




COX INALL RIDGEWAY

Department of the Prime Minister and Cabinet final report

Year one review of the Indigenous Procurement Policy



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Figure 1: Table of acronyms

Acronym	Meaning
ANAO	Australian National Audit Office
ATO	Australian Tax Office
CAWG	Cross agency working group
DAWR	Department of Agriculture and Water Resources
DIBP	Department of Immigration and Border Protection
DIIS	Department of Industry, Innovation and Science
DIRD	Department of Infrastructure and Regional Development
DPMC	Department of the Prime Minister and Cabinet
Finance	Department of Finance
IB	Indigenous business
IBD	Indigenous business database (Indigenous Business Direct)
IOP	Indigenous Opportunities Policy
IPP	Indigenous Procurement Policy
MMR	Mandatory minimum requirements
MSA	Mandatory set aside
SME	Small to medium enterprises
SN	Supply Nation
VFM	Value for money



EXECUTIVE SUMMARY

This is the final report of the review of the first year of the Indigenous Procurement Policy (IPP). The review has been undertaken by Cox Inall Ridgeway on behalf of the Department of the Prime Minister and Cabinet. The First Year Review was intended as an interim review to consider what early lessons have been learned to continue to improve implementation. It is also to ensure appropriate data collection and methodology is in place for a full evaluation of the policy in 2018.

THE IPP

Introduced on 1 July 2015, the IPP's primary purpose is to stimulate Indigenous entrepreneurship and small to medium business development. The IPP works by setting the principle that portfolios must proactively seek to include Indigenous business into their procurement activities. It aims to set and create cultural change through both voluntary and required procurement approaches.

METHODOLOGY

This review was undertaken sourcing qualitative data provided through survey responses, interviews and focus groups. This was analysed in conjunction with raw data collected from reporting agencies on the number, value and types of procurement from Indigenous business since the commencement of the IPP in July 2015. Qualitative data was accessed from 50 individual officers across Commonwealth portfolios; 80 Indigenous businesses as well as key stakeholders from within the Indigenous business sector. Case studies are being undertaken on six Indigenous businesses, three of these case studies will be featured as digital stories in 2017.

The review examined in detail the implementation approach taken in four portfolios. While all portfolios exceed their 2015-16 target for contracts awarded to Indigenous businesses, the review examined two portfolios that significantly exceeded their target, and two portfolios that exceeded their target but by a relatively low amount.

FINDINGS

The detailed analysis of the raw data, in conjunction with the qualitative interviews and surveys, has found that the IPP, in its first 12 months, has exceeded its planned outcomes. The clear majority of contributors expressed a motivation to continue to contribute to the success of the policy objectives, indicating strong alignment with governments' commitment to Closing the Gap on economic outcomes for Aboriginal and Torres Strait Islander Australians.

All portfolios met the original 2015-16 target of 0.5%, and in total the year one target was exceeded by a significant margin, with 1,509 contracts actually awarded to Indigenous businesses. The original first year target was 256. This is an increase from a total of 78 contracts awarded to Indigenous business in 2014-15.



The spread of achievement across portfolios was not consistent

In year one, a small number of portfolios accounted for a sizeable proportion of the contracts awarded to Indigenous businesses. The Departments of Defence, Human Services and the Prime Minister and Cabinet were responsible for awarding 51.5% of all contracts to Indigenous businesses. Defence and Prime Minister and Cabinet, again, along with Treasury and Foreign Affairs and Trade, were responsible for awarding 76.9% of the value of Indigenous business contracts.

The analysis showed a relationship between the efforts made to implement and the success of the implementation. Key activities that featured in the portfolios with better results were: assignment of dedicated leaders, education delivered to targeted areas; relationship building internally and with suppliers; ongoing communication of progress and explicit expectations; utilisation of existing as well as establishment of new Indigenous supplier panels. Where these factors were not in place, progress toward targets has been slower.

The reasons provided by stakeholders for this finding included issues such as Supply Nation database access, potential capacity issues on the supply side, and a perception of complexity of the IPP processes. This was particularly the case with respondents articulating an inconsistent understanding of the CPR requirement of assessing value for money.

In year one, the number of contracts set aside under the \$80,000 - \$200,000 category requiring direct approach to an Indigenous business first has shown a comparatively low conversion rate (total number of eligible contracts, to actual contracts awarded to Indigenous businesses). Across all portfolios, a total of 379 contracts were recorded as awarded to Indigenous business within the mandatory set aside for remote and contracts valued between \$80,000 - \$200,000. These contracts included 196 remote contracts and 183 within the 80,000 - \$200,000 range. This represented 1.7% of all contracts in the mandatory set aside category. This tracks against the initial, unrevised first year targets as being impressive, but has not followed the trajectory of the overall target.

Relational approaches to procurement were the most effective

Both procuring entities and Indigenous business noted that best outcomes were achieved with relational procuring processes in place and provided significantly positive feedback in relation to Commonwealth agency supported 'meet the buyer' networking events. Some portfolios reported significant success with the establishment of Indigenous business panel arrangements.

Procurement targets and metrics driving behaviours

The average value of Indigenous business contracts was \$188,326. The median value was \$19,372. The median value figure is consistent with the finding that there were a high number of contracts valued below \$10,000. Whether this figure is problematic is a question worth considering. We note that it is possibly consistent with an SME-focused policy and the need to support micro/start up business entering the marketplace. This interpretation would need to be validated over time.



The review was asked to consider the feasibility of collecting data on the impact of the policy in creating employment opportunities for Indigenous Australians. Qualitative data has indicated concern with this measure. In particular, this is due to a concern about an assumption that the growth associated with new employment is linked to a Commonwealth contract and that for small and new businesses, individual contracts (Commonwealth and otherwise) may not provide the continuity of income to support the appointment of a permanent employee/s. As such, many businesses have a preference for subcontracting for work to be delivered under contracts.

Business structure requirements are in alignment with the needs of stakeholders

It is acknowledged that business structures will continue to vary, and some arrangements will continue to raise questions about alignment with the 'spirit' or 'intent' of the policy. The qualitative data suggested that the 50 per cent ownership structures may not work in the interests of Indigenous business partners, and due diligence was required by all parties to ensure no disadvantage. On the whole, joint ventures were created to take advantage of the IPP, and the joint venture partner was often viewed as a 'capability partner' actively upskilling Indigenous business owners, and provided resources and capability that were supporting these businesses to grow and access an increased market. Better data could potentially be captured through identifying the business structure of those registered on IBD for a mapping exercise to be undertaken as part of the 2018 evaluation. Similarly improved arrangements to strengthen joint venture arrangements could reduce the perception issue and create increased outcomes, particularly in the larger contract ranges, and supply chain opportunities.

SUGGESTED AREAS FOR FOCUS FOR ENHANCEMENT TO IMPLEMENTATION

Education and training

At the time of consultation for this review, the IPP had been in place some 18 months. Stakeholders on both the supply and the procurement sides consistently noted the need for ongoing education effort.

Suppliers would continue to benefit from training related to applying for, and delivering to, Commonwealth clients; responding to the scope of prescribed work; effectively using AusTender; and pricing proposals in ways that make procurement decisions easier. Equally, procurement staff would benefit from ongoing guidance on assessing value-for-money in alignment with the CPR, and their specific obligations under the mandatory set-aside.

While the Mandatory Minimum Requirements for supply chain employment and subcontracting were not in scope for this review, some stakeholders did provide comment on its implications. Based on this, and the experience from year one, it is reasonable to assume that the lead suppliers, and the Indigenous suppliers looking to be subcontracted under the requirement, will benefit from a comprehensive communication and engagement campaign to ensure understanding, the facilitation of links and introductions, and compliance with the reporting requirements.

INTRODUCTION

1.1. ABOUT THIS REPORT

This report has been prepared in line with the Government's commitment to review the Indigenous Procurement Policy (IPP) after the first year of operation. The review has considered the policy development process and the implementation approaches that have been utilised both across various portfolios and within a number of departments. Year one financial performance has been analysed in detail and a synopsis of this is provided within this report. Finally, based on the findings of the review, enhancements to the IPP and to its implementation are also discussed.

This section of the report details the scope of the review, its methods, and caveats to the final analysis.

1.2. REVIEW SCOPE

In this first year review we have considered the dimensions of the IPP's impact, the performance of departments, the implementation supports used, and the potential enhancements to policy settings in order to maximise the impact of the Policy. Specifically, the review scope includes:

- an assessment of the impact of the Policy in creating opportunities for Indigenous businesses (IBs) to access Commonwealth contracts
- an assessment of the successes and challenges faced by Commonwealth agencies in adopting the IPP, including what worked well, areas for improvement, impact of reporting and concerns about the unintended consequences of the IPP, such as the risk of 'black-cladding'
- the feasibility of collecting data on the impact of the Policy in creating employment opportunities for Indigenous Australians
- the performance of each Commonwealth department against the IPP targets in 2015–16 and other portfolio-level strategies undertaken to implement the Policy
- an assessment on how policy settings could be adjusted to improve employment and economic development opportunities for Indigenous Australians under the IPP
- an assessment of the effectiveness of the information, training and supports available to IBs to access the Commonwealth market through the IPP
- a strategy to inform the evaluation of the Policy, which will be conducted in 2018.

1.3. REVIEW APPROACH

The mixed-methodology utilised for this review was designed to ensure the input of contributions from stakeholders within both the IB sector and government.

Stakeholders in business were invited to contribute through an online survey, and a sample was also selected for an in-depth interview. Of the 20 interviewed, 6 were chosen to feature in case studies; in due course three of these will be used as digital stories by the Department of Prime Minister and Cabinet (DPMC)



to support the ongoing implementation of the IPP. A business leaders' discussion was also facilitated in a group setting as another source of input.

Government stakeholders were consulted through the Cross Agency Working Group (CAWG) within group settings. In addition to the CAWG, four portfolios were selected for in-depth consultation. Two portfolios had demonstrated strong results against their portfolio target, and two, although meeting their year one targets, were amongst the lowest performers. The purpose of this sampling method was to identify and explore factors that may be relevant to the ongoing implementation of the IPP.

Finally, contract procurement data was provided by DPMC and included data collated from AusTender as well as information manually recorded by Commonwealth agencies subject to the IPP. The analysis of data included:

- comparison of portfolio performance against their individual IPP target, and contracts awarded to IBs in 2014–15
- comparison of portfolio performance to the IPP 'portfolio purchasing power' benchmark
- analysis of the mandatory set-aside (MSA) arrangement
- comparison of the results of the agencies within each portfolio regarding the number, value and type of contracts awarded to IBs
- comparison of procurements by portfolios within selected industries.

A separate, detailed report on the data was prepared for DPMC early in the review.

The year one target for Commonwealth portfolios was set at 0.5% of domestic contracts. As this target was exceeded the second year target for the 2016–17 financial year was adjusted to 3%.

Qualitative consultation occurred both before and after the announcement of the adjusted target, and may have impacted stakeholder perceptions and contributions.

