

Feedback on the Consideration of Broader Economic Benefits in Procurement Guidance

Introduction:

On behalf of Pathology Technology Australia, we present this response as the co-directors of the ADAPT study and the representatives of the in vitro diagnostic manufacturers the in vitro diagnostics manufacturers and suppliers of over 95% of the diagnostic tests used in human pathology testing across Australia. Our membership spans global corporations to dynamic local innovators. Together, we are dedicated to building a resilient healthcare system Dedicated to building a resilient healthcare system that requires robust and sustainable local content to ensure Australia is well-prepared and well-protected.

The stakes are incredibly high. As guardians of Australia's healthcare resilience, we cannot afford to be complacent. The next pandemic could be around the corner, and our sovereignty is a shield that protects us in health crises and geopolitical turbulence. By championing incremental procurement changes that emphasise and support genuine local products, we stand to foster substantial economic growth. This commitment to local innovation and security is not just about maintaining our health standards but about thriving economically. Ensuring the right procurement strategies and support mechanisms are in place is critical—our future prosperity and health security depend on it. We must act decisively and wisely to secure our position and not risk falling behind in the global arena.

The proposed updates to the guidance on the consideration of broader economic benefits in procurement are a crucial step towards enhancing the economic resilience and sustainability of the Australian economy. Given Australia's current reliance on imported diagnostics and the need to bolster local manufacturing capabilities, procurement practices must be aligned with broader economic objectives.

Our healthcare system's heavy dependence on international sources for diagnostic tests underscores the urgency of developing sovereign capability and ensuring health security. Australia cannot hope to be self-sufficient in diagnostic tests and technology, but we can be world leaders in a few key segments. This guidance has the potential to be pivotal in transforming our procurement landscape, supporting the successful commercialisation of key local diagnostic technologies, and safeguarding Australia's economic and healthcare future.

Clarifications and Expansions Needed:

Tenderer Commitments and KPIs: While it is acknowledged that tenderer commitments and KPIs are not always given the weight they deserve in purchasing decisions, their inclusion remains important. However, a more definitive economic multiplier approach could better ensure that these commitments are factored into procurement decisions. This economic multiplier would provide a clear, quantifiable measure of the broader economic benefits to the Australian economy, enhancing the transparency and accountability of the procurement process. In addition, healthcare related to sovereign capability should be regarded as a national security priority. Purchases from local innovators are generally small in value compared to multinationals, making it easier for local purchasers to engage.

Level of Detail in Tenders: There should be a clear correlation between the scale of procurement and the expected level of detail regarding economic benefits. For smaller procurements, a concise outline of economic contributions might suffice, while larger procurements should include comprehensive economic impact assessments. This tiered approach would ensure that all procurements, regardless of size, adequately address economic benefits without being overburdened by excessive requirements.

Weightings for Economic Benefit Criteria: Additional guidance on applying weightings to economic benefits in tender evaluations is essential. Examples could illustrate how different weightings are applied in various sectors, such as healthcare, technology, and infrastructure. This would help procurement officials balance cost considerations with long-term economic benefits.

Additional Issues for Practical Implementation:

- **Engaging with Industry:** The guidance should emphasise the importance of early and continuous engagement with industry stakeholders throughout the procurement lifecycle. This could include industry forums, pre-tender consultations, and feedback loops after procurement decisions are made. Such engagements can help align procurement practices with industry capabilities and innovations.
- **Case Studies and Examples:** More detailed and sector-specific case studies would enhance understanding and implementation. For example, a case study from the healthcare sector could demonstrate how local manufacturing of diagnostics has led to job creation, supply chain resilience, and economic growth. These case studies should highlight both successes and challenges to provide a realistic perspective.
- **Cross-sector Synergies:** Highlighting synergies between different sectors, such as healthcare and manufacturing, can demonstrate the broader economic impact of strategic procurement decisions. This can be particularly relevant for industries that heavily rely on technological advancements and innovation.

Retained Economic Benefits Discussion:

- **Sector-Specific Benefits:** A detailed discussion on which economic benefits are most relevant to specific sectors would be very useful. For example, in the manufacturing sector, the focus might be on job creation and local content, while in the technology sector, it might be on innovation and R&D investments. Providing sector-specific guidelines can help tailor procurement practices to maximise economic benefits.
- **Long-term Economic Impacts:** Information on how retained economic benefits contribute to long-term economic sustainability and resilience should be included. This can help procurement officials and suppliers understand the broader implications of their procurement decisions. For instance, local manufacturing not only creates immediate jobs but also builds a skilled workforce and robust supply chains that can withstand global disruptions.

Interaction with Other Policies:

- **Alignment with Other Policies:** The guidance should clearly outline how the consideration of economic benefits interacts with other policies such as the Indigenous Procurement Policy,

the Australian Industry Participation Policy, and the Australian Skills Guarantee. Flowcharts or decision trees showing the integration of these policies during the procurement process would be beneficial.

- **Harmonising Objectives:** There should be a discussion on harmonising the objectives of these policies to avoid conflicts and ensure cohesive implementation. For example, a procurement decision could be designed to meet both economic benefit criteria and indigenous procurement targets by prioritising local suppliers that also contribute to Indigenous employment and development.

Specific Concern on Procurement Thresholds:

The current threshold for considering economic benefits applies to procurements above \$4 million (or \$7.5 million for construction services). However, many local start-ups, especially in the med tech sector, need opportunities to engage in government procurement below this value. Government purchase orders are the lifeblood of Australian start-ups, providing them with the credibility and financial stability necessary to domicile in Australia rather than relocate overseas.

If we are truly committed to supporting local procurement and fostering a robust innovation ecosystem, it is essential to address smaller value tenders and product sourcing agreements. Lowering the threshold for considering economic benefits in procurement or creating specific provisions for start-ups and small businesses could significantly enhance their ability to thrive and contribute to the Australian economy.

