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SUMMARY

Governments spend vast amounts of money delivering services to citizens. Through procurement, governments invest in infrastructure and ensure the supply of essential services. In 2017, it was estimated that the New Zealand and Australian public procurement markets had a combined value of \$160 billion. While a 'value for money' criterion primarily directs public procurement processes, governments regularly use these policies to achieve other policy objectives. At any one time suppliers tendering for government contracts will have to consider their contribution to a range of policy objectives including (but not limited to) workplace safety, sustainability, training and environmental goals.ⁱ

Regional development is a legitimate government policy objective. Across Australian jurisdictions, governments are increasingly engaging public procurement processes to bring about regional development outcomes. This is in line with international practice; since the global financial crisis governments across the globe have engaged procurement processes to promote or sustain economic growth at the national or regional levels. The thinking is that by focusing a government's purchasing power on suppliers that are connected to local supply chains, a procurement can not only secure the supply of a good or service, but also have a range of flow-on effects. These are often predicted to include an increase in the employment rate or an increase in local business capacity.

Whether and to what extent public procurement can contribute to regional economic development is contested. Where these policies preference local suppliers in procurement processes, critics argue that they violate free trade and other cooperative arrangements. Critics also argue that using public procurement for regional development risks Australia's reputation as an 'open and competitive' economy in international markets and that the practice rests on faulty economic reasoning as policy efforts interfere with the traditional purpose of procurement processes, which is to reliably secure the best priced goods and services for the government on behalf of taxpayers.

Unhelpfully, there is little systematic and robust analysis of the scale and range of regional development impact that public procurement can have. This is largely due to a history of poor program and policy assessment, where policy effort is weighted towards announcements and implementation at the expense of ongoing review and evaluation. This has left a significant gap in the evidence that leaves claims about the use of public procurement to achieve regional development outcomes vulnerable to criticism. But while this evidence gap is substantial, it is disingenuous to argue that public procurement is an entirely impartial process. Evidence shows that processes have come to favour particular kinds of businesses and large sections of the policy effort is shielded from interrogation due to commercial in confidence concerns.

Where does this vagueness leave governments that are designing public procurement policies to improve or sustain economic development outcomes in regions? While the evidence base is thin, we can still draw from it lessons about emerging practice and ways to mitigate the risks that can be associated with poorly designed public procurement policies.

By synthesising what evidence there is with contemporary policy efforts, it is possible to understand the way that governmental use of procurement has developed in the pursuit of regional development goals. While early policy efforts tended to intervene with supply chains in relatively blunt ways, more recent efforts have extended this repertoire to include not only more nuanced policy options for engaging local supply chains but also attempts to address a range of complex, context-specific issues. Design considerations for public procurement efforts will vary according to the policy objectives, as will the administrative effort associated with their implementation and evaluation. Policy objectives can be considered along a spectrum, with minimal intervention at one end and attempts to use public procurement to catalyse an entire regional economy at the other. Broadly speaking, the more catalytic the policy objective, the greater the associated administration and supporting policy architecture.

This briefing note outlines design considerations for public procurement efforts that are intended to bring about regional development outcomes. These focus on the following distinct but related areas:

- identifying and designing for outcomes as opposed to indicators of administrative effort or outputs;
- ensuring that the policy effort 'fits the place' and is responsive to context;
- providing leadership for local impacts; and
- evaluations that contribute to the evidence base.

The note then outlines a series of discussions points that usually occur within or between government departments when procurement processes are leveraged to achieve regional development outcomes. The Appendices include a series of contemporary case studies that feature various approaches to using procurement to bring about regional development outcomes, an overview of the main features of current policy arrangements across Australian jurisdictions, and the concluding summary chapter of the literature review undertaken for this research project by Associate Professor Pascal Trembley and Dr Alicia Boyle at Charles Darwin University.

INTRODUCTION AND EVIDENCE BASE

Governments spend vast sums of money delivering services to citizens. Through procurement, governments invest in infrastructure and ensure the supply of essential services. The OECD reports that countries spend approximately 12 percent of their GDP on public procurementⁱⁱ. In 2013, procurement accounted for nearly 30 percent of total government expenditure.ⁱⁱⁱ In 2017, it was estimated that the New Zealand and Australian procurement markets had a combined value of \$160 billion.^{iv} The ANAO estimated that in the 2016-2017 financial year, the Australian Commonwealth government alone spent \$47 billion through procurement.^v Additionally, states and territories tend to each spend \$2 and \$14 billion annually.^{vi}

For decades governments have used procurement to pursue a variety of secondary but legitimate policy objectives including reducing inequality through affirmative action as well as training, sustainability and environmental goals. Public procurement processes have also been used to pursue regional development goals, with this practice notably increasing since the Global Financial Crisis. Like addressing inequality or protecting the environment, regional development is a legitimate policy focus of governments at all levels. However, there is controversy surrounding the use of public procurement to achieve regional development policy goals. Critics question whether public procurement processes can effectively bring about the kinds of regional development outcomes that governments hope that they achieve and argue that any preferencing of regional suppliers violates trade agreements.

