

Consultation on the consideration of broader economic benefits in procurement

Tech Council of Australia Submission

July 2024



1. Introduction and overview

Thank you for the opportunity to make a submission to this important inquiry in relation to the consideration of the economic benefit of a procurement by government procurement officials.

The TCA is Australia's peak industry body for the tech sector. The tech sector is a key pillar of the Australian economy, and Australia's seventh largest employing sector. The TCA represents a diverse cross-section of Australia's tech sector, including startups, scale-ups and global tech companies, many of whom provide services directly to consumers, businesses and governments.

While many tech firms in Australia have a global outlook with a primary customer base in the private sector, the adoption and procurement of technology by Australian governments is an important market opportunity and path to growth for Australian tech firms, including startups and scaleups. For emerging or innovative technology in particular, Government as a customer is an important way to build trust and confidence that then drives private sector use and investment in the technology.

Government tech procurement has the potential to provide incentives for innovation and growth, create early customer opportunities and foster more dynamic markets. Supporting tech firms to grow and scale can also improve competition in the economy, helping to provide innovative products and services at lower prices. This results in benefits across the economy and delivers value to taxpayers and the broader Australian public.

However, existing procurement processes tend to be risk-averse, do not favour innovative solutions to problems, and create a range of barriers and inherent disadvantages for SMEs and startups. It's important to recognise that these barriers are not just limited to SMEs – they are often experienced by tech companies of various sizes that find it difficult to 'break into' government procurement.

There are opportunities for reform of government procurement processes to ensure the benefits of innovative products and services can be harnessed. In the context of this consultation, there are areas where further guidance could provide more clarity to companies of all sizes and would improve transparency and fairness of procurement decisions.

Procurement reform can create a greater incentive for tech firms, including startups and SMEs, to sell their products to government, resulting in more diverse product offerings for government and greater growth opportunities. Procurement reform can also help to capture and grow strategic, economically valuable sectors and jobs in Australia and provide innovative solutions to large-scale challenges.

In addition to providing opportunities for Australian startups and scaleups, Government procurement policies also play an important role in creating an environment that supports continued investment by global tech companies into the Australian tech sector. This inward investment is important to both our economy and our tech sector. Our view is that we can remove procurement barriers to Australian SMEs and tech firms and make better use of public spending to drive innovation in the economy, while still providing a fair procurement system for all companies. Government is not faced with a binary choice.

In this submission, we outline Australia's strengths in tech, some of the challenges that with the current procurement model and describe why further guidance is needed in procurement

processes to support SMEs in preparing bids for government procurement, and to support procurement officials and companies of any size in understanding how broader economic benefits are assessed in procurement decision-making.

2. Australia's strengths in tech

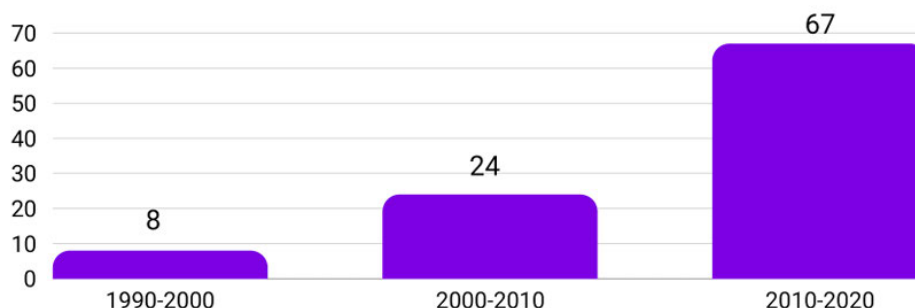
Australia's tech sector has matured significantly over the last decade, supported by a relatively strong economy and favourable government policy settings.

We have not only seen an acceleration in the number of startups in Australia, we have also demonstrated the ability to scale many of these startups into globally successful medium and larger-sized firms.

