INQUIRY INTO GOVERNMENT PROCUREMENT PROCEDURES

AIIA Submission

DECEMBER 2013

INTRODUCTION

The Australian Information Industry Association (AIIA) is the peak national body representing Australia's information technology and communications (ICT) industry. Since establishing almost 35 years ago, the AIIA has pursued activities aimed to stimulate and grow the ICT industry, to create a favourable business environment for our members and to contribute to the economic imperatives of our nation. *Our goal is to "create a world class information, communications and technology industry delivering productivity, innovation and leadership for Australia".*

We represent over 400 member organisations nationally including hardware, software, telecommunications, ICT service and professional services companies. Our membership includes global brands such as Apple, EMC, Google, HP, IBM, Intel, Microsoft, PWC, Deloitte, and Oracle; international companies including Telstra; national companies including Data#3, SMS Management and Technology, Technology One and Oakton Limited; and a large number of ICT SME's.

AIIA is pleased to provide input to the Senate and Public Administration References Committee Inquiry into Commonwealth Procurement Procedures.

OVERVIEW

At outset it needs to be said that the AIIA does not support a protectionist approach to the procurement of goods and services and with this principle in mind, AIIA's submission covers four key themes:

- the nature of the increasingly global and digital economy;
- economic growth and the imperative to build domestic capability to remain globally competitive;
- the need to support and grow a robust and vibrant small and medium sized (SME) business market; and
- the need for transparent and agile procurement policies and procedures that access market capability.

Given the scope and scale of government procurement within the Australian economy, each of these points is relevant to the operation of contemporary, balanced and effective procurement arrangements.

It is AIIA's view that the adequacy or appropriateness of current government procurement processes cannot be assessed based solely on the ratio of Australian goods and series versus imported goods and services rather there must also be consideration of issues with current procurement processes and the competiveness of Australian business. The ultimate goal must be to ensure Australian industry is itself competitive – globally and by default in the domestic market.

THE GLOBAL MARKET

The nature of modern day economies, the rise of globalisation and the emergence of technology and more recently sophisticated digital technology has transformed the marketplace. In today's interconnected environment, the new global marketplace is open to advanced and emerging economies and large and small players alike. Supply chains for both goods and services operate globally, distributed both physically and virtually. New business and services models driven by technology mean

that goods and services can be supplied as cost effectively from outside Australia than locally and without any compromise of service quality or support.

As the 'digital economy' matures, industries contending with the twin forces of globalisation and technology have had little choice but to transform to survive. Companies in Australia and around the world are using new technologies to drive competitive advantage. Indeed, how nations and businesses embrace technology is a key determinant of competitiveness and ultimately economic success.

Access to the global marketplace also delivers benefits, including access to the global pool of skills and resources and the networks, knowledge and opportunities to drive innovation and productivity.

Information and communications technology combined with global market demand are disrupting industry structures and opening new markets to competition previously unimaginable and unavailable. For Australia this offers both opportunity and risk. Irrespective, it is a phenomenon which Australia needs to confront with urgency and an acute level of competitiveness.

BUILDING CAPABILITY

Global competitiveness, including when competing domestically, requires at a minimum, relevant capability. This includes appropriate and accessible skills; and the ability and inclination to 'do things better' – i.e. innovation.

Skills

Australia's current position in terms of skills relevant in a global digital economy is under par. There are two aspects to this issue. Firstly, there are deficiencies at a whole of population and business level related to the expertise and capability required to participate in, what is now a very different and dynamic 'digital' economy. Secondly, there are pure ICT skill deficiencies particularly in the areas of emerging technologies such as big data, data analytics, informatics, computer science etc. The former inhibits our collective ability to leverage the opportunities of the Digital Economy while the latter undermines our competence and competiveness across a range of technical domains. Given the nature of the global marketplace, both undermine Australia's global competitiveness.

To be globally competitive Australia needs to build the right skills capability.

Over the last decade, ICT enrolments in training and education have fallen some 55% nationally.[1] Evidence suggests that the shortage of graduates across the disciplines of technology and engineering is directly linked to that fact that less than 20% of Year 12 students study relevant science, technology, engineering and mathematics (STEM) subjects.[2] Furthermore new technologies such as cloud computing, mobile applications development, information management and business analytics/intelligence are draining existing skill pools.[3] There is concern that even if all international students undertaking computer science studies in Australia, were to stay in Australia post graduation,

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[1] Department of Business and Innovation, *Victoria. ICT Skills Snapshot – The State of ICT skills in Victoria.*, January 2012
[2] The Warren Centre for Advanced Engineering Ltd. *Submission by the Warren Centre to the Senate's Inquiry into the Shortage of Engineering and Related Employment Skills*, 2012, http://thewarrencentre.org.au/wp-content/uploads/2012/01/wc1796-0-TWC-SenateSkillsShortage-Sub27.pdf
[3] Ibid. p10

the supply of these graduates would still fall far short of the numbers needed to accelerate growth. [4]

While technology opens enormous opportunity for growth and productivity improvement, the absence of a competitive skills base will continue to be a barrier to addressing our current net import position.

