

Managing Contracts at Parliament House

Department of Parliamentary Services

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Canberra ACT
27 September 2016

Dear President and Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Parliamentary Services titled *Managing Contracts at Parliament House*. The audit was conducted in accordance with the authority contained in the *Auditor General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website—<http://www.anao.gov.au>.

Yours sincerely



Grant Hehir
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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Summary and recommendations

Background

1. The Department of Parliamentary Services (DPS) supports the work of the Federal Parliament and has an important custodial role in managing Parliament House. DPS is established under the *Parliamentary Services Act 1999*, and its staff are employed under that Act. As at 30 June 2016, DPS had 874 staff, and in 2015–16 had a budget of \$190.6 million.

2. The department's diverse responsibilities include the provision of: Hansard and broadcasting services for the Parliament; all aspects of security and building maintenance; landscaping; asset management; and library and research services. DPS contracts the supply of many of these services to external providers, accounting for expenditure of around 45 per cent of DPS' departmental budget. The department also manages a number of licences for the provision of retail services and the operation of the press gallery within Parliament House. Several reviews of the operations of the department have been critical of DPS' performance in managing contracts and licence arrangements, including an audit report of the Australian National Audit Office (ANAO)¹ and an inquiry report by the Senate Finance and Public Administration Legislation Committee.² In response, DPS has implemented a number of initiatives aimed at improving its operations.

Audit objective and criteria

3. The audit objective was to assess the effectiveness of the Department of Parliamentary Services' arrangements for managing contracts and retail licences, including the extent to which the department has implemented recommendations from the previous ANAO audit.

4. To form a conclusion against the audit objective, the ANAO adopted the following high-level criteria:

- DPS has established effective administrative arrangements to support the department's contract management activities; and
- DPS has strategies in place to support the department's management of retail services (including catering services), and press gallery licences.

Conclusion

5. DPS has developed policies, guidelines and training over the past 18 months to support staff managing contracts for the operation and maintenance of Parliament House. There has been an overall improvement in the department's performance in establishing and managing contracts since the previous audit, although there is more to be done to ensure that staff follow that guidance. The department has implemented a contract management information technology system that provides visibility of contracting activities and a comprehensive reporting capability previously not available. To build on these initiatives, DPS should take a more strategic view of the

1 ANAO Audit Report No.24 2014–15, *Managing Assets and Contracts at Parliament House*, February 2015.

2 Senate Finance and Public Administration Legislation Committee, *The Performance of the Department of Parliamentary Services*, September 2015.

role of contracting in the department, including whether services are best delivered in-house or through external contractors, and of the management arrangements and skills required to support future service delivery needs.

6. DPS has reviewed and renewed press gallery licences in Parliament House, but has not yet implemented a strategy for the retail service areas of the building. DPS is developing a new model for the delivery of catering services to take effect when the current catering contract expires in December 2016, but has not developed a business case to demonstrate how it will improve the standard of catering or deliver value for money.

7. The ANAO considers that DPS has fully implemented the two relevant recommendations of the Senate Finance and Public Administration Legislation Committee report and two of the four relevant recommendations of the ANAO audit report, the other two recommendations being partially implemented.

Supporting findings

Contract management arrangements

8. DPS has developed new contract management policies and guidelines that reflect legislative and policy requirements and are readily accessible through the department's intranet. Staff feedback on the new material was positive.

9. The new DPS training program better supports staff to manage contracts. DPS has developed a *Procurement Policy, Guidance and Training Plan* and has provided a range of courses relating to contracting. Other relevant training initiatives include covering contracting matters in monthly newsletters and email circulars, and a quarterly practitioner forum (established in May 2015) that provides an opportunity for staff to discuss contracting issues and to engage with sector specialists.

10. DPS has recently undergone organisational changes but has not broadly examined the role of contracting in the department. To meet future service delivery needs, DPS should undertake comprehensive planning to assess the appropriateness of existing contracting arrangements and how services could best be delivered—including whether through in-house provision or by external contractors.

11. In 2015, DPS met the mandatory requirements in the *Public Governance, Performance and Accountability Act 2013* to produce a corporate plan. The department's corporate performance measurement and reporting was reviewed and largely retained as part of that process. As many services are delivered under contract, the key performance indicators do reflect the effectiveness of contracts.

Establishing and managing contracts

12. Management of DPS contracts has not fully aligned with departmental guidance, although there has been an overall improvement in the department's contracting activities since the previous audit. While the majority of documents requiring a delegate's approval were in place, there remains opportunities to improve contract management planning, risk management planning and monitoring of ongoing contractor performance.

13. DPS has effectively implemented a contract management information technology system that allows the department to control endorsements and approvals for contracts, provides visibility of contracting processes and a comprehensive reporting capability not previously available. Over time, the new system should support improved contract management monitoring and performance, and the development of a quality assurance process.

Managing retail services

14. DPS does not have a strategy for the delivery of retail services in Parliament House. DPS commissioned the development of a retail strategy in late 2015, with the final report delivered to the department in January 2016. As at July 2016, the department had not finalised its consideration of the report or prepared a briefing on a proposed retail strategy for the Presiding Officers. Consequently DPS' arrangements with retail licence holders remain on a month-to-month basis. DPS has reviewed and renewed press gallery licences at Parliament House.

15. DPS has considered and rejected recommendations in a *Food Strategy* report it commissioned to provide guidance on the most appropriate framework to provide food and beverage services at Parliament House. The department has informed the existing catering provider that the contract will not be extended in its current form, and is exploring alternative arrangements (including some element of in-house catering services), aiming to improve standards of catering. However, there has not been a strong evidence base underpinning the consideration of these options. In particular, DPS has not developed a business case to show how different arrangements would achieve improved catering standards and represent value for money.

Recommendation

Recommendation No.1 To support the delivery of services in Parliament House, the Department of Parliamentary Services:

Paragraph 2.17

- (a) regularly reviews contract expiry dates (for individual contracts and the department's total contract commitments) to allow sufficient time to fully assess options for the ongoing provision of a service or services, including training and workforce capacity needs; and
- (b) reviews the contestability of in-house provision of all non-corporate services.

DPS response: *Agreed with 1(a). Disagreed with 1(b)*

Summary of Department of Parliamentary Services response

16. DPS' summary response to the report is provided below. DPS also provided a covering letter (Appendix 1) and response to recommendations.

DPS response

DPS acknowledges the findings contained in the report on Managing Contracts at Parliament House, noting the DPS executive management team are focussed on delivering improved service outcomes, and also rebuilding the morale of a workforce that has faced repeated adverse criticism for some years.

We welcome that the report acknowledges that substantive and significant improvements have been made to the department's management of contracts. We also welcome the many constructive comments that the ANAO has made in relation to opportunities for improvement which relate to the original scope of the audit.

The department agrees with the assessment of our progress against recommendations three to six of the original audit, and of our progress against the two relevant recommendations of the Senate Finance and Public Administration Legislation Committee inquiry of 2015.

We are in partial agreement with the new recommendation that has resulted as a direct result of this follow-on audit, in particular that more can be done to improve management of contracts, including strategic management of these arrangements.

However, we disagree that contestability of in-house services should be a priority for the department, given we are part-way through ensuring staff who are responsible for procurement and managing contracts are adequately equipped from a capability perspective to undertake this task.

DPS will continue the current program of work to further improve this function as successful contract management is central to our purpose.

Audit Findings

1. Background

Introduction

1.1 The Department of Parliamentary Services (DPS) supports the work of the Federal Parliament and has an important custodial role in the management of Parliament House, including to make the building and parliamentary activity accessible to the public. In 2014–15, over 750 000 people visited the building.³ The Parliament House complex sits within a 35 hectare site, and the building has approximately 4700 rooms with more than 100 000 maintainable assets.⁴

1.2 The department's responsibilities include the provision of: Hansard and broadcasting services for the Parliament, and information and communications technology services for Senators and Members; all aspects of security and building maintenance; landscaping; asset management; and library and research services. DPS contracts the supply of many of these services to external providers.

1.3 Contracts for services range from: small, 'one-off' arrangements, for example the delivery of a training course or short term employment of temporary staff; to large and more complex contracts, including for cleaning services and the provision of public and parliamentary catering. In 2014–15, the department managed some 706 contracts, involving expenditure of approximately \$89.1 million. The department also manages licensing arrangements for retail outlets within Parliament House, and with 26 members of the press gallery who occupy space in the building.⁵

Department of Parliamentary Services

1.4 DPS is established under the *Parliamentary Services Act 1999*.⁶ The Act provides that the department consists of a Secretary and a Parliamentary Librarian⁷, and Parliamentary Service employees assisting them. The department is categorised as a non-corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013*, and subject to the same rules and regulations as other like entities. DPS staff are employed under the *Parliamentary Services Act 1999* rather than the *Public Service Act 1999*, but the terms of employment under each Act are similar, with mobility between the services. The Public Service Commissioner also holds the role of Parliamentary Service Commissioner.

3 DPS, *Annual Report 2014–15*, p. viii.

4 Department of Parliamentary Services (DPS) website. Available from: http://www.aph.gov.au/about_parliament/parliamentary_departments/departments_of_parliamentary_services [accessed 31 May 2016].

5 A 'licence' is a unilateral permission to conduct an activity on, or with somebody else's property; a 'contract' is an agreement creating obligations enforceable by law.

6 Under the *Parliamentary Service Act 1999*, DPS is jointly administered by the Presiding Officers (the President of the Senate and the Speaker of the House of Representatives), with the departmental Secretary responsible to the Presiding Officers for the efficient operation of the department.

