was to assess whether government agencies realise financial and other benefits by using SPCs.

We examined whether VGPB and lead agencies oversee SPCs effectively. We also examined whether the reported benefits are reliable and whether scope exists to increase the financial benefits of these arrangements.

Conclusion

SPCs provide financial savings and other benefits. However, more savings are possible if contract management activities are strengthened to better manage suppliers, reduce the risk of leakage—expenditure made outside of mandatory SPCs—and aggregate spending in new categories. The VPS cannot fully realise these savings without comprehensive and detailed spend data, and it is the absence of such centralised data that VGPB must address.

Financial management reform in the public sector over the past three decades has included decentralised budgeting, accounting and reporting. This has led to the siloed information systems that feature today in Victorian Government departments. Departments need to harness today's technology to redress this, not just to secure better data for procurement but to make public sector financial management broadly more efficient.

Findings

Informing procurement

Neither VGPB nor lead agencies have a complete picture of the goods and services VPS agencies purchase. This is mainly due to the absence of standardised systems and consistent business rules that govern how purchasers collect and classify information.

As a result, VGPB and lead agencies do not know, who is buying what, from which suppliers and at what cost. Instead, they rely on suppliers to self-report. This means they have limited insight into potential contract leakage, and they do not fully understand all the categories of expenditure that could possibly be aggregated.

Aggregation

Lead agencies undertake market analysis and consult with key stakeholders including representatives from SPC users to support category strategy development. However, VGPB and lead agencies lack consolidated, detailed transaction data, so they are not well equipped to conduct meaningful and insightful spend analysis to develop category strategies. Because they use supplier-reported data on existing SPCs, their category strategies relate only to these existing SPCs rather than entire expenditure categories. This results in potential missed opportunities to realise further benefits.

Lead agencies undertake ad hoc checks of the supplier-reported data and require SPC users to confirm spend for some SPCs, but their verification activities are limited because they do not have all the information needed to sufficiently assess and validate the supplier reports.

We obtained and consolidated the past three years' worth of expenditure data from the seven Victorian Government departments. Our analysis of the 2016–17 year highlights the following areas of common goods and services expenditure for which SPCs do not currently exist:

- accounting services—of the \$37.1 million total departmental spend in 2016–17, the top two suppliers account for 94 per cent
- market analysis and statistical services—of the \$13.4 million total departmental spend in 2016–17, the top five suppliers account for 52 per cent.

Leakage

User departments and agencies are responsible for ensuring that expenditure made outside of mandatory SPCs, or 'leakage' does not occur. However, they do not understand or manage contract leakage in their organisations.

Lead agencies also do not effectively oversee user departments' compliance with mandatory SPCs.

We examined expenditure data at the seven departments to identify potential leakage in four mandatory SPCs. In a significant number of transactions, we were unable to determine the nature of the spend due to the limited descriptions on the invoices. Given these limitations, our analysis is conservative and indicative—it uses the best available data in departments' finance systems.

Our analysis for 2016–17 shows potential leakage of:

- \$0.25 million, or 2.1 per cent of the total spend of \$12.23 million, in the stationery category
- \$0.06 million, or 0.1 per cent of the total spend of \$48.64 million, in the travel category
- \$2.07 million, or 0.7 per cent of the total spend of \$289.37 million, in the staffing category
- we found no potential leakage in the legal services category.

This leakage, if confirmed, would contradict the statements of compliance made by departments in their Annual Supply Reports (ASR) to VGPB.

Managing contracts

VGPB oversight of SPCs

VGPB does not have the resources to directly oversee the management of all SPCs or ensure compliance with its supply policies. With its limited resources it sensibly monitors only the compliance of the seven departments, Public Transport Victoria, VicRoads, Victoria Police and Cenitex, as opposed to all 34 VPS agencies in its scope.

Annual Supply Reports

The seven departments, Public Transport Victoria, VicRoads, Victoria Police and Cenitex each submit an ASR to VGPB each year. The ASRs summarise procurement activity and report instances of non-compliance with VGPB policies, including the use of mandatory SPCs.

VGPB acknowledges the limitations of its monitoring activities in assessing compliance with its policies. For example, in their 2016–17 ASRs to VGPB, the seven departments raised no compliance issues with their SPC obligations. This is despite being unable to tell us whether contract leakage was occurring. However, VGPB accepted these assertions without detailed scrutiny or auditing of the information. VGPB stated that this was due to the lack of data and the tight time frame specified in the FMA between entities submitting their ASRs and VGPB including them as part of its annual report.

While VGPB's audit program requires entities to verify compliance with mandatory policy requirements and submit a report to VGPB every three years, this verification takes place well after assertions are made.

VGPB oversees the establishment of SPCs, however, its oversight of lead agencies' contract management activities is minimal once the contract is executed. While VGPB requests an update from lead agencies at certain milestones, these milestones are at the one- or two-year points of contracts that run for three years.

Lead agencies' management of SPCs

Lead agencies use contract management frameworks to manage SPCs. However, there are inconsistent management practices across the four lead agencies.

There is an opportunity to improve SPC performance by better monitoring suppliers' performance and sharing information with users, including:

- assessing client satisfaction
- managing key suppliers
- sharing savings opportunities with departments and entities
- tracking SPC prices.

Assessing client satisfaction

DTF surveys SPC users annually to assess their satisfaction with SPCs. The 2016–17 results indicate that almost three-quarters of users were satisfied with their overall experiences. Although this survey is useful, it does not show users' assessments of suppliers on individual engagements. This is particularly important for panel supplier arrangements such as the Professional Advisory Services (PAS) SPC, where DTF could use this information to address performance issues and notify users of issues with specific suppliers.

While the PAS SPC requires users to complete a satisfaction survey and forward it to DTF at the completion of each engagement, only a limited number of users do so. Consequently, as it acknowledges in the PAS category strategy, DTF has little visibility of the SPC's performance and buyer satisfaction.

In 2016–17, DJR undertook an extensive consultation process on the Legal Services Panel SPC to develop a new client satisfaction survey. The survey results feed into annual performance review meetings with suppliers. The survey results indicate that users are generally satisfied with the services provided by the panel.

DPC and Cenitex have limited visibility of users' assessments of supplier performance because they do not survey SPC users.

Managing key suppliers

The establishment of an SPC concentrates government expenditure with a select number of suppliers. Eight of the top 10 suppliers to the seven departments were SPC suppliers.

To manage an SPC well, lead agencies need to understand the level of supplier spend and to use this information to leverage further savings. However, this is not always occurring. For example, DPC's June 2018 review into labour hire and professional services found that despite the significant expenditure on PAS to a limited number of suppliers, 'there is no active account management of these suppliers at the whole of government level and the aggregation of demand is not actively used to drive better pricing outcomes'. DTF advised it is in the process of developing a strategy for the future PAS SPC, focusing on more active central category management.

Sharing savings opportunities with departments and entities

Lead agencies share high-level information on departmental spend and usage with VGPB and stakeholders on an ongoing basis. However, scope exists to better communicate and highlight saving opportunities and trends across users because, presently, users have no transparent way to assess if they are receiving competitive rates from suppliers compared to other users.

Such information can be useful for the users of SPCs, where suppliers may charge different users varying rates for equivalent goods or services. For example, our analysis of the hourly rate achieved by four departments for 58 engagements of temporary Victorian Public Service Grade 5 (VPS 5) senior policy officers through the Staffing Services SPC in 2016–17, revealed significant variation in rates within and between departments.

As the lead agency, DTF should review and distribute such information to SPC users to help them achieve the same level of savings as other users. Our analysis also highlights the need for user departments to do more work to understand where different parts of their businesses are paying varying rates for the same service. Understanding internal spending patterns will help SPC users negotiate lower prices during future engagements.

Tracking SPC prices

The SPC user is primarily responsible for ensuring that the prices it pays accord with the SPC contract. However, purchasing decisions are made in user departments by different business units and are not all centrally tracked through their Internal Procurement Units. This hinders the ability of SPC users to monitor compliance with SPC pricing. DPC's June 2018 review into labour hire and professional services raised concerns with how departments check the compliance of invoices with agreed rates on the Staffing Services SPC and ceiling rates on the PAS SPC.

Lead agencies, as contract managers, should also conduct spot-check analyses of supplier-reported invoices for high-risk SPCs to ensure pricing validity and accuracy, including ensuring ceiling rates are not exceeded. However, they have not done so for all SPCs.

Measuring SPC benefits

The reported benefits calculated by lead agencies show significant savings by using SPCs. Reported savings ranged from \$192 million in 2014–15 to \$272 million in 2016–17. However, we found:

- six DPC-managed SPCs where the methodology for calculating savings resulted in the overstatement of benefits
- errors in spreadsheets used by DTF and DPC to track spend and benefits for SPCs
- seven SPCs, with a total spend in 2016–17 of more than \$176 million, where lead agencies did not track financial benefits
- no documentation that reported the achievement of the non-financial benefits identified in many SPC business cases developed by DTF and DPC.

Targets

DTF is required to meet a financial-benefit performance target specified in the State Budget papers—‘Benefits delivered as a percentage of expenditure by mandated agencies under DTF managed SPCs’. Between 2013–14 and 2016–17 DTF reported that it exceeded the target each year.

DTF advised that the target of 5 per cent was derived in 2013 from past performance data. However, it is unclear whether this is a reasonable measure against which to judge performance, because DTF has not documented the basis for the target. There is also no documentation that outlines how each of DTF’s 17 SPCs contributes to the overall target. Further, the target has not changed over the four years, despite changes to market conditions and SPCs across this period.

While DTF identifies the expected financial benefit following the sourcing process for each SPC, there is scope to enhance this process by ‘locking in’ these financial benefits as targets. The next step for DTF would then be to measure reported financial benefits against these targets for each SPC.

DJR has a documented financial benefit target for the Legal Services Panel, which, since the panel’s establishment in March 2016, it has consistently exceeded.

DPC and Cenitex do not have overall or individual SPC performance targets, which means they cannot demonstrate that their SPCs deliver the expected financial benefits, and therefore cannot demonstrate that their SPCs are performing well.

Recommendations

We recommend that the Victorian Government Purchasing Board:

1. in collaboration with portfolio departments and key State Purchase Contract users, develop and implement a strategy for the central collection of comprehensive procurement data across these agencies, that identifies:
 - the procurement data that agencies need to record, as well as common rules around data entry through a common chart of accounts, to consistently capture and code goods and services expenditure
 - how procurement data should be categorised, and includes a universally recognised categorisation approach such as the Australian and New Zealand Standard Industrial Classification or the United Nations Standard Products and Services Code
 - the cost benefit of options for developing a centralised system to collect and analyse procurement data from agencies
 - how the Victorian Government Purchasing Board will share this data across agencies to improve decision making and identify potential new State Purchase Contract opportunities
 - roles and responsibilities for the project and a time line for completion (see Section 2.2).

We recommend that the lead agencies Department of Treasury and Finance, Department of Premier and Cabinet and Department of Justice and Regulation in collaboration with portfolio departments and key State Purchase Contract users:

2. use the comprehensive procurement data collected as per recommendation one to enhance contract management activities, including:
 - feeding into forward category strategies (see Section 2.2)
 - outlining the scale of potential leakage (see Section 5.2)
 - assisting in monitoring compliance with contract rules (see Section 3.3)
 - confirming supplier-reported data (see Section 4.6)
3. set a benefits target (financial and or non-financial) at the establishment or renewal of each State Purchase Contract that includes a detailed methodology—approved by the relevant project governance committee—for the calculation of benefits (see Sections 4.2, 4.3 and 4.4)
4. use the approved benefits calculation methodology to track and report the State Purchase Contract’s achievement of benefits against this target to the Victorian Government Purchasing Board (see Sections 4.2, 4.3 and 4.4)
5. use a risk-based approach to conduct checks of supplier reported data to confirm the accuracy and completeness (see Section 4.6)
6. develop and implement a risk-based approach to identify and monitor contract leakage (see Section 5.2).

We recommend that the lead agencies Department of Treasury and Finance and Department of Premier and Cabinet:

7. develop and implement a survey strategy to seek and analyse user feedback on specific State Purchase Contract suppliers and engagements—this strategy should use a risk-based approach to identify:
 - State Purchase Contracts that would benefit from analysis of user feedback
 - the frequency of these surveys (see Section 3.3)
8. develop a central record of State Purchase Contract exemptions sought by State Purchase Contracts users and report annually to the Victorian Government Purchasing Board—this record should be used for trend analysis to identify areas where users seek multiple exemptions, which potentially indicates a problem with the State Purchase Contracts scope and offerings (see Section 5.4).

We recommend that all departments as State Purchase Contract users:

9. undertake a risk-based assessment of potential contract leakage by analysing expenditure in accounts payable systems and report significant contract leakage to lead agencies (see Section 5.2)
10. include reviews of State Purchase Contract management in their forward internal audit programs, if warranted, based on the identified risk (see Section 5.2)
11. develop a central record of applications for State Purchase Contract exemptions, which may necessitate a change in process to require all exemption applications to be centrally managed within each department according to its procurement frameworks (see Section 5.4).

Responses to recommendations

We have consulted with Cenitex, the Department of Economic Development, Jobs, Transport and Resources (DEDJTR), the Department of Education and Training (DET), the Department of Environment, Land, Water and Planning (DELWP), the Department of Health and Human Services (DHHS), DJR, DPC, DTF and VGPB, and we considered their views when reaching our audit conclusions. As required by section 16(3) of the *Audit Act 1994*, we gave a draft copy of this report to those agencies and asked for their submissions or comments.

The following is a summary of those responses. The full responses are included in Appendix A.

DPC and DJR accept all our recommendations as both lead agencies and users of SPCs and developed action plans to address them.

DTF supports all our recommendations as both lead agencies and users of SPCs and developed an implementation timetable.

DHHS, DET and DELWP accept all our recommendations as users of SPCs and developed action plans to address them.

DEDJTR accept our findings and will work with DTF and other lead agencies to implement the recommendations.

VGPB supports our recommendation to work with portfolio departments and key SPC users to develop and implement an e-procurement strategy for the central collection of comprehensive procurement data. This work has commenced as part of our procurement reform program and involves exploring solutions such as standard categorisation and consistent data capture.

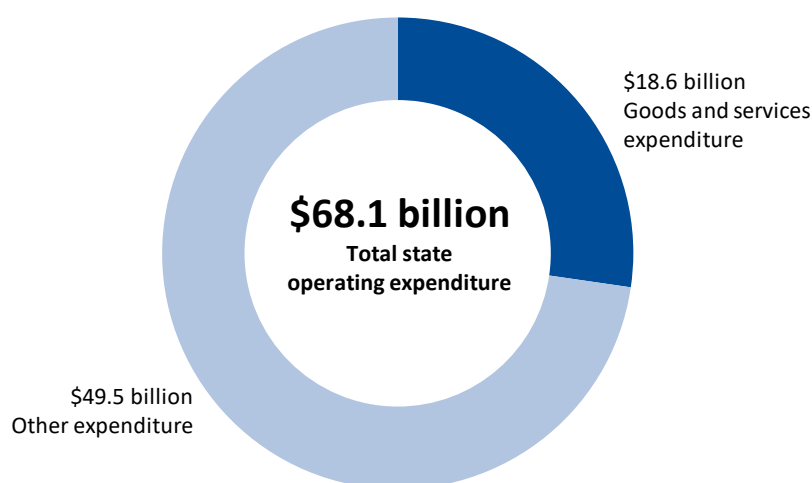
Cenitex supports the report's findings.

1

Audit context

VPS is a major purchaser of goods and services. Spending on goods and services is typically the largest item of agency expenditure after employee costs. As Figure 1A shows, the value of VPS expenditure on goods and services reported in the *2016–17 Annual Financial Report of the State of Victoria* was \$18.6 billion for the year.

Figure 1A
Overview of Victorian Government operating expenditure, 2016–17



Source: VAGO, based on the Victorian Government's *2016–17 Annual Financial Report of the State of Victoria*.

1.1 Departmental goods and services expenditure

VPS has seven government departments:

- DEDJTR
- DET
- DELWP
- DHHS
- DJR
- DPC
- DTF.

In 2016–17 these departments accounted for \$3.3 billion (17.7 per cent) of the total VPS goods and services expenditure.

Given this level of expenditure, the public sector has many opportunities to use its combined demand for common-use goods and services to achieve better value for money. This can be achieved through SPCs, which aim to:

- achieve lower prices by aggregating demand for commonly used goods, such as utilities, office consumables and ICT, and services such as staffing, and travel
- improve efficiency by reducing duplication of process.

1.2 Victorian public sector procurement framework

Various legislation governs the VPS procurement framework, described in Figure 1B, and the responsibility for policy advice, tools and training rests with several entities.

Figure 1B
VPS procurement framework

Entities	Authorising legislation	Entity responsible for policy advice, tools, training
Goods and services		
<ul style="list-style-type: none"> • All seven government departments • VicRoads, Public Transport Victoria, Cenitex • Victorian Public Sector Commission • 23 specified entities 	FMA	VGPB
Other non-health entities	Various	Portfolio department or agency
Health entities	<i>Health Services Act 1988</i>	DHHS, Health Purchasing Victoria
Construction		
All entities	<i>Project Development and Construction Management Act 1994</i>	DTF

Source: VAGO, based on information provided by DTF.

Victorian Government Purchasing Board

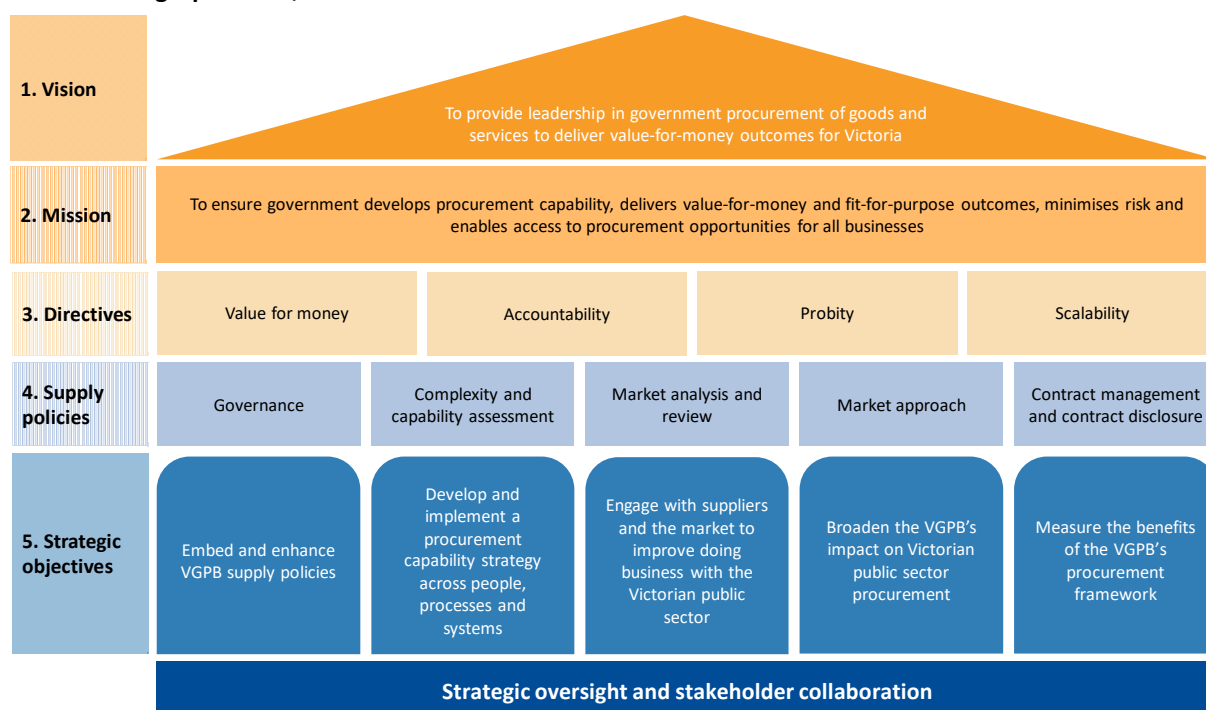
In 1995 VGPB was established under the FMA to:

- develop, implement and review supply policies and practices
- monitor compliance with supply policies
- develop procurement capability
- establish and maintain a comprehensive database of departments' and supply markets' purchasing data, for access by departments
- provide strategic oversight of major procurements
- engage with stakeholders to drive greater procurement efficiencies.

In February 2017 the government gave approval in principle to draft a Bill to amend the FMA and other legislation. The Financial Management and Constitution Acts Amendment Bill 2017 was introduced into Parliament in November 2017 and intends to update VGPB powers, functions and responsibilities.

VGPB's vision is to provide leadership in government procurement of goods and services, in order to deliver value-for-money outcomes for Victoria. Figure 1C depicts VGPB's strategic priorities for 2016–21.

Figure 1C
VGPB's strategic priorities, 2016–21



Source: Victorian Government Purchasing Board Strategic Plan 2016–2021.

The five-year strategic plan incorporates a priority for multi-organisation purchasing, which includes SPCs and other procurement models.

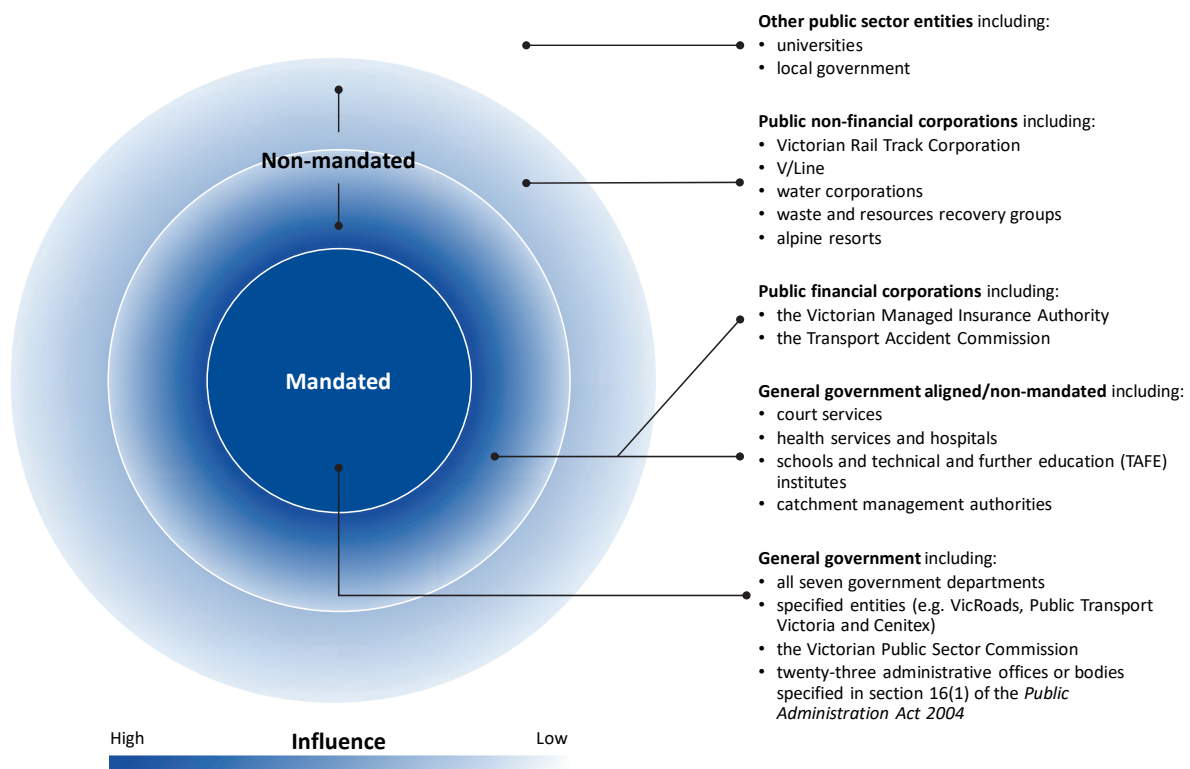
VGPB policies relate to the procurement of goods and services only, and apply to the following mandated VPS entities:

- all seven government departments
- VicRoads, Public Transport Victoria, Cenitex
- the Victorian Public Sector Commission
- 23 administrative offices or bodies specified in section 16(1) of the *Public Administration Act 2004*.

Appendix B shows the entities bound by VGPB policies.

VGPB policy does not apply to non-mandated public sector entities, local government, the procurement of building and construction works and services, or to health-related goods, services and equipment, as shown in Figure 1D.

Figure 1D
VGPB's sphere of influence across the public sector



Source: VAGO, based on information provided by DTF.

VGPB works to improve procurement practices for the broader VPS and publishes accessible better practice guidance for all entities regardless of whether they are mandated to comply with VGPB policies or not. VGPB also works with non-mandated entities that want to bring their goods and services spend within the VGPB scope.

VGPB is developing a program to broaden the number of mandated public sector bodies and specified entities that it covers.

1.3 Roles and responsibilities

Victorian Government Purchasing Board

VGPB reports to the Minister for Finance, with DTF providing secretariat and other support. The secretariat is also the conduit for communications between VGPB and departments through procurement forums, the dissemination of relevant procurement information on VGPB's website, and by email to the network of procurement personnel across government.

VGPB receives no direct funding and is instead resourced through DTF's allocation to the secretariat.

In April 2018 the Minister for Finance approved a VGPB request to change its oversight process to a more pro-active, engagement model. This approval recognised the increased procurement capability and governance processes of each department and stakeholder feedback from chief procurement officers.

The changes to VGPB oversight role are intended to drive delivery of the government's procurement reforms and to implement the recommendations of a procurement review undertaken by DPC in conjunction with DTF in December 2017.

SPC lead agencies

A lead agency is responsible for establishing and managing each SPC. The VGPB *Market analysis and review* policy specifies that an entity that seeks to establish an SPC must:

- consult VGPB regarding the category of goods or services proposed for aggregation and inform VGPB of any analysis of spend or assessment of complexity that indicates grounds for aggregating demand
- have a business case endorsed by VGPB prior to submitting it to the relevant minister for approval
- demonstrate to VGPB that it has the capability to establish and manage the proposed SPC as the lead agency.

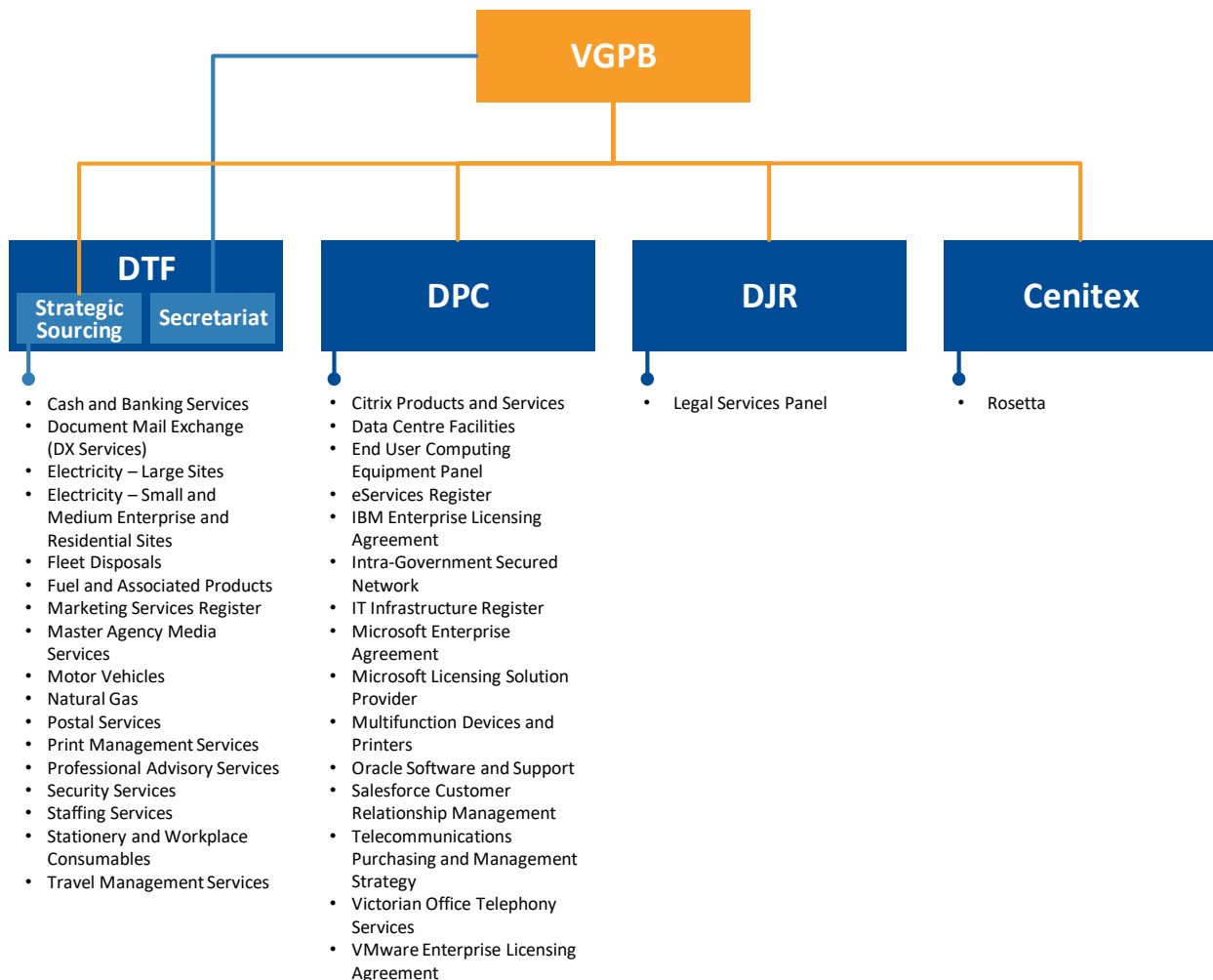
Once the lead agency obtains ministerial approval, it must again notify VGPB.