WHAT THE EVIDENCE SAYS

As part of this project, researchers at the Charles Darwin University reviewed the literature pertaining to the use of public procurement in achieving secondary policy objectives, including regional development goals. This review looked at academic literature as well as ‘grey’ literature – literature that includes reports, assessments and reviews from governments, non-government organisations and advocacy groups. Over several chapters the literature review looks at the history and evolution of public procurement, its relationship to free trade policy goals, and the way that public procurement has been used to promote SMEs and Indigenous businesses both in Australia and internationally. A copy of the full review is available on the RAI website, and the summary chapter is included here as Appendix A.

Unfortunately, the review found little systematic and robust analysis that makes the case that government procurement can bring about the scale and range of impacts to which advocates point. Moreover, the review found that there tends to be a disconnection between the small evidence base that does exist and policy design more generally.

This finding leaves the policy area vulnerable to criticisms about the kinds and scale of regional development outcomes that can be brought about through public procurement. However, the review did call into question a common criticism that is levelled at governments that engage public procurement processes to achieve secondary policy objectives: that is that these attempts necessarily interrupt an otherwise objective, impartial and transparent process. At best this objection is overstated, at worst it

ignores the long and extensive history of secondary policy influence on procurement mechanisms and the risks that such influence necessarily entails:

Procurement as a public management function has existed for a long time, and never been fully impartial (being a government administrative process), never been fully transparent (for sound reasons as it sits at the interface between the public and private sector domains), and has always been somehow juxtaposed to other policy instruments capable of fulfilling a similar role, although perhaps entailing different costs, scrutiny and risks to governments. (Chapter 8, page 2)

While there is no strong evidence base that public procurement can achieve regional development outcomes, the literature is still instructive. First, it is clear that any evidence base is severely limited by the scarcity of robust program evaluation undertaken by governments. This means that in addition to a poor evidence base about effectiveness in general, there is even less evidence about the different kinds of regions that could benefit from public procurement efforts. Not only do we not know ‘what works’, the literature gives us little insight into ‘what works where’:

Questions such as ‘which is the best method to support the local economy’ ... through interventions in the procurement process cannot be readily answered from what the review has revealed. There is no integrated and coherent body of knowledge allowing us to answer such fundamental interrogations. ... Our review showed that many context-specific elements contribute to an array of fundamental choices that need to be made explicitly when choosing a procurement direction. (Chapter 8, page 6)

The poor state of the evidence base leaves us not only unable to ascertain the best policy tool mix for different contexts, it can also leave us scrambling to recognise success should it occur. Procurement has historically been an administrative process of government where effectiveness can be easily ascertained through managerial indicators including the number of contracts signed, completed on budget, or on time. These indicators are not suitable for measuring other strategic policy outcomes that public procurement processes are engaged to bring about, although they have frequently been used to do so. Not only does this mean that policy efforts are not being effectively tracked, it has meant that they are defenceless against broad criticisms of ineffectiveness:

Much of the research on public procurement reviewed intends to make judgments about whether it constitutes an ‘effective’ way of solving social, political and economic development problems. While this would be a fair and straightforward enunciation of the focus of research, the ‘problem’ with public procurement is really in agreeing on the dimensions of effectiveness. Does it refer to the acquisition of goods X, Y, Z at a decent price? Does it refer to employing locals in the process? Does it refer to using certain types of enterprises or certain types of workers? Does it mean managing or fulfilling a target number of contracts per months? Does it mean streamlining and reducing the costs of procurement? (Chapter 8, page 2)

The review found that the criticism of linking public procurement efforts to regional development outcomes, especially where these may preference local suppliers, may be disingenuous. Despite the efforts of bodies such as the WTO and the OECD, there is strong evidence of entrenched bias towards domestic firms across a variety of countries even where trade agreements exist. The argument that preferencing local suppliers violates trade agreements is only a part of the story: the literature review found many other countries are routinely engaging in this practice.

Authors agree that domestic discrimination remains the dominant and most widespread practice, irrespective of any trade agreement proliferation. The question which has preoccupied for a long period of time and continues to elude the specialized literature on international procurement is: Why? Researchers who examined that ... documented explicit domestic preferences policies in many countries (often Canada, Australia, New Zealand, USA and Turkey) and explored the US 'Buy American Act' where some states specify % value targets to enforce domestic supplies preferential treatment, often operating adjustable rates to support small businesses or assist further military equipment domestic industry. (Chapter 3, page 5).

In addition to this, some research also shows that Australia appears less willing to use public procurement to catalyse economic development than other signatories to our major agreements.^{vii} The USA for example, includes mandatory set asides for SMEs, and South Korea regularly uses import-substitution focused programs, mandated procurement targets for SMEs and mandated local content requirements in contracts reserved for SMEs. All of these policy tools are permitted under these agreements, yet they are not regularly practiced in Australia.^{viii}

Although the literature review revealed the fragmented and incomplete nature of the evidence base, it is still instructive. The review gives us a good overview of the requirements of more ambitious procurement interventions as well as some evidence about what does *not* work. It emphasises the longer-term importance of effective program evaluation and the need to track strategic outcomes related to social or economic goals as well as administrative goals such as completion rates and cost targets.

The lessons gleaned from the literature review have been synthesised with case studies from across several jurisdictions. Together these are presented below as design considerations.

