



REPORT OF THE  
STANDING COMMITTEE ON PUBLIC ADMINISTRATION  
IN RELATION TO THE  
**GOVERNMENT DOMESTIC AIR TRAVEL  
AND  
ASSOCIATED RESERVATIONS CONTRACT (“DATC”)**

Presented by the Hon Kim Chance MLC (Chairman)

## **STANDING COMMITTEE ON PUBLIC ADMINISTRATION**

### **Date first appointed:**

7 November 1996

### **Members of the Committee as at the date of this report**

Hon Kim Chance MLC (Chair)  
Hon Barbara Scott MLC (Deputy Chair)  
Hon Cheryl Davenport MLC  
Hon Helen Hodgson MLC  
Hon Barry House MLC  
Hon Dexter Davies MLC

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### **Terms of Reference**

See Appendix 1

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**Report of the Legislative Council  
Standing Committee on Public Administration**

**in relation to the**

**Government Domestic Air Travel  
and  
Associated Reservations Contract (“DATC”)**

**1 Introduction**

- 1.1 As a result of its ongoing enquiries into contracting out and outsourcing, the Standing Committee on Public Administration (“Committee”) is concerned with the impact of the contracting and contracting out processes adopted by government. As part of its brief, the Committee has had cause to review the impact of the contracting of government domestic air travel services as a result of a submission from the Hon Tom Stephens MLC.<sup>1</sup>
- 1.2 In his submission Mr Stephens indicated that some of his constituents who ran travel businesses had raised serious concerns about the impact of the Government Domestic Air Travel and Associated Reservations Contract (“DATC”) on the viability of their business. Mr Stephens noted that many small general country businesses or stores often provide a travel agency service to local residents and the viability of those businesses often depends upon the flow of government bookings. In addition Mr Stephens raised concerns about a reduction in quality of service.<sup>2</sup>
- 1.3 The DATC was awarded through an open tender process by the Government to Business Travel International (“BTI”) and American Express International (“Amex”). The DATC is a mandatory common use contract which commenced on 13 October 1997 and is valid until 12 October 1998 with a further four one year options. The implementation of the DATC is subject to a number of State Supply Commission policies which are discussed later in this report.
- 1.3.1 Prior to embarking on an inquiry the Committee resolved to canvass regional travel businesses to obtain an indication of what effect, if any, the DATC has had on regional travel agents and businesses that offer domestic air travel booking and ticketing services.<sup>3</sup>
- 1.4 In this report the Committee has noted the role and functions of the State Supply

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<sup>1</sup> Letter from the Hon Tom Stephens MLC to the Chairman, Standing Committee on Public Administration dated 16 December 1997.

<sup>2</sup> Ibid.

<sup>3</sup> Results of the survey are noted in section 6 of this report.

Commission, the Department of Contract and Management Services and government agencies when developing and implementing administrative practices and policies in respect of government contracts, in particular the DATC.

- 1.5 The Committee has not undertaken a detailed enquiry into the contract tendering and selection processes of government and the practical implementation of those contracts by government agencies. Instead the Committee reports generally on the DATC to raise consciousness about the government contracting process, the implementation of contracts by government agencies and the possible impact of administrative practices and policies of government agencies on regional business.
- 1.6 The Committee wishes to acknowledge and thank the Hon Mr Murray Criddle MLC for his participation in the Committee's enquiries into the DATC from the time of the enquiry's inception until Mr Criddle's resignation as a member of the Committee on 29 July 1998 following his appointment as Minister for Transport.
- 1.7 The Committee also wishes to acknowledge the assistance of the State Supply Commission and the Department of Contract and Management Services.

## **2 Background**

### **2.1 The State Supply Commission and Department of Contract and Management Services**

2.1.1 The State Supply Commission ("Commission") is responsible for public sector purchasing and for arranging the supply of goods and services under the *State Supply Commission Act 1991*. On 1 July 1996, the Commission delegated the arrangement of common-use contracts to the Department of Contract and Management Services ("CAMS").<sup>4</sup>

2.1.2 As a result of this delegation, the Commission is responsible for developing, and ensuring compliance with, supply policy and CAMS is responsible for implementing supply policy when arranging common use contracts.<sup>5</sup>

### **2.2 Common-Use Contracts**

2.2.1 The Commission is also responsible for policy provisions concerning common-use contracts ("CUC") (also referred to as "whole-of-government contracts"). Apart from the DATC there are approximately 60 other CUCs.<sup>6</sup>

2.2.2 The Committee notes that the current CUC policy (entitled *1.2 Supply of Goods and Services*) has mandatory application for public authorities, stating that

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<sup>4</sup> Letter from Mr Charles Vinci, Acting Chief Executive Officer, State Supply Commission to the Chairman, Standing Committee on Public Administration dated 15 July 1998.

<sup>5</sup> Ibid

<sup>6</sup> Ibid

*“Where a Common Use Contract for the supply of goods and services has been established by the Commission, a public authority requiring such goods or services shall purchase against the contract. A public authority not wishing to purchase against an available Common Use Contract shall obtain the approval of the Commission in writing to purchase outside the contract”.<sup>7</sup>*

2.2.3 As part of a National Competition Policy review of all Commission policies, the CUC policy has recently been reviewed by the Commission.<sup>8</sup>

2.2.4 Because the CUC policy has mandatory application for public authorities, the Commission has given specific attention to the anti-competitive issues addressed in the Competition Policy Principles Agreement and Part IV of the Trade Practices Act 1974.<sup>9</sup>

2.2.5 The Committee has not examined the review of the CUC policy however notes that the outcome of the review recommends the following approach to CUCs<sup>10</sup>:

- A CUC can either be mandatory or non-mandatory. Mandatory status is determined on a case-by-case basis by CAMS, in consultation with relevant public authorities and industry groups, and is based on the following key issues:
  - ▶ Will the CUC bring substantial savings and efficiencies to Government;
  - ▶ Will the benefit of the CUC outweigh the cost of reduced competition within markets for the goods or services concerned and the cost of compliance across Government; and
  - ▶ Will the CUC breach the National Competition Policy Principles Agreement and/or Part IV of the Trade Practices Act 1974.
- In effect, this requires that each mandatory CUC demonstrate public benefit under the following principles:
  - ▶ The benefits of the restriction to the community as a whole outweigh the costs; and

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<sup>7</sup> State Supply Commission Policy 1.2 “*Supply of Goods and Services*” gazetted 25 August 1995.

<sup>8</sup> Letter from Mr Charles Vinci, Acting Chief Executive Officer, State Supply Commission to the Chairman, Standing Committee on Public Administration dated 15 July 1998.

<sup>9</sup> Part IV of the Trade Practices Act prohibits certain practices which result in a restraint of trade.

<sup>10</sup> Letter from Mr Charles Vinci, Acting Chief Executive Officer, State Supply Commission to the Chairman, Standing Committee on Public Administration dated 15 July 1998.

- ▶ The objectives of the arrangement can only be achieved by restricting competition.