The VGPB *Market analysis and review* policy requires SPC lead agencies to:

- consider any comments made by VGPB and the relevant minister prior to engaging with the market
- inform VGPB and the relevant minister of the outcome of the market engagement process
- authorise an SPC head agreement setting out the key terms of a proposed agreement between parties on behalf of the Victorian Government.

Figure 1E shows the lead agencies for the 34 SPCs.

Figure 1E
SPC lead agencies



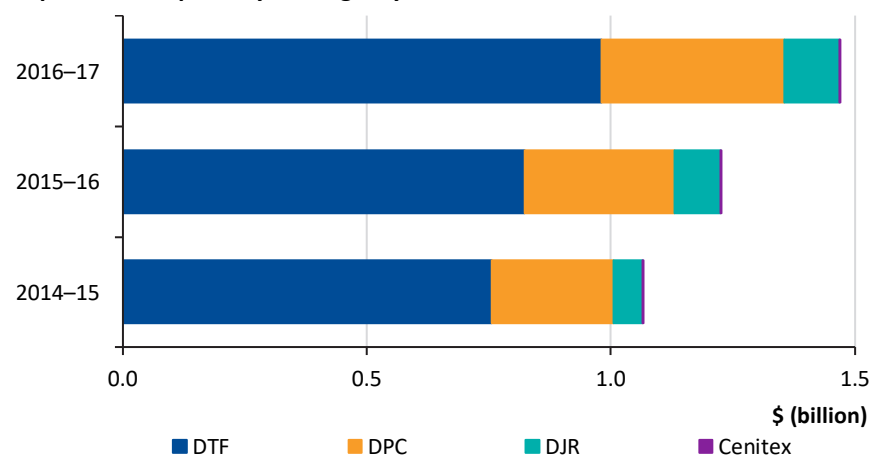
Source: VAGO.

DPC is the lead agency for SPCs relating to ICT, including hardware, infrastructure, telecommunications and software. DJR is the lead agency for the Legal Services Panel SPC. Cenitex is the lead agency for the Rosetta SPC, which relates to identity management and security software. Cenitex advised that the Rosetta SPC will likely terminate during 2018–19 given the government’s intent to go to the market for a new identity and access management solution. DTF is the lead agency for SPCs relating to a selection of other goods and services.

1.4 State Purchase Contracts

The value of SPCs is significant and growing. Figure 1F shows that reported spend under SPCs increased from \$1.06 billion in 2014–15 to approximately \$1.47 billion in 2016–17. This is an increase of 38.7 per cent and accounts for around 8 per cent of total public sector expenditure on goods and service in 2016–17.

Figure 1F
Reported SPC spend by lead agency, 2014–15 to 2016–17



Source: VAGO, based on data provided by DTF, DPC, DJR and Cenitex.

SPCs are either mandatory or non-mandatory—based on an assessment by the lead agency—for entities bound by VGPB policies. Unless the lead agency grants a formal exemption, these entities must purchase from mandatory SPCs.

Statutory authorities, local councils, organisations that government partly funds, and charitable or not-for-profit organisations can use SPCs voluntarily, subject to approval from lead agencies. Where the lead agency grants access to a non-mandated entity, this is for the duration of the SPC—generally, three years with provisions for two one-year extensions.

At June 2017 there were 34 SPCs—23 mandatory and 11 non-mandatory. Figure 1G provides a breakdown of the reported spend under each SPC for 2016–17.

Figure 1G
Reported SPC spend, 2016–17

SPC	Mandatory or non-mandatory	Estimated spend (\$ million)
DTF		
Staffing Services	Mandatory	346.7
Motor Vehicles	Mandatory	172.4
Master Agency Media Services	Mandatory	87.5
Electricity—Large Sites	Mandatory	84.6
Professional Advisory Services	Mandatory	71.0
Fuel and Associated Products	Mandatory	55.1
Security Services	Mandatory	46.6
Cash and Banking Services	Mandatory	26.6
Print Management Services	Mandatory	18.7
Electricity—Small and Medium Enterprise and Residential Sites	Mandatory	17.6
Stationery and Workplace Consumables	Mandatory	15.7
Natural Gas	Mandatory	14.5
Travel Management Services	Mandatory	13.9
Marketing Services Register	Mandatory	5.5 ^(a)
Document Mail Exchange (DX Services)	Mandatory	2.3
Fleet Disposals	Mandatory	1.2
Postal Services	Non-mandatory	1.0
Subtotal		980.9
DPC		
Telecommunications Purchasing and Management Strategy	Mandatory	153.8
End User Computing Equipment Panel	Mandatory	79.7
IT Infrastructure Register	Mandatory	44.6
Microsoft Enterprise Agreement	Non-mandatory	25.5
Microsoft Licensing Solution Provider	Non-mandatory	— ^(b)
Oracle Software and Support	Non-mandatory	22.0
Data Centre Facilities	Non-mandatory	14.9
Victorian Office Telephony Services	Non-mandatory	10.9
Multifunction Devices and Printers	Mandatory	7.7
Citrix Products and Services	Non-mandatory	5.5
VMware Enterprise Licensing Agreement	Non-mandatory	4.5
IBM Enterprise Licensing Agreement	Non-mandatory	2.9
Salesforce Customer Relationship Management	Non-mandatory	1.5
Intra-Government Secured Network	Mandatory	1.1
eServices Register	Mandatory	— ^(c)
Subtotal		374.6

Figure 1G
Reported SPC spend, 2016–17—continued

SPC	Mandatory or non-mandatory	Estimated spend (\$ million)
DJR		
Legal Services Panel	Mandatory	113.1
Subtotal		113.1
Cenitex		
Rosetta	Non-mandatory	0.7
Subtotal		0.7
Total		1 469.3

(a) DTF estimated spend, not actual spend reported by suppliers.

(b) Spend for this SPC is through the Microsoft Enterprise Agreement.

(c) Spend is not captured by DPC.

Source: VAGO, based on data provided by DTF, DPC, DJR and Cenitex.

Appendix C outlines the scope of each SPC arrangement.

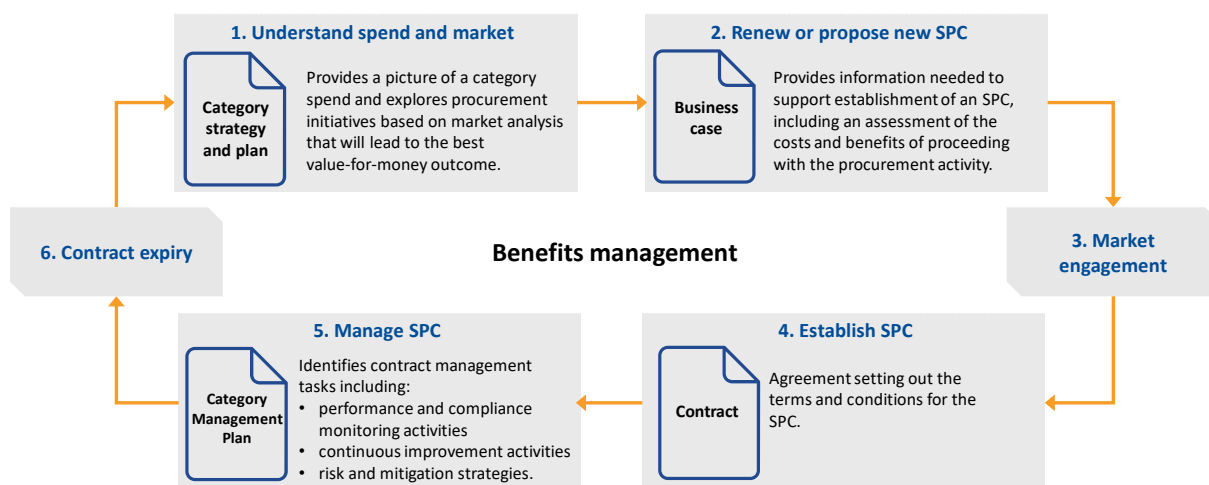
SPCs range from relatively stable goods and services, such as stationery and gas, to rapidly changing commodities, such as telecommunications and personal computers. The different characteristics of these goods and services affect the type of purchasing arrangements needed for each SPC, and influence the monitoring required.

Developing and managing SPCs

Figure 1H shows the key steps in developing and managing an SPC. The process begins with the lead agency developing a category strategy, which it uses to understand the market and potential for SPC development. In the next stage, building on the information contained in the category strategy, the lead agency prepares a business case to establish or renew an SPC.

Once the relevant minister approves the business case, the market is engaged and the lead agency executes the SPC and sets out the terms and conditions. The lead agency then develops a Category Management Plan (CMP) to monitor performance and drive continuous improvement.

Figure 1H
Process for developing and managing an SPC



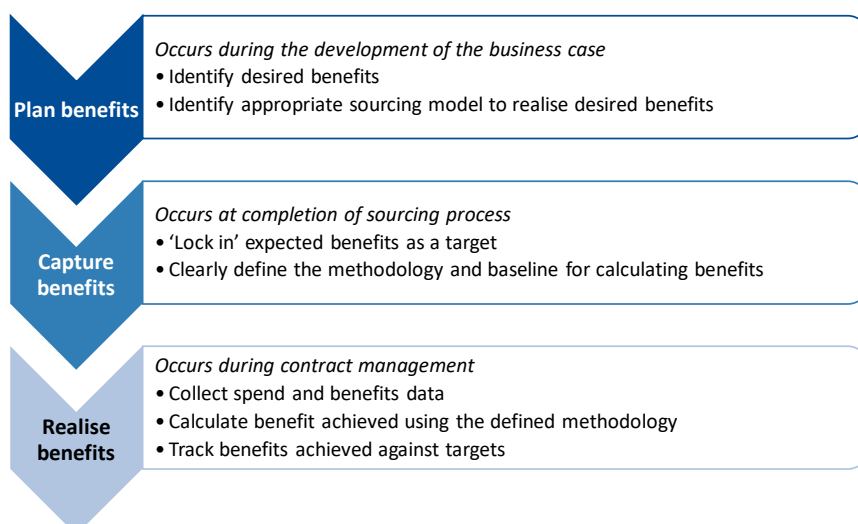
Source: VAGO, based on DTF's Strategic Sourcing Procedures manual, 2016.

Benefits management

A lead agency should define the expected financial and non-financial benefits of an SPC so that progress against these can be monitored and managed throughout the life of the contract. This includes reviewing the benefits for continued relevance and achievability over time.

Figure 1I outlines a framework used to plan, capture and realise benefits.

Figure 1I
Benefits management framework



Source: VAGO, based on DJR Procurement Benefits Realisation Framework.

Benefits tracking is critical to a lead agency's ability to demonstrate an SPC's performance. A benefits management framework supports the achievement of the expected outcomes identified in the business case and the benefits finally secured on contract award.

Financial benefits are based on a question—if the SPC did not exist, would the service or goods cost more and, if so, by how much? The answer will be the financial benefit delivered by the SPC. Examples of financial benefits include cost savings through reduced pricing, increased discounts and more favourable payment terms.

Non-financial benefits can relate to environmental, social and risk management aspects. When assessing the impact of SPCs, potential non-financial benefits need to be considered. These can include:

- availability of environmentally friendly alternatives
- reduction in procurement risks through supplier vetting
- better service quality from suppliers as they come to understand government needs through repeat engagements
- reduced commercial and legal risks from a consistent set of negotiated and legally endorsed commercial terms and conditions used across government rather than several different agency-specific contracts.

DTF and DPC guidance makes SPC lead agencies responsible for delivering the expected benefits or explaining variances when benefits do not meet expectations.

Benefits and risks of SPC arrangements

Figure 1J summarises the potential benefits and risks of SPC arrangements for government entities and suppliers.

Figure 1J
Potential benefits and risks of SPC arrangements

Entities	
Benefits	Risks
<ul style="list-style-type: none"> • Aggregated demand may increase competition among suppliers and contribute to improved pricing, terms and conditions. • There is an ability to build effective working relationships with suppliers who are familiar with the agency's needs and preferences. • A lead agency runs a single tender process for the benefit of many departments and agencies, rather than these agencies running multiple tenders across government for the same goods and services. • Faster procurement of goods and services for SPC users, given the lead agency has already performed the product research, quote sourcing and price. • The pre-qualification of suppliers ensures less risk of an inappropriate provider of goods and services. 	<ul style="list-style-type: none"> • The goods or services covered by an SPC are rapidly developing, and government cannot pursue or readily access better value-for-money options until the SPC is exhausted. • Suppliers' pricing can be affected if the scope of the SPC is defined too broadly or narrowly. • If the process to establish the SPC is not robust, government may not achieve value for money. For example, potential suppliers may not submit tenders due to onerous conditions, resulting in insufficient responses. • The lead agency may underestimate the cost of managing the SPC. In general, the greater the number of suppliers, the more work in managing the SPC.

Figure 1J

Potential benefits and risks of SPC arrangements—*continued*

Suppliers	
Benefits	Risks
<ul style="list-style-type: none"> • Access to a potentially lucrative market for goods or services for a set period. • An increased probability of future work, which assists forward planning. • Familiarity with common processes, terms, conditions and performance criteria for multiple requests for goods or services, which can lead to lower costs. • Being on an SPC may enhance the supplier's reputation and legitimacy in the market. 	<ul style="list-style-type: none"> • Where unsuccessful in an SPC application, there is no opportunity to undertake this type of work with government for the SPC period. • Selection for an SPC may unduly raise supplier expectations regarding work opportunities, as participation does not guarantee a minimum amount of work. • Onerous selection processes may disadvantage small and medium firms. • Suppliers may be bound by agreed terms and conditions for the period of the SPC regardless of external impacts such as higher costs. For example, increase in raw material costs.

Source: VAGO, adapted from the Australian National Audit Office, May 2012, *Establishment and Use of Procurement Panels*.

SPC sourcing models

SPCs are either sole or multiple supplier arrangements, including panels or pre-approved registers. Panels can be open or closed. Open panels can accept new suppliers during the term of the contract, closed panels cannot. Figure 1K outlines the different SPC sourcing arrangements.

Figure 1K

SPC sourcing arrangements

Sourcing model option	Sourcing model description
Sole supplier	A lead agency contracts a single supplier to provide goods and services. This is a closed arrangement for a set period. Examples include gas, electricity, and cash and banking SPCs.
Multiple supplier	<ul style="list-style-type: none"> • Panel—allows multiple suppliers, selected through a tender process, access to government work. Panels can be either open or closed. • Pre-approved register—allows all suppliers access to government business through a pre-qualification process.
Master vendor	Generally, an arrangement with a single supplier, providing subject matter expertise and market knowledge. The master vendor is responsible for developing partnerships and managing relationships with tier-2 suppliers to provide required services. Used to reduce complexity and administration in managing contracts and suppliers while ensuring a broader access to supply—for example, the Staffing Services SPC utilises a modified master vendor model.
Broker	Typically, an individual supplier arrangement, engaged to source products or services from a third party such as various manufacturers. Quotations are based on pre-defined statements of work and used where market expertise and buying power is low to deliver better value for money—for example, the Print Management Services SPC.

Source: VAGO, based on DTF's Strategic Sourcing Procedures manual, 2016.

1.5 Previous VAGO audits

In two previous VAGO audits of SPCs—*Government Advertising and Communications* and *Personal Expense Reimbursement, Travel Expenses and Corporate Credit Cards*—we found significant deficiencies with their management.

Government Advertising and Communications

This February 2012 audit examined the management of the Master Agency Media Services, Print Management Services and Marketing Services SPCs.

At the time of the audit, DPC was the lead agency for the Master Agency Media Services SPC. DTF was the lead agency for the Print Management Services and the Marketing Services SPCs, although DPC had been the lead agency until December 2009, when management transferred to DTF.

The audit made the following findings:

- DPC had not been effective in managing the contracts for the three SPCs reviewed. DPC did not monitor whether contracts met objectives or confirm if negotiated rates were competitive. In addition, there was little evidence that it assessed service provider performance or consistently monitored department and agency spending under each SPC.
- Management of the Print Management Services and Marketing Services SPCs improved significantly under DTF, with regular reporting from, and close coordination with, the service providers.

The audit recommended that DPC improve its management of the Master Agency Media Services contract, but in September 2015 the management of this contract also transferred to DTF.

Personal Expense Reimbursement, Travel Expenses and Corporate Credit Cards

This May 2012 audit examined how well DTF oversaw, and user departments managed, SPCs, including their understanding and management of contract leakage. The audit examined the Travel Management Services and the Stationery and Workplace Consumables SPCs.

The audit concluded that user departments had made significant savings from using these contracts. However, user departments and DTF had not fully realised potential savings because significant purchasing still occurred outside these contracts. Apart from the former Department of Justice, user departments had not understood or managed contract leakage.

The audit recommended that:

- public sector agencies should report and address expenditure outside of mandatory SPCs
- DTF should request an acquittal of contract leakage from participating agencies.

DTF noted in its response to the report that there were opportunities to work with public sector agencies to review the extent of contract leakage.

1.6 Why this audit is important

During 2014–15, VGPB reviewed its supply policies in response to the government’s election commitments and broader operational feedback. The review identified a need for VGPB to adopt a stronger role in establishing, reporting and overseeing SPCs, which DTF oversaw prior to 1 July 2016.

It is timely to assess the extent to which SPCs provide value for money and optimise other procurement benefits, given the total value of Victorian Government agency expenditure on goods and services, including under SPCs, and the relatively recent change in SPC oversight arrangements (see Section 1.3).

1.7 What this audit examined and how

Our objective was to assess whether state government agencies are realising benefits in procurement by using SPCs. We examined whether:

- SPCs are delivering value for money
- SPCs are overseen effectively.

We included eight agencies in the scope of our audit:

- Cenitex
- DEDJTR
- DELWP
- DET
- DHHS
- DJR
- DPC
- DTF.

We also examined VGPB in its oversight role of state supply policies.

We examined a selection of SPCs based on factors such as strategic importance, spend and stage of contract lifecycle to assess the appropriateness of strategies, including governance, rules of use and reporting requirements. The scope of the audit included the collection of expenditure data from the seven departments’ finance systems for the period 1 July 2014 to 30 June 2017.

Given the significant task of obtaining and analysing procurement data, we could not extend analysis to include the 2017–18 financial year.

We conducted our audit in accordance with section 15 of the *Audit Act 1994* and the Australian Auditing and Assurance Standards. The cost of this audit was \$725 000.

1.8 Report structure

The remainder of this report is structured as follows:

- Part 2 examines the availability and quality of data used to inform category planning
- Part 3 examines VGPB's oversight role and how well lead agencies oversee and manage SPCs
- Part 4 examines whether effective arrangements are in place to monitor and evaluate the achievement of expected savings and benefits from SPCs
- Part 5 examines whether departments are using SPCs when purchasing goods and services, and how user and lead agencies manage contract leakage as required by contract agreements and VGPB policies.

2

Category planning

Effectively managing the Victorian Government's significant expenditure on goods and services is an opportunity to deliver or improve value for money for the community.

Spend across the VPS can be split into different expense and procurement categories. Good category planning relies on sound knowledge of the market, good quality procurement data and robust information systems to provide a comprehensive picture of spend.

VGPB guidance defines procurement categories as groupings of similar goods or services with similar suppliers. For example, a pen is a good whereas stationery could be the procurement category.

To understand procurement categories, VGPB and lead agencies need to know the goods and services that entities are purchasing, from whom and how much they pay their suppliers, both in unit rates and in total.

The FMA requires VGPB to establish and maintain a comprehensive database of departments' and supply markets' purchasing data, for access by departments. The FMA also provides VGPB with the power to request information and data from mandated agencies relating to the supply of goods and services.

The basis for developing a procurement category strategy is analysing and understanding spend, business requirements, supply and demand, and the market. The next step is to determine how these categories of expenditure can create value for stakeholders.

In some cases, category strategies will recommend aggregation of demand across government through SPCs. Other category strategies may recommend that agencies establish their own arrangements. What is critical is developing the right strategy for each category so that procurement is not driven by a 'one size fits all' approach.

This part examines the development of category strategies, including the availability and quality of data used to inform category planning.

2.1 Conclusion

VGPB and lead agencies do not have a complete picture of the goods and services public sector agencies purchase due to the lack of good quality procurement data and analysis tools. This limits their ability to fully harness the state's purchasing power and increases the risk that SPCs are not maximising value for money. Better information would enhance category planning by allowing insightful analysis of who is buying what, from which suppliers and at what cost. This information would also help identify new SPC opportunities and where the greatest benefits can be achieved.

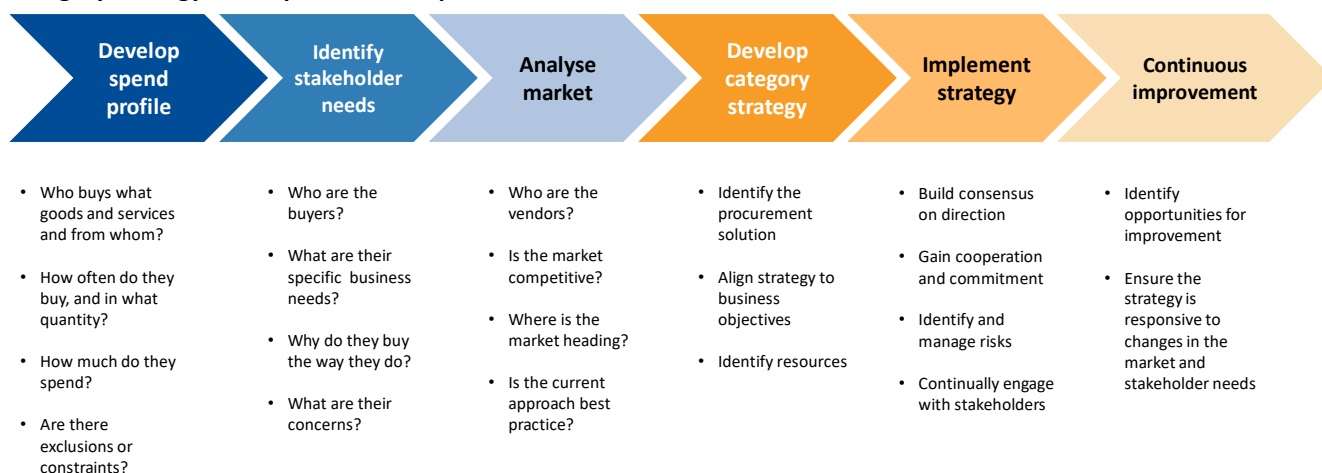
VGPB has attempted to collect procurement information. However, it has not fully met its legislative responsibilities to establish and maintain a comprehensive database of purchasing data. This is mainly due to the absence of appropriate systems in departments and entities to capture this information. Departments and entities have designed and implemented their financial systems to capture spend data to predominantly meet the needs of financial reporting and payroll functions. They do not have complete procurement information such as volumes, unit prices and products purchased.

The actions underway to establish e-procurement systems, a common chart of accounts across agencies, and standard goods and services classifications are positive. However, this needs to be expedited to enable accurate data collection across departments and entities. There also needs to be a commitment from public sector agencies to improve data quality, and clear direction and support from DTF and VGPB to drive the proposed improvements, and capture and analyse the procurement data.

2.2 Development of category strategies

Effective and efficient purchasing requires a comprehensive picture of the spend profile and of stakeholder and business needs, as well as an analysis of markets. Figure 2A summarises key activities and questions leading to category strategy development and implementation.

Figure 2A
Category strategy development and implementation



Source: VAGO, based on DTF, Strategic Sourcing Procedures manual, 2016.

Although lead agencies undertake market analysis and consult with key stakeholders, including representatives from SPC users, to support category strategy development, VGPB and lead agencies also need detailed expenditure data to identify spend patterns. However, centrally captured, comprehensive and consistently categorised procurement data is lacking, as is a tool to analyse whole-of-government procurement spend.

The absence of appropriate technology and standard processes in departments is a feature of the decentralised and devolved approaches to financial management systems and reporting that arose from the new public sector financial management paradigms of the 1990s. While these approaches have had many positive impacts on improving financial governance and accountability, they have nevertheless created and perpetuated information silos that work against whole-of-government approaches.

What is missing is:

- a central e-procurement system to streamline and integrate procurement processes and information across departments
- a common chart of accounts across agencies subject to the FMA to consistently capture and code goods and services expenditure to allow better assessment and analysis
- standard goods and services classification processes—that is, the use of the United Nations Standard Products and Services Code or the Australian and New Zealand Standard Industrial Classification (ANZSIC).

Departments have expressed interest in the use of a central e-procurement system. However, securing agreement across departments on how to meet all of their needs has proven to be complicated.

The **Victorian Secretaries' Board** comprises the Secretaries of each department, the Chief Commissioner of Police and the Victorian Public Sector Commissioner.

In 2016 and 2017 the Victorian Secretaries' Board endorsed Statements of Direction to move towards a whole-of-Victorian Government approach to implementing information technology (IT) systems that will support business areas, including procurement. The Victorian Secretaries' Board agreed that DPC will develop a Statement of Direction on procurement systems for the VPS that will outline the high-level requirements for consistent procurement systems in the Victorian Government.

The Statements of Direction aim to provide an agreed position across departments to upgrade and modernise IT systems to simplify processes and better manage resources. This technology has a five-year implementation time line.

VGPB advised that it expects the proposed adoption of e-procurement systems, a common chart of accounts and an expenditure classification framework to play a key support role in better managing and overseeing the state's procurement spend.

While the proposed improvements in systems and processes to capture procurement data are encouraging, VGPB and DTF need to centrally drive the analysis of this procurement data to better understand existing, and identify new, SPC opportunities.

VGPB's role in capturing procurement data

The FMA requires VGPB to establish and maintain a comprehensive database of purchasing data from departments and specified entities.

While the lack of standardised systems and business rules that govern how agencies collect and classify procurement information has hampered its ability to do so, VGPB has responsibility for fostering improvement in these areas. However, VGPB has insufficient resources to actively lead and coordinate a whole-of-government approach to procurement technology.

VGPB has attempted to meet this function by using data collected from ASRs provided by departments and specified entities. However, this information is limited because it includes only:

- contract expenditure for non-construction goods and services valued at more than \$100 000
- procurement activity plans that outline planned procurement activity for the next 12–18 months.

This information does not provide the detailed spend data—unit price, quantity and supplier details—needed to develop category strategies. Consequently, this is not comprehensive purchasing data, which the FMA requires VGPB to collect.

VGPB review of accounts payable data

The absence of comprehensive purchasing data impacts VGPB's ability to meet a key strategic direction in its *Strategic Plan 2016–2021* that requires it 'to develop a prioritised program of future multi-organisation procurement opportunities using SPCs or other forms of procurement models in consultation with VPS organisations'. The requirement to collect this purchasing data has been in place since the VGPB was established in 1995, however it has taken over 20 years to address this. In November 2017 it worked with DTF to commission a desktop review of accounts payable data from the seven departments, VicRoads and Victoria Police, to identify procurement saving opportunities. The review used data from 2014–15 and identified savings opportunities of between:

- \$70 million and \$154 million by establishing new SPCs
- \$49 million and \$106 million across existing SPCs, by expanding their scope or by practicing better category management.

The achievement of some of these savings depends on improved technology. The potential implementation of a whole-of-government e-procurement system is likely to enhance DTF's ability to realise these savings.

In the absence of a data classification framework, the review needed to make assumptions when classifying data. For example, if a supplier was on multiple SPCs—for example, PAS and the eServices Register—the review assigned it to one SPC. The data also did not reflect the item that the agency purchased, only the supplier and the value.

Given the limitations of the data, the review recommended a more detailed investigation of individual categories to verify the savings. In May 2018 DTF advised the Minister for Finance that a further ‘deep dive’ is not warranted at this stage due to:

- DTF activity already underway to assess new SPC opportunities—for example, as part of the government’s Regional Partnership Policy, DTF is investigating opportunities to aggregate purchasing contracts in regions, and, is considering opportunities to aggregate education and training services in regional locations
- the significant level of expenditure identified as relating to building and construction, which is outside VGPB’s scope
- this audit, which includes more up-to-date data.

Potential changes to VGPB functions

VGPB advised that through the evolution of technology, the interpretation of VGPB’s function under the FMA to ‘establish and maintain a comprehensive database of purchasing data’ has changed to reflect a more complex data management role than envisaged in 1994 when VGPB was established.

While we acknowledge that technology has changed, all government agencies are required to adapt their processes to align with such changes. The evolution of technology should have made it easier for VGPB to establish and maintain a comprehensive database of purchasing data.

In February 2015, DTF undertook a legal review of VGPB’s functions and noted that because the purchasing database needs to be comprehensive, the threshold for data collection set by the FMA is high. The legal review stated that VGPB should ‘query whether this function needs to be reviewed in light of current practice and resources. This may depend on the kinds of data that it would be useful to collect and why.’

In March 2017, VGPB put forward a legislative proposal to remove the function that requires it ‘to establish and maintain a comprehensive data base of purchasing data’. The removal of the function is subject to the passing of the Financial Management and Constitution Acts Amendment Bill 2017, which was introduced to Parliament in November 2017. If this function is not reassigned to another body, it is unlikely that this important database will be delivered.

Better practice in another jurisdiction

As Figure 2B shows, the Western Australian (WA) Department of Finance provides a better practice example of how a central procurement body can capture procurement data to analyse government spending patterns and help identify opportunities to establish SPCs.

Figure 2B

WA Department of Finance interactive dashboard reports of goods and services expenditure

The WA Department of Finance has, since 2006 on behalf of the State Supply Commission, published an annual report—*Who Buys What and How*—on goods and services expenditure for government.

Agencies provide the Department of Finance with expenditure information categorised by the United Nations Standard Products and Services Code. The report is a valuable source of information for suppliers in identifying opportunities to provide goods and services and for government in identifying new aggregated purchasing opportunities.

