

**Third Year Evaluation of the Indigenous Procurement Policy**

### Department of the Prime Minister and Cabinet

#### August 2019

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Department of the Prime Minister and Cabinet, Third Year Evaluation of the Indigenous Procurement Policy Commonwealth of Australia 2019

ISBN 978-1-925362-84-8 Third Year Evaluation of the Indigenous Procurement Policy (PDF)

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**Table of Acronyms**

|  |  |
| --- | --- |
|  | **Meaning** |
| ABN | Australian Business Number |
| ANAO | Australian National Audit Office |
| ASIC | Australian Securities and Investment Commission |
| ATO | Australian Taxation Office |
| CAWG | Cross Agency Working Group |
| CATSI Act | *Corporations (Aboriginal and Torres Strait Islander) Act 2006* |
| COAG | Council of Australian Governments |
| CPRs | Commonwealth Procurement Rules |
| FACCI | First Australians Chamber of Commerce and Industry |
| FMA Act | *Financial Management and Accountability Act 1997* |
| IAS | Indigenous Advancement Strategy |
| IBA | Indigenous Business Australia |
| IBE | Indigenous Business Exemption |
| IBSS | Indigenous Business Sector Strategy |
| IOP | Indigenous Opportunities Policy |
| IOP Plan | Indigenous Training, Employment and Supplier Plan |
| IPP | Indigenous Procurement Policy |
| JV | Joint Venture |
| MMR | Mandatory Minimum Requirements |
| MSA | Mandatory Set Aside |
| ORIC | Office of the Registrar of Indigenous Corporations |
| PBC | Prescribed Body Corporate |
| PCP | Procurement Connected Policies |
| PGPA Act | *Public Governance, Performance and Accountability Act 2013* |
| PM&C | Department of the Prime Minister and Cabinet |
| RNTBC | Registered Native Title Bodies Corporate |
| SMEs | Small to Medium Enterprises |
| SROI | Social Return on Investment |
| Tier 1 company | Tier one companies are the largest or most technically-capable companies in the supply chain |
| VFM | Value For Money |
| WoAG | Whole of Australian Government |
| WoL | Whole of Life |

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**Acknowledgements**

#### Deloitte acknowledges the Australian Aboriginal and Torres Strait Islander peoples of this nation. We

#### acknowledge the traditional custodians of the lands on which our company is located and where we conduct our business. We pay our respects to ancestors and Elders, past and present.

#### Deloitte is committed to honouring Australian Aboriginal and Torres Strait Islander peoples’ unique cultural and spiritual relationships to the land, waters and seas and their rich contribution to society.

#### Deloitte acknowledges and thanks the following artists for allowing use of their artwork for this report:

#### Front cover artwork: Paris Carpio, Perth, WA, a student of Worawa Aboriginal College”;

#### Appendix artwork: Rochelle Tipiloura Wadeye, NT, a student of Worawa Aboriginal College”;

#### Upper back cover artwork: Michelle Mosquito, Halls Creek, WA, a student of Worawa Aboriginal College”; and

#### Lower back cover artwork: Marianna Gurriwiwi, Galiwinku, Elcho Island, NT, a student of Worawa Aboriginal College”.

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##### Message from the Evaluation Team

Deloitte was delighted to be selected to undertake the evaluation of the Indigenous Procurement Policy (IPP) and how it has delivered benefits in line with original design expectations.

The Evaluation focussed on a number of key areas including:

* are the current policy settings of the IPP effective in creating opportunities for Indigenous businesses to access Commonwealth contracts?
* what impact has the IPP had on the Indigenous business sector and Indigenous employment (specifically self-employment and mandatory minimum employment requirements for applicable Commonwealth contracts)?
* how can the IPP better support the implementation of the Indigenous Business Sector Strategy (IBSS)?

To ensure the broadest and most comprehensive review possible, Deloitte undertook to research the policy from a variety of aspects including:

* a literature search of relevant research and papers published on Indigenous Procurement Policies-both in Australia and internationally. This also included a review a number of similar Procurement Connected Policies (PCP);
* surveys of registered Indigenous businesses, Indigenous business chambers and government portfolios;
* focus groups with Indigenous businesses, Indigenous business chambers, government portfolios and selected Tier 1 organisations;
* detailed analysis of data contained in the IPP database, including identification of issues or shortcomings in the data set;
* one-on-one meetings with Supply Nation, First Australians Chamber of Commerce and Industry (FACCI), Indigenous Business Australia (IBA) and the Department of the Prime Minister and Cabinet (PM&C); and
* a review of feedback previously provided by members of the IPP Commonwealth Agency Working Group (IPP CAWG) to PM&C as part of an earlier consultative process.

Following analysis of data from all of these sources and leveraging Deloitte’s experience in policy review, both nationally and internationally, the Evaluation Team has formulated a number of recommendations for consideration by PM&C to ensure the IPP is able to continue to evolve. Firstly, the Evaluation has shown that the IPP has contributed significant benefit to the Indigenous business sector and is well supported from every aspect of the procurement transaction. However, having now achieved, and in fact, exceeded its initial goals of 3.0% of all Commonwealth contracts being sourced through Indigenous businesses, Deloitte looked to how the IPP may mature and evolve to continue to have an ongoing impact for the Indigenous business sector in a manner that stays true to the original policy intent.

While the social and economic disadvantage faced by many Indigenous Australians is widely recognised, the cost this disadvantage imposes on the Australian economy is poorly understood by the majority of Australians. Seeking to increase economic activity with the Indigenous community will not only broaden Australian society benefit from increased goods and services but there will likely also be a corresponding reduction in government outlays. Based on this, there is a view that consideration of the social impact of Indigenous businesses on the wider economy should be investigated to understand the true cost-benefit of the IPP.

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Such an analysis would also then form the basis of identifying the investment required to accelerate economic activity in the Indigenous business sector.

This view notes that the Commonwealth Procurement Rules (CPRs) already have a requirement in Section 4 in calculating value for money to have due consideration to a number of triple bottom line outcomes.

It should be noted that clause 10.31 states that a Commonwealth Agency is required to assess the benefit to the national economy for all contracts with a value greater than $4.0 million.1

We commend this report to the Department of the Prime Minister and Cabinet and look forward to the IPP continuing to grow in strength and impact for the Indigenous business community.

|  |  |  |  |
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1 Commonwealth of Australia *Commonwealth Procurement Rule 2018* Department of Finance. Available at [https://www.finance.gov.au/](http://www.finance.gov.au/) sites/default/files/ commonwealth-procurement-rules-1-jan-18.pdf. Accessed 17 October 2018.

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## Executive Summary

##### Summary of the IPP Evaluation

The Indigenous Procurement Policy (IPP) was introduced in 2015, setting a new standard for how the Commonwealth would support the growth of Indigenous enterprises and entrepreneurship. While it is an industry-based policy, the rationale of the IPP is that by increasing Indigenous involvement in the economy, a tangible mechanism for improving a number of ‘quality of life’ outcomes such as health status, work

life balance, social engagement, education and skills for the wider Aboriginal and Torres Strait Islander community will be generated.

Indigenous enterprise is rapidly becoming big business in Australia. At a whole-of-sector level there are between 12,000 and 16,000 Indigenous-owned businesses, which collectively generate more than

$1.0 billion per year, with revenues increasing on average by 12.5% a year.

Growth has been strong in the last decade with growth of 8,000 new Indigenous businesses.2 Indigenous procurement policies in both the public and private sectors accelerated growth in less than a year following the launch of the Federal Government’s IPP in 2015. Further, Indigenous employee numbers have increased from less than 7,000 in 2007-08 to currently in excess of 12,000, with the Department of the Prime Minister and Cabinet (PM&C) estimating that by 2026, an additional 73,250 Indigenous Australians will join the working ages of 20-44 with around 2,200 Indigenous Australians starting a business based on current Indigenous self-employment rates.3

Overall, the implementation of the IPP has had a positive effect on Indigenous business, however, while these numbers suggest that Indigenous business is rapidly growing and that the IPP is effective in supporting the growth of these businesses, there is a risk that unintended consequences may arise as a result of perceived externalities (such as black cladding). As such, there is still work to be done to further improve the policy settings and the resultant outcome for Indigenous people and communities.

