

Consideration of broader domestic economic benefits in procurement

1. The Government is committed to building a stronger, more prosperous and resilient economy where Australian businesses can be competitive on a domestic and international level.
2. A range of measures are in place to promote domestic economic growth through procurement. Examples include:
 - the commitments to source at least 10 per cent of all procurement by value from Small and Medium Enterprises (SMEs) and 35 per cent of procurements valued up to \$20 million;
 - the Indigenous Procurement Policy (IPP);
 - publishing procurement plans for significant procurements, in order to engage early with the market; and
 - requirements under the Australian Industry Participation (AIP) National Framework.
3. For significant procurements, paragraphs 4.7 and 4.8 of the Commonwealth Procurement Rules (CPRs) require officials to consider the economic benefit of a procurement to the Australian economy in the context of determining value for money.

CPRs Paragraph 4.7	In addition to the value for money considerations at paragraphs 4.4 – 4.6, for procurements above \$4 million (or \$7.5 million for construction services) (except procurements covered by Appendix A and procurements from standing offers), officials are required to consider the economic benefit of the procurement to the Australian economy.
CPRs Paragraph 4.8	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.

What is the purpose of the requirement?

4. The Government recognises the importance of considering the economic benefit of procurements to the Australian economy. Commonwealth entities have flexibility in the way in which they assess value for money, including the economic benefit to Australia, depending on their business need and the nature and scope of the procurement.
5. Paragraph 4.7 requires officials to assess the economic benefit of a procurement to the Australian economy, as part of determining value for money, for procurements above

\$4 million for non-construction goods and services and above \$7.5 million for construction services¹.

- This assessment will require officials to gather appropriate information on economic benefits as part of the decision making process and document how economic benefit has been considered as part of the overall value for money assessment.
6. Paragraph 4.8 indicates that the requirement operates within the context of Australia's trade agreements. These agreements require officials, amongst other things, to treat all potential suppliers equitably and not to discriminate against suppliers on the basis of their size, location or ownership (paragraphs 5.3 and 5.4 of the CPRs).

What is a domestic economic benefit?

7. In general terms, economic benefits to the Australian economy result when the goods or services being procured:
- make better use of Australian resources that would otherwise be under-utilised (for example employing people who would otherwise be under or unemployed, using spare industrial capacity, or freeing government funds for other spending);
 - otherwise increase productivity (for example by adopting new know-how or innovation, or enabling more people to acquire in-demand skills, or ensuring that resources are allocated to sectors in which Australia has a comparative advantage); or
 - provides broader benefits that support the development and sustainment of industry capabilities;
 - for example, enhancing key industry sectors through the Department of Defence's Sovereign Industrial Capability Priorities.
8. An increase in productivity-enhancing technology development and adoption can also deliver economic benefit, for example through:
- research and development related activities and investments (including those undertaken with universities);
 - transfer of technology to Australian businesses such as through licensing arrangements for Intellectual Property;
 - Indigenous workforce participation;
 - engaging a business that provides services of persons with a disability;
 - traineeships or apprenticeships in areas of skills shortage; or
 - boosting a supplier's international competitiveness (e.g. through greater efficiency or product innovation).
9. For consistency and efficiency, only direct effects to the Australian economy should be identified and assessed. For example, officials may consider the economic benefit of employing unemployed people, but not second round effects of those employees buying additional goods and services because they are employed.

¹ Note, the requirement does not apply to procurements covered by Appendix A exemptions, or procurements from standing offers (including panels).

What do procurement officials need to do?

