



CONSULTATION DRAFT

South Australian

Industry Participation

Policy

March 2017

*Measuring Economic Benefit from
Procurement through Labour, Capital
Investment and Supply Inputs*

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Introduction

[Introduction from Minister]

CONSULTATION DRAFT

1. Purpose

The Policy is the high level framework for delivery of the Government's objectives including promoting:

- government expenditure that results in **economic development for South Australia**;
- **value for money in public expenditure**;
- the **economic development of the steel industry and other strategically important industries** for South Australia; and
- capable businesses based in South Australia being given full, fair and reasonable opportunity to tender and participate in government contracts.

The Policy sets the priorities and methodology for furthering these objectives within a strategic policy framework. As a high level framework it is not intended to describe in detail the way that the Government of South Australia conducts acquisition planning and tendering.

The Policy does not set out who conducts the implementation activities, this is set by guidelines.

Guidelines, as opposed to this document, will set:

- the roles and responsibilities in implementing the Policy
- the requirement under various acquisition and procurement activities
- the thresholds and coverage at which each requirement will apply
- the steps and processes, the actions and requirements applying on businesses and government under any specific requirement, and
- the benefits realisation requirement that apply including reporting obligations.

Tendering requirements, templates and scoring assessment criteria will operate to further the Policy Framework.

2. Policy Coverage

The Policy has effect on the following Government of South Australia expenditure:

- Procurement of goods and services including infrastructure and construction.
- Public Private Partnership projects to which the Government of South Australia is a party.
- Federally-funded infrastructure and construction projects managed by the Government of South Australia.
- Private sector projects receiving significant Government of South Australia monetary support or value-in-kind.
- Grants.

Government of South Australia expenditure covers both the "public authorities" made or declared and the "prescribed public authorities" declared under the *State Procurement Act 2004* and accompanying regulations.

Guidelines can exclude some activity from the scope of the Policy.

3. The Policy Framework

3.1. Economic development

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.

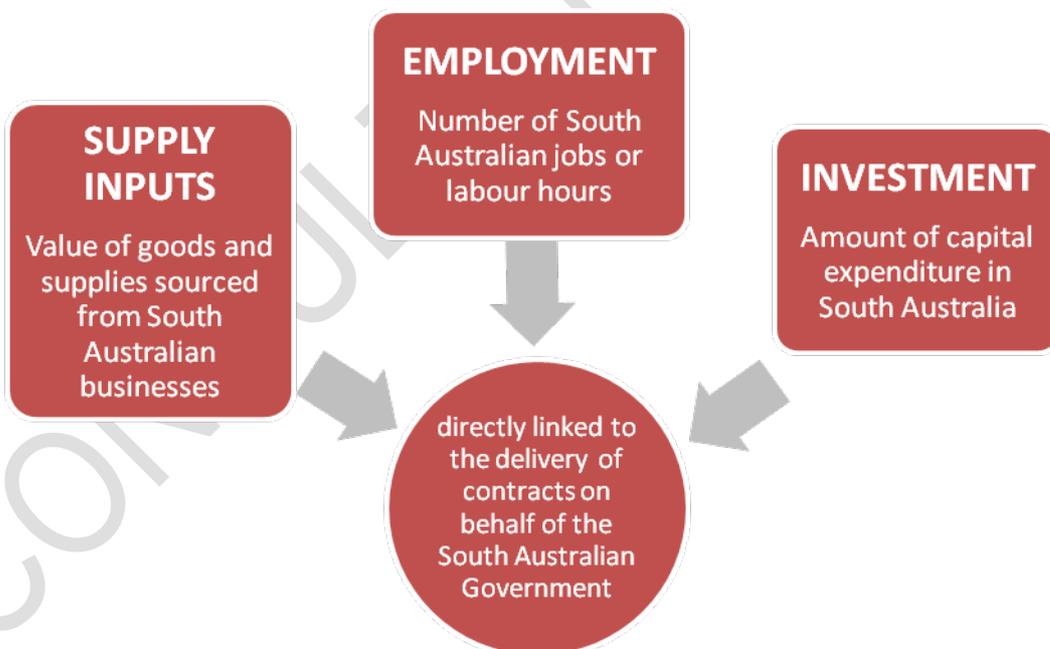
Deloitte found that in most cases that economic contribution in procurement should be measured by focussing on the labour, investment and supply-chain inputs in performance of government contracts (See Diagram 1 for stylised picture).

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.

These criteria have a minimum weighting in a tender assessment criteria of **at least 15 per cent**. The weighting and scoring assessment will measure outcomes that provide for these benefits.