A SPECTRUM OF REGIONAL DEVELOPMENT GOALS

As no one region is exactly like another, regional development goals vary from place to place. Currently, policy makers use public procurement processes to bring about a range of different goals: some will try to address procedural barriers that prevent small or medium local businesses tendering for government contracts, while others will use large scale government purchasing to catalyse the entire economic base of a town or region.



Figure 1: Spectrum of regional development goals associated with public procurement processes

These practices can be considered across a spectrum, with relatively minimalist interventions in procurement policy at one end, and with transformational, large scale procurement at the other. The regional development goals that governments hope to achieve tend to sit variously along this spectrum rather than clearly at one end or the other. This means that there is no one prescriptive ‘right’ place for all procurement policies to sit along the spectrum. In some instances, the policy will be located towards the catalytic end of the spectrum while in other more robust regional economies where only minor stimulus is required, policies may be towards the other. Governments may also decide against the use of public procurement to achieve regional development altogether.

Procurement policies at the ‘minimum intervention’ end of the spectrum tend to be ‘light touch’ approaches that are aimed at improving the participation of local businesses in a regional procurement supply chain. Here, policy effort is usually directed to helping local businesses compete for opportunities that they are already capable of delivering. Procurement processes at this end of the spectrum will usually direct officials to consider local suppliers, either by prescribing that officials consider them, by designing evaluation criteria that are favourable to them, or by providing a linking or brokering service (often web based) to facilitate contact between purchasers and providers. For example, some local and state governments participate in the Industry Capability Network, which uses a database and a network of ‘Business Growth consultants’ to facilitate online connections between local government authorities and regional suppliers.^{ix}

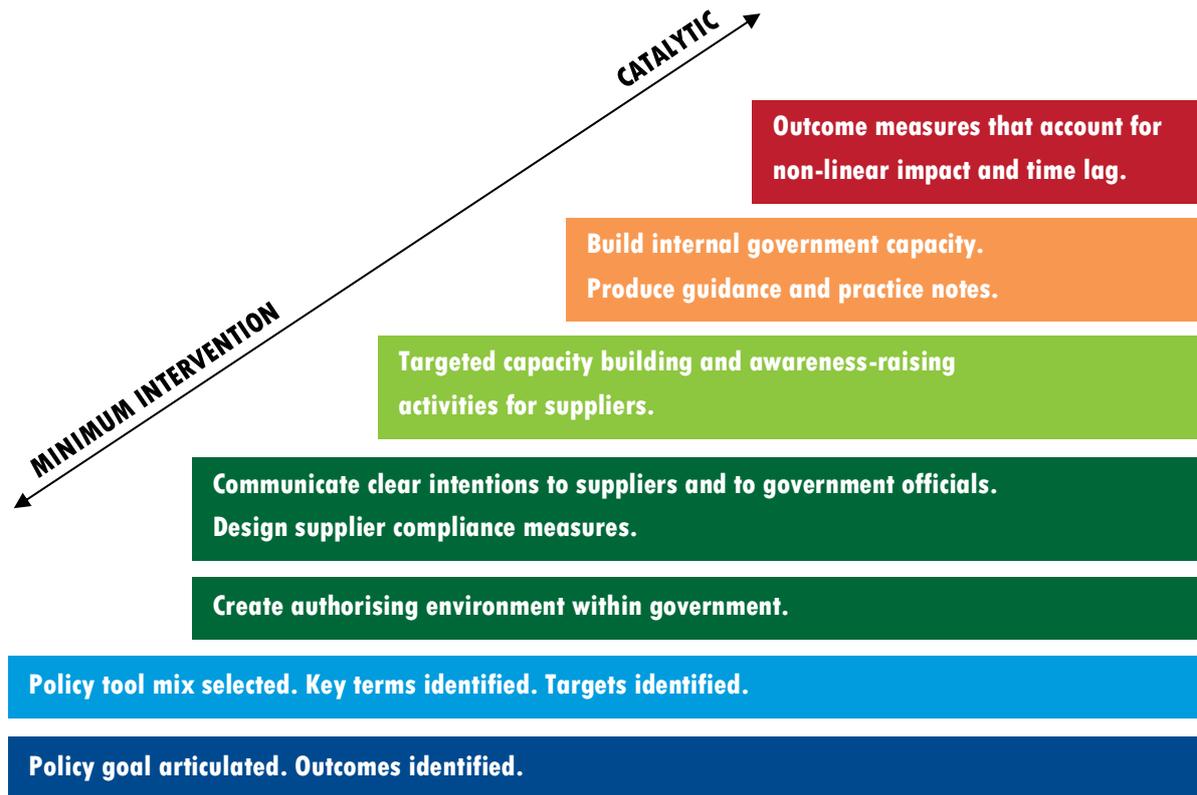


Figure 2: Scale of the complexity and comprehensiveness of support.

As policy aims move further along the spectrum, the greater their focus on building the capacity of regional businesses to compete in the local, and possibly other, procurement markets. These capacity building efforts take various shapes depending on the longer-term policy objective and can focus efforts around the locality, size, or sector of businesses. These efforts usually comprise activities like workshops provided for potential suppliers, in some cases extending to mentoring and personal assistance to potential suppliers to improve their tenders. Towards the other end of the spectrum, public procurement is used to catalyse an entire region or locality, to transform its economic base. For example, Defence training activities and facilities can be deliberately located in a particular region, injecting millions of dollars into local economies, providing direct employment and thereby indirect spending that is a boost other business.

