

Contracting Arrangements for Agencies' Air Travel

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Canberra ACT
23 December 1997

Dear Madam President
Dear Mr Speaker

In accordance with the authority contained in the *Audit Act 1901*, the Australian National Audit Office has undertaken a performance audit in selected agencies and I present this report and the accompanying brochure to the Parliament. The report is titled *Contracting Arrangements for Agencies' Air Travel*.

Yours sincerely

P. J. Barrett
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of
Representatives
Parliament House
Canberra ACT

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fax (02) 6203 7798

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Audit Team

Roger Fitzgerald
Paul Garlick
Colin Cronin

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Abbreviations

A-G's	Attorney-General's Department
ANAO	Australian National Audit Office
BG83	Commonwealth <i>Buyers Guide (BG83) - Travel Services - Domestic and International</i>
DEA	Data Envelopment Analysis
Defence	Department of Defence
DIMA	Department of Immigration and Multicultural Affairs
DOFA	Department of Finance and Administration
DPIE	Department of Primary Industries and Energy
DSS	Department of Social Security
DWR&SB	Department of Workplace Relations and Small Business

Summary and Recommendations

Summary

Introduction

1. Access to low cost, convenient and efficient air travel services is important in the effective administration of agency programs. The Australian National Audit Office (ANAO) estimates that expenditure on air travel by Commonwealth agencies amounts to more than \$200 million annually.¹ About three-quarters of this expenditure is on domestic airline travel (\$150 million) and one-quarter on international airline travel (\$50 million).

2. Air travel contracts are generally entered into by agencies under Commonwealth common-use arrangements. The common-use arrangements for travel services are detailed in *Buyers' Guide (BG83) - Travel Services - Domestic and International*. Agencies are able to enter into a common-use contract with a nominated travel service provider for the provision of services for between one and three years.

3. The common-use arrangements are standing offers from providers to provide goods and services to Commonwealth entities. Currently, there are four nominated providers under *BG83*. The two major domestic airline carriers together account for the major share of agency expenditures. In October 1997, the Department of Finance and Administration² (DOFA) extended the period of the current *BG83* standing offer by six months to 30 April 1998.

4. The Department of Finance and Administration is currently consulting agencies and the air travel industry in relation to arrangements to apply following the impending expiry of the current arrangements. In addition, a broader review is under way on Commonwealth procurement mechanisms. This review of procurement is considering aspects such as coordination arrangements, whole-of-government benefits, risks arising from any changes, options for

¹ The term 'agencies' in this report refers to departments and agencies that are not legally separate from the Commonwealth and which operate on the Commonwealth Public Account. Accordingly, this estimate is restricted to only those Commonwealth departments and agencies that are subject to the Finance Directions and are required to adhere to the Commonwealth procurement guidelines.

² In this report agencies are referred to by their current name. References to the former Department of Administrative Services will be referred to by reference to its current name, the Department of Finance and Administration, or by the acronym DOFA.

contracting out, devolution to agencies, and extension of user-pays.

5. Under Commonwealth procurement policy, agencies are permitted to take up the standing offers in the common-use *Buyers Guides* without further tendering. However, with the travel services arrangements under *BG83*, there is usually significant further negotiation between agencies and travel service providers. Frequently, this commences with agency-specific requests for proposals involving all or several of the common-use providers.

6. The standing offer in *BG83* includes specified reductions in the total cost of agency air travel. The providers' offers in *BG83* provide for a minimum rebate on domestic and on international air travel, subject to stipulations as to the proportion of agency travel on 'preferred' carriers. The rebates in the standing offer are minimum levels as tendered by the panel of potential providers at the establishment of the standing offer. The pricing structures in *BG83* provide a starting point from which agencies may commence negotiations. In bidding on assured agency business, travel service providers offer reductions on the prices for entry to a panel arrangement.

Audit approach

7. The objectives for the audit were to report on the efficiency and cost effectiveness of selected agencies' procurement of air travel services. Specifically the audit was to:

- identify the potential for more cost effective procurement in agencies' contracting for air travel services;
- produce estimates of potential savings in expenditure by improved contracting arrangements in agencies where possible; and
- outline any improvements to procurement management practices, including improvement in Commonwealth coordination activities.

8. The audit was undertaken between March and October 1997 in DOFA (in terms of its Commonwealth coordination responsibilities), the Department of Defence (Defence), Centrelink (which also services the Department of Social Security (DSS) air travel requirements), the Department of Primary Industries and Energy (DPIE), Attorney-General's Department (A-G's), the Department of Immigration and Multicultural Affairs (DIMA), and the Department of Workplace Relations and Small

Business (DWR&SB). This timing meant that the audit would be able to contribute to the re-evaluation of the common-use arrangements for air travel.

9. The selected agencies spent some \$85.7 million on airline travel in 1996-97 (see Exhibit 1), comprising \$63.6 million on domestic travel and \$22.1 million on international travel. The six agencies represent some 43 per cent of the estimated \$200 million in expenditure on airline travel by Commonwealth Public Account agencies.

Exhibit 1

Selected agencies' expenditure in 1996-97 on airline travel

Agency	Domestic Expenditure (\$ million)	International Expenditure (\$ million)	Total Expenditure (\$ million)
Defence	49.1	18.9	68.0
Centrelink	5.0	0.2	5.2
Primary Industries & Energy	4.2	1.2	5.4
Attorney-General's	3.3	0.6	3.9
Immigration & Multicultural Affairs	1.2	1.1	2.3
Workplace Relations & Small Business	0.8	0.1	0.9
Total	63.6	22.1	85.7

Notes: See Exhibit 1.1

Source: ANAO based on information supplied by agencies.

10. The ANAO has also undertaken complementary audit work through a 1997-98 Financial Control and Administration audit of official travel by public sector employees³. That audit reviewed travel management to determine compliance with approved policies and procedures and reported on better practice. The Financial Control and Administration audit assessed control over official travel more broadly, including officer travel allowances, whilst the focus of this audit is on the administrative effectiveness of air travel contracting. However, both

³ ANAO - Audit Report No.14 1997-98 - Official Travel by Public Sector Employees

audits are complementary and indicate scope for more cost effective outcomes of travel arrangements.

Conclusions

11. Overall, selected agencies have realised increasingly significant financial benefits in the course of their air travel contracting over the past five years. In terms of objectives of the audit the ANAO came to the following conclusions:

- *Improved agency procurement practices:* There is continued scope for further efficiency gains by agencies in air travel procurement through grouping with others to offer an attractive air travel turnover (in excess of \$10 million for international travel and \$15 million for domestic air travel) to air travel service providers; through exchanging information between agencies on travel contracting; and through enhancing competitiveness amongst the panel of travel service providers in the periodic negotiation of contracts. Improved efficiencies can be gained by agencies through more effective management of booking procedures jointly with service providers and better education of staff as to travel policy and contractual benefits. There is also scope for closer monitoring of service providers' performance through performance measurement and service level agreements. In short, there is scope for better contract management and better outcomes.
- *Savings estimates:* Analysis by the ANAO indicates that potential for domestic air travel (data limitations prevented an estimate being derived for international travel) savings by all Commonwealth Public Account agencies is some \$6 million annually. This estimate is based on all agencies' cost centres being able to reduce overall expenditure by four per cent by moving to the achieved average level of savings in rebates and discounts. The ANAO has also commissioned sensitivity analysis using a linear programming technique to benchmark agencies' air travel efficiency. This approach identified an upper potential of about 9 per cent savings if agencies were to move to 'best practice' achieved by cost centres within the selected agencies. The varying nature of agencies' activities and hence their travel requirements, as well as constraints on discounting by airlines, restrict the extent to which agencies are able to achieve savings. But the observed outcomes in particular areas suggests real scope for further across the board savings.

- *Coordination of agency contracting:* The common-use arrangements have been assisting the devolution of procurement of air travel to agencies. However, there is scope for enhanced coordination of agencies' air travel procurement under current common-use arrangements. Also, closer adherence to the common-use model would remove unnecessary duplication in agencies' contracting processes. In the current re-evaluation of the *BG83* arrangements there would be benefit if services were developed to eliminate a number of areas of common difficulty for agencies. These common problems include overcoming restrictions on the ability of agencies to share market related information; development of the travel management information that agencies receive from their travel service provider; development of effective systems to manage frequent flyer reward schemes; and quality control and effective monitoring of the provision of discount fares.
- *Options for improving coordination:* Under the current system of devolved contracting, improved procurement of air travel could be achieved through improved information sharing and benchmarking of performance between agencies, as well as the development of a 'best practice' role by leading agencies. The ANAO has identified scope for enhancing purchasing power through greater consolidation of agencies' air travel turnover. This could occur through voluntary grouping of agencies in their purchasing, promoted and assisted by 'lead agencies'. Options for improvement could include, for example, a grouping of agencies that have low to moderate international travel budgets to contract together for international travel, and a proposal for a system for domestic travel of fixed government fares (net of all price reductions) to absorb and simplify the existing contract conditions and fare pricing structures. There are clear indications that these are quite feasible options.

Agency responses

12. The ANAO made six recommendations. Agency responses on specific recommendations are reproduced at the particular sections of the report dealing with those recommendations, including comments on any agency reservations. Generally, the agencies agreed to the recommendations or agreed with some qualification to the audit recommendations.

Key Findings

Agency contracting

13. The selected agencies have increased the level of negotiated savings on their air travel in the course of common-use contracting over the past five years. However, there is potential for further gains in some agencies through greater rigour in periodic market testing as a mechanism to foster competition in contracting arrangements and through better management of performance under the airline travel contracts. Further gains to the Commonwealth are also possible through agencies sharing experiences and information on performance under their travel contracts, including through benchmarking travel services.

