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# South Australian Industry Participation Policy



*Measuring Economic Benefit through Jobs, Investment and Supply Chain Opportunities*

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## 1. Purpose

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The Policy is the high-level framework for delivery of the requirements of section 4 of the *Industry Advocate Act 2017* 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
- capable South Australian businesses being given full, fair and reasonable opportunity to participate in government contracts.

The Policy sets the priorities and methodology for furthering these objectives within a strategic framework. A further nine principles set the benefit realisation requirements participation are listed in Appendix 1 to this Policy.

The Policy does not set out who conducts the implementation activities, this is set by Procedural Guidelines. The Guidelines set out<sup>1</sup>:

- the roles and responsibilities in implementing the Policy
- the requirements under various 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
- the benefit realisation requirement to apply including reporting obligations.

Minimum requirements, templates and scoring assessment criteria operate to further the Policy framework.

As a high-level framework, it is not intended to describe in detail the way that the Government of South Australia conducts procurement<sup>2</sup>.

## 2. Policy Coverage

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

- Procurement of goods and services as well as 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 and University projects receiving significant Government of South Australia monetary support or value-in-kind.
- Grants to the private sector.

Government of South Australia expenditure covers both the “public authorities” as defined in section 4 of the *Public Finance and Audit Act 1987*.

The Policy also extends to subcontractor and supplier activity.

<sup>1</sup> The Guidelines can exclude some activity from the scope of the Policy.

<sup>2</sup> Refer to Treasurer’s Instruction 18 Procurement, as well as the Policies, Schedules, Guidelines, and resources developed by Procurement Services SA

The Policy supersedes earlier versions, although it will not apply retrospectively, and earlier versions apply to above expenditure if made prior to this version.

### 3. The Policy Framework

#### 3.1. Economic development

The Policy establishes the framework for assessment of the economic contribution between competing offers (e.g. quotes, 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 offer has more economic contribution than another.

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

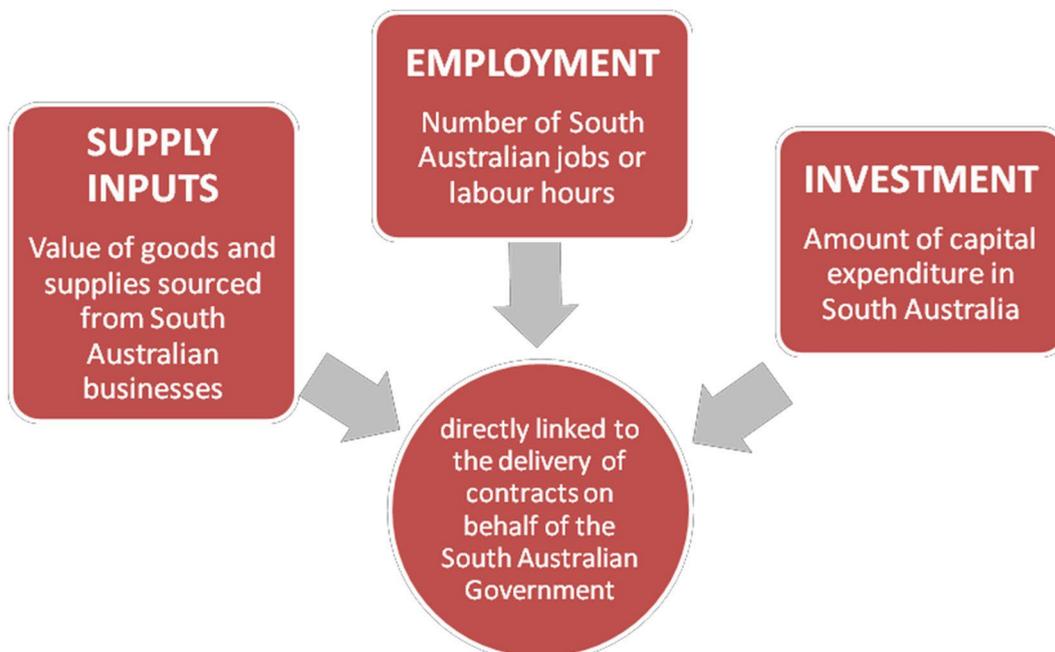
The standard implementation of the Policy is designed to deliver economic development by promoting:

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

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 4.7 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).

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



For any procurement above \$550,000 this industry participation component of the evaluation criteria will have a minimum mandatory weighting of at least 15%, or 20% for projects above \$10 million. The weighting and scoring assessment will measure outcomes that provide for these benefits.

### 3.1.1 Employment

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

Accordingly, employment is a key indicator as to whether one offer 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 for 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 (for example see 4.8 below).

