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South Australian Productivity Commission  
Government Procurement Inquiry

Submission via email at [sapc@sa.gov.au](mailto:sapc@sa.gov.au)

Dear Commissioners,

I have the following interests in regards to this submission :

1. As a sometime provider of services to agencies of the State.
2. As an adviser to a number of South Australian owned and operated companies that are either intending or existing providers to agencies of the State.
3. As an active participant in the South Australian innovation and entrepreneurial ecosystem - in particular as a mentor to many early stage / fast growth companies.
4. As a member of one of the OIA's Advisory Panels
5. As the father of three children aged between 15 and 20 - at least two of whom see no future for themselves in South Australia and plan to leave permanently at the earliest practical opportunity.

Of all of my reasons for interest it the last listed that causes me most disappointment. My paternal family line migrated to Burra from the (then) economically distressed Harz Mountains of Germany in 1855. Now, some 6 generations and 163 years later my kids seek greener economic pastures. Go figure. History doesn't repeat but it does rhyme.

It doesn't need to be this way.

Every year the SA State Government spends \$ 4. 9 Billion annually on goods and services.

This is literally a firehose of cash.

At the moment it's pouring on to the road.

We need to be smarter. We need to divert the firehose somewhat on to the grass.

I grew up in the Clare Valley in the 1970's...

If one walked down the main street back in the day, the majority of businesses were locally owned and operated. Top management was local, profits were re-invested locally and the local accountant and lawyer provided professional services.

A small business could start, prosper, accumulate, reinvest and employ more people. They could grow to achieve critical mass. From that sustainable platform they could target other markets out of town.

Decisions were made locally with an understanding of local conditions, risks and opportunities.

Now, a wander down the main street will see mainly national and internationally owned businesses and franchises.

All the top management and professional services are provided on the East Coast and any locally generated profits are siphoned out of town.

[of course on the flipside the Clare Valley fortuitously has benefited from a wine and tourism boom]

Take mainstreet Clare as a proxy for Adelaide.

And this is not just a nostalgic nod to the past. I can see elements of the local "hollowing out" described in the book : Glass House by Brian Alexander : The 1% Economy and the Shattering of the All-American Town.

Time after time I see and hear of competent South Australian owned and operated businesses that would appear to have genuine competitive offering, frustrated in their attempts to win South Australian government contracts (or even get to first base) - even if they are already servicing interstate governments !

This has resulted in a significant loss of trust in SA Government Procurement.

## Key Issues (additional)

You have correctly identified many issues in your Issues Paper of 16 November 2018 - there is nothing with which I would disagree.

My objective is to highlight a few others.

Emphasis on local ownership in IPP assessment

"Low-hanging fruit"

Appetite for innovation

Respect

Trust

## Emphasis on local ownership in IPP assessment

IPP is treated as just another compliance issue.

It seems to me that there is an overfocus on local “labour-hours” and an under-focus of the benefit of local ownership.

Like the main street of Clare in 1975, locally owned businesses spend money locally on professional services and executives. They employ local accountants, solicitors and accountants. Their executives (you know - the people with the high paying jobs) live here, their families live here.

Their spend on R & D..trickles down here.

The profits reside here and whilst there are no guarantees - profits are more likely to be spent and invested here.

The securing of government contracts is often the catalyst or at least a contributing factor to the ability to grow a company. Once these companies have grown and reached a certain critical mass they are more likely to be economically sustainable and capable of securing revenues from outside of the State, providing local jobs, funded by revenues from elsewhere. I can't tell you how many times I've heard of capable local companies (particularly technology companies) that have lost tenders to interstate companies where a majority of the work ends up being performed interstate - this is a big lost opportunity - and disheartening.

These companies have lost faith and trust in the State procurement process.

Wouldn't it be great to be able to accurately identify the percentage of the State Government's annual spend flowing through locally owned and operated companies ?