The Evaluation identified a number of issues to be addressed in taking the IPP forward including:

* black cladding, the practice of non-Indigenous companies either creating a business structure where the shareholding percentage is technically enough to qualify as an Aboriginal business or attempting to misrepresent themselves as Aboriginal businesses in a bid to win contracts under the IPP and is still perceived to exist in the industry. This can take the form of establishing shadow businesses with

Indigenous owners and limited or even no staff to win the work and subcontract the parent organisation to deliver;

* education, communication and the use and understanding of language. It needs to be recognised that for many regional and remotely-located Indigenous people, the average level of education can often be lower than the rest of Australia. Added to this may be that for many remote Indigenous people English is a second language, and those that have English as their primary language may be using one of the many recognised dialects of Aboriginal English. This coupled with the, often very formal and legalistic, wording of many procurement documents the process can prove to be daunting to many Indigenous business people;

2 Price Waterhouse Coopers Indigenous Corporation (PIC)

3 Commonwealth of Australia 2018, *Indigenous Business Sector Strategy 2018 - 2028*, Department of the Prime Minister and Cabinet p. 4

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* access to capacity. Many Indigenous businesses expressed a view that they were unable to compete competitively due to not having access to the required skills to assist them in entering the government procurement marketplace;
* integration with Indigenous Business Australia loans and grants processes and the delays in processing. A number of businesses raised the issue of difficulties they had experienced in the time taken to receive approval for loans and grants for capital purchases from Indigenous Business Australia. They felt these delays inhibited their ability to actively compete when opportunities were presented;
* access to real employment and growth opportunities. A common theme experienced in the feedback was the inability to acquire new skills, grow and expand due to the nature of the contracts being awarded. Many felt that there had been an increase in the number of lower-value contracts being offered and a reduction in longer-term, higher-value contracts.4 This in turn prevented an Indigenous business from employing more staff and training those staff as they did not have security of revenue; and
* it became evident that there was a high degree of confusion in remote and regional areas about the differences between Commonwealth and state government and the range of respective policies and programs aimed at Indigenous businesses and communities. This view was further supported by evidence presented to the House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs which held that this plethora of programs and policies can be ‘confusing and daunting’ to emerging Indigenous entrepreneurs.5

In addressing these issues and identifying options and recommendations, Deloitte undertook deep quantitative and qualitative analysis of a broad range of data points. The outcomes of this analysis were then compared with a range of initiatives implemented in other marketplaces, both nationally and internationally, to determine whether they may provide a range of additional benefits to Indigenous business through the IPP. This analysis indicates that there are a range of measures which, if fully implemented, have the potential to accelerate the organic growth of Indigenous business capability and

capacity. Deloitte notes that small to medium enterprises (SMEs) will not typically tender for particular types of contracts, such those for Defence. Such procurement may include the acquisition and sustainment of Defence materiel, foreign military sales and essential security interests, which may be of a higher value

or type. Deloitte recommends that the approach to consider ‘contestable’ contracts within the IPP policy setting is continued.

In developing its recommendations, Deloitte has remained cognisant that the IPP is achieving social benefits through a business as usual activity that has no cost to the taxpayer. The view being that the IPP utilised money that would otherwise have been spent by the Commonwealth to secure those goods and services. Noting this, Deloitte has also considered that this policy has much wider social impacts and believes that benefits would more than outweigh any costs associated with accelerating the outcomes available under the IPP. Consideration should be given to the wider social impact of the IPP and its ability to directly impact employment, social inclusion and wellbeing of Indigenous peoples.

4 Deloitte notes a range of industries have low unit costs and therefore a greater proportion of contracts may be awarded in the lower end.

5 Commonwealth of Australia, House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs, Open for Business: Developing Indigenous Enterprises in Australia (Canberra: Parliament of the Commonwealth of Australia, 2008), p. 37.

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Looking at the specific outcomes of the IPP, Deloitte also sought to answer a number of key questions posed by the Department of the Prime Minister and Cabinet (PM&C) including:

##### To What Extent is the IPP Target Achieving its Aims?

In examining the efficacy of the current IPP policy settings, overall the policy has been a success to date in respect to providing opportunities for Indigenous businesses to access Commonwealth contracts.

The policy outlines that success should be measured on two key performance indicators:

1. An increase in the number of Indigenous enterprises contracted to the Commonwealth Government; and
2. An increase in the number and value of contracts awarded to Indigenous enterprises.

In respect to the IPP achieving its target for the number of contracts awarded to Indigenous businesses each year, it has been an overwhelming success.6 This can be stated on the basis of the targets set when the policy was implemented. In 2015, the Commonwealth has consistently exceeded its targets each year as further evidenced by the fact that the three-year target was brought forward to apply from year two onwards.

Currently, Commonwealth procurement is exceeding the target by 4.1 percentage points (7.1 per cent compared to 3.0%).7 In respect of providing genuine and sustainable economic opportunities for Indigenous businesses there is room for improvement as the abovementioned 5.0% of total contracts issued equates to 1.5% of the value of those contracts.

In addition, in 2017–18, 65.0% of the contracts awarded to Indigenous businesses were for opportunities of $10,000 or less, up from 41.0% in 2015–16. It should be noted that improved processes within portfolios have enabled contracts valued less than $10,000 to be more readily identified and reported each year.

The degree to which this can be attributed to the increase is unknown.

##### To what Extent are the Mandatory Set Aside (MSA) Provisions Achieving its Aims and the Mandatory Minimum Requirements (MMR) Leading to Increased Opportunity for Indigenous Businesses?

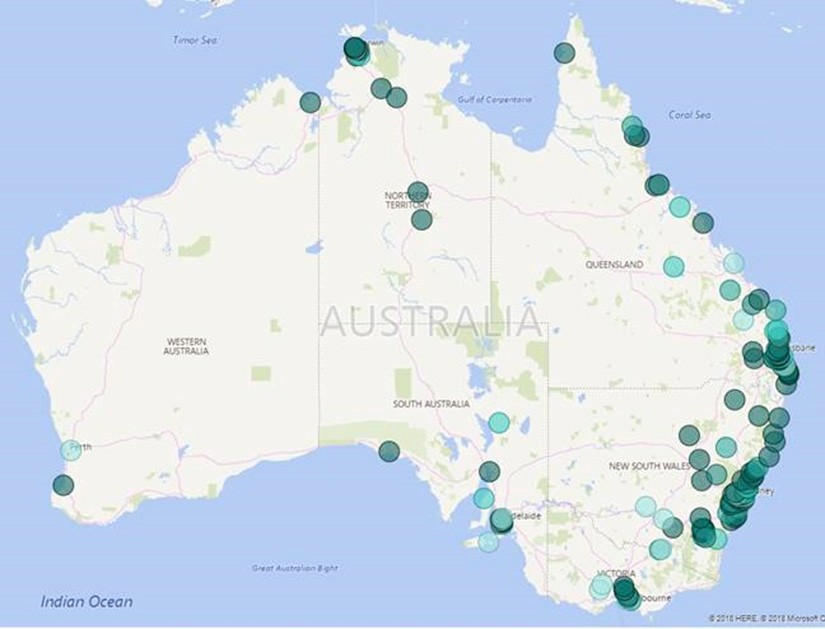
Deloitte reviewed the effectiveness of the Mandatory Set Aside (MSA) provisions. Based on the geographic distribution of the IPP spend, (as highlighted in Figure 1), there has been limited spend in regional and remote areas outside of the east coast of Australia over the period 2015–16 to 2017–18. However, Deloitte notes that due to data collection issues, specifically at the spatial level, analysis of the geographical distribution was limited (refer Recommendation 9 for further detail).

6 When comparing figures from 2012–13 to the first two years of IPP implementation there was an increase in government expenditure from $6.2 million to $284.2 million in the first year and $285.5 million in its second. Using figures published by PM&C in September 2017, the combined figures for the first two years of the IPP indicate that 4,880 contracts were awarded (amounting to 3.0% of the total number of government procurement contracts) with a value of $594.0 million worth of contracts awarded to 956 Indigenous businesses (representing an average contract value of $121,800).

7 The IPP sets the volume target using a base from the years 2012-13, 2013-14, and 2014-15 whereby the number of contracts are averaged. This provides a fixed baseline from which each individual year – 2015-16, 2016-17, and 2017-18 – is measured against. For example, 2015-16 is set against an average of the three preceding years with some adjustments made for contracts generally not contested by SME. Deloitte’s approach differs from the IPP whereby the assessment process uses the most recent single year of data available. For example, 2017–18 is set against 201617. In addition, Deloitte makes no adjustments for procurements unlikely to be contested by SMEs.