Confidentiality

14. Agencies should not enter into air travel arrangements or confidentiality agreements that place the Commonwealth as a whole at a commercial disadvantage. It would be desirable to clarify existing undertakings to ensure the maximum scope for sharing travel information with other Commonwealth agencies, subject to commercial considerations affecting the service providers' businesses. While acknowledging the devolution of authority to individual agencies as part of the ongoing public service reforms, the ANAO notes government initiatives in other areas to seek greater efficiency through across-agency approaches, for example measures aimed at better using the Commonwealth's purchasing power.

Common-use arrangements

15. The terms and conditions of *BG83* are providing agencies with a minimum coverage of issues for inclusion in their contracts. Improved application of the common-use model would assist in removing unnecessary duplication of agencies' contracting practices. Agencies could do more to mutually benefit each other by informing the Department of Finance and Administration of whole-of-government issues arising in their

contracting arrangements. The ANAO considers that the current system of travel service provider commissions is not producing the most effective administration of the common-use arrangements for air travel in terms of aligning benefits with costs incurred under the present cost recovery arrangements.

Frequent flyer reward schemes

16. Reconsideration of the common-use arrangements for travel offers the opportunity to negotiate with the promoters of frequent flyer reward schemes at a whole-of-government level, and/or by agency user groups, to achieve effective management systems and benefits for agencies. The November 1997 ANAO Financial Control and Administration audit on travel management saw a need for systems to separately identify frequent flyer rewards on official business. The ANAO considers that there is scope for improvement in the management information that agencies receive from their travel service providers on overall use of frequent flyer points for official travel. Another option in the re-negotiation of government air travel services is to seek to have an increased rebate on official travel where practicable as an alternative to such frequent flyer reward schemes.

Management of discount fares

17. The ANAO considers that there is scope to improve agencies' ability to utilise the provision of discount fares. Agency practices to improve the use of discount fares can include working more closely with their travel service provider to develop more efficient booking procedures, better educating staff and monitoring compliance with agency travel policy. There would be benefit in providing for quality control by the travel service providers themselves and for scrutiny of their provision of actual discounted fares to ensure that agencies are getting the best deal.

Management information

18. In the reconsideration of the current common-use arrangements, there would be advantages in specifying common travel management information that would allow performance benchmarking across agencies. There is scope for agencies that are using the same travel service provider to group together in the development for example, of

common travel management information systems with the respective travel service provider for mutual benefits.

Information for Commonwealth coordination

19. Agencies need to keep the Department of Finance and Administration adequately informed on issues arising under their air travel contracting in order that the Department can effectively coordinate contracting for air travel services and assist agencies to achieve more cost effective outcomes without adversely affecting the devolution of authority to agencies.

Whole-of-government options

20. The ANAO notes the potential for further efficiency through the whole-of-government options currently under consideration by the Department of Finance and Administration, for example, by developing a system of fixed government fares (net of all price reductions). Improved information on current commercial terms and service levels received by agencies is necessary to underpin analysis of any transition to alternative pricing options in the delivery of efficient travel services. This is also necessary to underpin effective negotiation with travel service providers for the benefit of all agencies.

Group purchasing

21. Facilitation of group purchasing could occur by encouraging agencies to share experiences and describe common or complementary features in their travel procurement. The varying timing in renewal of agencies' contracts raises the option of a rolling tender process for at least a portion of the government's air travel with several competitive tenders being let in any one year. The ANAO's analysis indicates that complementary agency groupings to achieve expenditures in excess of \$15 million of domestic air travel and in excess of \$10 million of international air travel would generate greater savings than are currently achieved. Under the current devolved system of contracting, the option of encouraging the voluntary formation of agencies into groupings, for example, for the purchase of international air travel or for periodic contract renewal, would add to the Commonwealth's bargaining position with travel service providers to generate greater savings for the agencies concerned resulting from, for example, better planning and seat utilisation on scheduled services by the airlines.

Recommendations

Set out below are the ANAO's recommendations with report paragraph references and abbreviated responses from the agencies. The abbreviated responses indicate by appropriate references, where an agency qualifies its response in relation to part of a recommendation. The ANAO considers that the recommendations have broad application to all Commonwealth agencies. Detailed responses by the selected agencies are shown in the body of the report. The ANAO considers that agencies should give priority to Recommendations 1, 2, 4, and 5.

Recommendation No. 1 The ANAO recommends that, under the Commonwealth arrangements for air travel contracting, agencies:

- a) periodically and systematically test the market, with regular competitive tendering of travel service providers;
- b) actively manage contracts with travel service providers to maximise contractual benefits, such as through joint development of cost-effective booking procedures, staff education as to travel policy and contractual benefits, and monitoring of travel service provider performance through performance measurement and service level agreements; and
- c) undertake benchmarking of travel activities between cost centres and with other agencies.

Agree: A-G's; Defence; DOFA (b),(c); DIMA; DPIE; DSS/Centrelink (b),(c); and DWR&SB.

Agree with qualification: DOFA (a); and DSS/Centrelink (a).

Recommendation No. 2 Para 2.30 The ANAO *recommends* that, to facilitate the exchange of information within the Commonwealth:

- a) agencies clarify the undertakings that they enter into with their travel service providers to ensure the maximum scope for sharing travel information with other Commonwealth agencies, subject to commercial considerations affecting the service providers' businesses; and
- b) the Department of Finance and Administration amends the standard confidentiality clause that it promulgates in the standing offer for air travel.

Agree: A-G's; DOFA; DIMA; DPIE; DSS/Centrelink (b); and DWR&SB.

Agree with qualification: Defence; and DSS/Centrelink (a).

Recommendation No. 3 Para 3.11 The ANAO *recommends* that, the Department of Finance and Administration:

- a) improves strategic coordination of agencies' procurement of air travel services;
- b) strengthens administration of the collection of travel service provider commission payments; and
- c) reviews the effectiveness of cost recovery arrangements for air travel procurement, as a means of achieving better value for money.

Agree: A-G's; Defence; DOFA; DIMA; DSS/Centrelink (b); and DWR&SB.

Agree with qualification: DPIE; and DSS/Centrelink (a), (c).

Recommendation No. 4 Para 3.33 The ANAO *recommends* that, the Department of Finance and Administration, in conjunction with lead agencies, negotiate with travel service providers for development and specification of services and systems in areas of interest to agencies, including:

- a) agency management of ‘frequent flyer’ reward programs, such as through improved monitoring systems and improved arrangements with travel service providers for making use of the schemes for further business travel, or scope to negotiate where practicable for a further rebate as an alternative to such incentive schemes;
- b) monitoring the provision of fare discounts, such as through quality assurance systems and through arrangements for verification of travel service provider performance; and
- c) travel management information, such as in improved linking to agency financial management information systems, and in development of standardised information on sector travel and on international travel.

Agree: A-G’s; Defence; DOFA; DIMA; DPIE; and DSS/Centrelink.

Agree with qualification: DWR&SB.

Recommendation No. 5 Para 3.47 The ANAO *recommends* that, the Department of Finance and Administration, with the assistance of agencies:

- a) accesses and assembles key information on agencies’ air travel contracting into a management information system at a whole-of-government level where this would be cost effective to assist in the procurement of air travel services; and
- b) analyses the cost-effectiveness of alternative approaches for the procurement of air travel, such as the proposal for a system of fixed government fares for domestic travel.

Agree: A-G’s; Defence; DOFA; DIMA (a); and DSS/Centrelink (b).

Agree with qualification: DIMA (b); DPIE;

DSS/Centrelink (a); and DWR&SB.

Recommendation No. 6 Para 3.59 The ANAO *recommends* that, under the arrangements for agencies' air travel contracting:

- a) agencies seek to increase their attractiveness to travel service providers by entering into group purchasing arrangements for air travel with other agencies that have complementary requirements in air travel; and
- b) in conjunction with lead agencies, the Department of Finance and Administration assists formation of the voluntary groupings, including by information dissemination and by seeking interest in specific-purpose tenders, for example for international travel.

Agree: Defence.

Agree with qualification: A-G's; DOFA; DIMA; DPIE; and DSS/Centrelink.

Disagree: DWR&SB.

Audit Findings and Conclusions

1. Introduction

This chapter outlines the background to agencies' air travel contracting, and the audit approach.

Background

1.1 Access to low cost, convenient and efficient air travel services is important in the effective administration of agency programs. The Australian National Audit Office (ANAO) estimates that expenditure on air travel by agencies⁴ amounts to more than \$200 million annually⁵. About three-quarters of this expenditure is on domestic airline travel (\$150 million) and one-quarter on international airline travel (\$50 million). The estimate includes not only running cost expenditures for business travel by public servants, but also expenditure under agency programs for air travel by other than public service employees (such as military, student and deportee movements).

1.2 Value-for-money in the service-wide arrangements for air travel was reviewed in 1987 in the efficiency scrutiny of Australian Public Service travel. At that time agencies generally booked air travel directly with the airlines and paid full fare. By moving to competitive tendering for travel agency services, the efficiency scrutiny expected that the Commonwealth could gain the volume-related rebates which existed in the air travel industry and realise efficiencies in ticketing and servicing.

1.3 Subsequently, eleven travel 'blocks' were established which comprised groupings of agencies to produce blocks of air travel expenditures. Following tendering, a travel service provider was selected to provide travel agency

⁴ The term 'agencies' in this report refers to departments and agencies that are not legally separate from the Commonwealth and which operate on the Commonwealth Public Account. These agencies are subject to the Finance Directions and are required to comply with Commonwealth Procurement Guidelines. From 1 January 1998 these agencies will be covered under the *Financial Management and Accountability Act 1997*.