2.2.6 As a result of the review, the Commission is now proposing an amended policy to govern the future of CUCs.<sup>11</sup>

2.2.7 The current DATC commenced prior to this review. However the mandatory CUC policy (Policy 1.2) does not prevent the application of provisions within the Regional Buying Compact (“Compact”). In essence the Compact grants authority to government agencies to buy locally up to the value of \$50,000 per line item even where a CUC exists. The Compact is discussed in more detail at section 3 of this report. The application of the Compact is expressly preserved by the inclusion of a clause in the DATC.<sup>12</sup>

## 2.3 State Supply Commission Policies

2.3.1 Section 28 of the State Supply Commission Act 1991 enables the Commission to issue supply policies that relate to the supply of goods, provision of services and disposal of goods. In accordance with s.17 of that Act all public authorities are required to adhere to supply policies established by the Commission. Where necessary guidelines are provided to assist in the implementation of these policies however the guidelines are not prescriptive and can be varied at the discretion of a public authority’s Accountable Officer or Accountable Authority.

2.3.2 The Commission has produced a set of supply policies which provide a framework for the State’s supply operations. The framework aims to ensure that government purchasing will be conducted with attention to probity and equity, enhancement of the local economy and protection of the environment.<sup>13</sup>

2.3.3 Of particular interest to the Committee, in the context of the DATC, were Commission policies relating to:

- Supply of Goods and Services (Policy 1.2);
- Value for Money (Policy 1.9);
- Pre and Post Tender Briefings (Policy 3.6);
- Regional Buying Policy (Policy 3.6 (now revoked and replaced with the Regional Buying Compact));
- Buy Local (Policy 3.8); and
- Buy Australian (Policy 6.1).

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<sup>11</sup> Ibid.

<sup>12</sup> Ibid. For further discussion of this issue see section 4.3 of this report.

<sup>13</sup> State Supply Commission Policy Manual.

The Committee has also considered the provision of the “Buying Wisely” brochure issued by the Commission.<sup>14</sup>

- 2.3.4 The Committee notes that the policies direct agencies to consider the social implications of buying decisions and emphasise the objective of seeking value for money. In the words of Dr Paul Schapper, Executive Director, CAMS:

*“The State Supply Commission policies have some overarching principles, including the protection, extension and development of competition in the market. Frequently some attention is given to the disaggregation of contracts to allow small business not to be crowded out by the process. Similarly there are guidelines seeking to include regional suppliers rather than simply having the field dominated by large businesses. State Supply Commission policies, try to balance out - there is a compromise all round - the best value for money versus the need to protect small and regional businesses and to develop industry policy generally.”<sup>15</sup>*

### 3 Regional Buying Policies

- 3.1 At the time of the commencement of the DATC, a Commission supply policy entitled “*Regional Purchasing of Goods and Services*” (Policy 3.7) was in place. The policy required that “*Public authorities shall actively seek to enhance the level and range of goods and services sourced in regional areas as a means of promoting economic activity, employment opportunities and small business participation in the public sector supply process.*”
- 3.2 In conducting their purchasing activities public authorities were also required to comply with the Regional Purchasing Policy. In December 1997, soon after the commencement of the DATC, Policy 3.7 and the Regional Purchasing Policy were superseded and replaced with the Regional Buying Compact (“Compact”).
- 3.3 The main differences between the Compact and the Regional Purchasing policies are the introduction of increased margins and thresholds for regional purchases. This report considers the Compact.
- 3.4 The Compact:
- defines “services” or “provision of services” as any task, consultancy, work or advice to be performed or provided that is procured by a government agency. In the Committee’s view this applies to a domestic airline ticketing and reservations service;
  - grants authority to government agencies to buy locally, up to the value of

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<sup>14</sup> “*Buying Wisely - A Policy on Government Buying*”, Government of Western Australia, September 1996.

<sup>15</sup> *Evidence*, Dr Paul Schapper, Executive Director, CAMS, p 3.



\$50,000 per line item, even where a CUC exists.<sup>16</sup> Quotations need to be called and the purchase should represent "value for money";

- provides that, when considering "value for money":
  - ▶ a 10% price preference (to a maximum of \$50,000) applies to goods and services sourced and used in the prescribed distance. In this respect the Committee notes that the "services" that are required to be "sourced and used in the prescribed distance" is a domestic air travel ticketing and reservation service that can be sourced and is used locally; and
  - ▶ buying decisions should be based on, amongst other things, quality, service standards, timely delivery, benefits, risks and social impact;
- requires that government agencies ensure that the social impact and consequences of buying decisions are explored and assessed in each buying decision, including:
  - ▶ the impact of contract decisions on local businesses;
  - ▶ possible flow on effects to State or regional economies; and
  - ▶ any social ramifications for local communities;
- Chief executives of government agencies are accountable for the buying function in their agency and are expected to, amongst other things:
  - ▶ ensure that government policies are complied with and that they fully support local industries and regional economic development;
  - ▶ actively seek out opportunities for local industry when undertaking major buying in regional areas;
  - ▶ ensure that buying practices, procedures and specifications do not disadvantage local suppliers; and
  - ▶ promote a "Buy local" philosophy throughout the organisation.

3.5 The Committee notes that the Compact grants authority to, but does not require, local purchasing. The success or failure of the policies in the Compact therefore lies in the exercise of that discretion by the relevant government agency. This issue is addressed at section 5 of this report.

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<sup>16</sup> This discretion applies, provided that the common use contract has not been awarded to a regional supplier.

## 4 The Government Domestic Air Travel and Associated Reservations Contract

### 4.1 Background

4.1.1 Government travel was previously provided by the Government Travel Service until the late 1980s when an arrangement was concluded with Qantas. The Qantas arrangement ceased in 1994 and a mandatory whole of government contract was implemented with Ansett ("Ansett Contract"). Following the expiry of the Ansett Contract the mandatory whole of government DATC was awarded through an open tender process to Business Travel International ("BTI") and American Express International ("Amex"). The DATC commenced on 13 October 1997 and is valid until 12 October 1998 with a further four one year options.

### 4.2 Consultation and Implementation

4.2.1 The policy framework does not require that macroeconomic issues such as employment and regional impact on the State's economy are to be considered when evaluating tenders however almost invariably where that is a significant factor the relevant government department seeking the good or services, would want to evaluate that as part of the process. If there is a significant issue of that nature the relevant government department would only be expected to go forward with its proposals in close consultation with other departments who would be stakeholders in that process, such as the State regional authorities, the department of commerce and trade or even industry bodies.<sup>17</sup>

4.2.2 Public consultation conducted by CAMS in relation to the DATC included:

- extensive surveys whereby officers spoke to many government agencies in regional areas and throughout the metropolitan area to ascertain their views on what should happen;
- newspaper advertisements for pre tender briefings for industry. At such briefings any interested travel agent has the opportunity to put forward their view on the proposed strategy; and
- engaging an independent travel consultant to advise on how the industry was structured and how CAMS should look at different strategies.<sup>18</sup>

***Recommendation:***

4.2.3 ***The Committee acknowledges the consultation process adopted by CAMS, including the provision of an opportunity for industry participants to attend pre tender briefings, however proprietors of regional and remote businesses may not be able to attend such briefings. Accordingly the Committee recommends that government contracting decisions of this type should only be made after***

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<sup>17</sup> Evidence, Schapper, p.7.