7 The Parliamentary Librarian is a statutory office established by authority of the *Parliamentary Service Act 1999*. The Parliamentary Librarian reports directly to the Presiding Officers in respect of the position's statutory functions.

1.5 In 2015–16, DPS had an operating budget of \$190.6 million, including \$8.3 million own-source income⁸, with a further \$21.8 million available from prior year amounts.⁹ As at 30 June 2016, DPS had 874 staff comprising: 730 on-going employees and 144 non-ongoing employees (excluding casual employees).

Reviews and audits of the department's operations

1.6 Over a number of years, various aspects of DPS' management of Parliament House have been the subject of parliamentary interest, with the Senate Finance and Public Administration Legislation Committee maintaining a strong focus on the department's activities during Senate Estimate hearings, including DPS' contract management¹⁰ functions.

1.7 Reviews and audits of the functioning of the department include:

The Performance of the Department of Parliamentary Services (February 2012), Senate Finance and Public Administration Legislation Committee

- The report identified a wide range of issues, including those relating to DPS' performance in managing assets and contracts, and included 23 recommendations to improve the administration of Parliament House.

Managing Assets and Contracts at Parliament House (ANAO Audit Report No.24 2014–15, February 2015)

- The audit report highlighted deficiencies in DPS' asset and contract management, and management of retail licences, and observed there had been little improvement since the release of the Senate Finance and Public Administration Legislation Committee report some three years earlier. The audit report made six recommendations aimed at strengthening the department's asset and contract management arrangements, and the administration of retail licences (including press gallery licences). DPS agreed to each of the recommendations.

The Performance of the Department of Parliamentary Services (September 2015), Senate Finance and Public Administration Legislation Committee

- The report discussed findings of the second inquiry into the functioning of the department and DPS' progress in implementing the 23 recommendations from the previous inquiry. The report included that the Committee had reservations about DPS' stated response to, and actioning of, the recommendations. The Committee made a further 14 recommendations, including two concerning contract management.¹¹

8 Own-source income includes revenue from the sale of goods and services, rental income and public carpark revenue.

9 Commonwealth of Australia, *Portfolio Budget Statements 2015-16, Budget Related Paper No. 1.17C, Department of Parliamentary Services*, p. 10.

10 Throughout this report 'contract management' refers to all stages in the procurement of services and establishing and managing a contract (unless otherwise specified).

11 The recommendations concerning contract management were: Recommendation 5, that the ANAO undertake a follow-up audit of DPS' contract management in 2016; and Recommendation 6, that DPS conduct an internal audit of contracts put in place in 2015 and provide a report to the Committee by 1 February 2016.

Audit objective, criteria and scope

1.8 The audit objective was to assess the effectiveness of the Department of Parliamentary Services' arrangements for managing contracts and retail licences, including the extent to which the department has implemented recommendations from the previous ANAO audit.

1.9 To form a conclusion against the audit objective, the ANAO adopted the following high-level criteria:

- DPS has established effective administrative arrangements to support the department's contract management activities; and
- DPS has strategies in place to support the department's management of retail services (including catering services), and press gallery licences.

1.10 In conducting the audit, the ANAO reviewed documentation related to contract management and retail licensing. The ANAO also met with DPS staff involved in these functions and with responsibilities in corporate finance and information technology; and analysed a sample of 50 contracts for compliance with the department's contracting procedures.

1.11 The ANAO's review of DPS' response to the recommendations in the previous ANAO audit and to the two recommendations in the September 2015 Senate Finance and Public Administration Legislation Committee report relating to contract management, is at Appendix 2.

1.12 The audit has been conducted in accordance with the ANAO's auditing standards at a cost to the ANAO of approximately \$425 000.

2. Contract management arrangements

Areas examined

This chapter examines the effectiveness of the Department of Parliamentary Services' (DPS) arrangements to support the management of contracts for the operation and maintenance of Parliament House.

Conclusion

DPS has developed policies, guidelines and training over the past 18 months to support staff managing contracts for the operation and maintenance of Parliament House. To build on these initiatives, DPS should take a more strategic view of the role of contracting in the department, including whether services are best delivered in-house or through external contractors, and of the management arrangements and skills required to support future service delivery needs.

Areas for improvement

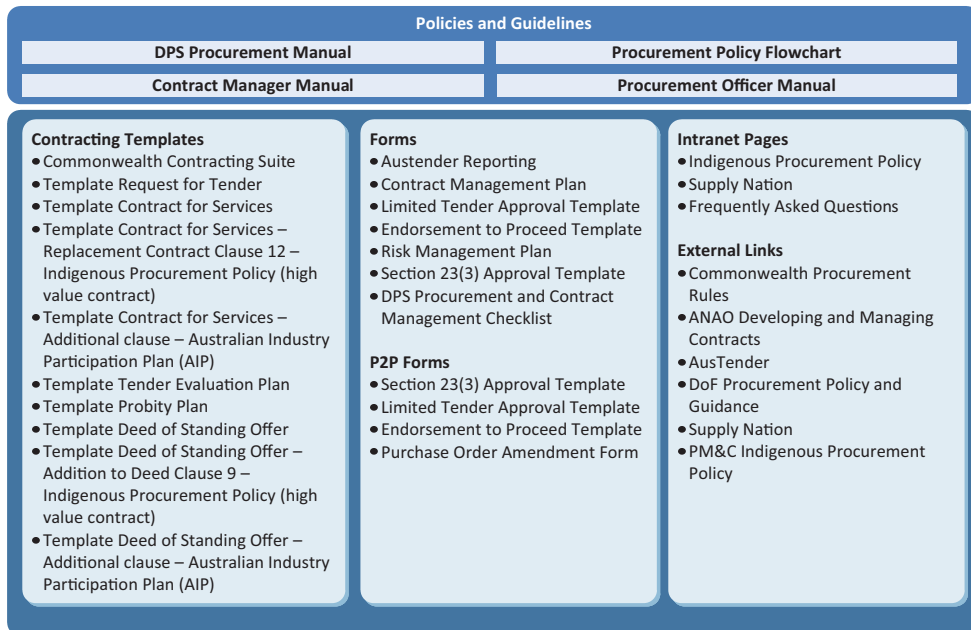
The ANAO has made one recommendation, proposing that DPS assesses options for the ongoing provision of services in a timely way, and reviews the contestability of services.

Do DPS' policies and guidelines support staff in managing contracts?

DPS has developed new contract management policies and guidelines that reflect legislative and policy requirements and are readily accessible through the department's intranet. Staff feedback on the new material was positive.

2.1 In April 2015 DPS released several new contract management policies and guidelines. These documents, templates and forms were made available to staff through the DPS intranet, with additional material added throughout the year. As at July 2016, the policies and guidelines available in relation to contract management are shown in Figure 2.1. Links are also provided to external contracting material. The documents were developed in-house by DPS staff with specific contract management capabilities, recruited to the department to address skills shortages in this area.¹²

12 Staff were recruited to a specialist Procurement and Contract Management unit that mostly provides a monitoring and guidance role for DPS contracting activities, but has more direct involvement with large and or complex contracts.

Figure 2.1: DPS' contract management policies and guidelines

Note: P2P refers to DPS' Procure-to-Pay contracting information technology system (see paragraph 3.9).

Source: DPS, from DPS intranet.

2.2 The ANAO reviewed the three primary guidance manuals, the Procurement Manual, Procurement Officer Manual and Contract Manager Manual to assess (as at May 2016) if these documents: provided instruction on, and were compliant with, key elements of the *Commonwealth Procurement Rules*¹³; and reflected guidance provided in the ANAO *Better Practice Guide, Developing and Managing Contracts*.¹⁴ The results of the review are outlined in Figure 2.2.

13 Department of Finance, *Commonwealth Procurement Rules*, July 2014. Available from: <http://www.finance.gov.au/sites/default/files/2014%20Commonwealth%20Procurement%20Rules.pdf> [accessed 02 May 2016].

14 ANAO, *Better Practice Guide—Developing and Managing Contracts*, February 2012, Canberra. Available from: https://www.anao.gov.au/sites/g/files/net616/f/2012_Developing_And_Managing_Contracts_BPG.pdf [accessed 05 May 2016].

Figure 2.2: Assessment of DPS contract management guidance manuals

Commonwealth Procurement Rules						
	Value for money	Encouraging competition	Efficient, effective, economical & ethical procurement	Accountability & transparency in procurement	Procurement risk	Procurement method
Procurement Manual	✓	✓	✓	✓	✓	✓
Procurement Officer Manual	✓	✓	✓	✓	✓	✓
ANAO Better Practice Guide—Developing and Managing Contracts						
	Developing the contract	Formalising the Contract	Entity Arrangement for Managing Contracts	Managing the Contract	Ending the Contract	
Contract Manager Manual	✓	✓	✓	✓	✓	

Source: ANAO analysis of DPS' guidance manuals.

2.3 The manuals: comply with the requirements of the *Commonwealth Procurement Rules* and reflect guidance in the ANAO's contracting better practice guide; and provide staff with sufficient information to effectively manage a contract, including the provision of work flow diagrams, links to supporting guidance and templates, checklists and specialist contacts.¹⁵

2.4 In December 2015 the ANAO selected an initial sample of 20 DPS contracts and interviewed the 21 staff responsible for managing them, in relation to DPS' new guidance material. Each officer was aware of the release of the manuals and supporting templates and where these could be accessed. Of those officers who had applied the new policies and guidelines, each reported that they were easier to follow than previous material, clearly outlining contract management requirements.