⁵ This estimate comprises only airline travel. The estimate excludes some \$20 million in annual expenditure on air travel by Parliamentarians and their staff that is covered by separate contracting arrangements. The estimate of \$200 million for agencies also excludes expenditures by entities to be covered under the *Commonwealth Authorities and Companies Act 1997* that are distinct legal entities and operate on their own account. Although they are not obliged to operate under the Commonwealth's travel contracting framework, travel contracts are entered into under Commonwealth-wide arrangements by choice by some of these entities. The Department of Finance and Administration estimates that annual expenditure on air travel services including by Commonwealth authorities and companies under the Commonwealth-wide framework was \$225 million. This includes a small component of non-airline fares (air charter, land and sea) and other travel-related services (fees, travel insurance, etc) that are purchased through the Commonwealth travel contracting arrangements.

services to each block. A system of agency committees were established to oversight the travel block arrangements and to facilitate the exchange of travel information. The travel block arrangements operated from 1988 to 1991. A number of the travel blocks experienced quality of service problems and there was a decline in airline rebates being passed on through their travel service providers. In 1992, the block travel arrangements were replaced by adoption of common-use arrangements for air travel.

Common-use arrangements

1.4 The common-use arrangements are standing offers to provide goods and services to Commonwealth entities. Common-use arrangements aim to provide the benefit of collective Commonwealth purchasing power in an environment of decentralised buying. They are administered by the Department of Finance and Administration (DOFA)⁶. Where common-use arrangements exist for particular services, government policy directs that agencies must operate through them. Agencies are to notify any 'non-use' to the National Procurement Board.⁷

1.5 The common-use arrangements for travel services are detailed in *Buyers' Guide - Travel Services - Domestic and International (BG83)*. Agencies are able to enter into a common-use contract with a nominated travel service provider for the provision of services for between one and three years. Under Commonwealth procurement policy, agencies are permitted to take up the standing offers in the common-use *Buyers Guides* with or without further negotiation by agencies. However, with travel service arrangements under *BG83*, there is usually significant further negotiation between agencies and travel service providers. Frequently, this commences with agency-specific requests for proposals involving all or several of the common-use providers.

1.6 The nominated travel service providers offer access to a range of services including booking air travel, other transport and accommodation, ticketing and refunds, travel insurance, itinerary planning, passports and visas, travellers cheques and currency, overseas points of contact, management information, flight club membership arrangements, managing frequent flyer reward schemes, and handling group travel.

⁶ In this report agencies are referred to by their current name. Common-use arrangements had been administered by the former Department of Administrative Services. In the 9 October 1997 Administrative Arrangements Orders responsibility for these procurement functions was assigned to the Department of Finance and Administration. References to the former Department of Administrative Services will be referred to by reference to its current name, the Department of Finance and Administration.

⁷ The National Procurement Board provides advice to the Government on purchasing policies and procedures.

1.7 Seven travel service providers were included in the initial standing offer which ran for three years from 1992. The common-use arrangements were renewed for contracts entered into in the period 1 November 1994 to 31 October 1997, and in October 1997 this offer period was extended for a further six months to 30 April 1998. Currently, there are four nominated providers under *BG83*. The two major domestic airline carriers together account for the dominant share of agency expenditures.

1.8 The standing offer in *BG83* includes specified reductions (rebates⁸) in the total cost of agency air travel. The providers' offers in *BG83* currently provide for a minimum rebate on domestic and on international air travel, subject to stipulations as to the proportion of agency travel on 'preferred' carriers.

1.9 The Department of Finance and Administration is currently consulting agencies and the air travel industry in relation to arrangements to apply following the impending expiry of the current arrangements. In addition, a broader review is under way on Commonwealth procurement mechanisms. This review of procurement is considering aspects such as coordination arrangements, whole-of-government benefits, risks arising from any changes, options for contracting out, devolution to agencies, and extension of user-pays.

Selected agencies' profiles

1.10 The ANAO examined six agencies' travel contracting arrangements in this audit⁹. The six selected agencies spent a total of \$85.7 million on airline travel in 1996-97, comprising \$63.6 million on domestic travel and \$22.1 million on international travel (see Exhibit 1.1). This represents some 43 per cent of the estimated \$200 million in expenditure on airline travel by Commonwealth Public Account agencies.

⁸ The negotiated reductions in price on the basis of competitive tenders on overall agency air travel turnover are termed as 'rebates' in this report to distinguish them from the 'discount' fares available under certain conditions from the airlines on particular trips. Some of the general price reductions that are termed 'rebates' can have the characteristic of an across-the-board discount at the point of sale in addition to any discounted fare.

⁹ The six selected agencies are the Department of Defence (Defence), Centrelink (which also services the Department of Social Security (DSS) air travel requirements), the Department of Primary Industries and Energy (DPIE), the Attorney-General's Department (A-G's), the Department of Immigration and Multicultural Affairs (DIMA), and the Department of Workplace Relations and Small Business (DWR&SB).

Exhibit 1.1
Selected agencies' expenditure in 1996-97 on airline travel

Agency	Domestic Expenditure (\$ million)	International Expenditure (\$ million)	Total Expenditure^{a)} (\$ million)
Defence	49.1	18.9	68.0
Centrelink^{b)}	5.0	0.2	5.2
Primary Industries & Energy	4.2	1.2	5.4
Attorney-General's^{c)}	3.3	0.6	3.9
Immigration & Multicultural Affairs^{d)}	1.2	1.1	2.3
Workplace Relations & Small Business^{e)}	0.8	0.1	0.9
Total	63.6	22.1	85.7

Notes:

- a) Air charters are excluded from the expenditure figures in this table.
- b) Centrelink figures are for the Social Security Portfolio. For 1996-97, Centrelink figures represent expenditure by the Department of Social Security. From its establishment in July 1997, Centrelink also administers a further contract for client travel under studies assistance programs.
- c) Expenditure by a portfolio grouping that includes the Department and six smaller portfolio bodies.
- d) DIMA expenditure represents the travel incurred under its *BG83* contract and which is mainly composed of staff business travel organised in Australia. DIMA incurred an additional sum estimated at \$5.6 million on programs involving removal from Australia of people who have breached the conditions of their entry, flying refugees to Australia, and off-shore staff air travel by overseas posts.
- e) Expenditure by the former Department of Industrial Relations.

Source: ANAO based on information supplied by agencies.

1.11 The Department of Defence is the largest Commonwealth buyer of airline services, with expenditure of \$68 million in 1996-97. This includes movements by the Australian Defence Force under the Department's business travel contract but excludes movements on military aircraft and aircraft charters.

1.12 Centrelink¹⁰ now administers its own contract and also that of the Department of Social Security. The agency has a transitional arrangement

¹⁰ Centrelink was established from 1 July 1997 to bring together the provision of services from various Commonwealth departments, including student assistance and other services previously delivered by Department of Employment, Education, Training and Youth Affairs, and income support services previously delivered by the Department of Social Security.

following its establishment in July 1997, with two air travel contracts running to 30 June 1998 with separate travel service providers. One contract for 1997-98 is for student travel under studies assistance programs, formerly administered by the Department of Employment, Education, Training and Youth Affairs. This contract involved expenditures of \$11.4 million in 1996-97, including \$7.4 million on airline travel, \$3.5 million on air charters, and the balance on land and sea travel. The other contract for 1997-98 is a year-long extension of the staff travel contract. This contract represented \$5.2 million of staff travel in 1996-97.

1.13 The Department of Primary Industries and Energy had a significant international and domestic air travel expenditure, totalling \$5.4 million in 1996-97. In addition to this travel, other agencies in the Primary Industries and Energy Portfolio are able to negotiate access to the terms and conditions applying to the Department's travel contract. The Attorney-General's Department formed a group with some other agencies in the Attorney-General's Portfolio in contracting for its travel which involved expenditure on air travel of \$3.9 million in 1996-97. The Department specifies in detail the management information to be provided by its travel service provider to facilitate processing and monitoring of its air travel.

1.14 The Department of Immigration and Multicultural Affairs has been recently working to place its contract for business air travel of \$2.3 million in 1996-97 on a sounder footing. The Department also has specialised needs as part of its programs requiring removal of people from Australia, offshore travel by overseas-based staff, and flying refugees to Australia. At present these special needs, totalling \$5.6 million in 1996-97, are being met more cost-effectively outside the terms of its business air travel contract. The Department places importance on services that recognise its particular travel requirements¹¹. The Department of Workplace Relations and Small Business had expenditure in 1996-97, of less than \$1 million in air travel.

Travel patterns

1.15 Each agency has specific patterns of travel which reflect the nature of its business. The agencies' varying staff numbers and travel volumes under their travel contracts are outlined in Exhibit 1.2.

¹¹ For example, one of the features of its travel contract is the maintenance of an 'implant' service (that is, a travel office located at the Department's Central Office).

Exhibit 1.2
Selected agencies' domestic air travel profile for 1996

Agency ^{a)}	Staff in Australia (30 June 1996)	Domestic sectors flown 1996	Staff travel intensity (sectors/staff)	Proportion of Melb-Canb-Syd sectors ^{c)}
Defence	105 711	221 000	2.1	30 %
Centrelink	20 674	26 500	1.3	34 %
Primary Industries & Energy	4 323	24 000	5.6	50 %
Attorney-General's^{b)}	1 773	11 426	6.4	62 %
Immigration and Multicultural Affairs	3 314	4 629	1.4	61 %
Workplace Relations & Small Business	573	3 000	5.2	86 %

Notes:

- a) See Exhibit 1.1 for notes on agency coverage
- b) Data was collected only in respect of part of the core Department.
- c) Proportion of sectors flown in the period July to December 1996.

Source: ANAO based on information supplied by agencies.

1.16 Agencies have varying travel patterns with the Department of Defence having a considerable proportion of longer interstate flights, while Centrelink has a significant intrastate travel component. The Department of Workplace Relations and Small Business had the most concentrated travel in the Sydney-Canberra-Melbourne corridors with 86 per cent of sectors flown being in these corridors. The Attorney-General's Department, and the Department of Immigration and Multicultural Affairs domestic travel is also concentrated in these corridors.