Figure 2, above, depicts the policy elements and administrative effort associated with the use of public procurement to bring about regional development outcomes. Establishing and clearly articulating the policy goal, the desired outcome and selecting the policy tool are common requirements of any policy design, wherever the goal sits along the spectrum. However, the more catalytic the goal, the more multifaceted the policy approach needs to be so that it also includes efforts to build capacity of suppliers and government officials, the communication of clear intentions and the creation of an environment where officials are empowered to use procurement for non-cost related policy outcomes.

This means that the more catalytic a policy objective, the greater the administrative effort that is required. Catalytic goals will also require outcome measures that account for non-linear impact and a time lag between implementation and demonstrated impact.

DESIGN CONSIDERATIONS FROM SUPPLIERS

Using procurement to achieve regional development outcomes is not necessarily a new idea for those businesses working in regions. Larger, experienced contractors generally have an intricate understanding of the diversity and capability of regional supply chains. Many Tier One (and even Tier Two) suppliers already have local content and capacity building charters. As there are strong commercial incentives it is not uncommon for them to have staff dedicated to sourcing from local/regional emerging, smaller businesses and building the capacity of their own sub-contractors.

The Minerals Council of Australia reports that even where larger companies use specialist and out-of-region workers, they work with them to “ensure flow-on opportunities within host communities and regions.”^x Many industry representatives have also made strong public commitments to engaging local suppliers in regional areas, such as those outlined in the Queensland Local Content Leaders Network’s *Joint Statement of Commitment to Maximising Industry Local Content in Regional Queensland*.^{xi} The sophistication of these existing arrangements and commitments should be kept in mind by jurisdictions as there may be opportunities to design complementary policies and targeted assistance to the local market and thus achieve a greater policy impact.

The suppliers engaged over this project welcomed government efforts to reduce the administrative burden associated with the tender process, such as those recently introduced by the NSW government for major infrastructure projects.^{xii} However, suppliers would like to more clearly understand ‘value for money’ assessments that will weight local content or local industry plans. Some suppliers expressed a concern that a lack of transparency around these “sometimes vague” assessments made it difficult to understand the priority given to local impact elements of tenders and the threshold at which these elements will be trumped by more standard price elements.^{xiii} These inconsistencies serve to undermine the underlying appetite for local sourcing already shown by many lead contractors.

DESIGNING PUBLIC PROCUREMENT – CONSIDERATIONS

IDENTIFYING AND DESIGNING FOR OUTCOMES

Governments will often structure public procurement programs to ensure that government purchasing contributes to policy objectives other than financial efficiency. Evidence shows that these policy arrangements can minimise the risk of failure by articulating a clear *outcome* and using this to guide the choice of procurement tools. This is especially important the more catalytic the policy objective. The efficiency of public procurement arrangements is historically measured in administratively focused *outputs* that track the procedural efficiency of administrative arrangements, generally including measures like the number of compliant contracts as well as the number of contracts delivered on budget or on time. It is important that these outputs are distinguished from any outcomes that the procurement

arrangements may bring about, as outcomes more closely track the contribution of the arrangements towards the stated policy objective.

For example, if the policy objective is to use a large procurement to catalyse a regional economy by engaging its supply chain, a jurisdiction might not be concerned whether a head contractor is local. More important than the head contractor's location is the way that contractor will subcontract to local suppliers so that a significant portion of the spend remains in the regional economy. This is the approach taken by the North Queensland Stadium project, where outcomes are tracked by recording the number of project dollars that remain in the defined local area, and in hours worked by locals as a proportion of project total hours. Conversely, the South Australian public procurement processes are being engaged to build local capacity in specific sectors. The Office of the South Australian Industry Advocate designs programs on a sector by sector basis and tracks the capacity of local suppliers to participate in large scale public and private procurement opportunities.

SETTING TARGETS

Public procurement efforts, in particular those intended to bring about regional development goals, work best when their targets are shaped by the intended policy outcome and where the scale of these targets is based on data that reflects the capacity of local suppliers. The literature review found that the setting of arbitrary targets, often for political purposes, is a consistent flaw of policy efforts in this area. While ambitious targets may make good policy 'announcements' they can be neither effectively measured nor met. In the end this is self-defeating as it not only means that individual policy efforts are unlikely to meet key goals, but also that such failures appear to strengthen opposition to the use of public procurement to pursue secondary but legitimate policy goals from within central departments within governments themselves.

Although not strictly a public procurement policy effort, the GROW initiative in Geelong that uses procurement to bring about socio-economic outcomes is a good example of how effective targets can be set. When the initiative was in the design stage, officials commissioned independent research to ascertain the quantum and regional flows associated with the procurement activities of businesses within the region. Once this was understood, a statistical model was applied to determine the size of impact on employment that could be brought about by changes in the procurement supplier mix. Targets were set according to this modelling and results are constantly tracked according to them.

DEFINING KEY CONCEPTS

Defining key concepts used in the policy arrangements adds clarity for suppliers and for governments, not only in the implementation of procurement efforts but also in their evaluation. The literature review showed a history of procurement programs that were constrained by a lack of certainty around key terms that in turn impeded implementation and evaluation efforts.