The survey of IBs for this review coincided with two other surveys of the same target group. This may account for the relatively low response to the survey; results therefore need to be treated with caution.

1.4. POLICY RATIONALE

The IPP was introduced to encourage the growth of Indigenous enterprises, and to increase opportunities for Indigenous business development and Indigenous employment.¹

Introduced in July 2015, the IPP builds on the previous Indigenous-specific procurement policy, the Indigenous Opportunities Policy (IOP), and provides direction for government procurement processes in prioritising access to government procurement by Indigenous businesses (IBs).

The IPP was informed by the Australian National Audit Office (ANAO) review of the IOP, as well as consideration of the range of First People's economic advancement strategies in comparable countries. The policy seeks to increase IB opportunities in three ways, by:

- Providing a whole-of-government target for IB procurement, as well as individual portfolio targets.
- Creating a mandatory 'set-aside' (MSA) for remote contracts and contracts valued between \$80,000 to \$200,000, which gives IBs the chance to demonstrate value-for-money first, before the procuring officer makes a general approach to the market.
- Establishing minimum Indigenous participation requirements for certain Commonwealth contracts, to encourage Indigenous employment and the use of Indigenous enterprises in contractors' supply chain.

¹ Commonwealth Indigenous Procurement Policy (DPMC, 2015:p1)



IMPLEMENTATION

This section draws on interviews with Commonwealth officers, including DPMC staff, the CAWG and its sub-working groups and procurement staff from four identified portfolios. IB survey results and qualitative interviews were also undertaken. The section describes the range of approaches taken for the policy's implementation, and the successful elements of implementation over the first 12 months. Finally, it examines the experience of IBs in securing procurement opportunities and contracts from the Commonwealth over the same period.

2.1 DEPARTMENT OF THE PRIME MINISTER AND CABINET AND DEPARTMENT OF FINANCE PERSPECTIVES

2.1.1 *Leadership*

The IPP enjoys a strong authorising environment, with DPMC having responsibility for development, implementation and administration of the Policy, and advising the Minister for Indigenous Affairs on its implementation. The IPP is a Procurement Connected Policy (PCP) managed by DPMC. PCPs are Commonwealth whole-of-government policies that have been identified as using procurement as a means of delivery.

The Department of Finance (Finance) is responsible for the Commonwealth procurement framework, including the Commonwealth Procurement Rules (CPRs), and is responsible for ensuring that PCPs developed by other agencies are consistent with the procurement policy framework. The procurement framework lends credibility to the Policy, which was critical to ensuring uptake of the new business rules. Finance also assists DPMC by providing advice as required, and by undertaking a data matching exercise with contracts published on AusTender.

2.1.2 *Cross Agency Working Group*

Throughout the policy development process, DPMC established the CAWG comprising senior Commonwealth officers from central procurement areas across approximately ten key agencies. A broader sub-working of the CAWG was also established to discuss operational concerns and challenges, and to develop a data strategy to support efficiency in data collection and analysis.

Following the launch of the IPP in June 2015, and following an extended break in CAWG meetings, DPMC reconvened the CAWG and broadened its reach to include all 19 portfolios. This was key in preserving the knowledge and experience of those involved in the development of the Policy, and together with the sub-working group, was instrumental in meeting the communications challenges associated with the IPP's implementation.



Since the launch of the Policy, the CAWG has played a key role in testing IPP-related initiatives, for example, the development of the 'Slice of Pie' app. It has also played a fundamental role in communication across all stakeholder groups to ensure engagement with the Policy by all stakeholders.

Communication activities used a 'heart and mind' approach, with a focus on communicating not only the new procurement rules, but also the social benefits of the Policy for Indigenous communities.

2.1.3 *Engagement with Indigenous businesses*

DPMC implemented a number of initiatives aimed at supporting IBs at the time the policy was initially implemented. These included:

- Maintenance of an IPP mailbox, located at indigenousprocurement@pmc.gov.au.
- The development of a number of fact sheets, aimed at explaining the various components of the IPP to stakeholders.
- A focus on connecting IBs that made enquiries about the IPP with key contacts across Commonwealth portfolios.
- Inviting IBs to present their credentials to Commonwealth agencies at a series of IB forums. An overwhelming response from Indigenous businesses to these opportunities was reported. Many departments subsequently held their own supplier meetings as a way of promoting the IPP internally, and in response to the growing number of requests from IBs to discuss opportunities.

2.1.4 *Supply Nation*

Throughout the policy development process, DPMC sought feedback on, input to and support of, the Policy from Supply Nation, whose role in the implementation of the IPP was threefold:

1. Developing an online tool — Indigenous Business Direct — for Commonwealth officers to search their IB database (IBD).
2. Facilitating the creation of a new IB registration category for 50% owned IBs with the aim of increasing the pool of Indigenous suppliers.
3. Continuing to certify 51% IB owners who are able to demonstrate Indigenous management and control over key business decisions, such as company finances, operations, personnel and strategy.

Early challenges for the IBD included some portfolios not being able to access the database due to older platforms — in some cases IT systems required updating to ensure access, and the content had to be formatted to maximise readability. Supply Nation and DPMC are due to begin discussions about the next version of the IBD, which will improve its design interface, including its search-ability and functionality.

Feedback from procurement officers indicates more work is needed on the quality of the information held about businesses on the IBD. The priority areas for improvement are:

- The accuracy of the capability statements.

- Contact details to be immediately accessible rather than needing to take a link to an external webpage where details may not be obvious.

In practical terms, officers want to efficiently identify potential suppliers, note their contact details and make phone calls to clarify or test their capability and availability using the minimum number of actions. At present, the multiple steps needed to access information combined with reportedly poor, and at times inaccurate, capability statements, provide reason to quickly conclude 'no supplier found'.

Since the implementation of the IPP, both registration and certification processes have been strengthened to ensure the benefits of the Policy are reaching IB owners. These changes include that:

- IB owners are now required to declare the classes of shares they hold in a business — for both registration and certification processes
- Certification requirements have been strengthened through upgrading a list of 'recommended business requirements' to 'must have' business requirements.

At present, of the 1,220 IBs listed on the IBD, approximately one-third of these are certified IBs, while the remainder are registered IBs, according to the new category. This demonstrates the huge increase in identified IBs since the inception of the IPP, and the new IB Registration classification.

2.1.5 *Key factors to success*

DPMC reported a number of key factors that, in their opinion, contributed to the successful implementation of the IPP. These included:

- Clear backing from the Prime Minister, as well as the Minister and Portfolio Secretaries — that is, a top-down approach.
- Genuine goodwill and willingness from other departments to get on board with the Policy, especially when compared to other policy implementations DPMC staff had been involved in.
- Information-sharing about implementation strategies and associated successes through CAWG meetings.

2.2 PORTFOLIO AND DEPARTMENTAL PERSPECTIVE

This section draws on the year one IPP reporting data from across portfolios. Also analysed were interviews undertaken with procurement staff who described the range of approaches taken to implement the Policy; as well as the range of assumptions held by the implementers about the purpose of the Policy; and the elements mostly closely linked to successful implementation.



2.2.1 Approaches to IPP implementation

Overall, departments described their implementation as multi-faceted, combining practical establishment activity with elements of system change, and in some cases more sophisticated cultural change strategies. The factors reported to have influenced the approach taken at the portfolio or departmental levels were the:

- Size of the portfolio/departments and commensurate complexity of existing procurement structures.
- Nature of procurements undertaken, such as the type of goods and services procured, and the size and number of contracts.
- Local context and opportunities, for example, whether the IPP aligned with an existing strategy, such as a Reconciliation Action Plan (RAP).

Information about the approach to implementation at the portfolio and/or departmental level for the review was collected through group interviews at CAWG and sub-CAWG meetings. Additionally, four portfolios were selected for in-depth exploration. These included the departments of Defence, the ATO, Immigration and Border Protection (DIBP), and Infrastructure and Regional Development (DIRD). The findings from these in-depth analyses are included in the discussion below.

Responsibility for the IPP within departments was generally located in one central area, for example a procurement policy area, and supported by a high-level sponsor. The role of such designated areas has been to oversee practicalities, including changes to business processes to reflect IPP requirements; to develop departmental and portfolio-level data collection processes to ensure IPP contracts could be counted; and to continue to provide advice to buyers on IPP compliance.

DPMC ran workshops and information sessions to procurement teams, who then provided education to their own procurement sections about the Policy, and implications for business practices. Executive and senior officers contributed to implementation of the IPP respectively through the CAWG and the sub-working group. Responsibility for communicating the Policy has generally been led or overseen by committee members. Messaging about the IPP was most likely to be communicated from the Secretary, and on more than one occasion through the start-up period. Messaging was extended in some departments, for example in the Department of Agriculture and Water Resources (DAWR), which used a campaign approach, with signage in common spaces, for example, elevators, articles in newsletters, and an IPP reference added to the procurement team's signature block.

Champions have been another common feature, whether at an executive level, or strategically selected based on an individual's capacity to influence change in procurement practices at a local system level.

Some larger departments invested resources to establish an implementation team or working group early in the process (ATO), whereas others have adopted this approach more recently (Defence).

In the larger departments, with devolved procurement arrangements, implementation efforts have been more likely to be focused on specific procurement hubs, or business teams with procurement needs most



likely to align with Indigenous-owned suppliers. In general, the focus has been on infrastructure, property and ITC-related services.

As implementation activity progressed, analytical work became a priority for the better-resourced departments, and included an analysis of procurement patterns, the identification of potential Indigenous suppliers, and direct engagement with internal buyers on IPP compliance. The value of this approach is recognised across departments; however, the resources to undertake it are not always in place. Where analytical work has been done insights into data capture have been identified: in terms of what is and isn't being captured, as well as patterns of non-compliance or avoidance of the Policy.

Beyond the internal preparedness focus, all departments reported that representatives had attended at least one supplier event, such as those convened by DPMC or Supply Nation, or specific events within their own department. The events are generally valued, providing an opportunity for officers to become familiar with suppliers able to participate. A point was made, however, that in many cases procurement officers do not make the final selection of a supplier, but rather manage the process on behalf of an internal buyer. In such cases it may be better for buyers to attend the supplier events.

In departments with dedicated implementation teams, investment was made from the outset to identify and develop relationships as part of the Policy implementation. Departments that have reported slower progress, have more recently established working groups to expedite activity or to re-energise efforts that may have slowed.

The readiness to implement the Policy also varied between departments, which appeared to be linked to the nature of procurement and their existing arrangements. For example, DAWR had access to an existing Indigenous supplier panel, and early on elected to join the ATO's Indigenous recruitment panel, established under the IPP. Because it was existing practice for DAWR to engage IBs in the work procured in regional areas, targets were achieved without significant additional effort. In this context, the focus can move to identifying the next level of opportunity.

The ATO, through their supplier diversity team, had proactively put in place some systems and processes to procure from IBs in the lead up to the IPP being implemented.