1.17 Agency staff also exhibit differing average travel intensities which reflect the nature of their work. Staff in the Attorney-General's Department, the Department of Primary Industries and Energy, and the Department of Workplace Relations and Small Business undertake travel more frequently with an average of more than five sectors per staff member per year. Staff at Centrelink and at the Department of Immigration and Multicultural Affairs were

less frequent travellers with an average of less than two sectors per staff member¹² in 1996.

1.18 The seniority of staff travelling exerts an influence on premium class use in domestic travel undertaken (see Exhibit 1.3). Agencies also vary in use of discount fares. This is influenced by the ability to effectively plan trips to take advantage of advance or group purchase discounts and by management of travel policies and procedures to achieve the best fare possible.

Audit approach

1.19 The objectives for the audit were to report on the efficiency and cost effectiveness of selected agencies' procurement of air travel services. Specifically the audit was to:

- identify the potential for more cost effective procurement in agencies' contracting for air travel services;
- produce estimates of potential savings in expenditure by improved contracting arrangements in agencies where possible; and
- outline any improvements to procurement management practices, including improvement in Commonwealth coordination activities.

1.20 The audit fieldwork was undertaken between March and October 1997 in the six selected agencies and the Department of Finance and Administration. This timing meant that the audit would be able to contribute to the re-evaluation of the common-use arrangements for air travel.

1.21 Audit test criteria were derived from information on corporate travel management, discussion with various travel industry participants, and relevant guidelines. The ANAO also assessed adherence to the common-use framework for air travel services outlined in *BG83*. Agencies supplied the ANAO with data on their air travel for inclusion in a benchmarking study. The Centre of Policy Studies/Impact Project at Monash University was appointed under the *Audit Act 1901* to provide consultancy advice on benchmarking using a Data Envelopment Analysis technique (see Chapter 2).

1.22 The ANAO has also undertaken complementary audit work through a 1997-98 Financial Control and Administration audit of official travel by public

¹² A return trip would normally comprise at least two sectors, but could involve multiple sectors on each leg. For example, travel Canberra-Hobart may involve two sectors namely Canberra-Melbourne and then Melbourne-Hobart.

sector employees¹³. That audit reviewed travel management to determine compliance with approved policies and procedures and reported on better practice. The Financial Control and Administration audit assessed control over official travel more broadly, including officer travel allowances, whilst the focus of this audit is on the administrative effectiveness of air travel contracting. However, both audits are complementary and indicate scope for more cost effective outcomes of travel arrangements.

1.23 The total cost of the audit was approximately \$198 000. The audit was conducted in accordance with ANAO Auditing Standards.

¹³ ANAO - Audit Report No.14 1997-98 - Official Travel by Public Sector Employees

2. Agency Air Travel Contracting

This chapter outlines current air travel contracting processes in the selected agencies, estimates potential savings for Commonwealth Public Account agencies, and considers barriers to agencies sharing information.

Contracting Processes

2.1 The current *BG83* standing offer for contracting for travel services sets minimum terms and conditions and offers a starting point with which agencies can then negotiate with nominated travel service providers. As agencies have gained experience with the common-use arrangements and air travel contracting, they have made greater use of competitive negotiations to achieve improved outcomes above the standing offer.

2.2 Since the mid-1990s, most agencies achieved a significant increase in rebates through competitive tendering amongst the travel service providers under *BG83*. In several instances the increase in domestic rebates of the selected agencies has been more than double that indicated as a starting point in the *BG83* standing offer. By seeking tenders from *BG83* providers or by direct negotiation, the selected agencies have generated significant financial benefits beyond the minimum terms stated in *BG83*.

2.3 The experience of the Department of Immigration and Multicultural Affairs illustrates the gains potentially available through agencies' tendering for their business travel. Until mid-1997, the Department has been receiving the benchmark rebates available under *BG83*. However, by researching the market and seeking tenders for its business travel contract, it now has been able to significantly improve the financial benefits through negotiated rebates.

2.4 Given the complex set of pricing structures in the various tender proposals, agencies need to be able to carry out sensitivity analyses on their travel budgets to be able to assess value for money in tender offers. Agencies' evaluations of the travel service providers' proposals emphasised financial aspects and, particularly, the rebates on offer up-front. There was variation in the extent to which evaluations considered non-financial aspects and the broader package of prices including target savings from trip discounts. Centrelink, for example, supplemented its own resources by using travel industry consultants to provide advice on evaluating alternative proposals.

2.5 The sharing of information between agencies on price and non-price factors was generally limited, particularly in terms of overall financial

performance and qualitative aspects. The usefulness of comparative information and marketplace knowledge could be greatly improved if there was a mechanism for receiving reliable information across the Commonwealth. The need to adjust current confidentiality restrictions is considered below (paragraph 2.26).

2.6 The selected agencies had differing levels of activity in the ongoing management of their travel contracts. Some agencies with lesser levels of air travel expenditure devoted limited management attention to their travel contracts and this was reflected in a lower level of financial savings. Other agencies were actively developing their contract management arrangements in an effort to produce improved outcomes. The availability and use of management information to monitor and control travel is an important aspect of agency travel management.

2.7 Agencies emphasised the importance they place on being able to forge direct relationships with their travel service provider to provide enhanced services. For example, some of the travel service providers work jointly with agencies to develop cost-effective administrative procedures, and to raise awareness and to influence behaviour of agency staff in arranging airline bookings to achieve savings. This reflects in part, the shift in focus of air travel contracting from concentration on up-front rebates to ensuring the overall realisation of savings from improved contract management practices.

2.8 Agencies reported advantages in assisting and monitoring contract performance through a travel manager who is independent of the travel service provider. Effective management of the travel contract occurs at both the overall agency level¹⁴ and at the level of individual trips (see Exhibit 2.1). Strategic central management of the travel contract and a more devolved level of travel management both have a role in reducing air travel costs in the selected agencies. The former assists agency-wide contract negotiations, while the latter leads to control over savings on individual trips.

¹⁴ There is an emerging trend in the travel industry for major business travel buyers to negotiate rebates on air travel directly with airlines. For a management fee, travel consultants can provide specialised advice, management information, and systems to achieve corporate travel policies, to optimise the use of discounted fares and to minimise costs. This differs from established practice of travel agents receiving volume-based commission from carriers.

2.9 The large agencies have the volume of travel to implement strategic management of travel through an agency travel manager. The Department of Defence (see Exhibit 2.2) and Centrelink actively manage their contracts in order to maximise savings in travel procurement. Both agencies combine central strategic control with devolution of responsibility to cost centres. In both agencies the savings achieved through travel management has produced fare discounts that substantially exceed the savings produced through rebates.

Exhibit 2.2
Travel contracting case study

Department of Defence

Since 1995 the Department of Defence has achieved a major improvement in value for money through competitive contracting and sound use of its purchasing power under the common-use arrangements. Prior to this it operated on the *BG83* benchmark rebates.

In cooperation with its travel service provider, the Department has developed joint working procedures that have improved its ability to manage travel bookings and take advantage of its negotiated price structure. Travel service levels and an ability to implement travel booking procedures and policies is assisted by specific Defence travel reservation arrangements, including the travel service provider's establishment of a telecentre with computer-assisted reservation systems.

The Department actively manages the travel contract and monitors overall agency performance. The Department also actively manages its travel at the individual program level.

Along with its travel service provider the Department has established a service level agreement to assess service delivery and is also developing several aspects of its contracting to produce further gains including improving benefits from better management of frequent flyer points, and developing agency-wide information systems. The latter should allow the Department to develop performance benchmarking and increase strategic controls over aspects such as international travel.

Source: ANAO from information provided by the Department of Defence.

2.10 There is general scope for agencies to improve administrative practices in relation to:

- facilitating benchmarking between cost centres;
- developing cost-effective booking procedures jointly with service providers;
- better educating staff on travel policy and benefits available under the contract; and

- monitoring provider performance through performance measurement and service level agreements.

2.11 Finding: The selected agencies have increased the level of negotiated savings on their air travel in the course of common-use contracting over the past five years. However, there is potential for further gains in some agencies through greater rigour in periodic market testing as a mechanism to foster competition in contracting arrangements and through better management of performance under the airline travel contracts. Further gains to the Commonwealth are also possible through agencies sharing experiences and information on performance under their travel contracts, including through benchmarking travel services.

Recommendation No.1

2.12 The ANAO *recommends* that, under the Commonwealth arrangements for air travel contracting, agencies:

- a) periodically and systematically test the market, with regular competitive tendering of travel service providers;
- b) actively manage contracts with travel service providers to maximise contractual benefits, such as through joint development of cost-effective booking procedures, staff education as to travel policy and contractual benefits, and monitoring of travel service provider performance through performance measurement and service level agreements; and
- c) undertake benchmarking of travel activities between cost centres and with other agencies.

2.13 Agencies responded to the recommendations as follows¹⁵:

- *Agree:* A-G's; Defence; DOFA (b),(c); DIMA; DPIE; DSS/Centrelink (b),(c); and DWR&SB.
- *Agree with qualification:* DOFA (a); and DSS/Centrelink (a).

2.14 Specific comments by agencies are set out below:

- *A-G's response:* Agree. The Department periodically tests the market and is active in the management of its contract with its travel provider.

¹⁵ The abbreviated responses indicate by an appropriate reference, where an agency qualifies its response to only part of a recommendation. For example here DOFA and DSS/Centrelink have agreed without qualification on parts (b) and (c) and agreed with qualification on part (a). This is further explained in the agency comments in the following paragraph.