More recently, the WA Department of Finance has used this information and data from sales reports provided by suppliers to develop a Who Buys What and How interactive dashboard that government agencies and the public can access. The public version excludes commercially sensitive information.

The dashboard, launched in July 2018, will help agencies understand the spend in different expenditure categories and identify potential contract aggregation opportunities. The interactive dashboard provides greater transparency of agency expenditure with the ability to ‘drill down’ several levels for more detailed information.

Appendix D shows screenshots of the type of information displayed by the dashboard.

Source: VAGO, based on information provided by the WA Department of Finance.

SPC category strategies

In developing a category strategy, lead agencies typically prepare a draft strategy for discussion with the designated user reference group, which comprises key user representatives from each of the departments. Lead agencies also undertake extensive market analysis, including identifying stakeholders and business needs.

However, the lack of accessible, quality expenditure data has compromised the development of category strategies. Lead agency knowledge of procurement expenditure is limited to departments’ and agencies’ spend on SPCs. Also, this data comes from suppliers, rather than from users. Consequently, VGPB and lead agencies have no visibility of all the spend data in an expenditure category.

In comparison, the New South Wales (NSW) Government uses a system called NSWBuy. This is a one-stop shop for all NSW Government procurement. Suppliers use the system to tender for government work and manage their product catalogues, and buyers from government agencies use it to access these product catalogues to make a purchase. Buyers can build shopping lists from the product catalogue with current unit rates and purchase from whole-of-government contracts online.

Users purchase goods and services centrally and the system records the products that agencies have ordered, including the rates paid and quantities ordered. This information can then be used to perform a spend analysis at a product level for a department or at the whole-of-government level. This analysis of an entire category of spend can underpin the development of category strategies.

Victoria bases decisions about which SPC to establish or renew on analysis of the supplier-reported data of spend on existing SPCs, rather than on comprehensive expenditure data from all users in an entire category of goods and services. For this reason, the category strategies in place relate to specific SPCs, rather than entire expenditure categories, which results in potential missed opportunities to realise further benefits.

Travel category

The travel category strategy does not include an analysis of all government expenditure on travel. This data is not available to the lead agency, DTF. DTF is able to analyse spend data through the Travel Management Services SPC only, as reported by the travel management supplier, not by government users. The December 2014 category strategy for the Travel Management Services SPC noted the absence of complete and reliable spend data, given DTF did not mandate the booking of accommodation in Victoria under the previous SPC. This means that DTF lacked comprehensive spend data on Victorian accommodation.

Our review of departments' accounts payable data identified that more than \$4 million was spent on accommodation in Victoria in 2016–17 outside the SPC. This is almost half the value of what those seven departments spent on the SPC that year. Since establishing the current Travel Management Services SPC, DTF has acknowledged this and has worked with user departments to increase the number of Victorian accommodation bookings that users make through the SPC. These efforts have resulted in a doubling of accommodation bookings from 2016–17 to 2017–18. As usage of the Travel Management Services SPC increases, DTF will have a more comprehensive view of travel spend across the state. However, as the Travel Management Services SPC is only mandatory for accommodation outside Victoria, DTF will still only capture travel spend booked through the SPC, not the entire category spend.

Professional Advisory Services SPC

As Figure 2C shows, the PAS SPC provides a case study of the importance of category planning in establishing an SPC. This SPC commenced in September 2015 and expires in August 2019. It offers Commercial and Financial Advisory Services (CAFAS), Tax Advisory Services, Financial Assessment Services and Probity Services. DTF has broken these four categories down into 20 sub-categories. Before DTF established the current PAS SPC, these four services were available as four separate SPCs.

DTF has several challenges with the PAS SPC:

- Its size makes management hard.
- There is limited visibility of the hourly rates charged.
- The high number of sub-categories makes tracking compliance hard.

Figure 2C
PAS category planning

PAS is an open panel SPC—suppliers can join at any time during the contract term following a tender process. DTF adopted the open panel model to align with the objective of providing greater access to government business.

PAS also aims to streamline government engagement with service providers by merging the four separate service contracts—CAFAS, Tax Advisory Services, Financial Assessment Services and Probity Services—into a single SPC.

When developing the PAS SPC category strategy and business case, no spend data was available for past CAFAS services engaged by government. Spend on CAFAS services has subsequently been shown to make up approximately 90 per cent of spend on the PAS SPC in 2016–17.

The March 2015 business case, for combining the four SPCs into one PAS SPC, states that DTF expected the annual contract value for the PAS SPC to be approximately \$25 million a year. The actual value of the PAS SPC in 2016–17 was more than \$71 million.

At contract commencement, DTF appointed 106 suppliers to the panel, with an additional 124 suppliers added. The sheer size of the PAS SPC, with 230 suppliers, has presented DTF with challenges in managing the contract. Without an automated system, the management of the SPC has primarily focused on contract administration and contract refreshes to ensure that the panel continues to deliver on the government's commitment to support local jobs. DTF has lacked the resources to undertake more strategic contract management activities for the PAS SPC such as sharing savings opportunities with users and ensuring compliance with ceiling rates.

Given the significant challenges, DTF has commenced a review of the PAS SPC category strategy. As part of the process, DTF advises it will engage and collaborate with the chief procurement officers of the seven departments and the PAS SPC user reference group to identify improvement opportunities in the lead up to a new PAS SPC. DTF also intends to engage an external subject matter expert to obtain market intelligence and benchmarking in the PAS industry and consider how the current PAS SPC compares with best practice in the broader market.

While the review and collaboration with stakeholders will provide greater insight into user needs and the market, the issue around the lack of quality data remains because accurate and comprehensive spend data on professional services across government is still not captured.

Source: VAGO, based on information provided by DTF.

2.3 Department procurement spend

Analysis of departmental expenditure data

VGPB does not have a comprehensive database of purchasing data, so we used our access powers to obtain, consolidate and analyse financial data from the seven departments for the three financial years from 1 July 2014 to 30 June 2017.

Appendix E includes a description of our methodology and screenshot from our business intelligence tool.

Using this unique dataset, we obtained insights into:

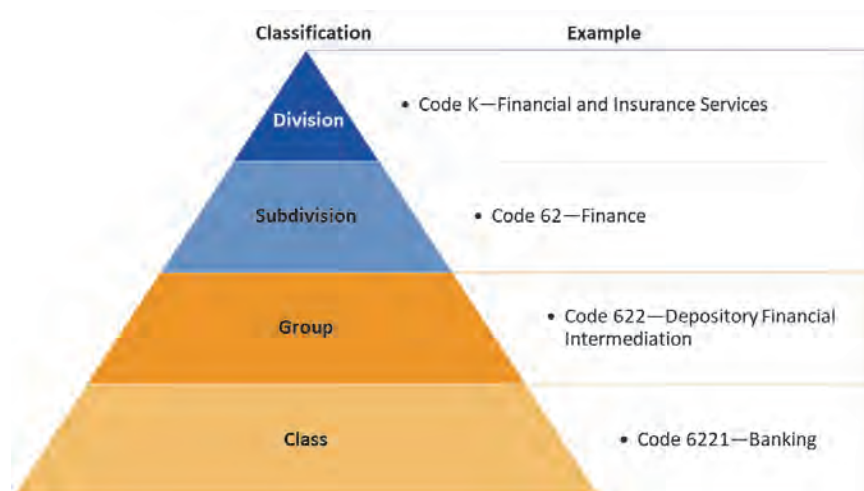
- the goods and services that are purchased (procurement category analysis)
- who purchases the goods and services (department analysis)
- who departments purchase from (supplier analysis).

We can also use our tool to analyse any combination of the above. For example, we can analyse a department's procurement spend in professional services, analyse which suppliers the department engages the most and when payments mostly occur.

Australian and New Zealand Standard Industrial Classification

We used ANZSIC to identify expenditure categories for departmental spend. As Figure 2D shows, ANZSIC is a hierarchical classification with four levels. At the divisional level, the main purpose is to provide a broad overall picture of expenditure—see Appendix F for descriptions of each division. The subdivision, group and class levels provide increasingly detailed dissections of these categories for the compilation of more specific and detailed expenditure information.

Figure 2D
ANZSIC classification



Source: VAGO, based on ANZSIC.

Departmental operational expenditure

Figure 2E displays total departmental operational expenditure, by ANZSIC divisions, for 2014–15 to 2016–17. This expenditure includes goods and services, as well as inter-governmental spend, superannuation and grants.

Figure 2E
Departmental operational expenditure summary, by ANZSIC division categories, 2014–15 to 2016–17

Division	2014–15 \$ (million)	2015–16 \$ (million)	2016–17 \$ (million)	Total \$ (million)
Public Administration and Safety	9 748.5	8 928.6	10 140.9	28 818.0
Education and Training	5 253.4	6 174.6	5 053.5	16 481.5
Professional, Scientific and Technical Services	1 758.2	1 809.9	2 452.0	6 020.1
Health Care and Social Assistance	1 603.4	1 722.7	2 011.2	5 337.3
Construction	1 234.3	505.1	2 150.2	3 889.6
Electricity, Gas, Water and Waste Services	1 130.2	1 106.4	1 338.3	3 574.9
Financial and Insurance Services	1 184.1	752.3	449.6	2 386.0
Arts and Recreation Services	515.6	653.3	587.9	1 756.8
Administrative and Support Services	491.0	497.8	501.5	1 490.3
Other Services	391.9	500.8	443.5	1 336.2
Transport, Postal and Warehousing	287.8	211.5	396.3	895.6
Information Media and Telecommunications	233.7	273.6	279.0	786.3
Wholesale Trade	230.8	248.0	291.7	770.5
Retail Trade	243.2	246.1	208.2	697.5
Manufacturing	161.0	161.0	217.4	539.4
Rental, Hiring and Real Estate Services	94.4	115.2	161.3	370.9
Agriculture, Forestry and Fishing	65.9	71.2	56.4	193.5
Accommodation and Food Services	35.2	32.9	37.1	105.2
Mining	5.6	3.1	2.4	11.1
Uncategorised	1 339.4	1 117.5	1 690.2	4 147.1
Total	26 007.6	25 131.6	28 468.6	79 607.8

Note: Uncategorised expenditure reflects items with missing or invalid Australian Business Numbers in the data we extracted from agencies. Further follow up could have identified these items, however, this was not warranted. It should be noted that, as a result, expenditure amounts in the other categories may be slightly understated, but not materially. Data provided by DHHS excludes payments pertaining to grants, housing procurement cards, clients (for example, concessions, gas, electricity and water, assistance), bushfire and flood disasters, and payroll, given the sensitive nature of the information.

Source: VAGO, based on data provided by DTF, DPC, DJR, DHHS, DET, DELWP and DEDJTR.

Around \$60.5 billion (76 per cent) of the total expenditure of \$79.6 billion during the three-year period is concentrated across five key ANZSIC division categories.

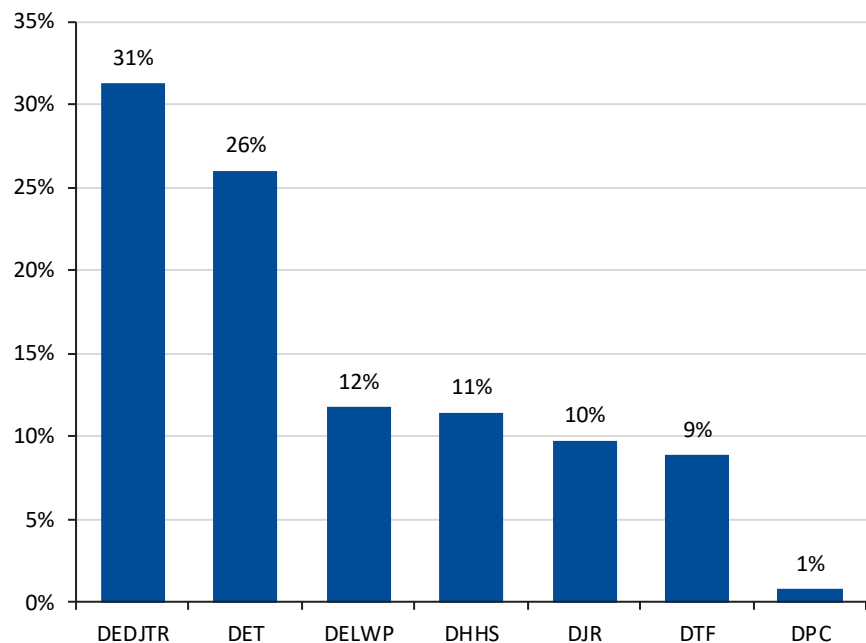
Construction had the largest rise in expenditure across the three years, increasing by \$915.6 million—followed by Professional, Scientific and Technical Services by \$693.8 million.

In percentage terms, Rental, Hiring and Real Estate Services had the greatest increase—71 per cent.

Operational expenditure by departments

Figure 2F shows that DEDJTR (31 per cent) and DET (26 per cent) had the largest spends during 2016–17, at \$8.8 billion and \$7.4 billion respectively. Their combined expenditure made up 57 per cent of the total spend analysed (\$28.5 billion).

Figure 2F
Proportion of operational expenditure by department, 2016–17

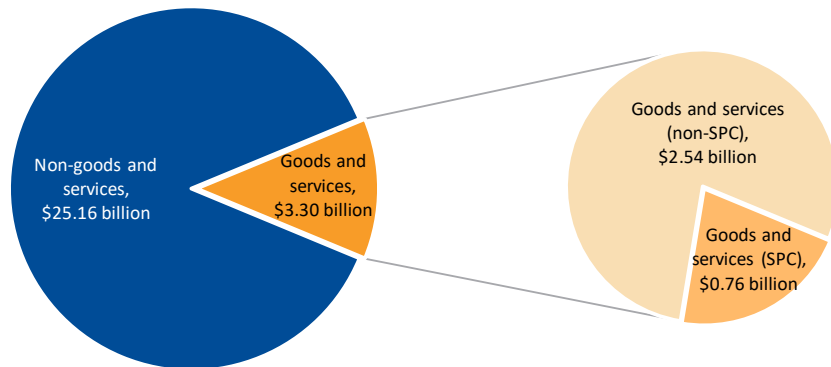


Source: VAGO, based on data provided by DTF, DPC, DJR, DHHS, DET, DELWP and DEDJTR.

Goods and services purchased

Of the \$28.5 billion expenditure across the seven departments in 2016–17, we identified \$3.3 billion (11.6 per cent) as spend on goods and services, as Figure 2G shows. The remaining \$25.2 billion includes inter-governmental payments, superannuation and grants.

Figure 2G
Departmental goods and services expenditure, 2016–17

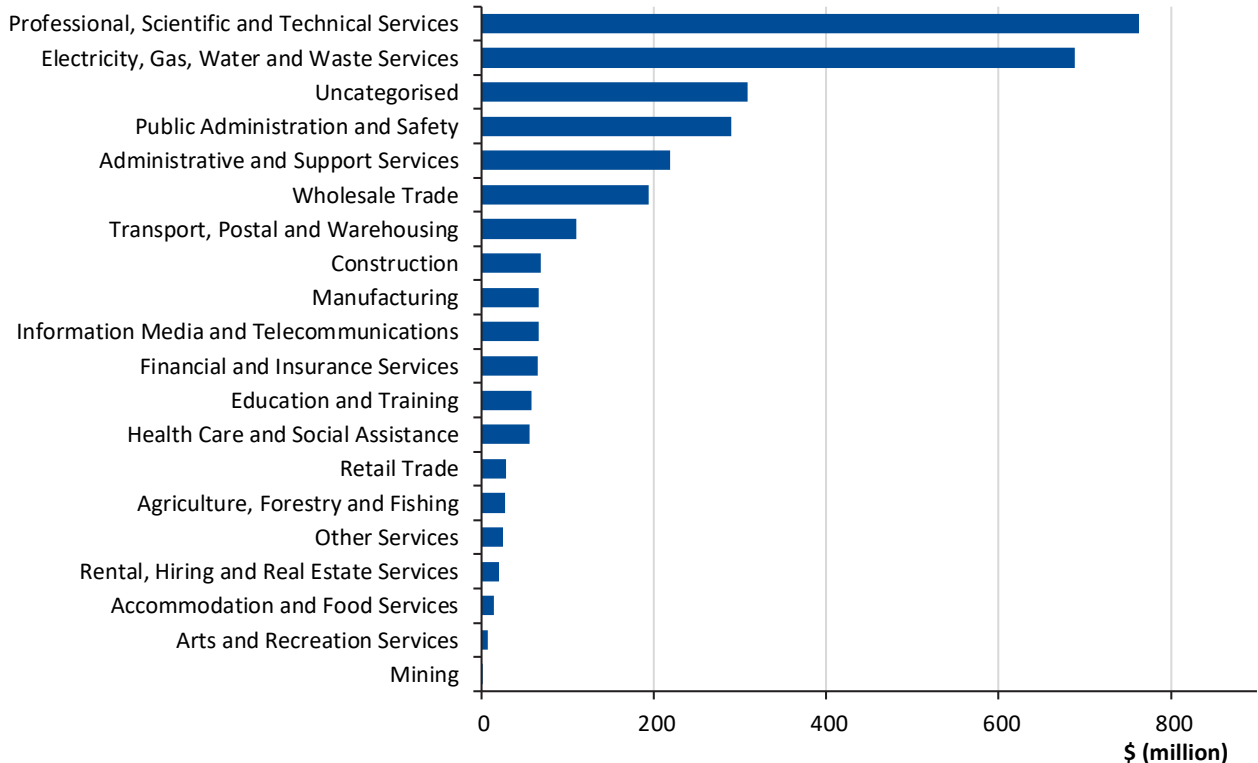


Source: VAGO, based on data provided by DTF, DPC, DJR, DHHS, DET, DELWP and DEDJTR.

Of the \$3.3 billion in departmental spend on goods and services, departments spent \$0.76 billion (23 per cent) through an SPC. This strongly indicates that opportunities to aggregate purchasing through new SPCs remain unrealised.

Figure 2H shows the total goods and service expenditure by ANZSIC divisions for 2016–17.

Figure 2H
Goods and services expenditure summary by ANZSIC divisions, 2016–17



Source: VAGO, based on data provided by DTF, DPC, DJR, DHHS, DET, DELWP and DEDJTR.

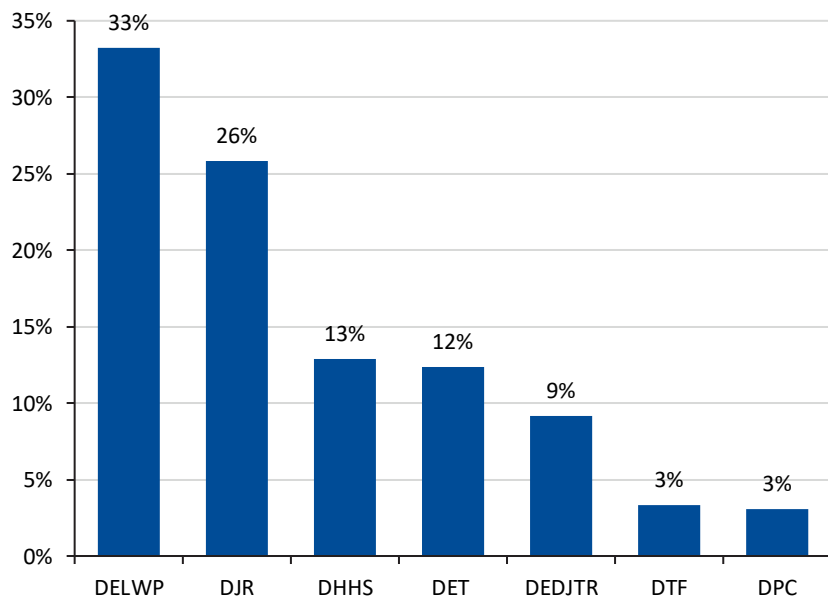
Expenditure in the top five ANZSIC goods and services divisions (excluding uncategorised) comprises around \$2.2 billion, or 67 per cent, of the total 2016–17 goods and services spend.

Appendix G provides a further breakdown of 2016–17 departmental spend on goods and services by subdivision, group and class.

Who purchases the goods and services?

As Figure 2I shows, the combined expenditure for DELWP, DJR and DHHS during 2016–17 makes up 72 per cent of the total goods and services spend for the financial year.

Figure 2I
Proportion of goods and services expenditure by department, 2016–17



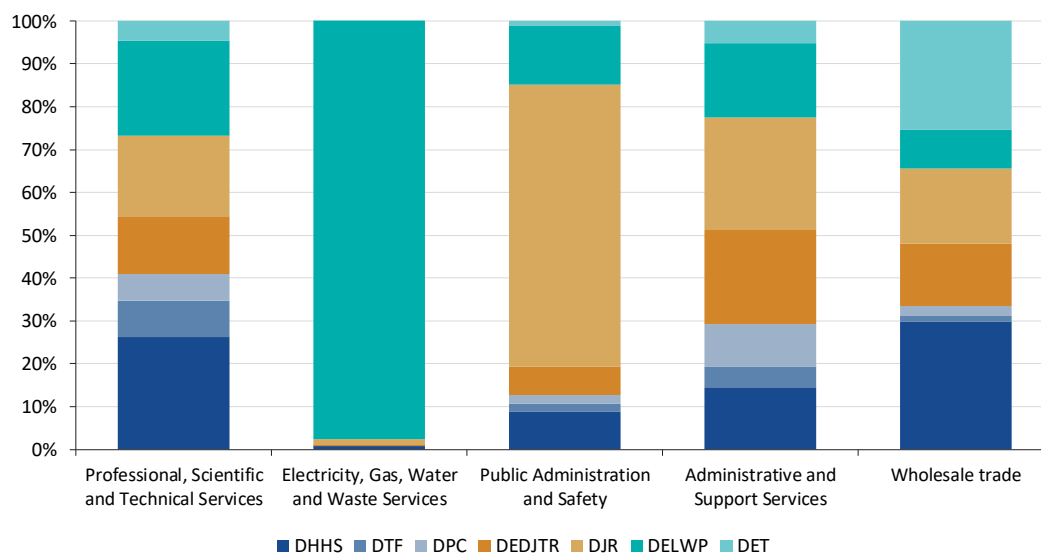
Note: Figures may not total 100 per cent due to rounding.

Source: VAGO, based on data provided by DTF, DPC, DJR, DHHS, DET, DELWP and DEDJTR.

Figure 2J shows the breakdown of the top five expenditure categories by departments.

Figure 2J

Top five expenditure categories by department, 2016–17



Note: Uncategorised spend not included.

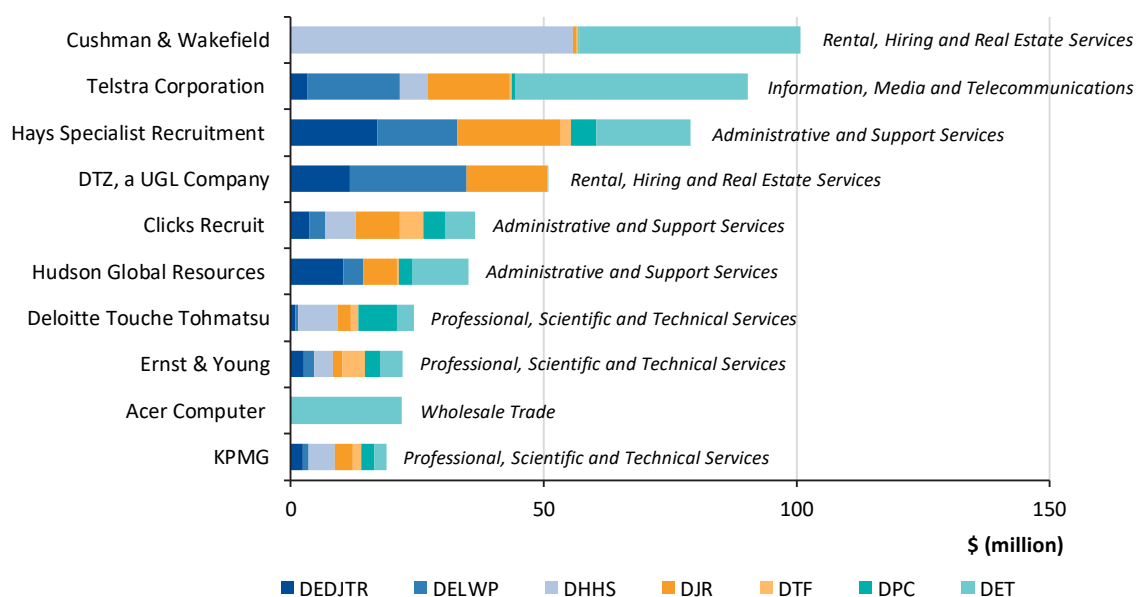
Source: VAGO, based on data provided by DTF, DPC, DJR, DHHS, DET, DELWP and DEDJTR.

Who departments spend with

In 2016–17 the departments purchased goods and services from more than 20 000 individual suppliers. Figure 2K shows the top 10 suppliers, by value, used by at least four departments. The value of spend across these suppliers is \$480.3 million (15 per cent) of total goods and services expenditure.

Figure 2K

Top 10 goods and services suppliers, including ANZSIC divisions, 2016–17



Source: VAGO, based on data provided by DTF, DPC, DJR, DHHS, DET, DELWP and DEDJTR.

Eight of the 10 suppliers in Figure 2K are nominated on an SPC. The two suppliers that are not part of a current SPC arrangement receive the highest spend (Cushman & Wakefield) and fourth-highest spend (DTZ, a UGL Company). Spend to these suppliers falls within the Rental, Hiring and Real Estate Services expenditure division. The majority of this expenditure is for office accommodation and property management services of government-leased and owned properties provided by Cushman & Wakefield through the Shared Service Provider within DTF.

New SPC procurement opportunities

Lead agencies can achieve further savings by exploring new SPC opportunities. Retenders for existing SPCs typically occur in a mature market where government has already realised the initial savings from collective procurement, which limits further benefits.

Using our tool, we identified areas of common goods and services expenditure where current SPCs do not exist. These are categories where the Victorian Government can potentially realise benefits if departments and other public sector agencies work collaboratively to aggregate spend and coordinate market engagement and procurement activity:

- Accounting services, which had a \$37.1 million total departmental spend in 2016–17. DHHS had the largest spend—28 per cent—followed by DTF and DPC at 26 per cent combined, and DET at 19 per cent. The remaining three departments made up 27 per cent. The top two suppliers account for 94 per cent of the total spend.
- Market analysis and statistical services, which had a \$13.4 million total departmental spend in 2016–17. DET spent 27 per cent of this, DHHS 21 per cent, DEDJTR 17 per cent and other departments purchased the remaining 35 per cent. The top five suppliers account for 52 per cent of the total spend.

For these three categories, it is likely that departments are currently paying different rates for the same goods and services, leading to potential inefficiencies and waste.

Other new SPC opportunities may also be available. However, lead agencies will need to use their knowledge of the relevant markets, and comprehensive and quality spend data, to undertake more detailed investigation.

3

Overseeing and managing SPCs

VGPB is responsible for monitoring the compliance of departments and specified entities with VGPB supply policies.

Under VGPB's oversight, lead agencies are responsible for the day-to-day management of SPCs. Each SPC is different, however the fundamental principles for managing contract performance are the same.

Effective SPC management ensures:

- a high standard of service and quality delivered by the suppliers
- value for money
- reduced risk
- the ability to address market changes or developments
- the identification of poor contractor performance.

This part examines VGPB's oversight role and how well lead agencies oversee and manage their SPCs.

3.1 Conclusion

The split in responsibilities for managing SPCs has led to inconsistent management practices across lead agencies. Further, VGPB does not have the resources to directly oversee the management of all SPCs or ensure compliance with its supply policies.

Lead agencies use contract management frameworks to manage SPCs, but the lack of quality data limits the effectiveness of these frameworks. In some instances, lead agencies have failed to actively manage SPCs despite holding the data to do so. This has resulted in missed savings.

3.2 VGPB oversight of SPCs

Before June 2016, DTF was responsible for overseeing all SPCs. A 2016–17 policy review conducted by VGPB identified a need for VGPB to take a stronger role in establishing, reporting on and overseeing SPCs.

VGPB has only a small secretariat, provided by DTF, to undertake all monitoring activities to ensure compliance with VGPB policies. With its limited resources, it sensibly monitors only the compliance of the seven departments, Public Transport Victoria, VicRoads, Victoria Police and Cenitex, as opposed to all 34 VPS agencies in its scope.

VGPB oversight of SPC users

The *Market analysis and review* policy outlines the requirement for agencies to use mandatory SPCs. VGPB attempts to monitor compliance through:

- ASRs, which entities submit to VGPB at the end of each financial year—ASRs summarise procurement activity for the year and report instances of non-compliance with VGPB policies, including in the use of mandatory SPCs
- an audit program—entities audit their own compliance with VGPB policies and submit a report to VGPB once every three years.

While these mechanisms play a role in assessing compliance, VGPB acknowledges their limitations. For example, in their 2016–17 ASR, the seven departments raised no compliance issues with their SPC obligations. As we discuss in Part 5, these departments were unable to tell us whether leakage was occurring from SPCs, and three departments—DET, DPC and DELWP—were unable to identify SPC spend within their own financial and procurement systems.

How these departments were able to make an attestation of compliance given these limitations is unclear. VGPB accepted these assertions on face value. VGPB stated that this is because of the lack of data and tight time frames specified in the FMA between when entities submit their ASRs and when VGPB tables these ASRs in its annual report.

While VGPB’s audit program requires entities to verify compliance with mandatory policy requirements and submit a report to VGPB every three years, this verification takes place well after attestations are made.

VGPB is assessing whether the new Financial Compliance Management Attestation will provide further assurance as to the accuracy of ASRs. However, this does not address the underlying data limitations that hinder departments’ ability to attest to compliance with SPC requirements.

