

# Ai GROUP SUBMISSION

to the South Australian Productivity  
Commission Issues Paper:  
Government Procurement Inquiry

DECEMBER 2018

**Ai**  
GROUP

## About Australian Industry Group

The Australian Industry Group (Ai Group) is a peak industry association in Australia which along with its affiliates represents the interests of more than 60,000 businesses in an expanding range of sectors including: manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other industries. The businesses which we represent employ more than 1 million people. Ai Group members operate small, medium and large businesses across a range of industries. Ai Group is closely affiliated with more than 50 other employer groups in Australia alone and directly manages a number of those organisations.

## Australian Industry Group contact for this submission

Stephen Myatt, Head - South Australia  
Ph: (08) 8394 0000  
Email: [stephen.myatt@aigroup.com.au](mailto:stephen.myatt@aigroup.com.au)

## Introduction

The Australian Industry Group is pleased to provide comment on this discussion paper, the first of the South Australian Productivity Commission.

We have chosen not to offer comment on all the questions that have been raised in the paper, but rather provide anecdotal evidence or views as put forward to us by our membership.

We note that the Inquiry excludes capital projects or the purchases from prescribed authorities.

## Purchasing Framework

Ai Group agrees with the view espoused in the paper titled 'Value for money'.

*“Achieving value for money involves determining the extent to which the proposed solutions will deliver the optimum combination of whole-of-life cost and quality (non-cost factors). Factors that may be considered in assessing value for money include: fit for purpose; whole of life cost; timeliness; flexibility; price; quality; service support and warranty; efficiency and effectiveness; intangible costs and benefits; and contribution to Government priorities.”*

We agree that any Government purchasing transaction should be based on a notion of value for money and we believe the above statement is a fair assessment of that notion.

Key issues on which we wish to provide comment are as follows –

1. Improving the Operation of the Procurement System over time

The outline of the SA procurement system set out in the Issues Paper is very encouraging and appears to balance the variety of objectives, provide suitable oversight while permitting appropriate flexibility at the level of individual authorities.

We are attracted to several of the initiatives used in other jurisdictions and outlined in the Issues Paper that could help embed a culture and practice of improvement in authorities' procurement arrangements. We suggest these should be considered for adaptation to the SA system.

For instance, there could be strong scope to pick up programs used in other jurisdictions to build procurement capabilities within public sector agencies (some examples include the programs referred to in the Issues Paper run by the UK Commissioning Academy, the initiatives of the Victorian Government Purchasing Board and the New Zealand Government to lift procurement capabilities.

These sorts of initiatives could be picked up by SA's State Procurement Board to promote the spread of best practice throughout the range of SA authorities engaged in procurement.

## 2. Delays

The issue of delays has been one that our members have raised with our organisation.

In the first instance there are delays in contracts being issued to the market for tender, beyond what the general expectations are. The second issue is that once tenders have been submitted, there are delays in announcing the successful tenderer.

These two issues appear to be the ones on which we receive member feedback. Admittedly, they may also relate to sub-contractor positions as part of major projects.

The reality is that there is always a cost in submitting a tender for Government evaluation and not all companies can put in a tender for all Government contracts.

Therefore if a selected potential Government contract is delayed, that affects company operations and if a submitted tender is delayed, then once again there is a delayed opportunity cost in relation to that company investment.

## 3. Red Tape and Tender Package Construction

Whilst these are issues that occur from time to time, from our perspective they are not as vital an issue as the point above regarding delays.

The issue of red tape and tender package construction appears to be more of an issue in relation to capital projects than one off purchases. In the past members have also been critical that major interstate suppliers tend to fall back to their established supply chains and perhaps in the past local suppliers have not had an opportunity to present their capability or capacity in such circumstances. We believe the Industry Participation Advocate has impacted that position.

## Industry Participation Policy

Ai Group has been a strong supporter of the Industry Participation Policy.

It was always our perspective that an Industry Participation Policy (IPP) and associated Industry Participation Plan, would give companies with relevant capability and capacity, at least an opportunity to participate in state purchasing business.

We believe the IPP has been instrumental in ensuring that major contractors are aware of local suppliers and what they might be able to offer.

We also believe that whilst the IPP has been in place for a number of years and it is still very early to evaluate its impact, our impression is that the Industry Participation Policy has been instrumental in driving change and how local capability can be more effectively utilised.

Having said this, it is not our intention, or we believe the intention of the IPP to move away from the general tenets of effective and efficient Government procurement, which is all about the original value for money expectations set down at the start of this paper.

## Pipeline for future work opportunities

Ai Group would very much support the discussion in the Procurement Paper about the helpfulness of the South Australian Government putting forward a pipeline of expected future opportunities.

We note that the Victorian Government does this and it is incumbent upon every Victorian Government agency to put forward an expectation for the future 48 months.