Know what 'local' means

Where procurement policies are to focus on 'local' or 'regional' suppliers, clear definitions of which businesses count as local or regional are required. Early iterations of the Indigenous procurement

efforts show that too-broad definitions can leave the processes open to exploitation from larger companies who may create shell companies or lease premises in a targeted local area to benefit from a particular policy focus.

Current policy efforts across jurisdictions have sought to address this in various ways. The Ballarat Industry Participation Policy defines local businesses through a spatial lens and according to their location within the boundaries of six adjoining LGAs. Similarly, the Buy Queensland state policy uses a kilometre distance measure to distinguish between local, regional and state suppliers. The North Queensland Stadium construction, which is part of the Townsville city deal, has introduced another indicator of 'localness' which is that the supplier has to have not only a shopfront in the identified local area, but also a history of trading from there. This requirement is designed to prevent larger non-local companies simply setting up shop to qualify as local for contracting purposes.

Know what counts as 'value'

Achieving value for money has been (and continues to be) the primary policy objective of procurement. Although value for money usually continues its primacy as an objective when public procurement is used to achieve regional development objectives, other objectives, such as the capacity of a purchase to provide economic stimulus, will also be assessed. Consideration needs to be given to the way that 'value' is determined and to how this determination can practically guide officials who are required to make complex assessments about purchases according to non-cost factors. Some jurisdictions have reframed the 'value for money' (VFM) assessment so that officials make 'best value for money' considerations, where 'best value' includes both cost and non-cost factors. Other jurisdictions, such as Queensland and the Northern Territory have replaced VFM with 'value for Queensland' or 'value for the Territory'. Through this reframing, officials must consider not only the costs associated with the procurement transaction, but the extent to which it contributes to broader jurisdictional policy goals.

ENSURING THAT THE POLICY EFFORT 'FITS THE PLACE' AS WELL AS THE OUTCOME

Evidence shows that public procurement efforts to develop, sustain or catalyse regional economies can be impeded by a poor selection of policy tools that are unsuitable in a local context. For example, policy efforts have sometimes required officials to preference local suppliers even though these businesses do not have the capacity or scale to deliver on contracted obligations. In general, procurement policies work best when they are part of a larger, considered place-based approach in which the capacity of suppliers and the longer-term capability of local markets is understood. For example, the Ballarat City Council's Industry Participation Policy includes local content targets but sits alongside capacity building efforts aimed at brokering stronger links between local supply chains and council procurement opportunities.

GETTING THE TOOL MIX RIGHT

Key to ensuring that policy effort fits the place is tool selection and mix. Generally, the more catalytic a policy objective, the more varied the mix of policy tools. This is because catalytic efforts are usually designed to address complex socio-economic disadvantage and so require a multifaceted approach where policy tools work in separate but complementary ways to bring about a larger objective. For example, Victoria's Social Procurement efforts sit alongside other policy instruments that are also

designed to achieve regional development objectives (these are the Jobs Guarantee and the Industry Participation Policy). Here, the Social Procurement Framework helps to include disadvantaged groups in procurement opportunities, while the Jobs Guarantee increases the skill base in the state and the Industry Participation Policy helps ensure that local suppliers benefit from large government infrastructure spending. No one policy lever is engaged in isolation, but rather as a part of a broad strategic approach to the achieving of complex, state based socio-economic goals.

Table One, below, lists policy tools that are commonly associated with public procurement and regional development.

Tool	Details
Compulsory consultation	Policies dictate that a specified number of quotations must be obtained from one or more local suppliers as part of the tendering process.
Mandatory 'set-aside'	Can apply to certain contracts or to a total amount, where a subset of providers are approached to supply goods/services before an approach to market or before opening the procurement to competition.
Mandatory minimum requirements	Standards set out in contracts that require particular numbers or a particular proportion of workers, services or materials to come from a particular local area or region.
Local implementation plans	These plans are often required in the awarding of contracts for large projects. These plans usually detail supplier intentions to engage local workers or to use local sub-contractors and businesses in the delivery of the larger project.
Identified targets	A predetermined number of contracts to be met by an identified subset of providers.
Weighted criterion or 'local benefits test'	A criterion in value for money assessments that assigns weight to the locality of an applicant. This is sometimes formulated into a 'local benefits test'. In some instances, this test refers to a calculation of the impact on the location of a procurement and is usually measured in number of hours worked rather than the location of the supplier per se.
Disaggregation of large procurements	Large procurements are disaggregated into smaller components for which local providers or SMEs are likely to have more capacity to supply.

Impact assessments	Potential suppliers are required to include assessments of the impact of the procurement on local or regional businesses and employment rates.
Skills guarantees	Successful contractors are required to offer a set number of apprenticeships to employees engaged during the procurement.
Compulsory approach	Government agencies are required to approach local businesses for a quote or tender, where this capability exists.
Capacity building (supplier base)	Often accompanying local content procurement policies, these programs can include training or education programs for potential suppliers, awareness raising efforts to ensure that procurement opportunities are communicated to local providers, and in some cases the establishment of entities to actively advocate to government agencies for opportunities for local providers. These efforts are sometimes also directed to SMEs.
Capacity building (within governments)	Efforts to improve internal awareness of local/regional suppliers, and processes to include them. Often involving guidance and practice notes for officials.
Reducing complexity of applications/tenders	Efforts to reduce the administrative burden often associated with competing for government contracts. These efforts are sometimes also directed to SMEs.