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

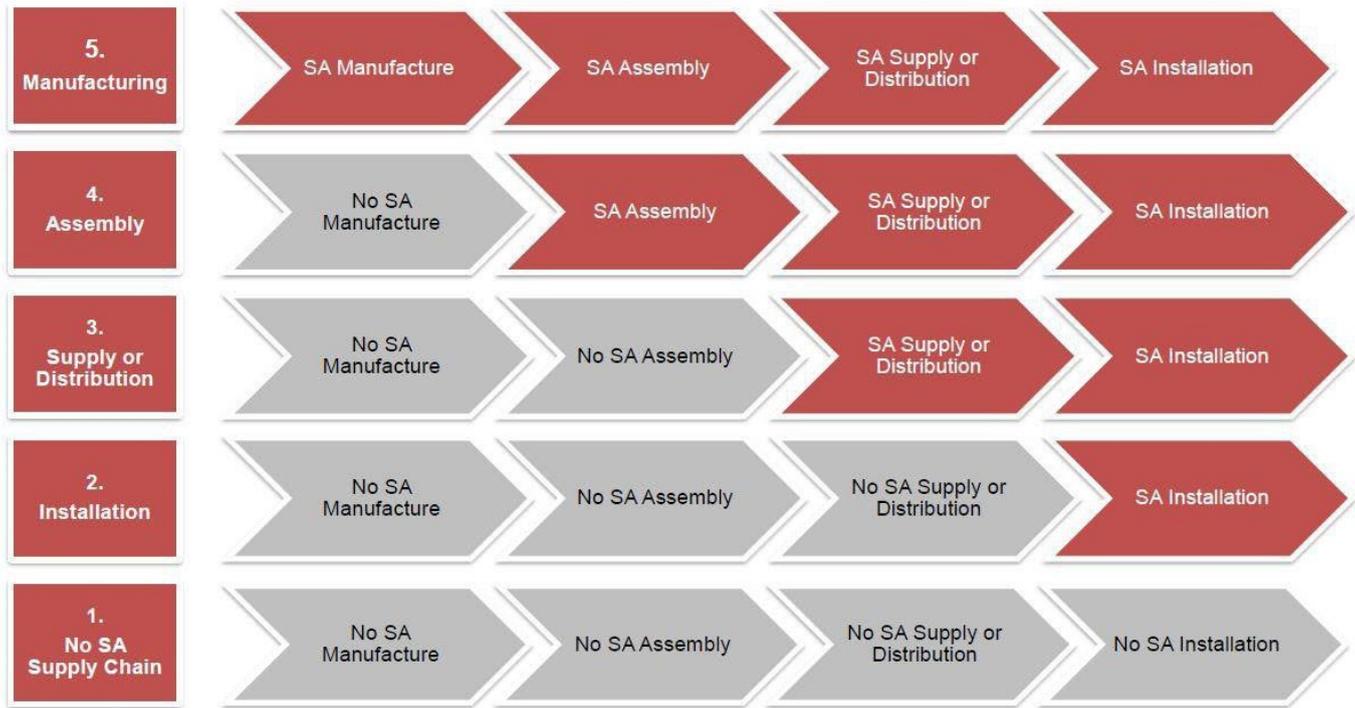
### 3.1.3 Supply-chain benefits

In contracting, particularly large infrastructure and construction projects of high value, the supply-chain and 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 a supply-chain can utilise South Australian businesses, materials, labour and capital equipment (plant and machinery). The higher the number, (e.g. 5 Manufacturing), then in general, the higher the gross State product to the South Australian economy from the supply-chain.

***The simple conclusion is that a supply-chain which utilises South Australian materials, labour and capital equipment will generally deliver significant 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 programs 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 of suppliers who employ and source inputs from South Australia or a region.
- 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 new jobs as well as ongoing jobs and does not promote one over another as being more desirable.

The benefits realisation framework will be applied at both the individual contract level, commensurate with the size and value of the project, as well as at the aggregate level. For example, for major projects the level of reporting and assurance will be significantly more against each criterion, compared to a small low-value project.

## 4. Opportunities for Expanded Economic Development

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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 region or sector of the economy which presents an opportunity to address high unemployment or social disadvantage.

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

### 4.1 Infrastructure and Construction

infrastructure and construction projects, and specifically Major Projects (i.e. construction projects above \$50 million), 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 may also consider increasing the minimum industry participation weighting.

### 4.2 Programs of Interlinked Small Infrastructure Projects – e.g. stimulus package

When the Government of South Australia funds a program of interlinked projects and procurements, the stimulus package will be developed from inception to maximise industry participation and economic development outcomes.

### 4.3 Regional Development

Public procurement spending in regional areas provides important flow-on benefits in the form of indirect economic contributions, knowledge spill-over and clustering impacts. This encourages regional businesses, directly and indirectly involved in supplying to Government, to invest to improve and expand their operations.

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

The Government of South Australia may from time to time specify an area of South Australia as an Economic Participation Region, under the Guidelines. The establishment of an Economic Participation Region is designed to stimulate economic activity and investment, support employment in the area, and to address economic conditions such as the transition of an economy due to the closure of a large employer or a declining industry.

In any Economic Participation Region, 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 aims to improve the level of Aboriginal people's participation in, and benefit from, employment and economic opportunities arising out of Government expenditure.