Diagram 1: Core factors of economic contribution in most procurement.



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 (see 4.6 below).

It can also take the form of economic development for disadvantaged and socially excluded groups (see 4.3, 4.4 and 4.5 below).

3.1.1 Employment

Employment is an integral driver of economic activity and incomes in South Australia. Deloitte identified employment as a critical source of economic contribution for the State from almost all contracts.

Accordingly, employment is to be a vital part of most procurement assessments as to whether one tender has more economic contribution than another.

The simple conclusion is that more retained expenditure in the form of incomes and employment in South Australia, delivers higher economic contribution to the State.

In low value contracts in particular, the labour component is the easiest part of the value-chain to measure in terms of the economic activity. This is particularly true in service based contracts where the supply-chain is limited.

3.1.2 Investment

Investment, or capital expenditure, is a driver of productive capacity and capability for the South Australian economy. In some contracting activity, investment, especially new investment can deliver very significant economic development outcomes for South Australia (Also see 4.6 below).

The simple conclusion is that new investment can deliver industry capability and new productive capacity in the South Australian economy; supporting existing investment can also be a good measure of existing productive capacity and it being used.

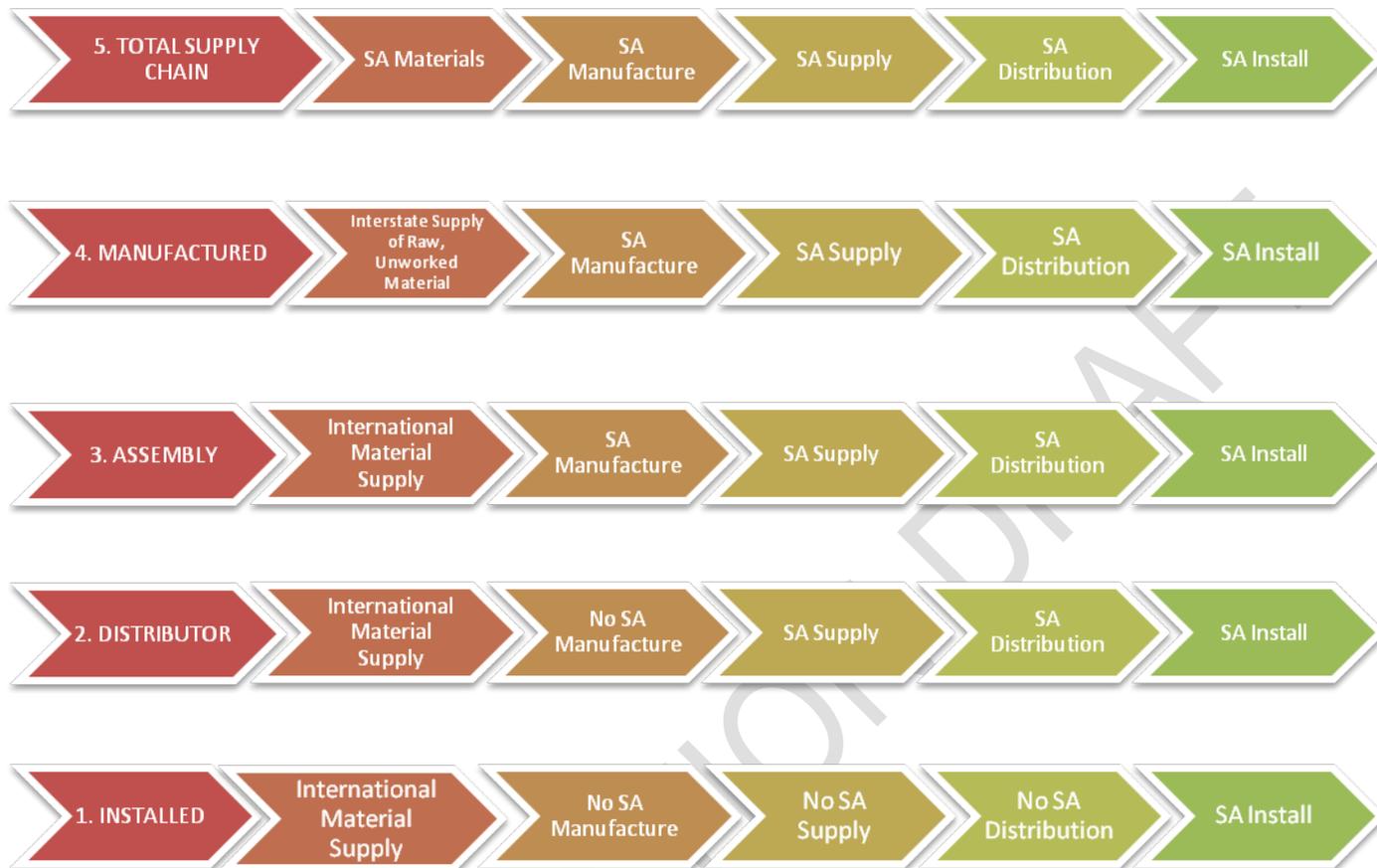
3.1.3 Supply-chain benefits

In contracting, particularly those of higher value, the supply-chain can be significant in the value of the contract. On large infrastructure projects in particular the sub-contracting of work packages is often the most integral area of economic value in contract delivery.

Diagram 2 is a stylised picture of how the supply-chain utilises South Australian businesses, labour and capital equipment (plant and machinery). The higher the number, (e.g. 5 Total Supply Chain) then in general, the higher the gross state product there is from a supply-chain to the South Australian economy.

The simple conclusion is that a supply-chain which utilises South Australian materials, labour and capital equipment will generally deliver more economic contribution to the State economy.

Diagram 2: Supply chain benefits to the South Australian economy



3.2 Benefits realisation against the Policy Framework

Benefits Realisation is a means of validating whether proposed projects and programmes can deliver positive outcomes that specifically support the strategic objectives of the Policy. It provides a practical framework for defining and measuring results from a range of contracts, expenditure and procurement reforms.

The Government of South Australia will monitor how the Policy has performed against the following benefits realisation framework:

- Employment for residents of South Australia,
- Investment and capital expenditure that builds capacity in the South Australian economy,
- Retention of economic benefit to South Australia or a region through the use from suppliers who employ and source inputs from South Australia or a region, and
- Expanded economic development (see 4 below), including economic participation for disadvantaged and socially excluded groups.

The approach will account for when incumbents lose a tender and the potential net impact of this. For example, the implementation of the Policy considers both the new jobs as well as the ongoing jobs and does not promote one over another as being more desirable.