The Department of Social Services set a target for IB procurement prior to the IPP in the context of their RAP. The target was higher than that required under the IPP, however, the IPP has subsequently prompted attention to the sub-contracting possibilities for high-value contracts in the property area. The focus will soon turn to an evaluation of performance, with contract managers providing feedback on IB performance. This feedback will be shared across the department, feeding into the overall transparent communication strategy.

The Department of Employment reported they had put a 5% target in place prior to the IPP, under their RAP. While the Department of Health did not have a set a procurement target prior to the IPP, they were able to link implementation to their broader cultural change program, as well as draw on their recent achievements



related to recruiting Indigenous employees. Similarly, recently refreshed efforts in Defence include linking IPP compliance with obligations under their RAP.

The ATO described their approach as ‘linking the Policy to the broader vision’ of supplier diversity, with the aim of achieving both a procurement solution and the flow-on social and economic benefit to communities. There was also commitment within the ATO to supporting the capability and the sustainability of IBs, and to this end, time was invested in an ‘end-to-end’ process, which has included:

- understanding buyer’s needs and understanding the lead-time for planned procurement
- identifying potential suppliers
- facilitating introductory meetings between IBs and existing suppliers to explore subcontracting opportunities
- assisting with the setup of sub-contracting arrangements when opportunities have arisen.

A similar approach has been taken with the IBs appointed to a new ATO IB labour hire panel. A working assumption is that at least some IBs will be new to supplying to a Commonwealth department, and a learning curve will be most effective if departmental support is made available to panel members as they become familiar with expectations and administration of the contract.

Some departments invested in bringing along associated agencies not compelled to comply with the IPP. The ATO, for example, convened working groups, but without the driver of a policy mandate the ATO reported little progress, and reinvested effort elsewhere. Other portfolios invited their non-compelled agencies to adopt the Policy and contribute to the overall objective. The effect of this approach is not visible in the data at this stage. With the introduction of planned automation of data collection, the detail will become clearer.

2.2.2 Elements linked to successful implementation

A similar set of activities to implement the IPP were undertaken by all the departments consulted in this review. The key difference between departments was the scale at which the implementation was resourced, and the clarity of ownership of the Policy. Each of these factors influenced the timeliness of implementation activity, and was generally linked to the success of the portfolio in reaching its year one targets.

The decision to resource the implementation and to do it early after July 2015 proved effective for the ATO, DAWR and Human Services. Resourcing generally took the form of a centralised team with procurement expertise, or a procurement policy team. The key tasks reported by such groups included:

- using **messaging** from senior leaders as a platform from which to engage targeted areas
- developing an **implementation strategy** that prioritised and sequenced effort
- providing **education** about the IPP, with explicit links to existing diversity agendas or other relevant departmental commitments
- engaging in the **relational** component of implementation through an external focus on IBs

- an **analytical** approach to determining the strategy followed by ongoing review of procurement decisions to test compliance with the Policy
- establishing sector-specific **panels** of pre-qualified Indigenous suppliers.

Importantly, the DMPC, Human Services and ATO were involved in the CAWG and its sub-working group from the beginning of policy development, and had strong buy-in and ownership from senior executives from the outset. Similarly, along with Defence, these portfolios form part of Supply Nation's Corporate Leadership Group, demonstrating that they are well connected to the IB sector, and have deeply embedded relationships with key sector stakeholders and IBs. These portfolios also performed the best in year one in terms of their over target result (see table 1 in section 4 below).

Internal messaging

Internal messaging generally took the form of communiqués from the most senior levels of each department, and provided the areas responsible for the Policy with the authorising environment they needed to commence their engagement activities. Senior executive support was also reported to retain a focus on the Policy, and in some cases, this included transparency on progress against the target, and at times some 'healthy competition' between areas when data allowed progress to be compared.

Success stories have been used as a further communication tool in some departments, to emphasise the value of the new Policy's impact and, in part, to mitigate push back on the new procurement requirements. For example, within DIRD the first objective of internal communication was to introduce the Policy and the new processes. As contracts with IBs were entered into, the communications approach transitioned to highlighting success, with 'success stories' posted to their intranet.

Implementation strategy

As noted above, some departments introduced an implementation strategy ahead of the IPP transition, allocating personnel to take the implementation lead. Departments that did not initially resource implementation, and where ownership of the Policy has been less settled, have more recently elected to commit resources and introduce a more structured approach to implementation (DIBP, DIRD). Equally, in departments that met targets through mostly low-value contracts, renewed efforts now aim to engage in the policy intent more thoroughly, and to embed it across the procurement value range.

Departments developing their strategy later in the implementation period have had the advantage of the lessons learnt and shared at various cross-agency meetings. An example of this is DIRD, where ownership of the Policy has recently been clarified, and the intention is to move quickly to 'meaningful acquisitions', defined, as high-value and long-term procurements. An insight shared across departments is the need to improve procurement planning. While some departments have reported that they have a process in place for areas to alert the central procurement section to the coming year's likely procurement activity, these processes are not always well complied with. Advance notice on plans would enable procurement officers to identify and assess potential Indigenous suppliers, thereby reducing the risk of 'no supplier found' at the point in time when the procurement is immediately required, or urgent. This is an example of how the



overall quality of procurement management can support or hinder the success of the IPP, and how some implementers are engaging in a continuous improvement mind-set.

Internal education

Internal education strategies varied, from direct briefings by core teams to national workshops designed to engage ‘hearts and minds’. On reflection, some departments saw they had overlooked communicating the rationale behind the Policy, and the broader objective of closing the gap in Indigenous economic wellbeing. This emphasis, they felt, is important in engaging people in changed procurement practice.

As in other aspects of the implementation, the education focus has also adapted to address emerging issues. There is broad consensus that ongoing education will be required over the next 18 months. In part, this is to promote engagement with the Policy by the very large departments, which have dispersed procurement structures. It is also partly to address an identified need to raise awareness of obligations under this Policy, in contrast to other regulatory changes. In relation to the IPP, lead implementers consistently report encountering ‘push-back’ from some of their procurement officers, and from some buyers, about the requirement to ‘go to market twice’ under the MSA. Built into this concern is an assumption that there will be no suitable Indigenous supplier, and that the process will necessarily increase their effort and delay their procurement. Improved planning to allow for suppliers to be identified and improved information about supplier’s capabilities were both identified as the necessary response to this pressure.

Relationships

Some of the more well-resourced departments invested significant amounts of time in building relationships with potential suppliers throughout the first year of implementation. This relational component involved designated resources within a centralised procurements team, who were tasked with finding and meeting IBs matched to their agency’s procurement needs. Procurers with strong relationships with IBs were then able to recommend a number of IBs for buyers to approach. This effectively removed the barriers for buyers that related to searching the IBD for a prospective IB to approach.

Importantly, the presence of a relational component within an agency’s implementation strategy was aligned with their year one success in meeting their IPP targets. The departments of the Prime Minister and Cabinet, Defence, Foreign Affairs and Trade, Treasury, Infrastructure, Innovation and Science (DIIS), and Human Services were all reported to be using some form of relational approach to their IPP implementation. These six agencies also represented 85.3% of the total value of contracts in year one of the IPP.

Analysis

A range of different analytical tasks have supported IPP implementation, including defining the best opportunities within a department for early success; identifying the suppliers most likely to match buyers’ needs; and soft-touch audits to test for missed opportunities. These soft-audits aim to test whether procurements with a matching Indigenous supplier were contracted to an Indigenous business, and if not, why not.



Understanding the best opportunities for procurement under the IPP has been central to achieving targets. While the original numeric targets set by DPMC and Finance were based on the average of the eligible numbers of contracts in the preceding three financial years, further interrogation allowed departments in some cases to set agency-level targets, and make decisions about where to focus education and change efforts.

Identifying Indigenous suppliers best placed to meet buyers' needs has been used in all departments with a dedicated team. This was described as a resource-intensive task, but necessary to overcome common barriers identified with the IBD. Barriers included incompatible technology — with some departments using older web platforms — as well as the quality of information held about suppliers, which reportedly makes the search task cumbersome. Identifying potential suppliers allowed the lead areas to provide options to their internal clients/buyers.

Indigenous panels

Pre-qualified panels are reported to be the preferred source of suppliers across all departments, in that they provide efficiencies through timely responses to opportunities, experience in supplying to Commonwealth agencies, as well as responding to agreed terms and conditions.

To achieve the same level of efficiency under the IPP, the ATO, DIBP and the Department of Parliamentary Services have established Indigenous supplier panels, variously covering labour hire, ICT, property services and uniform supply. Other departments can draw on these panels, and DIBP indicated that they have already utilised the ATO panel. Defence noted that with the opportunity to refresh their social and market research panel, two Indigenous suppliers have now been appointed. Similarly, DIBP proactively engaged with IBs about a panel opportunity, and two IBs are now on a property panel.

While noting that property services have been an area for Indigenous suppliers to build their engagement with departments, several interviewees also noted that the anticipated whole-of-government panel for property services could put at risk the gains in contracts made by IB in this sector. The 2016–17 Federal budget included an announcement of coordinated procurement arrangements for property services with implementation from 1 July 2017.

Advice provided to the review from Finance noted that the design of the ATM for this panel was mindful of ensuring opportunities for Indigenous providers in the supply chain. Accordingly, providers appointed under the arrangements will be required to ensure Indigenous procurement targets are met in relation to subcontractors. There is also scope for entities to request Indigenous providers to be engaged as subcontractors to provide particular services. These arrangements were designed in consultation with DPMC.

2.3 INDIGENOUS BUSINESS PERSPECTIVE

This section draws on interviews undertaken with IBs, in combination with the IB survey and focus group contributions. It describes their experience throughout the first year implementation of the IPP, as well as barriers IBs have faced that limit the Policy's ability to reach its full potential.

2.3.1 Finding and winning business under the IPP

Awareness of the IPP

The majority of respondents of the survey (68%) and all interview respondents were 'fairly' or 'extremely' familiar with the IPP. While one-fifth of survey respondents mentioned the procurement target, there were inaccuracies in the detail of the target from some, and a general low-level of awareness about some of the specifics of the Policy, particularly around the minimum mandatory requirements (MMRs).

When giving their perspective about what they thought the objectives of the Policy were, the majority of interview respondents indicated they thought it was aimed at supporting the growth and development of IBs, and the sector more broadly. These respondents described the Policy as a 'tool to help us do business', 'creating investment rather than funding' or 'a hand up, not a hand out'.

Second to this, some respondents linked the Policy to a broader objective of increasing Aboriginal employment outcomes. In this sense, all interview respondents acknowledged the fact that IBs are more likely to employ Aboriginal people, and had signalled intent to employ Aboriginal people as their business grew. However, the vast majority thought communications that promoted the line that '*Aboriginal employees are 100 times more likely to employ Aboriginal people*' was putting undue pressure on businesses to be seen to be employing a large percentage of Aboriginal people, when their business may not in a position to do so.

From this perspective, it was thought that 'this language stands out very strongly...', and, '...it's about growing businesses that will employ Aboriginal people. Indigenous businesses will do this anyway without putting targets on them, but they need time to grow'.

A few respondents linked the Policy with wealth creation and entrepreneurship of Indigenous people.