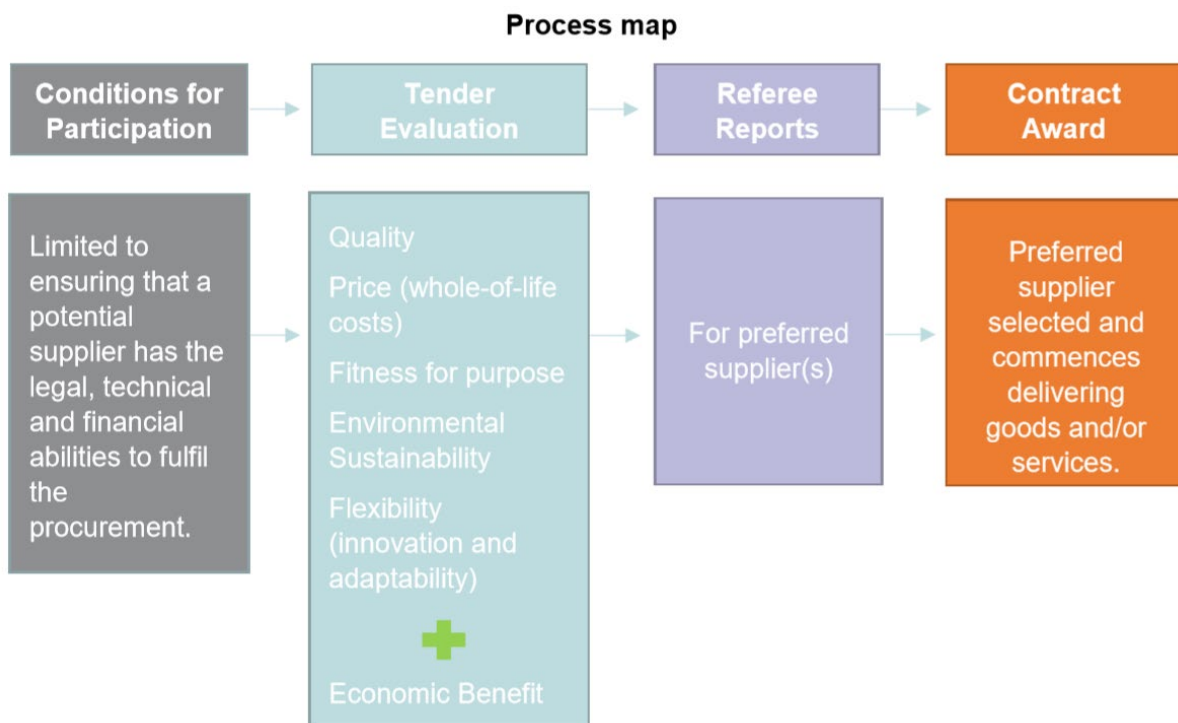
10. During planning, consider how the Australian economy may benefit from the procurement activity. Consider what economic benefit information will be collected, how it will be collected and how it will be used as an evaluation criteria to assess value for money.



11. The type and amount of information collected should be commensurate with the scale, scope and risk of the procurement. It should not introduce excessive red tape and cost for tenderers bidding for government contracts.
12. Procuring officials should be careful to ensure that the requirement to demonstrate economic benefit does not inadvertently disadvantage SMEs. For example, officials should be mindful that additional requirements in tender documentation could result in a greater burden on SMEs than larger businesses. This could be due to the SME possessing fewer resources to demonstrate their capability to meet the requirements, compared to established large suppliers to the Government. All potential suppliers must be treated equitably and must not be discriminated against on the basis of their size, location or ownership (paragraph 5.4 of the Commonwealth Procurement Rules refers).
13. Officials should make clear in tender documentation that only direct effects, or first round economic effects to the Australian economy are considered in the evaluation of a tender's economic benefit. This will help to provide clarity around the requirement and reduce the likelihood of tenderers including claimed benefits that will not be considered. Where feasible, quantitative and qualitative economic benefits considered in tender submissions should be verified at the appropriate stage of the procurement.
14. Officials must include the evaluation criteria to be used in the approach to market documentation (in accordance with paragraph 10.6 of the CPRs), the procurement plan, and the evaluation plan.
15. Where it is required, the economic benefit consideration is in addition to the assessment of other evaluation criteria, such as those set out in paragraph 4.5 of the CPRs, including the quality of the goods and services, fitness for purpose, flexibility of

the proposal (including innovation and adaptability), environmental sustainability, and whole-of-life costs.

16. Economic benefit consideration should not detract from officials' ability to achieve high quality, value for money procurement outcomes. The relative importance of evaluation criteria should reflect the type of procurement, industry sector and market conditions.
17. The evaluation of the economic benefit to the Australian economy should be balanced with the efficient and effective use of Australian government funds. For example, the economic advantages of using under-utilised capacity to produce goods in a particular location may be outweighed by the lower cost of similar goods produced elsewhere.
18. Documentation of the consideration of economic benefit should be maintained in accordance with paragraph 7.2 of the CPRs.
19. Procuring officials may consider economic benefits that deliver sustainable improvements to the Australian economy, such as to Australia's industry capabilities.



How can a supplier provide a domestic economic benefit?

20. There are many ways that a supplier can provide an economic benefit to the Australian economy. Some examples include, but are not limited to:

- competitive pricing;
- building, leasing or procuring infrastructure that benefit Australian communities;
- providing skills and training that benefit Australian communities;
- employing workers in Australia;
- employing apprentices or trainees in Australia;
- paying taxes in Australia;
- the environmental benefit of the proposed solution to Australia, for example:
 - reducing environmental impact through energy efficient inputs; or
 - using recycled materials or content;
- contributing to positive social outcomes in Australian communities, such as engaging unemployed people;
- using Indigenous businesses;
- using SMEs in delivering goods and services, either directly or as a subcontractor or a supplier;
- developing and adopting innovative products or practices that benefit Australian communities;
- sharing knowledge, skills and technology with SMEs;
- creating export opportunities for Australian goods and services;
- using goods and services from a business that provides services of persons with a disability; and
- developing Australian industry capabilities or industrial capacity.