Initiatives such as the national expansion of Group X, aimed to increase the number of ICT professionals in Australia will provide an important foundation for skills capability development. However skills development will continue to be an issue over the longer term unless STEM competencies are improved at all levels of the education process.

Innovation

UK based research shows that between 2002 and 2008 the 6% of UK businesses with the highest growth rates generated half of the new jobs created by existing businesses. While these companies came from a range of sectors all had one factor in common: they were far more likely to be innovative. [5]

The compounding productivity benefits accruing to businesses that pursue a culture of both innovation *and* collaboration is also clear. Compared to innovative businesses that don't collaborate, innovative and collaborative Australian businesses are:

- 23% more likely to report increased productivity;
- 24% more likely to report increased profitability;
- More than three times more likely to increase the number of export markets targeted;
- 48% more likely to increase the range of goods or services offered;
- 24% more likely to increase employment; and
- 34% more likely to increase training for employees.[6]

Despite this Australian businesses remain poor collaborators by international standards.[7] This includes research-industry collaboration and international collaboration.[8] The disconnection between public research institutions and private sector R&D investment is well documented.[9]

In other words, to be competitive in an increasingly hyper-connected digital world relies at least in part, on the ability of Australian businesses to be smarter and more agile. Being local is now 'not enough'. Competitive relevancy is about having, amongst other things, the right skills. Competitive advantage is about (amongst other things) the ability to innovate.

Arrangements such as the taxing of Employee Share Options, a tendency to 'pick winners' and intolerance of business failure, are not conducive to developing a culture of innovation. The tendency to do 'just enough' technology to get on with the 'real' business while many of our international peers (and emerging economies) are busy inventing and innovating does not bode well for a prosperous competitive future.

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[4] PwC Consulting, *The startup economy. How to support tech starts and accelerate Australian innovation*, April 2013,p21, http://www.digitalpulse.pwc.com.au/australian-tech-startup-ecosystem/

[5] NESTA, *The vital 6 per cent How high-growth innovative businesses generate prosperity and jobs*. NESTA 2009 http://www.nesta.org.uk/publications/reports/assets/features/vital_growth

[6] NESTA, *The vital 6 per cent How high-growth innovative businesses generate prosperity and jobs*. NESTA 2009, http://www.nesta.org.uk/publications/reports/assets/features/vital_growth

[7] DIISRTE, *2012 Innovation Report*, p xi http://www.innovation.gov.au/Innovation/Policy/Pages/AustralianInnovationSystemReport.aspx

[8] Ibid

[9] AiGroup, *National CEO Survey, Business Investment in New Technology* January 2012, http://www.aigroup.com.au/portal/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/LIVE_CONTENT/Publications/Reports/2012/10767_ceo_survey_report_technology_web.pdf

SMALL AND MEDIUM SIZED ENTERPRISES (SMES)

Consistent with the above, Australia needs to foster and ultimately leverage a robust and vibrant SME sector. The critical importance of SMEs cannot be underplayed. They contribute around 58% of industry value and account for some 70.5% of Australian employees (over 7 million people).[10] In 2010 – 11 they contributed $530 billion to the economy and accounted for over half of private sector activity.[11] They are also a substantial contributor to Australia's services sector – which itself contributes over 80% of Australia's GDP. In short, SMEs are critical to fueling economic growth and job creation in Australia and around the world.

Numerous studies demonstrate the direct correlation between ICT and economic development and growth; employment and innovation.[12] The positive impact of ICT on the overall profitability of business is well understood. For example, business efficiency is achieved through online applications and services that make it possible to improve processes and introduce new business models and structures. Business and workflow systems can be automated and coordinated across sites, and relationships with suppliers and customers can be dynamic and responsive. Businesses can extend their reach nationally and internationally, benchmark performance against competitors and share in and contribute to, the collective body of business knowledge and experience available online. Through access to information, opportunities for collaboration, the availability of smart tools and access to new markets, businesses are enabled and incentivised to innovate and do things differently and more efficiently to remain competitive.