Finding opportunities from the IPP

Most IBs responding to the survey (60.3%) indicated they had not won any Commonwealth contracts since the introduction of the IPP, while 8% of respondents had won 16 or more contracts. From the qualitative interviews, there was only one business that had not won any contracts since the introduction of the IPP. Overall, the levels of success amongst IBs in winning government business was varied — IBs that were interviewed all reported more look-ins and more opportunities to quote for business since the implementation of the IPP. However, they reported a success rate of about 25–40% in terms of jobs they tendered or quoted for, compared to jobs they were contracted to deliver.



By far, across both interview and survey respondents, the most common — and successful — approach IBs undertook in trying to secure Commonwealth contracts was through building relationships with key Commonwealth officers. This approach involved IB owners or business development managers reaching out to procurement teams, securing meetings with key contacts and presenting their business credentials either via phone or through face-to-face meetings, most often in Canberra. Indeed, most IBs said they invested a lot of time visiting Canberra, trying to build key relationships immediately following the implementation of the IPP.

Survey results indicated that AusTender was the primary source of information about opportunities to contract with the Commonwealth government, mainly through alerts, but also through searching the website. However, despite being a reliable source of information, IBs interviewed reported that it was generally not the preferred way to get Commonwealth business. This was especially so for smaller IBs. Key barriers IBs faced in winning contracts via an AusTender process were:

- difficulties in tender writing, including knowing how to incorporate Commonwealth language and knowledge of ways of doing business into their response
- demonstrating their capability to deliver on contracts to governments, especially when they lack this direct experience
- in some cases, coping with the volume of tenders and/or direct approaches that come all at one time, especially for smaller businesses that only have one designated person responsible for responding to all requests
- pricing their responses correctly, whether this was in terms of responding in the correct format, or ensuring their competitiveness.

Given these barriers, AusTender is viewed as a last resort by most IBs, despite their acknowledgement of its importance to them to being able to successfully capitalise on opportunities from the IPP. This is a key concern, particularly for newer businesses, which don't have relationships or experience in dealing with the Commonwealth.

Another key source of contract opportunities for IBs was those coming through existing panel arrangements. The ATO's Recruitment and Labour Hire Panel, for example, has been expanded to an *All of Agency Agreed Access Panel*, which expands the number of opportunities available to IBs on this prequalified panel.

In other cases, existing panel arrangements, for example whole-of-government panels, are a key barrier to IBs being able to access Commonwealth contracts. In these cases, IBs are reliant on the diversification of their business offering to secure government work, or acting as tier-two subcontractors to a whole-of-government panel member.

Dealings with Commonwealth portfolios

As noted above, most IBs have gone to great effort to establish relationships with key Commonwealth staff, and many reported positive feedback and engagement with both buyers and procurement staff in delivering Commonwealth contracts. In these circumstances, IBs are often getting more requests and repeat business from the same departments — that is, those they have good relationships with. In some cases, this is for new types of work or in a new industry for the IB.

Conversely, these same IBs have had more negative experiences when trying to use the same relational approach to create business opportunities with new departments, or agencies under the guise of the IPP. In these circumstances, IBs report that Commonwealth procurement officers appeared not as engaged with the IPP, weren't as helpful, and weren't as open to building relationships with IBs. In some cases, these agencies tend to favour engaging with IBs more formally through AusTender. In other cases, there may be support from a centralised procurement or HR team, but Commonwealth buyers or decision-makers were more reluctant to engage. It was hypothesised that these buyers may have existing relationships with suppliers they were reluctant to move away from, or they didn't 'buy-in' to the objectives of the IPP. In summary, there was a feeling that 'old habits die hard'.

The effect of the dynamic of these relationships with Commonwealth officers is threefold:

1. While IBs have repeat business from some departments, they are now not seeing contracts from new Commonwealth clients.
2. Given these departments have now built a network of Indigenous suppliers, embedded through strong relationships and previous experience; it could now make it more difficult for new IBs to find opportunities within these departments.
3. Much of the Commonwealth business with IBs — in terms of value — is being undertaken within six key portfolios (Defence, DFAT, Treasury, DPMC, DIIS, DHS), that is, those who are open to, and have the resources to build relationships with IBs. Meanwhile, many IBs are finding it difficult to identify opportunities within portfolios that have adopted a more transactional approach.

Value of contracts

Of those IBs that have been awarded contracts under the IPP, 26.7% of respondents have received contracts totalling more than \$1m. A similar number (23.6%) had received contracts totalling less than \$50,000. From those interviewed, IBs reported the majority of ATM or tenders received were lower than the MSA value range of \$80,000. There was a suspicion that in some cases, Commonwealth procurement officers, or buyers wanted to see businesses get 'runs on the board' through delivering lower-value contracts, before offering them opportunities to quote on contracts above \$80,000.

Mandatory set aside

Across all portfolios, a total of 355 contracts were recorded as being awarded to IBs within the MSA categories. These contracts included 196 remote contracts and 183 contracts valued between \$80,000 and \$200,000. Contracts awarded to IBs between the MSA value range represented 1.7% of all contracts valued between \$80,000 and \$200,000. A numerical target was not set for contracts awarded to IBs under the MSA.



The experience of the MSA by IBs was explored through the survey of Supply Nation members and the in-depth interviews conducted with a sample of IBs. Half of the IBs responding to the survey (34) reported they had not been approached under the MSA arrangement in year one of the IPP. A similar experience was reported by half (10) of the IBs interviewed. (Note: it is possible that some IBs responded to the anonymous survey, and were also interviewed).

Some IBs reported seeing a tender go out on AusTender within the MSA value range. In these cases, IBs often approached the Commonwealth contact officer, referencing the IPP. The result was generally mixed, with IBs subsequently invited to apply, although in reported cases, were unsuccessful in being awarded the contract.

Overall, while businesses felt as though they should be inundated with work — or requests for quotes — within the MSA range, this wasn't the experience in year one.

Mandatory Minimum Requirements

The MMR was not in effect in year one of the IPP, but at the time of the consultations for this report, there was a growing awareness of the measure, and recognition of the opportunities it may present. It is worth noting that IBs who provided comment on the MMR reported little, if any, experience of working with tier-one suppliers. Additionally, they were keen to understand how the opportunities would be promoted and how the obligations under MMR arrangements would be monitored.

Subcontracting

All the IBs interviewed reported that they are committed to using other Aboriginal suppliers wherever possible, with a general attitude that, 'we can support our sector ourselves by working together'.

Subcontracting arrangements were favoured by a number of businesses as the preferred way to increase their capacity. This was especially true within the professional services industry where subcontractors were used to undertake a specific task within a project that contractors either didn't have the capability, or capacity to deliver.

This has proven a successful strategy in helping IBs gradually take on larger contracts before they have the capability to employ someone. It also allows them to bring someone in with a specialist expertise on a project basis.

'That's how you survive when you can't afford to employ people. You have to subcontract people. We use a whole array of people, including Indigenous businesses, for example sole traders, who provide a similar service to what I do in the business'. — IB Owner



Some businesses reported tendering together with other subcontractors in order to help prove they have the capacity to deliver projects to government. These arrangements often vary from project to project with businesses working interchangeably in terms of which business is the lead contractor, and which is the subcontractor. Working together also allows them to gain new exposure through working on different projects, and with different colleagues, and is a way they can increase their capacity.

One IB was exploring the option of creating their own panel of Indigenous suppliers and/or subcontractors. Under this arrangement they would bring in subcontractors, foster them through the tender process and certification requirements, and become key delivery partners.

There was a view from some IBs that instead of focusing on Indigenous employment numbers, the value of Indigenous subcontracts should be considered when examining the impact of the IPP.

Training and support

Both survey respondents and IB interviewees were asked what training and support they had utilised throughout the implementation of the IPP, and whether they found it useful. Survey respondents indicated the Supply Nation website was the most useful resource, followed by the IPP document itself.

From the IB interviews, the majority of interviewees reported that the Supply Nation Connect events, in addition to other 'meet the supplier' events run by the departments of Finance, the Environment and Energy, and Defence were the most beneficial in terms of lead generation and creating opportunities for them to leverage the IPP. While most people found these events useful, there were some who said that they were in need of reinvigoration and rethinking to keep both suppliers and buyers engaged with the event style. Some also found the smaller events run by DPMC more useful, because there was more opportunity to engage with Commonwealth staff and more opportunity to present their credentials.

Key criticisms of the 'meet the supplier' style events were that Commonwealth staff often don't carry business cards, meaning they weren't able to exchange details with key contacts met at the event; and that the Commonwealth staff attending events were often from procurement teams, rather than the buyers or decision-makers on IPP contracts. These IBs found the events a good networking opportunity, which didn't, however, necessarily win new work as a direct result of their attendance.

In addition, survey results revealed there were several resources that respondents had low recognition levels of, including the website and factsheets, the Indigenous procurement email inbox, and training provided by IBA and other providers. Qualitative responses to the survey support these findings, with a number of respondents indicating they would benefit from introductory training around the IPP and Commonwealth procurement processes.

Overall there were a number of key supports IBs identified that the Commonwealth could provide:

- Support with tender writing, specifically to help IBs understand government language relevant to their sector, and how to price themselves correctly so they are comparable in both format and value-for-money to their competitors.
- Support to develop relationships with Commonwealth procurement staff, and particularly, key decision-makers. They reported this would be particularly valuable for small businesses that struggle to break into the contracting markets. Similarly, for more established businesses, they reported they would most benefit from lead generation, but then felt comfortable enough to be able to win work from there.
- Improvements to the IBD to help them find other IBs to subcontract to.
- Business strategy support for smaller business to help them grow so they can continue to take on larger contracts.
- Publishing of procurement plans on an annual, or even three-year basis to allow for long-term business and industry planning.
- Skills development through mentoring within industries and/or departments; for example, opportunities to undertake a one week secondment in a particular department in order to gain insight and experience into how government works. This would assist businesses with no government experience in responding to tenders and understanding government ways of doing business.

Joint ventures

Joint-ventures (JVs) all vary in their business model and structure. Many IBs talked of the genuine benefits of being a JV, including building up the capability of the IB owner through training, mentoring and work experience through a larger business; and subsidising high capital costs that a new business would not be able to afford — especially in industries that require significant investment in stock, equipment, and delivery networks. In many cases, the business owners had aspirations to grow the company and eventually become a stand-alone business, moving to a standard incorporated business model.

Notably, Indigenous JVs are often conscious of a perceived stigma around their ownership structure, and actively promote their contribution to strengthening Indigenous communities in their marketing collateral, proposals and presentations. Conversely, wholly-owned Aboriginal businesses saw their cultural capability as inherent, but not generally articulated in proposals and collateral. Examples were put to the reviewers of wholly-owned IBs receiving feedback from procurement officers that this reduced their value proposition.

Some IBs expressed expectations that in years 2 and 3 of the IPP there will be an increase in JV arrangements, as a strategy from some multinational corporations to ‘take back’ some of the lost revenue they have seen since the introduction of the IPP. In the security industry, for example, one IB reported they have taken \$35m away from multinationals, proposing that, ‘it’s only natural they are going to respond’.