- *Defence response:* Agree. Defence already periodically and systematically tests the market and undertakes regular competitive tendering of travel service providers and actively manages its travel contract to achieve increased savings. Defence also undertakes benchmarking across its programs, recognising that, at times, variances are explained by unique factors relating to specific needs.
- *DIMA response:* Agree. The Department recently tested the market for domestic and international travel. Under the Department's new travel services contract a clear contract management framework has been established. In particular, the Department sees the frequent flyer management arrangements as an innovative design feature of its new contract. Reporting requirements in DIMA's travel services contract will facilitate cost centre comparisons.
- *DPIE response:* Agree. The Department tested the market prior to extending the current contract and will undertake market testing as part of the tender process when renegotiating the contract in 1998. Managers and staff are aware of the contract terms and conditions and regular up-dates of services available are supplied by the travel service provider. The travel service provider and management meet regularly to monitor performance and ensure contractual requirements are being met. Benchmarking between cost centres and other agencies is an option that will be explored in future reviews of contract management.
- *DWR&SB response:* Agree. With respect to (c), the Department would be willing to undertake benchmarking with other agencies, but notes that this may need to be coordinated by an agency such as DOFA. Benchmarking activities need to take into account the different activities and nature of travel.
- *DOFA response:* Agree, with qualification in respect of (a). In renegotiating the framework for procurement of air travel, it may be possible to secure a whole of government published rate which would preclude the need for periodic and systematic testing of the market.
- *DSS/Centrelink response:* Agree, with the qualification in respect of (a) that in a duopoly market 'regular and systematic' market testing may have limited benefits and costs may well outweigh those benefits. Benchmarking between cost centres, between agencies and with average achievement in air travel savings and efficiencies in the private sector (that is without disclosure of the achievements of individual companies), should be undertaken but any conclusions drawn are only valid where like variables and characteristics are being compared.

2.15 ANAO comment: Agencies are increasingly adopting a more rigorous approach in competitive contracting. The recommendation aims to encourage adoption of best practice, including through the use of benchmarking. The

ANAO supports agencies testing the air travel services market as a means of ensuring that the Commonwealth achieves value for money. The comment by DSS/Centrelink that market testing may have limited benefits is not borne out by analysis of agencies' experience with market testing.

Potential for savings

2.16 There was significant variation between agencies, and between cost centres within agencies, in their air travel savings below published domestic fares. The ANAO benchmarking analysis covered the period July to December 1996. In this period all agencies were achieving over 10 per cent in overall savings on domestic fares. The best-performing cost centres were receiving several times the level of savings as others. This variation arises not only from contract negotiations but also from differences in the management of travel and the nature of agency business (for example, the extent to which it allows planning of travel).

2.17 The ANAO observed significant differences between each of the six selected agencies, both in relation to the overall level of savings and in relation to the components of the savings, whether rebates or fare discounts. Only two of the six agencies had similar levels of rebates but they had significantly different levels of other savings. Analysis of potential savings indicates that the level of rebates may be offset by agencies' management practices and travel needs. For example, an agency may have high rebates but its overall performance may be offset by a low level of fare discount savings.

2.18 There was significant variation between agencies in the financial terms of their contracts, both between providers and between agencies with the same provider. This reflects a combination of factors such as volume of business on offer, the attractiveness of that particular business, and competitive conditions at the time of negotiating the contract. Agencies also obtain variable rebates on different aspects of their air travel, for example, differential rebates depending on a given use of 'preferred carriers', extra rebates for off-peak travel, regional airline rebates, or differential rebates according to class of travel.

2.19 The ANAO analysed the variations in savings on published air fares that the selected agencies reported on their domestic travel in the latter half of 1996. Additional savings of 1.7 per cent would have been obtained had there been at least an average level of rebates of all the agencies and an average of cost centres within agencies that provided cost centre data. A further 2.3 per cent would have been obtained had there been at least an average level of fare discounts. Extrapolated to all agencies' cost centres, these results

suggest potential for annual savings on domestic air travel of some \$2.5 million through an average level of rebates and of some \$3.5 million through an average level of discounts.

2.20 The analysis and subsequent discussions with agencies indicates that total potential savings of some four per cent¹⁶ in domestic travel, or a total of \$6 million annually, were possible through the broader adoption of 'better practice' in air travel contracting and management by all agencies. This level of savings would be obtained if agencies, or cost centres within agencies, moved to an average level of both rebates and fare discounts.

Exhibit 2.3

Data envelopment analysis

Background

The ANAO assembled data with which to analyse and benchmark agency air travel expenditure. The Centre of Policy Studies/Impact Project at Monash University provided consultancy services to benchmark the efficiency of agencies' air travel contracting using a Data Envelopment Analysis (DEA) method.

DEA can be used to relate data on domestic air travel expenditure to the number of sectors flown and the pattern of most frequent sectors. The DEA seeks to identify achievable best-practice benchmarks that would identify scope to minimise expenditure while maintaining the pattern and frequency of travel.

Potential savings

The DEA indicates that by moving to best practice in air travel contracting and management, service-wide domestic air travel expenditure could be potentially reduced by up to 8.9 per cent. About two-thirds of the savings identified in the DEA analysis derive from benchmarking between cost centres within the selected agencies while the potential from benchmarking between agencies was about half of this level (that is, one-third of identified savings).

If the analysis is extended to a greater number of agencies and if the resolution of the benchmarking is improved by inclusion of cost centre observations, the level of potential savings identified through DEA could increase.

Outcomes

The analysis indicates that the observed 'best practice' in contract air travel is associated with an ability to plan travel and to exercise control over air travel bookings to maximise cost saving features of contractual arrangements.

In practice the ability of agencies to move to 'achievable best practice' is limited by practical considerations - such as by their ability to plan travel and by constraints on discounting by the airline industry. Potential efficiencies relate to both air travel contract management aspects (such as increasing use of advance purchase fares) and air travel contract procurement aspects (such as negotiating a rebate on a certain

¹⁶ A benchmarking study of eleven entities undertaken for the Financial Control and Administration audit on travel found similar potential to achieve further savings on domestic air fares of at least four per cent each year.

level of air travel turnover). The major potential for savings is likely to derive more from air travel management.

Implications

Further efficiency gains in air travel expenditure can be identified through implementing benchmarking within the Commonwealth, not only between agencies but also between agency cost centres. Performance measurement could usefully be employed to monitor air travel efficiency by agencies and by costs centres within agencies on a continuing basis. Agencies would benefit from maintaining data at a cost centre level and by forming benchmarking partnerships.

Source: ANAO derived from a 1997 consultancy study by the Centre of Policy Studies/Impact Project at Monash University.

2.21 Finding: Analysis by the ANAO indicates that the potential for domestic air travel (data limitations prevented an estimate being derived for international travel) savings by all Commonwealth Public Account agencies is some \$6 million annually. This estimate is based on all agencies' cost centres being able to reduce overall expenditure by four per cent by moving to the achieved average level of savings in rebates and discounts.

2.22 The potential for improving efficiency in agencies' air travel procurement needs to be viewed in the context of market-wide pressures on carrier profitability and air travel industry margins. As other business travel buyers are also seeking to improve their efficiency, Commonwealth agencies should seek to improve their air travel contracting in order to keep up.

Sensitivity analysis

2.23 Sensitivity analysis has also been carried out using Data Envelopment Analysis (DEA), a linear programming benchmarking technique (see Exhibit 2.3). The Centre of Policy Studies/Impact Project at Monash University was appointed for a consultancy to assist the audit by applying DEA to the agency travel data. The analysis was confined to domestic air travel as there was insufficient data on international travel to enable meaningful analysis.

2.24 The DEA indicated that potential savings of up to about 9 per cent¹⁷ would be obtained if the selected agencies were able to adopt 'best practice' in air travel contracting and management. The varying nature of agencies' activities and consequently, their travel requirements and characteristics, restricts the extent to which agencies are able to achieve this upper level of saving. Accordingly, the DEA estimates are an indication of the upper limit on savings to highlight the potential for continual improvement.

¹⁷ This is based on the air travel information provided by the six selected agencies and includes 15 cost centres in DPIE and Defence. Sensitivity analysis to remove two cost centres that were extremely efficient but had unique characteristics, reduced the upper level of savings to about 7 per cent.

2.25 Finding: The ANAO has also commissioned sensitivity analysis using a linear programming technique to benchmark agencies' air travel efficiency. This approach identified an upper potential of about 9 per cent savings if agencies were to move to 'best practice' achieved by cost centres within the selected agencies. The varying nature of agencies' activities and hence their travel requirements, as well as constraints on discounting by airlines, restrict the extent to which agencies are able to achieve savings. Nevertheless, observed outcomes in particular areas indicates at least some scope for further, real across-the-board savings.

Information sharing

2.26 Travel service providers are concerned to protect the confidentiality of the arrangements that they have entered into with individual agencies, given the commercial value of the information within and outside the Commonwealth. In the initial phase of the audit the ANAO encountered reluctance on the part of some agencies to provide audit access to information on their contracts. They were concerned to ensure that ANAO use of the information did not breach their perceived obligation not to disclose the information to anyone else.

2.27 There was significant uncertainty about the extent to which agencies can legally share information within the Commonwealth, both under the terms of the common-use arrangements and under resulting agency-specific agreements. The Australian Government Solicitor has advised the ANAO that the existing confidentiality clause in *BG83* could be amended along the following lines:

'The Commonwealth of Australia shall be at liberty to disclose within the Commonwealth any information owned or provided by the other party and given in connection with the contract, whether or not that information is identified or marked with a classification indicating its confidentiality. The Commonwealth shall otherwise treat as confidential all information obtained from the other party which is clearly marked as being confidential or obtained in circumstances inferring confidentiality and shall not disclose to any person outside the Commonwealth without the consent of the other party (which consent shall not be unreasonably or unlawfully be withheld) any such confidential information.'

2.28 The Australian Government Solicitor has also advised that it would be desirable for the confidentiality obligations in the confidentiality clause to be made subject to exceptions to take account of circumstances where, for example, disclosure is required by law or it is necessary to provide information to Parliament.

2.29 Finding: Agencies should not enter into air travel arrangements or confidentiality agreements that place the Commonwealth as a whole at a commercial disadvantage. It would be desirable to clarify existing undertakings to ensure the maximum scope for sharing travel information with other Commonwealth agencies, subject to commercial considerations affecting the service providers' businesses. While acknowledging the devolution of authority to individual agencies as part of the ongoing public service reforms, the ANAO notes government initiatives in other areas to seek greater efficiency through across-agency approaches, for example measures aimed at better using the Commonwealth's purchasing power.