Does DPS' training program support staff in managing contracts?

The new DPS training program better supports staff to manage contracts. DPS has developed a *Procurement Policy, Guidance and Training Plan* and has provided a range of courses relating to contracting. Other relevant training initiatives include covering contracting matters in monthly newsletters and email circulars, and a quarterly practitioner forum (established in May 2015) that provides an opportunity for staff to discuss contracting issues and to engage with sector specialists.

2.5 The previous ANAO report noted substantial variation in the skill levels of DPS staff with contract management responsibilities and that, of the 91 staff members who were identified as under-skilled, only 11 attended the contract management training made available to them at that time.¹⁶ DPS has subsequently taken a number of steps to improve training for its workforce, including to implement a:

¹⁵ The documents could be further improved through the provision of information in relation to document ownership, date of development, version control, and the currency of the version available. (The intranet page does include a 'last updated' reference, but this is for the page not the guidance documents listed on it).

¹⁶ ANAO Audit Report No.24 2014–15 *Managing Assets and Contracts at Parliament House*, pp. 81-82.

- Learning Management System (July 2015), accessible to all staff through the DPS intranet. The system allows staff and managers to view and book training courses online, and to maintain a training record. Courses can also be mandated for selected staff and monitored for completion; and
- Learning and Development Framework (January 2016) that focuses on the implementation of the *DPS Core Skills and Knowledge Pathway*, identifying six learning pathways relevant to an employee's position, job family and or classification level. The pathways were: DPS core skills and knowledge; developing awareness; management principles and practice; executive development; professional and personal development; and specialist knowledge and skills.

2.6 DPS advised that since early 2015 it has adopted a 'fresh start' to training in contract management. The department recruited staff who had gained contracting expertise in other Commonwealth entities (including implementation of agencies' compliance with requirements under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act)¹⁷) and released a *Procurement Policy, Guidance and Training Plan*, which provided training in the basic requirements of the PGPA Act. New material was then developed as areas of training needs were identified. Since February 2015, DPS has made available nine courses related to contracting (with two additional courses being developed), shown in Table 2.1. The courses may be repeated several times, as required.

Table 2.1: DPS: Contract management training courses

Training course	Duration and mode of delivery
Successful Tendering and Contract Management	Two day course. Face-to-face delivery
Delegations training	Internal one day course. Face-to-face delivery
'Budget basics' training	Internal course. Face-to-face delivery
PGPA Training 1: Introduction to the PGPA Framework	Department of Finance Webcast
PGPA Training 2: Fundamentals for officials	Department of Finance Webcast
AusTender training for Senior Executive Service	Internal one-on-one training
Commonwealth Contract Suite Workshop	Training delivered by the Department of Finance
Procure to Pay	Three hour workshop. Face-to-face delivery
Procurement for projects	Training delivered by the Department of Finance
Managing high value procurements ^a	Off site and face-to-face delivery
Managing high value contracts ^a	Off site and face-to-face delivery

Note a: Course is under development.

Source: ANAO, from information on the DPS Learning Management System, June 2016.

2.7 DPS also provides information about contracting in the department's monthly in-house newsletters and email circulars, and (from May 2015) holds quarterly contracting practitioners' forums to encourage discussion and sharing of information and best practice. To date, DPS has held five forums, with an average of 50 officers attending each one.

¹⁷ The PGPA Act was implemented across the Commonwealth on 1 July 2014.

Evaluating training courses

2.8 Prior to the implementation of the Learning Management System, DPS provided hard copy evaluation forms at the end of each training session. These forms were simple, asking only that course participants rate the presentation and course content, with a free text section for any additional comments.

2.9 With the new system in place, an online evaluation form is now emailed automatically to course participants, and responses can be readily accessed and analysed. The online forms are more sophisticated, with nine questions on specific aspects of the course, including the extent to which the participant's understanding of the subject improved or increased as a result of the course, and three free text sections inviting general comments.

2.10 The online forms are managed by DPS' Human Resources team. The responses are compiled and analysed every six months, to determine if training programs are meeting their aims and objectives. Information provided by DPS in July 2016 indicated a high level of satisfaction with the initial contracting course that was run following the introduction of the Learning Management System.

Do DPS' management and planning arrangements effectively support contracting?

DPS has recently undergone organisational changes but has not broadly examined the role of contracting in the department. To meet future service delivery needs, DPS should undertake comprehensive planning to assess the appropriateness of existing contracting arrangements and how services could best be delivered—including whether through in-house provision or by external contractors.

In 2015, DPS met the mandatory requirements in the *Public Governance, Performance and Accountability Act 2013* to produce a corporate plan. The department's corporate performance measurement and reporting was reviewed and largely retained as part of that process. As many services are delivered under contract, the key performance indicators do reflect the effectiveness of contracts.

DPS management arrangements

2.11 DPS has undergone organisational design change in recent years, in response to the various external reviews of its operations and to improve performance. In October 2012, the departmental Secretary commented on DPS' core function, and foreshadowed plans to change the structure of the department:

I very much see [DPS] as a service department. We are here to provide services...and we do that in a number of ways. It is my belief that the way the organisation was structured was not enabling us to provide those services to best effect, and I have commenced a realignment of the functions inside the organisation.¹⁸

18 Ms Carol Mills, Secretary, Department of Parliamentary Services, *Supplementary Estimates Hansard*, 15 October 2012, p. 39.

Key changes to the department's structure between 2012–13 and 2014–15 included the establishment of two new divisions and six additional senior executive service positions.¹⁹

2.12 The structure of DPS is discussed at length in the Senate Finance and Public Administration Legislation Committee final report, September 2015. The committee accepted that the management structure of DPS prior to May 2012 was inadequate but did not believe that the addition of many more senior executive service positions had necessarily improved management of the department, and reserved further comment given the (then) pending consultations on the position of the Secretary and the structural review of DPS.

Positioning to meet future service delivery needs

2.13 Around 45 per cent of DPS' departmental budget is spent on the delivery of services by external contractors. In light of the significance of contracting activities, DPS could better prepare the organisation to meet future service delivery needs through structural reforms, reviews of workforce capability, and service delivery planning.

2.14 The previous ANAO audit report noted that, considering the extent of change, DPS would be expected, as part of its change management strategy, to assess business risk and establish a detailed implementation plan (including deliverables and timeframes, and structured oversight arrangements) and a communication strategy.²⁰ While DPS conducted several reviews in 2014–15²¹, some 18 months after the audit there is no documentation that articulates how the reformed structure and staffing profile is designed to better position the department as a service department or to provide services to 'best effect', or how the new arrangements would be evaluated.

2.15 DPS has identified an enterprise risk associated with workforce capability and the capacity to deliver services.²² DPS advised in May 2016 that, commencing with the development of DPS 'workforce families', work is currently in the early stages with the aim of developing a three year workforce planning program. However, DPS does not consider or assess how services could best be delivered—through in-house provision or by external contractors—over a three or four year period that would support such a program. DPS advised that the decision as to whether a service should be delivered in-house or by an external contractor is generally considered by the department on a case-by-case basis as services are required or contracts expire.²³ In adopting this approach, DPS should allow sufficient time to fully assess options for the ongoing provision of a service or services, which was not the case for the provision of catering services as discussed in Chapter 4.

19 The total number of staff has remained relatively stable over the same period, with an overall increase of 31 staff (830 to 861, or 3.7 per cent), that included an increase of 34 (176 to 210, or 19.3 per cent) executive level positions (senior executive service and executive level 1 and 2). As at April 2016, 671 (77 per cent) of the total 873 staff were at parliamentary service levels 1-6, and 202 (23 per cent) at the executive level.

20 ANAO Audit Report No.24 2014–15 *Managing Assets and Contracts at Parliament House*, p. 119.

21 The DPS Annual Report 2014–15 refers to reviews of the department's: security arrangements at Parliament House; provision of information and communication technology services; structure of trades groups within the Asset Development and Maintenance Branch; Risk Management Framework; and Fraud Control policy.

22 DPS' *Corporate Plan 2015–19* includes an enterprise risk that the department 'fails to develop or maintain the necessary capability and capacity to deliver efficient and effective services', p. 8.

23 DPS advised that the current distribution of in-house and contracted services has been shaped over time, both for the current department and its predecessor entities, and has been formed by a range of internal and external factors including legislative and policy requirements, availability of skills and expertise, and funding considerations. (DPS email to the ANAO, 26 April 2016).

2.16 It is also important that the case-by-case assessment of services is complemented by strategic reviews of service delivery over a forward period. Strategic and operational planning for service delivery would assist the department to prepare for the range of staff skills and capabilities required in the future, and identify training needs (mitigating an enterprise risk), as well as supporting the optimal allocation of resources and budgets to specific tasks.²⁴ In undertaking such service delivery planning, the department could also position itself to satisfy the government's contestability review requirements, including for selected services (citing landscaping as an example) that have traditionally been delivered in-house and regarded by the department as not subject to such review.

24 The Australian Public Service Commission publication, APSC, *Unlocking potential: APS workforce management reform*, includes: In order to meet the challenges ahead, agency human resource units must become a strategic partner with business, with an equal voice at the table. Current and future business priorities must be the basis of workforce planning, and issues relating to people—an organization's most important resource—must be considered at the highest level. Available from: <http://www.apsc.gov.au/priorities/unlocking-potential> [accessed 20 June 2016].