There were also questions about where the IPP sits in the lifecycle of an IB, and whether consideration is being given to IBs long-term objectives. In this sense, if businesses are solely reliant on the IPP, then the IB ownership becomes fundamental to the success of the business, which is especially relevant if an IB owner decides to sell their shareholdings. Similarly, for IBs with the long-term objective to become a publicly listed company, consideration would need to have been given to how the IPP might accommodate the publicly listed IB model.

YEAR ONE PERFORMANCE

In this section we report findings from the analysis of all portfolios in procuring contracts from IBs against the IPP target and purchasing power benchmarks. We compare contracts awarded to IBs in 2014–15, when the IPP was not in place, to comparable data for 2015–16. This provides an indicator of the impact of the IPP in its first year of implementation. We also look at progress towards meeting the final 3% IPP target.

3.1 PORTFOLIO ANALYSIS FOR 2015–16

As discussed above, each Commonwealth portfolio was set a target under the IPP for the number of contracts to be awarded to IBs in 2015–16.

The performance of each portfolio against these targets is presented in Table 1.

All portfolios exceeded their IPP targets; and the three portfolios that exceeded their targets by the greatest margin included DPMC (233 contracts or 3,883%), Human Services (236 or 1,311%) and DAWR (50 or 1,000%).

The three portfolios with the least number of contracts over the target were the Department of Communications and the Arts (two contracts, or 40%), DIRD (four contracts, or 50%), and DIBP (10 contracts or 53%).

Table 1 shows each portfolio's IPP target;

- the total number of all IB contracts awarded
- the number of contracts in excess of the IPP target
- the total value of contracts in 2015–16.

Table 1 — Performance of all portfolios against IPP targets in 2015–16

Portfolio	IPP target	Number of IB contracts	Result over target	Difference (%)	Total value IPP contracts
Agriculture and Water Resources	5	55	50	1 000	5 548 536
Attorney-General's	19	91	72	379	4 104 430
Communications and the Arts	5	7	2	40	97 277
Defence	70	285	215	307	141 800 665
Education and Training	4	41	37	925	5 344 233
Employment	7	67	60	857	505 908
Environment	14	80	66	471	3 577 384
Finance	8	27	19	238	4 838 215
Foreign Affairs and Trade	13	76	63	485	13 502 572
Health	12	27	15	125	3 804 565
Human Services	18	254	236	1 311	10 376 458
Immigration and Border Protection	19	29	10	53	4 592 966
Industry, Innovation and Science	15	33	18	120	15 153 936
Infrastructure and Regional Development	8	12	4	50	2 028 130
Parliamentary Departments	4	15	11	275	1 410 395
Prime Minister and Cabinet	6	239	233	3 883	28 338 368
Social Services	6	36	30	500	3 720 323
Treasury	19	116	97	511	34 762 113
Veterans' Affairs	4	19	15	375	677 139
TOTAL	256	1 509	1 253	489	\$284,183,621

Source: DPMC data. Urbis analysis.

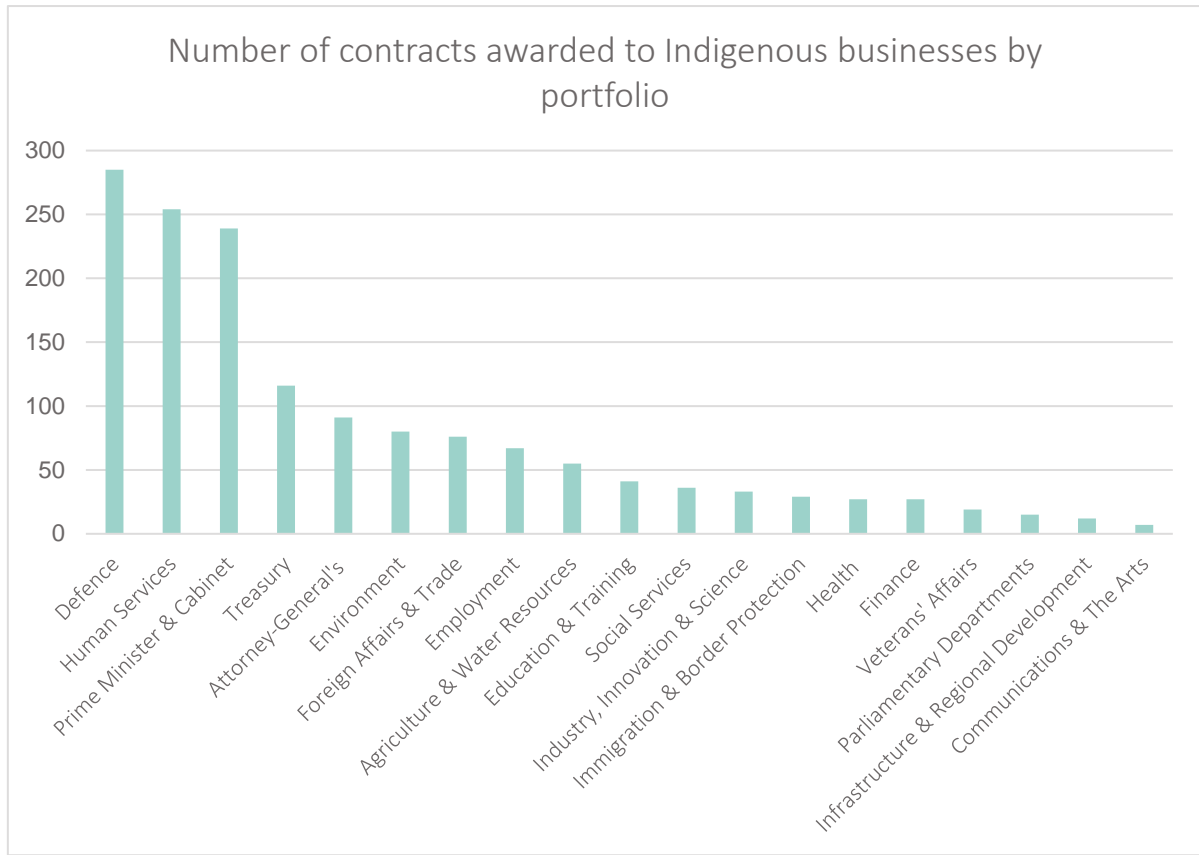
3.2 PERFORMANCE BY NUMBER OF CONTRACTS

There was wide disparity in the number of contracts awarded to IBs — for example, three portfolios far exceeded the number of contracts awarded when compared to other agencies. Defence awarded the most contracts to IBs (285), followed by Human Services (254), and DPMC (239). The least number of contracts was awarded by the Department of Communications and the Arts (seven contracts) and DIRD (12 contracts).



The number of contracts awarded by portfolio from highest to lowest is shown in Figure 1 below.

Figure 1 — Total number of contracts to Indigenous businesses by portfolio in 2015–16



Source: DPMC data. Urbis analysis.

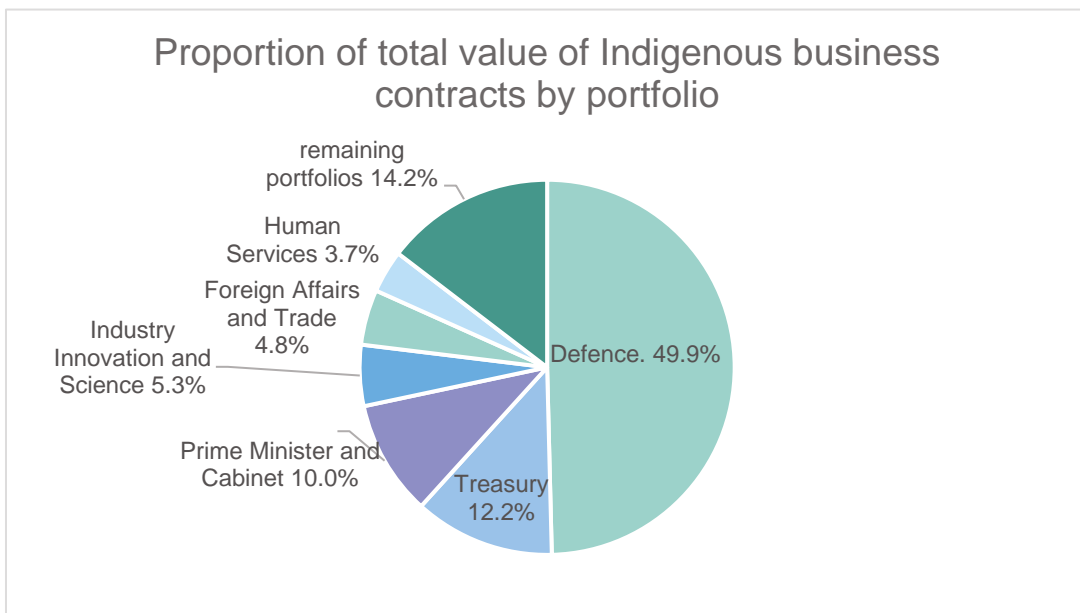
3.3 PERFORMANCE BY VALUE OF CONTRACTS

By a wide margin, Defence awarded the highest value of contracts (\$141.8m) out of all the portfolios. This was followed by Treasury (\$34.8m), DPMC (\$28.3m), and DIIS (\$15.2m). The proportion of the total value of IBs by portfolio is shown in the Figure below.

The three portfolios that were awarded the lowest total value of contracts were the departments of Veterans' Affairs (\$677,139), Employment and Training (\$505,908), and Communications and the Arts (\$97,277).

Figure 2 also demonstrates that Defence was responsible for almost half of all the contracts awarded to IBs by value. Overall, 85.3% of the total value of contracts was awarded by six portfolios, suggesting that activity under the IPP is highly concentrated in a few portfolios.

Figure 2 — Proportion of total value of Indigenous business contracts by portfolio in 2015–16



Source: DPMC data. Urbis analysis.

When considering the total purchasing power of portfolios, it is not unexpected that Defence performed well against other portfolios in procuring Indigenous contracts. The total purchasing power of all portfolios subject to the IPP was \$30.6bn. The purchasing power of Defence was \$9.5bn (or 31.1%) of total purchasing power.

However, other portfolios with high levels of purchasing power did not perform well in procuring goods and services from IBs. In particular, procurement from IBs by DIBP — representing 16.8% of total purchasing power, and the Department of Communications and the Arts — reflecting 7.8% of total purchasing power, represented less than 2% of their respective purchasing power levels.

3.4 RANGE AND AVERAGE OF CONTRACT DOLLAR VALUES BY PORTFOLIO

In Table 2 below, we show the range from minimum to maximum values of individual contracts and the average and median values within each portfolio for 2015–16. We also present the percentage of contracts below \$10,000 awarded in each portfolio.

3.4.1 Range of values

In 2015–16, there was a wide range in values of individual contracts awarded to IBs. The values ranged from a low of \$85 by the Attorney-General’s Department to the highest value of \$12m by Defence. A wide range in values is not unexpected, although we do think further work can be done to better understand the role and value of low value contracts — that is, under \$10,000 — to the IB sector.