Recommendation No.2

2.30 The ANAO *recommends* that, to facilitate the exchange of information within the Commonwealth:

- a) agencies clarify the undertakings that they enter into with their travel service providers to ensure the maximum scope for sharing travel information with other Commonwealth agencies, subject to commercial considerations affecting the service providers' businesses; and
- b) the Department of Finance and Administration amends the standard confidentiality clause that it promulgates in the standing offer for air travel.

2.31 Agencies responded to the recommendations as follows:

- *Agree:* A-G's; DOFA; DIMA; DPIE; DSS/Centrelink (b); and DWR&SB.
- *Agree with qualification:* Defence; and DSS/Centrelink (a).

2.32 Specific comments by agencies are set out below:

- *A-G's response:* Agree. The Department will take this aspect into account when negotiating future travel contracts.
- *Defence response:* Agree with qualification. Defence noted that its agreement to the recommendation is subject to the legality of release of this information under the terms of its current travel contract and to appropriate commercial-in-confidence controls.
- *DPIE response:* Agree. The Department will ensure that contractual arrangements with a travel service provider clearly invoke obligations contained in *BG83*. Details of the overall performance and commercial

terms of the air travel contract will be provided to DOFA, in accordance with commercial restriction guidelines contained in *BG83*.

- *DWR&SB response*: Agree. In view of the Department's buying power, taking into account the rebates gained by other agencies would assist the Department in its own contract negotiations.
- *DSS/Centrelink response*: Agree, with the qualification in respect of (a) that attempts to share commercial information and standardise benefits on terms, conditions and rebates, may be responded to by providers raising prices for all agencies and removing customised value-added services. Agencies would be better served sharing best practice initiatives.

2.33 ANAO comment: The recommendation seeks to enable information exchange within the Commonwealth where this would lead to benefits and in a way that nevertheless protects commercial information from broader disclosure. Implementation of the recommendation would have the benefit of tapping overall Commonwealth leverage in purchasing air services. It would assist benchmarking in the Commonwealth and the adoption of best practice by agencies.

3. Commonwealth Air Travel Issues

This chapter considers application of the common-use arrangements for travel services, scope to improve specifications of conditions in areas of common difficulty for agencies, coordination between agencies, and options for enhancing the framework for procurement of air travel.

Operation of *BG83*

3.1 Setting minimum standards through a common-use arrangement that is reviewed at three year intervals, will inevitably give rise to agencies' practice forging ahead of the standing offer and to improvements in conditions available to agencies. Contract agreements entered into by agencies made varying use of the *BG83* framework. Some rely heavily on *BG83* as the basis of the formal legal contract, for example by an exchange of letters that refers to *BG83*.

3.2 Agencies are permitted to take up the standing offers in the common-use *Buyers Guides* without further tendering. However, with the travel services arrangements under *BG83*, there is usually significant further negotiation between agencies and providers. This commences with agency-specific requests for proposals involving all or several of the common-use providers.

3.3 Once the standing offer has been agreed, there is then further work for the panel providers of travel services to undertake to secure contracts with individual agencies. Some agencies seek very detailed offers for travel services that duplicate much of the standard information already covered in *BG83*. Efficiency in procurement could be improved if *BG83* more closely reflected agency requirements.

3.4 In relation to price, the rebates in the standing offer are minimum levels as tendered by the panel of potential providers at the establishment of the standing offer. The Department of Finance and Administration advised the ANAO that the quoted prices in *BG83* provide a starting point from which agencies may commence negotiations. In bidding on assured agency business, providers offer reductions on the prices for entry to a panel arrangement.

3.5 Through tendering and negotiation, the selected agencies obtained significant rebates and conditions above those outlined in *BG83*. There was wide variation in the rebates ultimately achieved by the selected agencies. The size of the final rebate reflects a range of factors including the size of business agencies would offer in a contract for the supply of services.

3.6 Although, *BG83* directs users to advise on any aspects of 'critical importance' in relation to the Commonwealth standing offer, this could be more clearly articulated. The most valuable information that is required is the commercial terms of agencies' contracting arrangements. Although this information is not currently being provided, agencies were providing some advice to the Department of Finance and Administration, such as on changes in the air travel industry or problems with poor service.

3.7 Finding: The terms and conditions of *BG83* are providing agencies with a minimum coverage of issues for inclusion in their contracts. Improved application of the common-use model would assist in removing unnecessary duplication of agencies' contracting practices. Agencies could do more to mutually benefit each other by informing the Department of Finance and Administration of whole-of-government issues arising in their contracting arrangements.

Cost recovery arrangements

3.8 There would be advantages in the Department of Finance and Administration improving management of the collection of travel service provider commission payments and associated turnover information. Some travel service providers were not fully complying with undertakings given, as part of their inclusion on the common-use panel of providers, that they would regularly advise the Department of Finance and Administration on individual agencies' turnover on common-use services, and regularly remit a 0.1 per cent commission on this turnover to the Commonwealth.

3.9 The variation between travel service providers in their adherence to the formal requirements associated with the commissions, reduced the ability of the Department of Finance and Administration to establish Commonwealth agency turnovers and to monitor payments. Currently there is no direct relationship between the level of commission and the cost of administering the standing offer. A revised user-pays system could lead to more cost-effective service delivery in support of the common-use arrangements.

3.10 Finding: The ANAO considers that the current system of travel service provider commissions is not producing the most effective administration of the

common-use arrangements for air travel in terms of aligning benefits with costs incurred under the present cost recovery arrangements.

Recommendation No.3

3.11 The ANAO *recommends* that, the Department of Finance and Administration:

- a) improves strategic coordination of agencies' procurement of air travel services;
- b) strengthens administration of the collection of travel service provider commission payments; and
- c) reviews the cost recovery arrangements for air travel procurement, as a means of achieving better value for money.

3.12 Agencies responded to the recommendations as follows:

- *Agree:* A-G's; Defence; DOFA; DIMA; DSS/Centrelink (b); and DWR&SB.
- *Agree with qualification:* DPIE; and DSS/Centrelink (a),(c).

3.13 Specific comments by agencies are set out below:

- *DOFA response:* Agree. In relation to (b) agreement is for the current arrangement. In relation to (c), the current review of procurement may lead to reconsideration of commission payments.
- *DWR&SB response:* Agree. This issue is probably broader than the scope of this particular audit, as it pertains to common-use contract arrangements in general.
- *DPIE response:* Agree with qualification. The recommendation is for action by DOFA. The Department will assist DOFA by providing, where appropriate, information that may be required.
- *DSS/Centrelink response:* Agree, with qualifications in respect of (a) and (c). In relation to (a), the qualification is that this should improve outcomes rather than becoming another layer of bureaucratic requirements/reporting. In relation to (c), the qualification is that any attempt to charge larger agencies to use the common-use contract would be counter-productive and would not be supported.

Operational problems

3.14 There are a number of aspects that are commonly a source of some difficulties for agencies in their air travel contracting. The current reconsideration of the common-use arrangements provides an opportunity to exert leverage and develop solutions with travel service providers at a service-wide level on issues such as frequent flyer reward programs, discount fares, and air travel management information.

Frequent flyer reward schemes

3.15 There is a significant amount of travel points under frequent flyer reward programs that have accrued to Commonwealth officers but which have not been used for further business travel. The scope to use points for business travel is frequently limited by conditions of use and non-availability of free seats.

3.16 Agencies advised the ANAO that actual use of points for free business travel was very small and one agency quantified the use in 1996-97 at 0.6 per cent of sectors flown. Benefits can also arise through use of points for upgrades to meet an entitlement to a superior class of travel, while still obtaining the benefit of economy fares.

3.17 Management of frequent flyer reward schemes has proven difficult given that the schemes are designed primarily as a private matter between the airline scheme promoters and individual employees¹⁸. The selected agencies did not have adequate information on the overall accumulation and use of benefits on official travel. To manage the business travel component effectively, agencies need to direct employees to report on business benefits accruing under the schemes. This is not without administrative costs.

3.18 The Department of Defence is currently working with its travel service provider to optimise use through various activities, including implementing better booking procedures and provision of information on corporate-level operation of the schemes to monitor potential accumulations of points and actual usage rates.

3.19 The Department of Immigration and Multicultural Affairs is implementing an arrangement whereby, their travel service provider manages the schemes on behalf of the agency on a fee-for-service basis. Centrelink has been working to implement a system with its main business travel service provider, which had involved establishing a separate frequent flyer facility for business

¹⁸ *BG83 notes that the object of frequent flyer schemes is the creation of customer loyalty at the level of the individual traveller. Benefits are accumulated by and provided to individual travellers, not organisations or corporate identities.*

travel by individual officers on its preferred carrier¹⁹. The agency is also establishing its own system for monitoring the schemes.

3.20 Some agencies do not see it as cost effective to actively manage the schemes. The Department of Finance and Administration advised the ANAO that there had been attempts made in the past to negotiate free-of-charge travel in lieu of the accumulation of frequent flyer points on official travel. The November 1997 ANAO Financial Control and Administration audit on official travel by public sector employees also identified scope for further development in agency approaches. It recommended that Commonwealth entities *seek to establish systems, preferably in conjunction with the travel service provider and/or the loyalty scheme, which separately identify frequent flyer and other loyalty program points accumulated through official travel or other official functions*²⁰.

3.21 Management of frequent flyer schemes by travel service providers is one of the aspects considered in *BG83*. In practice agencies see a need for significant improvement in the management arrangements that were being supported by their travel service providers in the past. The current reconsideration of *BG83*, provides an opportunity to evaluate progress through case studies of the lead agencies who are currently developing systems to more effectively handle frequent flyer points.