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**Figure 1: Geographic Distribution of the IPP spend**



Source: Derived by Deloitte using available published IPP data

Note: The colour shades of dots indicate the intensity of expenditure

Reasons driving this outcome are likely to include:

* the majority of contracts that might otherwise flow to regional and remote businesses such as the cleaning, maintenance and security of Commonwealth properties in these locations are being managed through national mandated whole of government contracts and as such not being subjected to MSA requirements;
* the use of standard and complex documentation and the formality of language that the Commonwealth typically uses in procurement exercises is off-putting to many small businesses in regional areas and as a result, they may choose not to bid for the services; and
* the use of outcome-focussed language in the Statement of Requirements. For small businesses that are not used to dealing with the Commonwealth Government, this often presents as ambiguous. It often leads to confusion that can result in those businesses that do not possess the capability to bid for work, deemed unsuitable. This can lead to the potential of an unconscious bias on the part of some procurement personnel that Indigenous businesses do not have the capability of capacity to deliver to the Commonwealth.

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##### To What Extent has the IPP Been Implemented Across all Commonwealth Portfolios?

The IPP has been successfully adopted by all Commonwealth portfolios as shown by their individual year results. While results vary, strong growth in adoption has occurred. Several portfolios have lead the way in terms of year-on-year growth notably, Communications and Arts, Home Affairs, and Human Services while the impact of Defence and Health has been significant.

The amount of budget a portfolio may have, the demand for types of services, and the geographic spread of portfolios’ requirements are drivers in this outcome. Mandated whole of government (WoG) panel arrangements cover a wide variety of portfolio needs in regional areas. However, mandated minimum requirements (MMR) for Indigenous participation apply to contracts valued at $7.5 million (GST inclusive) or more awarded within eight industry categories. Higher Indigenous participation targets apply if the contract is delivered in a remote area. In respect to MMR, the majority of contracts exist in property and construction industries.’ MMR do not apply to contracts that are subject to paragraph 2.6 of the CPRS. 8

##### Are all Relevant Commonwealth Portfolios Included or well Supported to Adhere to the IPP and are There Sufficient Support Services Available to Assist Entities not Bound by the IPP to Adhere to it?

Feedback received from Commonwealth portfolios (through the Government survey and supported by comments made in focus groups) indicates that the level of the IPP-related support provided to

Commonwealth portfolios is appropriate and that procurement officers feel well supported.9 However, as most portfolios have a devolved procurement model, the procurement units in these portfolios function as a policy and advice area and do not have direct involvement in the vast majority of individual procurement actions. It is at this level where more effort needs to be focussed on the reasons and rationale behind the IPP and why the model should be more actively pursued.

This could be achieved by greater ownership being taken at an individual portfolio level of the targets and a drive toward a value-based target (as opposed to volume-based as is the current case) to motivate greater efforts. This could also be assisted by conducting capital city and regional centre procurement fairs on an annual basis to get the message out clearly to both Indigenous businesses and Commonwealth employees of the IPP, its goals and policy objectives and the targets. This may be accompanied by better resourcing of support areas within PM&C to oversee the procurement fairs and communicate the IPP message.

In respect to the level of support provided to Commonwealth agencies that are not bound by the IPP but wish to adhere to it, feedback indicates a high degree of satisfaction with the support provided. This is in part due to the fact that volunteer adherents to the policy have a greater commitment and motivation

to achieving the desired goals and as such undertake effective communication and ownership inside the organisation.

8 A MMR contract is any contract valued over $7.5 million in one of eight industry sectors. Deloitte notes this is limited risk due delegates would risk personally breaching the PGPA Act in order for their portfolio to meet a target.

9 This may be inferred by 87% of Government officers noting that the IPP targets are achievable.

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##### To What Extent are the IPP Governance Arrangement and Performance Framework Adequate?

Deloitte examined governance arrangements of the IPP and found the framework adequate. The evidence compiled as part of the evaluation supports the fact that in implementing the policy and achieving its goals, in terms of governance and performance arrangements, have been appropriate. However, there is a

need to ensure that as the Indigenous business sector grows and matures, governance arrangements and performance frameworks also mature to meet the changing market place.

This includes looking at means to ensure that opportunities for black cladding are minimised, that sustainable contracts are awarded, capacity and capability are given appropriate time and support to grow and that the policy is seen to be working towards achieving marketplace parity. In developing recommendations, Deloitte has kept a careful eye towards creating an environment that further encourages and supports the growth and sustainability of Indigenous businesses without adding unnecessary burden or red tape onto the framework.

Furthermore, the ability to provide an accurate and timely measurement of the size and value of the Indigenous business sector is essential to measuring the ongoing impact of the IPP initiative. Deloitte reviewed the adequacy of the IPP database and while it provides a level of information that is reasonable, improved data governance and dissemination processes would likely increase the utility of this policy- related asset. To increase the value of the IPP database and to ensure its full potential is realised, routine data cleansing processes and the introduction and communication of a common classification of data and processes needs to be introduced for Government portfolios, Austender, Supply Nation and Indigenous businesses to use systematically.10 This includes a data dictionary of the agreed upon data definitions to reduce the potential for confusion in understanding the expectations and requirements of each party in a procurement exercise (refer Recommendation 9 for further detail).

##### What Impact has the IPP had on the Indigenous Business Sector and Indigenous Employment and are There Sufficient Business Support Services Available to Take up Opportunities Created Through the IPP?

Over the three years, 2015–16 to 2017–18, the IPP has driven over $1.5 billion in Commonwealth Government procurement. However, according to reports and surveys of Indigenous businesses, while there was a very high awareness of the IPP (88.0%), only half of surveyed Indigenous businesses had bid for Commonwealth Government work, with a little over half again (27.0%) of businesses being awarded a Commonwealth Government contract. The private sector was a significant contributor to Indigenous contracting with 52.0% of contracts coming from that sector.

Further, the survey found that the success rate in securing Commonwealth Government contracts was mixed. Businesses that either ‘always’ or ‘usually’ won contracts were 3.0% and 14.0% respectively, indicating that the IPP has further potential to drive Indigenous business growth. Engagement (through surveys and focus groups) with the Indigenous business sector found that Indigenous businesses do not consider the current business support services available to assist in taking up Government contracts to be effective.

10 Deloitte notes that the IPP database captures those Indigenous businesses that have won an IPP contract and are registered with Supply Nation and/or ORIC. However, this is a subset of the Indigenous business sector and with IPP database capturing contracts that are manually entered by portfolios.

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Of the various themes identified, communication and understanding of the IPP was primary. This was evidenced by the fact that the detail of the IPP was not well known amongst a wide variety of Indigenous businesses, particularly in the more regional and remote areas. There was also a degree of confusion between the IPP and wider Indigenous policies and programs, including programs and funding arrangements managed by Indigenous Business Australia (IBA). Consideration needs to be given to the impact of language on the success of Indigenous businesses interacting with the Commonwealth Government.

Feedback from the focus group sessions highlighted the fact that there can be a misunderstanding between a government agency and the local Indigenous businesses. Such misunderstandings may stem from the language used in typical procurement documentation issued by the Commonwealth Government and the fact that, particularly in regional areas, there are many Indigenous communities where if English is not a second language then it may be within the range of Aboriginal-English dialects being spoken.

##### To What Extent Does the IPP Align with the Core Values of the Indigenous Advancement Strategy (IAS)?

While areas of the IPP require adjustment, notably communication and consideration of how tailored implementation efforts for remote and regional areas may be made, the IPP components require time and assistance to evolve, notably the MMR (refer Recommendation 5). Deloitte’s view is that the objectives of the IPP are in line with the core values of the IAS and that the IPP seeks to, and is making, a positive contribution to the lives of current and future generations of Indigenous Australians through economic development.

##### Summary of Recommendations

Recommendation 1 – Move from Volume-based Targets to Value-based Targets for Commonwealth Portfolios

As at time of review, the Commonwealth is on track to exceed the current 3.0% target for the third year in a row. In 2016–17, Commonwealth adoption was approximately 5.7% of all contracts published on Austender. While this demonstrates that there is a growing absorption of services provided by the

Indigenous business sector, the value of each contract, on average, remains low with greater than 50.0% of contracts awarded in the last financial year having a value of less than $10,000.

To assist with this, the Commonwealth should progressively move towards a value-based target that has meaning and sustainability. Currently, approximately 3.3% of the Australian population identify as Indigenous.11 For the IPP to demonstrate its optimal effectiveness it must be able to demonstrate that the value of Commonwealth procurement spend is approaching equity within a defined period of time.

Value-based targets introduced over a 5 year period to achieve 3.0% of all Commonwealth procurement spend would support such an outcome.