The benefits realisation framework can be applied at both the individual contract level as well as at the aggregate level. For example, for major infrastructure the level of reporting and assurance can be significant against each criterion.

4 Opportunities for Expanded Economic Development

The Government of South Australia has recognised that some expenditure activity has the potential to deliver expanded economic development, including economic participation for disadvantaged and socially excluded groups.

A priority for the Government of South Australia is to grow the economy, create jobs and support the diversification of South Australia's industry sectors. Industry participation from procurement can play a significant role. It is particularly important where the contracted activity is based in an area or sector of the economy which presents an opportunity to address high unemployment or social disadvantage, or in areas of high value-add activity.

The following are areas of focus for implementation of the Policy. In each case the benefits realisation framework will be monitored as a priority.

4.1 Major Infrastructure

Major infrastructure must have a tailored approach to industry participation that considers the economic development objectives of the Government of South Australia in the project.

The Government of South Australia will also need to consider increasing the industry participation weighting above the minimum level when an acquisition is approved and whether to incorporate the [Workforce Participation Policy](#) objectives into the IPP Plan.

4.2 Regional Development

When a contract is to be tendered in a regional area of South Australia there must be full, fair and reasonable access afforded to businesses in the region. The Government of South Australia will need to consider increasing the industry participation weighting above the minimum level when an acquisition is approved. Industry participation will focus on assessing the benefits of businesses that employ people and use capital equipment from that area.

4.3 Special Economic Zones

The Government of South Australia may from time to time specify an area of South Australia as a special economic zone by guidelines set under the Policy. A special economic zone is designed to stimulate economic activity and investment and support employment in the zone, to address particular economic conditions such as the transition of an economy due to the closure of a large employer or a declining industry.

In any special economic zone, there will be an accompanying tailored approach to industry participation assessing the benefits of businesses that employ people and use capital equipment from that area. The guidelines may specify that a higher than minimum industry participation weighting will apply.

4.4 Aboriginal Economic Participation

Aboriginal Economic Participation through Procurement is focused on developing whole-of-government procurement practices which use the Policy and the [Aboriginal Business Procurement Policy](#) as the primary frameworks.

The Government of South Australia will need to consider increasing the industry participation weighting above the minimum level when an acquisition is approved. Relevant considerations on when to apply this approach include:

- Contracts performed in Aboriginal lands or for communities with a significant Aboriginal population, or

- Contracts which have demonstrated Aboriginal businesses performing within it or in the supply-chain, or
- Contracts where the Workforce Participation Policy sets requirements for use of Aboriginal labour and raising the use of Aboriginal businesses can assist with achieving those targets.