The **Financial Compliance Management Attestation process** was introduced in 2017–18. It requires agencies to conduct an annual assessment of compliance with all applicable requirements in the FMA, including VGPB procurement policies.

VGPB oversight of lead agencies

VGPB oversees lead agency management of SPCs by:

- approving key documents—VGPB must endorse all SPC business cases before the lead agency submits the business case for ministerial approval
- overseeing strategic procurements—entities can nominate certain strategic procurements for VGPB to oversee, and VGPB can identify specific procurements to oversee, including the establishment or renewal of an SPC
- reviewing procurement activity plans—entities submit procurement activity plans every year for review by VGPB, which may identify potential aggregation opportunities. As discussed in Section 2.2, this is not an effective process for identifying new SPC opportunities.

Five SPCs that were renewed in 2016–17 progressed through the VGPB strategic oversight program—Telecommunications Purchasing and Management Strategy, eServices Register, Cash and Banking Services, Security Services and Master Agency Media Services. Letters between VGPB and the lead agencies for these SPCs show evidence of VGPB’s review of key documentation, including business cases and category strategies.

While this oversight process requires lead agencies to provide evidence that they have complied with VGPB policies throughout the SPC tendering process, VGPB’s oversight of lead agencies’ contract management activities is minimal once the contract is executed.

VGPB requests an update from lead agencies at certain milestones. However, these milestones are at one- or two-year points of contracts that run for three years. Consequently, there is little oversight and reporting by VGPB of contract management activities once a lead agency executes an SPC.

3.3 Lead agencies’ development and management of SPCs

Active management of SPCs by lead agencies presents the opportunity to improve SPC performance—not only in realising cost reduction by demand aggregation, but also by monitoring suppliers’ performance and sharing information with users to increase savings opportunities. The management cycle for an SPC includes:

- developing a business case
- implementing a CMP
- measuring client satisfaction
- managing key suppliers
- sharing savings opportunities with departments and entities
- tracking SPC prices.

Business cases

We examined the business case documentation for 31 SPCs to assess whether they provide an audit trail of the decision-making process and include the following key elements:

- objectives of the SPC establishment/renewal
- analysis of past spend data and forward spend estimation
- market analysis
- expected financial and non-financial benefits, including assumptions and methodology for calculating financial benefits
- sourcing options.

Figure 3A summarises the results of our assessment of business case documentation.

Figure 3A
Assessment of key elements of SPC business cases

Key elements of business cases	Number of business cases		
	Substantially met	Partly met	Not met
Objectives —clear set of objectives	31	0	0
Spend —analysis of user consumption and spend data based on projected volume and product mix	18	11	2
Market analysis —detailed research of the current market place and existing opportunities and/or constraints for government	29	1	1
Benefits —outline of expected benefits and how they will be measured	17	8	6
Sourcing options —exploration of sourcing options to respond to the problem and deliver benefits	31	0	0

Note: Substantially met—adequately addressing requirements. Partly met—partially addressing requirements with identifiable gaps. Not met—weaknesses mean the documentation falls short of the minimum required.

Source: VAGO analysis of business cases provided by lead agencies.

Most of the business cases substantially addressed the key requirements, with improvements evident in those more recently developed. Lead agencies' market analysis and consultation with key stakeholders from SPC users is occurring early to support business case development or the extension of an SPC.

However, we identified major shortcomings, including:

- a lack of documented evidence outlining assumptions for calculating financial and non-financial benefits that have been agreed with stakeholders
- the absence of comprehensive and reliable spend and volume data—lead agencies rely on historical self-reported supplier spend and volume data, which creates risks such as:
 - not considering category spend that has occurred outside an SPC
 - underestimating volumes or historical spend due to incomplete information from suppliers
 - the possibility that lead agencies may not identify suppliers increasing prices of non-contract items, which counters the benefits from the items included in the contract.

Category Management Plans

Once an SPC is executed, the lead agency must develop a CMP. CMPs outline the activities associated with managing an SPC, including:

- benefits tracking—specifying the methodology used to calculate financial benefits
- risk management—outlining risks specific to the SPC and mitigation strategies
- performance monitoring—outlining performance measures to assess supplier performance
- continuous improvement—outlining improvements that result in decreased costs or improved service levels and quality.

Of the 34 SPCs, 29 have CMPs. The remaining five SPCs, with a combined spend of more than \$17.9 million in 2016–17, do not have CMPs:

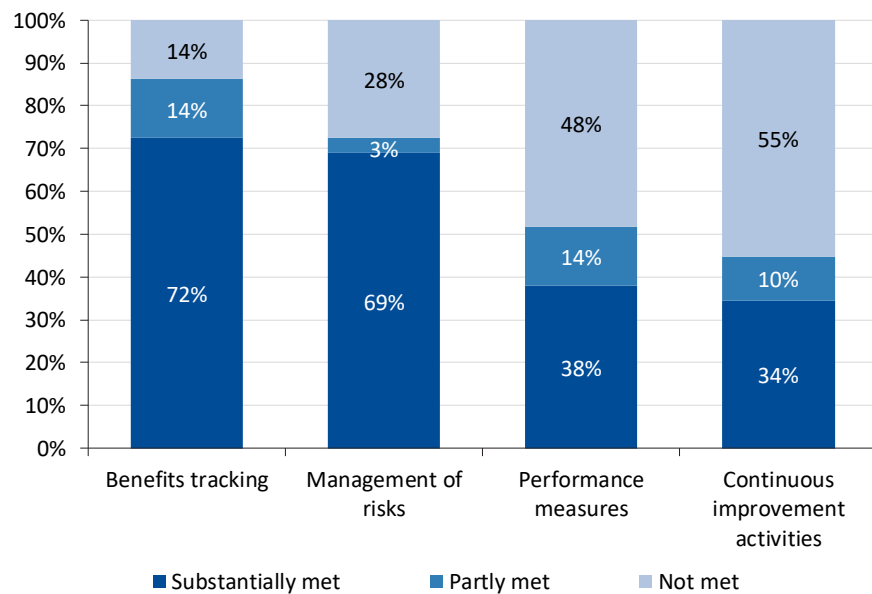
- DX Services—\$2.3 million
- Rosetta—\$650 000
- Data Centre Facilities—\$14.9 million
- eServices Register—spend data not collected by lead agency
- Microsoft Licensing Solution Provider—no spend data attributable.

Lead agencies allocate resources to the management of SPCs by assessing the importance of the category to government in terms of business impact, value, risk and complexity. The DX Services SPC and Rosetta SPC have minimal management and documentation, given the small spend amount and that there is one supplier. This is a reasonable approach.

The lack of CMPs for the Data Centre Facilities SPC, eServices Register and Microsoft Licensing Solution Provider, limits DPC's ability to ensure that these SPCs are managed consistently and that they meet their objectives.

Figure 3B summarises the results of our assessment of the 29 CMPs across their key elements.

Figure 3B
Assessment of CMPs against better practice



Note: Substantially met—adequately addressing requirements. Partly met—partially addressing requirements with identifiable gaps. Not met—weaknesses mean the documentation falls short of the minimum required.

Note: Figures may not total 100 per cent due to rounding.

Source: VAGO analysis of category management plans provided by lead agencies.

The majority of CMPs substantially or partially met the requirement to identify the methodology used to calculate financial benefits, and risks and mitigation strategies associated with the SPC.

However, more than half of the CMPs included no continuous improvement initiatives, and 14 (48 per cent) did not outline performance measures to assess supplier performance. DPC manages 10 of these 14. The absence of performance measures affects DPC's ability to identify poor contract performance and opportunities for improvements to service provision.

Four CMPs (14 per cent) did not adequately outline how lead agencies would track and measure benefits, which heightens the risk of an inconsistent approach to the calculation of benefits for these SPCs. We discuss this in Section 4.4.

Client satisfaction surveys

DTF surveys SPC users annually to assess their satisfaction with SPCs. The 2016–17 results indicate that almost three-quarters of users were satisfied or very satisfied with their overall experiences using the SPC. The survey also revealed that:

- 81 per cent of users were satisfied or very satisfied that the SPC met their departments' needs
- 73 per cent of users were satisfied or very satisfied with the suppliers' performance
- 77 per cent of users were satisfied or very satisfied with DTF engagement.

While the annual survey is useful in general, it does not show users' assessment of suppliers on individual engagements. This is particularly important for panel supplier arrangements such as PAS, where DTF could use the information to address performance issues and notify users of issues with specific suppliers.

Lead agencies engage with stakeholders to seek feedback on supplier performance. This is predominately done through a user reference group—which comprises key representatives from each of the user departments—and through surveys.

While the PAS SPC requires users to complete a satisfaction survey and forward it to DTF at the completion of each engagement, only a limited number of users do so. Consequently, DTF has little visibility of the SPC performance and buyer satisfaction.

In 2016–17 DJR undertook an extensive consultation process with all user agencies and providers on the Legal Services Panel to develop a new client satisfaction survey. The survey results feed into annual performance review meetings with suppliers. Our review of survey results for the Legal Services Panel indicates that users have generally been satisfied with services provided under the Legal Services Panel.

DPC and Cenitex have limited visibility of users' satisfaction with supplier performance because they do not survey SPC users.

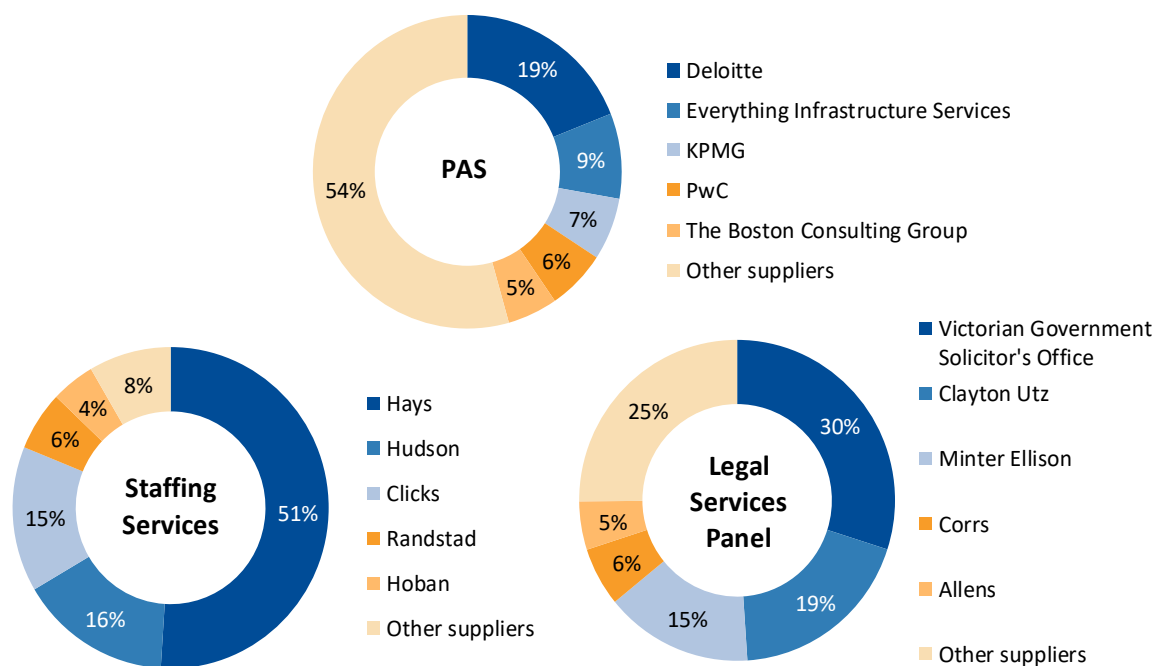
Managing key suppliers

The establishment of an SPC concentrates government expenditure with a select number of suppliers—eight of the top 10 suppliers receiving government expenditure are on SPC arrangements. To manage an SPC well, lead agencies need to understand the level of spend on suppliers and to use this information to potentially leverage further savings.

Panel arrangements

Figure 3C shows our review of three SPCs with a panel of suppliers—PAS (230 suppliers), Staffing Services (eight suppliers) and the Legal Services Panel (23 suppliers) using data provided from the lead agencies—DTF and DJR. This analysis highlights that a significant percentage of expenditure is concentrated with a small number of suppliers on each of these SPCs. This may indicate user preference for dealing with the known suppliers and some reluctance to engage new suppliers, or that some suppliers provide a greater number of services under the SPC. For example, on the Legal Services Panel there are 13 areas of law that a panel firm can compete in. Some firms only provide services in one area of law while others provide services in more than eight areas, meaning they are able to generate more revenue.

Figure 3C
SPC spend for PAS, Legal Services Panel and Staffing Services by supplier, 2016–17



Source: VAGO, based on information from DTF and DJR.

DPC's June 2018 review into labour hire and professional services found that despite the significant expenditure on PAS to a limited number of suppliers, 'there is no active account management of these suppliers at the whole of government level and the aggregation of demand is not actively used to drive better pricing outcomes'.

DTF advised it is in the process of developing a strategy for the future PAS SPC, focusing on more active central category management.

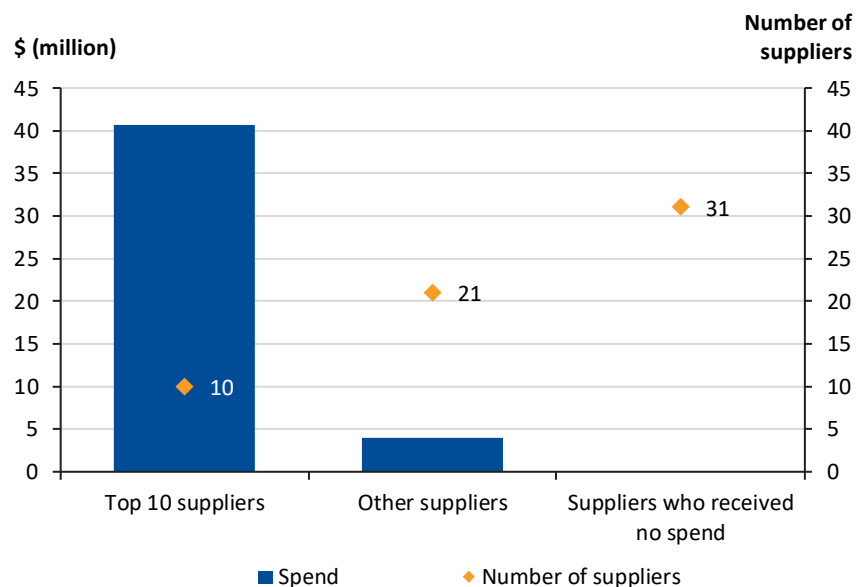
Suppliers on a register

Registers are typically used where a variety of skills and capabilities are sought across a large supplier base. They allow pre-qualification of suppliers who satisfy certain key selection criteria relating to their capability to supply goods or services to government business.

Pre-qualified registers have the advantage of not ‘locking up’ a market, as new entrants can be added at any time. One challenge is that although many suppliers may be registered, many find that they do not receive government work. Limited performance information about suppliers is available to user agencies, so it is common for users to select firms they have previously used.

For example, Figure 3D shows that the top 10 suppliers, in terms of spend, made up around 91 per cent (\$40.6 million) of the total spend (\$44.6 million). Half the suppliers on the IT Infrastructure Register received no work from the Victorian Government in 2016–17. This highlights that entities continually use the same suppliers, which may compromise their ability to get the best value for money.

Figure 3D
IT Infrastructure spend by suppliers, 2016–17



Source: VAGO based on data from DPC.

Marketing Services Register

Our February 2012 *Government Advertising and Communications* audit identified that DPC's management of the Marketing Services SPC was poor, with ineffective recording, reporting and monitoring of government expenditure for marketing services. DTF has managed the original Marketing Services SPC as a register since December 2009.

While the August 2013 business case for the Marketing Services SPC identified the need for an online system that captures spend, this was not fully implemented. Consequently, DTF has had to estimate spend and cannot measure benefits.

An online system that captures procurement activity is crucial to the operations of the Marketing Services Register to support compliance and visibility of procurement activity, and to minimise the risk of contract leakage. Furthermore, it would allow DTF to obtain accurate data to quantify the benefits of the Marketing Services Register.

Sharing saving opportunities

Lead agencies share high-level information on departmental spend and usage with VGPB and stakeholders on an ongoing basis. However, an opportunity exists to better communicate and highlight savings opportunities and trends across users because, presently, users have no transparent way to assess if they are receiving competitive rates from suppliers compared to other users.

This information can be useful for SPC users where suppliers may charge different users varying rates for equivalent goods or services, such as on the PAS, Legal Services Panel and Staffing Services SPCs.

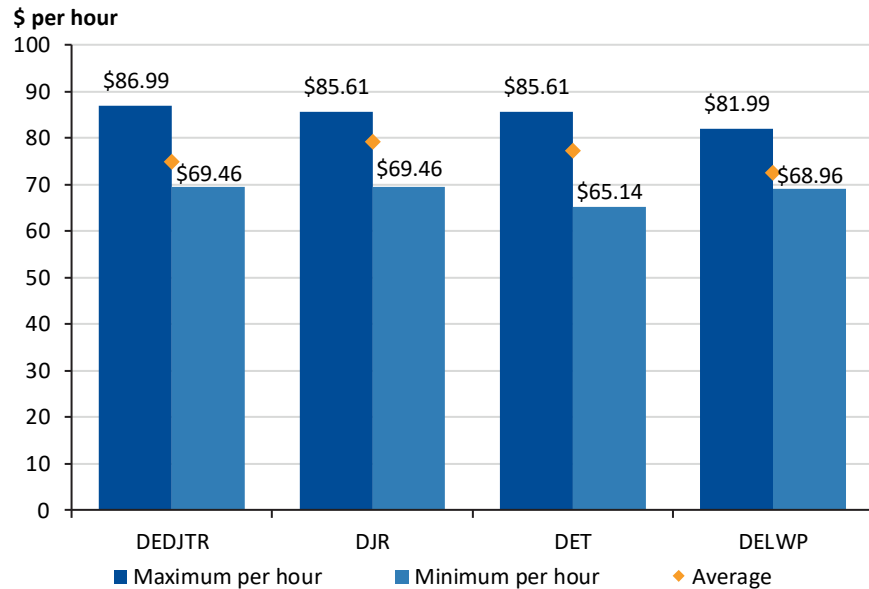
As an example, we analysed 58 engagements of temporary senior policy officers through the Staffing Services SPC in 2016–17 across four user departments:

- 17 engagements by DEDJTR
- 18 engagements by DELWP
- 9 engagements by DJR
- 14 engagements by DET.

All these engagements were for staff hired at a VPS 5 level for between three and six months. The hourly rate varied within and across departments. Figure 3E shows the minimum, maximum and average hourly rates achieved by the departments.

The **Staffing Services SPC** is for the engagement of temporary staff to work in government agencies.

Figure 3E
Hourly rates for temporary VPS 5 senior policy officers, 2016–17



Source: VAGO, based on supplier reports.

While no staffing engagement is the same, this comparison of hourly rates is valuable. As the lead agency, DTF should be reviewing and distributing such information to SPC users to help them identify where they may not be achieving the same level of savings as other users.

This analysis also highlights the need for user departments to do more work to understand where different parts of their businesses are paying varying rates for the same service. Understanding internal spending patterns will help SPC users negotiate lower prices during future engagements.

In addition to the Who Buys What and How interactive dashboard—discussed in Part 2 of this report—the WA Department of Finance is developing interactive dashboards for its whole-of-government goods and service contracts that will show the comparative rates agencies have paid the same supplier. The intention of presenting a collective view of agency data is to encourage collaboration and the proactive sharing of advice across agencies, resulting in better outcomes. To protect the commercial sensitivity of this information it will only be available to agencies.

Price tracking to ensure compliance

Some SPCs provide a negotiated discount—such as Oracle Software and Support—or a ceiling rate—such as PAS—for the goods or services provided. Price tracking against the contract is an important contract compliance measure.

Each department has an **Internal Procurement Unit** responsible for ensuring that procurement activity complies with VGPB policy.

The SPC user is primarily responsible for ensuring that the prices it pays accord with the SPC contract. However, purchasing decisions in user departments are made by different business units and are not all centrally tracked through the Internal Procurement Unit. This hinders the ability of SPC users to monitor compliance with SPC pricing.

DPC's June 2018 review into labour hire and professional services raised concerns with how departments check compliance of invoices with agreed rates on the Staffing Services SPC and ceiling rates on the PAS SPC.

Lead agencies also have a role in highlighting the variation in prices paid compared to the agreed rates and discounts outlined in an SPC agreement. However, they have limited visibility of purchasing decisions, partly due to the lack of centralised procurement information.

Lead agencies, as contract managers, should also conduct spot-check analyses of supplier-reported invoices for high-risk SPCs to ensure pricing validity and accuracy, including ensuring ceiling rates are not exceeded. However, they have not done so.

As Figure 3F discusses, in June 2017 DTF engaged a third party to develop a dashboard to identify spend above the ceiling rates agreed for the PAS SPC.

Figure 3F
Price tracking for the PAS SPC

Suppliers on the PAS panel have submitted 'not to exceed' prices for hourly rates charged for their consultancy services. The PAS model, agreed with stakeholders, requires purchasers to negotiate improved fees, thereby maximising value for money at the point of procurement. This process depends on the SPC user. DTF, as the lead agency, only sees the hourly rates charged later, when it receives quarterly reported data from suppliers.

Our analysis of DTF's dashboard revealed that although DTF has attempted to monitor compliance with PAS ceiling rates, significant work is required before the data is accurate, including on the number of hours worked. DTF advised that these numbers are not always accurate—consequently it is currently unable to monitor if SPC users have paid more than the ceiling rates.

With these data caveats in mind, we assessed the data reported by one PAS supplier in 2016–17. Using the number of hours and total spend reported by this supplier, we analysed how many transactions were above the ceiling rate. Of the 61 purchase orders, 10—or 16 per cent—appeared to be above the ceiling rate. Our analysis depends on the supplier correctly recording the number of hours charged, which may not be accurate. Regardless of whether this data is completely correct, it highlights the risk that payments above the ceiling rate may occur in the PAS SPC.

User departments are responsible for the amounts they agree to pay PAS suppliers. As a second layer of protection, DTF should continue to build capacity to perform this type of compliance monitoring to help user entities achieve value for money.

Source: VAGO based on information provided by DTF.

4

Realisation of SPC benefits

Tracking and reporting SPC benefits is a key part of measuring the performance of an SPC. Lead agencies should be able to show whether SPCs are delivering the expected benefits.

This part examines whether effective arrangements are in place to monitor and evaluate the achievement of expected savings and benefits from SPCs.

4.1 Conclusion

Lead agencies report that SPCs deliver significant financial benefits. However, without individual targets for each SPC to measure these reported benefits against, it is difficult to determine if they represent value for money.

For some SPCs managed by DPC, we disagree with the methodology used to calculate these benefits and we believe the calculation has resulted in the overstatement of benefits.

For seven SPCs, lead agencies did not report any financial or non-financial benefits. The lead agencies are unable to show that these SPCs deliver a benefit to the state.

VGPB does not publicly report the overall financial benefits of SPCs and there is no evidence of central oversight of the way lead agencies calculate financial benefits for different SPCs.

4.2 Targets

Tracking and reporting SPC benefits is the key way lead agencies show the performance of an SPC and the impact of contract management activities.

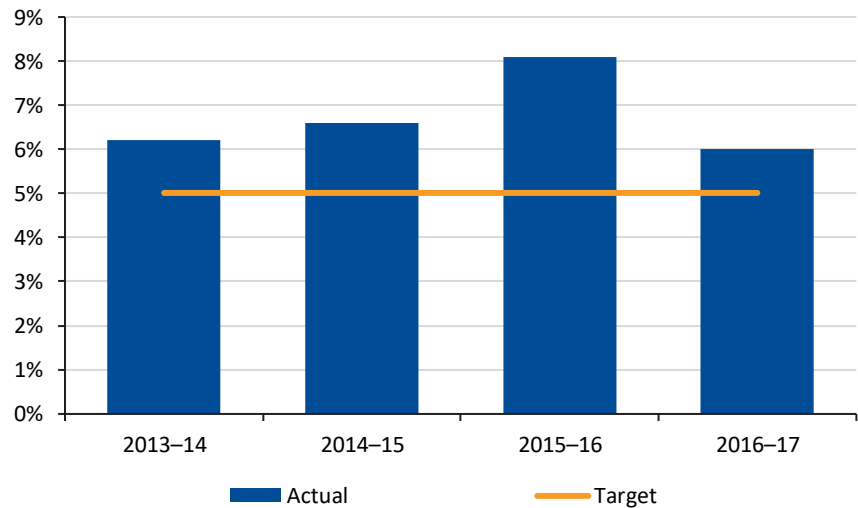
We assessed whether lead agencies reported on the overall performance of the SPCs they managed, and whether lead agencies had targets to measure the benefits of each SPC.

Overall targets for lead agencies

DTF is the only lead agency that publicly reports on the performance of SPCs against a target. DTF is required to meet a financial benefit performance target specified in the State Budget papers—‘Benefits delivered as a percentage of expenditure by mandated agencies under DTF managed SPCs’.

Figure 4A shows how DTF-managed SPCs performed for 2013–14 to 2016–17 against the target of 5 per cent.

Figure 4A
Reported financial benefits delivered as a percentage of expenditure by mandated agencies on DTF-managed SPCs, 2013–14 to 2016–17



Source: VAGO, based on information from 2013–14 to 2016–17 State Budget papers and DTF.

DTF reported that it exceeded the target each year. DTF advised that the 5 per cent target was derived in 2013 from past performance data. However, DTF has not documented the basis for the target and it is unclear whether this is a reasonable measure against which to judge performance. There is also no documentation that outlines how each of DTF’s 17 SPCs should contribute to the target. Further, the target has not changed over four years, despite changes to market environments and SPCs across this period.

DPC and Cenitex do not have overall performance targets to meet for their SPCs, which makes it difficult to assess reported benefits and track performance. DJR has a target but only manages one SPC so is discussed in the next section.

Individual targets for SPCs

Measuring and monitoring benefits against pre-determined targets enables lead agencies to determine if SPCs are performing as expected. Following the sourcing process, the expected benefits of an SPC should be 'locked in' as documented targets. Lead agencies should then report against these targets to demonstrate that SPCs are achieving expected value for money.

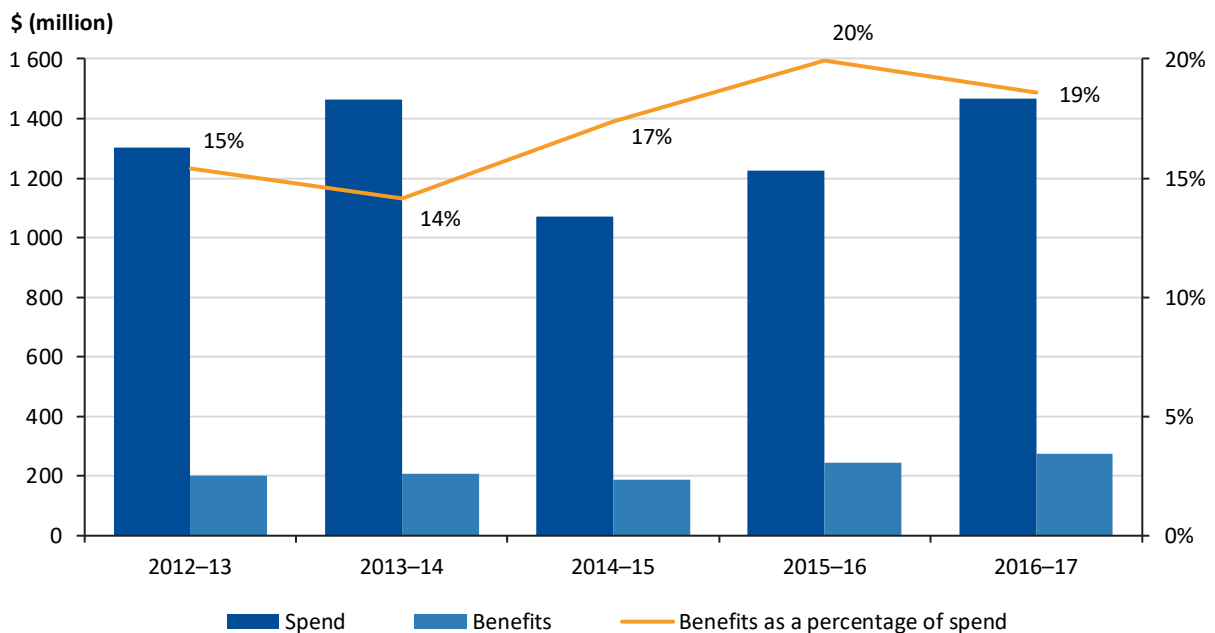
The Legal Services Panel is the only SPC with a 'locked-in' target against which the lead agency, DJR, can track financial benefits. DJR's target reflects the discount in hourly rate that the SPC hopes to achieve compared to the market. DJR undertakes an annual benchmark activity to measure whether SPC rates have achieved this. Since the Legal Services Panel's establishment in March 2016, DJR has consistently exceeded this target. Given this is the only SPC that DJR manages, it does not report publicly against this target to ensure the financial benefit achieved remains confidential.

Although DTF identifies the expected financial benefit following the sourcing process for an SPC, they do not lock in targets and measure against these. DPC and Cenitex also do not have documented individual financial benefit targets for each SPC they manage. Without 'locked-in' targets, DPC and Cenitex cannot demonstrate that their SPCs are performing well.

4.3 Measuring financial benefits

Lead agencies report the achievement of financial benefits for 26 of the 34 SPCs. Figure 4B shows all reported SPC spend and benefits for 2012–13 to 2016–17.

