

**Australian
Procurement
Ministers**

National Action on
Small to Medium Enterprises
in Government Procurement

Perth 1997

Meeting of Procurement and Construction Ministers
Australian Procurement & Construction Council
National Action on Small to Medium Enterprises in Government Procurement
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BACKGROUND

Commonwealth, State and Territory Governments acknowledge the significant contribution to the economic strength of Australia made by Small to Medium Enterprises (SMEs), and the importance of their relationships with government.

This importance is reflected in the reform initiatives introduced by individual jurisdictions over the last few years and by the endorsement of this “National Action on Small to Medium Enterprises in Government Procurement” by Ministers responsible for procurement policy when they met in Perth on 8 August 1997. These reform initiatives are aimed at assisting the growth of this sector by improving SME access to government business.

The Australian Bureau of Statistics (ABS) applies the following broad criteria to classify data defining SMEs.

- Micro Business
Less than 4 employees.
- Small
Less than 20 employees.
If manufacturing, less than 100 employees.
- Medium
No definition.
- Large
Over 200 employees.
Assets over \$200M.

Governments and industry both acknowledge that the nature of public sector buying is changing rapidly. Government purchasing reform initiatives have placed greater emphasis on the issues of value for money, market testing, competitive tendering and contracting out.

This change is influencing the role, scope, scale and impact of government buying with a significant effect on SMEs seeking to supply to government. As a result SMEs encounter a number of challenges when doing business with government including:

- A reduction in the direct purchasing of goods by government, until recently a prime market for SMEs, which has resulted from outsourcing of large scale services;

- Increased efficiency by governments through rationalisations to reduce time and complexities in the management of contracts, subsequently limiting potential contractors to those offering a broad range of goods, or services on a larger scale;
- “Partnering” arrangements and strategic alliances with larger organisations able to meet a broad range of government needs. SME access to government contracts in such arrangements tends to focus on sub-contracting relationships;
- Variations in government procedures, within and between jurisdictions, that appear complex to suppliers with limited resources to devote to tender preparation; and
- The increased use of electronic commerce to simplify processes within government, can inhibit SME access due to initial costs for equipment and low transaction frequency.

This strategy of a “National Action on Small to Medium Enterprises in Government Procurement” has been developed by the Australian Procurement and Construction Council (APCC) following consultation at a national level involving the Commonwealth, State and Territory Government Departments responsible for procurement policy.

A significant contribution to the development of this National Action has resulted from the extensive and ongoing consultation with small businesses which participated in seminars convened across Australia by the National Procurement Board (NPB).

Research indicates that spending by governments in some jurisdictions represents approximately 40% of the total construction market. Information Technology (IT) firms are also highly dependent on the government market with some indicating that up to 75% of their revenues are derived from that sector. Although the larger firms in these industry sectors secure a significant proportion of government spending, SMEs form a substantial proportion of the overall market.

For example, in one jurisdiction there are about 20,000 suppliers to State Government, the majority of which are small businesses. About half this number receive less than \$1,000 per annum in government orders and are not significant suppliers. As a general rule, less than 20% of suppliers receive in excess of 80% of total government spending, and there are a relatively small number of firms, between 1,000 and 2,000, that are significant suppliers and that include a proportion of SMEs.

In most jurisdictions the purchasing reform initiatives have resulted in an increase in the numbers of suppliers, especially at the regional level. It is likely however, that the numbers of direct suppliers with which Government deals will reduce significantly.

Similarly, as more of the activities traditionally undertaken by government are outsourced to the private sector new challenges and opportunities are likely to impact on existing relationships between industry suppliers and providers and Governments.

The emerging procurement framework offers a window of opportunity for the development of new partnership relationships between small firms as second and third tier service providers and product suppliers to government.

In smaller regional economies, Government purchasing can have profound impacts as small changes in purchasing patterns can have significant economic and social effects, especially on the small business sector and employment. This strategy encourages Governments to recognise:

- the benefits of local supply are identified and appropriately valued in purchasing decisions, and
- the possible long term implications of the concentration of supply, including reduced competition, through single sourcing and packaging.

By adopting this National Action Governments will:

- be proactive in identifying opportunities for SMEs to participate at all levels of the public sector supply chain, and

- recognise the value for money benefits that can accrue through local supply in regional areas.