Recommendation No.1

2.17 To support the delivery of services in Parliament House, the Department of Parliamentary Services:

- (a) regularly reviews contract expiry dates (for individual contracts and the department's total contract commitments) to allow sufficient time to fully assess options for the ongoing provision of a service or services, including training and workforce capacity needs; and
- (b) reviews the contestability of in-house provision of all non-corporate services.

DPS response: *Agreed with 1(a). Disagreed with 1(b)*

2.18 DPS provides the following response:

- (a) *Agreed. Noting that this already occurs at the individual contract level, DPS recognises that there is always scope for further improvement on an individual and programmatic level. A suite of management and analytical reports are now able to be generated via the Procurement to Pay (P2P) system.*
- (b) *Disagreed. The non-corporate services currently provided in-house by DPS include:*
 - *library and research services*
 - *information and communication technology services*
 - *security services*
 - *building, grounds and design intent services*
 - *audio visual and Hansard services*
 - *art services, and*
 - *visitor services.*

DPS' focus in relation to procurement and managing contracts is to improve the capability of staff to undertake this activity for current outsourced activity. It would be reckless of DPS to undertake a program of assessing current (and effective) in-house services for potential outsourcing when it is building capability to deliver the current outsourced services better (consistent with the finding of the 2015 ANAO Report). Nevertheless, DPS will work with Department of Finance on the applicability of the Contestability Framework where appropriate.

Review of Department of Parliamentary Services

2.19 An independent review of DPS has also identified the need for long term strategic planning by the department. Recommendations in the review reflect findings in this audit concerning the rationale for the current structure in terms of the services DPS is expected to deliver and quality of DPS planning functions. Referred to as the Baxter Review²⁵, the objective of the review was to

²⁵ The review was conducted by Mr Ken Baxter. Mr Baxter is a commissioner with the Productivity Commission, and was previously Secretary of the Premier's Department in both New South Wales and Victoria.

examine the structures, systems and staffing profile of the department to recommend any changes considered necessary for the department to deliver its services most effectively. The report was delivered to the Parliamentary Services Commissioner in December 2015. At the time parliament was dissolved in May 2016, the overall response from the Parliamentary Services Commissioner had not yet been completed and provided to the Presiding Officers.²⁶

DPS corporate planning and reporting

2.20 The previous ANAO audit²⁷ noted that as a relatively large share of DPS expenditure was provided through contracts there would be value in DPS developing performance indicators to measure the effectiveness of contracted activities, which would be reported externally.

2.21 DPS' Portfolio Budget Statements from 2012–13 to 2016–17 show one departmental Outcome²⁸ delivered through two programs: Parliamentary Services and Parliament House Works Program. In 2015 DPS prepared a corporate plan (*DPS Corporate Plan 2015–19*) that included key performance indicators (KPIs), as required under the PGPA Act.²⁹ The KPIs reflected those set out in DPS' Portfolio Budget Statements 2015–16, with the plan noting that 'the two program objectives and the KPIs set out in the Portfolio Budget Statements 2015–16 were reviewed for the purpose of transitioning to the new corporate planning environment'.³⁰

2.22 The review led to minimal changes in DPS' KPIs and targets, and DPS advised that as many services are delivered under contract, the KPIs do indicate the effectiveness of contracts. While this is the case, DPS did not provide evidence of the consideration of measures of contracting or of the basis for retaining the existing corporate KPIs and targets.

2.23 The *DPS Corporate Plan 2015–19* met requirements under the *PGPA Act* (to produce a plan). As at June 2016, the DPS Secretary had endorsed a draft of the *DPS Corporate Plan 2016–20* for staff consultation. A comparison of the draft plan with the previous version, *DPS Corporate Plan 2015–19*, shows minimal changes to the department's KPIs and enterprise risks but some changes to the department's strategic themes.

26 On 27 August 2015, the Presiding Officers announced that they had asked the Parliamentary Services Commissioner to undertake a review of the capacity of the department to fulfil its role to serve the Parliament of Australia efficiently and effectively.

27 ANAO Audit Report No.24 2014–15, *Managing Assets and Contracts at Parliament House*, p. 112.

28 DPS Portfolio Budget Statements Outcome 1, 2012–13 to 2015–16: Occupants of Parliament House are supported by integrated services and facilities, Parliament functions effectively and its work and building are accessible to the public.

DPS Portfolio Budget Statements Outcome 1, 2016–17: Support the functions of Parliament and parliamentarians through the provision of professional services, advice and facilities and maintain Australian Parliament House.

29 The department's *Corporate Plan 2012–14* was a one page document with no performance targets.

30 *DPS Corporate Plan 2015–19*, p. 10.

3. Establishing and managing contracts

Areas examined

This chapter examines the Department of Parliamentary Services' (DPS) performance in establishing and managing contracts.

Conclusion

There has been an overall improvement in the department's performance in establishing and managing contracts since the previous audit, although there is more to be done to ensure that staff follow that guidance. The department has implemented a contract management information technology system that provides visibility of contracting activities and a comprehensive reporting capability previously not available. The system has the potential to support improved contract management practices, particularly if also used for quality assurance purposes.

Areas for improvement

The ANAO has identified scope for DPS to improve some contracting practices (Table 3.3).

Are DPS contracts managed in line with department guidance?

Management of DPS contracts has not fully aligned with departmental guidance, although there has been an overall improvement in the department's contracting activities since the previous audit. While the majority of documents requiring a delegate's approval were in place, there remain opportunities to improve contract management planning, risk management planning and monitoring of ongoing contractor performance.

3.1 The ANAO selected a sample of 50 contracts³¹ from those established by DPS in the period March 2015 to April 2016 (after the previous ANAO audit and just prior to the implementation of a new contract management information technology system), and:

- checked the sample contracts against the availability of key contract management documents, as set out in the *DPS Procurement and Contract Management Checklist*³²; and
- reviewed the content of the documents in relation to risk management, contract management plans and performance management.

3.2 The selected contracts ranged in value from just over \$10 000 to almost \$7 million, and varied in length from a simple purchase taking a couple of weeks, to contracts covering up to six years. Table 3.1 shows the breakdown of the contract sample by value.

31 Contracts were selected from those listed on AusTender as the DPS Contract Management Register was not a reliable information source. Consequently, all contracts sampled were greater than \$10 000 in value.

32 The checklist was released in December 2015, and is in addition to other checklists available in the contract management manuals, the: *Procurement Officer Checklist*; *Contract Management Checklist*; and *Measuring Performance Checklist*. Use of the checklists is not mandated, but DPS staff are encouraged to use them in undertaking contract management activities, to ensure that the required documentation has been completed.

Table 3.1: Value of contracts examined

Value of the contract at procurement	Total procurements	Number examined
> \$5 million ¹	4	1
\$1 million–\$5 million	16	9
\$200 000–\$1 million	66	10
\$80 000–\$200 000	84	7
\$10 000–\$80 000	416	23
Total	586	50

Source: ANAO, from AusTender extracts, 1 March 2015 to 12 April 2016.

Results of ANAO review

3.3 The degree and nature of documentation expected to support each contract varies in relation to its value and complexity. The *Commonwealth Procurement Rules* require that entities must comply with the rules when a procurement threshold is reached. For non-corporate Commonwealth entities (other than for procurements of construction services) the procurement threshold is \$80 000. The threshold for reporting contracts to Austender is \$10 000. In this context, DPS has implemented the *DPS Procurement and Contract Management Checklist* (the Checklist) to assist contract managers ensure that probity and consistency is maintained over all contracts, regardless of their value.

3.4 The audit considered the nature and reasonableness of the documentation provided in relation to each contract sampled. While the DPS Checklist specifically sets out a threshold of \$80 000 before an Endorsement to Proceed is required, other thresholds outlined in the checklist are not as specific and include: ‘low value procurements \$10 000–\$80 000’; ‘low value or simple contracts’; and ‘more complex and higher value contracts’. The results of the checking of the availability of key contract management documents are set out in Table 3.2.

Table 3.2: Availability of key contract management documentation

Checklist criterion	Yes	No	NA ^a	Total
Before the approach to market:				
Endorsed business case for the procurement	45	4	1	50
Endorsement to proceed (for all procurements over \$80 000)	26	1	23	50
Limited tender approval	11	0	39	50
Request documentation ^b	47	2	1	50
Tender evaluation plan	14	0	36	50
Probity plan	14	0	36	50
Risk management plan / risk analysis	23	4	23	50
After the approach to market:				
Evaluation report	37	4	9	50
Approval of a commitment of relevant money	45	5	0	50
Executed contract	40	0	10	50
AusTender form	33	1	16	50
Contract management plan	9	29	12	50
Contract management				
Executed contract variations	12	1	37	50
Ongoing performance / stakeholder management	29	13	8	50

Note a: 'Not Applicable' (NA) has been used to categorise those cases where a particular criterion did not apply. For example, as the majority of cases selected in the sample were not limited tenders, 39 procurements were not required to have a limited tender approval form completed. Similarly, where a direct or one off purchase was made by DPS, tenders and therefore tender evaluation plans were not required and therefore categorised as 'not applicable'.

Note b: Depending on the procurement, 'request documentation' could include a Request for Quotation, a Work Order, or a full Request for Tender.

Source: ANAO analysis, based on *DPS Procurement and Contract Management Checklist*.

3.5 Audit checks found that the majority of documents requiring a delegate's endorsement and/or approval (for example: endorsement to proceed, approval of a commitment of relevant money) were in place. However, for documents where executive approval or oversight was not required (such as contract management plans) ANAO checking found that these documents were not consistently completed by DPS officers.