Table 1: Overview of common policy tools associated with public procurement and regional development

CAPACITY EFFORTS

Public procurement processes are more effective where interventions designed to generate more local expenditure are complemented by efforts to improve the capacity of suppliers to participate in public procurement opportunities. While in some places this will mean encouraging suppliers to tender for government contracts, it does not necessarily mean that they will do so. Depending on the place and the particularities of its supply chain, capacity building efforts may instead encourage local suppliers to form consortia to apply for opportunities or connect larger businesses with smaller ones that may sub-contract to them in future contracts.

Capacity building efforts usually take a longer-term view and should be tailored to the locality, size or sector of the businesses as well as the overall policy objective. In South Australia where the objective is to build capacity in specific sectors, the Office of the Industry Advocate tailors specific activities aimed at helping businesses compete not only in state based public procurement opportunities but over time, in other larger public and private procurement markets. Conversely in NSW, a trial in the Far West region aims to encourage small local suppliers to engage directly with government procurement opportunities. Here, officials are disaggregating large contracts so that local suppliers can win contracts and over time build their capacity to compete for larger ones.

PROVIDING LEADERSHIP FOR LOCAL IMPACTS

AUTHORISING ENVIRONMENT

Public procurement efforts for regional development outcomes work better when they are authorised or championed by key officials or departments. For example, in Victoria and in Western Australia, social procurement and local content procurement strategies are passed into legislation and have bipartisan support. This means that they must be reported against and these commitments are unlikely to be removed if the government changes. The recent introduction of Victoria's Social Procurement Framework is being championed at the Ministerial level, which sets a clear tone of endorsement for the whole of government initiative. In addition, all departments and agencies are required to report against targets in their annual reports, beginning in 2019.

An authorising environment sets a clear direction not only for government officials but for suppliers as well. Evidence shows that these clear directions can be emphasised through compliance targets for suppliers where there are real consequences for non-compliance. In Queensland for example, a contractor's failure to deliver on local content commitments in one contract will be considered in the assessment of future tenders.

HEARTS AND MINDS SUPPORT WITHIN KEY DEPARTMENTS

Even when key officials and approved policies support the use of public procurement policies for regional development, implementation efforts often require something of a culture change within governments, especially within central agencies. There is no 'easy fix' to cultural change, but efforts can be made so that over time officials are empowered to pursue regional development outcomes through procurement. When Victoria introduced its Social Procurement Framework, key personnel were seconded to and from central departments to help officials understand the broader policy objective and how day-to-day procurement activities can be directed towards achieving it. In 2018, Western Australia placed a local content procurement officer in each of its nine regions to promote the policy, to create awareness and to build understanding not only within the business community but among government officials as well.

CAPACITY WITHIN GOVERNMENTS

Using public procurement to achieve strategic regional outcomes requires a skill set that has not traditionally been associated with accounting-based procurement practices. These skills include an understanding of often complex socio-economic regional development issues, as well as those associated with designing and implementing programs that aim to address them. Officials may also need the skills to develop appropriate and targeted supplier capacity building programs, which may entail specific understandings of the local supply market and of specific sectors. Additionally, standard procurement assessment and program evaluation processes may need to be revisited to build in the capacity to track outcomes as well as outputs.

GOOD GUIDANCE MATTERS

Because the use of public procurement for regional development can be considered to be disruptive in the policy sense, it represents a different way of achieving government objectives. Studies show that officials who must now understand different conceptions of ‘value’ or ‘impact’ require detailed and clear guidance in policy implementation. Consistent guides and toolkits are essential in reducing ambiguity across and within departments. Where these can be developed with or by central finance agencies, ambiguity can be further reduced. The guidance developed to accompany the implementation of the Victorian Social Procurement Policy was publicised by its Finance Department and includes guidance for departments, for managers and for procurement officials themselves.

EVALUATIONS THAT CONTRIBUTE TO THE EVIDENCE BASE

The poor state of the evidence base regarding the use of public procurement for regional development outcomes is largely due to an absence of robust government program evaluations. In turn this has left recent policy efforts vulnerable to criticism about their effectiveness and their appropriate use. Without an evidence base, future policy efforts are likely to encounter the very same objections. Evaluation and program assessments are vital not only to steer their immediate policy efforts but to build an evidence base that can be leveraged to achieve better regional development outcomes.

Outputs and Impact

Evaluations track progress towards the achievement of policy goals. Because policy goals occur along a spectrum, there is no one way to evaluate efforts public procurement is used to bring about regional development outcomes. The less interventionist a procurement policy, the more likely it is that administrative targets can be measured as outputs, such as the number of contracts awarded to local suppliers. For example, where a policy is designed to merely increase the number of local businesses in the public procurement process, a good measure might be the number of contracts awarded to local businesses, or the number of tenders received from them. Conversely, where the policy goal is to address regional disadvantage by increasing the number of people employed by local businesses involved in public procurement, a mere tally of the number of contracts is a poor measure of impact, lacking both granularity and specificity about the nature of any employment outcomes.