Figure 4B
Overall reported spend and benefits, 2012–13 to 2016–17



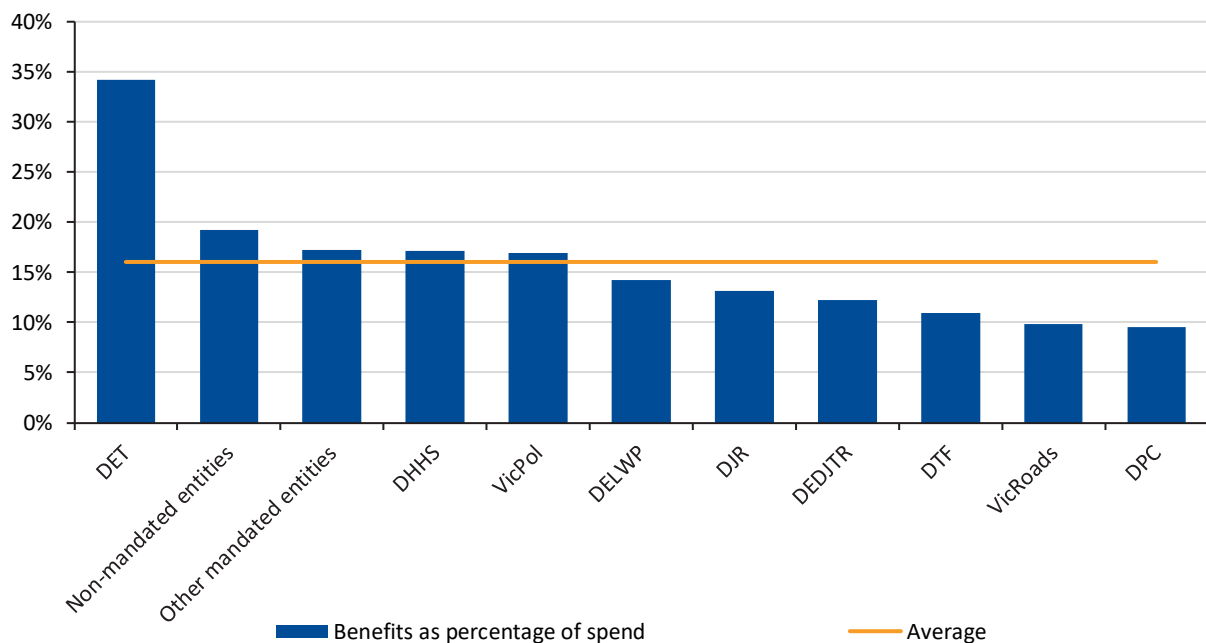
Source: VAGO, based on data provided by DTF, DPC and DJR.

The total reported financial benefits as a percentage of expenditure ranged from 14 to 20 per cent. This provided reported savings to SPC users of between \$192 million in 2014–15 and \$272 million in 2016–17. Appendix H provides the SPC spend and benefits reported by DTF and DPC for 2012–13 to 2016–17.

Financial benefits achieved by user entities

The reported financial benefits in 2016–17, as a percentage of spend, varied between users and ranged from 9.5 per cent at DPC to 34.2 per cent at DET, as Figure 4C shows. This variation can be due the nature of goods and services purchased by entities and the different methodologies used to calculate benefits for each SPC.

Figure 4C
Reported financial benefit as a percentage of spend by user entity, 2016–17



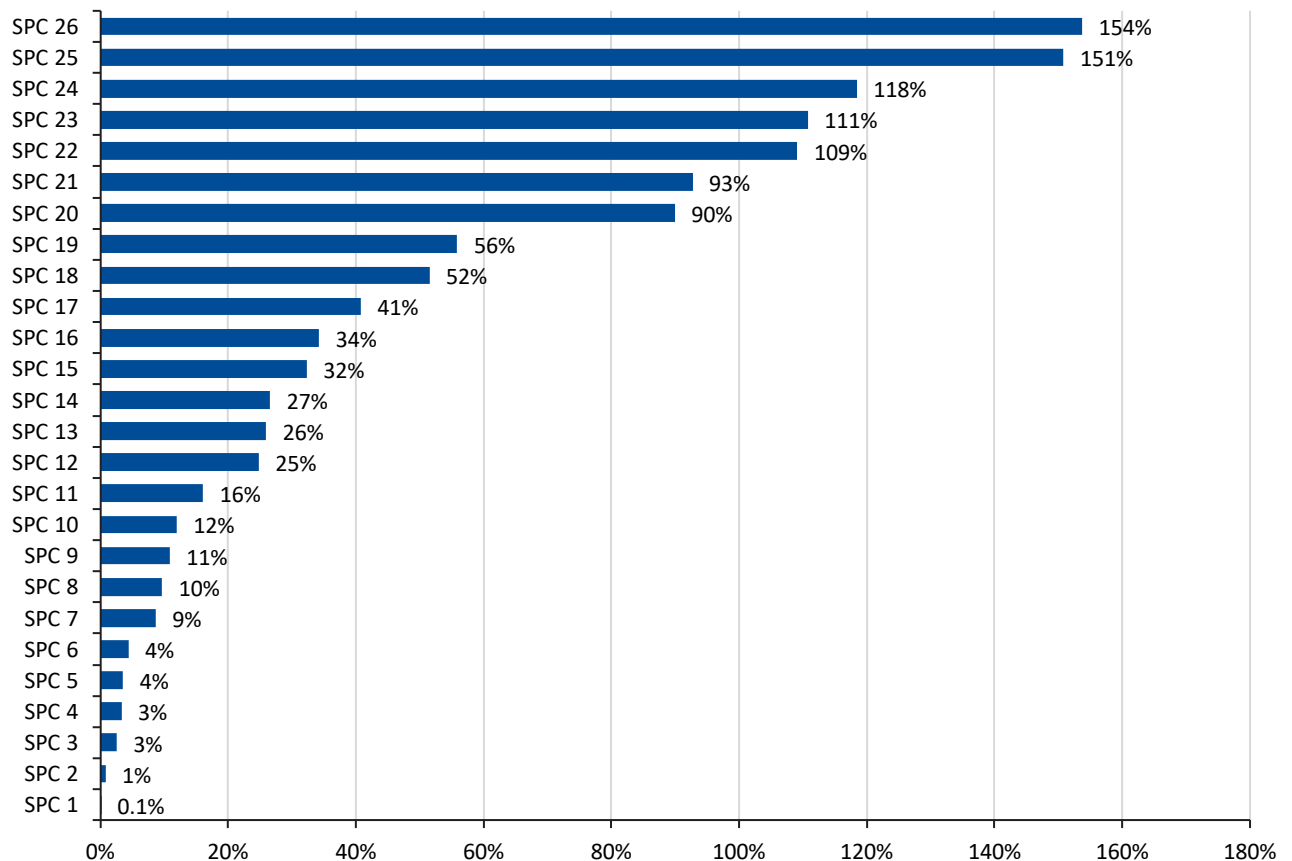
Source: VAGO, based on data provided by DTF, DPC and DJR.

Financial benefits achieved by SPCs

Without targets we were unable to determine whether the reported financial benefits for the SPCs managed by DTF, DPC and Cenitex were appropriate. These SPCs exist in very different market environments and are in place for very different goods and services. For this reason, it is hard to assess the reported financial benefits for each SPC without an associated target.

For example, Figure 4D shows the reported financial benefits as a percentage of spend for each of the 26 SPCs that report financial benefits. These percentages vary widely, from 0.1 to 154 per cent. Without a target for each SPC it is difficult to judge whether these percentages represent a good outcome for each SPC in its own market environment.

Figure 4D
Reported financial benefit as a percentage of spend by SPC, 2016–17



Source: VAGO, based on data provided by DTF, DPC and DJR.

Some SPCs—such as Stationery and Workplace Consumables, and Travel Management Services—may report small financial benefits in relation to spend. However, this may be a good result if the objective was to contain procurement costs rather than achieve large savings, given they have been previously market tested. Without a target we are unable to make this judgement.

SPCs with no financial benefits

Lead agencies do not track financial benefits for all SPCs. As Figure 4E shows, seven SPCs, with a total spend more than \$176 million in 2016–17, do not have their financial benefits tracked.

Figure 4E
SPCs with no financial benefits tracking

SPC	SPC spend 2016–17 (\$ millions)	Reason financial benefits are not tracked
Marketing Services Register	5.5 ^(a)	The system used for monitoring the Marketing Services Register does not capture spend. Expenditure reports from the 200-plus suppliers are not received.
PAS	71.0	Savings/benefits not measured.
Security Services	46.5	The business case has no savings objectives, so financial benefits are not measured or reported. According to the business case the focus is on non-financial benefits with the key objective being supporting the security services industry and providing high-quality services.
IT Infrastructure Register	44.6	Savings/benefits not measured.
eServices Register	— ^(b)	Savings/benefits not measured.
Multifunction Devices and Printers	7.7	Benefits have been difficult to quantify as not all large mandated departments and agencies have completed the transition to Multifunction Devices and Printers.
Rosetta	0.7	Savings/benefits not measured.

(a) DTF estimated spend not actual reported spend by suppliers.

(b) Spend data not collected.

Note: Financial benefits for the Microsoft Licensing Solution SPC are realised through the Microsoft Enterprise Agreement SPC.

Source: VAGO, based on data provided by DTF.

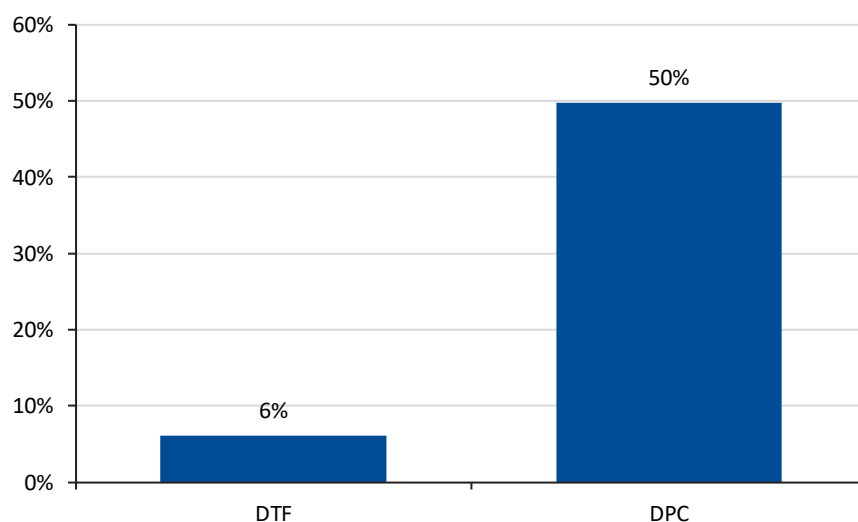
In some cases, it can be difficult to calculate the full financial benefit of an SPC compared to if the SPC did not exist. For example, for an engagement of consultancy services under the PAS SPC, no means is available to accurately know the rates a department would have been able to negotiate for the same engagement if the SPC was not in place. However, without attempting to measure the financial benefits of these SPCS, lead agencies are unable to determine if they are providing value for money.

4.4 Benefits methodology

The method for calculating a financial benefit is different for each SPC since contracts deliver different goods and services and exist in distinct markets.

DTF and DPC manage different types of SPCs and use different methods to calculate financial benefits. Figure 4F shows the difference in reported financial benefits between SPCs managed by DTF and those managed by DPC.

Figure 4F
Reported financial benefit as a percentage of spend by DTF and DPC, 2016–17



Note: Cenitex did not report any financial benefits for the Rosetta SPC. We have not reported benefits data for the SPC managed by DJR due to commercial sensitivity.

Source: VAGO, based on data provided by DTF and DPC.

As Figure 4F shows, DPC reports significantly higher financial benefits than DTF.

We examined how lead agencies calculate financial benefits for 11 SPCs and found inconsistencies and irregularities in the methods for six SPCs managed by DPC. Figure 4G outlines these examples.

Figure 4G

Financial benefit method for a selection of SPCs managed by DPC

SPC	Financial benefit method
End User Computing Equipment Panel	<p>This SPC provides a list of set prices for computing equipment such as desktop computers and laptops.</p> <p>DPC engages an international market-intelligence advisory firm to benchmark SPC prices to what similar sized organisations are paying for the same computing equipment. The difference between these two prices is reported as the financial benefit for purchases on this SPC.</p> <p>The benchmarking captures prices in the market at a point-in-time. However, DPC uses these benchmarked prices to calculate the financial benefits for purchases made past this point. The last benchmarking activity for this contract was conducted in October 2015. Prices in this industry move rapidly, so it is not a robust method to calculate the financial benefit attributable to equipment purchased in 2018 based on prices identified in October 2015.</p> <p>The reported financial benefits in 2016–17 for mandated agencies was \$63 million, which is higher than the \$55.6 million spent by these agencies on the SPC during this year. In some cases, the benchmarking in 2015 identified discounts on computing equipment of up to 62 per cent compared to what a similar size entity was achieving. Based on the 2015 benchmarking activity, it is unclear how the Victorian Government received such a high financial benefit compared to similar-sized organisations. For these cases, we question the appropriateness of the entities selected for comparison. DPC was not able to provide details on which similar sized entities had been selected by the market-intelligence firm for benchmarking.</p> <p>DPC has advised that it will explore alternative methods to calculate financial benefits for this SPC, including the frequency of benchmarking given the rate at which prices in this market change.</p>
<p>Software SPCs:</p> <ul style="list-style-type: none"> • Oracle Software and Support • Salesforce Customer Relationship Management • Citrix Products and Services • IBM Enterprise Licencing Agreement • VMware Enterprise Licensing Agreement 	<p>The calculations of financial benefits for the five software SPCs are based on a set discount determined at the start of the contract. However, the price from which the discount should apply is unclear. Large organisations such as government departments would be able to negotiate savings and discounts without the existence of an SPC, due to their size and purchasing power. For the Oracle Systems SPC, DPC, as the lead agency, recognises this and has stated that it considers only 30 per cent of reported financial benefits as being truly attributable to the SPC being in place.</p>

Source: VAGO, based on information provided by DPC.

4.5 Non-financial benefits

Lead agencies also establish SPCs to deliver non-financial benefits. For example, the establishment of a consistent set of legally endorsed standard terms and conditions—instead of several independent agency contracts—can reduce commercial risk and legal exposure. While some of these non-financial benefits are difficult to accurately measure or even estimate, lead agencies should capture and measure them where possible.

DTF and DPC advised that they monitor the realisation of non-financial benefits identified in SPC business cases through ongoing category management. However, they could not provide evidence to demonstrate reporting on the achievement of these non-financial benefits.

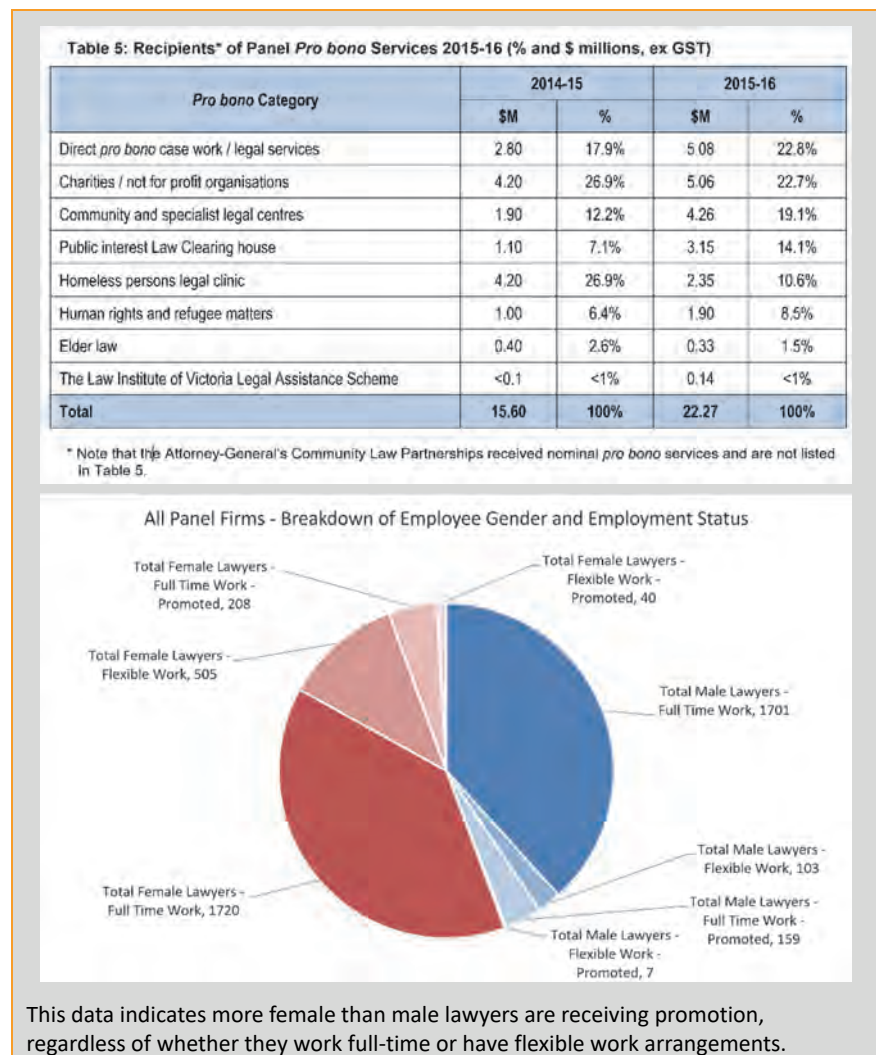
DJR measures and reports on the non-financial benefits pertaining to the operation of social justice policies incorporated in the Legal Services Panel SPC. For example, DJR monitors whether suppliers are promoting corporate social responsibility practices in the workplace, including:

- pro bono activities—suppliers have committed to provide pro bono services equivalent to 20 per cent on average of the net legal fees they earned during the previous financial year
- implementation of diverse work practices that promote gender equality and flexible work arrangements
- the briefing of female barristers by both panel firms and clients in accordance with the Victorian Bar’s equal opportunity briefing policy.

As Figure 4H shows, the 2016–17 *Legal Services Panel Annual Report* analyses and reports this information annually.

Figure 5H

Example of the non-financial benefits monitored and reported by DJR in the 2016–17 *Legal Services Panel Annual Report*



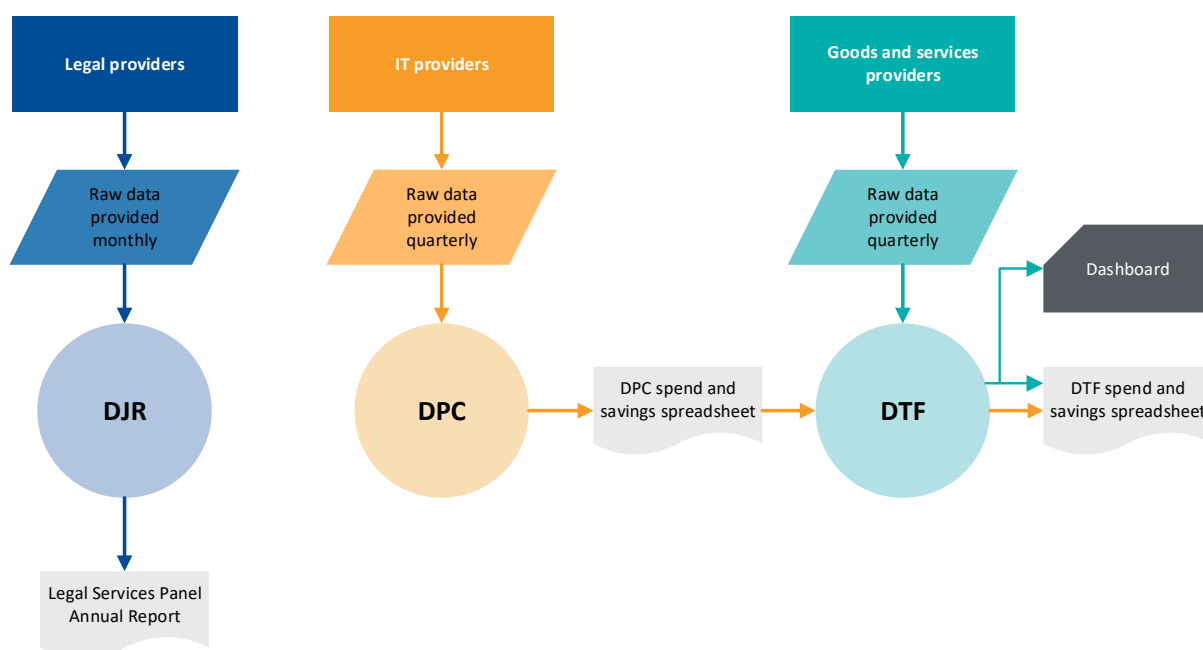
Source: DJR 2016–17 *Legal Services Panel Annual Report*.

4.6 Reliability of data

In analysing spend and savings data for SPCs, significant data issues hamper the VPS, both in terms of the quality of systems in departments and agencies, and the unavailability of comprehensive data on spend, price and volume.

Because SPC spend is fragmented across many users, and there is no whole-of-government procurement platform to provide overall visibility, lead agencies rely on suppliers to capture and self-report spend data. This is done monthly for the Legal Service Panel SPC and quarterly for the remaining SPCs, as Figure 4I shows.

Figure 4I
Capture and recording of supplier-reported spend and lead agency-reported savings data



Source: VAGO based on information provided by DPC, DTF and DJR.

Lead agencies cannot easily validate self-reported supplier data and the quality of this data varies. Lead agencies undertake ad hoc checks of the data and require SPC users to confirm spend for some SPCs. However, these verification activities are limited, given lead agencies do not have all the information needed to sufficiently assess and validate the supplier reports, including access to the finance systems of SPC users.

Lead agencies should periodically audit provider reports to confirm their accuracy. However, DTF and DPC have not done so, despite the current contracts allowing for this. DTF and DPC need to address this because it affects the effectiveness and integrity of spend and benefits monitoring for SPCs.

Our review of information maintained by DTF and DPC also highlighted errors in the spreadsheets they use to track spend and benefits for SPCs. We found under-reporting of:

- \$5.2 million in non-mandated entity spend from 2015 to 2018 for the Stationery and Workplace Consumables SPC
- \$0.89 million in financial benefits during 2016–17 for the Travel Management Services SPC
- \$0.11 million in financial benefits in 2016–17 for the Salesforce Customer Relationship Management SPC.

We also found a further issue with the accuracy of financial benefits calculated for the Travel Management Services SPC. Spend for this SPC in 2016–17 was over-reported by \$5.9 million due to changes in internal processes.

Given these data issues, the actual levels of savings achieved by SPC users is very likely to be different from those reported by lead agencies.

DTF uses this information as the basis for publicly reported performance information in the State Budget papers and its annual report, so it is important that it has quality assurance measures to ensure the reported information is accurate. DTF advised that it has rectified all errors identified by this audit.

5

Understanding and managing contract leakage

The Standing Directions of the Minister for Finance under the FMA require effective controls over procurement so that specified public sector agencies comply with government supply policies. All departments and entities bound by VGPB policies must purchase from mandatory SPCs unless the lead agency has granted a written exemption.

DTF internal guidance material, used also by DPC, identifies monitoring and reducing expenditure made outside of SPCs, or 'leakage', as a minimum requirement of lead agencies. Managing leakage is important if SPC users are to fully realise potential savings and lead agencies are to effectively monitor and evaluate the success of SPCs.

This part examines whether departments use SPCs when purchasing goods and services, and the steps that user departments and lead agencies take to prevent and identify contract leakage, as required by contract agreements, VGPB policies and lead agency guidance material.

5.1 Conclusion

Our analysis of departments' expenditure shows potential contract leakage in three of the four SPCs we reviewed.

Due to limitations in procurement systems, four of the seven departments cannot identify if a purchase was made through an SPC. Consequently, these departments cannot identify how much they have spent outside of mandatory SPC arrangements or act to reduce the occurrence of contract leakage.

Lead agencies have also not effectively overseen user departments' compliance with the requirement to purchase exclusively through mandatory SPCs. Lead agencies do not have access to the data needed to understand the scale, nature or significance of leakage that occurs.

Understanding the scale and reasons for contract leakage, and targeting non-compliance with mandatory SPCs, will improve cost savings and realisation of non-financial benefits of SPCs.

5.2 Roles and responsibilities to manage leakage

Managing leakage as an SPC user

User departments and agencies are responsible for ensuring that SPC contract leakage does not occur. This is done by having robust procurement authorisation processes and procedures and by educating staff about the proper use of SPCs. User departments and agencies are also best placed to detect contract leakage because they have access to their own accounts payable data, which can be used to detect instances of contract leakage after it occurs.

All departments have policies to promote the use of mandatory SPCs. However, they could not demonstrate that they understood the extent of leakage from mandatory SPCs, or managed it effectively.

The finance or procurement systems at four departments—DET, DTF, DPC and DELWP—do not identify if a purchase was made through an SPC. Despite this, DTF was able to estimate their SPC spend in 2016–17. DET, DPC and DELWP were not, and using the data available to them in their financial and procurement systems they would not be able to identify potential leakage from SPCs. Due to data quality issues and limitations in procurement and finance systems, it is difficult for these departments to ensure compliance with VGPB policies, including the requirement to use mandatory SPCs.

User departments included in our 2012 audit report *Personal Expense Reimbursement, Travel Expenses and Corporate Credit Cards* also need to address the recommendation from that report, that public sector agencies should report and address expenditure occurring outside of mandatory SPCs. Four user departments included in this audit—DHHS (formerly the Department of Human Services), DJR (formerly the Department of Justice), DEDJTR (formerly the Department of Business and Innovation) and DPC—are yet to establish processes to address this recommendation.

Aside from the requirement to comply with the FMA, it is important that departments use SPC arrangements where required—otherwise they may not achieve the best value for money on purchases and may undermine the broader objectives of SPCs.

Managing leakage as a lead agency

Lead agencies rely on user departments complying with their own procurement policies and SPC rules to control contract leakage. Lead agencies do not have access to the necessary data to allow the identification of leakage from SPCs. For this reason, lead agencies rely on SPC users to educate their staff and to use their own expenditure data to identify contract leakage.

The ability of lead agencies to control contract leakage would be enhanced if accurate accounts payable data could be obtained on a consistent basis from the major SPC users.

5.3 Leakage from mandatory SPCs

Due to the absence of adequate processes to monitor leakage at the user departments, VGPB and lead agencies, we examined purchasing data at the seven departments to identify potential leakage in selected mandatory SPCs:

- Stationery and Workplace Consumables
- Travel Management Services
- Staffing Services
- Legal Services Panel.

Methodology

Using expenditure data obtained from all departments, we used the ANZSIC categorisation to highlight expenditure that appeared to fall within the scope of one of the selected SPCs but did not go to a relevant SPC supplier. These instances represented possible leakage from mandatory SPCs, and we undertook further analysis of the invoices to confirm this. Where a lead agency had granted a user department an exemption, we marked this spend as 'not leakage'.

In a significant number of transactions we were unable to determine the nature of spend due to the limited description on the invoices. Given these limitations, this analysis is conservative and indicative, using the best available data in departments' finance systems.

Our analysis categorises spend as one of the following:

- not leakage
- potential leakage
- SPC spend.

Figure 5A outlines an example of this process using the leakage analysis for the Staffing Services SPC.

Figure 5A
Leakage analysis for the Staffing Services SPC

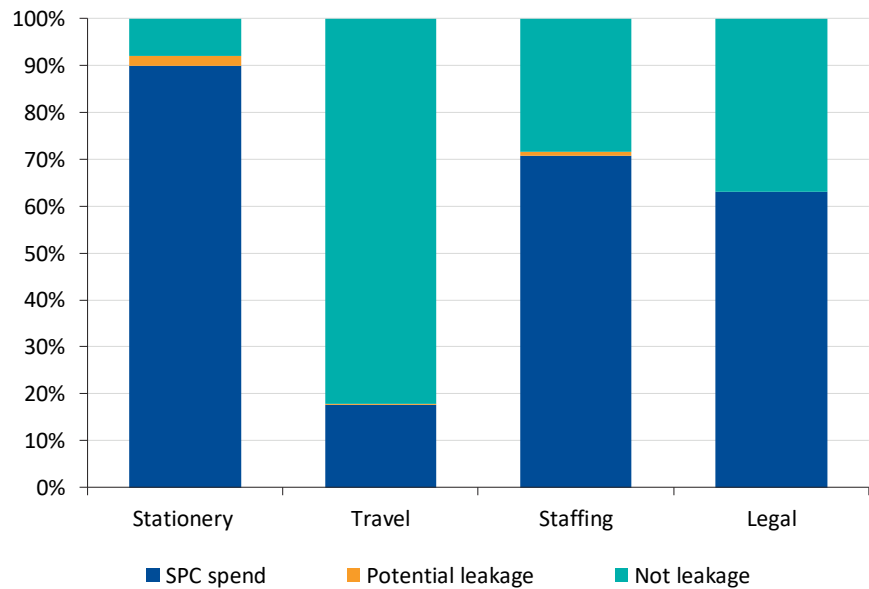
SPC spend	Potential leakage	Not leakage
Spend within the ANZSIC category that was through the SPC suppliers.	Spend within the ANZSIC category that was not through an SPC supplier, but the invoice description suggests that it was for a service mandated under the SPC. For example, the engagement of a temporary receptionist.	Spend within the ANZSIC category that is not within the scope of the SPC. For example, engagement of permanent staff. User departments are not mandated to make these engagements through the SPC.

Source: VAGO, based on ANZSIC.

Results of our analysis of leakage

Figure 5B shows the high-level results of our leakage analysis in the seven departments, expressed as a percentage breakdown of the four ANZSIC spend categories.

Figure 5B
Breakdown of ANZSIC spend categories



Source: VAGO analysis of user departments' 2016–17 accounts payable data and SPC spend data from lead agencies.