The median, or midpoint value of all contracts was \$19,372. The low median value reflects the fact that 42.1% of all IB contracts were valued at less than \$10,000, indicating that a high proportion of contracts were for lower value services. Portfolios that had a high proportion of lower value contracts — at, or over 75% — were the departments of Education and Training, Employment, and DIRD.

The key difference in implementation between high-performing and lower performing portfolios identified through the qualitative inquiry was the extent to which a department invested in strategic implementation activity. This included senior ‘ownership’ of the Policy; internal briefings; supplier matching; and relationship development with potential suppliers.

The ranges in the value of individual contracts are shown in Table 2 below.

Table 2 – Range and average value of Indigenous business contracts by portfolio in 2015-16

Portfolio	Minimum	Median	Mean (Average)	Maximum	<\$10,000 %
Agriculture and Water Resources	12 780	35 429	100 882	2 131 352	0
Attorney-General’s	85	1 600	45 104	1 569 086	72.5
Communications and the Arts	576	18 040	13 897	23 000	28.6
Defence	242	87 967	497 546	11 966 900	22.1
Education and Training	350	1 713	130 347	4 699 604	87.8
Employment	94	1 800	7 551	150 000	83.6
Environment	107	1 614	44 717	658 042	65.0
Finance	11 050	71 000	179 193	1 607 347	0.0
Foreign Affairs and Trade	200	21 439	177 665	9 112 568	44.7
Health	11 440	45 000	140 910	1 512 500	0.0
Human Services	200	868	40 852	1 972 674	64.2
Immigration and Border Protection	125	29 652	158 378	1 400 000	41.4
Industry, Innovation and Science	12 000	78 793	459 210	4 728 582	0.0
Infrastructure and Regional Development	200	1 210	169 011	1 557 381	75.0
Parliamentary Departments	550	19 600	94 026	436 480	40.0
Prime Minister and Cabinet	1 000	13 750	118 571	5 362 016	45.6
Social Services	10 560	77 700	103 342	549 879	0.0
Treasury	250	59 026	299 673	8 494 416	22.4
Veterans’ Affairs	8 800	25 000	35 639	147 131	5.3
	85 (lowest)	19 372	188 326	11 966 900 (highest)	42.1 (average)

Source: DPMC data. Urbis analysis.



3.4.2 Average value of contracts by portfolio

As shown in Table 2 above, the average value of contracts to IBs was \$188,326. The highest average value of contracts was by Defence at \$497,546.

The average value is high compared to the median of \$19,372 and reflects very high-value contracts in many of the portfolios. Table 2 shows that the maximum value of IB contracts was over \$1m in 13 out of 19 portfolios, or 68%.

As reported on AusTender, the average value of domestic contracts awarded by Commonwealth Government agencies from 2011–12 to 2013–14 was \$596,566. This is significantly higher than the average value of a contract awarded under the IPP. There are a number of reasons to explain this difference. Firstly, the AusTender data does not include contracts that are valued below \$10,000 while the IPP data we analysed includes contracts less than \$10,000. Further, the AusTender data includes very high-value contracts awarded by Commonwealth Government agencies, which pushes up the average value.

Figure 3 below shows the average value of IPP contracts awarded by portfolio. The blue horizontal line represents the average value of IPP contracts across the entire Commonwealth Government (\$188,325).

As the figure demonstrates, only three portfolios had average contract values that exceeded the Commonwealth Government average for IB contracts. These were:

- Defence
- Treasury
- DIIS.

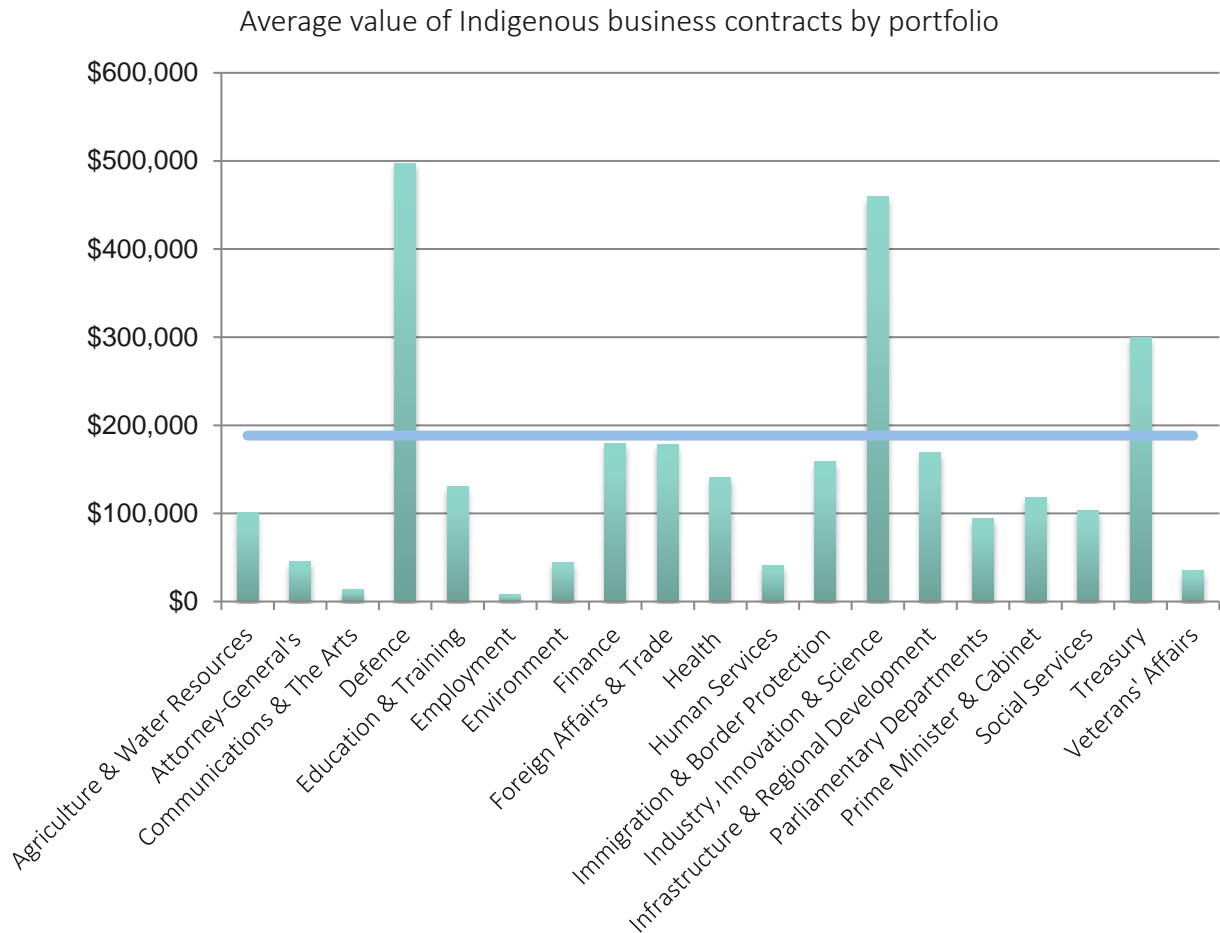
This demonstrates that these portfolios engaged IBs for contracts of relatively higher value compared to other portfolios and reflects higher value services.

As previously discussed, Defence and Treasury, through the ATO, achieved far greater procurement outcomes for both the number and value of contracts awarded to IBs in 2015–16. The below figure indicates that the average value of these contracts was significantly higher compared to most of the other portfolios.



As the IPP becomes more embedded in procurement practices in the next few years, it will be worth monitoring the average value of contracts awarded to IBs. A higher average value reflects a higher value of services per contract. A recommendation has been made to capture value over time to inform future analysis.

Figure 3 — Average value of Indigenous business contracts by portfolio in 2015–16



Source: DPMC data. Urbis analysis.

3.4.3 Changes over 2015–16

The value and the number of IB contracts steadily increased during 2015–16. Figure 4 below shows the trend in the number and value of contracts over the year.

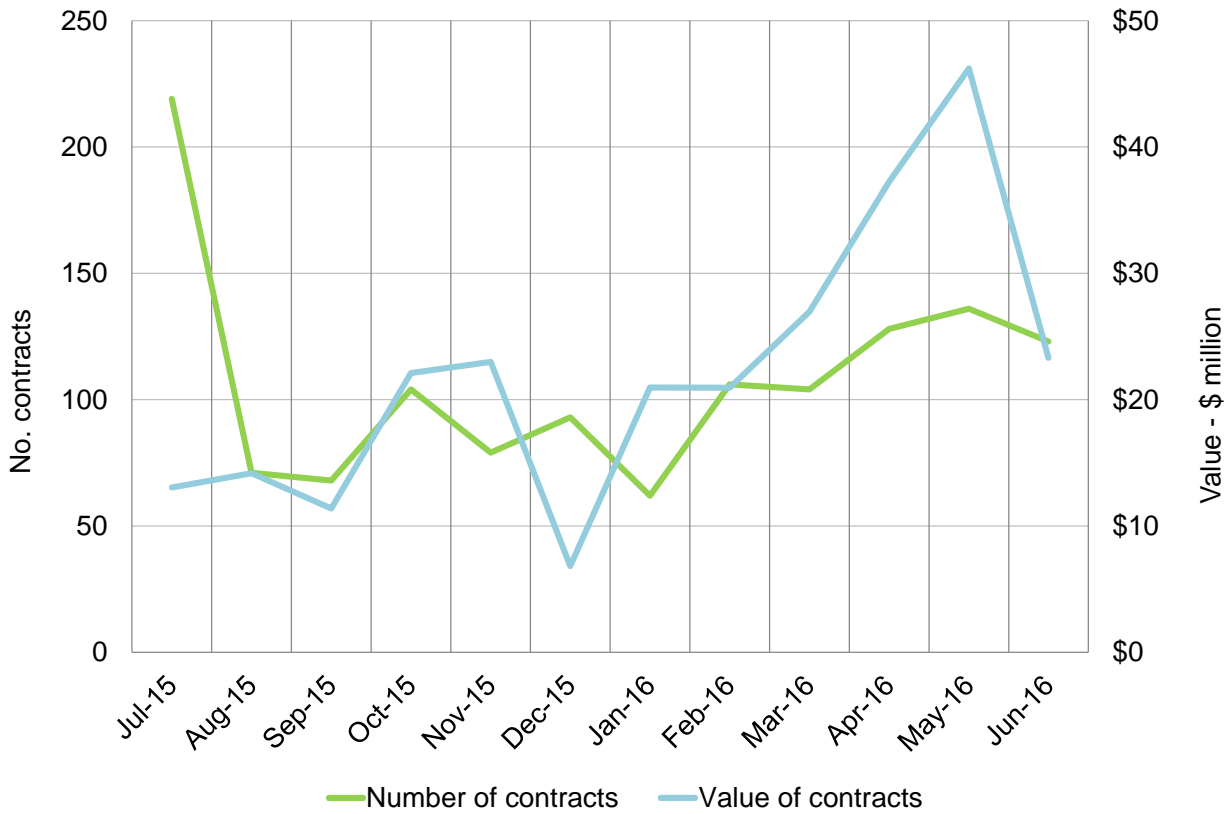
As shown, a large number of contracts with relatively low average value were awarded in July 2015.