Unfortunately we don't appear to have the systems to do so. In 2018 this is nothing but a joke.

## “Low-hanging fruit”

What are the existing contracts currently serviced by interstate or offshore companies (in regards to ownership and staffing) that could, “high likely” be competently served by locally owned, locally staffed companies ?

Why can't these contracts be rapidly identified and a higher minimum IPP component be mandated ? Say 40 %.

And additionally - within the IPP - attributed a high weighting for local ownership.

Transparently commit to a strategic nudge.

These contracts could be identified and published, NOW.

In addition the OIA could be tasked with “building the Market” of genuine contenders and any barriers to take up by local companies identified and addressed in an appropriate time frame - i.e “early”. So much of SA State Procurement seems to be a last minute scramble.

Rules for post-award assessment of IPP compliance could be tightened to minimise “gaming”.

## Appetite for innovation

There is “lip-service” regarding innovation but little progress.

I'm aware of successful South Australian companies with innovative technologies successfully servicing other State Governments that can't even get to first base in South Australia - with no reasonable explanation.

Why can't companies that are in this position register their technologies and the story of their interstate successes be identified for subsequent investigation by some credible, independent party ?

In this way the consistent roadblocks - whether they be people or process - could be identified and removed.

I'm aware of few "competitions + projects" mechanisms used - unlike other States. For example Victorian Government's has previously used a "Market Validation Program for SmartSME's". This provided a competitive challenge, initial project funding and a fast-track to procurement - assuming success. Given the apparent reluctance of agencies to innovate - they're likely to need a structured "nudge". A modest amount of money can have a big impact. State Procurement Innovation Idol if you like...

Intellectual Property rules - even for very simple projects - are ridiculously onerous. I experienced this myself last year on a simple consulting assignment. The State sought unfettered ownership in perpetuity of the IP - even though they did not pay anything of note for the development of unique IP.

"The Supplier grants to the Government Party and the Crown in right of the State of South Australia a perpetual, irrevocable, royalty free, fee free licence to use, copy, modify and adapt any Intellectual Property Rights in any reports or manuals required to be supplied under this Agreement."

I protested but was told that it would be almost impossible to change - so I reluctantly agreed. In my opinion this needs to change....the State needs very little ownership of IP - beyond their own use...for a limited time period.....they have no capability to exploit it - they just end being a "blocker", a dead hand.

There needs to be some mechanism to overcome the fear of the "small balance sheet" of small (young) companies. Either a mechanism OR clear policy guidelines - some basic framework so that agencies don't automatically discount smaller companies.

### Respect & Understanding

There seems to be little understanding or respect for the challenges - particularly cash flow challenges faced by small companies.

I have had clients - small companies - that kept staff on - based on certain promises that contracts would be extended - "we're just organising the paperwork" - only for there to be substantial delays - because of inefficiency, laziness or lack of urgency.

Small companies are literally sacking people because agencies lack understanding, respect and urgency in regard to commercial dealings with companies.

If the answer is No...just say it. A quick No is much better than a slow No.

If the answer is Yes...get on with it....keep the wheels of commerce moving.

Companies learn from these experiences and either decline to offer future services or add a price premium for having to deal with commercial incompetence.

Agencies need training in this area and there needs to be a “blind mechanism” for companies to report this sort of behaviour without fear of retribution.

#### Trust

I do not know of any locally owned company that “trusts” agencies when it comes to commercial arrangements.

They may trust certain people in certain agencies at certain times but I've never met anyone that trusts the processes or the system.

And the reason ? Nothing seems to change.

And the evidence for this lies in your own Issues Paper.

Nothing in this is new. It's been known for years - so why hasn't anything changed ?

Why are these issues still being discussed ?

How do we fix this ?

1. Extreme transparency
2. A “hard-wired” continuous improvement process

#### Extreme Transparency

My understanding is that there is insufficient and inadequate data captured at a whole of government level.