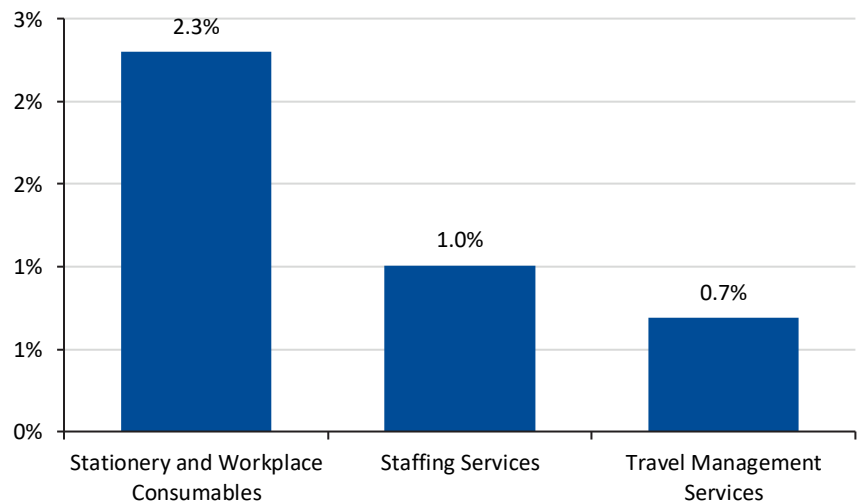
Our analysis of departments' records for 2016–17 showed potential leakage of:

- \$0.25 million, or 2.1 per cent of total spend of \$12.23 million, in the stationery category
- \$0.06 million, or 0.1 per cent of total spend of \$48.64 million, in the travel category
- \$2.07 million, or 0.7 per cent of total spend of \$289.37 million, in the staffing category
- We identified no leakage in the total spend of \$122.7 million in the Legal Services category.

Potential leakage by SPC

Figure 5C shows these leakage amounts by SPC as a percentage of the value.

Figure 5C
Potential leakage as percentage of SPC value



Source: VAGO analysis of user departments' 2016–17 accounts payable data and SPC spend data from lead agencies.

The value of potential leakage identified could include cases where a legitimate exemption was approved by a lead agency but the record was not kept. See Section 5.4 for more detail on exemptions.

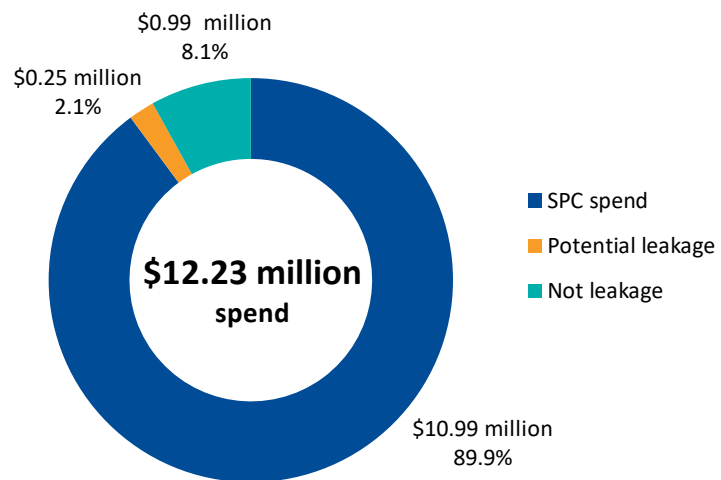
Stationery and Workplace Consumables SPC

DTF is the lead agency for the Stationery and Workplace Consumables SPC, which commenced in its current form in October 2015. User departments must purchase all mandated goods through the nominated SPC supplier. Mandated goods include:

- paper
- general stationery items such as pens, notebooks and folders
- filing equipment
- ICT consumables such as USB drives, keyboards and printer cartridges.

For items that DTF has classified as non-mandated, such as janitorial and kitchen supplies, office furniture and uniforms, user departments may purchase these items through the SPC, or choose to purchase them elsewhere. The latter would not constitute contract leakage because these items are non-mandated under the SPC. Figure 5D outlines our analysis of 2016–17 spend in the ANZSIC stationery spend category.

Figure 5D
User departments spend in stationery spend category, 2016–17



Note: Figures may not total 100 per cent due to rounding.

Source: VAGO analysis of departments' 2016–17 accounts payable data and SPC spend data from lead agencies.

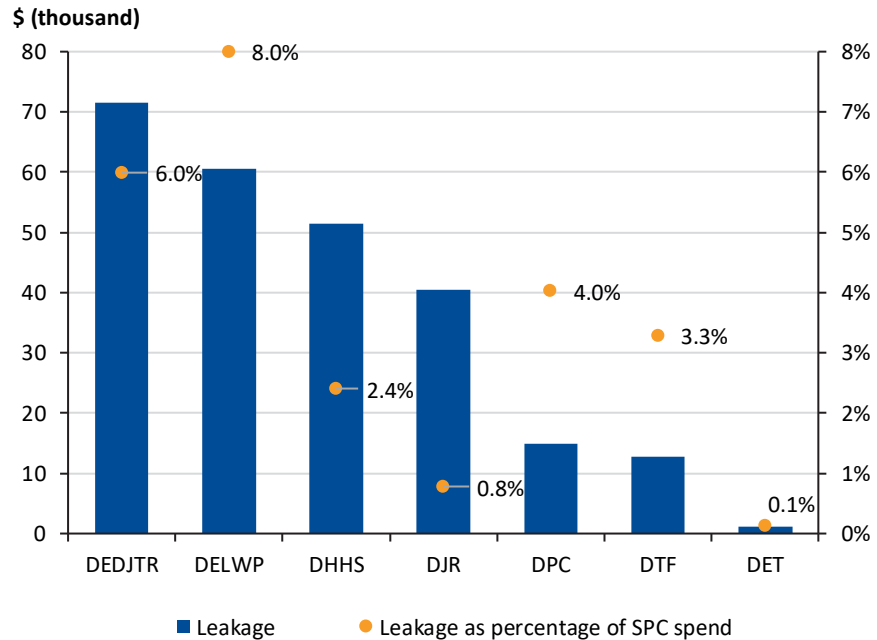
The seven departments spent \$12.23 million in the ANZSIC stationery spend category. It is positive that the majority of this (89.9 per cent) was through the nominated SPC supplier.

From our review of invoices, 8.1 per cent of this spend was not leakage because it was for non-mandated items. We identified approximately \$0.25 million of spend (2.1 per cent) as potential leakage. This amount is 2.3 per cent of the \$10.99 million value of the SPC contract in 2016–17 for the seven departments.

Of the \$253 000 identified as potential leakage, approximately 50 per cent of this spend went to seven suppliers. Armed with this type of information, user departments should conduct checks of their accounts payable systems over time for transactions with these suppliers to identify potential leakage for further investigation.

Figure 5E breaks down the total leakage amount to show the amount identified in each user department, including this amount as a per cent of that department's spend on the SPC.

Figure 5E
User departments leakage in the stationery spend category in, 2016–17



Source: VAGO analysis of departments' 2016–17 accounts payable data.

We conducted a price comparison of popular stationery goods purchased through the SPC to identify the potential impact of leakage where departments purchased stationery items through other retailers.

We selected the 10 most commonly purchased stationery items through the SPC by the seven departments in 2016–17. We compared the SPC price for these items with the price for like-for-like items at a leading stationery retailer, as shown in Figure 5F.

Figure 5F
Lowest price on 10 most commonly purchased stationery items

Stationery Item	Did the SPC have the lowest price?	SPC cost (\$)	Stationery retailer cost (\$)	Variance (%)
Item 1	X	28.55	24.95	-13
Item 2	✓	2.33	5.63	142
Item 3	✓	0.11	0.38	246
Item 4	✓	2.26	2.49	10
Item 5	✓	2.16	2.99	38
Item 6	✓	4.81	5.00	4
Item 7	✓	1.16	2.78	140
Item 8	✓	4.64	9.67	108
Item 9	✓	4.60	7.89	72
Item 10	✓	9.60	11.90	24

Source: VAGO analysis from data provided by DTF and online from a stationery retailer.

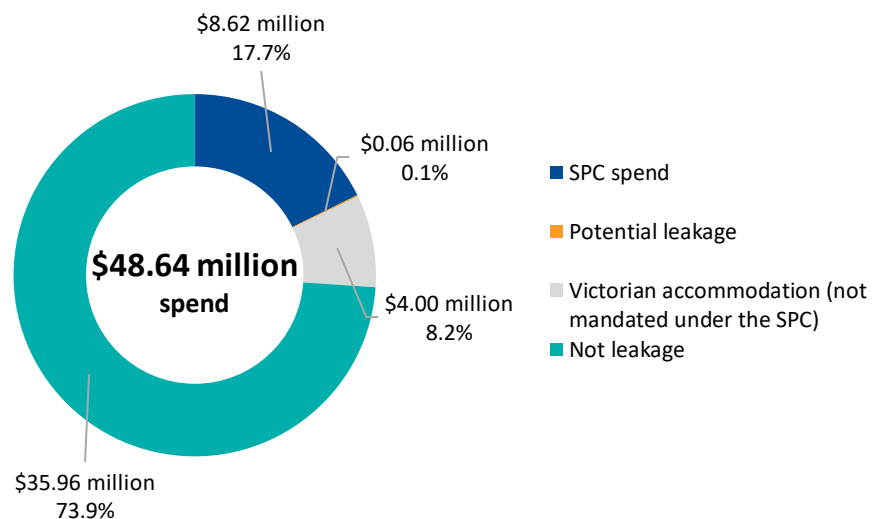
When compared to the stationery retailer, the SPC delivered significantly cheaper prices for nine of the 10 items. This highlights the necessity for user departments to control for leakage. User departments must ensure that all business units purchase stationery items through the SPC to prevent paying higher prices at other stationery retailers.

Travel Management Services SPC

DTF is the lead agency for the Travel Management Services SPC, which commenced in its current form in September 2016. The SPC contract states that user departments must book all flights and travel accommodation through the appointed SPC supplier, Corporate Travel Management. The Victorian Public Service Travel Policy, established by DTF in November 2017, diverges from this directive, stating that departments need only book Victorian accommodation through the SPC 'when possible'. In discussions with the category manager, we have considered Victorian accommodation not to be mandated under the SPC.

Our analysis of departments' records showed that in 2016–17 the seven departments spent \$48.64 million in the ANZSIC travel spend category. Of this, 17.7 per cent was through the nominated SPC supplier, as Figure 5G shows. This indicates that the SPC is not capturing the majority of the spend in the wider spend category.

Figure 5G
Travel spend category in user departments, 2016–17



Note: Figures may not total 100 per cent due to rounding.

Source: VAGO analysis of departments' 2016–17 accounts payable data and SPC spend data from lead agencies.

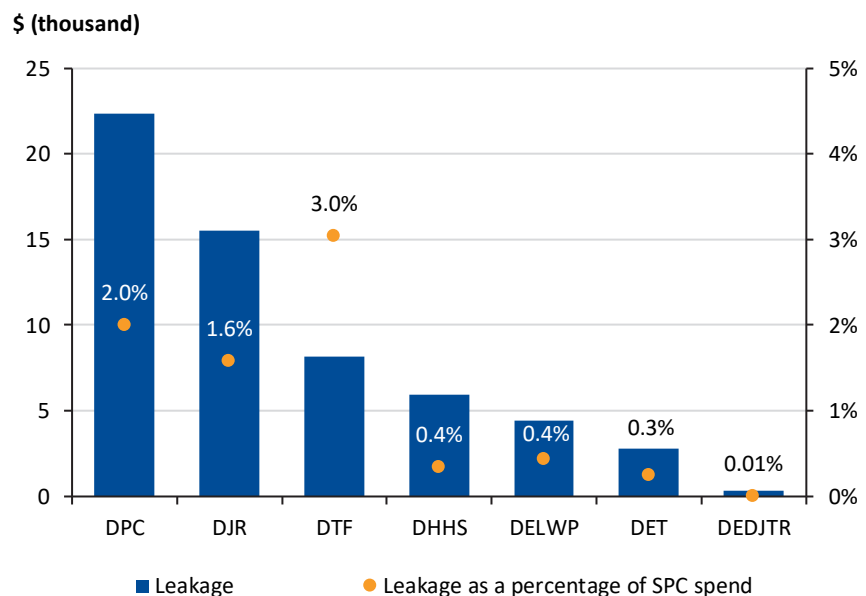
Approximately 73.9 per cent of the total category spend was not leakage because it was for services not mandated to be booked through the SPC. On further investigation, we found that the majority of this spend was for venue hire in hotels. For example, the booking of rooms in a hotel to run training sessions or all-staff forums. As these payments are not for accommodation, they are not mandated by the SPC and cannot be considered contract leakage. However, the volume and value of these payments does represent an opportunity for aggregating this spend that DTF should explore.

We also identified that 8.2 per cent of the spend category was for accommodation in Victoria that departments did not book through the SPC. While this is not technically leakage, it does represent a significant amount of spend and is a missed opportunity for the current SPC. As discussed in Section 2.2, DTF recognises the need to ensure that departments book more of their Victorian accommodation through the SPC. The number of Victorian accommodation bookings through the SPC doubled between 2016–17 and 2017–18.

We identified approximately \$0.06 million of spend—or 0.1 per cent of the category spend—as potential contract leakage. This amount is 0.7 per cent of the \$8.6 million value of the SPC contract in 2016–17 for the seven departments.

Figure 5H breaks down the total leakage amount to show the amount identified in each user department, including this amount as a per cent of that department’s spend on the SPC.

Figure 5H
Leakage in the Travel Management Services SPC in user departments, 2016–17



Source: VAGO analysis of departments’ 2016–17 accounts payable data.

We conducted a price comparison of SPC hotel rates to the market to identify the potential impact of leakage where departments do not book travel arrangements through the SPC.

As Figure 5I shows, we compared the rates for 10 hotel rooms between the rates offered through the SPC and the rates offered on a popular accommodation booking site. We searched comparable rates on the same day to ensure consistency of pricing, and comparisons were for the same room booked for the same night.

Figure 5I
Lowest price on 10 hotel rooms

Hotel room	Did the SPC offer the cheapest rate?	SPC rate (\$)	Accommodation website rate (\$)	Variance (%)
Room 1	✓	190	270	42
Room 2	✓	167	201	20
Room 3	✓	147	223	52
Room 4	✓	127	205	61
Room 5	✓	138	269	95
Room 6	✓	129	139	8
Room 7	✓	150	158	5
Room 8	✓	152	174	14
Room 9	✓	139	159	14
Room 10	✓	176	178	1

Source: VAGO, using the SPC booking system and a popular accommodation booking site on 11 July 2018.

The SPC offered lower rates for all 10 hotel rooms—in some cases by a significant amount. For example, for Room 5, the nightly rate listed on the accommodation site was 95 per cent more than the SPC rate. This again highlights the importance of SPC users ensuring that staff book travel through the SPC. It also reinforces the need for DTF as a lead agency to consider mandating that all Victorian accommodation bookings be made through the SPC.

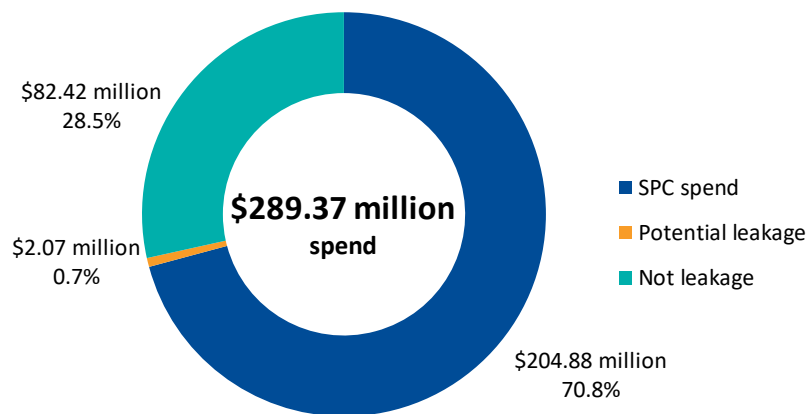
Staffing Services SPC

DTF manages the Staffing Services SPC, which commenced in its current form in January 2016. All engagements of temporary staff for administrative roles, IT roles and specialist roles must be engaged through the Staffing Services SPC. Engagement of permanent staff may also occur through the SPC but these engagements are not mandatory.

The SPC model includes eight master vendors and more than 200 ‘tier-2’ vendors, which may provide staff on behalf of the master vendor. In this circumstance, the user department engages solely with the master vendor, including for payment. DTF considers payments made directly to tier-2 vendors to be contract leakage.

Our analysis of departments’ records showed that in 2016–17 the seven departments spent \$289.37 million in the ANZSIC staffing services spend category. As Figure 5J shows, the majority of spend—70.8 per cent—was through the eight nominated SPC suppliers. This is a positive indication that the SPC captures the majority of spend in the wider spend category.

Figure 5J
Staffing services category spend in user departments, 2016–17

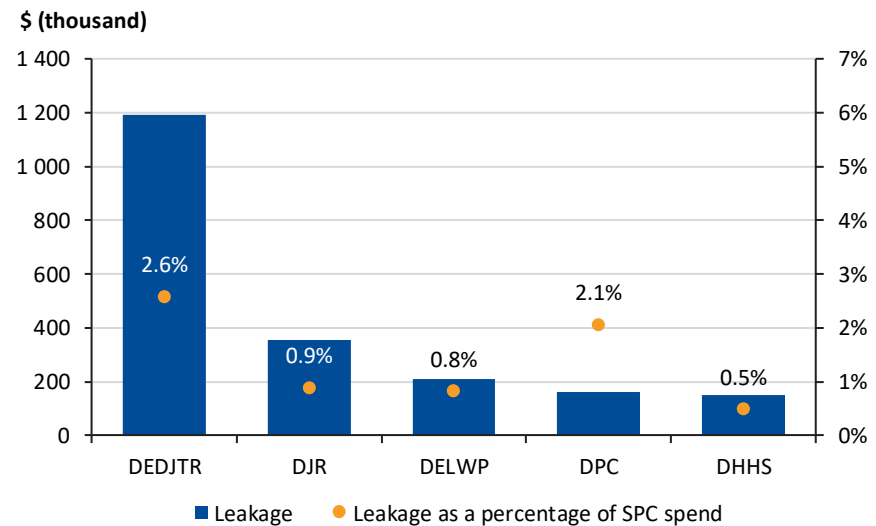


Source: VAGO analysis of departments’ 2016–17 accounts payable data and SPC spend data from lead agencies.

From our review of invoices, 28.5 per cent of this spend was not leakage because it was for non-mandated engagements such as for permanent staff. We identified approximately \$2.07 million—or 0.7 per cent—as potential contract leakage. This amount is 1 per cent of the \$204.88 million value of the SPC contract in 2016–17 for the seven departments.

Figure 5K breaks down the total leakage amount to show the amount identified in each user department, including this amount as a per cent of that department’s spend on the SPC. We identified no potential contract leakage in DET or DTF.

Figure 5K
Leakage in the Staffing Services SPC in user departments, 2016–17



Source: VAGO analysis of departments' 2016–17 accounts payable data.

Of the \$2.07 million identified as potential leakage, more than 55 per cent went to two suppliers. Armed with this type of information, user departments should conduct their own checks of their accounts payable systems over time for transactions with these suppliers to identify potential leakage for further investigation.

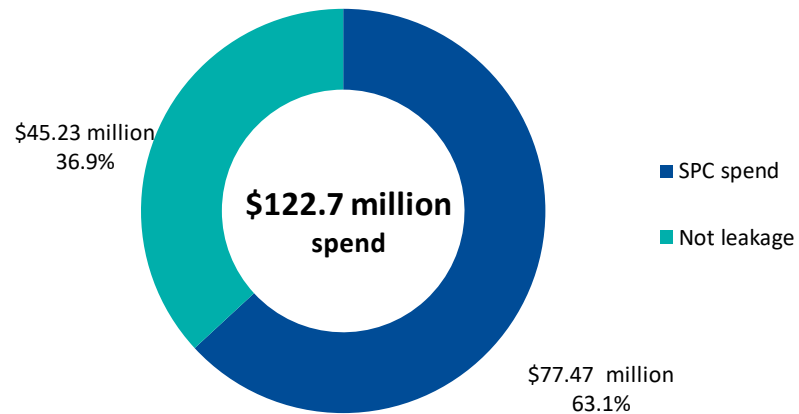
We also identified that departments made payments directly to tier-2 vendors. When we queried these payments with user departments, a common response was that these payments did not constitute leakage, which demonstrates confusion among users regarding the contract rules.

Legal Services Panel SPC

DJR manages the Legal Services Panel, which commenced in its current form in March 2016. All legal services in the mandated areas of law under the contract must be engaged through the SPC. Legal services not in these mandated areas are not required to be engaged through the SPC. This type of expenditure is not contract leakage. The SPC has 23 nominated legal suppliers.

Our analysis of departments' records showed that in 2016–17 the seven departments spent \$122.7 million in the ANZSIC legal services spend category. Of this, more than half of the spend—63.1 per cent—was through the SPC, as Figure 5L shows. This indicates that opportunities may be available for DJR as the lead agency to consider other types of legal spend that could be incorporated into the SPC.

Figure 5L
Legal services category spend in user departments, 2016–17



Source: VAGO analysis of departments' 2016–17 accounts payable data and SPC spend data from lead agencies.

We identified no potential leakage for the Legal Services Panel.

5.4 Exemption process

If departments do not wish to use a mandated SPC, they must apply for an exemption. If granted, this expenditure is not contract leakage. Departments can apply for an exemption from an SPC to the:

- the relevant minister prior to the establishment of a new SPC
- accountable officer at the lead agency if they are a participating party in an existing SPC
- category manager at the lead agency for a one-off purchase.

There are set criteria for granting exemptions. Acceptable reasons to grant an exemption include:

- a supplier is no longer able to service an area
- a regional supplier can deliver better value for money
- a conflict of interest arises with the SPC supplier.

It is important for lead agencies and user entities to keep track of exemptions both requested and granted. For a user department, keeping a central record of exemptions is an important part of understanding SPC spend and compliance. For lead agencies, these records allow for trend analysis to identify potential areas where users are seeking multiple exemptions, which potentially indicates a problem with the SPC scope and offerings.

We sought information from user departments and lead agencies on the number of exemptions requested and granted.

User departments

We asked the seven user departments for exemptions requested and granted for all SPCs. None of the user departments held a central register of SPC exemptions. DEDJTR, DET, DTF, DPC and DJR were able to search for exemption records for some SPCs, but DHHS and DELWP were unable to provide any evidence of exemptions sought or granted because they do not keep central records.

The devolution of the procurement function across all user departments makes tracking exemptions very difficult. For example, in a large department like DHHS, business units are responsible for their own procurements under a certain value, with no involvement from the Internal Procurement Unit. If this business unit seeks an exemption under an SPC, the Internal Procurement Division is unaware. Consequently, even in the departments that are able to search for some exemption records, they did not have a comprehensive view of all exemptions sought under all SPCs across the entire department.

As a result, user departments have a limited understanding of SPC compliance in their business units. User departments are less able to identify patterns where exemption applications may be concentrated in certain business areas, or where reoccurring exemption applications may represent a problem with the SPC scope.

Lead agencies

We asked DTF, DPC and DJR as lead agencies for records of exemption applications made to them by user departments and to flag where they had approved these applications. Due to the low value of the Rosetta SPC, we excluded Cenitex from our analysis.

Department of Justice and Regulation

DJR keeps a central register of all approved exemptions in an exemption policy report. These records include the:

- user making the application
- name of the legal matter and the area of law
- non-SPC supplier that the user wishes to engage
- reason for the exemption application
- outcome and approving officer
- cost of the legal matter subject to exemption
- expected end date of the legal matter.

In 2016–17 DJR granted nine applications for exemption from the Legal Services Panel SPC across four user departments. While we conducted leakage analysis in the Legal Services Panel SPC, we were able to use this exemption policy report to cross-check potential instances of leakage with legal matters that DJR had approved for exemption.

Department of Treasury and Finance and Department of Premier and Cabinet

DTF and DPC do not keep central registers of exemptions. This limits their ability to conduct trend analysis to identify potential areas where users are seeking multiple exemptions that potentially indicate a problem with the SPC scope and offerings.

Appendix A

Audit Act 1994 section 16— submissions and comments

We have consulted with Cenitex, DEDJTR, DET, DELWP, DHHS, DJR, DPC, DTF and VGPB, and we considered their views when reaching our audit conclusions. As required by section 16(3) of the *Audit Act 1994*, we gave a draft copy of this report, or relevant extracts, to those agencies and asked for their submissions and comments.

Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Responses were received as follows:

Cenitex.....	90
DEDJTR.....	91
DET	92
DELWP	94
DHHS.....	96
DJR	98
DPC	101
DTF	104
VGPB.....	106

RESPONSE provided by the Chief Executive, Cenitex

cenitex

80 Collins St (PO Box 2750)
Melbourne Victoria 3000
ABN 56 375 109 796

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31 / 35 Collins Street
Melbourne, Victoria 3000

14 September 2018

Proposed Performance Audit Report on State Purchase Contracts

Dear Mr Greaves

Thank you for your letter of 31 August 2018 and the opportunity to review the proposed Performance Audit Report on State Purchase Contracts.

Cenitex has reviewed the document and communicated with your Office regarding a minor change. I appreciate that your team has taken on board feedback we provided on an earlier draft of this Report.

I am supportive of the Report's findings and note that no specific recommendation has been made for Cenitex.

I would like to thank you and your team for their diligence in the preparation of this Report.

Kind regards



Michael Vanderheide
Chief Executive

Classification: UNCLASSIFIED



RESPONSE provided by the Secretary, DEDJTR



Department of Economic Development,
Jobs, Transport and Resources

GPO Box 4509
Melbourne Victoria 3001 Australia
Telephone: 03 9651 9999
ecodev.vic.gov.au
DX 210074

Ref: BSEC18000856

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
MELBOURNE VIC 3000

Dear Mr Greaves,

RE: Proposed Performance Audit Report State Purchase Contracts (SPC's)

Thank you for your letter dated 31 August 2018, providing an opportunity for DEDJTR to comment on the proposed report on State Purchase Contracts.

The department has reviewed the audit report and accepts the findings. We will continue to work with DTF and other lead agencies to implement the recommendations and remain committed to ensuring good procurement practice in relation to the use of SPC's across the department.

Should you require any clarification on the Department's comments above, please contact Lisa Williams, Chief Procurement Officer on 03 8392 7260, or via email: lisa.williams@ecodev.vic.gov.au.

Yours sincerely



Richard Bolt
Secretary

14/9/18



RESPONSE provided by the Secretary, DET



Department of
Education & Training
Office of the Secretary

2 Treasury Place
East Melbourne Victoria 3002
Telephone: +613 9637 2000
DX210083

BRI021250

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
MELBOURNE 3000

Dear Mr Greaves

Proposed report: State Purchase Contracts

Thank you for your letter of 31 August 2018, and the opportunity to respond to the proposed report for the State Purchase Contracts performance audit.

The Department is committed to maintaining robust and transparent procurement practices that achieve significant benefits, and is delivering procurement reforms in corporate and school workplaces.

The Department supports your recommendations to improve statewide procurement systems and welcomes your recommendations for state purchase contract users.

Please see the attached action plan that addresses your recommendations for state purchase contract users and note that recommendations nine to eleven require the Department to work with lead agencies to develop and implement the relevant improvements.

Yours sincerely

Gill Callister
Secretary

12/9/2018



RESPONSE provided by the Secretary, DET—continued

DET action plan to address VAGO recommendations: State Purchase Contracts					
#	Recommendations for state purchase contract users [including DET]	Accept or suggest change	#	Action(s) that address the recommendation	End date
9	Undertake a risk-based assessment of potential contract leakage by analysing expenditure in accounts payable systems and report significant contract leakage to lead agencies.	Accept	9.1	Work with lead agencies to develop and implement a strategy to identify and acquit potential contract leakage by analysing expenditure within accounts payable systems.	Dec 2019
10	Include reviews of state purchase contract management in their forward internal audit programs, if warranted, based on the identified risk.	Accept	10.1	Future internal audit plans will consider reviews on the management of state purchase contracts that use an operational risk-based approach.	Oct 2019
11	Develop a central record of applications for state purchase contract exemptions, which may necessitate a change in process to require all exemption applications to be centrally managed within each department according to its procurement frameworks.	Accept	11.1	Work with lead agencies to develop and implement a central record of exemptions for state purchase contracts.	Dec 2019

RESPONSE provided by the Secretary, DELWP



Department of Environment,
Land, Water and Planning

PO Box 500, East Melbourne,
Victoria 8002 Australia
delwp.vic.gov.au

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31 / 35 Collins Street
MELBOURNE VIC 3000

Ref: SEC013810



Dear Auditor-General *Andrew,*

PROPOSED PERFORMANCE AUDIT REPORT - STATE PURCHASE CONTRACTS

Thank you for your letter dated 31 August 2018 providing the Department of Environment, Land, Water and Planning with the proposed performance audit report *State Purchase Contracts*.

I note your acquittal of the issues the department raised as a response to the provisional draft performance audit report.

The proposed performance audit report makes several recommendations to the department as a user of State Purchase Contracts. The department accepts the recommendations. Enclosed is a Management Action Plan that outlines the actions that the department will take to address the recommendations.

Should you have any questions on this matter, please call Xavier Hinckson, Executive Director Finance, on 0417 783 602 or email Xavier.hinckson@delwp.vic.gov.au.

Yours sincerely

John Bradley
Secretary

13.9.18

Encl.

Any personal information about you or a third party in your correspondence will be protected under the provisions of the Privacy and Data Protection Act 2014. It will only be used or disclosed to appropriate Ministerial, Statutory Authority, or departmental staff in regard to the purpose for which it was provided, unless required or authorized by law. Enquiries about access to information about you held by the Department should be directed to foi.unit@delwp.vic.gov.au or FOI Unit, Department of Environment, Land, Water and Planning, PO Box 500, East Melbourne, Victoria 8002.