<sup>18</sup> Evidence, Alderton, pp. 8-10.

*government has provided small business, local communities and key interest groups with the opportunity to comment on the proposal and the likely impact on their industry.*

- 4.2.4 The Committee notes that the DATC, however, still preserves the right for local businesses to participate. As stated by Mr Rod Alderton, Manager, Goods and Services Contracts, CAMS:

*“Under the previous contract which was with Ansett as I said earlier it was a mandated whole of government contract so every public servant was required to use it, there was no flexibility technically under that contract if anybody wanted to go outside of it. Under this contract a conscious decision was made to build the regional purchasing policy into the contract which provides scope for people in regional areas to use a local travel agent if they required, and that was not available under the previous contract.”<sup>19</sup>*

### 4.3 Relationship with Regional Buying Policies

- 4.3.1 The DATC does not preclude government travel consumers from using regional travel businesses. It is expressly subject to the Regional Buying Policy. Clause 5.3 of the DATC provides that: *“Notwithstanding subclauses 5.1 and 5.2<sup>20</sup>, Agencies located in regional areas shall have the choice of utilising local travel businesses for the provision of the Services and Additional Services in accordance with the Western Australia Government’s Regional Purchasing Policy.”* (Committee’s emphasis).
- 4.3.2 The Committee notes that government agencies are becoming more centralised although they may have regional outposts or representation. This centralisation may give rise to an issue as to whether or not an agency is “located in a regional area”. For example, the centrally located Education Department may have a small group of teachers located in a remote regional area who may be entitled to annual airfares to their suburban home. Although the flight originates in the remote regional area, the booking may be organised from Perth. The Committee examines this issue at section 5.3 of this report.
- 4.3.3 The Committee notes that the DATC does not provide a definition of “Regional Purchasing Policy”, which in any event has been superseded by the Compact. To avoid any potential confusion that the Compact does not apply, the Committee comments that it is preferable for clause 5.3 of the DATC to be amended to reflect the Compact and any modification or re-enactment or policy substituted for it.
- 4.3.4 The Committee does not consider that an examination of the terms and conditions

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<sup>19</sup> Ibid p. 8.

<sup>20</sup> Subclauses 5.1 and 5.2 relate to the use of the contract as between CAMS, the travel provider and government agencies.

of the DATC is within its terms of reference however it notes that the Commission and CAMS may wish to give consideration to amending clause 5.3 of the DATC to read:

*“Notwithstanding subclauses 5.1 and 5.2, Agencies located in regional areas shall have the choice of utilising local travel businesses for the provision of the Services and Additional Services in accordance with the Western Australia Government’s Regional Buying Compact and any modification or re-enactment or policy substituted for such Compact.”*  
(Amendments emphasised).

4.3.5 In conclusion the DATC requires that all government departments use BTI or Amex for domestic air travel save and except where the regional preference under the Compact can be applied. In theory therefore *“If you (the agency) want to use a local travel agent, you can get a quote from one or two agents. If you (the agency) are confident that represents value for money, you can go ahead”*<sup>21</sup>.

4.3.6 The Committee put this question to CAMS in the following manner:

“The CHAIRMAN: *There are two travel agents in Kununurra. One is BTI’s agent and, as such, benefits from the contractual arrangements that exist, and the other is independent. For this argument, let us say it is Wesfarmers. A department, for example, the Department of Education, which has frequent travel requirements, is free to go to Wesfarmers, the independent travel agent, to seek a competitive bid against the BTI agent.*

Mr HARVEY: *Yes.”*<sup>22</sup>

4.3.7 However, as previously noted, it appears to the Committee that in practice the situation is quite different and that this may be as a result of government agency practice directions. The Committee examines this issue below.

## **5 State Government Department Travel Practices**

### **5.1 Preliminary Enquiries**

5.1.1 At a whole of government level there is an instruction that all interstate travel is to be approved by individual Ministers. Government agencies also implement internal travel management guidelines.<sup>23</sup>

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<sup>21</sup> *Evidence*, Alderton, p.8

<sup>22</sup> *Evidence*, Mr Robert Harvey, Director, Government Contracts, CAMS, p. 8.

<sup>23</sup> Letter from Dr Paul Schapper, Executive Director, CAMS to the Chairman, Standing Committee on Public Administration dated 30 March 1998.

5.1.2 The Committee considers that the travel booking practices of government agencies may affect the impact of the DATC on regional travel business.

5.1.3 The “*Buyer’s Guide for the Domestic Air Travel Contract*” produced by CAMS states that:

*“American Express International (Amex) and Business Travel International (BTI) have been appointed to manage the Government’s domestic air travel requirements.*

*Under this arrangement government agencies were asked to nominate their preferred travel service manager and were then, as far as possible, allocated to their preferred travel service manager. The allocation was based upon BTI and Amex each receiving an approximately equal share by volume of the Government air travel business.*

*Each government agency has been advised of their travel services manager - Amex or BTI. It is expected that agencies will use their allocated travel service manager for a minimum of one year.”<sup>24</sup>*

5.1.4 The Committee notes that the Buyer’s Guide does not refer, in any way, to either the Compact or the proviso incorporated into clause 5.3 of the DATC which clause expressly preserves application of the Compact. The Committee is concerned that this omission could convey the impression that the Compact does not apply and the DATC is mandatory in all cases. Indeed in a letter to the Hon Mr Tom Stephens MLC the Minister for Education stated:

*“The Education Department was allocated to BTI who have negotiated significantly increased rebates from the airlines which will deliver increased savings especially on the competitive routes such as Broome, Karratha, Port Hedland and Kalgoorlie.*

*The Education Department is required to utilise BTI for all domestic travel as part of the whole of government contract. The Department anticipates a very positive outcome in terms of cost saving and the level of management reporting that will be received.”<sup>25</sup>*

5.1.5 The Committee notes that the Minister for Works; Services, the Hon Mr Mike Board MLA and representatives from the Commission and CAMS have conducted tours of the regional areas promoting the DATC and that CAMS has extensive representation in the regional areas and provides information to people in local districts about how they can and cannot use contracts.<sup>26</sup>

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<sup>24</sup> “*Buyers Guide for Domestic Air Travel and Associated Reservation Services*”, CAMS, p 2.

<sup>25</sup> Letter from the Minister for Education to the Hon Mr Tom Stephens MLC dated 4 December 1997.

<sup>26</sup> *Evidence*, Alderton, p.10.