Also, as clearly shown in the chart, there is a marked rise in the number and value of contracts from February 2016 onwards.



This may suggest that as the IPP has become more established within portfolios it has had an impact on increasing the levels of procurement with IBs. Whether this is a trend will need to be monitored on an ongoing basis. To draw attention to timely trajectories, a recommendation has been made for portfolios that do and don't achieve the 3% target by mid-2017.

Figure 4 — Monthly change in number and value of all Indigenous business contracts in 2015–16



Source: DPMC data. Urbis analysis.

3.4.4 Types of contract

According to the IPP, there are three ‘types’ of contracts that may be counted towards meeting the IPP target. These are, contracts:

- awarded directly to Indigenous businesses
- to which Indigenous businesses are a subcontracting party
- with incorporated JVs, where the JV is at least 25% Indigenous-owned.

Subcontracts contained within a direct contract can be counted towards meeting the IPP target. This is intended to promote the engagement of IBs at all levels of the supply chain. Better understanding of the amount and value of subcontracts on IPP contracts would give a clearer picture of where the benefits of the IPP are flowing.



Table 3 below outlines the overall performance of each portfolio by 'type' of contract. Direct contracts with IBs represented the vast majority of contracts awarded under the IPP (91.7%). Nine portfolios awarded contracts in which IBs were a subcontracting party. Defence, Treasury, and Human Services were the portfolios that recorded the highest number of subcontracts.

No JV contracts with an IB were specifically identified by portfolios in the reporting process. There is currently no way to identify businesses that are structured as an incorporated JV, which again, would improve understanding of where the benefits of the IPP are landing.

Table 3 – Portfolio performance by type of contract awarded in 2015-16

Portfolio	Direct with IB	Subcontract with IB	Total
Agriculture and Water Resources	55	0	55
Attorney-General's	78	13	91
Communications and the Arts	7	0	7
Defence	237	48	285
Education and Training	41	0	41
Employment	67	0	67
Environment	80	0	80
Finance	27	0	27
Foreign Affairs and Trade	73	3	76
Health	27	0	27
Human Services	237	17	254
Immigration and Border Protection	21	8	29
Industry, Innovation and Science	33	0	33
Infrastructure and Regional Development	12	0	12
Parliamentary Departments	11	4	15
Prime Minister and Cabinet	232	7	239
Social Services	30	6	36
Treasury	96	20	116
Veterans' Affairs	19	0	19
TOTAL	1 384	126	1 509

Source: DPMC data. Urbis analysis.

3.5 PORTFOLIO PURCHASING POWER BENCHMARK

We have compared contracts awarded to IBs against the portfolio purchasing power benchmark developed for the IPP. The benchmark represents a three-year average from 2011–12 to 2013–14 of the number and value of AusTender contracts. (Note that AusTender data, as discussed previously, only includes contracts valued \$10,000 and over and consequently doesn't represent the total amount of Commonwealth expenditure).

According to AusTender data, Commonwealth agencies awarded an average of 51,266 contracts with an average value of \$30.6bn between 2011–12 and 2013–14. In 2015–16, IB contracts represented 2.9% of the total number of domestic contracts and 0.9% of the total value of all domestic contracts.

The total number of contracts awarded to IBs compared to the 2015–16 purchasing power benchmark for each portfolio is shown in Table 4 below. Portfolios that awarded the highest number of IB contracts as a proportion of its purchasing power included DPMC (19%), followed by Human Services (7.2%). Defence was below the average at 2%; however, it had the largest number of contracts awarded by any portfolio.

Table 4 – Number of domestic contracts awarded to Indigenous business compared to purchasing power

Portfolio	Total contracts	IB contracts	% of total
Agriculture and Water Resources	1 037	55	5.3
Attorney-General's	3 817	91	2.4
Communications and the Arts	933	7	0.8
Defence	14 005	285	2.0
Education and Training	711	41	5.8
Employment	1 474	67	4.5
Environment	2 804	80	2.9
Finance	1 616	27	1.7
Foreign Affairs and Trade	2 595	76	2.9
Health	2 440	27	1.1
Human Services	3 521	254	7.2
Immigration and Border Protection	3 715	29	0.8
Industry, Innovation and Science	2 987	33	1.1
Infrastructure and Regional Development	1 597	12	0.8
Parliamentary Departments	843	15	1.8
Prime Minister and Cabinet	1 255	239	19.0
Social Services	1 281	36	2.8
Treasury	3 806	116	3.0
Veterans' Affairs	827	19	2.3
TOTAL	51 266	1 509	2.9

Source: DPMC data. Urbis analysis.



The value of Indigenous contracts was a small proportion of the value of the purchasing power benchmark for most portfolios with one exception. The highest proportion of contracts by value awarded to IBs as a proportion of their purchasing power benchmark was from DPMC (15.5%). This is shown in Table 5 below. It is this type of data that portfolios could utilise to set internal targets that reflect their own opportunities under the IPP.

Table 5 — Value of contracts awarded to Indigenous business compared to purchasing power (\$m)

Portfolio	Total contracts \$m	IB contracts \$m	% of total
Agriculture and Water Resources	144	5.5	3.8
Attorney-General's	907.7	4.1	0.5
Communications and the Arts	2 380.7	0.1	0.0
Defence	9 549.6	141.8	1.5
Education and Training	243.9	5.3	2.2
Employment	496.2	0.5	0.1
Environment	547.4	3.6	0.7
Finance	925.7	4.8	0.5
Foreign Affairs and Trade	1 521.8	13.5	0.9
Health	1 738	3.8	0.2
Human Services	1 969.3	10.4	0.5
Immigration and Border Protection	5 157.1	4.6	0.1
Industry, Innovation and Science	1 748.4	15.2	0.9
Infrastructure and Regional Development	530.3	2	0.4
Parliamentary Departments	101.1	1.4	1.4
Prime Minister and Cabinet	182.8	28.3	15.5
Social Services	546.8	3.7	0.7
Treasury	1 688	34.8	2.1
Veterans' Affairs	203.7	0.7	0.3
TOTAL	30 583	284.2	0.9

Source: DPMC data. Urbis analysis.

3.6 COMPARISON TO 2014–15 CONTRACTING ACTIVITY

We have undertaken a comparison of contracts procured from IBs in 2014–15 to comparable data for 2015–16. The analysis in this section is intended to compare results of awarding contracts to IBs with and without the IPP.

This analysis is based on data extracted from AusTender only and represents any contract commencing in 2014–15 awarded to a business with an Australian Business Number (ABN) that matched with an ABN registered on Supply Nation at July 2016. Data for 2015–16 was extracted on the same basis and does not include non-AusTender data — that is, manually collected data.



3.6.1 *Number of contracts in 2014–15*

In 2014–15, a total of 78 AusTender contracts were awarded to IBs. The total value of these contracts was \$17.5m. The average value of the contracts was \$224,262.

Defence procured the highest number of contracts from IBs (19) as well as the highest total value of all the portfolios (\$8.8m). The next highest result, although with a much lower value, was Health with 11 contracts valued at \$1.6m, followed by DPMC with 13 contracts valued at \$1.3m in total.

The departments Foreign Affairs and Trade and Veterans' Affairs were the two portfolios that procured the lowest value in 2014–15, and Parliamentary Departments did not record any contracts. Table 7 below presents the changes in the number of Indigenous contracts procured between 2014–15 and 2015–16 using comparable data.

In 2015–16, 527 contracts valued at \$209.8m were awarded to IBs. This represents a 576% increase in the number of contracts awarded to IBs and a 1,099% increase in the value of these contracts.

This demonstrates that overall, there has been a significant increase in Commonwealth agency procurement of goods and services from IBs under the IPP.



Table 6 – Comparison of number contracts awarded by portfolios to Indigenous businesses in 2014–15 and 2015–16

Portfolio	No. of contracts (2014–15)	No. of contracts (2015–16)	Change	Change (%)
Agriculture and Water Resources	1	19	18	1 800
Attorney-General's	5	24	19	380
Communications and the Arts	1	2	1	100
Defence	19	171	152	800
Education and Training	1	5	4	400
Employment	1	7	6	600
Environment	1	24	23	2 300
Finance	3	27	24	800
Foreign Affairs and Trade	1	36	35	3 500
Health	11	25	14	127
Human Services	5	5	-	-
Immigration and Border Protection	1	6	5	500
Industry, Innovation and Science	3	34	31	1 033
Infrastructure and Regional Development	2	1	-1	-50
Parliamentary Departments	-	6	6	-
Prime Minister and Cabinet	13	30	17	131
Social Services	3	27	24	800
Treasury	6	67	61	1 017
Veterans' Affairs	1	11	10	1 000
TOTAL	78	527	449	576

Source: DPMC data. Urbis analysis.

In terms of number of contracts, the Department of Foreign Affairs and Trade recorded the highest percentage increase (35 contracts or 3,500%), followed by the Department of the Environment and Energy (23 contracts, or 2,300%) and DAWR (18 contracts, or 1,800%).

The smallest increase in the number of contracts was recorded by the Department of Communications and the Arts (one contract, or 100%), Health (14 contracts, or 127%), and DPMC (17 contracts, or 131%). Note that one portfolio — DIRD — recorded a decrease in the number of contracts awarded: a decrease of one contract, or 50%.

The changes in the value of Indigenous contracts procured between 2014–15 and 2015–16 are shown in Table 7 below. Some portfolios recorded very large percentage increases in the value of contracts relative to 2014–15. The Department of Foreign Affairs and Trade again recorded the highest increase in value



(\$12.78m, or 95,645%). This was followed by DAWR (\$4.03m or 23,717%) and DPMC (\$17.27m, or 1,299.5%).

The smallest increases recorded were Health (\$2.1m , or 130%), Social Services (\$1.4m, or 130%), and Human Services (\$1.66m, or 275%). One portfolio — the Department of Communications and the Arts — recorded a 72% decrease in the overall value of contracts awarded.