State Purchase Contracts

RESPONSE provided by the Secretary, DELWP—continued

DELWP's Management Action Plan

Recommendation	Agreed Action	Completion Date
<p>Recommendation 9</p> <p>That all departments as State Purchase Contracts users undertake a risk-based assessment of potential contract leakage by analysing expenditure in accounts payable systems and report significant contract leakage to lead agencies (see Section 5.2)</p>	<p>DELWP accepts this recommendation</p> <p>Expenditure on State Purchase Contracts will be captured manually by Category Managers for contingent labour, professional services and eServices. The implementation of a new Source to Contract Tool and a new Procure to Pay tool planned for 2019 should assist in the identification of this expenditure.</p> <p>Where the State Purchase Contract is mandatory, DELWP will establish a process to review expenditure to determine if any leakage occurs. This will be undertaken on a phased basis according to the level of expenditure in contracts relating to each State Purchase Contract subject matter. If any significant contract leakage is found, it will be reported to the relevant Lead Agency contract manager.</p>	<p>1 March 2019</p> <p>Production of quarterly leakage report for Contingent Labour State Purchase Contract</p> <p>1 July 2019:</p> <p>Production of quarterly leakage report for Professional Advisory Services State Purchase Contract and eServices Register contracts</p> <p>1 October 2019:</p> <p>Production of quarterly leakage report for other State Purchase Contracts</p>
<p>Recommendation 10</p> <p>That all departments as State Purchase Contracts users include reviews of State Purchase Contract management in their forward internal audit programs, if warranted based on the identified risk (see section 5.2)</p>	<p>DELWP accepts this recommendation</p> <p>Quarterly leakage reports will be reviewed at the end of each financial year and referred to the Procurement Committee. If warranted, the Procurement Committee will refer the report to the Risk and Audit Committee for consideration in the DELWP forward internal audit program.</p>	<p>1 September 2019</p>
<p>Recommendation 11</p> <p>That all departments as State Purchase Contracts users develop a central record of applications for State Purchase Contract exemptions, which may necessitate a change in process to require all exemption applications to be centrally managed within each department according to its procurement frameworks (see Section 5.4).</p>	<p>DELWP accepts this recommendation</p> <p>DELWP will create a central record of applications for State Purchase Contract exemptions that will be held by the Procurement Team. The DELWP procurement procedure will be updated to reflect this process.</p>	<p>1 December 2018</p>

RESPONSE provided by the Secretary, DHHS



Secretary

Department of Health and Human Services

50 Lonsdale Street
Melbourne Victoria 3000
Telephone 1300 650 172
GPO Box 4057
Melbourne Victoria 3001
www.dhhs.vic.gov.au
DX 210081
e4938703

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
MELBOURNE VIC 3000

Andrew
Dear Mr Greaves

State Purchase Contracts performance audit – proposed report

Thank you for the opportunity to comment on the State Purchase Contracts proposed report.

The department acknowledges the value of this audit into whether government agencies realise financial and other benefits through their use of State Purchase Contracts.

I note that the first nine recommendations of the report are targeted at the Victorian Government Purchasing Board or lead agencies (Department of Treasury and Finance, Department of Premier and Cabinet and Department of Justice and Regulation), and that three recommendations (9, 10 and 11) are directed at all departments.

The department of Health and Human Services accepts recommendations 9, 10 and 11 and has completed a draft action plan (attached) that addresses each of these recommendations.

The department will undertake a risk-based assessment of potential contract leakage by analysing expenditure in the accounts payable systems and report significant contract leakage to lead agencies; include reviews of State Purchase Contract management in our forward internal audit programs, if warranted based on the identified risk; and develop a central record of applications for State Purchase Contract exemptions.

I would like to again thank you and your staff for your work with the department in facilitating this report.

Yours sincerely

Kym Peake
Secretary

13/9 2018



DHHS Action plan for VAGO performance audit, State Purchase Contracts

No	Recommendation	Action Plan	Proposed end date
9	Undertake a risk-based assessment of potential contract leakage by analysing expenditure in accounts payable systems and report significant contract leakage to lead agencies.	<p>The department <u>accepts this recommendation</u>.</p> <ul style="list-style-type: none"> The department will undertake a risk-based assessment of potential contract leakage, and report significant leakage to the primary contact for each State Purchase Contract The leakage assessment will be completed by 30 November each year (commencing in 2018) based on the previous financial year's spend. Significant leakage will be reported to lead agencies by 31 December each year. 	31 December 2018
10	Include reviews of State Purchase Contract management in their forward internal audit programs, if warranted based on the identified risk.	<p>The department <u>accepts this recommendation</u>.</p> <ul style="list-style-type: none"> The department's Audit and Risk Management Committee will consider including reviews of the department's State Purchase Contract management in the department's forward internal audit program, if warranted based on identified risk The department's Internal Audit Manager, with the Audit and Risk Management Committee, will consider this requirement during the next planning stage for the department's forward internal audit plan, in March/April 2019. 	30 April 2019
11	Develop a central record of applications for State Purchase Contract exemptions, which may necessitate a change in process to require all exemption applications to be centrally managed within each department according to its procurement frameworks.	<p>The department <u>accepts this recommendation</u>.</p> <ul style="list-style-type: none"> The department will develop procedures to centrally record exemption applications. This will be supported by communication and education targeted at the department's Financial Delegates. Processes and procedures for centrally recording exemptions will be resolved by 31 December 2018 and implemented over the period to 30 June 2019. 	30 June 2019

RESPONSE provided by the Secretary, DJR



Department of Justice and Regulation

Secretary

121 Exhibition Street
Melbourne Victoria 3000
GPO Box 4356
Melbourne Victoria 3001
Facsimile: (03) 8684 0525
justice.vic.gov.au
DX: 210220

14 SEP 2018

Our ref: CD/18/627407

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
MELBOURNE VIC 3000

Dear Mr Greaves

Proposed Report – State Purchase Contracts

Thank you for your letter dated 31 August 2018 regarding your Proposed Performance Audit Report - *State Purchase Contracts* (the report), and the invitation to provide a formal response.

The Department of Justice and Regulation (the department) welcomes the findings of the report and its acknowledgement that State Purchase Contracts are achieving direct savings for departments and agencies, and are reducing transaction costs for suppliers and buyers.

The department is committed to achieving further financial savings by improving contract management and reducing the risk of leakage from State Purchase Contracts. A proposed action plan addressing each of the recommendations directed to the department is attached.

Thank you for the valuable insights included in the report and the opportunity to comment.

Yours sincerely

Greg Wilson
Secretary

Encl. Proposed Action Plan – State Purchase Contracts



RESPONSE provided by the Secretary, DJR—continued

State Purchase Contracts

Department of Justice and Regulation response to VAGO recommendations

Recommendation	Proposed Action	Completion Date
<p>Recommendation 2</p> <p>We recommend that the Department of Justice and Regulation:</p> <p>Use the comprehensive procurement data collected as per recommendation one to enhance contract management activities, including:</p> <ul style="list-style-type: none"> • feeding into forward category strategies (see Section 2.2) • outlining the scale of potential leakage (see Section 5.2) • assisting in monitoring compliance with contract rules (see Section 3.3) • confirming supplier-reported data (see Section 4.6) 	<p><u>Accept</u></p> <p>DJR will establish Category Management Strategies based on comprehensive procurement data centrally collected by the VGPB in collaboration with portfolio agencies and SPC users. DJR will also use procurement data collected by the VGPB to:</p> <ul style="list-style-type: none"> • inform DJR's category strategies • understand the scale of potential leakage • monitor compliance with contract rules • confirm supplier-reported data. 	30 June 2020
<p>Recommendation 3</p> <p>We recommend that the Department of Justice and Regulation:</p> <p>set a benefits target (financial and or non-financial) at the establishment or renewal of each State Purchase Contract that includes a detailed methodology—approved by the relevant project governance committee—for the calculation of benefits. (see Sections 4.2, 4.3 and 4.4)</p>	<p><u>Accept</u></p> <p>DJR will set benefits targets (financial and or non-financial) at the establishment or renewal of each SPC that includes a detailed methodology.</p>	31 December 2019
<p>Recommendation 4</p> <p>We recommend that the Department of Justice and Regulation:</p> <p>use the approved benefits calculation methodology to track and report the State Purchase Contract's achievement of benefits against this target to the Victorian Government Purchasing Board (see Sections 4.2, 4.3 and 4.4)</p>	<p><u>Accept</u></p> <p>Each year, DJR will use the approved benefits calculation methodology to track and report the SPC's achievement of benefits against this target to the VGPB.</p>	31 December 2019
<p>Recommendation 5</p> <p>We recommend that the Department of Justice and Regulation:</p> <p>Use a risk-based approach to conduct checks of supplier reported data to confirm the accuracy and completeness (see Section 4.6)</p>	<p><u>Accept</u></p> <p>DJR will develop and implement a risk-based approach to conducting checks of SPC supplier data to confirm accuracy and completeness.</p>	31 December 2019
<p>Recommendation 6</p> <p>We recommend that the Department of Justice and Regulation:</p> <p>develop and implement a risk-based approach to identify and monitor contract leakage (see Section 5.2)</p>	<p><u>Accept</u></p> <p>DJR will develop and implement a risk-based approach within the procurement complexity quadrants to identify and monitor SPC contract leakage.</p>	31 December 2019

RESPONSE provided by the Secretary, DJR—continued

Recommendation	Proposed Action	Completion Date
Recommendation 9 We recommend that all departments as State Purchase Contracts users undertake a risk-based assessment of potential contract leakage by analysing expenditure in accounts payable systems and report significant contract leakage to lead agencies (see Section 5.2)	Accept DJR will undertake an annual risk-based assessment of potential SPC contract leakage including analysing and assessing expenditure in Oracle. DJR will report significant contract leakage to the respective lead agency and the VGPB.	30 June 2020
Recommendation 10 We recommend that all departments as State Purchase Contracts users include reviews of State Purchase Contract management in their forward internal audit programs, if warranted based on the identified risk (see Section 5.2)	Accept Where warranted based on the identified risk, DJR will include reviews of SPC management in DJR's forward internal audit program.	31 December 2020
Recommendation 11 We recommend that all departments as State Purchase Contracts users develop a central record of applications for State Purchase Contract exemptions, which may necessitate a change in process to require all exemption applications to be centrally managed within each department according to its procurement frameworks (see Section 5.4).	Accept DJR will review the Procurement and Contract Management Framework guidance material with respect to SPC and Sole Entity Purchase Contract exemptions and if needed develop a central record of applications for SPC exemptions.	31 December 2018

CD/18/607391

RESPONSE provided by the Secretary, DPC



Department of
Premier and Cabinet

1 Treasury Place
Melbourne, Victoria 3002 Australia
Telephone: 03 9651 5111
dpc.vic.gov.au

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
MELBOURNE VIC 3000

D18/183964

Dear Auditor-General ^{Andrew}

Thank you for your letter dated 31 August 2018 including the proposed report on State Purchase Contracts and your invitation to provide submissions and comments in relation to the recommendations contained in that report.

DPC notes the proposed report and agrees with all of the recommendations in the report.

Enclosed with this letter are DPC's responses to each of the recommendations directed to us, outlining the actions that we will take and projected implementation timelines. Over the relevant period, DPC will work with your staff to provide periodic updates as requested.

I recognise the important role DPC holds in relation to State Purchase Contracts and the benefits that will ensue as a result of this audit and in implementing the recommendations.

Thank you for the opportunity to consider the proposed draft response and for the opportunity to respond. Should officers in your department have any questions, please contact Kylie Callander, Chief Procurement Officer on 7017 3386.

Yours sincerely


Chris Eccles AO
Secretary

encl.

Your details will be dealt with in accordance with the *Public Records Act 1973* and the *Privacy and Data Protection Act 2014*. Should you have any queries or wish to gain access to your personal information held by this department please contact our Privacy Officer at the above address.



RESPONSE provided by the Secretary, DPC—continued

DPC audit recommendation action plan – State Purchase Contracts

Recommendation	DPC Response	Timing
Directed to DTF, DPC and DJR		
2. Use the comprehensive procurement data collected as per recommendation one to enhance contract management activities, including: <ul style="list-style-type: none"> feeding into forward category strategies 	Accept: DPC Procurement Branch has recently restructured to improve category strategy and data analytics capacity and capability. A priority activity will be to address data quality issues coming from suppliers and uplift this reporting, in addition to improving the quality of category strategies.	24 months
2. Use the comprehensive procurement data collected as per recommendation one to enhance contract management activities, including: <ul style="list-style-type: none"> outlining the scale of potential leakage 	Accept: DPC Procurement Branch has recently restructured to include a business intelligence and reporting team to enhance the ICT SPC data outcomes. A key deliverable of this function is to investigate benefit leakage and seek new data sources to validate and inform actions to reduce leakage coming from suppliers.	24 months
2. Use the comprehensive procurement data collected as per recommendation one to enhance contract management activities, including: <ul style="list-style-type: none"> assisting in monitoring compliance with contract rules 	Accept: DPC Procurement Branch has recently restructured which will lead to improved price tracking compliance.	12 months
2. Use the comprehensive procurement data collected as per recommendation one to enhance contract management activities, including: <ul style="list-style-type: none"> confirming supplier-reported data 	Accept: DPC has recently added capability in the form of a business intelligence and reporting team to enhance the ICT SPC data outcomes.	24 months
3. Set a benefits target (financial and or non-financial) at the establishment or renewal of each State Purchase Contract that includes a detailed methodology—approved by the relevant project governance committee—for the calculation of benefits.	Accept: DPC will review the methodology used to calculate benefits over the coming 12 months. We will engage with internal and external stakeholders to ensure value and seek VGPB endorsement. DPC will look to engage broadly to understand how other entities calculate benefits and how we can apply this to SPC's.	24 months
4. Use the approved benefits calculation methodology to track and report the State Purchase Contract's achievement of benefits against this target to the Victorian Government Purchasing Board	Accept: DPC will review the methodology used to calculate benefits over the coming 12 months. We will engage with internal and external stakeholders to ensure value and seek VGPB endorsement. Implementation timeline:	24 months
5. Use a risk-based approach to conduct checks of supplier reported data to confirm the accuracy and completeness	Accept: DPC has recently added capability in the form of a business intelligence and reporting team to enhance the ICT SPC data outcomes.	18 months
6. Develop and implement a risk-based approach to identify and monitor contract leakage	Accept: DPC will review and monitor contract leakage. DPC will engage with stakeholders over the next 12 months with a view to the development of an action plan for extracting all purchasing data and compliance adherence. This will take time so we will target having this in place over the coming 24 months.	24 months



RESPONSE provided by the Secretary, DPC—continued

Directed to DPC and DTF		
7. Develop and implement a survey strategy to seek and analyse user feedback on specific State Purchase Contract suppliers	Accept: we will engage an independent surveying business to support this. We will look to run a baseline survey in the next 6 months.	6 months
8. Develop a central record of State Purchase Contract exemptions sought by State Purchase Contracts users and report annually to the Victorian Government Purchasing Board—this record should be used for trend analysis to identify areas where users seek multiple exemptions, which potentially indicate a problem with the State Purchase Contracts scope and offerings	Accept: The process for this will need considerable engagement. This will also need VGPB approval.	12 months
Directed to DPC as a State Purchase Contract user		
9. Undertake a risk-based assessment of potential contract leakage by analysing expenditure in accounts payable systems and report significant contract leakage to lead agencies	Accept: DPC notes that delivery will rely on all SPC users. A consolidated general ledger of IT spend will take 3-5 years. This is a significant task requiring input and agreement from all Departments. We suggest this activity is led by VGPB and supported by major Departmental CFO's and CPO's. DPC will participate by providing Departmental data and develop a reporting regime related to contract leakage.	3 - 5 years
10. Include reviews of State Purchase Contract management in their forward internal audit programs, if warranted based on the identified risk	Accept: Discussion and agreement to action this recommendation will be based on advice from the Audit and Risk Committee.	12 months
11. Develop a central record of applications for State Purchase Contract exemptions, which may necessitate a change in process to require all exemption applications to be centrally managed within each department according to its procurement frameworks	Accept: Discussion and agreement to action this recommendation will be based on the available systems and tools. We will work closely with DTF and DHHS on this and explore options over the coming 12 months.	12 months

RESPONSE provided by the Secretary, DTF



Department of Treasury and Finance

1 Treasury Place
Melbourne Victoria 3002 Australia
Telephone: +61 3 9651 5111
dtf.vic.gov.au
DX210759

Mr A Greaves
Auditor-General
Level 31, 35 Collins Street
MELBOURNE VIC 3000

11 SEP 2018

Andrew

Dear Mr Greaves

STATE PURCHASE CONTRACTS PERFORMANCE AUDIT

Thank you for your letter dated 31 August 2018 enclosing your proposed State Purchase Contracts performance audit report.

I welcome your conclusion that State Purchase Contracts (SPCs) are providing savings and benefits to government departments and agencies, and I agree that additional savings can be achieved through better informed procurement, stronger contract management and improved measurement and reporting.

I support recommendations two to 11 which are directed to the Department of Treasury and Finance (DTF) as both a lead agency and as a user of SPCs. An implementation timetable for these recommendations is attached.

I also welcome recommendation one which is directed to the Victorian Government Purchasing Board (VGPB) to develop a strategy for the central collection of comprehensive procurement data. DTF is supporting the VGPB to develop and implement this strategy. The implementation of whole of government procurement systems is critical to maximise procurement savings and benefits, and to implement recommendations two and six in your report.

Yours sincerely

David Martine

David Martine
Secretary



RESPONSE provided by the Secretary, DTF—continued

Attachment

State Purchase Contracts performance audit – DTF response to recommendations

Recommendation	DTF response	Completion date
2	Support	Full implementation requires the whole of government data collection which is foreshadowed in recommendation 1
3	Support	From 2019-20 for all new and renewed SPCs
4	Support	From 2019-20 for all new and renewed SPCs
5	Support	From 2019-20
6	Support	Full implementation requires the whole of government data collection which is foreshadowed in recommendation 1
7	Support	June 2019
8	Support	June 2019
9	Support	June 2019
10	Support	June 2019
11	Support	March 2019

RESPONSE provided by the Chair, VGPB

VICTORIAN GOVERNMENT PURCHASING BOARD

Level 4, 1 Macarthur Street
MELBOURNE VIC 3002
t: 03 9651 1699 e: VGPB@dtf.vic.gov.au

VGPB

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
Melbourne Victoria 3000

Dear Mr Greaves

Proposed Performance Audit Report State Purchase Contracts

I am writing in reference to your letter to the Victorian Government Purchasing Board (VGPB) dated 31 August 2018 which enclosed a copy of the proposed report on State Purchase Contracts (SPCs). We appreciate the opportunity to provide comments, consistent with Section 16(3)(b) of the *Audit Act 1994*.

We were pleased to note the low levels of potential leakage detected from the four SPCs reviewed by the Victorian Auditor General's Office (VAGO). The VGPB is not required under the *Financial Management Act 1994* to oversee the operational management of SPCs. However, in accordance with the VGPB supply policies, the VGPB reviews and endorses business cases for new SPCs and consults before any SPC is extended or replaced. In this way, the VGPB maintains oversight of SPCs. The VGPB also monitors compliance through its three-year rolling audit program and oversight function.

We note VAGO's acknowledgement of deficiencies in procurement data due to the absence of standardised systems and business rules across agencies. The VGPB supports VAGO's recommendation to work with portfolio departments and key SPC users to develop and implement an e-procurement strategy for the central collection of comprehensive procurement data. This work has commenced as part of our procurement reform program and involves exploring solutions such as standard categorisation and consistent data capture.

The completion of the e-procurement strategy will enable the cost benefit of options to be developed and assessed in 2019. The central collection of consistently coded information will simplify the analysis of procurement data, enhancing decision-making and the identification of SPC opportunities.

The VGPB supports recommendation 1. It is consistent with the VGPB's vision of having common procurement systems and standard categorisation to enable the central collection and analysis of procurement data. The VGPB will implement this recommendation by 31 December 2019.

Yours sincerely



Ms Antoinette Brandi
Chair, Victorian Government Purchasing Board
11 / 09 / 2018



Appendix B

Entities bound by VGPB policies

As at the 1 July 2018 the following entities are bound by VGPB policies.

Departments

- Department of Economic Development, Jobs, Transport and Resources
- Department of Education and Training
- Department of Environment, Land, Water and Planning
- Department of Health and Human Services
- Department of Justice and Regulation
- Department of Premier and Cabinet
- Department of Treasury and Finance

Specified agencies

- VicRoads
- Public Transport Victoria
- Cenitex

Offices or bodies

- Environment Protection Authority
- Essential Services Commission
- Game Management Authority
- Independent Broad-Based Anti-Corruption Commission
- Infrastructure Victoria
- Office of the Chief Commissioner of Police (Victoria Police)
- Office of Public Prosecutions and Associate Crown Prosecutors
- Office of the Commissioner for Environmental Sustainability
- Office of the Commission for Children and Young People
- Office of the Freedom of Information Commissioner
- Office of the Labour Hire Licensing Authority
- Office of the Legal Services Commissioner
- Office of the Ombudsman
- Office of the Commissioner for Privacy and Data Protection
- Office of the Road Safety Camera Commissioner
- Taxi Services Commission

- Victorian Auditor-General's Office
- Victorian Commission for Gambling and Liquor Regulation
- Victorian Electoral Commission
- Victorian Equal Opportunity and Human Rights Commission
- Victorian Fisheries Authority
- Victorian Inspectorate
- Victorian Responsible Gaming Foundation

Other

- Victorian Public Sector Commission

Appendix C

State Purchase Contracts

Figure C1 shows SPCs as at June 2017 and their sourcing arrangements.

Figure C1
SPCs as at 30 June 2017

SPC	Goods and services provided	Sourcing arrangement
DTF		
Cash and Banking Services	Cash and banking services including transaction processing and working capital management	Sole supplier
Document Mail Exchange (DX Services)	Government document pick-up and delivery services	Sole supplier
Electricity—Small and Medium Enterprise and Residential Sites	Supply of electricity to sites consuming less than 40 megawatt hours per annum	Sole supplier
Electricity—Large sites	Electricity for large sites	Sole supplier
Fleet Disposals	Vehicle disposal—collection, remediation/repair and sale	Sole supplier
Fuel and Associated Products	Fuel cards that allow fleet users to purchase fuel at a discounted price, delivery of discounted-price bulk fuel to government depots	Closed panel
Marketing Services Register	Creative services in advertising and communication	Register
Master Agency Media Services	Media strategy, planning, buying and reporting services for campaign, functional and recruitment advertising	Sole supplier
Motor Vehicles	Motor vehicles—passenger, light commercial and motorcycles	Open panel
Natural Gas	Supply of natural gas to both small and large sites	Sole supplier
Postal Services	Selected postal services, i.e. domestic parcels—Parcel Post and e-parcel and international mail	Sole supplier
Print Management Services	Print management services, digital publishing, mail house and warehousing solutions	Sole supplier

Figure C1
SPCs as at 30 June 2017—continued

SPC	Goods and services provided	Sourcing arrangement
DTF		
PAS	Professional advisory services within four categories: <ul style="list-style-type: none"> • CAFAS • Tax Advisory Services • Financial Assessment Services • Probity Services 	Open panel
Security Services	Static guarding, patrolling sites, mail and parcel scanning, alarm response and other ad hoc requirements	Closed panel
Staffing Services	Temporary staffing services (mandatory) and permanent personnel (optional) under the administration, information technology and specialised categories	Closed panel
Stationery and Workplace Consumables	Stationery and workplace consumables such as paper, ICT consumables, general stationery and filing	Sole supplier
Travel Management Services	Travel management services including booking services, discounted airfares, hotel rates and car rental prices, account management and travel data reporting	Sole supplier
DPC		
Citrix Products and Services	Citrix software, hardware, technical support, professional services and training	Sole supplier
Data Centre Facilities	Provision of data centre facilities	Sole supplier
End User Computing Equipment Panel	Apple devices, Chrome devices, desktop computers, mobility devices and notebook computers	Closed panel
eServices Register	ICT services and related products such as geo-spatial data services and ICT business process expertise	Register
IBM Enterprise Licensing Agreement	Software support for government's fleet of IBM perpetual licences	Sole supplier

Figure C1
SPCs as at 30 June 2017—continued

SPC	Goods and services provided	Sourcing arrangement
DPC—continued		
Intra-Government Secured Network	High bandwidth data network service links at bandwidths ranging from 100 MBps to 10 GBps	Sole supplier
IT Infrastructure Register	Servers, storage and network equipment, maintenance and support of new and legacy network equipment	Register
Microsoft Enterprise Agreement	Microsoft products and services	Sole supplier
Microsoft Licensing Solution Provider	Microsoft does not sell directly to government departments and agencies. This SPC appoints the approved third-party supplier to provide Microsoft products	Sole supplier
Multifunction Devices and Printers	Devices and printers that can either scan, print, copy and facsimile—excludes publication printing and printing paper	Closed panel
Oracle Software and Support	Specified range of Oracle products	Sole supplier
Salesforce Customer Relationship Management	Specified range of Salesforce cloud services	Sole supplier
Telecommunications Purchasing and Management Strategy	Telecommunication services including data, voice, mobile, internet and unified services	Closed panel
Victorian Office Telephony Services	Office telephony and related facilities management service	Sole supplier
VMware Enterprise Licensing Agreement	Specified range of VMware products	Open panel
DJR		
Legal Services Panel	Litigation and dispute resolution relating to various areas of law	Closed panel
Cenitex		
Rosetta	Identity management and security software	Sole supplier

Source: VAGO, based on information from DTF, DPC, DJR and Cenitex.

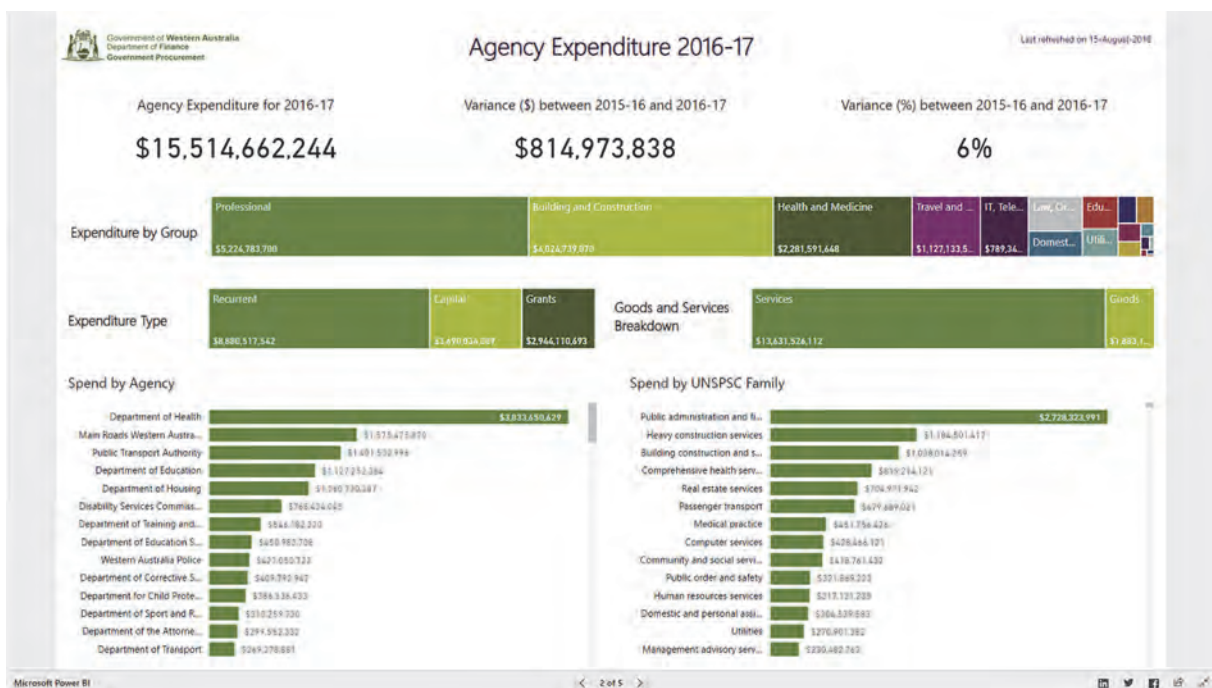
Appendix D

Western Australian Department of Finance dashboard

Figures D1 and D2 provide examples of the type of information publicly available in the WA Department of Finance dashboard.