*It is recommended that:*

* *the Commonwealth move to a value-based target of 3.0% of all contestable Commonwealth procurement value to be sourced through Indigenous businesses. This implementation to be staged over 5 years commencing at 2.0% of value in 2019–20 and increased at a rate of 0.3% year-on-year.*

11 Commonwealth of Australia *Estimates of Aboriginal and Torres Strait Islander Australians, June 2016*, Australian Bureau of Statistics. Updated 12 September 2018. Available at [http://www.abs.gov.au/ausstats/abs@.nsf/mf/3238.0.55.001.](http://www.abs.gov.au/ausstats/abs%40.nsf/mf/3238.0.55.001) Accessed 13 September 2018

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Recommendation 2 – Definition of Indigenous Business

While the IPP defines an Indigenous enterprise as an organisation that is “50.0% or more Indigenous owned”,12 Supply Nation recognises two levels of membership, both with subtle differences in respect to the level of Indigenous ownership. To be registered with Supply Nation a business must be at least 50.0% Indigenous owned, whereas to be certified as an Indigenous enterprise it requires a minimum of 51.0% Indigenous ownership and control for an enterprise to qualify for access to their supply-chain networks.13 Given that the Supply Nation listing of registered businesses is the primary basis used by procurement officers to determine eligibility for access to IPP this may have the potential to create confusion on

the part of procurement officers and Indigenous businesses seeking to leverage the IPP. In particular, partnerships between Indigenous and non-Indigenous people may have the effect of creating a perception of disqualification from being able to access opportunities under the IPP when reviewing the different standards.

However, noting the concerns raised in respect to the perception of an increase in the incidence of black cladding (where the Indigenous owner has little or no say over the company or any of its dealings), the concept of having a minimum level of Indigenous control would mitigate this risk and perception.

*It is recommended that the definition of Indigenous ownership be amended to require:*

* *at least 50.0% Indigenous ownership; and*
* *at least 50.0% Indigenous control of the company.*

Recommendation 3 – Commonwealth-led, State-based Annual Trade shows

Trade shows are open to a large and diverse range of audiences providing a dynamic platform for Indigenous businesses to promote their products and services to a broad group of government procurers that may have little or no knowledge of the available products and services. If held in cooperation with state governments who have aligned policies, this could have a greater impact on understanding and market penetration, thereby increasing the IPP outcomes.

*It is recommended that:*

* *Trade shows in the 2019-20 financial year are led by the Commonwealth in all state and territory capitals and in regional areas where more than six Commonwealth portfolios are in the region.*

12 Commonwealth of Australia 2015, *Commonwealth Indigenous Procurement Policy* PM&C Page 11

13 Supply Nation, 2018 *How We Verify Aboriginal and Torres Strait Islander Business*. Available at https://supplynation.org.au/about-us/ indigenous business accessed 10 September 2018.

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Recommendation 4 – Education and Engagement

One of the strongest themes coming through every form of stakeholder engagement was the need for education and engagement on both sides of the procurement equation. Education needs to be clearly about shifting mindsets. This means moving from a compliance-based model of operation (which has the potential to result in the creation of large amounts of low-value contracts to ensure attainment of target numbers of contracts) to one of designing a collaborative process. This ensures that all stakeholders have the opportunity to contribute to the design of a system that is efficient and fair in its application.

*It is recommended that:*

* *the Trade shows currently run will feature education sessions run by Department of the Prime Minister and Cabinet and the Department of Finance to discuss the application of the IPP and the CPRs including issues such as how “value-for-money” is be determined.*
* *the Trade shows form a basis for ongoing sector engagement and communication between Indigenous businesses and Commonwealth portfolios, in particular the Department of the Prime Minister and Cabinet and Department of Finance.*

Recommendation 5 – Broadening of Application of the MMR to all Industry Sectors and WoAG Contracts

The application of MMRs should be broadened to apply to all government contracts including Whole-of- Government contracts (such as mandated whole-of-government arrangements) from 1 July 2019. This is supported by evidence of the fact that a number of industry groups outside of the MMR categories have demonstrated strong growth under IPP. This variation to the policy should include requirements for Deed of Standing Offers for WoAG arrangements to contain MMRs at Head level. In addition to the broadening of the MMR across all industry categories an additional channel for compliance with the provision should be introduced.

*It is recommended that:*

* *the MMRs be broadened to apply to all government contracts over $7.5 million.*
* *an additional category for compliance be introduced to enable non-Indigenous companies access to IPP contracts where they commit to providing Pro Bono services to the Innovation and Support Hubs equal to 2.0% of the contract value.*
* *MMR to apply to supply chain workforce where an Indigenous business outsources or sub-contracts greater than 40.0% of the contract work (or value) to a related entity.*
* *consideration be given over the longer term (three years) to lowering the MMR threshold from $7.5 million to*

*$4.0 million.*

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Recommendation 6 – Establishment of Indigenous Business Hubs

Business hubs are an extension of the “project hubs” proposed in the IBSS. They focus on providing advice, mentoring and specialist expertise and assisting Indigenous businesses to develop and connect with professional networks, nationally and potentially even internationally. In addition, these hubs may act as brokers to access expertise across a wide range of skill sets required by new business owners.14

The application and operation of these hubs can be augmented by combining them with the implementation of an additional category in the MMR definition (Recommendation 5) and well as the Capability Development framework (Recommendation 7) that utilises joint venture and partnership arrangements as a means to drive skills transfer.

*It is recommended that:*

* *the rollout of the “Project Hubs” in the IBSS be broadened to include Indigenous Innovation and Support Hubs based on a Hub and Spoke model to ensure regional and remote areas are able to access services.*
* *that these hubs function to assist Indigenous businesses connect with a wide range of skills and experience to support their ongoing maturity and growth.*
* *consideration be given to sourcing the technical resources for the hubs from Tier 1 firms in line with the additional category for MMR compliance (Recommendation 5).*

Recommendation 7 – Development of a “Contract Ready” business directory

One of the issues often faced by both the Commonwealth and Indigenous businesses is the ability to clearly and concisely demonstrate capability. This is augmented by the use of outcomes-based targets in many procurement opportunities that may give rise to ambiguity. This results in Indigenous businesses bidding for work that they are unable to demonstrate either the capacity or capability to deliver. This in turn

has the potential to create (or confirm) an unconscious bias that Indigenous businesses do not have the capability or capacity to deliver to the Commonwealth’s expectation.

Broadening the existing function of the Supply Nation business directory to include an assessment of a business’ “contract readiness” (such as governance, finance, insurances, and service offering) would remove confusion around the capability and capacity of a range of businesses to undertake Commonwealth work. This in turn would facilitate greater ease of use of the MSA provision of the IPP and the Exemption 16 provision of the CPRs.

This recommendation is accompanied by the need to allow effective use of the resources available through the Innovation and Support Hubs to assist Indigenous businesses achieving a contract ready status as well as identifying a capability development plan for those businesses wishing to continue to grow and develop.

*It is recommended that:*

* *Supply Nation be funded to broaden their existing business directory to enable certification of Indigenous businesses as “contract ready”.*
* *documentation be developed that more clearly articulates the business opportunity from a skills and capability perspective rather than from the UNSPSC classification to remove any confusion or ambiguity.*

14 Morrison, M., Collins, J., Basu, P.K., Krivokapic-Skoko, B., 2014 *Determining the Factors Influencing the Success of Private and Community Owned Indigenous Business across Remote, Regional and Urban Australia*. ARC and IBA

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Recommendation 8 – Implement and report on measurement of Social Return on Investment through IPP

Social Return on Investment (SROI) is defined as “a framework for measuring and accounting for the much broader concept of value. It seeks to reduce inequality and environmental degradation and improve wellbeing by incorporating social, environmental and economic costs and benefits.”15 SROI is a principles- based method for measuring extra-financial value (such as triple-bottom line or blended-value accounting) relative to resources invested. It works by monetising the desired social change and measuring the costs of inputs required to achieve that goal. As such, it has capacity to measure the broader economic outcomes and benefits of the IPP.

Using SROI-consistent methodology recognises that culturally Indigenous businesses contribute back to their communities in the form of resources, assets, jobs, education, even housing. As a direct and tangible result of this cultural tendency, there is a corresponding reduction in social security benefits required

by the community. This leads to increased self-esteem and self-determination in these communities, further reducing the need for other forms of Government and NGO support. A failure to recognise this phenomenon potentially undermines the broader value of the IPP to the Australian public. Aligning this requirement with the existing requirement under clause 10.31 of the CPRs-which requires portfolios

to consider the economic value of the procurement to Australia for contracts in excess of $4.0 million- provides a consistent and manageable approach to ensuring the optimal outcomes of the IPP.

*It is recommended that:*

* *PM&C engages with the Department of Finance to consider the option of including Social Return on Investment as part of the national interest test under clause 10.31 of the CPRs for contracts with a value of greater than*

*$4.0 million.*

Recommendation 9 – Data Governance

Data is the backbone of nearly every business, be it small, medium or large. The rate of data generation is growing rapidly through its four primary forms: volume, variety, velocity, and veracity. The value of data makes its management critical. IPP data is an asset that must be managed with the highest priority to

achieve the desired business and policy goals. Mismanaged or unmanaged IPP data can lead to spurious or poor representations of the operation and impact of the IPP. It may also lead to a policy that does not align with reality, further increasing risk to stakeholders’, or the Commonwealth’s processes. This is why IPP data governance is so important, and in this context, data governance can be defined as an overall management of quality, usability, availability, security and consistency of an organisation’s data.