Poor or inappropriate indicators of impact not only impede the achievement of goals; they also leave policy efforts vulnerable to the criticism of being ineffective and fail to contribute to the larger evidence base. Policy designers need to consider how to measure impact in evaluations, especially where strategic socio-economic outcomes are desired, noting that these kinds of outcomes are often associated with a time lag.

Currently, the Commonwealth Procurement Rules allow only jobs created from Tier One contracts to be integrated into the effectiveness assessments of contracts, which unhelpfully disqualifies sub-contractors from most evaluations. Evidence suggests that local content strategies work to energise a supply chain so that local impacts often manifest at the third or fourth tier, even when the head contract is awarded to a larger national or even multinational corporation. Conversely, the North Queensland Stadium project measures impact in terms of the activities that are intended to provide economic stimulus rather

than the locality of the head contractor. These measures include project dollars spent that remain in the defined local area, and in hours worked by locals as a proportion of project total hours.

COMMON DISCUSSIONS

Below are some common discussions that occur within governments about the use of public procurement processes to achieve regional development outcomes. Usually, objections focus on the perceived interference of these policy objectives with the free market mechanism that is said to guide public procurement processes. Traditionally, procurement processes have developed a 'value for money' (VFM) criterion that guides all purchases in a transparent and accountable way. Using procurement processes to achieve other goals is said to interfere with this, to the detriment of the process itself and to the taxpayer through the production of poorer outcomes.

Over time, public procurement processes have been developed and centralised within governments to minimise risk, prevent fraud and to achieve efficient outcomes for taxpayers. However, it is also important that these processes are not venerated as entirely objective mechanisms. A review of the evidence shows that procurement processes are regularly used to achieve other 'secondary' objectives, such the achieving environmental goals, fostering innovation in businesses, or encouraging the participation of SMEs in the provision of goods and services to government. Moreover, these processes have been so used for several decades and it may be disingenuous to suggest that a free market mechanism purely guides any public procurement practice.

	How the argument goes	What the evidence says
<p>Local content procurement results in poorer outcomes for citizens because they interrupt the market mechanism, which is the most efficient way of sourcing goods and services.</p>  <p>FALSE</p>	<p>According to this argument, the forces of supply and demand and market competition will deliver goods and services at the best price for government purchases. Any interference in these market mechanisms, particularly in favouring suppliers that might not otherwise be competitive, is considered to bring about a poor result wherein a procurement may cost the government too much money or have some risk associated with its delivery.</p> <p>Importantly, this argument relies on seeing procurement essentially as a clerical process that measures success in terms of the financial aspects of the transaction, rather than in accordance with any associated but secondary policy goals.</p>	<p>There is no consistent evidence that using public procurement to favour local or regional suppliers necessarily delivers poorer financial outcomes.</p> <p>In fact, procurement policies are already used and have a long history of being used to achieve secondary policy goals, including regional development. Other goals have included equity improvements, training guarantees, occupational health and safety goals, as well as environmental and sustainability outcomes.</p> <p>While some early procurement policies may have introduced risk into the process by favouring local or regional suppliers, this risk can now be managed through policy design and through capacity building programs.</p>
<p>Local content procurement policies lead to perverse outcomes. They prop up inefficient businesses and can slide into protectionism</p>  <p>TRUE</p>	<p>Local content procurement policies lead to perverse outcomes. They prop up inefficient businesses and can artificially and unnecessarily protect poor performing businesses from competition.</p>	<p>If poorly designed and poorly implemented, these policies can build a reliance on government contracts and can decrease competitiveness in local supply chains. However, emerging practices (including targeted criteria and compliance measures) can be used to avoid these outcomes.</p>

<p>Public procurement policies such as local content policies are a violation of free trade agreements and cooperative arrangements.</p>  <p>FALSE</p>	<p>Cross-jurisdictional agreements and arrangements can contain non-discrimination clauses that are designed to create a 'level playing field' for suppliers. As signatories to these, jurisdictions are bound to not discriminate on the basis of the location of suppliers.</p> <p>The use of policies that favour local suppliers are therefore in violation of these agreements and leave jurisdictions open both to retaliatory measures and even adverse rulings by international bodies that govern these agreements.</p>	<p>While it is true that these agreements and arrangements contain non-discrimination clauses, they also contain clauses that allow signatories to pursue a range of other policy outcomes. For instance, they allow the targeting of SMEs and of Indigenous suppliers. If framed correctly, local content policies can avoid violating agreements. It is noted that Australia appears less willing to use this kind of 'strategic activism' than other signatories to our major agreements.</p> <p>The USA for example, includes mandatory set asides for SMEs and South Korea regularly uses import-substitution focused programs, mandated procurement targets for SMEs and mandated local content requirements in contracts reserved for SMEs. All of these policy tools are permitted under these agreements, yet they are not regularly practiced in Australia.</p>
<p>Public procurement policies such as local content policies also limit the opportunities that may arise from free trade agreements and cooperative arrangements for other Australian suppliers.</p>  <p>FALSE</p>	<p>If these policies are adopted across jurisdictions, they may prevent suppliers in one local area participating in the procurement opportunities in another. Overall, this may have an aggregate negative impact on regional economies.</p>	<p>While this is theoretically possible, there is no consistent evidence that Australian suppliers experience negative outcomes such as these.</p>