Australia now has over 100 tech companies valued at over \$100 million, with most of these founded over the last decade, and at least 20 unicorn tech firms (valued at over \$1 billion).¹ This includes companies such as Atlassian, Canva, SafetyCulture, WiseTech Global, Culture Amp, Technology One, Afterpay, REA Group, Carsales, Airwallex, Go1, Employment Hero and more. We have also attracted some of the largest global tech companies to our shores, such as Google, Microsoft, IBM, AWS, Adobe and Salesforce, with many of these companies providing infrastructure and services that have supported the growth of Australian tech companies (e.g. hyperscale cloud infrastructure from providers such as AWS, Google and Microsoft that has enabled Australia's SaaS companies to scale globally).

Figure 1: High value Australian tech companies by year of founding²

Number of companies valued >\$100m



Sydney is now ranked as one of the top 20 startup ecosystems in the world³ and Melbourne is not far behind. We are also seeing tech hotspots emerge across other parts of the country in every state and territory and not just in our cities but also in our regions. CSIRO Data61 and the Tech Council have identified 96 tech clusters in total across Australia.⁴

Australia has been particularly strong in developing global tech companies in areas like B2B and B2C software, fintech, and life sciences. We also have capabilities and potential in other tech segments that stretch beyond these areas, many of which will have relevance to

¹ [The state of Australia's tech ecosystem, Tech Council of Australia](#)

² [The state of Australia's tech ecosystem, Tech Council of Australia](#)

³ [Startup Genome, Global Startup Ecosystem Ranking 2023](#)

⁴ [The geography of Australia's digital industries, CSIRO and the Tech Council of Australia](#)

government procurement and can be harnessed for service delivery, security/defence or other purposes.⁵

We have significant domain expertise (e.g. research capability, industry capability or talent) in areas like quantum, robotics, drones and geospatial / surveillance tech. For example, Australia is home to some of the world's leading companies and research institutions pushing the boundaries of quantum, with strengths across all types of quantum technologies – computing, sensing and communications.

We also have growth potential in areas that have a favourable incubation pathway (e.g. where there are globally scalable business models or where Australia's domestic market is attractive), such as AI / Machine Learning, Cyber Security, Cloud & Datacentres, Energy Tech and Environmental Tech. For example, the CSIRO has identified at least 544 AI companies in Australia, a figure that puts us on par with other global AI leaders like Canada.⁶

Notwithstanding these successes, Australia's direct tech sector is still relatively small as a share of our economy compared to other markets such as the US, UK and Canada, contributing approximately 3.8% of GDP compared to the US' 10.2%, UK's 8.1% and Canada's 6.8%. Our market can also present challenges for startups seeking to scale compared to more mature markets like the US, where there are more significant investment and customer opportunities. Access to Government as a customer, and improving procurement processes, can therefore play an important role in driving the growth of Australia's tech sector.

3. Challenges with the current procurement model

The challenges facing innovative Australian tech firms with government procurement broadly fall into two categories:

- Firstly, SMEs in Australia face a range of barriers and disadvantages in Government procurement at various stages of the procurement cycle that can prevent them from competing on equal terms, and some larger Australian tech firms also express concerns about these same barriers. We commonly hear from companies that it is easier for them to secure a government contract overseas than it is in Australia – this global mindset ensures Australian tech firms are highly competitive and generate important export revenue, which is a positive, but these stories also reveal inherent issues with government procurement processes in Australia.
- Secondly, young, R&D intensive, and innovative firms face challenges in attracting early customers, due to the more experimental nature of their activities and the higher risks this entails. These same firms often work in areas that are important to the future of our economy and security where Australian Governments are actively seeking to build Australia's capabilities through funding programs and other measures (e.g. in AI, quantum, cyber etc). Traditional procurement rules and processes may not often be well suited to dealing with these circumstances.

If Government does not address the challenges with current procurement models, Australia risks losing out on the strategic and economic opportunities of these technologies, while other governments overseas continue to back and invest in early-stage innovation. This

⁵ [Turning Australia into a regional tech hub Report 2022, Tech Council of Australian and McKinsey](#)

⁶ [AI Ecosystem Report \(Dec 2023\) - CSIRO](#)

would have consequences across the economy, resulting in a reduction of innovation and dynamism, and less competition.

Improved guidance is necessary to improve procurement processes

Some of the challenges faced by companies in accessing government procurement processes could be addressed by improved guidance, in particular in relation to:

- The level of detail expected in a tender process
- How economic benefits are considered as part of the value-for-money assessment in procurement processes.