*It is recommended that:*

* *PM&C commence a co-Design process with stakeholders including government portfolios, Department of Finance, Indigenous Business Australia, Supply Nation and FACCI to develop and implement an agreed Data Governance framework based on leading practice standards. This governance framework should identify all data points to be captured in IPP contracts including geo-spatial data and data definitions.*

15 Nicholls J, Lawlor E, Neitzert E, Goodspeed T. A Guide to Social Return on Investment. 2. London: The Cabinet Office; 2012

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## Background

##### Introduction

The Department of the Prime Minister and Cabinet (PM&C) commissioned Deloitte to conduct a Third Year Evaluation of the Indigenous Procurement Policy (IPP).

The purpose of the evaluation is to examine if the IPP policy settings have been appropriate and effective in leveraging the Commonwealth’s annual multi-billion dollar procurement spend to provide the intended contract opportunities for Indigenous businesses.

The Indigenous Procurement Policy is a mandatory procurement connected policy that applies to all non-Corporate Commonwealth entities subject to the Commonwealth Procurement Rules (CPRs) in accordance with the *Public Governance, Performance and Accountability Act 2013 (PGPA Act)*. Prescribed corporate Commonwealth entities listed in section 30 of the Public Governance, Performance and Accountability Rule 2014 and Commonwealth entities that are not required to comply with the Commonwealth Procurement Rules (CPRs) are encouraged to adopt the policy as best practice.

The purpose of the policy is to:

* stimulate Indigenous entrepreneurship;
* drive improvements in Indigenous economic development and Indigenous employment; and
* to provide Indigenous businesses with more opportunities to participate in the economy.16

The aim of the policy is to achieve this through leveraging the Commonwealth’s annual multi-billion procurement spend to drive demand for Indigenous goods and services from small to medium sized enterprises (SMEs), which dominate the Indigenous business sector. As Indigenous businesses are approximately 100 times more likely to employ Indigenous people than non-Indigenous businesses,17 strengthening the Indigenous business sector has a potential flow on impact on Indigenous employment and consequently living standards and health.

The IPP is about creating opportunities for Indigenous businesses to grow and employ more people, and aid in stimulating private investment in new Indigenous businesses.

##### Strategic Policy Context and Intent

Numerous studies have demonstrated that Indigenous businesses are critical to increasing Indigenous employment, economic benefit, and community development across rural, regional and remote areas. However, Indigenous culture shapes the development of many Indigenous businesses, both positively and negatively. Significant positive aspects for Indigenous businesses, include the ability to link to Indigenous social and business networks and being able to access support programs such as those provided by Indigenous Business Australia. This outcome is supported by the fact that many Indigenous businesses, whether private, community-owned or cooperative enterprises, are motivated to achieve income and

16 Commonwealth of Australia 2015, Commonwealth Indigenous Procurement Policy (IPP) 1 July 2015, available at: [https://www.pmc.gov.au/resource-centre/government/Commonwealth-indigenous-procurement-policy](http://www.pmc.gov.au/resource-centre/government/Commonwealth-indigenous-procurement-policy). Accessed 4 September 2018

17 Hunter, B., 2014 *Indigenous Employment and Businesses: Whose business is it to employ Indigenous Workers*; CAEPR Working Paper No. 95/2014, ANU p16.

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opportunity not only for themselves, but for their family and community. This factor, while providing a demonstrable Social Reform on Investment (SROI), lends itself to potential competitive disadvantage as these cultural obligations combined with attendance at cultural ceremonies or family obligations can negatively impact the relative competitiveness of an Indigenous business, when competing with non- Indigenous businesses.18

The Commonwealth Government has made Indigenous Affairs a significant national priority. The Indigenous Advancement Strategy (IAS) was introduced in July 2014 to replace more than 150 individual programs

as the mechanism by which the Commonwealth Government delivers a range of programs targeting Aboriginal and Torres Strait Islander peoples. The Commonwealth Government has set three clear priorities as part of the IAS:

* the positive impact that education has on the future success of individuals, families and communities is clear. Children who go to school have better life outcomes;
* employment, economic development and social participation improve the lives of families and communities. The right conditions and incentives need to be in place for Aboriginal and Torres Strait Islander peoples to participate in the economy and broader society; and
* growing up in a healthy and safe home and community is essential for families to thrive and reach their full potential. In particular, the violence that too many women and children face must be addressed.19

Through the IAS, the Commonwealth Government is working to ensure the right conditions and incentives are in place for Aboriginal and Torres Strait Islander people to participate in the economy and broader society. This strategy is further supported by the Indigenous Business Sector Strategy (IBSS), which is aimed at supporting Aboriginal and Torres Strait Islander people to build sustainable businesses that will support themselves, their families and their communities.

In line with these policy goals, the significant purchasing power of government means that procurement policies and actions of governments can effectively be used to influence broader strategic policy objectives, such as employment outcomes for marginalised groups, environmental outcomes, and growth of the

small and medium business sectors. As a means of driving this outcome, successive Commonwealth Governments have developed and maintained a range of Procurement Connected Policies (PCPs) that sit alongside the CPRs to support the achievement of such targeted outcomes within the overall procurement framework. However, previously these policies were non-binding on portfolios and this in part led to the inability of the policies to achieve the same level of success as realised with the IPP.

##### History of the Policies Supporting Indigenous Procurement

Encouraging Indigenous economic participation has been identified as an effective tool in building independence, empowerment and community and social development as well as self-esteem and self- determination. In enabling this, the Indigenous Opportunities Policy (IOP) was developed as part of the Council of Australian Governments’ (COAG) commitment under the National Partnership Agreement on Indigenous Economic Participation to strengthen government procurement policies and to maximise Indigenous employment and business opportunities.

18 Morrison, M., Collins, J., Basu, P.K., Krivokapic-Skoko, B., 2014 *Determining the Factors Influencing the Success of Private and Community Owned Indigenous Business across Remote, Regional and Urban Australia*. ARC and IBA

19 Commonwealth of Australia 2014, *Indigenous Advancement Strategy Prime Minister and Cabinet.* Available at [https://www.pmc.gov](http://www.pmc.gov/). au/indigenous-affairs/indigenousadvancement-strategy. Accessed 28 September 2018.

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With respect to directly increasing the participation of Indigenous businesses in government contracting, the Commonwealth Government complemented the IOP by adding a specific exemption under the CPRs in

2011. The Indigenous Business Exemption (IBE) was introduced to encourage the use of Aboriginal suppliers in Commonwealth procurement. Under the IBE, government departments have the option to purchase goods and services from Indigenous companies without undergoing usual tender processes. The intent of the IBE was to streamline procurement and reduce administrative requirements where possible.20

Similar to the IPP, the IOP and IBE aimed to increase the number of Indigenous Australians trained and employed as a result of increasing the number of Commonwealth Government contracts awarded to Indigenous SMEs. In addition, it was expected to increase the level of involvement of Indigenous businesses in the delivery of goods and services under those contracts.

The IOP previously required major suppliers to the Commonwealth Government to demonstrate their commitment to Indigenous employment, including the use of Indigenous business suppliers. Tenderers for Commonwealth contracts involving expenditure of $5.0 million (or $6.0 million for construction) in regions with significant Indigenous populations (based on 2011 ABS data 3.0% or above) were required to have an approved Indigenous Training, Employment and Supplier Plan (IOP Plan). An organisation’s IOP Plan was required to outline how the organisation intended to:

* provide training opportunities to local Indigenous Australians;
* provide employment opportunities to local Indigenous Australians; and
* utilise Indigenous businesses that are small to medium enterprises.

The IOP applied to procurements undertaken by Commonwealth Government agencies subject to the *Financial Management and Accountability Act 1997 (FMA Act)*. The Government’s procurement initiatives to support outcomes for Indigenous Australians were the subject of a performance audit by the Australian National Audit Office (ANAO) in 2015.21 The audit found that while the policy intent was clear, the existing frameworks developed by entities to achieve the objectives had not generally facilitated the effective delivery of the outcomes sought. That report suggested that in the period from May 2011 to June 2015 only four contracts, with a total value of $10.3 million, were awarded for utilising the IBE. The review also noted that the geographic requirements of the IOP proved challenging for some entities to apply, and that the use of the IBE was low in the sample of entities examined as part of the review.