Whilst we realise that there would be some flexibility in these projects, it does give companies a chance to understand what quantity of work is in the pipeline and also assist them as to what particular opportunities would suit their capability.

We support such an initiative and would also indicate that in putting forward those projects, there is a degree of certainty that the projects would be proceeding within those timeframes and not just potential opportunities that might or might not happen.

## National issues for local consideration

Ai Group made a major submission to a Senate Inquiry in 2013<sup>1</sup> which outlined some concerns for us about what was occurring in relation to non-conforming building products.

We were concerned that there is potential for products to be purchased by Governments' which did not necessarily meet Australian Standards and regulations.

This disadvantages the local manufacturers and importers who do comply with obligations.

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<sup>1</sup> [https://www.aigroup.com.au/policy-and-research/standardsregulation/researchproject/REPORT\\_NCP\\_FINAL.pdf](https://www.aigroup.com.au/policy-and-research/standardsregulation/researchproject/REPORT_NCP_FINAL.pdf)

## Contract conditions as they relate to the bank guarantee

We have from time to time had members talk to us about the onerous contract conditions which incorporate bank guarantees. We acknowledge this might be an area outside of the present terms of reference. The fact is that only very rarely is the bank guarantee called in.

There is a cost in taking out a bank guarantee and we believe this is an area for exploration by the Commission in relation to making it easier for SME's in particular to tender for Government procurement.

## Other factors for consideration

Ai Group believes there are a number of other factors which can be incorporated in the value for money proposition which should be taken into consideration as part of the Government procurement approach.

The first of these relates to the Government fostering innovation through purchasing.

In the United States there is a Small Business Innovation Research Program which requires some Federal agencies to allocate a small part of their annual expenditure towards innovative research projects that have potential for commercialization, whilst meeting Government needs.

In a South Australian context, a Government department might publicly float a problem and seek a solution from an SME or start-up, which would give that company a 'leg up' in establishing the business and find a solution for the problem.

Our understanding is that this has been piloted within SA Water.

In the past Ai Group has advocated that the South Australian Government should consider a form of SBIR within its purchasing model.

The South Australian State Government has recently appointed Mr Jim Whalley as its Chief Entrepreneur. Mr Whalley is a well-respected businessman, having co-founded Nova Systems, a company which now employs over 400 people in the test and evaluation area of the defence industry. Mr Whalley has some ideas which are worth considering.

Let us quote from a recent article<sup>2</sup> in relation to what Mr Whalley had to say about the Government as a customer –

*“I would like to see the State Government as a major procurer. That would assist entrepreneurs enormously. We should use Government procurement to encourage people, and to use those dollars for entrepreneurial start-ups where it's possible. Yes, we need the entrepreneurs to be delivering properly but we also need Government departments to say “you know what, I don't need to buy from big multi-national companies. I can actually buy in the state.” Large companies get it wrong too - and*

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<sup>2</sup> Defence Business Magazine, November 2018 – January 2019, Page 21 - 23

*that involves millions of dollars, as opposed to maybe tens of thousands with a start-up. On the other hand, we need to make sure we have a good environment for Government departments. If a public service does do the right thing and it doesn't work, and they don't know why it's not going right, that will have the support of the Ministers and other people."*

## **Conclusion**

In summary, the feedback we receive from members relates mostly to major projects rather than individual purchases of goods. However, we do believe that value for money purchasing is important, the opportunity for involvement for those with capability and capacity is critical and the South Australian Government does have the chance to be a demanding customer, driving innovation and growth.



**AUSTRALIAN INDUSTRY GROUP METROPOLITAN OFFICES**

**SYDNEY** 51 Walker Street, North Sydney NSW 2060, PO Box 289, North Sydney NSW 2059

**CANBERRA** AMA House, Ground Floor, 42 Macquarie Street Barton ACT 2600

**MELBOURNE** Level 2, 441 St Kilda Road, Melbourne VIC 3004, PO Box 7622, Melbourne VIC 8004

**BRISBANE** 202 Boundary Street, Spring Hill QLD 4004, PO Box 128, Spring Hill QLD 4004

**ADELAIDE** Level 1, 45 Greenhill Road, Wayville SA 5034

**REGIONAL OFFICES**

**ALBURY/WODONGA** 560 David Street Albury NSW 2640

**BENDIGO** 87 Wills Street, Bendigo VIC 3550

**NEWCASTLE** Suite 1 "Nautilus", 265 Wharf Road, Newcastle 2300, PO Box 811, Newcastle NSW 2300

**WOLLONGONG** Level 1, 166 Keira Street, Wollongong NSW 2500, PO Box 891, Wollongong East NSW 2520

**PERTH** Suite 1, Level 4 South Shore Centre, 85 South Perth Esplanade South Perth WA 6151

[www.aigroup.com.au](http://www.aigroup.com.au)