3.6 Results of the review of the content of the contract documents in relation to: business cases, risk management, contract management plans and ongoing contract management are set out in Table 3.3, recognising that different levels of documentation are required for contracts of different value and complexity, but not the overall need for some consideration of business need, risk or management.

Table 3.3: Review of aspects of contract management

Review
<p><i>Business case</i></p> <p>Business cases were generally in the form of a contextual or background statement of need attached to an ‘endorsement to proceed’ proposal, approval of a commitment of relevant money, in emails or a memo. These outlined what was required and how it would be obtained, and included a statement that value for money had been considered, but generally without supporting justification. Only one business case documented alternative procurements before reaching a recommendation, such as the option to bring a service in-house, or vary the standard of service.</p>
<p><i>Risk management</i></p> <p>The Checklist indicates that all procurements over \$80 000 should include a risk assessment. On this basis, of the 27 contracts that should have had a risk assessment, 23 (85 per cent) had completed risk assessments available, although the quality of the completed risk assessments varied. While all high risk cases require a separate risk plan, DPS does not clearly identify procurements that are considered high risk, and therefore require a separate risk plan, and only six of the cases examined had separate risk management plans that included risk mitigation strategies.</p>
<p><i>Contract management plan</i></p> <p>The Checklist also includes reference to contract management plans, whether based on a template designed for more complex and higher value contracts, or a simple outline document. Of the 50 cases examined, 38 should have had a contract management plan in place. However, the examination found that only nine (24 per cent) had contract management plans in place. Instead, officers were recording reasons why they had not completed a contract management plan. Reasons recorded by officers included: a number of procurements preceded the introduction of new processes and procedures; contracts were considered too simple, brief or low in value to warrant a contract management plan; or contract managers considered that the Checklist itself provided an adequate plan. Other management comments included that the contracts were managed against deliverables, or simply referred to meetings and email correspondence as the means to manage the contract.</p>
<p><i>Ongoing performance and contract management</i></p> <p>Evidence of ongoing management was limited: some contracts were to be managed simply against deliverables; or the Checklist itself was referred to as the means of contract management. Other documentation provided included comprehensive contractor reports or representative samples of minutes and email communications. As the Checklist did not explicitly refer to key performance indicators, there was often an absence of key performance indicators against which contractors’ performance could be assessed.</p>

Source: ANAO analysis of 50 contracts established by DPS in the period March 2015 to April 2016.

3.7 Results of the review indicated improvement in managing contracts, but more needs to be done to: ensure that key documents are fully completed, and that delegates’ endorsement and approval is not being exercised without fully checking that the contract documentation meets DPS requirements. The results align with the findings of a DPS internal audit conducted October–December 2015: *Procurement and Contract Management Health Check*.³³

33 The Health Check examined 15 procurements (undertaken since 1 January 2015) and 10 contractual arrangements and found: for all procurements examined there was clear evidence of ‘value for money’ considerations by an appropriate delegate; seven (of 15) procurements where there was either no evidence of consideration of procurement risk, or the consideration of procurement risk was documented at only a high-level within endorsement to proceed documentation; five (of 10) contracts where a formal contract management plan had not been developed; and three (of 10) contracts where contract risk management plans / assessments could not be evidenced.

3.8 Overall, results showed improvement in DPS' contracting activities since the previous audit, noting that DPS' contracting management performance had been very poor and the department's training and development initiatives were still relatively new. DPS aims to significantly improve all aspects of contract management performance, with the introduction of a contract management information technology system, discussed below.

Has DPS effectively implemented a contract management system to support improved contract management practices?

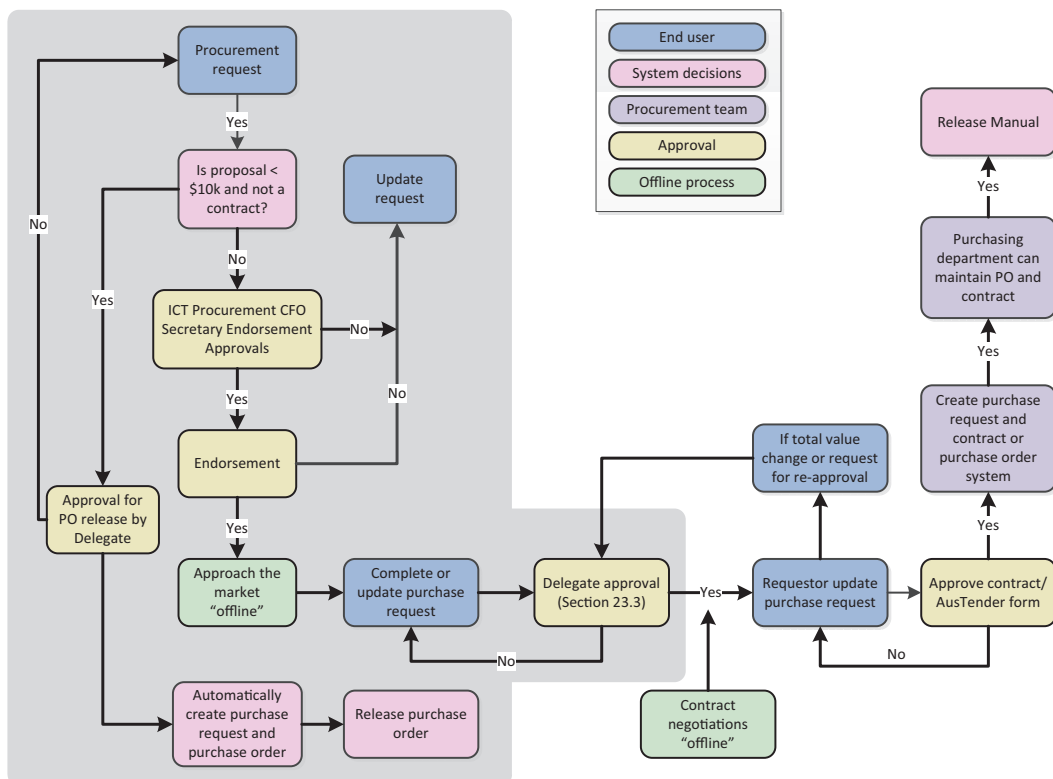
DPS has effectively implemented a contract management information technology system that allows the department to control endorsements and approvals for contracts, provides visibility of contracting processes and a comprehensive reporting capability not previously available. Over time, the new system should support improved contract management monitoring and performance, and the development of a quality assurance process.

3.9 In March 2014, DPS implemented the use of a contract 'outline agreement' module in its financial management system, to overcome some of the shortcomings associated with the department's Contract Management Register.³⁴ In April 2016, DPS further expanded the modules in the department's financial systems to support contracting activities, with the introduction of Procure-to-Pay.

3.10 For all new contracts, the department now has the capability to manage the full contract management life cycle within its Information Technology (IT) systems. The process flows and controls built into the new system are illustrated at Figure 3.1. The shaded area shows the stages that were previously paper based and managed through the Contract Management Register. Specifically, endorsements and approvals are now controlled within the system, and contracting activity cannot progress without the required executive oversight.

34 ANAO Audit Report No.24, 2014–15: *Managing Assets and Contracts at Parliament House*, discussed at paragraph 4.29.

Figure 3.1: DPS' contract management IT system, April 2016



Source: DPS, *End-to-end Process Map*, received May 2016.

3.11 The ANAO reviewed key controls in the new system³⁵ and found that the process is compliant with the Commonwealth Resource Management Framework. The new system also supports:

- contract budget and commitment reporting; and
- timely payments to vendors, as invoices can be tracked to the contract and relevant cost-centre.

3.12 This system is a significant upgrade to prior arrangements, where contract information was recorded in the department's Contract Management Register³⁶, that has been poorly maintained and associated with many of the weaknesses in DPS' contracting functions (Box 1). Specifically, the Contract Management Register provided little by way of controls of the department's contracts, or reliable information for reporting purposes, including for monitoring staff contract management performance.

35 The ANAO: reviewed DPS' Legacy System for managing contracts (the Contract Management Register); performed a walk-through of common contracting scenarios; and tested key controls.

36 DPS' Contract Management Register was developed on an Access data base around 10 years ago, with all contract information manually entered. The system is 'stand alone' in that it is not linked to DPS' financial systems. From April 2016, no new procurements will be managed in the Contract Management Register.

Box 1: Weaknesses associated with DPS' Contract Management Register

- (a) Non-compliant procurement activities (such as Maverick buying, unauthorised spend);
- (b) Limited visibility of organisation-wide procurement spend against budget and lack of commitment reporting capability;
- (c) Lack of user awareness of what contracts are in place at DPS for what products/services;
- (d) Multiple levels of paper approval required at different points in the process, paper audit trail;
- (e) Disparate processes for contract creation;
- (f) Contracts are created based on one division's requirements, but then drawn down by other divisions;
- (g) Delayed payment of vendors due to delays in process; and
- (h) Incorrect account coding of purchases.

Source: DPS, Manage Procurement–Summary Document (Procure to Pay Solution), Version 0.7, 16 July 2015, p. 5.

Contract reporting

3.13 DPS has developed additional reporting capability in excess of the more than 100 standard reports available in the system, and now has visibility of the status of contracts, vendor information and contracting costs and payments. The effectiveness of DPS' contract management will still rely on staff developing documentation (contract management plans for example) and records management practices, but the department is well positioned to track and report on performance. This reporting capability will support the implementation of quality assurance measures for contracting activities. For example, DPS could examine all the 'approvals' made by a particular delegate to assess that all the required documentation was available and had been completed before the delegation was exercised.