The IPP commenced on 1 July 2015, replacing the IOP, with a view to improving the number of Commonwealth contracts awarded to Indigenous businesses, and increasing the frequency of the use of the IBE. The IPP introduced flexibility in the way entities can approach their targets including by: setting them at portfolio levels; allowing subcontracting opportunities to be included; and applying a formula to enable the conversion of the target from number of contracts by volume to a target by contract values.

The IPP requires all government portfolios to have a target for the number of contracts awarded to Indigenous businesses. The target has been phased in over time and was initially set to reach 3.0% of all contracts by 2019–20. The setting of progressive targets for Government contracts to be awarded to Indigenous owned businesses was viewed as ‘a game changer’ for Indigenous economic development.22

20 Storey, Matthew, 2017 *Factors Affecting the Efficacy of the Commonwealth’s Indigenous Business Exemption*. Deakin University, page 2

21 Australian National Audit Office (ANOA) 2015, Procurement Initiatives to Support Outcomes for Indigenous Australians, Report, Commonwealth of Australia, Canberra, retrieved 2 September 2018 [https://www.anao.gov.au/sites/g/files/net4981/f/ANAO\_](http://www.anao.gov.au/sites/g/files/net4981/f/ANAO_) Report\_2015-2016\_01a.pdf

22 Burton, Tom, 2015. *Abbott’s new procurement game changer* [Online]. The Mandarin. Available at: [http://www.themandarin.com.](http://www.themandarin.com/) au/35559-tom-burton-abbotts-new-procurement-game-changer accessed 4 September 2018

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## Overview of the Indigenous Procurement Policy

In seeking to achieve the optimal strategic outcome from procurement expenditure, governments at all levels, and increasingly also the private sector, have implemented a number of procurement-related policies including:

* value for money (VFM), by determining the best triple bottom line outcome for government;
* probity, ensuring a high level of compliance with documented policies and process;
* environmental, through increased efficiency, low energy consumption and recyclability;
* quality and reliability, through examining whole-of-life costs including maintenance cycles and disposal costs;
* social value, through contribution to wider social policies and benefits; and
* transparency of process, ensuring the outcomes and decisions are defensible.

As part of this, the Commonwealth Government has sought to use its purchasing power to support and stimulate Indigenous businesses and entrepreneurship by directly providing these groups with increased opportunities to actively participate in the economy. The current IPP leverages the Commonwealth’s annual procurement spend to increase opportunities for Indigenous businesses and Indigenous employment in the following ways:

* establishing a target number of contracts that need to be awarded to Indigenous businesses;
* providing an exemption to Division 2 of the CPRs to enable direct engagement of an Indigenous business based on a value for money assessment;
* a mandatory set-aside for remote contracts and contracts valued between $80,000 and $200,000; and
* minimum Indigenous participation requirements in contracts valued at or above $7.5 million in certain industries.

##### IPP Targets

The target set at the introduction of the IPP was that 3.0% of new domestic Commonwealth contracts would be awarded to Indigenous suppliers in 2019-20. Due to the success of the Policy’s first year, the IPP portfolio targets of 3.0% was brought forward to 2016–17. Targets were initially set to drive and track performance as follows:

**Table 1: Commonwealth IPP Targets**

|  |  |  |
| --- | --- | --- |
| **Financial Year** | **Target at IPP Introduction (by volume of contracts)** | **Revised Target**  **(by volume of contracts)** |
| 2015–16 | 0.5% of domestic contracts | 0.5% of domestic contracts |
| 2016–17 | 1.5% of domestic contracts | 3.0% of domestic contracts |
| 2017–18 | 2.0% of domestic contracts | 3.0% of domestic contracts |
| 2018–19 | 2.5% of domestic contracts | 3.0% of domestic contracts |

Source: Published IPP Targets

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In the three years since the IPP was launched in July 2015, the Commonwealth procured almost $1.5 billion worth of goods and services through Indigenous businesses. While this is an impressive increase in spending directed at Indigenous businesses, when it comes to comparing this to the total procurement spend this equates to approximately 0.9% of total Commonwealth procurement spend. This is largely because currently, a third of the Commonwealth contracts directed to Indigenous businesses are valued under $1,000.

##### Exemption 16 to the CPRs (formerly Exemption 17)

Commonwealth buyers can purchase directly from Indigenous small and medium enterprises (SME) for contracts of any size and value using the Indigenous business exemption in the CPRs. Exemption No. 16 of the Commonwealth Procurement Rules allows an entity to engage directly (via limited tender) with a SME that is at least 50.0% Indigenous owned.23

##### Mandatory Set Aside

While Indigenous businesses can bid for any contracts, the IPP imposes requirements for Commonwealth portfolios to first consider Indigenous businesses for all contracts in remote areas24 regardless of value, and all other domestic contracts valued between $80,000 and $200,000. This requirement is known as the Mandatory Set-Aside (MSA). For contracts that meet the criteria, government portfolios first have to check whether an Indigenous SME can deliver the goods or services on a value for money basis, before approaching the market.

##### Mandatory Minimum Requirements

The IPP also includes Mandatory Minimum Requirements (MMR) that apply to all domestic contracts valued at, or greater than $7.5 million (GST inclusive), and where more than half the contract value relates to one or more of the following industry sectors:25

* building, construction and maintenance services;
* transportation, storage and mail services;
* education and training services;
* industrial cleaning services;
* farming and fishing and forestry and wildlife contracting services;
* editorial and design and graphic and fine art services;
* travel and food and lodging and entertainment services;
* politics and civic affairs services.

23 Commonwealth of Australia 2015 *Using the Commonwealth Procurement Rules Indigenous Exemption (No.17) to meet the Indigenous Procurement Policy* Prime Minister and Cabinet. Available at [https://www.pmc.gov.au/sites/default/files/publications/factsheet\_](http://www.pmc.gov.au/sites/default/files/publications/factsheet_) indigenous\_exemption. pdf. Accessed 28 September 2018.

24 Remote Area means the areas identified in the map on the Indigenous Procurement Website, as updated from time to time. Commonwealth Indigenous Procurement Policy 2015.

25 Based on the United Nations Standard Products and Services Code (UNSPSC) as articulated in Indigenous Procurement Policy, Policy Guide 3 Available at [https://www.pmc.gov.au/sites/default/files/publications/ipp-unspsc\_0.pd](http://www.pmc.gov.au/sites/default/files/publications/ipp-unspsc_0.pdf)f. Accessed 4 September 2018.

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For eligible contracts, the contractor (in consultation with the purchasing Commonwealth entity) must meet one of the MMR outlined in Table 2.

**Table 2: Mandatory Minimum Requirements**

|  |  |
| --- | --- |
| **Requirement** | **Description** |
| Contract-based requirement | Achieve at least 4.0% Indigenous employment and/or supplier use on average over the term of the contract |
| Organisation-based requirement | Achieve 3.0% Indigenous employment and/or supplier use across the organisation on average over the term of the contract. |

Source: Published IPP Targets

Note: Requirements can be met through a combination contract-based requirements and organisation-based requirements

To allow for a transition period, the MMR did not become binding on contractors until 1 July 2016. Commonwealth portfolios are required to report on compliance across the three components of the IPP to PM&C every six months. This regimented approach to reporting IPP data has enabled the Commonwealth to track each portfolio’s performance against the set targets and requirements, and ultimately gauge the success of the IPP and its impact in improving Indigenous economic outcomes in line with the government’s broader strategic policy objectives.

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## Previous Reviews of the IPP

A formal year one review of the IPP was commissioned by PM&C, and conducted by Cox, Inall, Ridgeway26 in 2017. The review was intended as an interim assessment to consider what had been earlier learned and which could inform efforts to continue the IPP’s implementation development path. It also aimed to ensure appropriate data collection and methodology was in place for a full evaluation of the policy in year three.

An overview of the first year results is provided in Table 3.