If the weighting is increased, the implementation will be accompanied by tailored measures for Aboriginal participation which are directly relevant to raising economic participation for Aboriginal businesses and employees.

4.5 Other socio-economic objectives

The Government of South Australia may, from time to time, seek to use procurement to drive other socio-economic objectives such as encouraging greater workforce participation or skill development opportunities for particular groups. Often this will be on a case by case basis and may entail an increased weighting or tailored industry participation plan requirements to support the objectives of the procurement.

4.6 Growth, innovation and investment attraction

A further benefit to the South Australian economy can be promoted where increased industry participation weightings are used to attract or develop significant capital investment for the State with the associated industry development.

The Government of South Australia may from time to time establish priority areas of focus in contracting for generating growth and innovation in the South Australian economy. The Government of South Australia will need to consider increasing the industry participation weighting above the minimum level when an acquisition is approved in those areas.

Where a contract has potential to attract a new industry participant to the State, or to expand one that already exists here significantly, and this would be in the economic development interests of the State, it should raise the minimum industry participation weighting and focus on achieving this aim in the procurement.

The minimum industry participation weighting should be raised when there are significant growth opportunities for businesses that do or would expand employment and investment in South Australia (including from research and development) from a specific procurement.

The critical sectors include:

- Health consumables
- Information technology, and
- Advanced manufacturing.

5 The Steel Industry

This section is designed to give the local steel industry a competitive advantage against low quality imports through mandating that reinforcing and structural steel used on projects contracted by the Government of South Australia fully meet the requirements of the relevant Australian Standards.

5.1 Purchase of Structural and Reinforcing Steel

The following requirements apply to contracts that trigger industry participation plan requirements and involve the purchase of structural and reinforcing steel.

A minimum **20 per cent industry participation weighting** must form part of the overall evaluation criteria.

The agency making the acquisition must consult with the Office of the Industry Advocate as early as possible to facilitate the preparation of a tailored Industry Participation Plan.

Contractors must purchase reinforcing bar and mesh, pre and post tensioning strand structural steel from a steel manufacturer that has been certified by the Australasian Certification Authority for Reinforcing and Structural Steels (ACRS) as complying with AS/NZS 4671, 4672, 1163, 3678, 1594 and 3679.1 and 3679.2 standards.

Contractors must retain records to evidence the supply of steel from an ACRS accredited mill and must make such records available to the Office of the Industry Advocate for review, upon request.

5.2 Fabrication of structural work

The following requirements apply to contracts that include fabrication of structural steelwork.

A minimum **20 per cent industry participation weighting** must form part of the overall evaluation criteria.

Steelwork fabricators must be certified to the relevant Construction Category in accordance with the National Structural Steelwork Compliance Scheme (refer <http://www.scacompliance.com.au>) in accordance with the Fabricator Code of Practice.

Contractors must retain records to evidence that the fabrication of steelwork has been undertaken by a company certified to the required Construction Category and must make such records available to the Office of the Industry Advocate for review, upon request.

6 Further Objectives of the Policy

The following further objectives apply to all activity under the Policy.

6.1 Full, fair and reasonable access

The operation and implementation of the Policy is designed to open access to competitive South Australian businesses to win Government of South Australia contracts. The use of weightings and evaluation of economic contribution and economic development in tenders will promote this objective.

6.2 Value for money

The size of the industry participation weighting will determine how important economic development and contribution is to the assessment of a tender winner or grant recipient. The remaining evaluation criteria provides for a rounded assessment of value for money.

Value for money is achieved by balancing the benefits of economic development on the one hand with other criteria such as price, quality and delivery. The setting of the minimum weighting has taken this balance into account. This balance will reflect the approach to value for money established by the

Government of South Australia including through guidance from the State Procurement Board as well as the public value account methodology included in the Cabinet submission process.

When a decision to raise the weighting above the minimum is made in a particular case, it will have reference to balancing these objectives.

6.3 International agreements

The Policy operates within the context of relevant national and international agreements and procurement policies to which Australia is a signatory, including free trade agreements and the Australia and New Zealand Government Procurement Agreement (ANZGPA). Consistent with these agreements, the Policy does not mandate local content levels or provide unfair price preferences for local suppliers. It is a policy that focuses on capital investment, labour, supply chain opportunities and the associated economic contribution to the State.

7 Enforcing and Reporting

Agencies and private parties contracting to the Government of South Australia will be required to comply with this policy and its supporting procedural and reporting guidelines.

8 Contact

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For more information visit: www.industryadvocate.sa.gov.au