

Smart Procurement Issues Paper

10 APRIL 2019

Office of the
South Australian
Chief Entrepreneur



SMART PROCUREMENT – ISSUES PAPER

INTRODUCTION

A Smart Procurement Policy (SPP) is not about spending more it is about being smarter with how the government's expenditure is directed.

It should also be noted a Smart Procurement Policy would cover a wide range of purchasing categories and is not just focused on Information and Communications Technologies (ICT).

For the SPP to be successful there will be four critical elements:

1. Early engagement strategies to establish an ongoing dialogue between industry and government departments.
2. Effective governance, setting the rules to mitigate risk and other issues that may arise in the procurement process.
3. Independent Advice to provide expertise and validation of the process
4. A Benefits Realisation framework which would inform investment decisions being made by government and establish plans to realise intended benefits.

When the government established the Entrepreneurship Advisory Board, one of its key functions was to provide recommendations to ensure that the South Australia's entrepreneurship and innovation policies and programs were providing maximum benefit to the State. This will be measured through sustainable economic development and job creation, particularly 'smart' jobs that will support our growing economy.

The Government wants to support for innovation and entrepreneurial businesses and this can be delivered through improved procurement processes.

In support of this, the Office of the Industry Advocate and the Office of the Chief Entrepreneur have undertaken to develop a Smart Procurement Policy Discussion Paper (discussion paper).

Government purchasing can provide an important market for new products and services and which can be extremely valuable when our businesses are looking to expand into export markets.

It is remarkable that many of our new and innovative businesses are doing extremely well in interstate and overseas markets, but they find it difficult to sell to our State government agencies and authorities.

Early feedback suggests that we need a purchasing environment that encourages local businesses to bring forward their ideas and test them with government's buying requirements.

This requires a fresh look at our current procurement procedures so that contractors can safely share their intellectual property information, while encouraging new entrants through the rapid diffusion of new technology.

DISCUSSION

The Smart Procurement Policy Discussion Paper will seek to identify high-level changes to procurement practices – including renewed focus on industry engagement.

Government procurement processes strive to meet (often) competing policy priorities and this means they can miss the mark in terms of best value for money, particularly when considered in the context of economic benefits and whole of life product/service costs.

Smart procurement is about focusing on the outcome and the benefits rather than the inputs and the process.

There is a growing body of support for all levels of government to improve their procurement practices in this way. For example, CEDA's 2016 report 'Australia's Economic Future' considered the following:

- Government support for innovation can be delivered through procurement processes.
- Procurement processes adopted need to encourage innovation and should focus on outcomes, rather than outputs.
- Trials of less prescriptive tender documentation is needed.
- Concerns about risk minimisation in public sector procurement can stymie innovative solutions to public problems.

In addition, the Commonwealth Government's ICT Procurement Taskforce – 2018 found:

- Deep dissatisfaction of almost all parties involved in current government procurement practices and processes.
- Procurement processes outdated, cumbersome and unable to meet the needs of agencies.
- Concerns about being left behind in adopting new and innovative technologies to deliver services.

As technology changes the landscape of service delivery and jobs, governments must build closer and trusting relationships with industry to deliver these services.

One of the objectives for government is to avoid the costs of unnecessary features, prevent supplier 'lock-ins' and take account of longer-term public sector requirements.

Agencies and authorities may be able to steer the supply of innovative solutions from the demand side through less prescriptive practices, while early engagement with suppliers will enable them to better anticipate demand for new solutions and shorten time-to-market.

The Smart Procurement Strategies would identify direct actions for encouraging and incentivising the private sector to collaborate and co-invest with Government to deliver on the State's growth and innovation objectives.

OBSERVATIONS

Initial research conducted by the Office of the Industry Advocate suggests the vast majority of procurement staff cite one or more of the following constraints to purchasing innovative products and services:

- Lack of knowledge and expertise on the use of practices that favour innovation, risk management in procurement and market and technological developments;
- Wrong priorities, which focus on short-term costs and provide no incentives for taking the acceptable (and initial costs) of purchasing innovative solutions, even if they offer cost savings and efficiency gains in the long and medium term;
- Mismatch with public policies and strategies whereby procurement is treated as a purely administrative, legal or financial task without reference to public policy objectives such as health, environment, energy and the economy etc.;
- Lack of capability in agencies/authorities to identify innovative solutions, with few or no resources dedicated to identifying, or evaluating innovations, or even to establishing whether problems could be addressed more effectively through innovative solutions; and
- Fragmentation of demand/lack of critical mass due to the dispersed nature of procurement action across agencies/authorities, which leads to individual procurements being too small for companies to make the effort of coming forward with innovative solutions.

We believe there are two main ways to support the public sector to purchase more innovative solutions. The first of these is a more 'innovation friendly' legal framework and second, by developing policy frameworks that benefit procurement staff and their organisations.

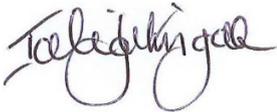
The following principles are proposed for incorporation into a Smart Procurement Policy framework:

- Start early and understand the agency's/authority's unmet future needs;
- Know the market – perhaps the single most important lesson;
- Assess and actively manage risks;
- Competition is not just a formality – it is a tool for obtaining the best from the market;
- Use outcome-based specifications, do not over-specify as this can kill innovation;
- Make information freely available – whenever possible;
- Agree on an intellectual property strategy; and
- The contract is key – involve users early in the procurement process this ultimately determines the value of the procurement.

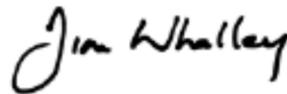
The South Australian Industry Participation Policy is designed to deliver greater economic benefit to the State through more jobs, supply opportunities and investment arising from Government's expenditure. There is a focus on increasing the number and diversity of local businesses winning government contracts.

If the State Government does adopt a Smart Procurement Policy, it is proposed it would be implemented via the Industry Participation Policy and changes to the State Procurement Board Policies and Guidelines.

We invite your feedback on the matters raised in this paper and would welcome recent examples that will assist us in developing an issues paper and – ultimately – a policy that will provide greater opportunities for South Australia's innovators and entrepreneurs.

A handwritten signature in black ink, appearing to read "Ian Nightingale".

IAN NIGHTINGALE
INDUSTRY ADVOCATE

A handwritten signature in black ink, appearing to read "Jim Whalley".

JIM WHALLEY
CHIEF ENTREPRENEUR



Smart Procurement

Why is Smart Procurement Policy needed?

Public procurement of innovative solutions creates a great opportunity to simulate growth and jobs in new and emerging industries.

What is the problem we are trying to fix?

Many of our new and innovative businesses are doing extremely well in markets interstate and overseas, but they find it extremely difficult selling to our State government agencies and authorities.

What is the desired outcome?

To have a purchasing environment that encourages local businesses to bring forward their ideas and to test them with government's buying requirements.

How will it work?

The strategies in the Smart Procurement Policy will identify direct actions for encouraging and incentivising the private sector to collaborate and co-invest with Government to deliver on the State's growth and innovation objectives.

Who is responsible?

A Smart Procurement Policy Discussion Paper will be developed by the Office of the Chief Entrepreneur and the Office of the Industry Advocate.

IAN NIGHTINGALE
INDUSTRY ADVOCATE

JIM WHALLEY
CHIEF ENTREPRENEUR