Key Insights from the Senate Enquiry:

The recent Senate enquiry, initiated by Senator David Pocock on 06/05/2024, highlighted several crucial points regarding developing sovereign capability in the Australian tech sector. Mr Andrew Danks, First Assistant Secretary of the Procurement Division, Department of Finance, emphasised that "price is not the sole factor for assessing value for money" under the Commonwealth Procurement Rules (CPRs). He stated that non-financial costs, such as the quality of goods and services, innovation, adaptability, and whole-of-life costs, are critical considerations alongside economic benefits for procurements over \$4 million.

However, it is concerning that despite initiatives like the 'Future Made in Australia' and the Buy Australian Plan, there is still no clear definition of what constitutes an Australian business or product. Mr. Danks mentioned that the Department of Finance is working on defining an Australian business and will be consulting with industry stakeholders on this matter. This definition is fundamental to underpinning the procurement process and ensuring that economic benefits are genuinely accruing to the Australian economy.

Value Calculator for Economic Impact:

To enhance the capability of procurement officials to make informed decisions that maximise economic benefits, the development of a Value Calculator tool is recommended. This tool would be utilised by federal, state, and local government bodies to provide a quantitative assessment of the economic impact of procuring specific products or services.

Key Features of the Value Calculator:

1. **Input Variables:** Procurement officials would input data such as procurement value, local content percentage, employment figures, and other relevant economic factors.
2. **Output Results:** The calculator would generate results that quantify how much money procuring a specific product or service would inject back into the Australian economy, thereby enabling a visual and quantitative understanding of the broader economic benefits.

Alternative Approach:

In addition to the Value Calculator, another effective approach would be to conduct an authoritative study to determine the economic multiplier specific to high-tech manufacturing. This study would:

1. **Establish Economic Multipliers:** Define clear economic multipliers based on thorough research and analysis specific to different sectors, especially high-tech manufacturing where local innovation plays a crucial role.
2. **Application of Multipliers:** Once a product or service meets the established criteria for being 'Australian-made', these multipliers could be applied directly to procurement evaluations. This method ensures that the economic benefits derived from local production are accurately reflected in procurement decisions.

Both approaches have their merits:

- The **Value Calculator** offers real-time, customisable insights into specific procurement scenarios, allowing for immediate and case-specific economic impact assessments.
- The **Authoritative Multiplier Study** provides a standardised, research-backed coefficient that simplifies the evaluation process and ensures consistent application across various procurement activities.

Integrating Both Methods:

For comprehensive and effective procurement evaluations, integrating both methods could provide a robust framework:

- **Initial Screening with Multipliers:** Use the established multipliers from the authoritative study as a preliminary filter to identify which products or services qualify as significantly beneficial for the Australian economy.
- **Detailed Analysis with the Calculator:** For shortlisted products or services, the Value Calculator could then be used for a more detailed economic impact analysis, taking into account specific project variables and local conditions.

This dual approach not only enhances the accuracy and relevance of economic assessments but also aligns with national objectives of boosting local industries and maintaining economic sustainability.

Implementation Strategy:

- **Development and Testing:** Develop the Value Calculator tool in collaboration with economic experts, tech developers, and procurement specialists. Simultaneously, commission a comprehensive study to establish relevant economic multipliers.
- **Training and Rollout:** Train procurement officials on how to effectively use both the calculator and apply the multipliers. Include case studies and simulations as part of the training to ensure familiarity and ease of use.
- **Feedback and Revision:** Establish a feedback mechanism to collect insights from users of both methods to continuously improve the tools and their application in procurement processes.

By offering both a dynamic tool and a standardised metric, procurement officials are equipped to make decisions that foster local industries and contribute significantly to the national economy, aligning procurement practices with broader economic and strategic goals of Australia.

Conclusion and Recommendations:

- **Ongoing Consultation:** Establishing a regular review process for the guidance, with continuous feedback from industry and public sector stakeholders, can ensure that it remains relevant and effective. Regular updates and revisions based on stakeholder feedback and changing economic conditions are essential.
- **Training and Support:** Offering training sessions or workshops for procurement officials on the updated guidance can enhance understanding and implementation. These can be supplemented with online resources, FAQs, and case studies. Training should focus on practical application, including how to evaluate economic benefits and incorporate them into procurement decisions.
- **Monitoring and Evaluation:** Implementing a system for monitoring and evaluating the impact of the guidance on procurement outcomes can help refine and improve the guidance over time. Metrics for evaluation could include the number of local jobs created, the amount of local content used, and the overall economic impact of procurement decisions.
- **Defining Australian Business:** A clear and universally accepted definition of what constitutes an Australian business or product is urgently needed. This definition should be developed through extensive consultation with industry stakeholders and should form the foundation of all procurement decisions.
- **Economic Multiplier Education:** Procurement staff should be educated on the true economic multipliers associated with local procurement. Understanding the upstream economic benefits to Australia, such as job creation, tax revenue, and supply chain resilience, is crucial for making informed procurement decisions.
- **Value Calculator Tool:** Develop a value calculator tool for procurement bodies to use when assessing the economic impact of procuring products, particularly focusing on how these purchases contribute to the Australian economy. This tool would facilitate the quantification of broader economic benefits, supporting evidence-based decision-making.

In conclusion, we believe that the suggestions provided align with the objectives of the Department of Finance and support the broader goals of enhancing Australia's economic resilience and procurement efficiency. For a deeper understanding of the foundational research that supports our feedback, the ADAPT report can be accessed here: [ADAPT Report 2023](#). This report provides



comprehensive insights into the challenges and opportunities within the diagnostic technology sector, which are crucial for informed decision-making in procurement practices.