**Recommendation:**

- 5.1.6 *Although the Compact makes it clear that the Chief Executive Officer is responsible for the conduct of their agency's buying function and compliance with Government policies, the Committee considers that it would be prudent for CAMS to remind agencies that the DATC is subject to the Compact. This can be achieved by including a reference to the Compact in documents issued to government agencies by CAMS and the Commission, for example, the Buyers Guide.*

**Finding:**

- 5.1.7 *Although the Committee has not enquired into the administrative practices and policies that may have been adopted by each government agency in respect of the DATC, the results of the Committee's survey of regional travel businesses indicate that many government agencies and their employees use either BTI or Amex and do not use regional travel businesses, even if the regional preferences under the Compact can be applied. The Committee believes that such practices may result from:*
- *agencies and/or their employees believing that the DATC is mandatory and the Compact does not apply; or*
  - *agencies exercising their discretion under the Compact and issuing departmental directions or adopting practices that preclude government travel consumers from using regional travel businesses.*

**5.2 Exercise of Discretion: Value for Money**

- 5.2.1 The Committee notes that each government agency has a discretion to apply the Compact to its regional purchases and in exercising this discretion many factors will be considered when determining "value for money".
- 5.2.2 All CUC developed prior to the release of the Commission's new policy on CUC (as discussed at section 2.2.5 of this report) were formed on the basis of "value for money" which incorporates a number of public benefit issues. With respect to the DATC the aggregation of business from agencies using the mandatory DATC and the use of the restricted number of travel agents to place government business provides community benefit through:
- reduced administrative costs to agencies;
  - access to discounts and increased rebates from airlines;
  - more informed selection of airfares to maximise use of discount fares; and
  - better information on government travel expenditure thus improving Government's negotiation base.<sup>27</sup>

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<sup>27</sup> Letter from Dr Paul Schapper, Executive Director, CAMS to the Chairman, Standing Committee on Public Administration dated 20 July 1998.

5.2.3 In essence the DATC was put in place to help reduce considerably the cost of government travel and to better manage the travel services provided<sup>28</sup>. It has also been stated that the DATC provides government agencies with the opportunity to achieve increased savings and more effective travel management with, for example, the ability to negotiate significantly increased rebates from the airlines which can deliver increased savings<sup>29</sup>.

5.2.4 Indeed CAMS has informed the Committee that:

*“At the end of the first year of the contract, overall savings are expected to be in the order of 21% against the industry standard of full fare compared to 18% under the previous contract. In addition the new contract has allowed greater access by regional businesses and facilitated increased competition between the carriers.”*<sup>30</sup>

5.2.5 Further CAMS has advised that:

*“The saving to government as measured against the industry standard of full fare is \$3,471,844 for the period November 1997 to May 1998.”*<sup>31</sup>

5.2.6 The Committee notes that these are direct financial savings. The Committee is not in a position to examine the resulting social costs and other financial costs of the implementation of the DATC on local, regional and State economies. In this respect the Committee considers that it is important to take into account the long term effect of the implementation of contracts such as the DATC by government agencies which may impact quite significantly and indeed may reverse apparent “savings”. For example, although a federal and not directly a State concern, costs associated with loss of taxation revenue on the income side, and additional recourse to welfare and other payments on the expenditure side may mean that the net overall effect of such contracting decisions may be an overall cost to government.

5.2.7 The compilation of data and the identification of direct and social costs of the DATC can be very complex and therefore the Committee is not in a position to judge whether or not the financial savings of the DATC are outweighed by social and financial costs associated with the implementation of the DATC.

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<sup>28</sup> Statement by the Minister for Works and Services Hon Mike Board MLA extracted in “*BTI Australia WA Government “Hot Fax”*” No 7 July 2 1998.

<sup>29</sup> Letter from the Hon Colin Barnett, Minister for Education to Hon Tom Stephens MLC dated 4 December 1997, copied to the Committee by Mr Stephens under cover of a letter dated 16 December 1997.

<sup>30</sup> Letter from Dr Paul Schapper, Executive Director, CAMS to the Chairman, Standing Committee on Public Administration dated 20 July 1998.

<sup>31</sup> Ibid.

**Recommendation:**

5.2.8 ***The Committee recommends that government agencies consider the results of the Committee's survey of regional travel businesses, as reported in this report, when implementing buying decisions in regional areas.***

5.2.9 In this respect the Committee notes that there is provision under the Commission "Value for Money" policy for agencies to seek budget adjustments, if necessary, in order to accept regional bids where, for example, in exceptional circumstances wider value for money considerations (eg: supporting a developing local industry) is likely to result in extra costs beyond the immediate resources of the public authority.<sup>32</sup>

5.2.10 The Committee acknowledges that reporting requirements and financial accountability are major concerns for government agencies and that some government agencies may require a greater measure of central control than others. An example of this may be a government agency which utilises a travel voucher system and which needs to follow through on redemptions, travel allowances and ancillary administration issues. Whether these are sound advantageous reasons for an agency to exercise its discretion not to allow the application of the Compact to the agency's domestic air travel requirements needs to be measured in light of the agency's travel and reporting requirements as a whole when considering value for money.

5.2.11 The Committee raised this issue with CAMS:

"Hon M.J. Criddle: *I live in Geraldton and my office is there, so I could go to any tourist agent in Geraldton and book through it and it would be in line with the contract.*

Mr Alderton: *I have one further clarification. Many government agencies have expressed a very strong desire over the past year or so to put in place a much stronger management regime in relation to the collecting information and getting a handle on how they spend their travel dollar. Under the previous contract the management information was poor. They did not have a handle on what they were doing. Some agencies have decided to use Amex and BTI.*

The Chairman: *That is the case with our travel, because the Department of Premier and Cabinet has made that determination.*

Mr Alderton: *That is correct."*<sup>33</sup>

5.2.12 The Committee also acknowledges that to the extent that use is not made of the DATC, it may be more difficult for CAMS to obtain reliable management information to report to government on matters such as how it is spending its travel

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<sup>32</sup> State Supply Commission Policy 1.9 "Value for Money" gazetted 1 September 1995.

<sup>33</sup> *Evidence*, Alderton, p.11.



dollars and the impact on various travel agents.

- 5.2.13 The Committee considers that these concerns, however, may be able to be addressed while still paying regard to the Compact by, for example, requiring government consumers to provide prescribed information if they wish to use a regional travel agent. Although costs may be incurred by government agencies when collating this information, such costs may be less than social and economic costs occasioned by the impact of the DATC and its implementation.

***Recommendations:***

- 5.2.14 ***The Committee recommends that government agencies consider their travel reporting requirements and whether these can be met by requiring the provision of prescribed information when use is made of the Compact outside the DATC.***
- 5.2.15 ***The Committee does not believe that agencies are discharging their duties under the Compact if they do not apply the Compact because they prefer to have their domestic air travel arrangements centralised to avoid being seen to be favouring one local business over another.***

### 5.3 Centralised Bookings

- 5.3.1 The prevalence of centralised bookings by government departments raised the issue of whether some government agencies may consider themselves not bound by the Compact - the "Service" being provided not being a regionally supplied service.
- 5.3.2 The Committee has not made enquiries as to whether this view is held by government agencies however the Committee raised this issue with CAMS in the following terms:

"The Chairman: *Does the domestic air travel contract require that all government departments use either BTI or Amex and cannot use any other booking operator?*

Mr Alderton: *For travel from the metropolitan area they must certainly use Amex and BTI. The only flexibility available under the contract is in regional areas.*

Hon Helen Hodgson: *What does "originating out of the metropolitan area" mean? Is that where the flight originates or where the booking is made? For example, if bookings were made by the head office of the Education Department for someone in Kununurra, how would that be classified?*

Mr Alderton: *It gets grey between where the flight originates and where the booking is made. If the travel is originating in a country area then the regional purchasing policy should apply.*"<sup>34</sup>

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<sup>34</sup> Evidence, Alderton, p.10.