Research shows that small businesses with a high level of digital engagement enjoy better business outcomes with a $350,000 or 20% increase in annual revenue. They also have better growth prospects, more diversified sources of revenue and a larger customer base.[13] Those businesses with high digital capability were shown to be twice as likely to report revenue growth through new products and services compared to those with low digital engagement.[14] Businesses that fail to meet customer digital expectations are at risk of falling behind their more agile peers and will find it increasingly difficult to regain their commercial position.[15]

The importance of SMEs to Government procurement arrangements has been drawn out by the focus on engaging SMEs in State Government ICT strategies released over the last 12 to 24 months. The ICT Strategies of Victoria, New South Wales and Queensland for example, explicitly focus on engaging meaningfully with SMEs through the procurement process. This includes through the establishment of business registers; alternative, short form contracts for SMEs; direct industry engagement activities with local SMEs; and support for partnering programs.

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[10] Ibid
[11] Deloitte. *Connected Small Businesses. How Australian small businesses are growing in the digital economy*. 2013, https://www.deloitteaccesseconomics.com.au/uploads/File/Connected%20Small%20Business%20%20-%20final.pdf
[12] World Economic Forum. *The Global Information Technology Report* 2013, http://www.weforum.org/reports/global-information-technology-report-2013 *A Snapshot of Australia's Digital Future to 2050*, IBISWorld, http://www-07.ibm.com/ibm/au/digitalfuture/index.html European Commission. The Digital Agenda for Europe – Driving European Growth Digitally, 2012, Deloitte, *Digital Disruption. Short Fuse Big Bang*. 2012, http://www.deloitte.com/view/en_AU/au/news-research/luckycountry/digital-disruption/index.htm
[13] Deloitte. *Connected Small Businesses. How Australian small businesses are growing in the digital economy*. 2013 p1, https://www.deloitteaccesseconomics.com.au/uploads/File/Connected%20Small%20Business%20%20-%20final.pdf
[14] Ibid p11
[15] Ibid p13

Given the importance and size of the SME sector, failure to encourage growth and capability development among SMEs will stifle innovation, diminish competiveness, undermine potential export capability and arguably, over time further exacerbate our already net import to export equation. The vibrancy of Australia's SME sector is dependent on its capacity to be competitive – not preferential treatment. The latter is short-lived and short sighted. The former is the basis for a sustainable, prosperous economy.

PROCUREMENT POLICY AND PROCEDURES

While the focus of this Inquiry is principally on the ratio of Australian versus imported goods and services, Government procurement processes can create a significant compliance burden for business and in some instances, hamper competitive dynamics through overly restrictive tender frameworks. Specific areas for focus include:

- Revisiting tender frameworks so that it is easier and less time intensive for firms, large and small, to respond to tenders when they are released. For example a one-stop pre-qualification or certification process, where matters such as insurance certificates, company ownership details and ABN's (common to all tenders) are collated so that the same information does not need to be repeated every time a tender is submitted. This would also address the issue of the multiplicity of government panel arrangements – a review of the AGIMO website confirms there are 50 ICT Services Panels alone. For further details see the attached link http://agimo.gov.au/policy-guides-procurement/portfolio-panel/it-services-panels/. This initiative could also operate across jurisdictions, federal, state and territory governments would then benefit from both higher levels of efficiency.

- Providing greater clarity of the whole of government's strategic ICT directions. In practice this requires eliminating the silos which currently exist at the agency level around ICT and ICT requirements. If industry had a better understanding of the government's ICT directions it would be better positioned to provide innovative ideas in a more agile manner and able to invest in the capabilities needed to contest future work. This would particularly assist local smaller businesses that need to plan and manage resource and capability requirements across projects.

- Embracing the use of open competitive frameworks to innovate and drive value for money outcomes. The fact that many ICT projects can be multifaceted should not be used as an excuse for restricting tenders, instead it should be seen as an opportunity to seek innovative and progressive ideas from the market, including from small and large suppliers. There are various options for opening up tender processes including options such as a planned staging of ICT projects or the encouragement of joint/partnered proposals and more sophisticated options such as some form of 'package' bidding, where process rigidity takes a backseat to competitive dynamics and innovation.

- Effective industry engagement and planning to facilitate reduced procurement cycles and minimize the cost and risk of tender periods becoming delayed and delivery times condensed, risking the overall project delivering outcomes. This is a risk to small and large, local and overseas businesses alike.

