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Chair: Senator Nick Xenophon

C/O Committee Secretary  
Joint Select Committee on Government Procurement  
PO Box 6021  
Parliament House  
Canberra ACT 2600

[JSCOGP@aph.gov.au](mailto:JSCOGP@aph.gov.au)

Dear Senator

**Submission: Ian Nightingale, Industry Advocate, South Australian Government**

The experience in South Australia is relevant to the deliberations of the Committee and accordingly this submission focuses mainly on this.

However it does in Part 2 cover some recommendations and advice for the Committee and the Commonwealth to consider.

The practices and approaches of South Australia can be tailored as well to the national level, so outlining the approach in South Australia can also address some of the Committee areas of inquiry.

**PART 1 – SOUTH AUSTRALIA**

**1. South Australia - General**

The South Australian Industry Participation Policy (the Policy) was redesigned in late 2013 to deliver greater economic benefit to the State through more jobs, supply opportunities and investment arising from Government's expenditure.

South Australian policy and practices take no account of whether a business is "local" but does promote factors of economic benefit as a secondary assessment criterion when deciding who wins a tender.

The Policy places no barriers to involvement and does not seek to understand whether a business has a head office, or even branch office in the State; it does however, for instance want to understand if South Australian residents are going to be employed to deliver and does place a modest weighting on this.

Policy and documents are available here: <http://industryadvocate.sa.gov.au/resources-and-downloads>



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## 2. South Australia's economic contribution framework

The Policy establishes the framework for assessment of the economic contribution between rival tenders and grants within a broader value-for-money framework. For example, when certain economic outcomes are maximised this provides the Government of South Australia with evidence that one tender has more economic contribution than another.

To assist with this, the Office of the Industry Advocate used economic modelling firm Deloitte Access Economics ("Deloitte") to advise how economic contribution could be measured in State Government procurement.

Deloitte found that in most cases that economic contribution in procurement should be measured by focussing on the labour, investment and supply-chain inputs in performance of government contracts.

The standard implementation of the Policy is designed to deliver economic development by promoting:

- Employment for residents of South Australia,
- Investment and capital expenditure that builds capacity in the South Australian economy, and
- Use of businesses and supply-chains that employ South Australian residents and invest in the State.

Economic development can also take the form of new investment, increased industry capability and expansion of economic sectors in the State which are likely to generate innovation and growth. These are often high value-add industries. It can also take the form of economic development for disadvantaged and socially excluded groups.

South Australia uses the following to achieve this:

- Employment Contribution Test between \$33,000 and \$4 million (\$1 million in Regions)
- Industry Participation Plans from \$4 million (\$1 million in Regions), and
- Tailored Industry Participation Plans (normally from \$50 million).

## 3. Notable impacts of the Policy approach

The average value of State Government goods and services contracts awarded to suppliers with a predominant workforce within the State has grown from 65 per cent<sup>1</sup> to almost 80 per cent<sup>2</sup> since the Industry Advocate role was created.

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<sup>1</sup> 65% is the long term average since 2001



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On the average reported levels of procurement spending, this increase raises the economic contribution to the State by over \$230 million per annum<sup>3</sup>.

Spending on South Australian benefit on major infrastructure projects is even higher at over 90 per cent of the project's costs. The Industry Advocate has overseen delivery of results on projects like Torrens to Torrens. In that project 89% of the labour cost so far has been on South Australian residents, with 96% of sub-contracts awarded to suppliers demonstrating significant economic benefit to the State.

On the Northern Connector, commitments include more than \$350 million in sub-contracting benefit to the State economy. It also has participation of 90 per cent of sub-contracting in this category and over 75 per cent of the total workforce being from northern Adelaide (an area of higher unemployment).

Across all the major infrastructure projects awarded in 2015-16, the levels of sub-contracting is expected to be almost \$640 million from just under \$700 million – or some 91 per cent delivering significant economic contribution.

Also, more recently, both health contracts and ICT contracts have delivered savings and employment boosts together. Examples:

- The Premier has signed a contract with CSC Australia Pty. Limited (CSC), a global ICT services supplier, for the provision of End User Computing (EUC) services to the South Australian Government. The Industry Participation commitments include creating job opportunities through partnership with industry, with the supplier increasing its workforce in South Australia from 100 to more than 700 by the end of the contract, including the creation of 400 new jobs. In addition it is also expected to deliver savings of \$11 million per annum.
- SA Health's orthopaedic and cardiovascular products panel contributes to the maintenance of employment for 429 individuals in SA and creates an additional 165 employment opportunities across the State. It will also provide savings to the State Government of almost \$10 million per annum.