4. Managing retail services

Areas examined

This chapter examines the Department of Parliamentary Services' (DPS') management of press gallery and retail services, including catering services, in Parliament House.

Conclusion

DPS has reviewed and renewed press gallery licences in Parliament House, but has not developed a strategy for the retail service areas of the building. DPS is developing a new model for the delivery of catering services to take effect when the current catering contract expires in December 2016, but has not developed a business case to demonstrate how it will improve the standard of catering or deliver value for money.

Areas for improvement

The ANAO has identified scope for DPS to more fully consider the *Australian Government Charging Framework July 2015* when developing a new catering model (paragraph 4.22).

Does DPS have a strategy for the delivery of retail services at Parliament House?

DPS does not have a strategy for the delivery of retail services in Parliament House. DPS commissioned the development of a retail strategy in late 2015, with the final report delivered to the department in January 2016. As at July 2016, the department had not finalised its consideration of the report or prepared a briefing on a proposed retail strategy for the Presiding Officers. Consequently DPS' arrangements with retail licence holders remain on a month-to-month basis. DPS has reviewed and renewed press gallery licences at Parliament House.

4.1 Retail services at Parliament House are delivered under a contract or licensing arrangement with external providers, or are managed in-house by DPS staff. The services are provided for visitors to the public areas of Parliament House, or for pass holders to the private areas of the building. The retail services and the service arrangements as at June 2016 are set out in Table 4.1.

Table 4.1: Retail services at Parliament House, June 2016

	Catering	Public	Private	Service arrangement	Arrangement status
Queen's Terrace Cafe	✓	✓		Contract	Current contract expires 31 December 2016. Service provider informed that DPS will not be exercising the five year extension option available in the contract.
Staff Dining Room	✓		✓		
Members' & Guests' Dining Room	✓		✓		
Members' Club	✓		✓		
Room service catering	✓		✓		
Event catering	✓	✓	✓		
Committee catering	✓		✓		
Special Suite catering	✓		✓		
Coffee Cart	✓		✓		
Vending machines	✓		✓		
Aussie's Cafe	✓		✓	Licence Agreement	Expired March 2015— month-to-month arrangement
Travel Agent			✓	Licence Agreement	Current to February 2017
Child care centre			✓	Licence Agreement	Current to January 2018
Bank			✓	Licence Agreement	Current to December 2019
Hairdresser			✓	Licence Agreement	Expired July 2013—occupation continues under terms of licence
Physiotherapy			✓	Licence Agreement	Expired June 2014—occupation continues under terms of licence
Postal Services		✓	✓	MoU	Expired June 2014—occupation continues under terms of agreement
Gift shop		✓	✓	DPS	In-house management
Gymnasium			✓	DPS	In-house management

Source: DPS.

4.2 DPS also manages licence arrangements with 26 press galleries located in Parliament House. The majority of these licences were extended in December 2014 through a five year option to 31 December 2019, with further negotiations with 22 licensees over 2015 and 2016 to incorporate revised costs, following reviews of the retail occupancy areas and commercial rental and utility rates.³⁷ As at September 2016, 26 press gallery licences had been executed—25 had a licence until 31 December 2019, and one had a licence to 31 December 2017.

4.3 In January 2016 DPS received the final reports of two consultancies it commissioned from the Maytrix Group in October 2015 in relation to the development of retail and food strategies:

37 The reviews were the: *Parliament House Press Gallery and Car Parking*, 7 November 2014; and *Audit of Press Gallery and Retail Service Areas*, 24 June 2015. The reviews conducted an audit of the available floor space and rental values of the retail and car parking areas.

- *Australian Parliament House Retail Strategy, 14 January 2016*, to provide guidance on the most appropriate framework to address the service needs of the staff and visitors of Parliament House; and
- *Australian Parliament House Food Strategy, 15 January 2016*, to provide guidance on the most appropriate framework to provide food and beverage services at Parliament House.

4.4 In commissioning the reviews, the department's original intent was that the food strategy would form part of the broader retail strategy, that would be delivered at a later date and incorporate the food strategy. However, the retail strategy report stated that it was developed 'in parallel with the development of a *Food and Beverage Strategy* which will simultaneously address both the public and private food and beverage service offering'.³⁸

4.5 The retail strategy report identified an opportunity to create three distinct retail zones: public, private and 'health and wellbeing'. A stakeholder needs analysis indicated that a small number of retail services available at the time no longer required a physical onsite presence, namely: travel, groceries, florist (surrendered the licence at Parliament House on 2 October 2015) and banking. As at June 2016, the department has yet to respond to the recommendations in the retail strategy report. The report has been finalised, but DPS advised that 'a brief setting out the implementation plan for the strategy is in preparation and will be provided to the Presiding Officers as soon as practical'. DPS advised on 7 September 2016 that the brief has been prepared.

Does DPS have a strategy for the provision of food services at Parliament House?

DPS has considered and rejected recommendations in a *Food Strategy* report it commissioned to provide guidance on the most appropriate framework to provide food and beverage services at Parliament House. The department has informed the existing catering provider that the contract will not be extended in its current form, and is exploring alternative arrangements (including some element of in-house catering services), aiming to improve standards of catering. However, there has not been a strong evidence base underpinning the consideration of these options. In particular, DPS has not developed a business case to show how different arrangements would achieve improved catering standards and represent value for money.

4.6 The consultant's report, the *Australian Parliament House Food Strategy, 15 January 2016* discusses four options for the provision of catering services³⁹ at Parliament House; and makes 17 key recommendations including that DPS:

³⁸ *Australian Parliament House Retail Strategy*, January 2016, p. 8.

³⁹ The four options were:

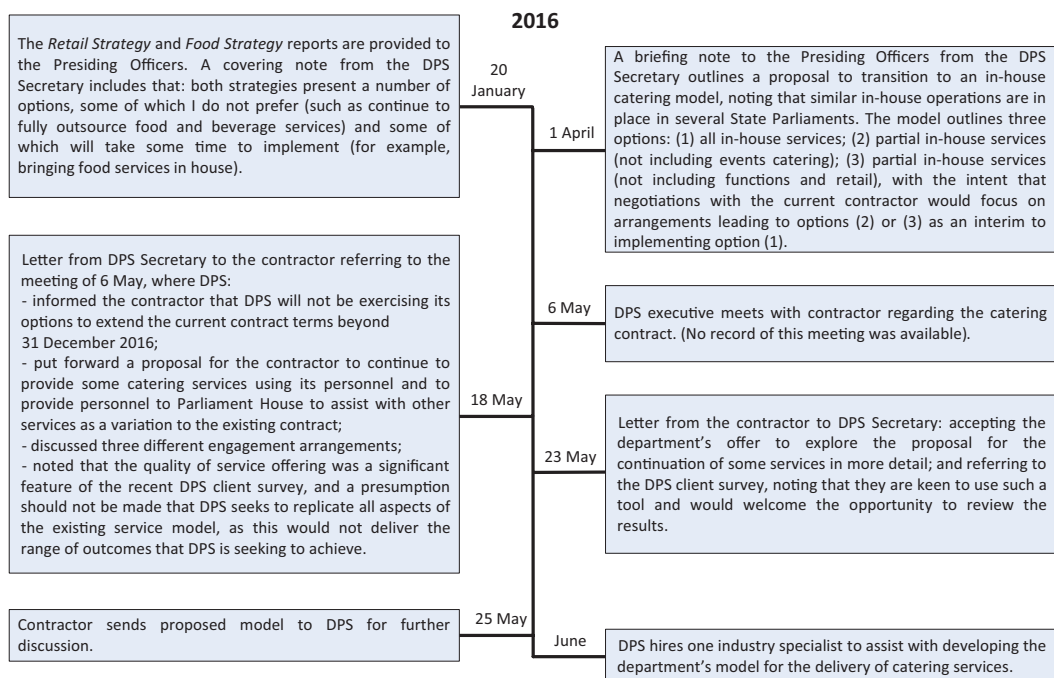
- outsource all food services (single contract);
- deliver member services in-house, outsource all retail food services and function operations (as single or multiple contracts);
- deliver member services in-house, outsource some retail services, and all function operations, licensing, Aussies and other commercial food service operations under a separate contract; and
- operate all food services in-house.

- continue with an out-sourced model (noting that some services to members of parliament may be effectively managed in-house, however there are risks in doing this in the short term); and
- for member services, adopt a three year contract term to allow for an in-house model to be fully developed.

4.7 DPS advised that it did not agree with the consultants' recommendations in the strategy, stating that the report demonstrated limited understanding of the unique nature and drivers of DPS services.

4.8 DPS is subsequently considering a number of options for delivering catering services at Parliament House, including various models of in-house service provision. DPS advised the ANAO in June 2016 that it had made no decision on the future model for providing catering services, other than not extending the existing provider's contract in its current form, when it expires on 31 December 2016. However, there are strong indications of the department's intention to transition to in-house delivery, as shown in Figure 4.1.

Figure 4.1: DPS steps leading to the development of a new catering model, January to June 2016



Source: ANAO analysis of DPS documents.

4.9 As at June 2016, the department is progressing negotiations with the contractor with regard to which services (if any) it may continue to deliver from 1 January 2017; and developing DPS' in-house capacity to deliver food and beverage services. The department advised that the decision

to progress an in-house, or partial in-house model for the provision of catering services is based on the premise that such a model will result in improved standards of catering, but DPS has not:

- developed a business case, or analysed how any of the three delivery options (contained in Figure 4.1) will achieve improved standards of catering and represent value for money, referring largely to the success of in-house catering services in State Parliament Houses⁴⁰;
- conducted sufficient monitoring and evaluation of the catering contractor’s performance under existing contract arrangements to inform a decision to move away from a fully outsourced model⁴¹; or
- considered the costs of any new model, and whether or not it expects to make a profit from the arrangement, achieve a cost neutral position, or absorb a loss. As at July 2016 the department has not provided a briefing on the scope and costs involved in the transition⁴².

