



Government  
of South Australia

TRS20D2627

Hon Stephen Mullighan MP  
Member for Lee  
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**Treasurer**

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Dear Mr Mullighan

**APPLICATION UNDER THE FREEDOM OF INFORMATION ACT 1991**

I refer to your application made under the *Freedom of Information Act 1991* (the Act), dated 5 August 2020.

Your application seeks access to:

*"All minutes, briefings and correspondence titled 'Covid-19 Procurement Strategy- State Procurement Accelerating Economic Recovery' as described on the Objective document management system, between 9 April and 5 August 2020."*

The prescribed legislative timeframe to determine this application has expired and is now deemed as refused access to documents relevant to your application. I refer to my letter dated 18 August 2020 where I sought additional time to make my determination.

The purpose of this letter is to advise you of my determination. An extensive search was conducted within this office. A total of 1 document was identified as answering the terms of your application.

I release one document in full.

Please note, in compliance with Premier and Cabinet Circular PC045 - *Disclosure Logs for Non-Personal Information Released through Freedom of Information* (PC045), the Department of Treasury and Finance is now required to publish a log of all non-personal information released under the Act.

In accordance with this Circular, any non-personal information determined for release as part of this application, may be published on the DTF website. A copy of PC045 can be found at the following address: <https://dpc.sa.gov.au/resources-and-publications/premier-and-cabinet-circulars>. Please visit the website for further information.

As I am determining this application as Principal Officer, section 29(6) of the Act does not provide for an internal review. If you are dissatisfied with my determination you are entitled to exercise your rights of external review with the Ombudsman.

Alternatively, you can apply to the South Australian Civil and Administrative Tribunal. If you wish to seek a review, section 39(3) of the Act states you must do so within 30 calendar days of receiving the determination.

If you require any further information, please contact Ms Vicky Cathro, Ministerial Liaison Officer, by telephone on 8226 9769 or by email to [vicky.cathro@sa.gov.au](mailto:vicky.cathro@sa.gov.au).

Yours sincerely



**Hon Rob Lucas MLC**  
*Principal Officer*

9 December 2020

Att.

RELEASE





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## STATE PROCUREMENT ACCELERATING ECONOMIC RECOVERY

### Commentary

As the impact of the COVID-19 pandemic has steadily increased in 2020, there has been much commentary about the challenges that have become evident in global supply chains from the disruption of manufacturing in China, the loss of traditional logistics channels such as international air freight and the exponential growth in demand for certain products such as Personal Protective Equipment (PPE).

There is case to act now, perhaps in part to ameliorate the immediate impacts of widespread shortages for key products but in the long run, to redesign our supply chains where increased resilience is a key design factor.

Of course, resilience in our supply chains can be achieved in many ways from diversifying your supplier base to utilising innovation and technology to improve productivity. Some may view this as an issue for industry alone but what role can the public sector play?

COVID-19 will rewrite the economic model of development in Australia. If we are to recover quickly from this crisis, we need to start preparing immediately and start laying the foundations for a post-COVID-19 economy. We cannot leave this until the crisis has passed before we start thinking about rebuilding state and local economies.

Long-term strategies are needed for national, state, regional and local economies if they are to recover quickly from this crisis. In preparing strategies, we must not be afraid of change or to do things differently. Many things will not go back to the way they were. We must learn from the experiences and innovation gained in doing things differently as we work our way through the crisis.

That said, there is a range of strategies which governments can consider immediately to support recovery from the crisis. Governments, with the assistance of economists and industry, investigate ways for re-shoring or on-shoring critical and competitive elements of industry supply chains to create more self-reliant/self-sufficient economy and jobs in South Australia and Australia.

It's time to tear up many of the economic theories of trade based on comparative and competitive advantage. Reshoring and greater self-sufficiency in some sectors of the economy make sense when so many jobs are being lost.

According to one report from the US nine-tenths of new manufacturing jobs generated in the US since 2010 resulted from re-shoring.

## **What role will procurement play in the State's economic recovery?**

The South Australian Government spends over \$11 billion a year on purchasing goods, services and construction activities. This spending underpins the provision of most public services and has a significant impact on employment, business activity and investment in the state and also generates substantial social and environmental benefits.

In regional areas government expenditure can provide a huge boost for businesses and the community through the flow-on benefits of jobs and additional economic activity. This provides an important secondary benefit by creating a trigger for investment by the businesses involved in these regional supply chains.

In the current climate State government procurement could opportunistically use its bargaining power and continue to push for least cost options with the argument of maximising cost saving.

Alternatively the State government could take a more strategic approach, reflecting on its uniqueness to the private sector and implement ways to improve its economic contribution to the State which would have a direct and positive impact on accelerating the economic recovery in South Australia.

In such an environment it justifies asking the question: is our public procurement strategy going to make the best possible strategic contribution in accelerating an economic recovery?

There is a spectrum of strategic State government procurement responses that exist - at one end of scale there is an obvious need for the State budget to be in a shape to weather the storm – but savage cost cutting will reduce the overall economic performance of the State. However at the other end of the spectrum there is the potential of achieving long-term economic resilience for the State.

As our political leaders make choices regarding the State's response and recovery strategies they must be informed by a wide range of views about procurement, economic participation and industry participation which must include sound understanding of existing and future supply chain opportunities.

If the State Government were to choose a course of action where State procurement actively contributed to accelerating the economic recovery there will need to be recognition that industry participation or economic participation have quite different strategic objectives than traditional procurement policy and practice.