- Proactive industry engagement to assess, well in advance of competitive tendering processes, the market's ability to deliver value for money and innovative solutions to (i) help inform and articulate the requirement development process, and (ii) understand the broader capabilities of both domestic and overseas suppliers, ensuring all relevant players are provided the opportunity to participate and compete.

- Direct engagement with industry in the development of core contractual materials. This is a proactive process adopted in varying degrees by the State Governments in NSW, Victoria, Queensland and South Australia. The process identifies and resolves potential contractual issues from the outset and avoids the need to negotiate contracts separately and with individual suppliers.

- Development of short form contracts for low value contracts and/or SME engagement to reduce cost and complexity for both industry and government. This is an approach recently adopted by NSW and the model could readily be adopted by the Federal Government

- Establishment of capability and capacity type registers that provide industry the opportunity to provide details of the scope of relevant business expertise and experience. The Victorian eServices Register is a good example of such a model.

Finally, we would like to raise the issue of Concept Viability.

Concept Viability is a way to undertake structured industry engagement before an initiative is taken to market in a competitive tendering process. The concept was developed and is currently operated by Intellect UK. Intellect is the leading representative body for the technology sector in the UK, with some 800 membership companies. Like the AIIA, Intellect is technology neutral and well placed to draw on the deep expertise of its membership to help inform the development of, often innovative, technology solutions.

Concept Viability allows public sector customers to have a two-way dialogue with the ICT market; and provides suppliers with an opportunity to help shape and validate ideas, plans and requirements. The process takes place within a safe and neutral environment, which helps customers assess the opportunities and risks associated with specific projects before committing themselves to a particular approach.

The key benefits of Concept Viability for the Customer include:

- Provides a one-to-many engagement with a broad range of technology companies, including SMEs and larger more established suppliers.
- Provides a structured, well defined process to facilitate engagement with industry in a non-competitive, probity-free environment.
- Raises the profile of the procurement opportunity to a more diverse supplier base.
- Helps customers understand how the market can help contribute to solutions, and where there are opportunities to exploit innovation.
- Provides early visibility of risks and challenges before investment has been made.
- Allows the pros and cons of different technical, commercial and delivery approaches to be explored.
- Demonstrates a mature procurement approach.

The key benefits of Concept Viability for the Supplier include:

- Provides a defined process for industry to engage with Government on a level playing field.
- Provides early insight into business opportunities and the strategic drivers behind them.
- Issues or concerns can be raised without companies feeling their position in the procurement process is threatened.
- Emerging technologies and associated risks can be discussed openly, allowing suppliers to manage expectations about what the market can contribute.
- Suppliers can decide at an early stage whether to bid for work, saving significant time and financial resources.
- Allows suppliers to interact with potential supply chain or consortia partners.

Concept Viability is designed to inform, rather than replace, other proof of concept or feasibility work. It enables procurement strategies to be aligned to ensure that when the customer goes to market they are clear about the feasibility of different solutions and the technology options available to them. It also opens up options for potential suppliers to put forward truly innovative solutions.

In the UK the Concept Viability has been used by central government, local government and other public bodies, including: Department for Work and Pensions, HM Treasury, Home Office, Land Registry, Ministry of Defence, NHS Wales, Suffolk County Council and Transport for London.

AIIA believes the Concept Viability model provides a unique framework to better inform procurement processes and drive more cost efficient, effective and innovative business solutions leveraging technology capability. The model provides an open opportunity for vendors to work on real business 'problems' with a view to identifying and testing the feasibility of potentially innovative solutions. While not relevant in all cases, such a model to could support more difficult and complex procurement initiatives.

We would also make the point that EOI and bidding processes are costly for industry. Procurement processes must therefore be genuine in seeking an understanding of what the market can deliver, and should not be used as exploratory exercises to, for example, build business cases.

CONCLUSION

As noted in this Submission, irrespective of who is the customer or purchaser, Australia operates in a competitive global marketplace. To participate in that marketplace product and service offerings must be equally competitive on both the domestic and global stage. Being 'local' is not enough. Any concern about an inequity of Australian versus imported goods and services can therefore, only be addressed by resolving the broader issue of the capability of Australian business to be competitive. AIIA strongly supports the need for Australia to build the capability required to ensure Australian business can compete in a global digital economy. This includes, building the capability of our SME sector, which is critical to sustainable future growth and the prosperity of the Australian economy. As also identified in this Submission, enhancements to current procurement practices can go some way to address this. As we point out more open, consultative and innovative procurement practices will drive an open, competitive playing field for everyone.