4.10 As addressed in Recommendation 1 of this report, it is important that DPS allows sufficient time to fully assess options for the ongoing provision of a service or services, such as food and beverage services.

Comparison of catering services at Parliament House and State Parliaments

4.11 DPS advised that information about catering in State Parliaments has been gained through relationships with staff in the equivalent state departments (these were informal discussions and no record was available); and from background research provided in the *Food Strategy* report.

4.12 The *Food Strategy* report noted the differences in the ‘market’ for food and beverage between State Parliament Houses and the Australian Parliament House, including the variances in the building populations during sitting periods (Table 4.2). The report considered that State Parliaments have adopted in-house service models that provide flexible, quality-focussed offerings to key internal stakeholders, made possible by the limited number of services, lower building population and relative simplicity of the operating environment when compared to the Australian Parliament House.

Table 4.2: Variance in building population: sitting and non-sitting periods

Venue Occupancy	Australian Parliament House	NSW	Vic	WA
Sitting	3978	2000	2000	495
Non-sitting	2503	400	180	190
Variance (%)	-37	-80	-91	-62

Source: *Australian Parliament House Food Strategy*, 15 January 2016, p. 21.

40 Reference to the ‘success’ of in-house catering in State Parliament Houses is DPS’ own assessment. The ANAO did not assess catering in State Parliament Houses.

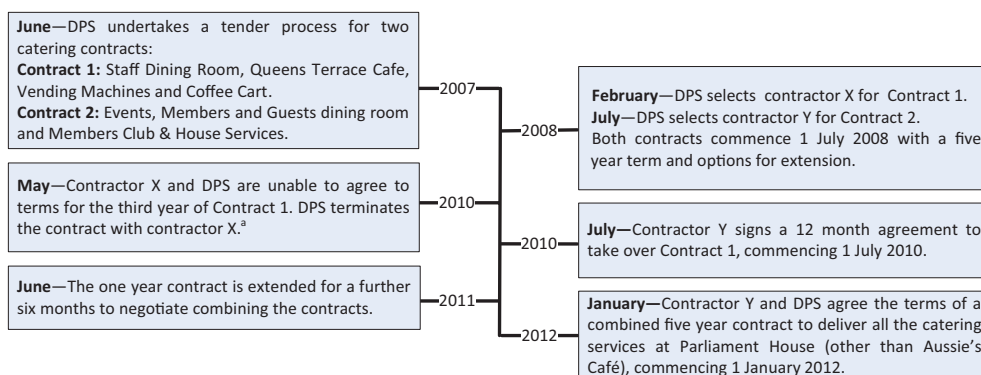
41 ANAO Report No. 24, 2014–15, *Managing Assets and Contracts at Parliament House*, p. 102 noted in a case study example the need for a greater focus on performance measures and a strategic approach to continuous improvement of services, given the length and complexity of the catering contract.

42 The DPS briefing note of 1 April (see Figure 4.1) includes that ‘further briefing will be provided following a detailed consideration of the scope and costs involved in this transition’.

DPS' monitoring of the performance of the catering contractor at Parliament House

4.13 Contract arrangements for the provision of catering services at Parliament House since 2007, are shown in Figure 4.2.

Figure 4.2: Contract arrangements for the provision of catering services at Parliament House, 2007 to 2012



Note a: Costs associated with contractor X's exit in 2010 included: legal fees of \$40 846; investigatory services of \$30 700; and \$350 510 for items payable by DPS under the terms of the contract. *Senate Finance and Public Administration Legislation Committee—Additional Estimates Hearing—24 February 2014* (Question on Notice No.136, Hansard, p. 22).

Source: ANAO analysis

4.14 Terms of the catering contract include that: the contractor pays the department a percentage of the total revenue as a Licence Fee; and DPS pays the contractor an Annual Management Fee.⁴³ The Performance Management Framework for the current (combined) catering contract consists of two components:

- an 'at risk' portion of the Annual Management Fee (discussed below) can be withheld where one or more key performance indicators (KPIs) are not met⁴⁴; and
- a financial incentive system tied to improved revenue and KPI outcomes.

Over the course of the contract, \$2640 has been withheld from the Annual Management Fee (related to health and safety issues in 2014) and no financial incentives have been paid.

4.15 Performance measures for the standard of catering provided are included under the KPI 'operations', where 30 per cent of the 'at risk' portion of the Annual Management Fee is subject to the results of a *Mystery Shopper* survey to assess *Quality Assurance / Customer Service / Product Delivery Monitoring* of the contracted services. As at June 2016, the *Mystery Shopper* surveys had

43 The Annual Management Fee covers the delivery of services, including contractor facilitation of up to 220 parliamentary funded events per year (plus 0.1 per cent of the fee for each event in excess of the cap).

44 The catering contract has four KPIs relating to: health and safety; operations; financial sustainability; and site sustainability.

not been implemented. The contract also refers to the service provider responding to ‘customer feedback’ but there are no KPIs as to how this should be managed.

4.16 Departmental KPIs include a target of 75 per cent stakeholder satisfaction rating with building services, including catering services. Overall results of the catering component of a Building Occupants survey, conducted in April 2016 (Table 4.3), show that the overall target for catering was achieved.

Table 4.3: Results of catering satisfaction survey, April 2016

	Very satisfied %	Satisfied %	Neither satisfied nor dissatisfied %	Dissatisfied %	Very dissatisfied %	Response Count %	Achieved target? %
Staff Dining Room	5.2	34.3	21.6	26.5	12.4	501	No
Queen’s Terrace Cafe	5.0	40.5	30.5	17.5	6.5	383	Yes
Coffee Cart	20.3	50.0	20.9	6.2	2.5	354	Yes
Catering	15.4	42.5	26.6	7.5	7.9	214	Yes
Overall	75.8			24.2		1452	Yes

Source: DPS, *Building Occupants Survey: Catering*.

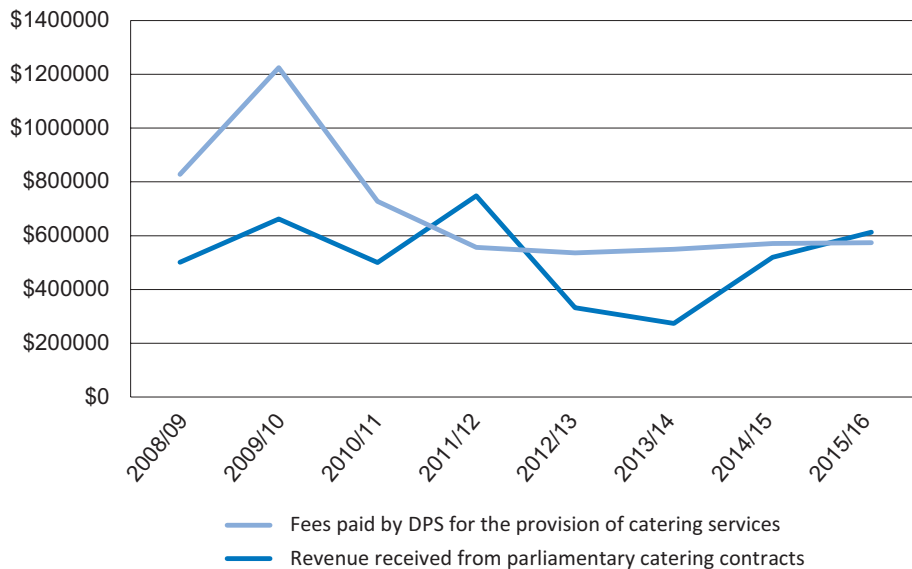
4.17 Irrespective of the results of the survey, the corporate KPI is not linked to the catering contract. DPS acknowledged in March 2015 that the department had not implemented appropriate customer feedback mechanisms that could be relied upon for managing contractor performance, specifically customer satisfaction with the standard of catering. DPS has collected customer feedback comments, many of which are critical of the catering services, but has not undertaken analysis of these comments and used them systematically to improve contractor performance. In effect, DPS is critical of the standard of catering provided under the contract, but, prior to critical findings in the previous ANAO audit, could have more actively managed the contractor performance throughout the term of the arrangement, including that the DPS position of contract manager (catering) was vacant for significant periods in 2013 and 2014.

4.18 Since early 2015, DPS has more actively managed the catering contract, including providing timely and constructive feedback to, and building relationships with, the contractor’s senior management, and holding fortnightly performance reviews. In August 2015, the contractor appointed a new manager for the Parliament House contract, who undertook a review of (contractor) operations in August and worked through the recommendations of the review in the summer months of 2015–16. DPS received positive customer feedback in relation to three events held between May 2015 and January 2016 that the quality of food and beverage was improving.⁴⁵

Costs of catering models

4.19 The Annual Management Fee(s) paid to the contractor(s) and revenue received by DPS for the period 2008–09 to March 2016 are set out in Figure 4.3.

⁴⁵ DPS, Additional Senates Estimates briefing, February 2016.

Figure 4.3: Licence fees and management fees: 2008–09 to March 2016

Source: DPS Additional Senates Estimates briefing, 28 January 2016.