This strategy reflects the commitment of Ministers responsible for procurement to address the challenges and to identify and highlight the opportunities for SMEs offered by the changing public sector procurement framework.

Governments recognise the advantages of encouraging SMEs to contribute their innovation, new ideas and systems to public sector procurement. Governments seek to maximise the benefits derived from better business solutions and value for money outcomes in their procurement as they work with the private sector to deliver services to the community.

AGREED NATIONAL PRINCIPLES

Commonwealth, State and Territory Ministers responsible for procurement agree to the following set of principles to promote opportunities for SMEs to access the Government market place.

The principles are characterised by a procurement framework, which encompasses value for money and fair, transparent and effective competition. This framework will ensure that Governments' procurement policies for achieving business objectives and outcomes are met.

These principles form the foundation for the strategy of "National Action on Small to Medium Enterprises in Government Procurement" presented here and being undertaken across the Commonwealth, State and Territory levels of Government.

Ministers agree to promote measures that:

- 1. reduce the cost of doing business for SMEs and for government.**
- 2. encourage greater participation by SMEs in the contract chain.**
- 3. promote the benefits to SMEs of the use of electronic commerce.**
- 4. give greater consideration to the regional impact of government procurement decision making.**

These principles have been adopted by all Ministers with responsibility for procurement. They will be applied through the agreed National Action and the initiatives, many of which are being pursued, in individual jurisdictions.

AGREED NATIONAL ACTIONS

Governments are major buyers of products and services. As such, Ministers' agreement to the following series of National Actions will achieve Governments' objectives of increasing SME access to the public sector marketplace.

1. Reduce the costs of doing business

Ministers agree that the costs and complexities of doing business with government can be minimised to the benefit of SMEs by:

- establishing simplified government contact points and making them widely known and easily accessible.
- ensuring that relevant and timely information is available to SMEs.
- ensuring that SMEs are consulted and kept informed as the needs and standards of government change.

- providing open, meaningful and effective feedback to unsuccessful tenderers.
- ensuring adequate time is allowed for responses to requests, and that SMEs are not required to devote significant time to meetings and activities.
- increasing the market skills of government buyers and their understanding of the potential of SMEs to contribute.
- ensuring that tender documentation is clear, concise and standard with simple requirements and allowing adequate time for response.
- developing simple, nationally consistent contractual terms and conditions, products and services categories, payment practices and quality assurance requirements; and
- adopting formal risk analysis to accurately quantify realistic and appropriate levels of public liability protection and quality assurance;

2. Encourage greater participation by SMEs in the contract chain

Ministers agree that opportunities for SMEs to improve contract chain relationships will be enhanced by:

- ensuring that SMEs are made aware of the opportunities and the benefits of subcontracting to primary suppliers;
- encouraging the formation of joint ventures, consortia or partnerships which might enable SMEs to join the contract chain at the prime or subcontracting levels;
- assisting SMEs to enhance their commercial skills to enable them to identify suitable subcontracting opportunities and to compete successfully for them; and
- encouraging prime contractors to identify contract components which might be subcontracted out to their own advantage.

3. Promote the benefits to SMEs of the use of electronic commerce

Ministers agree that the emergence of electronic commerce offers significant potential benefits to SMEs and that this potential can be utilised by:

- encouraging SMEs to take advantage of the inherent benefits which electronic commerce offers, and obtain the skills necessary to maximise those benefits;
- promoting the use of trade match systems which match buyers and suppliers of any size throughout Australia and internationally;
- facilitating strategic planning by SMEs through the creation and dissemination of greatly improved market information via the Internet;
- working towards a single, national face to government electronic commerce with a consistent identity based on standard or compatible protocols and presenting clear, simple, reliable applications widely recognised and understood across the nation; and
- enabling regional, rural and remote SMEs to compete in any major centre through electronic systems.

4. Greater consideration to the regional impact of government procurement decision making

Ministers agree to encourage the development of policies and initiatives that:

- encourage the benefits of purchasing locally in support of value for money objectives; and
- encourage access to information for regional, rural and remote SMEs as suppliers to government.

This National Action seeks to provide a mechanism for Australian Governments to develop purchasing policies to enhance SME access to public sector procurement through the adoption of national overarching principles and actions. Improved access will not imply preferential treatment.

Ministers will monitor the effectiveness of this National Action as a standing agenda item for the Procurement Ministers' Council Meetings.