***Finding:***

- 5.3.3 ***The Committee does not consider that centralised booking practices automatically absolve a government agency from considering the application of the Compact where travel originates from a regional area or where the services of booking and ticketing such travel can be sourced in the regional area.***

***Recommendations:***

- 5.3.4 ***In light of the results of the Committee's survey of regional travel businesses, government agencies, in particular their Chief Executive Officers, should review and examine current agency administrative practices and policy directions on the use of the Compact and the DATC ensuring that:***

- ***buying decisions are based on, amongst other things, quality, service standards, timely delivery, benefits, risks and social impact, as well as cost;***
- ***the social impact and consequences of buying decisions are explored and assessed in each buying decision, including:***
  - ▶ ***the impact of contract decisions on local businesses;***
  - ▶ ***possible flow on effects to State or regional economies; and***
  - ▶ ***any social ramifications for local communities.***

- 5.3.5 ***Government agencies should also ensure that their buying practices, procedures and specifications do not disadvantage local suppliers. Keeping in mind "value for money" considerations government agencies should promote a "Buy Local" first philosophy throughout the organisation and ensure that local suppliers are given the opportunity to compete. Suppliers need to market themselves to agencies.***

## **6 The Survey of Regional Travel Agents**

### **6.1 Survey Distribution**

- 6.1.1 In May 1998 the Committee distributed 101 surveys ("Survey") to non metropolitan agents who were registered with the Ministry of Fair Trading as being licensed to provide domestic air travel services. 51 agents were from the "Regional Zone" and 50 were from "Zone 2" (as those zones are defined in the Regional Buying Compact<sup>35</sup>). In addition the Survey was advertised in the West Australian newspaper<sup>36</sup> and a copy of the Survey and covering letter was sent to the Australian

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<sup>35</sup> Refer to Maps A and B from the Regional Buying Compact which are annexed as Appendix 2.

<sup>36</sup> The West Australian newspaper, Saturday 16 May 1998.

Federation of Travel Agents<sup>37</sup>. The Committee received 22 responses. A copy of the Survey is attached as Appendix 3.

## 6.2 Survey Results

6.2.1 As the Survey required respondents to disclose confidential business information the Committee has resolved to restrict publication of and access to identifying data and financial information.

6.2.2 Of the 22 respondents:

- 15 (68.2%) felt that the DATC had negatively impacted on their business, with all but two of those respondents stating that there were no other factors which had a negative impact on their business. These other factors were either alleged predatory practices by industry principals extending discounts which could not be matched by local businesses, the downgrading of air services to the region and the movement of government departments to another regional centre;
- 7 (31.8%) felt that the DATC had no impact on their business, however one of the respondents indicated that the main impact occurred with the commencement of the government contract with Ansett. In respect of the other respondents in this category the Committee notes that in most cases the agency's proximity to Perth meant that there would be little or no demand for domestic air travel by government departments in that region.

6.2.3 Reported effects of the DATC include:

### 6.2.3.1 *Loss of government domestic air travel business and resultant reduction in turnover:*

In some cases this has been the loss of what was a major part of a viable business, as the following examples show:

- Since the commencement of the DATC there has been a 50% decrease in the volume government domestic air travel business. Prior to the DATC it was 60% of turnover for the whole business, now it was 30%;
- Prior to the commencement of the DATC government domestic air travel business was 7%, now 6%, of the business. Over a six month period there has been a \$13,000 reduction in turnover - from \$87,000 to \$75,000;
- Prior to the commencement of the DATC government domestic air travel business was \$23,683 in turnover for the six month period, and was nil after the commencement of the DATC;
- Prior to the commencement of the DATC government domestic air travel business was 4% of turnover (\$13,500 value), now 1% of turnover (\$2,200 value) however in light of a 6.8 - 7.2 million dollar turnover the impact has

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<sup>37</sup> Facsimile from the Standing Committee on Public Administration to AFTA dated 20 May 1998.

- been minimal;
- Complete loss of government domestic air travel business. Prior to the commencement of the DATC government domestic air travel business was 0.02% of turnover (\$20,000 value), now nil;
- Prior to the commencement of the DATC government domestic air travel business was 80% of turnover, now 5%; and
- Prior to the commencement of the DATC government domestic air travel business was 35.24% of turnover (\$117,000 value), now 7.85% (\$16,480 value).

Some respondents were unable to determine the value of lost business however commented generally that any loss would be of impact, particularly for new businesses.

#### 6.2.3.2 *Loss of opportunity:*

Other respondents noted that although they had lost existing business or as new businesses had not previously had government domestic air travel business, they felt that they had lost an opportunity to participate in the provision of government domestic air travel services, prompting one respondent to state “*Competition can only happen if you are given the chance*”.

#### 6.2.3.3 *Loss of personal air travel business and resultant reduction in turnover:*

One respondent noted that “*Personal service can lead to more business such as employees taking holidays - economic impact is hard to gauge but it could lead to \$250,000 per year in turnover or more.*”

#### 6.2.3.4 *Wider social and economic ramifications:*

The resultant reduction in income for regional travel businesses has also resulted in:

- an inability to maintain staffing levels during the off season;
- staff redundancies and a reduction in staff hours;
- an inability to offer staff pay rises;
- the cancellation of, or inability to employ, a trainee;
- an inability to upgrade facilities or equipment; and
- an inability to undertake local and State marketing initiatives, for example participation in travel fair events and the advertising and distribution of travel material to promote regional tourism. One respondent commented that last year they had spent \$12,000 in displays at the Perth Travel Fair, alleging that neither BTI or Amex contribute anything to the marketing of regional tourism.

### 6.2.3.5 *Perception of loss of government support for local community:*

The perceived loss of government support was particularly significant for some respondents who, for a variety of reasons including the provision of a professional service and supporting local community members, continued to service the regionally based employees of government departments by supplying information, brochures and itineraries without being able to procure the business.