4.20 The data reflects: the combining of two contracts in early 2012 (and consequently only one Annual Management Fee); reducing DPS costs from a maximum of approximately \$1.19 million per annum to around \$600 000; and progress towards the arrangements ‘finally achieving their cost neutral target objective’. Departmental predictions at January 2016 were that the contractor’s profit would continue to grow, further increasing DPS’ profit should the contract continue.

4.21 DPS could not provide any background as to: the basis for formulating the Annual Management Fee / Licencing Revenue arrangements in the contract although the matter has been raised at various senate meetings⁴⁶; or, as part of the current negotiations, how the department has considered value for money⁴⁷ and expects to make a profit / achieve cost neutrality / or is willing to absorb a loss (irrespective of the service delivery model adopted). DPS advised the ANAO that:

46 Hansard, *Senate Finance and Public Administration Legislation Committee—Additional Estimates Hearing*, 24 February 2014. The (then) DPS Secretary stated that: ‘the catering organisations who have been contracted for both the event and the dining and public area catering have traditionally received some form of subsidy. The current arrangement, which was entered into at the beginning of 2012, turned the model from a direct subsidy to a management fee’.

Hansard, *Senate Finance and Public Administration Legislation Committee hearing into the performance of the Department of Parliamentary Services*, 17 November 2014. The (then) DPS Secretary stated that DPS had a new catering contract ‘which it might be said was not commercially in the interests of DPS or in the interests of the Parliament. It traded off to the contractor significant financial benefits that might normally accrue to the building owner’.

47 Department of Finance: *Buying for the Australian Government, achieving value for money*. Available from: <http://www.finance.gov.au/procurement/procurement-policy-and-guidance/commonwealth-procurement-rules/cprs-value-for-money.html> [accessed 21 June 2016].

Decisions about catering in Parliament House were never going to be driven by a cost benefit analysis, and that the key driver is to improve the quality of food and services offered to Senators, Members and building occupants.

4.22 The department has also not fully considered the *Australian Government Charging Framework July 2015*⁴⁸, and how it may apply to a new catering model, given that the department is charging the non-government sector (that is, members of the public, and parliamentarians and public servants working in Parliament House, in their capacity as private individuals). An overview of the Charging Framework is set out in Box 2. Of particular relevance is how the DPS catering model satisfies the charging principles of efficiency and equity.

Box 2: The Australian Government Charging Framework

The Australian Government Charging Framework (the Framework) commenced on 1 July 2015 and the Government decision stated that the Framework will apply to all entities in the general government sector. The Framework applies to all charging activity where the Australian Government charges the non-government sector. Charging activities include regulatory, resource and commercial charging activities.

The practical application of the Framework requires the entity to consider the:

- charging policy statement—which provides that where an individual or organisation creates the demand for a government activity they should generally be charged for that activity, unless the government has decided to fund the activities;
- charging considerations—which includes broader policy considerations of contestability and whether government should be involved in the activity, and if so how should it be involved; and
- charging principles—including whether the services are being provided efficiently and the charges are equitable.

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



Grant Hehir
Auditor-General

Canberra ACT
27 September 2016

48 Department of Finance, <https://www.finance.gov.au/resource-management/charging-framework/> [accessed 22 June 2016].

Appendices

Appendix 1 Entity response



PARLIAMENT OF AUSTRALIA
DEPARTMENT OF PARLIAMENTARY SERVICES

DPS ref: 16/3061/37

Ms Michelle Kelly
Group Executive Director
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Ms Kelly

Re: Proposed Audit Report on *Managing Contracts at Parliament House*

Thank you for your correspondence of 11 August 2016, and subsequent email of 9 September 2016, seeking comment from the department on the proposed audit report on *Managing Contracts at Parliament House*. In accordance with section 19 of the *Auditor-General Act 1997*, please find enclosed the department's response to the report.

I acknowledge the findings in the report, noting the DPS executive management team are focussed on delivering improved service outcomes, and also rebuilding the morale of a workforce that has faced repeated adverse criticism for some years.

We welcome that the report acknowledges that substantive and significant improvements have been made to the department's management of contracts. We also welcome the many constructive comments that the ANAO has made in relation to opportunities for improvement which relate to the original scope of the audit. A summary response for inclusion on the body of the report is at [Attachment A](#).

The department agrees with the assessment of our progress against recommendations three to six of the original audit, and of our progress against the two relevant recommendations of the Senate Finance and Public Administration Legislation Committee inquiry of 2015.

We are in partial agreement with the new recommendation that has resulted as a direct result of this follow-on audit, in particular that more can be done to improve management of contracts, including strategic management of these arrangements.

However, we disagree that contestability of non-corporate in-house services should be a priority for the department, given we are part-way through ensuring staff who are responsible for procurement and managing contracts are adequately equipped from a capability perspective to undertake this task. I note that the non-corporate services currently provided in-house by DPS would include:

- library and research services
- information and communication technology services
- security services
- building, grounds and design intent services
- audio visual and Hansard services
- art services, and
- visitor services.

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We believe that it would be reckless of DPS to undertake a program of assessing current (and effective) in-house services for potential out-sourcing when it is building capability to deliver the current outsourced services better (consistent with the finding of the 2015 ANAO Report). Nevertheless, DPS will work with Department of Finance on the applicability of the Contestability Framework where appropriate. Our response to this recommendation is provided at [Attachment B](#).

Some additional points of information, as requested by you, are included at [Attachment C](#).

Thank you for the opportunity to comment on the proposed report. The report's recommendation will benefit DPS' current and future management of contracts through a continuing program of continuous improvement and focus on this function that is central to our purpose.

Yours sincerely



Rob Stefanic
Secretary

14 September 2016

Enclosures:

- A. Agency summary response
- B. Response to Recommendation
- C. Responses to Requests for Information

Appendix 2 DPS' implementation of recommendations

Recommendations of the previous ANAO audit

Recommendation No. 3

To improve its overall contract management and reporting capability, the ANAO recommends the Department of Parliamentary Services:

- a) Reviews contract management policies and procedures to determine whether they are current and accessible to staff;
- b) Develops a suitable training program for contract managers and monitors its implementation to maintain capability levels and inform future development needs; and
- c) Strengthens and aligns systems and processes, to better support compliance, transparency and reporting of contract activities.

ANAO review of DPS' progress in responding to the recommendation

- a) **Implemented.** DPS has developed a suite of contract management policies and procedures, available to staff from April 2015.
- b) **Implemented.** DPS developed a *Procurement Policy, Guidance and Training Plan* in response to the identified training need and developed new material as areas of further training needs were identified.
- c) **Implemented.** DPS new contract management system became fully operational in April 2016. The system delivers controls of the procurement and contract management process, and provides a reporting capability that will deliver information for operational and management functions.

Recommendation No. 4

To strengthen contract management arrangements, the ANAO recommends that the Department of Parliamentary services:

- a) Implements consistent processes and practices for developing business cases, value for money assessments, contract management plans, and end-of-contract evaluation and reporting;
- b) Includes appropriate key performance indicators and tailored reporting requirements in contracts to assist the department to assess performance and determine value for money outcomes; and
- c) Improves record keeping to provide appropriate transparency over key decisions underpinning procurement options and contract terms and conditions.

ANAO review of DPS' progress in responding to the recommendation

- a) and b) **Partially implemented.** DPS has developed contract management guidance that will support consistent processes and practice, including the development and monitoring of contract key performance indicators, provided staff refer to and use the guidance material available. Improved contracting controls and reporting capacity with the implementation of a contract management system will provide the department with much improved visibility of contracting activities. Testing for the audit, which preceded the implementation of the contract management system, identified some inconsistent practices included in contract planning, risk planning and monitoring contractor performance.
- c) **Not tested.** DPS' documentation in relation to procurement and contract terms and conditions, from April 2016, is managed through the newly introduced Procure-to-Pay system. That system had not been in place long enough to assess the results and there was little point in assessing record keeping through the prevailing records management system.

Recommendation No.5

To strengthen the management of retail licences, the ANAO recommends that the Department of Parliamentary Services develops a retail strategy and operational plan that clarifies priorities for revenue generating opportunities and establishes a clearer basis for monitoring retailer performance.

ANAO review of DPS' progress in responding to the recommendation

Partially implemented. DPS has commissioned the development of a retail strategy but has not considered the strategy or developed an operational plan for the management of retail licences in Parliament House. The majority of licences maintained on a month-to-month basis. DPS has not accepted the recommendations in a *Food Strategy* (that was intended to be part of the broader *Retail Strategy*) and is developing a new model of service provision to take effect from 1 January 2017.

Recommendation No. 6

To strengthen the monitoring and reporting framework, the ANAO recommends that the Department of Parliamentary Services:

- a) aligns performance monitoring and reporting in key accountability documents, such as between the Portfolio Budget Statements and the department's corporate plan; and
- b) develops and reports against appropriate performance measures for key activities such as asset and contract management.

ANAO review of DPS response to the recommendation

Implemented. The department has reviewed and aligned performance monitoring and reporting in key corporate documents. As many services are delivered under contract, the key performance indicators do reflect the effectiveness of contracts.

DPS' implementation of Senate Finance and Public Administration Legislation Committee Recommendations

Recommendations in the Senate Finance and Public Administration Legislation Committee September 2015 report relating to contract management

Recommendation 5, that the ANAO undertake a follow-up audit of DPS' contract management in 2016. **Implemented.**

Recommendation 6, that DPS conducts an internal audit of contracts put in place in 2015 and provides a report to the Committee by 1 February 2016. **Implemented.**