Is this consistent with existing economic benefit considerations in the CPRs?

21. Yes – In Section 5 of the CPRs – Encouraging Competition, Paragraphs 5.5 (c) and (d) already require officials to consider, in the context of value for money:

- SMEs' capabilities and their commitment to local or regional markets; and
- the potential benefits of having a larger, more competitive supplier base.

Do these new rules apply when establishing a panel arrangement?

22. The rules apply to the process to establish standing offers² (panel arrangements), including mandated whole of government coordinated procurement panels, when the total value of orders under the arrangement is estimated to be at or above the relevant thresholds (\$4 million for non-construction goods and services and above \$7.5 million for construction services).

- where the value of orders cannot be estimated, they should be treated as meeting the threshold.

23. The rules do not apply to procurements made from an existing panel where an economic benefit assessment was made during the establishment of the panel.

24. Procuring officials should ensure that panellists are aware that there is no guarantee of work on a panel, regardless of the economic benefit demonstrated in the tender.

² Noting there is no guarantee of work for suppliers selected to be on a panel, tenderers should be asked to demonstrate general economic benefit credentials.

25. When a panel is refreshed, existing panellists do not need to provide further evidence of economic benefits for consideration. New tenderers to a panel should be required to provide evidence of economic benefits in their tender submission.

Checklist

The following checklist includes some key steps for officials considering the economic benefit of a procurement

Key steps when considering economic benefit	
Ensure that the economic benefit methodology and evaluation criteria are documented and are consistent across planning, approach to market and evaluation documentation.	<input type="checkbox"/>
Decide whether the requirement to demonstrate economic benefit will be weighted as part of tender evaluation in relation to other value for money criteria, and, if so, what weighting should apply. Weightings may not be used in a manner that discriminates against suppliers on the basis of their size, location or ownership. Any weighted criteria must be made explicit in tender documentation.	<input type="checkbox"/>
Include the requirement in tender documentation, making it clear that only direct effects will be considered when evaluating the economic benefit of the submission.	<input type="checkbox"/>
Include the economic benefit requirement in the evaluation, ensuring that evaluation criteria are consistent with tender documentation.	<input type="checkbox"/>
Include feedback on the tender responses in tender debriefing.	<input type="checkbox"/>
Where relevant, include key performance indicators or other metrics in the contract relating to the economic benefit commitments set-out in the successful tenderer's submission (for example, this may include the requirement to demonstrate the use of an indigenous business, new employees engaged or use of SMEs in the supply chain).	<input type="checkbox"/>

Practical Examples

The following examples and case studies are provided to assist officials when evaluating economic benefit and are not intended to prescribe a specific process. Officials should ensure that considerations of economic benefit reflect the scale, scope and risk of the procurement.

Example one

Commonwealth officials are procuring call centre services. The value is expected to exceed \$4 million and therefore they are required to consider the economic benefit of the procurement to the Australian economy.

In evaluating a tender response, economic benefit considerations could include:

- competitive pricing;
- building, leasing or procuring infrastructure that benefit Australian communities;
- providing skills and training that benefit Australian communities;
- using under-utilised economic capacity by locating facilities in regional areas with relatively high levels of unemployment or underemployment;
- the environmental benefit of the proposed solution to Australia; for example, the call centre has a low environmental impact due to energy efficient inputs;
- contributing to positive social outcomes that benefit Australian communities;
- using Indigenous businesses;
- using SMEs in delivering goods and services, such as a subcontractor or a supplier;
- sharing knowledge, skills and technology with SMEs; and
- using goods and services from a business that provides services of persons with a disability.

Example two

Commonwealth officials are procuring furniture for an office fit-out. The value is expected to exceed \$4 million and therefore they are required to consider the economic benefit of the procurement to the Australian economy.

In evaluating a tender response, economic benefit considerations could include:

- competitive pricing;
- employing staff and contractors located in Australia;
- research and development investment in Australia;
- employing trainees and apprentices in Australia;
- taxes paid to the Australian Government on associated profits;
- positive environmental and social outcomes from the production of the furniture, for example, using ethically sourced goods and services, using recycled goods, and using inputs that produce minimal waste to support sustainable procurement;
- using SMEs or Indigenous businesses in delivering the product;
- sharing knowledge, skills and technology with SMEs or indigenous businesses; and
- using goods and services from a business that provides services of persons with a disability.

Example three

Commonwealth officials are establishing a panel for the provision of professional engineering services. The total value of procurements under the arrangement are estimated to be above \$4 million. Officials are therefore required to consider the economic benefit of the panel arrangement to the Australian economy.