Guidelines provide for the use of a direct market approach, if there is an eligible Aboriginal business which meets established criteria. Guidelines also encourage lifting the minimum industry participation weighting where opportunities for Aboriginal economic participation exist. If the weighting is increased, the implementation will be accompanied by tailored approach to industry participation including 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 minimum weighting or tailored industry participation requirements to support the objectives of the procurement.

#### 4.6 Developing Innovative Products or Services

Procurement of innovative products and services can be an important tool for public authorities to improve the effectiveness and efficiency of public services and address challenges and needs while at the same time helping to create jobs, grow local industry and provide a boost for small and start-up businesses.

#### 4.7 Industry Development 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.

The Government of South Australia may from time to time establish priority areas of focus in government procurement, for generating growth in the South Australian economy. The Government of South Australia may consider increasing the minimum industry participation weighting for acquisition strategies in those areas.

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

The critical sectors include:

- Health consumables
- Information technology
- Advanced manufacturing.

#### 4.8 Private and Universities Sector Projects

The Policy applies to private sector and University projects that receive significant monetary support or value-in-kind. South Australian businesses should have full, fair, and reasonable access to opportunities in these projects, especially for developments which use the civil construction sector.

Guidelines will establish when private and University sector projects are subject to the Policy.

Where private sector and University projects are subject to the Policy there will be a tailored approach to industry participation. The approach to industry participation will be commensurate with the level of relative monetary support or value-in-kind provided to the project. That approach will bear in mind the high importance of ensuring private investment is promoted and enhanced.

## 5. The Steel Industry

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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 meets the requirements of the relevant Australian Standards.

### 4.9 Purchase of Structural and Reinforcing Steel

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

A minimum 20% industry participation weighting must form part of the overall evaluation criteria.

The public authority must consult 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 provide evidence of 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.

### 4.10 Fabrication of structural work

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

A minimum 20% 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.sca.compliance.com.au>) in accordance with the Fabricator Code of Practice. Contractors must retain records to provide 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

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

### 4.11 Full, fair and reasonable access

The operation and implementation of the Policy is designed to open access to capable South Australian businesses to participate in government contracts. The use of weightings and evaluation of economic contribution and economic development will promote this objective.

### 4.12 Value-for-money

The weighting assigned for industry participation will indicate how important economic development and contribution is to the assessment of an offer. The remaining evaluation criteria provides for a rounded assessment of value-for-money.

Value-for-money is the achievement of a desired procurement outcome at the best possible price based on a balanced judgement of financial and non-financial factors relevant to the procurement. Value for money is achieved in procurement by finding the optimum balance of whole-of-life cost and quality (including the benefits of economic development).

The setting of the minimum weighting for industry participation takes this balance into account. When a decision to raise the weighting above the minimum is made in a particular case, it will

have reference to balancing these objectives.

#### **4.13 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**

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Public authorities and suppliers contracting to the Government of South Australia are required to comply with this Policy and supporting procedural guidelines, including when set separately by a public authority.

## **8. Contact**

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### **Office of the Industry Advocate**

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## Appendix 1 Nine principles to ensure maximum local participation

The Industry Advocate has developed the following nine principles to maximise the benefits of procurement for the State economy and to ensure opportunities for South Australian business participation is maximised.

### **Principle 1**

*Principle: The economic benefit to the State from procurement decisions is recognised in bid evaluations*

*Outcome: Government procurement is an economic lever for the State*

### **Principle 2**

*Principle: Public authorities report on local participation in purchasing and contracting, and identify strategies for improvement*

*Outcome: Consistent, meaningful data informs strategies to improve local participation outcomes*

### **Principle 3**

*Principle: Constructive feedback to improve chances of winning future work is provided to unsuccessful local tenderers, linked to a program to improve tendering skills for local businesses*

*Outcome: Local businesses who have been unsuccessful in winning government contracts in the past are skilled to win future work*

### **Principle 4**

*Principle: A single web portal provides access to information on government tenders and contracts and participating in government contracts as well as forecasting future opportunities*

*Outcome: Businesses have a single point of reference for all information about tendering and winning government contracts*

### **Principle 5**

*Principle: Contract conditions and procurement requirements are removed where they form unnecessary barriers to local participation*

*Outcome: A greater number and diversity of local businesses submit tenders for government contracts*

### **Principle 6**

*Principle: Procurement practices minimise the costs of tendering*

*Outcome: A greater number and diversity of local businesses submit tenders for government contracts*

### **Principle 7**

*Principle: Local businesses that wish to do business with Government are given the opportunity to do so*

*Outcome: Public authorities actively seek bids from local businesses and enhance the opportunities for inclusion on pre-qualification lists and panels (this does not mean giving preference to local businesses)*

### **Principle 8**

*Principle: The potential for local industry development and employment creation through government buying is explored at the project design or concept stage*

*Outcome: The structure and design of projects and contracts provide local businesses with greater opportunities to participate in procurement processes*

### **Principle 9**

*Principle: Procurement processes support local industry development by encouraging collaborative industry partnerships*

*Outcome: The capacity and capability of local businesses is increased through participation in major projects.*