**Table 3: Year One Overall IPP Performance**

|  |  |  |  |
| --- | --- | --- | --- |
| **Portfolio** | **Total Contracts** | **Contracts awarded to Indigenous businesses** | **% of total** |
| TOTAL | 51,266 | 1,509 | 2.9 |

Source: Cox Inall Ridgeway, 2017. *Year One Review of the Indigenous Procurement Policy*

##### Effectiveness of the Indigenous Procurement Policy

A cornerstone feature of the IPP is that there are no specific ‘IPP contracts’. All contracts are open to Indigenous businesses. The onus is on each portfolio to achieve the overall target over the financial year. Application of the IPP is based on ensuring that suppliers achieve ‘value for money’.27

There has been a marked increase in government procurement from Indigenous businesses since the introduction of the IPP. Comparing figures from 2012–13 with the first two years of the IPP shows an increase in government expenditure from $6.2 million to $284.2 million in the first year and $285.5 million in its second. Using figures published by PM&C in September 2017, the combined figures for the first two years of the IPP indicate that:

* 4,880 contracts were awarded, amounting to 3.0% of the total number of government procurement contracts;
* $594.0 million worth of contracts were awarded to 956 Indigenous businesses;
* An average contract value of $121,800; and
* 123 contracts valued over $1.0 million.28

26 Cox Inall Ridgeway, 2017. *Year One Review of the Indigenous Procurement Policy*. Department of Prime Minister & Cabinet

27 The Department of Prime Minister & Cabinet, 2015. *Commonwealth Indigenous Procurement Policy*, page 28

28 The Department of the Prime Minister and Cabinet. *Indigenous Procurement Policy Exceeds Targets* [Online] September 29, 2017. Available at: [https://www.pmc.gov.au/news-centre/indigenous-affairs/indigenous-procurement-policy-exceeds-targets](http://www.pmc.gov.au/news-centre/indigenous-affairs/indigenous-procurement-policy-exceeds-targets) accessed 9 October 2017

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Verification Process

With the advent of the IPP, Supply Nation was chosen to facilitate the registration and categorisation of Indigenous businesses.29 Supply Nation is responsible for the ongoing management of a database of providers who have been certified as Indigenous businesses for the purposes of the IPP. However, albeit limited, Deloitte identified some issues with respect to the currency and accuracy of this database when undertaking a survey of all registered providers on the Supply Nation database. This survey encountered difficulties in reaching almost 4.0% of suppliers by email. This is a risk that may grow if data governance measures are not implemented.

There are three levels of registration undertaken by Supply Nation:

* Registration (50.0% Indigenous owned);
* Certification (51.0% Indigenous owned, managed and controlled); and
* Joint Venture registration (50.0% owned, 50.0% controlled and a capability transfer plan and workforce development strategy).

All three of these are eligible for IPP contracts at the time of analysis. Registration with Supply Nation has continued to increase since implementation of the IPP.30 However, as at September 2018 only 1,585 out of more than 12,00031 Aboriginal and Torres Strait Islander companies are currently listed on the Supply

Nation database. While this may suggest that there is a growing demand for Indigenous businesses outside of government, and that many are succeeding independent of the IPP, the business does not need to be registered on Supply Nation to be successful in IPP-procurement. The advantage of using Supply Nation is that these businesses have been assessed as meeting the Indigenous ownership requirement.

Supply Nation advocates a five step verification process made up of:

1. assessing online applications for accuracy;
2. checking ABN/ASIC for company name and current registration;
3. checking ownership document to identify owners and ensure that a minimum of 50.0% is Aboriginal and/or Torres Strait Islander owned;
4. verify owners and confirmation of Aboriginality documents; and
5. random / spot audits over time.

In addition to these steps, when assessing businesses to be certified, Supply Nation also checks and verifies:

* Aboriginality documents against share structures registered with ASIC and / or other documentation (such as partnership documents or trust deeds) to confirm at least 51.0% Aboriginal or Torres Strait Islander ownership;
* That the business is managed and controlled by Aboriginal and / or Torres Strait Islander people by reviewing information provided in the application form; and reviewing governance documents.
* completing a certification interview/site visit.32

29 Cox Inall Ridgeway, 2017. *Year One Review of the Indigenous Procurement Policy*. The Department of Prime Minister & Cabinet, page 11

30 Nelson, Heath, 2017. Case Study: FMG and Kingkira Group. Melbourne Business School

31 Commonwealth of Australia 2018, Indigenous Business Sector Strategy 2018 - 2028, The Department of the Prime Minister and Cabinet p. 4

32 Supply Nation, 2017. How we verify Aboriginal and Torres Strait Islander businesses [Online].

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##### Economic Benefits of Indigenous Business

In a 2014 study for Reconciliation Australia, Deloitte estimated that if Indigenous people shared the same economic outcomes as the remainder of the population, there could be considerable savings in all

major areas of government spending and a significant increase in revenues.33 The report compares 2014 statistics with a ‘what if’ hypothetical. It calculates the overall dollar value benefit if Indigenous Australians experienced similar outcomes to non-Indigenous Australians by 2031. Although the methodology is limited and does not take into account the full range of demographic factors, the figures indicate the potential economic benefit of greater Indigenous participation in the economy.

The most prominent impact of Indigenous business on the government balance sheet would be achieved through an increase in tax income. Indigenous business ownership could contribute up to a predicted

$7.2 billion in extra revenues.34 Tax revenues would not merely be derived from business owners but also from Indigenous employees. Aboriginal and Torres Strait Islander businesses are more likely to employ an Indigenous person and therefore this increase in overall employment outcomes may also boost the income tax base.35

In addition to these benefits, Deloitte modelling suggests there may be a $2.94 billion saving in government social security expenditure if Indigenous Australians achieved welfare parity with the rest of Australia by 2031.36

##### Performance of the Indigenous Corporations Sector

In seeking to determine the overall direction of Indigenous businesses, Deloitte looked beyond relevant Austender and Supply Nation data to determine the growth in use of the IPP as a mechanism to support business growth.

The Office of the Registrar of Indigenous Corporations (ORIC) is established by *Corporations (Aboriginal and Torres Strait Islander) Act 2006* (CATSI Act). The CATSI Act provides a legislative mechanism to help Aboriginal and Torres Strait Islander people build strong corporations, strong people and strong communities. While registration under the CATSI Act is typically voluntary, ‘prescribed bodies corporate’ set up under the Native Titles Act 1993 are required to register.37

Corporations registered under the CATSI Act must be owned and controlled by Aboriginal and Torres Strait Islander people and the majority of directors and members must be Aboriginal or Torres Strait Islander people. As at 30 June 2016, there were a total of 2,781 Indigenous corporations registered under the CATSI Act, an increase of 93 from the previous year.

Available at: https://supplynation.org.au/about-us/indigenous-business/ accessed 4 September 2018.

33 Deloitte Access Economics, 2014. Economic benefits of closing the gap in Indigenous employment outcomes. Reconciliation Australia, page 13

34 Ibid, page ii

35 Forrest, Andrew, 2014. The Forrest Review - Creating Parity. Department of the Prime Minister & Cabinet, page 47

36 Deloitte Access Economics, 2014. Economic benefits of closing the gap in Indigenous employment outcomes. Reconciliation Australia, page 13

37 Commonwealth of Australia 2018, About the CATSI Ac[t available at http://www.oric.gov.au/catsi-act/about-catsi-act.](http://www.oric.gov.au/catsi-act/about-catsi-act) Accessed 7 September 2018

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Based on statistics produced by ORIC for the 2015–16 financial year, the performance of the Top 500 Indigenous businesses are as follows:

* the combined income of the top 500 Aboriginal and Torres Strait Islander corporations for 2015–16 was

$1.9 billion representing an increase of 1.9% from the previous year;

* Northern Territory businesses represented 34.0% of the top 500 earning 47.1% of the combined total national income;
* the Northern Territory had the highest total income ($903 million) of all the states and territories (average of $5.3 million/corporation);
* average annual growth rate of total income for corporations over the last 10 years was 8.3%;
* the income of the highest ranked corporation in 2015–16 has grown by 7.0% from 2014–15 (from $88.9 million in 2014–15 to $95.5 million in 2015–16);
* the income of the 500th ranking had increased by 28.7% (from $310,716 in 2014–15 to $399,960 in 2015–16). The top 500 had 12,981 FTE employees. This is 1,886 more employees than 2014–15 (17.0% increase);
* the combined value of assets held by the top 500 corporations was $2.4 billion (compared to $2.2 billion in 2014– 15, an increase of 8.1%);
* corporations in Western Australia and the Pilbara region generally have experienced another fall in average income. However, their average income is still well above the national average;
* 80.0% of boards have more than 30.0% female representation. This is compared to 33.0% of ASX boards;
* the overall representation of women on boards of directors decreased slightly to 51.0% (a decrease of 1.2% from 2014–15);
* single-sector corporations dominate with 320 operating in one sector only (64.0%);
* the health and community services sector continued to be the largest with 202 (40.4%) corporations operating in this sector;
* compared to last year 137 corporations improved their ranking in the top 500 and 291 decreased their ranking;
* there were 59 new entries in the top 500 for 2015–16. Sixteen of these were transfers of existing entities from other legislation;
* in 2015–16 the greatest source of revenue for the top 20 corporations came from self-generated income (46.5% of total income). However, government funding to the top 20 increased by 5.0% from 39.3% to 44.3%;
* for the top 20, income from other sources which includes mining royalties, native title compensation and distributions from trusts fell from a 17.4% share in 2014–15 to 9.2% in 2015–16;
* there were 159 Registered Native Title Bodies Corporate (RNTBCs). Only 30 RNTBCs (18.8% of all RNTBCs) appeared in the top 500; and
* the average income of RNTBCs that recorded an income greater than zero (55.3% of RNTBCs) was

$887,968. The remaining 44.7% of RNTBCs had nil income or were not required to report (54 reported nil income, three were not required to report and 12 were granted exemptions).38

38 Commonwealth of Australia 2016, The Top 500 Aboriginal and Torres Strait Islander Corporations 2015–16 ORIC. Available at [http://www.oric.gov.au/catsi-act/about-catsi-act.](http://www.oric.gov.au/catsi-act/about-catsi-act) Accessed 7 September 2018.