Table 7 – Comparison of value of contracts awarded by portfolios to Indigenous businesses in 2014–15 and 2015–16

Portfolio	Value of contracts 2014-15	Value of contracts 2015-16	Change	Change
	\$	\$	\$	%
Agriculture and Water Resources	16 980	4 044 065	4 027 085	23 717
Attorney-General's	267 815	3 567 391	3 299 577	1 232
Communications and the Arts	141 076	40 040	-101 036	-72
Defence	8 769 418	116 349 359	107 579 941	1 227
Education and Training	645 956	5 283 311	4 637 355	718
Employment	22 000	182 060	160 060	728
Environment	575 000	6 197 417	5 622 417	978
Finance	853 052	4 838 216	3 985 163	467
Foreign Affairs and Trade	13 362	12 793 540	12 780 178	95 645
Health	1 616 586	3 722 199	2 105 613	130
Human Services	604 021	2 265 821	1 661 800	275
Immigration and Border Protection	55 000	789 705	734 705	1 335
Industry, Innovation and Science	608 955	13 723 394	13 114 439	2 153
Infrastructure and Regional Development	56 709	1 557 381	1 500 672	2 646
Parliamentary Departments	0	1 468 155	1 468 155	N/A
Prime Minister and Cabinet	1 329 343	18 604 808	17 275 465	1 300
Social Services	1 072 517	2 468 982	1 396 465	130
Treasury	832 253	11 580 705	10 748 452	1 292
Veterans' Affairs	12 375	311 984	299 609	2 421
TOTAL	17 492 419	209 788 535	192 296 116	1 099

Source: DPMC data. Urbis analysis.



3.7 COMPARISON TO PURCHASING POWER BENCHMARK

We have compared the 2014–15 results to the 2015–16 purchasing power benchmark. The 2014–15 IBs' contracts represented less than 1% of both the total number and total value of the 2015–16 purchasing power benchmark. These figures are summarised in Table 8 below.

Table 8 — Comparison of Indigenous business contracts in 2014–15 and 2015–16 (AusTender data only)

Year	Number of IB contracts	Total value IB contracts \$	Average value IB contract	Number of IB contracts to 2015–16 benchmark %	Value of IB contracts to 2015–16 benchmark %
2014–15	78	17 492 419	224 262	0.15	0.06
2015–16	527	209 788 535	398 081	1.03	0.69

Source: DPMC data. Urbis analysis.

In contrast, the comparable data for 2015–16 shows an increase in both number and value of contract to IBs relative to the results for 2014–15.

Comparing the results between 2014–15 and 2015–16 indicates that the IPP has successfully encouraged Government portfolios to increase procurement of goods and services from IBs.

3.8 TREND TOWARDS THE 3% TARGET

We have analysed portfolio performance against the target of 3%, shown in Figure 5 below. Portfolios that exceeded their IPP target are marked by those in which the blue horizontal bar is longer than the green bar.

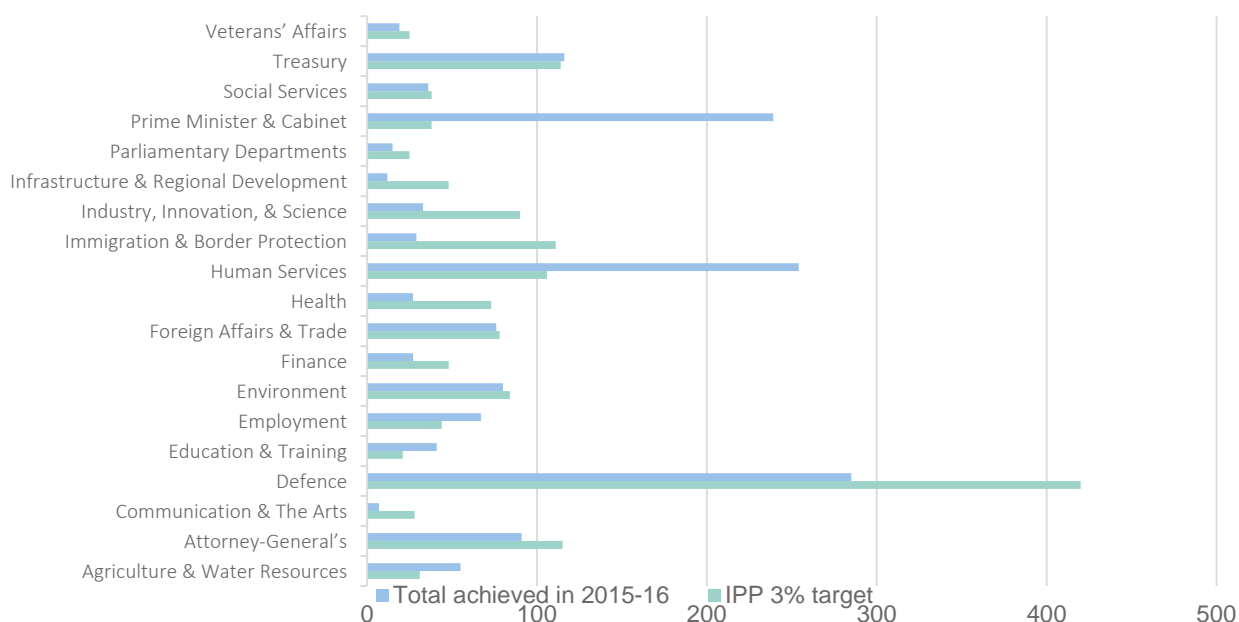
As discussed in the previous section all portfolios met the 0.5% target for 2015–16 but only six out of 19 portfolios would have met the 3% target based on the 2015–16 results. These were:

- Treasury
- DPMC
- Human Services
- Employment
- Education and Training
- DAWR.

This suggests that a number of portfolios (including Defence) still have room for growth in order to meet the final target of 3%.



Portfolio performance against 3% target



Source: DPMC data. Urbis analysis

3.9 EFFECT OF THE MANDATORY SET-ASIDE

Intent

The MSA gives Indigenous small to medium enterprises access to the Commonwealth supplier opportunities most relevant to them. It provides IBs the opportunity to demonstrate their capability to deliver the goods or service on a value-for-money basis before a tender is put to the market.

The MSA applies to:

- all remote procurements
- any other new domestic procurements where the estimated value of that procurement is between \$80,000 and \$200,000 (GST inclusive).

There are some exceptions to the application of the MSA including the use of exclusive purchasing arrangements. If a mandatory whole-of-government procurement arrangement is in place, for example, whole-of-government travel services, or a departmental panel arrangement that is specified as an exclusive purchasing arrangement for a particular good or service, the MSA arrangement does not apply. The exclusive purchasing arrangements reduce the number of contracts subject to the MSA. However, where an IB is contracted from these types of exclusive purchasing arrangement panels, the contract counts towards meeting the IPP target.

Should the MSA apply, the IPP requires that it must first be determined whether an IB can deliver the required good or service on a value-for-money basis. If a suitable IB has been identified, the procurement



officer must offer the contract to that business. If more than one business is identified, then a limited request for tender/quote process is applied.

Following assessment, if the preferred IB does not accept the contract, the contract should be awarded to the next IB that satisfies the value-for-money requirement. If, based on a search of Supply Nation's database, no suitable Indigenous business is identified, the procuring officer may follow the entity's ordinary procurement practices to award the contract. Agencies are responsible for recording their endeavours to locate a suitable supplier, and report this to DPMC.

Effect

Overall, this mechanism was under-utilised in year one of the IPP, and resulted in a very low conversion rate of contracts in the MSA value range to actual work for IBs. Equally, there is very little data to analyse for patterns or trends.

In the category of contracts valued between \$80,000 and \$200,000 (the MSA range) a total of 10,773 contracts were reported on AusTender. Of these, 183 (or 1.7%) resulted in contracts to IBs. The total value of these contracts was \$23.1m.

If contracts awarded through panel arrangements are excluded from the base count this would rise to 2.8% — noting that non-exclusive departmental panels are unable to be excluded from this count.

Across all portfolios, a total of 355 contracts were recorded as being awarded to IBs within the MSA categories. These contracts included 196 remote contracts and 183 contracts valued between \$80,000 and \$200,000. Of these, 24 contracts (or 6.3%) were recorded as both remote and between \$80,000 and \$200,000. Adjusting for these double-recorded contracts, a total of 355 contracts were procured under the MSA arrangements. Combined with remote area contracts, the total value of the MSA contracts — adjusted to avoid double counting — was \$43.4m. This represents 15.3% of the \$284m in total value of all contracts awarded to IBs under the IPP in 2015–16.

Four portfolios did not record the remote status of a large proportion of contracts. Of the 1,509 contracts awarded under the IPP for 2015–16, nearly one-third (31.2%) were not nominated in either of the relevant categories. Reasons provided by officers as to why remote contracts were not flagged, and appear to be undercounted, were primarily related to the manual nature of the current counting arrangements.

The performance in the \$80,000 to \$200,000 category raises questions about the expected level of performance, and why it has only reached what stakeholders consistently perceive to be a very low level of conversion.



As the IBs listed on Supply Nation's IBD continues to grow, the rate of 'no supplier found' should diminish. In mid-2015 Supply Nation held the details of around 100 businesses on their webpage. In mid-2016, this had reached 1,015 IBs, and at the time of this report had reached 1,220 businesses.

To date, there has been minimal accountability when procurement officers opt-out of the MSA, either by applying an exemption, or noting 'no supplier found'. In response to this, several departments reported the intent to continue or commence audit processes, where additional information will be sought as to why an apparently suitable supplier/s was not approached. It is anticipated that this scrutiny will change behaviour, as will planned improvements to the IBD content and functionality. Commonwealth officers also identified the need for IDB capability statements to be curated to a consistently high standard.

As discussed above, procurement staff would benefit from guidance on the use of the CPRs in the context of the IPP.



EVALUATION OF THE IPP — 2018

The implementation of the IPP is a complex undertaking. The evaluation foreshadowed for 2018 will need to engage with a multi-component policy, implemented across 19 Commonwealth portfolios, engaging with Indigenous suppliers of all shapes and sizes. Under the MMR, stakeholders will include non-Indigenous suppliers for whom the obligations may be new. The success of the IPP to date seems to lie in the interrelationships – between purchasers and suppliers, and between suppliers and their partners. Understanding the bearing these arrangements have on the ongoing success of the policy will be critical.

To maximise the value of the 2018 evaluation, the following areas of focus are provided for consideration.

Analysis of performance:

- Examine performance in both number and value of contracts awarded, investigating each available variable, taking into account the various levers within the policy (as detailed below)
- Inquire into the impact of the policy with IBs, JV partners, procurement officers and businesses subject to the MMR
- Analysis of value of subcontractor arrangements to IBs flowing from IPP contracts.

MSA:

- Analysis of portfolio performance in terms of number of approaches to market, and conversion rate to contracts to show trajectory of MSA contracts since Year 1 Review (both remote and value band categories)

MMRs:

- Examine portfolio / agency efforts to connect IBs to Tier 1 suppliers
- Analysis of value and number of contracts/ employment patterns delivered under the MMRs
- Examine attitudes and strategies undertaken by Tier 1 suppliers to engage with IB

Definitions/JVs:

- Analysis of the composition of Indigenous Business Direct, and its trajectory over the past 12-24 months in terms of ownership structures of IBs
- Analysis of IBs who have contracted to government against the value and structure of IBs
- Analysis of % of value of contracts delivered by IBs and their JV partners

Tools and resources:

- Assessment of improvements to Indigenous Business Direct in terms of utilisation and functionality
- Assessment of usefulness of additional tools, resources and communication approaches delivered by DPMC to both IBs, Commonwealth procurement officers and businesses subject to the MMR.