In evaluating a tender response, economic benefit considerations could include:

- competitive pricing;
- employing labour in Australia;
- employing trainees or apprentices in Australia;
- providing skills and training that benefit Australian communities;
- building, leasing or procuring infrastructure that supports Australian communities;
- using Indigenous businesses;
- using SMEs in delivering goods and services, such as a subcontractor or a supplier;
- sharing knowledge, skills and technology with SMEs; and
- using goods and services from a business that provides services of persons with a disability.

Example four

Commonwealth officials are procuring a capability in support of the Australian Defence Force. The value is expected to exceed \$4 million and therefore they are required to consider the economic benefit of the procurement to the Australian economy.

In evaluating a tender response, economic benefit considerations could include:

- competitive pricing;
- ensuring that supply chains for essential goods and services are competitive and diverse, including by providing opportunities for SMEs, Indigenous businesses and businesses that predominantly employ persons with a disability;
- productivity benefits, including the creation of innovative practices, products and supply chains;
- developing and sustaining Australian industry capabilities, including through: supporting people to gain in-demand or relevant skills; providing relevant skills and training opportunities; and employing trainees or apprentices in Australia
- supporting remote and regional Australian communities, such as through employment opportunities, upskilling and training;
- building, leasing or procuring infrastructure that supports Australian communities;
- sharing knowledge, skills and technology with SMEs;
- providing environmental, social and economic benefits to Australian communities;
- promoting the development of industry capabilities, including in supporting Sovereign Industrial Capability Priorities and critical industrial capabilities.

Case study one

Commonwealth officials are establishing a panel for training services through an open tender. As the total value of procurements under the arrangement was estimated to be above \$4 million, officials considered the economic benefit of the panel arrangement to the Australian economy as one of the evaluation criteria. Other evaluation criteria included the ability to meet the statement of requirements, relevant experience, and whole of life costs.

The approach to market documentation included a question requiring potential suppliers to demonstrate in a short response (free text) what economic benefits they provide to the Australian economy. Four example responses are outlined below.

	<i>Tender response</i>	<i>Evaluation</i>
<i>Tenderer 1</i>	The tenderer submitted that they are an SME employing 30 workers in Australia across two offices.	Tenderer 1 is found to have proposed economic benefit.
<i>Tenderer 2</i>	The tenderer submitted that they provide low cost training services across Australia, lease real estate in a number of states and cities, and use a number of SMEs as subcontractors across Australia.	Tenderer 2 is found to have proposed economic benefit.
<i>Tenderer 3</i>	<p>The tenderer submitted that they use goods and services from a business that provides services of persons with a disability.</p> <p>The tenderer also noted further economic benefits given these employees, previously on welfare, are buying additional goods and services.</p>	<p>Officials consider the use of goods and services from a business that provides services of persons with a disability.</p> <p>The flow on benefits of buying additional goods and services because the employees are no longer on welfare <u>cannot be considered</u>, as this is a second round economic benefit, not a direct economic benefit of the procurement to the Australian economy.</p> <p>Overall, Tenderer 3 is found to have proposed economic benefit.</p>
<i>Tenderer 4</i>	No response addressing economic benefit was provided.	Tenderer 4 is found not to have addressed considerations of economic benefit.

As part of the overall evaluation process, tenderers 1 and 2 demonstrated value for money and were accepted onto the panel. Although tenderer 3 also met the economic benefit requirement, overall tenderer 3 and 4 were unsuccessful based on their performance against all criteria.

Once on the panel, tenderers are not required to further demonstrate the economic benefits to the Australian economy when providing goods and services under the panel arrangement.

Case study two

Commonwealth officials undertake an open tender for shipping containers over a period of five years. As the estimated whole of life cost of the procurement is above \$4 million, the economic benefit of the procurement to the Australian economy was considered as part of the value for money assessment.

As part of their tender response, tenderers were required to address the economic benefit criteria in a short response (free text). Four responses to this criteria were provided.

<i>Tender response</i>	<i>Evaluation</i>
<i>Tenderer 1</i> The tenderer is an SME that pays tax in Australia and employs 100 staff nationally to provide the goods (including office staff, drivers etc).	All tenderers were ranked similarly against this criteria, as the evaluation team determined that all responses offered economic benefit to the Australian economy, albeit in different ways.
<i>Tenderer 2</i> The tenderer states that they pay taxes in Australia and will subcontract some of the work out to SMEs around the country if successful.	
<i>Tenderer 3</i> The tenderer is a foreign business but submits that if they were awarded the contract, they would engage 20 staff located in Australia and subcontract the transporting of the containers to local SMEs across Australia.	
<i>Tenderer 4</i> The tenderer partners with Indigenous businesses to build and deliver the containers across Australia, and offers an apprenticeship program. For this contract, they will be able to take on two new apprentices.	

Tenderer 3 was selected as the successful tenderer based on their overall score and value for money assessment. The successful tenderer's economic benefit commitment was incorporated into the contract, including the mechanism to enable Commonwealth officials to check whether this had occurred.