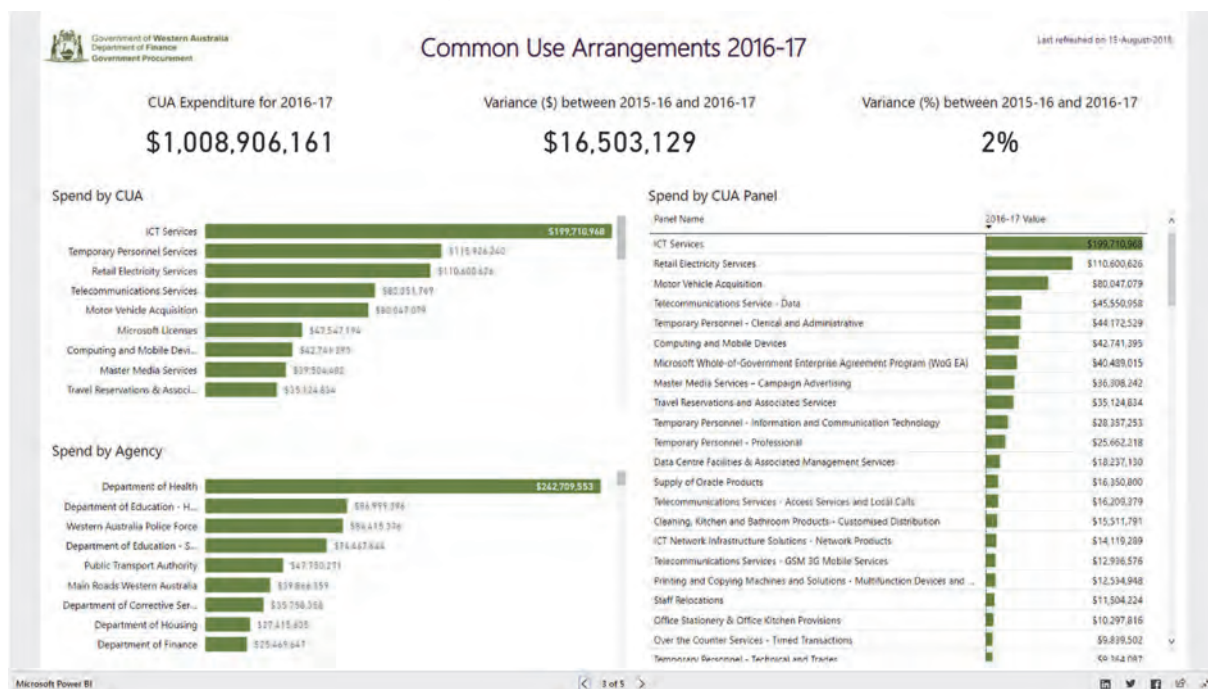
Figure D1

WA agency expenditure by the United Nations Standard Products and Services Code, 2016–17



Source: WA Department of Finance.

Figure D2
Western Australian Common Use Arrangements, 2016–17



Note: Common Use Arrangement are whole-of-government goods and service contracts.

Source: WA Department of Finance.

Appendix E

Methodology for spend analysis

Step 1: Define scope

The scope of data for the audit included expenditure from the seven departments for the financial years 2014–15, 2015–16 and 2016–17.

We used this expenditure data to perform the following tests:

- categorise spend across the seven departments
- identify expenditure categories for potential new SPCs
- determine whether contract leakage was occurring in select SPCs
- understand the spread of expenditure across different suppliers.

Step 2: Data extraction

To perform these tests, we extracted data from departments' accounts payable systems. The departments use these systems to pay invoices for goods and services. All departments use Oracle Financials as their accounts payable system. Data is stored in Oracle Financials in multiple data tables.

A script was written to extract data from the tables in Oracle Financials. This script was originally created by DEDJTR, and then the same script was used to extract data from the other departments' accounts payable systems to ensure a consistent approach.

Once the departments had completed the data extraction, a secure transfer link was shared with the departments so that they could upload this data to VAGO's password-secured database. After receiving confirmation that the data upload was complete, we downloaded the data into a secure folder. A manual review was performed to ensure that all data tables had been extracted and received.

Step 3: Transformation of data

The data provided from all departments was uploaded into a secure server at VAGO to be collated, cleaned and manipulated to make it fit for purpose. All departments use Oracle Financials differently, which means that the data tables extracted from accounts payable systems were not consistent across all departments and could not be readily matched and compared. We used two methods to standardise and categorise these transactions:

- Chart of accounts—each department uses a chart of accounts to map, organise and categorise expenditure. This chart provides a complete listing of all accounts used by the department to categorise spend for reporting. We used these charts of accounts to categorise each transaction across all departments. However, departments use different charts of accounts, which means we could not uniformly categorise across all departments.
- ANZSIC 2006—to uniformly code transactions across the departments, we used ANZSIC. VAGO obtained the Australian Business Register database, which uses ANZSIC to categorise suppliers based on their Australian Business Numbers. Each supplier is assigned an ANZSIC category based on its Australian Business Number—for example, the supplier Hays Recruitment is assigned the ANZSIC category Recruitment Services. The Australian Business Register database was loaded onto VAGO's server and each supplier was matched with a specific categorisation. The categorisation was then rolled up into broader categories to facilitate multiple layers of analysis.

Step 4: Data validation

We used the following methods to validate the cleaned and consolidated data:

- aggregated numbers were generated and presented to audited departments for validation
- a sense-check validation of a sample of accounts with publicly available annual reports of the agencies
- based on feedback as part of the two steps above, data investigations were conducted where the data did not reconcile and adjustments and amendments were made to the dataset in consultation with departments.

Step 5: Reporting

We loaded the validated dataset to a business intelligence tool, Qlik Sense, to create visualisations and reports to gain insights from the data. Typical reports and visualisations included:

- spend by agency
- spend by Australian Business Register categorisation
- spend by supplier by agency
- spend by chart of accounts categorisation.

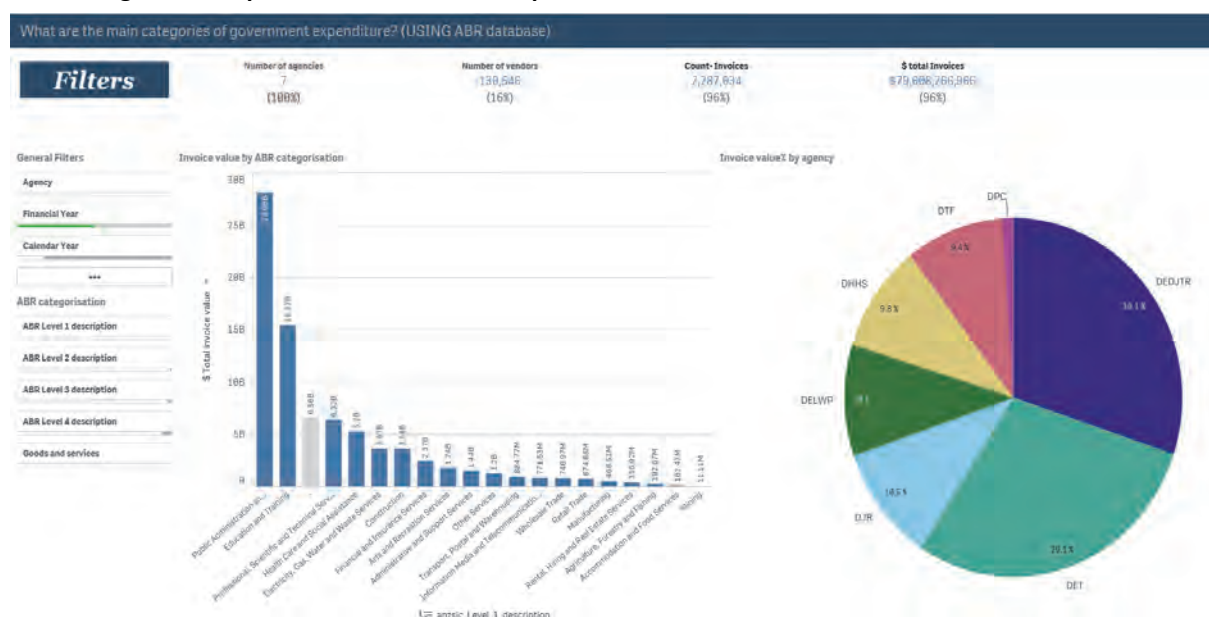
We reconciled the numbers from the business intelligence tool with the raw data tables received to ensure the completeness and accuracy of the data received, transformed and extracted to Qlik Sense.

VAGO dashboard

Figure E1 provides examples of information on our dashboard.

Figure E1

Main categories of expenditure of the seven departments, 2014–15 to 2016–17



Source: VAGO, based on data provided by DTF, DPC, DJR, DHHS, DET, DELWP and DETJTR.

Appendix F

ANZSIC division descriptions

Figure F1 provides ANZSIC division descriptions.

Figure F1
ANZSIC division descriptions

Division	Descriptions
A Agriculture, Forestry and Fishing	The Agriculture, Forestry and Fishing Division includes units mainly engaged in growing crops, raising animals, growing and harvesting timber, and harvesting fish and other animals from farms or their natural habitats.
B Mining	The Mining Division includes units that mainly extract naturally occurring mineral solids, such as coal and ores; liquid minerals, such as crude petroleum; and gases, such as natural gas. The term mining is used in the broad sense to include underground or open cut mining; dredging; quarrying; well operations or evaporation pans; recovery from ore dumps or tailings as well as beneficiation activities (i.e. preparing, including crushing, screening, washing and flotation) and other preparation work customarily performed at the mine site, or as a part of mining activity.
C Manufacturing	<p>The Manufacturing Division includes units mainly engaged in the physical or chemical transformation of materials, substances or components into new products (except agriculture and construction). The materials, substances or components transformed by units in this division are raw materials that are products of agriculture, forestry, fishing and mining, or products of other manufacturing units.</p> <p>Units in the Manufacturing Division are often described as plants, factories or mills and characteristically use power-driven machines and other materials-handling equipment. However, units that transform materials, substances or components into new products by hand, or in the unit's home, are also included.</p>
D Electricity, Gas, Water and Waste Services	The Electricity, Gas, Water and Waste Services Division comprises units engaged in the provision of electricity; gas through mains systems; water; drainage; and sewage services. This division also includes units mainly engaged in the collection, treatment and disposal of waste materials; remediation of contaminated materials (including land); and materials recovery activities.
E Construction	<p>The Construction Division includes units mainly engaged in the construction of buildings and other structures, additions, alterations, reconstruction, installation, and maintenance and repairs of buildings and other structures.</p> <p>Units engaged in demolition or wrecking of buildings and other structures, and clearing of building sites are included in Division E Construction. It also includes units engaged in blasting, test drilling, landfill, levelling, earthmoving, excavating, land drainage and other land preparation.</p>

Figure F1

ANZSIC division descriptions—*continued*

Division	Descriptions
F Wholesale Trade	<p>The Wholesale Trade Division includes units mainly engaged in the purchase and onselling, the commission-based buying, and the commission-based selling of goods, without significant transformation, to businesses. Units are classified to the Wholesale Trade Division in the first instance if they buy goods and then onsell them (including on a commission basis) to businesses.</p> <p>Wholesalers' premises are usually a warehouse or office with little or no display of their goods, large storage facilities, and are not generally located or designed to attract a high proportion of walk-in customers. Wholesaling is often characterised by high value and/or bulk volume transactions, and customers are generally reached through trade-specific contacts.</p>
G Retail Trade	<p>The Retail Trade Division includes units mainly engaged in the purchase and/or onselling, the commission-based buying, and the commission-based selling of goods, without significant transformation, to the general public. The Retail Trade Division also includes units that purchase and onsell goods to the general public using non-traditional means, including the internet. Units are classified to the Retail Trade Division in the first instance if they buy finished goods and then onsell them (including on a commission basis) to the general public.</p> <p>Retail units generally operate from premises located and designed to attract a high volume of walk-in customers, have an extensive display of goods, and/or use mass media advertising designed to attract customers. The display and advertising of goods may be physical or electronic.</p>
H Accommodation and Food Services	<p>The Accommodation and Food Services Division includes units mainly engaged in providing short-term accommodation for visitors. Also included are units mainly engaged in providing food and beverage services, such as the preparation and serving of meals and the serving of alcoholic beverages for consumption by customers, both on and off-site.</p>
I Transport, Postal and Warehousing	<p>The Transport, Postal and Warehousing Division includes units mainly engaged in providing transportation of passengers and freight by road, rail, water or air. Other transportation activities such as postal services, pipeline transport and scenic and sightseeing transport are included in this division.</p> <p>Units mainly engaged in providing goods warehousing and storage activities are also included. The division also includes units mainly engaged in providing support services for the transportation of passengers and freight. These activities include stevedoring services, harbour services, navigation services, airport operations and customs agency services.</p>
J Information Media and Telecommunications	<p>The Information Media and Telecommunications Division includes units mainly engaged in:</p> <ul style="list-style-type: none"> • creating, enhancing and storing information products in media that allows for their dissemination • transmitting information products using analogue and digital signals (via electronic, wireless, optical and other means) • providing transmission services and/or operating the infrastructure to enable the transmission and storage of information and information products. <p>Information products are defined as those which are not necessarily tangible, and, unlike traditional goods, are not associated with a particular form. The value of the information products is embedded in their content rather than in the format in which they are distributed.</p>

Figure F1

ANZSIC division descriptions—*continued*

Division	Descriptions
K Financial and Insurance Services	<p>The Financial and Insurance Services Division includes units mainly engaged in financial transactions involving the creation, liquidation, or change in ownership of financial assets, and/or in facilitating financial transactions.</p> <p>The range of activities include raising funds by taking deposits and/or issuing securities and, in the process, incurring liabilities; units investing their own funds in a range of financial assets; pooling risk by underwriting insurance and annuities; separately constituted funds engaged in the provision of retirement incomes; and specialised services facilitating or supporting financial intermediation, insurance and employee benefit programs. Also included in this division are central banking, monetary control and the regulation of financial activities.</p>
L Rental, Hiring and Real Estate Services	<p>The Rental, Hiring and Real Estate Services Division includes units mainly engaged in renting, hiring, or otherwise allowing the use of tangible or intangible assets (except copyrights), and units providing related services.</p> <p>The assets may be tangible, as in the case of real estate and equipment, or intangible, as in the case with patents and trademarks. The division also includes units engaged in providing real estate services such as selling, renting and/or buying real estate for others, managing real estate for others and appraising real estate.</p>
M Professional, Scientific and Technical Services	<p>The Professional, Scientific and Technical Services Division includes units mainly engaged in providing professional, scientific and technical services. Units engaged in providing these services apply common processes where labour inputs are integral to the production or service delivery. Units in this division specialise and sell their expertise. In most cases, equipment and materials are not major inputs. The activities undertaken generally require a high level of expertise and training and formal (usually tertiary level) qualifications.</p> <p>These services include scientific research, architecture, engineering, computer systems design, law, accountancy, advertising, market research, management and other consultancy, veterinary science and professional photography.</p> <p>Excluded are units mainly engaged in providing health care and social assistance services, which are included in Division Q Health Care and Social Assistance.</p>
N Administrative and Support Services	<p>The Administrative and Support Services Division includes units mainly engaged in performing routine support activities for the day-to-day operations of other businesses or organisations.</p> <p>Units providing administrative support services are mainly engaged in activities such as office administration; hiring and placing personnel for others; preparing documents; taking orders for clients by telephone; providing credit reporting or collecting services; and arranging travel and travel tours.</p> <p>Units providing other types of support services are mainly engaged in activities such as building and other cleaning services; pest control services; gardening services; and packaging products for others.</p>

Figure F1

ANZSIC division descriptions—*continued*

Division	Descriptions
O Public Administration and Safety	<p>The Public Administration and Safety Division includes units mainly engaged in Central, State or Local Government legislative, executive and judicial activities; in providing physical, social, economic and general public safety and security services; and in enforcing regulations. Also included are units of military defence, government representation and international government organisations.</p> <p>Central, State or Local Government legislative, executive and judicial activities include the setting of policy; the oversight of government programs; collecting revenue to fund government programs; creating statute laws and by-laws; creating case law through the judicial processes of civil, criminal and other courts; and distributing public funds.</p> <p>The provision of physical, social, economic and general public safety and security services, and enforcing regulations, includes units that provide police services; investigation and security services; fire protection and other emergency services; correctional and detention services; regulatory services; border control; and other public order and safety services.</p> <p>Also included are units of military defence, government representation and international government organisations.</p>
P Education and Training	<p>The Education and Training Division includes units mainly engaged in the provision and support of education and training, except those engaged in the training of animals e.g. dog obedience training, horse training.</p> <p>Education may be provided in a range of settings, such as educational institutions, the workplace, or the home. Generally, instruction is delivered through face-to-face interaction between teachers/instructors and students, although other means and mediums of delivery, such as by correspondence, radio, television or the internet, may be used.</p>
Q Health Care and Social Assistance	<p>The Health Care and Social Assistance Division includes units mainly engaged in providing human health care and social assistance. Units engaged in providing these services apply common processes, where the labour inputs of practitioners with the requisite expertise and qualifications are integral to production or service delivery.</p>
R Arts and Recreation Services	<p>The Arts and Recreation Services Division includes units mainly engaged in the preservation and exhibition of objects and sites of historical, cultural or educational interest; the production of original artistic works and/or participation in live performances, events, or exhibits intended for public viewing; and the operation of facilities or the provision of services that enable patrons to participate in sporting or recreational activities, or to pursue amusement interests.</p>
S Other Services	<p>The Other Services Division includes a broad range of personal services; religious, civic, professional and other interest group services; selected repair and maintenance activities; and private households employing staff. Units in this division are mainly engaged in providing a range of personal care services, such as hair, beauty and diet and weight management services; providing death care services; promoting or administering religious events or activities; or promoting and defending the interests of their members.</p>

Source: VAGO adapted from ANZSIC.

Appendix G

Goods and services spend by ANZSIC subdivision, group and class categories

Figures G1 to G3 provide a breakdown of goods and services spend by the seven department by ANZSIC subdivision, group and class categories for 2016–17.

Figure G1
Goods and services spend of more than \$5 million by ANZSIC subdivision categories, 2016–17

Subdivision categories	\$ million
Water Supply, Sewerage and Drainage Services	638.0
Professional, Scientific and Technical Services	410.0
Administrative Services	210.6
Computer System Design and Related Services	197.7
Public Order, Safety and Regulatory Services	160.9
Property Operators and Real Estate Services	159.2
Machinery and Equipment Wholesaling	139.5
Public Administration	127.7
Road Transport	71.7
Internet Service Providers, Web Search Portals and Data Processing Services	51.0
Tertiary Education	46.0
Building Construction	37.8
Basic Chemical and Chemical Product Manufacturing	37.6
Electricity Supply	34.4
Construction Services	27.7
Other Goods Wholesaling	25.7
Finance	25.4
Insurance and Superannuation Funds	23.1
Other Store-Based Retailing	22.6
Medical and Other Health Care Services	20.7
Social Assistance Services	20.6
Personal and Other Services	20.2
Auxiliary Finance and Insurance Services	17.8
Agriculture, Forestry and Fishing Support Services	15.7
Rental and Hiring Services (except Real Estate)	15.7
Postal and Courier Pick-up and Delivery Services	15.6

Figure G1

Goods and services spend of more than \$5 million by ANZSIC subdivision categories, 2016–17—continued

Subdivision categories	\$ million
Grocery, Liquor and Tobacco Product Wholesaling	15.2
Air and Space Transport	14.8
Hospitals	14.8
Waste Collection, Treatment and Disposal Services	14.3
Printing (including the Reproduction of Recorded Media)	11.4
Basic Material Wholesaling	9.1
Building Cleaning, Pest Control and Other Support Services	8.4
Accommodation	7.8
Forestry and Logging	7.7
Preschool and School Education	7.6
Food and Beverage Services	7.0
Internet Publishing and Broadcasting	6.5
Petroleum and Coal Product Manufacturing	5.8

Source: VAGO, based on data provided by DTF, DPC, DJR, DHHS, DET, DELWP and DEDJTR.

Figure G2

Goods and services spend of more than \$5 million by ANZSIC group categories, 2016–17

Group categories	\$ million
Water Supply, Sewerage and Drainage Services	638.0
Computer System Design and Related Services	197.7
Employment Services	185.0
Public Order and Safety Services	157.7
Management and Related Consulting Services	157.0
Real Estate Services	155.5
Other Machinery and Equipment Wholesaling	137.0
State Government Administration	100.8
Legal and Accounting Services	93.1
Architectural, Engineering and Technical Services	83.2
Road Passenger Transport	66.0
Internet Service Providers and Web Search Portals	46.3
Tertiary Education	46.0
Advertising Services	37.4
Pharmaceutical and Medicinal Product Manufacturing	36.8
Non-Residential Building Construction	33.7
Electricity Distribution	32.6
Health and General Insurance	22.9
Scientific Research Services	21.0
Other Administrative Services	18.5

Figure G2

Goods and services spend of more than \$5 million by ANZSIC group categories, 2016–17—continued

Group categories	\$ million
Financial Asset Investing	17.4
Other Social Assistance Services	16.6
Auxiliary Finance and Investment Services	16.3
Civic, Professional and Other Interest Group Services	16.0
Building Installation Services	15.6
Postal and Courier Pick-up and Delivery Services	15.6
Grocery, Liquor and Tobacco Product Wholesaling	15.2
Agriculture and Fishing Support Services	14.9
Air and Space Transport	14.8
Hospitals	14.8
Electrical and Electronic Goods Retailing	14.7
Justice	14.5
Market Research and Statistical Services	13.4
Waste Collection Services	13.1
Pharmaceutical and Toiletry Goods Wholesaling	13.1
Motor Vehicle and Transport Equipment Rental and Hiring	11.4
Printing and Printing Support Services	11.3
Furniture, Floor Covering and Other Goods Wholesaling	10.8
Medical Services	9.6
Other Professional, Scientific and Technical Services	7.8
Building Cleaning, Pest Control and Gardening Services	7.8
Accommodation	7.8
Forestry and Logging	7.7
School Education	7.4
Travel Agency and Tour Arrangement Services	7.0
Land Development and Site Preparation Services	6.6
Internet Publishing and Broadcasting	6.5
Allied Health Services	6.2
Local Government Administration	6.0
Petroleum and Coal Product Manufacturing	5.8
Road Freight Transport	5.8
Depository Financial Intermediation	5.7
Cafes, Restaurants and Takeaway Food Services	5.6
Mineral, Metal and Chemical Wholesaling	5.0

Source: VAGO, based on data provided by DTF, DPC, DJR, DHHS, DET, DELWP and DEDJTR.

Figure G3
Goods and services spend of more than \$5 million by ANZSIC class categories, 2016–17

Class categories	\$ million
Water Supply	634.8
Computer System Design and Related Services	197.7
Employment Placement and Recruitment Services	161.6
Real Estate Services	155.5
Correctional and Detention Services	145.6
Management Advice and Related Consulting Services	127.2
Computer and Computer Peripheral Wholesaling	109.4
State Government Administration	100.8
Engineering Design and Engineering Consulting Services	65.4
Legal Services	54.5
Internet Service Providers and Web Search Portals	46.3
Advertising Services	37.4
Accounting Services	37.1
Human Pharmaceutical and Medicinal Product Manufacturing	36.8
Urban Bus Transport (Including Tramway)	36.7
Non-Residential Building Construction	33.7
Electricity Distribution	32.6
Corporate Head Office Management Services	29.8
Interurban and Rural Bus Transport	29.0
Labour Supply Services	23.4
Higher Education	23.4
Technical and Vocational Education and Training	22.6
General Insurance	21.9
Scientific Research Services	21.0
Financial Asset Investing	17.4
Other Social Assistance Services	16.6
Other Agriculture and Fishing Support Services	14.8
Air and Space Transport	14.8
Postal Services	14.7
Justice	14.5
Other Auxiliary Finance and Investment Services	14.4
Hospitals (Except Psychiatric Hospitals)	14.1
Market Research and Statistical Services	13.1
Pharmaceutical and Toiletry Goods Wholesaling	13.1
Solid Waste Collection Services	12.7
Printing	11.1
Other Motor Vehicle and Transport Equipment Rental and Hiring	10.8
Other Interest Group Services	10.7
Other Electrical and Electronic Goods Wholesaling	10.6

Figure G3

Goods and services spend of more than \$5 million by ANZSIC class categories, 2016–17—continued

Class categories	\$ million
Electrical Services	9.7
Computer and Computer Peripheral Retailing	9.7
Professional and Scientific Goods Wholesaling	8.9
Specialist Medical Services	8.8
General Line Grocery Wholesaling	8.8
Office Administrative Services	8.2
Other Machinery and Equipment Wholesaling	7.9
Accommodation	7.8
Paper Product Wholesaling	7.6
Logging	7.4
Combined Primary and Secondary Education	7.1
Other Professional, Scientific and Technical Services	7.0
Travel Agency and Tour Arrangement Services	7.0
Other Administrative Services	6.6
Internet Publishing and Broadcasting	6.5
Site Preparation Services	6.2
Local Government Administration	6.0
Other Allied Health Services	5.9
Road Freight Transport	5.8
Architectural Services	5.7
Other Specialised Design Services	5.7
Banking	5.7
Petroleum Refining and Petroleum Fuel Manufacturing	5.6
Building and Other Industrial Cleaning Services	5.3

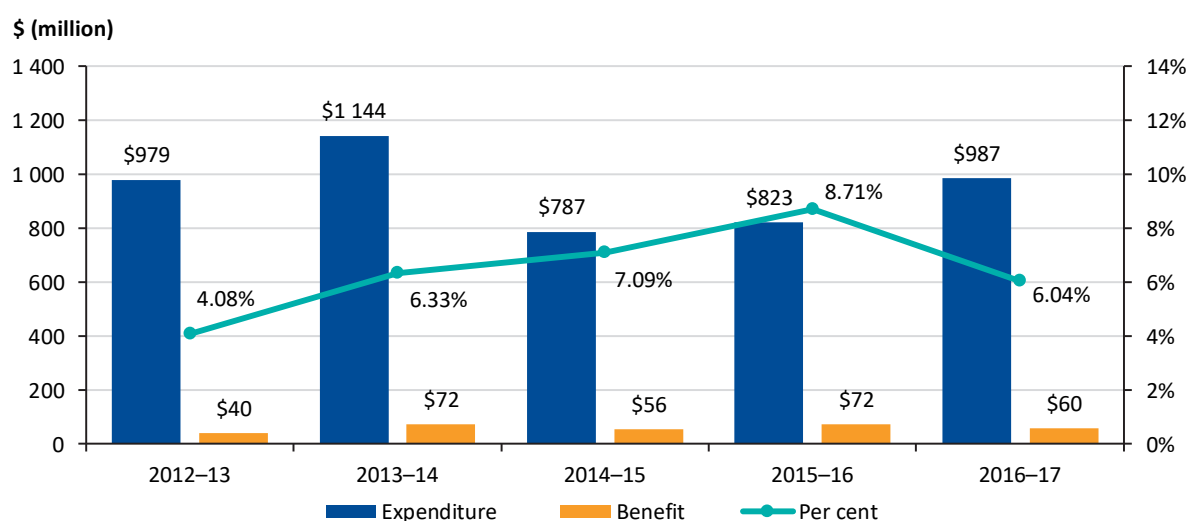
Source: VAGO, based on data provided by DTF, DPC, DJR, DHHS, DET, DELWP and DEDJTR.

Appendix H

Spend and benefits

Figures H1 and H2 show spend and benefits for 2012–13 to 2016–17 reported by lead agencies DTF and DPC across all SPCs they lead.

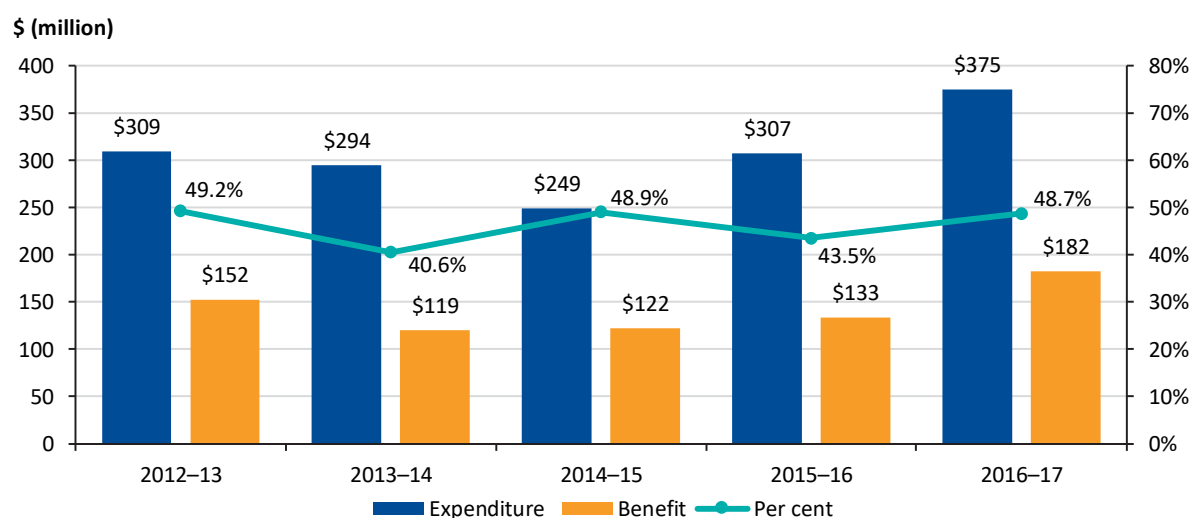
Figure H1
DTF spend and benefits, 2012–13 to 2016–17



Note: Percentages may vary due to rounding.

Source: VAGO, based on DTF data.

Figure H2
DPC spend and benefits, 2012–13 to 2016–17



Note: Percentages may vary due to rounding.

Source: VAGO, based on DPC data.

Auditor-General's reports tabled during 2017–18

Report title	Date tabled
Local Government Insurance Risks (2018–19:1)	July 2018
Managing the Municipal and Industrial Landfill Levy (2018–19:2)	July 2018
School Councils in Government Schools (2018–19:3)	July 2018
Managing Rehabilitation Services in Youth Detention (2018–19:4)	August 2018
Police Management of Property and Exhibits (2018–19:5)	September 2018
Crime Data (2018–19:6)	September 2018
Follow up of Oversight and Accountability of Committees of Management (2018–19:7)	September 2018
Delivering Local Government Services (2018–19:8)	September 2018
Security and Privacy of Surveillance Technologies in Public Places (2018–19:9)	September 2018
Managing the Environmental Impacts of Domestic Wastewater (2018–19:10)	September 2018
Contract Management Capability in DHHS: Service Agreements (2018–19:11)	September 2018

All reports are available for download in PDF and HTML format on our website
www.audit.vic.gov.au

Victorian Auditor-General's Office
Level 31, 35 Collins Street
Melbourne Vic 3000
AUSTRALIA

Phone +61 3 8601 7000
Email enquiries@audit.vic.gov.au