3.22 Finding: Reconsideration of the common-use arrangements for travel offers the opportunity to negotiate with the promoters of frequent flyer reward schemes at a whole-of-government level, and/or by agency user groups, to achieve effective management systems and benefits for agencies. The November 1997 ANAO Financial Control and Administration audit on travel management saw a need for systems to separately identify frequent flyer rewards on official business. The ANAO considers that there is scope for improvement in the management information that agencies receive from their travel service providers on overall use of frequent flyer points for official travel. Another option in the re-negotiation of government air travel services is to seek to have an increased rebate on official travel where practicable as an alternative to such frequent flyer reward schemes.

Discount fares

3.23 *BG83* and agency contracts guarantee the provision of the 'best fare' available by providers of air travel services to Commonwealth agencies (irrespective of carrier). This is defined in *BG83* as *the lowest price fare*

¹⁹ Defined in *BG83* as *the airline nominated by the supplier/contractor as "preferred"*.

²⁰ ANAO Audit Report No.14 1997-98, page xvi.

obtainable by the provider in the category nominated by the traveller at the time that the booking was made taking into account the traveller's travel time and transfer requirements.

3.24 Discount fares potentially provide savings in excess of those currently being negotiated by rebates on aggregate travel turnover or use of 'preferred' carriers. A number of agencies were achieving substantial discounts through special fares, for example in the international market. There was considerable variation in use of discount fares between agencies (see Exhibit 1.3 for domestic usage) and between cost centres within agencies. Staff knowledge of the conditions that attach to the discounted fares, the availability of discounted seats, the current system of officer entitlements, and the degree to which business travel is plannable are some of the factors that contribute to the variation between agencies.

3.25 Some agencies closely manage this aspect both within their own operations and through their contracted travel service provider. Agencies employed a variety of approaches to maximise the benefit obtainable from discount fares, including:

- joint reviews of agency-provider booking processes, education of users, monitoring of compliance with agency travel policy, and benchmarking trends in discount fare use; and
- auditing the air travel service provider, and establishing quality control by the providers themselves, including assurance on the quality of their reporting on performance.

3.26 There is scope for agencies generally to give greater attention to these practices. Several of the selected agencies have tried to establish arrangements to independently audit the provision of 'best fare' under the terms of their travel contract. Fare audits undertaken in a period some time after booking have been of value but are unable to consider seat availability at time of booking, as can be done with state-of-the-art technology available overseas.

3.27 Finding: The ANAO considers that there is scope to improve agencies' ability to utilise the provision of discount fares. Agency practices to improve the use of discount fares can include working more closely with their travel service provider to develop more efficient booking procedures, better educating staff and monitoring compliance with agency travel policy. There would be benefit in providing for quality control by the travel service providers themselves and for scrutiny of their provision of actual discounted fares to ensure that agencies are getting the best deal.

Management information

3.28 Agencies expect to receive most of their travel management information from their contracted provider of travel services. The way the common-use arrangements operate at present is that travel service providers specify what management information and reports are available to agencies. Agencies are then able to accept the standard information or to specify particular enhancements they require.

3.29 Several of the selected agencies noted the need for customised reports and computerised management information systems. Some agencies met these needs by internal development of systems to interface with travel service provider information. The Attorney-General's Department specified in detail the information it required under the contract to support internal systems which greatly assisted efficient account processing. The Department of Defence was also developing its own information systems in conjunction with its travel service provider, while Centrelink sought the assistance of a corporate travel consultant.

3.30 While each agency had particular requirements, there would be value in agencies networking on common problems. For example, a government user group for each travel service provider would assist both providers and agencies in systems specification and development. There is scope to develop common interfaces with financial management systems - for example, to streamline account processing as occurred in the Attorney-General's Department.

3.31 There would be benefits in developing a standard specification of information that agencies should have. Each agency could then further specify any particular requirements over and above this. If a set of standardised information to be provided across all agencies was developed in the reconsideration of the common-use arrangements, then the Commonwealth would be far better placed to benchmark performance between agencies.

3.32 Finding: In the reconsideration of the current common-use arrangements, there would be advantages in specifying common travel information that would allow performance benchmarking across agencies. There is scope for agencies that are using the same travel service provider to group together in the development for example, of common travel management information systems with the respective travel service provider for mutual benefits.

Recommendation No.4

3.33 The ANAO *recommends* that, the Department of Finance and Administration, in conjunction with lead agencies, negotiate with travel service providers for development and specification of services and systems in areas of interest to agencies, including:

- a) agency management of 'frequent flyer' reward programs, such as through improved monitoring systems and improved arrangements with travel service providers for making use of the schemes for further business travel, or scope to negotiate where practicable for a further rebate as an alternative to such incentive schemes;
- b) monitoring the provision of fare discounts, such as through quality assurance systems and through arrangements for verification of travel service provider performance; and
- c) travel management information, such as in improved linking to agency financial management information systems, and in development of standardised information on sector travel and on international travel.

3.34 Agencies responded to the recommendations as follows:

- *Agree*: A-G's; Defence; DOFA; DIMA; DPIE; and DSS/Centrelink.
- *Agree with qualification*: DWR&SB.

3.35 Specific comments by agencies are set out below:

- *A-G's response*: Agree. The Department has an instruction on travel which contains procedures with respect to the Government's policy on the utilisation of frequent flyer points. The Department has been continually frustrated in maximising its use of frequent flyer points because of the respective rules of the scheme. The Department favours the abolition of the frequent flyer scheme with its travel contractor in return for a rebate that is equivalent to the expected savings from accumulated frequent flyer travel points.
- *Defence response*: Agree. Defence's travel supplier is required under the current contract to provide monitoring services. The Australian Business Travel Association proposed the initiative that government and corporate clients agree on a standard suite of information data on domestic and international travel to be provided by travel suppliers. Defence continues to support this initiative.
- *DOFA response*: Agree. DOFA advocates that implementation of (b) include monitoring the provision of fare discounts across agencies as a

means of verifying travel service provider performance. It notes this will be particularly relevant for international travel.

- *DIMA response:* Agree. With regard to (a), the Department agrees that there should be an assessment of overheads associated with frequent flyer management to ascertain whether current arrangements are cost effective.
- *DPIE response:* Agree. This recommendation is for action by DOFA. However, this Department is implementing procedures to improve the efficient, effective and ethical management of work-related 'frequent flyer' rewards. A quality assurance system may be beneficial for monitoring and verification of discount fare usage. The issue of travel management information linking to agency financial management systems will be addressed with the implementation of new systems in line with the Office of Government Information Technology recommendations.
- *DSS/Centrelink response:* Agree. Frequent flyer programs, on-line fare audit and travel management information are key issues of common interest to agencies. Linking travel management information and financial management information systems would be costly whether borne by providers, agencies or shared by them, and is unnecessary. Travel management information has strategic and operational value in managing contracts and activity, whereas financial information has audit and acquittal uses.
- *DWR&SB response:* Agree with qualification. The Department considers that such improvements could be most effectively pursued within the framework of a service-wide travel contract due to the leverage provided by the increased purchasing power.

Agencies coordination

3.36 There is potential for lead agencies to work with and to complement the role of the Department of Finance and Administration under the service-wide framework, including in leading group purchasing arrangements. Leading agencies have a scale advantage that allows for a better capability and level of expertise in travel contracting and management. At the same time it is important to note the particular needs for autonomy and service standards of small and medium sized agencies. Functional competencies in agency leadership are also important, for example, in information systems and accounts processing. The development of appropriate cost recovery systems may help development of common services by lead agencies.

3.37 The main activity in coordination of agency air travel contracting has been the establishment and renewal of the common-use standing offer by the Department of Finance and Administration. The Department has also organised a number of forums on travel for agencies and workshops at which agencies exchange information. Also, the Department has provided advice as required to agencies and, on request, has worked closely with a small number of agencies in their negotiations with travel service providers.

3.38 Travel service providers have generally sought to protect the terms of their agreements with agencies from further disclosure. The shortfall in information provided by agencies to the Department of Finance and Administration has meant that it has not been well placed to advise agencies about market developments and is at a disadvantage when dealing with travel service providers as coordinator for the Commonwealth.

3.39 There has been increased effort recently by the Department of Finance and Administration to collect agency travel information and to address the shortcomings in the availability of service-wide information. Improved information at a whole-of-government level on Commonwealth travel procurement would assist the Department of Finance and Administration to advise agencies on industry developments, to facilitate benchmarking between agencies, and to analyse service-wide options for improved procurement arrangements.

3.40 Finding: Agencies need to keep the Department of Finance and Administration adequately informed on issues arising under their air travel contracting in order that the Department can effectively coordinate contracting for air travel services and assist agencies to achieve more cost effective outcomes without adversely affecting the devolution of authority to agencies.

Whole-of-government options

3.41 The Department of Finance and Administration advised the ANAO that there was support from agencies' travel managers for stronger coordination at a whole-of-government level. It advised that agencies had displayed some willingness to work more closely together to achieve improvement to air travel contracting. At the same time, the selected agencies expressed opposition to any move back to the centrally prescribed 'block' approach. Under the current common-use arrangements agencies were opposed to options that might restrict their ability to deal flexibly, independently and directly with travel service providers.

3.42 Air travel price structures are complex. They include a mix of various rebates and discounts each with different timing, interaction with special travel

arrangements, discounted fares, 'preferred' carrier and volume-based discounts, payment-based savings schemes and frequent flyer benefits. Sharing information between agencies and at whole-of-government level is one mechanism to enhance Commonwealth purchasing power.

3.43 Currently, the Department of Finance and Administration is consulting with agencies and the air travel industry to assess how the arrangements are operating and how they might be improved. This consultation is associated with the expiry of the current common-use arrangements. The Department is analysing alternative pricing options and procurement models through a business travel consultancy. Options include the possibility of route deals on commonly-used international sectors or fixed government fares for domestic air travel net of rebates, discounts and other travel benefits offered by travel service providers.