In addition respondents made the following comments:

*“We are set up to service the local business and regional centre - government departments are an integral part of the community and regional affairs - but your business is directed elsewhere.”*

*“I wish more state government domestic air travel was booked locally. It would mean that the government supported local business rather than the airlines direct.”*

*“Broome as a small community, needs support from government employees, especially when a large percentage of the Broome/Derby population are employed at local hospitals/schools/police stations/prison/transport etc. We have had incidents where locals (employed by the government) had completed their holiday booking through our office and then cancelled when they were told to go through DATC. Other occasions where a hospital patient had booked and then had to cancel when told that PATS had to go through the government system.”*

*“Government bodies should shop locally to support local business.”*

*“Whilst we fully agree with the government decision to book and facilitate its travel requirements through the agency network rather than dealing direct with the airlines or other principals it is a pity that the government appointed two agencies that are foreign owned both being branches of US based travel companies. While the principle of supporting regional businesses is admirable it should be noted that there are many Australian owned agency chains and several West Australian agencies who have the expertise and capacity to professionally administer the government’s travel requirements. If the government supported a fully owned agency for centralised reservations and local regional agencies at least the income derived from the government account would remain in the region which generated the income. As it is the profits are not staying in WA (regional or State) but being siphoned off overseas.”*

### 6.2.3.6 *Reduction in standards of service for the local community:*

Some respondents also alleged a reduction in quality of service, especially where local knowledge of connecting flights can be critical. One respondent alleged that clients are inconvenienced when medical requests are not actioned recalling instances where patients had arrived at the airport requiring wheelchairs or forklifts and airport staff had not been notified, causing inconvenience whilst arrangements

are put in place particularly when check in time is 30 minutes prior to departure. Instances have also allegedly occurred where unaccompanied minors have arrived at airports.

The Committee has not investigated these allegations and reports on them on insofar as they may be examples of a reduction in service quality.

- 6.2.4 The Committee acknowledges that it is important to examine the extent of the effect of the DATC in light of the nature and type of government departments operating within the particular regional area, the proportion of government/non-government client composition of an individual business and turnover as a whole.

***Finding:***

- 6.2.5 ***The Committee is of the view, however, that the results of the Committee's survey of regional travel businesses indicate that the DATC, combined with government departmental practices, has had a negative impact on regionally based travel agents.***

**6.3 Knowledge of the Compact**

- 6.3.1 An issue which interested the Committee was the extent that government travel consumers and regional businesses were aware of the ability to use the Compact.

- 6.3.2 The Survey results indicate that the majority of local businesses were not aware of the Compact.<sup>38</sup> Of those who were aware of the Compact the sources of knowledge included local members of Parliament, other local suppliers and the local business enterprise centre.

- 6.3.3 The Committee acknowledges:

- that each business must be responsible for informing itself about business opportunities; and
- the many marketing initiatives conducted by CAMS and the Commission in relation to the Compact,

however the Committees notes that if the customers (ie government agencies and their employees) understand what they can do in terms of the Compact and this knowledge is transmitted at a local level and in the context of individual buying decisions this may go some way towards creating practical, as opposed to theoretical, awareness of the Compact.

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<sup>38</sup>

14 of the 21 respondents who answered this question.

## 7 Findings and Recommendations

- 7.1 *The importance of small business in regional areas in providing many essential services and providing much needed jobs for local people cannot be overstated. This is particularly so in light of the impact of the implementation of the Domestic Air Travel and Associated Reservations Contract in some of the most remote and high cost regions of the state where small business ought to be encouraged.*
- 7.2 *The Committee is of the view that the results of the Committee's survey of regional travel businesses indicate that the Domestic Air Travel and Associated Reservations Contract, combined with government departmental practices, has had a negative impact on regionally based travel agents.*
- 7.3 *The Committee acknowledges the consultation process adopted by the Department of Contract and Management Services, including the provision of an opportunity for industry participants to attend pre tender briefings, however proprietors of regional and remote businesses may not be able to attend such briefings. Accordingly the Committee recommends that government contracting decisions of this type should only be made after government has provided small business, local communities and key interest groups with the opportunity to comment on the proposal and the likely impact on their industry.*
- 7.4 *Although the Regional Buying Compact makes it clear that the Chief Executive Officer is responsible for the conduct of their agency's buying function and compliance with Government policies, the Committee considers that it would be prudent for the Department of Contract and Management Services to remind agencies that the Domestic Air Travel and Associated Reservations Contract is subject to the Regional Buying Compact. This can be achieved by including a reference to the Regional Buying Compact in documents issued to government agencies by the Department of Contract and Management Services and the State Supply Commission, for example, the Buyers Guide.*
- 7.5 *Although the Committee has not enquired into the administrative practices and policies that may have been adopted by each government agency in respect of the Domestic Air Travel and Associated Reservations Contract, the results of the Committee's survey of regional travel businesses indicate that many government agencies and their employees use either Business Travel International or American Express International and do not use regional travel businesses, even if the regional preferences under the Compact can be applied. The Committee believes that such practices may result from:*
- *agencies and/or their employees believing that the DATC is mandatory and the Compact does not apply; or*
  - *agencies exercising their discretion under the Compact and issuing departmental directions or adopting practices that preclude government travel consumers from using regional travel businesses.*
- 7.6 *The Committee recommends that government agencies consider the results of the Committee's survey of regional travel businesses as reported in this report when implementing buying decisions in regional areas.*

- 7.7 *The Committee recommends that government agencies consider their travel reporting requirements and whether these can be met by requiring the provision of prescribed information when use is made of the Regional Buying Compact outside the Domestic Air Travel and Associated Reservations Contract.*
- 7.8 *The Committee does not believe that agencies are discharging their duties under the Regional Buying Compact if they do not apply the Compact because they prefer to have their domestic air travel arrangements centralised to avoid being seen to be favouring one local business over another.*
- 7.9 *The Committee does not consider that centralised booking practices automatically absolve a government agency from considering the application of the Regional Buying Compact where travel originates from a regional area or where the services of booking and ticketing such travel can be sourced in the regional area.*
- 7.10 *In light of the results of the Committee's survey of regional travel businesses, government agencies, in particular their Chief Executive Officers, should review and examine current agency administrative practices and policy directions on the use of the Regional Buying Compact and the Domestic Air Travel and Associated Reservations Contract ensuring that:*
- *buying decisions are based on, amongst other things, quality, service standards, timely delivery, benefits, risks and social impact, as well as cost;*
  - *the social impact and consequences of buying decisions are explored and assessed in each buying decision, including:*
    - ▶ *the impact of contract decisions on local businesses;*
    - ▶ *possible flow on effects to State or regional economies; and*
    - ▶ *any social ramifications for local communities.*
- 7.11 *Government agencies should also ensure that their buying practices, procedures and specifications do not disadvantage local suppliers. Keeping in mind "value for money" considerations government agencies should promote a "Buy Local" first philosophy throughout the organisation and ensure that local suppliers are given the opportunity to compete. Suppliers need to market themselves to agencies.*

**HON KIM CHANCE MLC  
CHAIRMAN**

27 August 1998



## APPENDIX 1

### Terms of Reference for the Standing Committee on Public Administration

Schedule 1 of the Standing Orders establishes the Standing Committee on Public Administration. The Terms of Reference for the Standing Committee are:

- "1. A Standing Committee on Public Administration is established.
2. The Committee consists of 6 members.
3. The functions of the Committee are:
  - (1) to inquire into and report to the House on the means of establishing agencies, the roles, functions, efficiency, effectiveness, and accountability of agencies and, generally, the conduct of public administration by or through agencies, including the relevance and effectiveness of applicable law and administrative practises;
  - (2) to consider and report on any bill referred to it by the House providing for the creation, alteration or abolition of an agency, including abolition or alteration by reason of privatization; and
  - (3) except as provided in Standing Order 339(c), the Committee shall not proceed to an inquiry whose sole or principal object would involve consideration of matters that fall within the purview, or are a function, of another Committee.