<p>There is no evidence that local content procurement produces results.</p>  <p>TRUE BUT MISLEADING</p>	<p>The evidence base is not developed to show that public procurement efforts can produce results.</p>	<p>While the evidence base is emerging and while a systematic review of policy outcomes is yet to be conducted, there are important lessons to be learned from early policy efforts. These lessons help to minimise the risk associated with these policies. There are also contemporary policy efforts that can be instructive, even though these are still being implemented and have not yet been subject to review.</p> <p>Policy efforts can also be designed with measures to track and improve progress, which can help to minimise risk.</p>
<p>Local content procurement places extra burden on officials. This means it's not cost effective.</p>  <p>IT'S COMPLICATED</p>	<p>Tracking regional development targets creates an administrative burden for officials. This makes the process inefficient and therefore not worth pursuing.</p>	<p>The use of public procurement processes to achieve regional development outcomes does come with administrative burden. This burden increases as the complexity and scale of the intervention increases.</p> <p>However, this does not mean it is necessarily not cost-effective. While some officials may experience an extra burden, this burden must be considered from a 'whole of government' perspective and take into consideration what may be an easing of the burden in other parts of government (for instance those that deal with unemployment or social disadvantage in regional areas). This means that we need a broader accounting formula to measure administrative burden and does not, in and of itself, constitute evidence that such efforts are too administratively burdensome.</p>

Local businesses are not reliable and don't have the capacity to meet procurement needs. There is too great a risk in preferencing them over larger companies that tend to supply governments.



FALSE

If local suppliers had the capacity to participate in public procurement, they would already be participating.

If they are not already participating it is because they are not competitive. Any preferencing of an uncompetitive supplier introduces unnecessary risk into the procurement process.

Local businesses do not need to be the primary contractor for local content practices to have effect. In fact, the procurement practice appears to catalyse a supply chain that is associated with a large supplier. The impact of the policies is not necessarily at the 'Tier One' supplier but on the way that larger contracts are divided among sub-contractors. Some officials even go so far as to use local content strategies to **reduce** the risk of non-supply. These strategies require head contractors to have advanced knowledge of the capacity of their own subcontractors and this provides a level of certainty that is not always present in other types of procurements.

Some procurement strategies can also be tailored to the capacities of local businesses through disaggregation.

Evidence shows that there are many reasons that local businesses do not participate in public procurement processes. These include:

- awareness of opportunities, which governments can better communicate to local suppliers;
- a lack of awareness of government officials of the local market and internal processes that can favour previous or established suppliers; and
- the 'aggregating' up of many contracts into a single procurement opportunity that can then only be met by a large supplier.

END NOTES

- ⁱ Compliance with some of these policy objectives, such as health and safety related objectives, are mandatory across public procurement efforts.
- ⁱⁱ Organisation for Economic Co-operation and Development (2018) 'Public Procurement'. Available at: <http://www.oecd.org/gov/public-procurement/>
- ⁱⁱⁱ Flynn A and Davies P (2015) 'The rhetoric and reality of SME friendly procurement'. *Public Money and Management*. 35 (2). March 2015.
- ^{iv} New Zealand High Commission (2017) *Inquiry into the Commonwealth Procurement Framework*, Submission 13, Commonwealth Joint Select Committee on Government Procurement.
- ^v e ANAO reports the Commonwealth spend as the total of contracts that appeared on AusTender (detailed in the annual Australian Government Procurement Contracting Report. <https://www.anao.gov.au/work/information/australian-government-procurement-contract-reporting>)
- ^{vi} State amounts are sourced from the respective jurisdiction's annual procurement report or review
- ^{vii} Thorburn E (2015). 'The abandonment of procurement-linked strategic activism in Australia: standing still with room to move' *Australian Journal of International Affairs*. 69:5. 557-594. Available at: <https://www.internationalaffairs.org.au/the-abandonment-of-procurement-linked-strategic-activism-in-australia/>
- ^{viii} *ibid*
- ^{ix} Industry Capability Network: Regional. Available at: <https://regional.icn.org.au/>
- ^x Minerals Council of Australia (2018) *Submission to House of Representatives Standing Committee On Industry, Innovation, Science And Resources Inquiry Into How The Mining Sector Can Support Businesses In Regional Economies*. Available at: https://www.aph.gov.au/Parliamentary_Business/Committees/House/Industry_Innovation_Science_and_Resources/MiningSector/Submissions
- ^{xi} Queensland Local Content Leaders Network (2016) *Joint Statement of Commitment to Maximising Industry Local Content in Regional Queensland*. Available at: <https://chdc.com.au/media/2015/02/Joint-Statement-of-Commitment-July-2016.pdf>
- ^{xii} Wiggins, J. and Ludlow, M. (2018) 'NSW overhauls mega projects amid cost blowouts', *Australian Financial Review*. Available at: <https://www.afr.com/business/nsw-overhauls-mega-projects-amid-cost-blowouts-20180604-h10y6b>
- ^{xiii} Bourne, K (2018) Personal communication with anonymous supplier.