SMEs in particular are often challenged by high administration overheads in procurement processes. In order to prepare for a bid, applicants are required to submit large volumes of paperwork, including case studies demonstrating relevant experience. This makes it difficult for smaller firms with limited resources and/or limited previous government experience to compete and is exacerbated by procurements that place too much weighting on previous government experience and insufficient weighting on innovative solutions. Smaller, younger firms are also more likely to have limited-to-no experience of working with government and fewer directly relevant case studies to draw upon. There is also an increasing tendency for governments to use procurement processes to drive broader social and environmental policy outcomes which can have an outsized impact on SMEs and startups which are less likely to have these sorts of policies and face comparatively higher costs in developing them.

We consider that further guidance is necessary to support companies of all sizes in preparing their bids for procurement and ensuring that the level of detail required in a tender process is proportional to the nature, risk and value of the procurement.

We are supportive of the need to consider economic benefits to Australia as part of the value-for-money assessment in procurement processes, including the extent to which it drives investment in Australian R&D and innovation. While this is already required to be considered by the existing procurement rules, it is unclear the extent to which economic benefits to Australia are being considered fulsomely as part of current procurement processes.

Given this, we consider that improved guidance about the assessment of broader economic benefits is necessary and urgent to support better procurement outcomes:

- The current guidance is inadequate to ensure that broader economic benefits are consistently considered and applied in procurement decisions, especially for technology procurements. The existing guidance and requirements are not sufficiently broad and rely on overly simplistic measures such as direct employment and spending on local suppliers.
- Without effective, consistently applied guidance about the assessment of broader economic benefits in procurement, this increases barriers for SMEs for engaging in procurement processes, and also creates uncertainty and inconsistency which damages all entities seeking to engage in government procurement processes.

Clearer guidance about how to address broader economic benefits of a procurement would provide better outcomes for industry and Government, ensuring that Government can align procurement processes with other policy priorities.

4. Recommendations for reform

We consider that it is necessary for Government to provide additional guidance to companies regarding the level of detail expected in a tender to assist with the assessment of broader economic benefits.

Recommendation 1: remove barriers in procurement practices through the development of guidance regarding procurement bids

A key barrier for SMEs participating in Government procurement processes is the high administrative overheads associated with Government procurement. This limits the abilities for SMEs with limited resources and/or limited previous government experience to compete, ultimately reducing overall competitiveness in government procurement processes.

We consider that Government should develop clearer guidance regarding the size and level of detail of procurement bids to reduce the paperwork burden on SMEs. Submissions for procurement should be proportionate to the nature, risk and value of the procurement process.

We also consider that there are two key options for reform for the consideration of broader economic benefits, and recommend that Government either:

- Expand the consideration of economic benefits to consider a range of other factors, or
- Calculate the retained economic benefit of the procurement.

Reform option 1: Expand the consideration of economic benefits to consider a range of other factors

We consider that under the first reform option, Government should expand the economic benefits that it considers as part of procurement processes, to include:

- Investment initiatives, such as:
 - Investment in local skills development and training
 - Regional investment initiatives, such as through regional university partnerships
- The generation of R&D and IP in Australia
- Local employment, and
- Consideration of a higher economic multiplier.

This option could also allow for the consideration of how a procurement aligns with other Government policy objectives, noting that procurement can be an effective way of achieving other policy outcomes in a better way than funding or grants programs. Government should provide further guidance about how the economic benefits criteria can contribute to other Government policy objectives and outcomes.

Reform option 2: Calculation of the retained economic benefit of a procurement

We consider that an alternative approach to considering the broader economic benefits of a procurement is to calculate the retained economic benefit of a procurement. Retained economic benefit could potentially be a more helpful way to consider the broader economic benefits of a given procurement, rather than focusing on how to define a sovereign Australian firm.

However, we consider that if Government were to proceed with this reform option, further consultation would be necessary to ensure that the introduction of such a concept would need to be done carefully to ensure that it doesn't drive perverse outcomes. For example, the quality of product or service still needs to be a major consideration in determining value for money to ensure that there is positive competitive pressure in procurement processes. It is also important that the calculation of retained economic benefit is clear and would not result in raising the barriers to entry for an SME seeking to demonstrate the retained economic benefits of its procurement.