4. In this order:

"Agency" means-

- (a) an agent or instrumentality of the State Government, established for the purpose of developing, implementing or administering any program or policy with a public purpose or any such program or policy that relies substantially for its development, implementation or administration on public monies or revenue;
- (b) any person empowered by a written law to make a decision enforceable at law whether by that person or otherwise,

and, where appropriate, includes any agency officer or employee acting, or having ostensible authority to act, as the agent or delegate of the agency, but does not include:

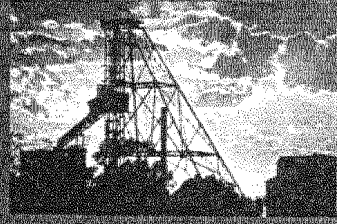
- (c) a House of the Parliament, or any Committee or member of either House, or any officer or employee of a department of the Parliament;

- (d) a court of law or a court of record, or a judge or other member of either court;
- (e) any person whose functions are solely of an advisory nature and the failure to obtain or act in accordance with advice given by that person does not invalidate or make voidable a decision made by another person;
- (f) a police officer or other person in the course of exercising a power conferred by a written law to arrest or charge a person with the commission of an offence, or to enter premises and seize or detain any object or thing;
- (g) a local government within the meaning of the Local Government Act 1995;"

## **APPENDIX 2**

### **Maps A and B from the Regional Buying Compact**

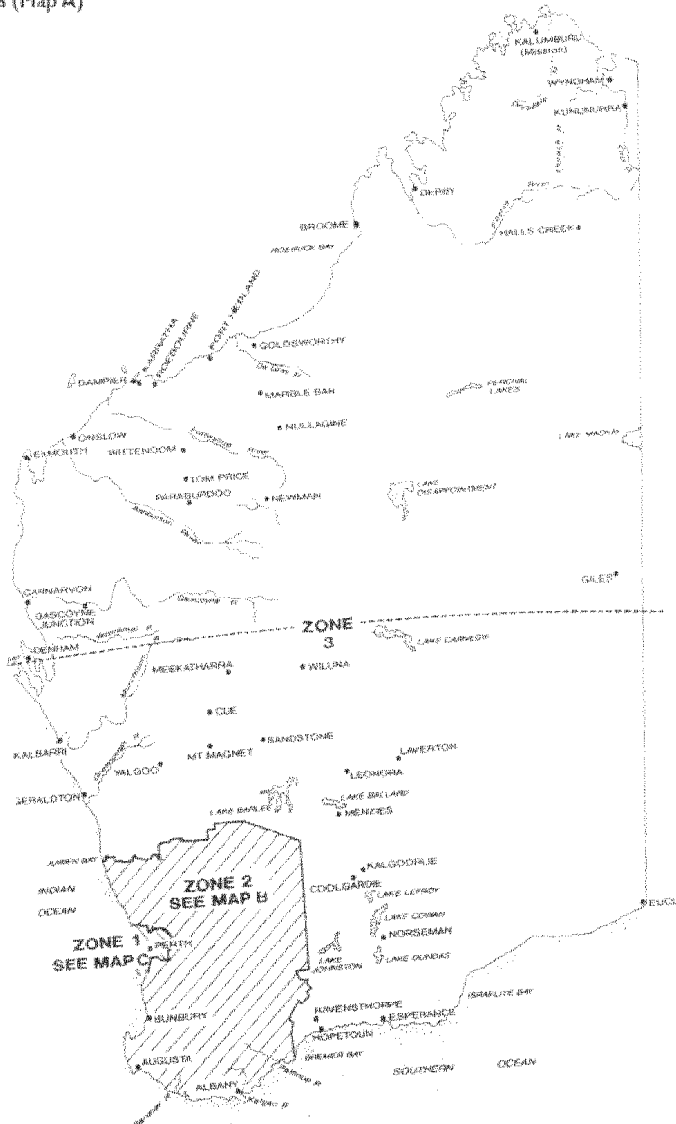
# REGIONAL BUYING COMPACT



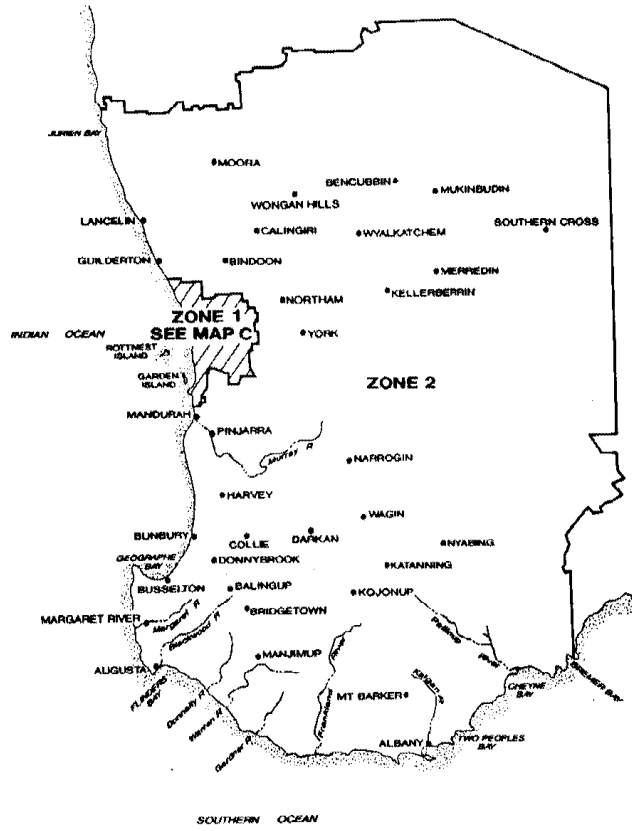
## POLICY MAP ZONES

The following maps show the three zones used in applying the Regional Buying Compact. The zone boundaries follow those identified in the Regional Development Commissions Act 1993 as amended.