#### 4. Role of the Industry Advocate

The Industry Advocate's existing advocacy functions are proposed to be formalised under a new Bill out for current consultation, including–

- a) To take action to further the objectives of the Industry Participation Policy (including, without limitation, by building the capability and capacity of businesses based in South Australia to participate in government contracts);

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<sup>2</sup> 79% in 2013-14, 90% in 2014-15 and 64% in 2015-16

<sup>3</sup> average reported contracts in 4 years to 2013-14 the year OIA commenced was \$1.54 billion (15% increase out of \$1.54 bn = \$232m)





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- b) to receive and investigate complaints by and on behalf of business and their industry representatives about the Industry Participation Policy;
- c) to make recommendations to responsible officers for procurement and principal officers of public authorities to resolve complaints, remove impediments or improve procurement practices and processes;
- d) to refer unresolved complaints and issues to the Minister for consideration;
- e) to encourage the adoption of industry participation principles by local government;
- f) to review, and assist in the negotiations for, Industry Participation Plans to ensure they comply with the Industry Participation Policy prior to the finalisation of contract conditions;
- g) to investigate and monitor compliance with the Industry Participation Policy by participants in Government contracts;
- h) to take action to promote and ensure compliance with the Industry Participation Policy, including by issuing directions to participants in government contracts requiring them to comply with their contractual obligations in respect of the Industry Participation Policy;
- i) if directed by the Minister (acting at the request of the Minister to whom the administration of the *Local Government Act 1999* is committed), to investigate compliance by local government with relevant industry participation policies;
- j) to take any other action considered necessary for the purpose of exercising the functions conferred on the Industry Advocate; and
- k) to exercise other functions conferred on the Industry Advocate by the Minister under this or any other Act.



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## PART 2 – SPECIFIC ADVICE TO COMMITTEE

The role of this committee is limited to Commonwealth procurement of goods and services; it does not cover construction and infrastructure. Notwithstanding this, the Industry Advocate considers an economic contribution framework should apply in all procurement.

This is outside of the terms of reference but is worth noting.

### 1. Quality and Australian Standards

Recommendation 1: Quality should be a critical factor assessed in tenders as well as ensuring Australian Standards are used.

#### Comments:

Value for money in tendering is normally assessed by a matrix or series of weightings. For example, in most procurement price is significant (potentially as much as 50% or more of the decision), but often quality factors are undervalued, which means that true value for money can be missed.

Quality is also connected to the issue of Standards; please note though clauses 10.10 and 10.37 of the CPR go further than equivalent policies in South Australia (except with regard to steel). This is due to terminology being “must” instead of “should”.

### 2. Assessments of economic benefit and weightings

Recommendation 2: The Commonwealth should use employment and investment outcomes as the critical areas for economic contribution assessments in tenders. (South Australia has tendering templates that do this)

Recommendation 3: The size of the economic contribution weighting should generate a winner in a close contest, on the grounds of secondary benefits flowing from employment and investment to the relevant area. The minimum weighting in South Australia is 15 per cent and operates effectively in line with both recommendations.

Recommendation 4: Assessments of economic contribution can be at any area scale, for example South Australia does assess economic contribution at State wide level as well as at regional level, depending on the procurement. The Commonwealth can apply assessments at the ANZ level, national level or State/region level as it deems necessary.



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Note with regard to Recommendation 4: South Australia does promote economic development on contracts and infrastructure in the regions of the State using the same tools. This could for example be applied by Department of Defence to upgrades of infrastructure in regions.

Comments:

See Part 1 above.

Secondary decision making criteria, such as whether the procurement supports employment and investment in an economy (whether ANZ, national, a State or even a region) is a valid consideration.

This is consistent with all free trade considerations including prospective agreements. The weighting is not used as a direct bias, but is used as a means of evaluating value for money, of which economic contribution is generally a secondary criterion. This is a legitimate goal of procurement, especially when it is modestly weighted. This is the case as there are no barriers to entry into the tender based on location; However if a tender solution employs residents that is a benefit to the Australian Government at least as a secondary criteria.

The Industry Advocate considers the size of the economic contribution weighting is proportionate to the importance of the economic benefit in the purchase. For example, in areas of higher unemployment like northern Adelaide and the imminent departure of GM Holden, the economic contribution weighting for the Northern Connector infrastructure project was raised above the minimum Policy level. This is in part due to the economic contribution of that project being critical to its success. In that case, the benefits required to the local economy are more critical and again that is a legitimate aim of the procurement.

This is an example when a weighting could be higher than a minimum level set – so there needs to be flexibility and a capacity to raise a minimum weighting.

I look forward to discussing this submission at the Committee.

Yours sincerely

**IAN NIGHTINGALE**  
**INDUSTRY ADVOCATE**  
**SOUTH AUSTRALIAN GOVERNMENT**