Spending locally not only creates jobs in South Australian industries but it has a multiplier effect in that it increases economic activity in downstream industries and communities and can stimulate private investment in South Australian.



Traditionally as a State we have focussed on those industries sectors with high value add multipliers but now is the time to reconsider those industry sectors that have low value add ratios, particularly in the case of new manufacturing industries as they can provide the much needed jobs and import replacement opportunities.

Obviously, the impact is going to differ depending on the item being procured, the type of procurement and the government agency.

But to help the State recovery from this crisis our procurement strategies should first be looking at what are the job creation or job retention opportunities, what are the long term economic growth benefits following COVID-19.

The object of the State Procurement Act 2004 (Act) is to advance government priorities and objectives by a system of procurement for public authorities directed towards:

- obtaining value in the expenditure of public money
- providing for ethical and fair treatment of participants
- ensuring probity, accountability and transparency in procurement operations.

The objective of the South Australian Industry Participation Policy (SAIPP) is to deliver economic development by the:

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

In this context industry or economic participation should not be seen as secondary to procurement policy.

Currently SAIPP Procedural Guidelines encourages Responsible Government Agencies to be looking for opportunities for further economic development for the State from procurement.

In addition to this the Procurement Design and Specification application under the Policy requires that design and specifications should not be an obstacle to the South Australian supply of required goods or services. If this was applied more proactively by agencies it would create many new opportunities for local businesses to gear-up to meet new demand in the supply chain. This would not be limited to just the building and construction sector, there would be benefits from the ICT sector, medical supplies as well as other products and general supplies.

It is important to note that these are 'encouraged' at the present time, but a COVID-19 Procurement Strategy could require they be mandated, then mechanisms put in place for them to be measured and monitored throughout the response and recovery period.

As the State Government looks at ways to stimulate economic recovery there is a need to consider what such a procurement strategy would look like.

For example single sourcing or aggregated contracts have often been put forward as a 'silver bullet' to reduce transactional costs and to achieve a better 'value management' outcomes. However, the use of multiple-sourcing options gives a wider access to markets and technologies.

The application of this strategy could stimulate the innovation of products and services by keeping open more access to the markets. By offering smaller orders to a wider market with multiple sourcing strategy SMEs have more chances to win business.

Single-sourcing, by definition, reduces the number of suppliers who gain public sector business, and the aggregation of a number of Agencies business within one framework agreement only exacerbates the adverse impact on the number of contractors.

Panel contracts may well lead to reduced prices and transaction costs, but in the current market lead to many losers and few winners at a time when businesses are struggling for their very survival and when bundles of smaller public sector business may make the difference to their survival.

Whereas a short-term multi-sourcing strategy, making use of 'lots', could ensure that a wider range of businesses benefit from the security of public sector business.

The biggest concern facing SMEs at the present time is cashflow and one of the key benefits which public sector contracts provide is the guarantee that invoices will be paid. Therefore, public sector contracts, no matter how small, may provide the oxygen a business needs to survive and the security a potential second tier supplier or financial institution may require to provide credit.

However we must ensure all contracts require the head contractor to a State Agency pay their subcontractors and suppliers, throughout the supply chain, within 30 days from receipt of an undisputed invoice.

A COVID-19 Procurement Strategy should be to accelerate an economic recovery, considered short-term and may not necessarily be applicable when full recovery has been reached.

The procurement strategy should not be stand-alone but synergistically linked to the State's economic recovery, including the survival of a thriving competitive business community and a population with appropriate workforce skills.

In doing so both the State and suppliers will reduce their exposure to risk. Plus the marginal increase in staff through winning of a larger contract is likely to be less than the overall employment provided through shorter-term multi-sourcing contracts.

The current global economic downturn represents a major challenge to the State and for the nation yet there remains an assumption that State and national procurement strategies and practices developed during a period of economic boom, is appropriate during a possible recession.



We must challenge this assumption and set out a procurement strategies which could accelerate economic recovery.

Whilst the public sector cannot be expected to solve all of the supply market challenges that can arise from a worldwide event such as the COVID-19 pandemic, it certainly can play a role in supply chain resilience into the future with this effort perhaps best directed as part of an overall national approach to remediating the current pandemic induced economic damage we are seeing.

## Recommendations

- Limit the use of single sourcing contracts above \$220,000 (inclusive of GST).
- In the short-term make a shift towards multi-sourcing contracts making use of 'lots' of local businesses.
- Mandate that agencies actively apply the SAIPP objective to deliver expanded economic development opportunities using a tailored approach to industry participation wherever possible.
- In the event that one or more of the shortlisted tenderers have a higher economic contribution score than the recommended tenderer, the Industry Advocate must review the final scores and decision making process.
- Agencies are instructed that a critical focus of all procurement is to ensure the design and specification must not be an obstacle to the South Australian supply of required goods or services.
- Look at those industries sectors that operate in the supply chain of government projects with low ratios of value add in the South Australian economy as this may indicate opportunities for substituting intermediate inputs for locally produced products.
- Require the head contractor to a State Agency pay their subcontractors and suppliers, throughout the supply chain, within 30 days from receipt of an undisputed invoice.
- All of the recommendations above are in place for minimum of three years and monitored regularly.

Ian Nightingale  
INDUSTRY ADVOCATE

*Bratt response*  
*- balance*  
*have recently approved*  
*major change*  
*- still discussing*  
*- let them settle*  
*- balance about right*

*NOT*  
Noted/Approved  
*Ros Lucas*  
*13/5/20* Treasurer