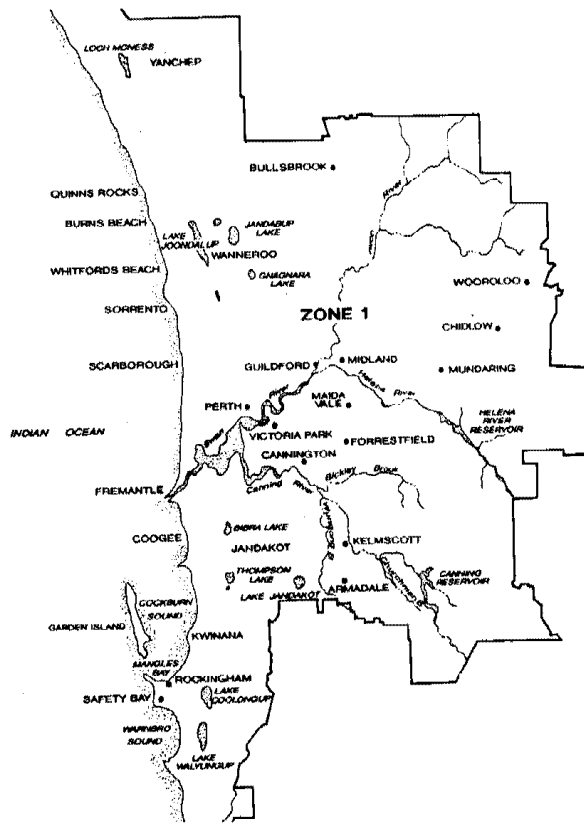
Regional Zones (Map A)



Zone 2 (Map B)



Zone 1 (Map C)  
Metropolitan Area



## **APPENDIX 3**

**The Survey distributed by the Committee to Regional Travel Businesses**

LEGISLATIVE COUNCIL

WESTERN  
AUSTRALIA



STANDING COMMITTEE ON PUBLIC ADMINISTRATION

Our Ref: PBCR3501

11 May 1998

FIELD(address)

Dear FIELD(salutation)

**STATE GOVERNMENT DOMESTIC AIR TRAVEL**

The Legislative Council of the West Australian Parliament operates 6 Standing Committees to review and oversee the activities of government and public administration. As part of its brief, the Standing Committee on Public Administration ("Committee") has developed a particular interest in the issues of government contracting, contracting-out, outsourcing and contract management.

It has come to the Committee's attention that some regional travel agents and businesses which offer travel booking and ticketing services may have been affected by the government Domestic Air Travel contract awarded to BTI and Amex ("DATC"). The DATC commenced on 13 October 1997.

To round out its enquiries the Committee has resolved to canvass regional travel businesses. Accordingly, the Committee would be grateful if you would assist with its enquiries and take a few moments to answer and return the enclosed survey by Wednesday, 10 June 1998.

The Committee appreciates that the survey may request you to disclose confidential business information and, as such, it has resolved to restrict publication of and access to identifying data and financial information which is provided to the Committee.

As part of its enquiries the Committee has spoken with officers of the Department of Contract and Management Services ("CAMS") which handles all questions relating to the operation of the DATC. CAMS welcomes public submissions on matters relating to the DATC including

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evidence of any impact on regional travel agents. You may also wish to refer any issues to them.  
CAMS' contact details are:

Ms Lian Borlace or Mr Rod Alderton  
Government Contracts Directorate  
Department of Contract & Management Services  
6th Floor Dumas House  
2 Havelock Street  
WEST PERTH WA 6005

Phone: (08) 9222 5016      Facsimile: (08) 9222 5090

Thank you for your assistance in this matter. If you have any queries please do not hesitate to contact the Committee's Advisory/Research Officer, Ms Mia Betjeman on (08) 9222 7472.

Yours sincerely

*Shelma Nutcracker 11/5/98*

*AK* Hon Kim Chance MLC  
Chairman



**PARLIAMENT OF WESTERN AUSTRALIA  
STANDING COMMITTEE ON PUBLIC ADMINISTRATION**

**TRAVEL AGENT SURVEY**

Thank you for assisting the Committee. The Committee is interested in the effect, if any, that government department air travel booking arrangements and the Domestic Air Travel Contract ("DATC") awarded to BTI and Amex (which contract commenced on October 13 1997) may have had on your business.

In this survey:

"DATC" means the government Domestic Air Travel Contract awarded to BTI and Amex and which commenced on 13 October 1997; and

"government travel" means interstate or intrastate air travel by a person as an employee of a government department, for example a teacher attending a conference or training seminar; and

"non-government travel" means all interstate and intrastate air travel that is not "government travel". This category includes travel by a person in their private capacity whether or not they are an employee of a government department, for example a teacher who is travelling to visit relatives, or on holiday.

Please answer the following questions in the spaces provided, or by circling the appropriate response. If you require further space or have any relevant documents attach them to the back of the survey. Once you have completed the survey please post it to:

Ms Mia Betjeman  
Advisory/Research Officer  
Standing Committee on Public Administration  
Parliament House  
PERTH WA 6000

Please return your responses to the survey by 10 June 1998. If you have any queries please contact the Committee's Advisory/Research Officer, Ms Mia Betjeman, (telephone: 9222 7472, facsimile: 9222 7805)

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Business details:

- 1.1 Business name: \_\_\_\_\_
- 1.2 Company name: \_\_\_\_\_
- 1.3 Contact Details: Business address: \_\_\_\_\_  
\_\_\_\_\_  
Telephone: \_\_\_\_\_  
Facsimile: \_\_\_\_\_

1.4 Name of person completing this survey: \_\_\_\_\_

1.5 Position of person completing this survey: \_\_\_\_\_

2 Was your business an Ansett agent prior to 13 October 1997? YES NO

2.1 If the answer is YES, to question 2, for what period was your business an Ansett agent?

\_\_\_\_\_

3 Was your business a Qantas agent prior to 13 October 1997? YES NO

3.1 If the answer is YES for question 3, for what period was your business an Ansett agent?

\_\_\_\_\_

4 Did you receive government travel bookings prior to 13 October 1997? YES NO  
If the answer is YES please proceed to question 5.  
If the answer is NO, please proceed to question 8.

5 Please indicate the approximate amount of government and non government travel business your business engages in by completing the following table (Note that the periods do not include the month of October during which the DATC commenced):

	<b>6 month period 30/03/97 - 30/09/97 (inclusive)</b>		<b>6 month period 1/11/97 - 1/5/98 (inclusive)</b>	
	Government	Non government	Government	Non government
% volume of whole business				
% volume of air travel business				
% of turnover for whole business				
% of turnover for air travel business				
\$ value in turnover for air travel business				

6 Prior to 13 October 1997 from which government departments did you receive government air travel business?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

6.1 Which government department was your major customer?

\_\_\_\_\_

6.2 For the period 30/03/97 - 30/09/97, what percentage of your entire air travel business did this customer comprise:

in percentage volume: \_\_\_\_\_

in turnover: \_\_\_\_\_

7 Since 14 October 1997, from which government departments do you receive government air travel business?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

7.1 Which government department is your major customer?

\_\_\_\_\_

7.2 For the period 1/11/97 - 1/5/98, what percentage of your entire air travel business does this customer comprise:

in percentage volume: \_\_\_\_\_

in turnover: \_\_\_\_\_

8 In your opinion has the DATC had an impact on your business? YES NO

7.12 If the answer to question 8 is YES, please explain the extent that it has affected your business. If the event has affected your business in economic terms please provide an estimate on the impact it has had on your net income:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

9 Are there any factors (other than the DATC) that have had a negative impact on your business since 13 October 1997? YES NO

9.1 If the answer to question 9 is YES please describe the factor and the extent that it has affected your business. If the event has affected your business in economic terms please provide an estimate on the impact it has had on your net income:

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10 Are you aware of the Government's Regional Buying Policy? YES NO

10.1 If the answer to question 10 is YES:

When did you become aware of it? 

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How did you become aware of it? 

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11 Do you have any other comments?

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Thank you for your assistance.