There needs to be a big, transparent database of all State Government transactions, such that the spend can be analysed by category - bundled up or broken down.

Extreme detail - a cube of data.

Then there needs to be appropriate reporting.

Is the proportion of State Government spend serviced by local providers appropriate ?

What are the targets, if any ?

Is clear progress being made ?

#### “Hard-Wired” Continuous Improvement

All participating suppliers - or intending suppliers are surveyed (in a simple, “blind” mechanism) in regards every tender or contract, including (maybe especially) those that don't proceed.

It needs to be administered by an independent group and be “blind” so that companies can provide honest feedback without fear of retribution.

Imagine a giant scorecard - pretty much every interaction between suppliers and agencies is scored, with simple but powerful questions, that go to the heart of the current frustrations.

For example...

***Regarding pre-tender (for companies that registered interest).***

How would you rate on a scale from -5 to +5 the following :

- Design of the tender
- Information provided
- Time provided for response (compared to guidelines)
- Quality of response to ad-hoc questions

### **Post - tender**

How would you rate on a scale from -5 to +5 the following :

- Time taken from tender lodgement to notification of success
- Format of tender response
- Tender detail required
- IPP framework
- Quality of feedback for unsuccessful tenderers

You get the idea.

Don't make it overly complicated but provide for optional submission of additional comments or material.

This aggregated data could then be reported on a regular basis (at least annually).

It can be reported in aggregate and by agency.

In this way both high performing and laggard agencies can be identified.

Both need to be investigated.

What are the best practices that need to be replicated ?

How to improve laggard agencies ?

And importantly - this data need to be compared and reported longitudinally.

Are things getting better or worse in aggregate ?

Are individual agencies improving or declining ?

What are the key learnings and what actions are being taken to make things better ?

## **My recommendations**

I've made suggestions throughout but to summarise.

### **“Hard-wire” continuous improvement**

The problems outlined in your Issues Paper have been evident for many years.

Trust is low because nothing seems to change.

Rather than year after year talking about the same problems we need to “Hard-Wire” a continuous improvement mechanism.

Continuous assessment, continuous learning and continuous, authentic, measurable improvement.

Agencies need to be supported and change nurtured - if they are embracing change. If not - management needs to change.

Trust will only be restored over time with evidence (and lived experience) that things have changed.

## Extreme Transparency

Business needs extreme transparency on “the spend” and the procurement performance of agencies individually and in aggregate.

They need a mechanism to efficiently provide continuous feedback without fear of retribution AND they need to be given some confidence that the information that they provide will be put to good use via some “hard-wired”, credible, continuous improvement mechanism.

## Clear Targets and Strategic “nudges”

What is the economic objective of the government and how does that impact upon the assessment of “value” ?

Specifically - what are the contracts / areas (currently serviced by non-local providers) where there is “low-hanging fruit” for future goods and services to be provided by locally owned and operated companies ?

How do local companies get a decent crack ?

If a company is good enough to provide innovative goods and services to interstate governments - why are they getting blocked at home ?

And - how did we go against these targets ? What worked / what didn't ?

Which contracts could be disaggregated and what steps need to be taken in advance to make that more feasible ?

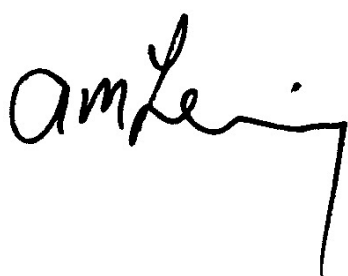
The government needs to nail these targets to the mast and provide clarity as to what their chosen “strategic nudges” are.

The locally owned and operated companies of South Australia look forward to your report and hope that this is (finally) the catalyst for genuine, sustainable change.

Happy to discuss...

Merry Christmas !

Yours faithfully

A handwritten signature in black ink, appearing to read 'amLeunig', with a long vertical line extending downwards from the end of the signature.

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