3.44 Fixed net government domestic fares would offer the advantage of convenience and transparency. Also, this option could produce a reduction in agency overheads in the negotiation of agency travel contracts, in the management of fare discounts, and in the general processing of trips. Such fares could reflect reduction in the costs of airlines servicing of government travel needs and the economic value of off-peak, 'no-frills' or other special categories of travel. The options would require consideration of service-level impacts, including for smaller agencies, in the context of restricted competition in the domestic market.

3.45 Under this option, agency-level restrictions on commercial information would no longer be an issue. Strategic management information and contract administration could be handled efficiently at a whole-of-government level. Strategic coordination could include advice on business travel that allowed benchmarking with developments in the broader business travel market.

3.46 Finding: The ANAO notes the potential for further efficiency through the whole-of-government options currently under consideration by the Department of Finance and Administration, for example, by developing a system of fixed government fares (net of all price reductions). Improved information on current commercial terms and service levels received by agencies is necessary to underpin analysis of any transition to alternative pricing options in the delivery of efficient travel services. This is also necessary to underpin effective negotiation with travel service providers for the benefit of all agencies.

Recommendation No.5

3.47 The ANAO *recommends* that, the Department of Finance and Administration, with the assistance of agencies:

- a) accesses and assembles key information on agencies' air travel contracting into a management information system at a whole-of-government level where this would be cost effective to assist in the procurement of air travel services; and
- b) analyses the cost-effectiveness of alternative approaches for the procurement of air travel, such as the proposal for a system of fixed government fares for domestic travel.

3.48 Agencies responded to the recommendations as follows:

- *Agree*: A-G's; Defence; DOFA; DIMA (a); and DSS/Centrelink (b).
- *Agree with qualification*: DIMA (b); DPIE; DSS/Centrelink (a); and DWR&SB.

3.49 Specific comments by agencies are set out below:

- *Defence response*: Agree. In relation to (a), Defence believes that such information made available to all agencies would be most useful. In relation to (b), Defence notes a need to recognise that different agencies have different needs which could result in cost effective approaches for some agencies not necessarily being cost effective for others.
- *DOFA response*: Agree. In relation to (a), access to and exchange of key information on agencies' air travel contracting is prevented to some extent under the current arrangements because of the confidentiality clause. In the new arrangement, the confidentiality clauses as outlined at 2.27 will be included and it will be possible to assemble this data.
- *DIMA response*: Agree, with qualification in respect of (b). The Department agrees with (a), noting that informal networks of Commonwealth travel contractors provided useful information in the lead up to the Department's formal market testing process. With regard to (b), the Department noted that the proposal for the standardised fares at a whole-of-government level has merit. However, it believes that inclusion of a standardised fee structure should be on a voluntary basis, allowing each agency to assess the value represented with reference to their individual situation and requirements. For example, DIMA has unique travel requirements such as refugee and removee travel. Substantial savings have been achieved within these areas over and above savings that would apply at an agency or whole of government level.

- *DPIE response:* Agree with qualification. Although this recommendation relates to action by DOFA, this Department will support access to the necessary information within limitations of confidentiality.
- *DSS/Centrelink response:* Agree, with qualification in respect of (a) that care must be taken to ensure that the infrastructure and bureaucracy overheads do not outweigh any potential benefits.
- *DWR&SB response:* Agree with qualification. The Department supports this recommendation in principle, but considers that an evaluation of the potential costs and benefits both to agencies and the Commonwealth as a whole, is necessary prior to any implementation.

Group purchasing options

3.50 Smaller agencies receive the benefit of broader Commonwealth purchasing power through the common-use arrangements. In a number of instances this was also assisted through inclusion within the coverage of another agency's contract after it had been negotiated with the common-use provider.

3.51 The ANAO analysis indicates that size of expenditure is an important determinant of agencies' ability to implement cost-effective contractual arrangements. There was a strong positive relationship between the level of air travel expenditures and economies in the procurement of air travel. Agencies can usefully join together as a means of increasing negotiating strength when going out to tender for air travel contracts.

3.52 There is potential for savings by grouping of agencies to guarantee a bigger travel business and in so doing, become more attractive to service providers. The ANAO received advice of a global trend to consolidation of business travel turnovers by major private sector conglomerates. The ANAO observed that as well as financial benefits, scale can produce a stronger service orientation on the part of travel service providers. Other potential advantages could accrue through grouping together of agencies, such as in the development of common management information systems and capturing scale advantages in travel contract management.

3.53 Agencies have particular characteristics and needs, leading to differences in contractual features which any consolidation of agencies in the negotiations with travel service providers would need to recognise. Voluntary groupings for domestic and international travel would allow groups of agencies with similar air travel service needs to effectively combine the advantage of scale with the flexibility of choice of provider.

3.54 Achieving improvement through group purchasing requires attention to means of voluntarily consolidating air travel business in a manner that is attractive to service providers. For example, this could require groupings of agencies with complementary travel patterns, or similar travel service needs, and compatible information and travel processing systems. A group of agencies, including the Australian Taxation Office, the Department of Finance and Administration, and the Department of the Treasury, forms a current example of the use of group purchasing of travel services by Commonwealth agencies.

3.55 Finding: Facilitation of group purchasing could occur by encouraging agencies to share experiences and describe common or complementary features in their travel procurement. The varying timing in renewal of agencies' contracts raises the option of a rolling tender process for at least a portion of the government's air travel with several competitive tenders being let in any one year. The ANAO's analysis indicates that complementary agency groupings to achieve expenditures in excess of \$15 million of domestic air travel and in excess of \$10 million of international air travel would generate greater savings than are currently achieved.

International travel group

3.56 International travel is an area of high fare value with special issues in both travel procurement and travel management. A number of agencies have a significant international travel expenditure but fall below the level that allows them to capture potential economies of scale.

3.57 In total Commonwealth agencies' expenditure on international travel amounts to some \$50 million, including \$19 million by the Department of Defence. There appears to be scope for other agencies who have a significant component of international travel to group their turnover together and arrange a Commonwealth international travel contract. Agencies could agree on standard features such as the provision of improved management information or aspects such as the use of special fares and limitations on the travel service provider margins that apply to these.

3.58 Finding: Under the current devolved system of contracting, the option of encouraging the voluntary formation of agencies into groupings, for example, for the purchase of international air travel or for periodic contract renewal, would add to the Commonwealth's bargaining position with travel service providers to generate greater savings for the agencies concerned

resulting from, for example, better planning and seat utilisation on scheduled services by the airlines.

Recommendation No.6

3.59 The ANAO *recommends* that, under the arrangements for agencies' air travel contracting:

- a) agencies seek to increase their attractiveness to travel service providers by entering into group purchasing arrangements for air travel with other agencies that have complementary requirements in air travel; and
- b) in conjunction with lead agencies, the Department of Finance and Administration assists formation of the voluntary groupings, including by information dissemination and by seeking interest in specific-purpose tenders, for example for international travel.

3.60 Agencies responded to the recommendations as follows:

- *Agree:* Defence.
- *Agree with qualification:* A-G's; DOFA; DIMA; DPIE; and DSS/Centrelink.
- *Disagree:* DWR&SB.

3.61 Specific comments by agencies are set out below:

- *Defence response:* Agree, recognising in relation to (a), that there may be certain agencies which have unique requirements precluding complementarity for a group situation.
- *A-G's response:* Agree with qualification. It needs to be recognised that agencies can have different business needs that are quite different to each other and those needs may impact quite differently on each agency with respect to their specific travel and management information requirements. Agencies will need to pay careful attention to their specific needs and requirements before entering into any group purchasing arrangement.
- *DOFA response:* Agree with qualification. In relation to (a), the travel contract is currently being renegotiated and a range of options being considered in light of agency experience and the ANAO findings. At this stage no decision has been made on the most appropriate method of purchasing air travel services. The objective is to seek the best outcome

for the Commonwealth and this may mean group purchasing arrangements or it may result in a whole of government arrangement. In relation to (b), it may or may not be appropriate for domestic travel, but it is agreed for international travel.

- *DIMA response:* Agree with qualification. The proposal for the establishment and management of a cluster agency arrangement to derive whole-of-government procurement benefit has merit. In particular, DIMA sees an advantage in the provision through this initiative of best practice travel management models, by lead agencies as well as advantages, through 'piggy-backing' arrangements, for smaller organisations. DIMA believes, however, that inclusion in a cluster arrangement should be on a voluntary basis, allowing each agency to assess the value represented with reference to their individual situation and requirements.
- *DPIE response:* Agree with qualification. The Department will review opportunities with portfolio entities and other agencies with similar travel requirements that may be interested in being included in our travel service provider contract.
- *DSS/Centrelink response:* Agree with qualification. In respect to (a), there is a tendency in group purchasing for a loss of value added savings and customising that can be achieved in individual tenders. Where those value-added savings can be maintained, 'group purchasing' should be encouraged. In relation to (b), it is agreed that smaller agencies can benefit from using an arrangement by a lead agency whose service delivery and organisational profile matches their own.

- *DWR&SB response:* Disagree. The Department does not agree with this recommendation and sees it as a move reverting to previously tried clustering arrangements as a backward step. As a small agency, it is the Department's view that the options of service-wide or individual agency contracts are the best solutions. The greater buying power of the Commonwealth as a whole would, no doubt, lead to savings which would far outweigh those which the Department would be able to negotiate individually. However, as a member of a cluster it is difficult for smaller agencies (given their smaller travel budgets) to have particular requirements included in contract negotiations.

3.62 ANAO comment: The ANAO recommendation envisages complementarity and free choice as necessary preconditions for implementing group purchasing options. These features would overcome the type of problems experienced with the centrally-imposed travel 'blocks' in 1988-1991 (paragraph 1.3). Whilst limited in extent, recent experience of voluntary group purchasing of air travel has been positive in producing what can be considerable scale advantages in air travel contracting.

Canberra ACT
23 December 1997

P. J. Barrett
Auditor-General