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## Approach

##### Scope of Evaluation

PM&C commissioned Deloitte Consulting to undertake an evaluation of the IPP to assess the impact of the policy over the three years since its introduction in July 2015.

The purpose of the evaluation was to examine if the IPP policy settings have been appropriate and effective in leveraging the Commonwealth’s annual multi-billion dollar procurement spend to provide the intended contract opportunities for Indigenous businesses. This review examined evidence to determine if the IPP:

* has been effective in generating government demand for delivery of goods and services by Indigenous businesses;
* has been implemented effectively by Commonwealth portfolios; and
* has in place effective governance arrangements to appropriately supporting its application and use.

Based on the evaluation of both quantitative and qualitative data, and the analysis undertaken, the Evaluation provides evidence-based recommendations, outlining identified proposed changes to the IPP to improve its operation, further enhance its success, and/or more efficiently and effectively achieve its strategic policy objectives.

##### Stakeholder Engagement Activities

Given the compressed timeframe of the review, it was important that each stakeholder was provided an opportunity to be engaged in a manner that was efficient and effective in order to develop appropriate recommendations.

Deloitte, in consultation with PM&C, identified the following stakeholder communities:

* Department of the Prime Minister and Cabinet;
* Department of Finance;
* Indigenous businesses, based on the database of registered businesses maintained by Supply Nation;
* Supply Nation and Indigenous Business Australia;
* Business Chambers and Councils including the First Australians Chamber of Commerce and Industry (FACCI);
* Commonwealth Government Agency Representatives; and
* Tier 1 suppliers to Government.

Noting the broad spectrum of stakeholder communities and the high number of members of each community, Deloitte determined that in order to optimise input it would need to utilise multiple channels of engagement including surveys, teleconferences, focus groups, one-on-one meetings as well as quantitative analysis of procurement data to determine portfolio performance and trajectory of uptake. The multichannel methodology utilised for this review was designed to ensure the optimal input of contributions from stakeholders across all the identified stakeholder communities whilst also ensuring that quantitative analysis of data was also available to inform recommendations.

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Stakeholders in business, government and representative chambers and councils were invited to contribute through Deloitte-developed online surveys, with a sample from each community invited to participate in

a focus group. Given the vast geographic spread of a number of these participants, focus groups took the form of either a teleconference or a face-to-face meeting. Interviews were also held with Supply Nation and Indigenous Business Australia.

Further interviews and meetings were held with PM&C and the Department of Finance as the respective owners of the IPP and the CPRs. These were aimed at working through the results of the analysis to test the range of recommendations being developed to ensure on-going consistency between both policies and alignment with wider government legislation (such as the PGPA Act). In developing a strategic approach

to the evaluation of the IPP, Deloitte recognised that early stakeholder communication and engagement is crucial to achieving the optimal outcome. Deloitte aimed to engage with a wide variety of stakeholders across all identified stakeholder audiences to gain insights and understand perceptions across these various groups of the implementation of the IPP.

##### Consultations

A total of 1,761 organisations were invited to provide feedback on their experiences with the IPP. Of these, a total of 451 took up the opportunity to be involved. This number is broken down into the various forums as set out below.

**Table 4: Stakeholder Attendance**

|  |  |
| --- | --- |
| **Stakeholder Forums** | **Number of Invitees / Respondents** |
| Indigenous Business Survey | 1585 invited / 366 respondents |
| Representative Bodies Survey | 8\* invited / 4 respondents |
| Government Survey | 19 portfolios invited / 41 respondents |
| Indigenous Business Focus Groups | 75 invited / 26 respondents |
| Representative Bodies Focus Groups | 40 invited / 4 respondents |
| Government Focus Groups | 35 invited / 8 respondents |
| Tier 1 Supplier Focus Groups | 4 invited / 2 respondents |

Note: \*FACCI also disseminated the survey to all their member bodies

Methodology

The diverse range of stakeholders in this review – the Indigenous business sector, government portfolios, Indigenous business chambers, and Tier 1 businesses – required a deep and rigorous approach to stakeholder engagement. This was undertaken using both quantitative (IPP administrative data) and qualitative approaches (focus groups, surveys and one-on-one meetings).

To ensure the agenda of the focus group sessions was set in a targeted and consistent manner, Deloitte initially sought the views of Indigenous businesses, Indigenous businesses chambers, and Commonwealth Government portfolios using online surveys.

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##### Surveys

As a research method for collecting data from a pre-defined group of respondents, surveys are an effective tool for gaining information and insights on various topics of interest. The data was obtained through the use of standardised questions and free text fields.

##### Focus Groups

As a research tool that compliments surveys, focus groups offer the advantage of yielding rich data in participants’ own words and developing deeper insights. People can build on each other’s responses and come up with ideas they might not have thought of in a one-to-one interview.

Focus groups can encourage participation from people reluctant to be interviewed on their own or who feel they have nothing to say.

Objectives of the IPP focus groups were to:

* understand perceptions of each stakeholder community in respect to the implementation of the IPP;
* determine consistencies / inconsistencies in application of the IPP amongst stakeholder communities;
* gain insight into a broad range of issues and opportunities in respect to the IPP; and
* understand the desire for changes in the implementation approach that will further support the policy intent of the IPP.

Timing and Recording

Each focus group was planned for between 6 and 8 participants and to run for around 90 minutes. Deloitte ran each focus group as a standalone session with sufficient time provided to allow each focus group to run about 15 minutes over time to ensure the facilitator was able to allow useful discussion to be completed prior to ending the session. Each session was digitally recorded and participants were made aware of this when they were invited to the session and once again at the beginning of the session. This recording was used to ensure accuracy of the conversations and their context. In addition, Deloitte had a scribe in each focus group session to ensure that the major themes were captured as they developed throughout the session. Recordings were deleted on finalisation of the report.

Major Themes Explored

Conducting focus groups with a broad range of stakeholder communities provided valuable insight into the actual practices and perceptions of the IPP implementation. To ensure that the focus groups achieved the strategic goals of the evaluation, the following themes were identified for investigation through the focus groups:

* what was your experience with the IPP?
* what if any training or education did you receive in respect to the IPP?
* are you familiar with the MSA and MMR components of the IPP?
* what are your views of capability and capacity? and
* what are the known barriers to using the IPP?

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##### Selection of Participants in Focus Group Sessions

Participants were generally selected on the basis of who best could inform the research questions and enhance understanding of the issue being evaluated, in this case, the IPP. Hence, one of the most

important tasks in the study design phase was to identify appropriate participants who had an operational knowledge and experience regarding the IPP.

In designing the format of the focus group, there were a range of sampling techniques available, with Deloitte selecting the Purposive Sample technique to identify a range of demographic characteristics for participation in each focus group.39 These characteristics included:

* organisational maturity;
* industry sector;
* organisational size;
* geographic location.

Face-to-face sessions were held in Sydney, Darwin, Perth and Canberra. This ensured that participants located in these regions had the opportunity to contribute with minimal disruption to their normal business. In addition, a range of regional sessions were also agreed. These occurred in Broome and Cairns. Participants were also invited to attend virtually. This ensured that the widest regional population possible was able to participate in the Evaluation without being financially disadvantaged through cost of travel and time away from the workplace.

##### IPP Database Analysis

To measure and assess the performance of the IPP, Deloitte analysed data from the IPP database enabling a robust understanding of the IPP’s operation and outcomes from a final contracts perspective. This complemented the qualitative data which analyses the perspective and perceptions of the IPP operation to form a holistic understanding of the performance of the IPP.

Data was extracted from the IPP database utilising its Advanced Query functionality. This required multiple extractions from each of the various locations with components of the data stored and then joined to form a consolidated data model representing a rich snapshot of the IPP data as at 16 September 2018.

The IPP published results use a different methodology, the IPP target is set using an average of Austender contracts for years 2012–13, 2013–14 and 2014–15 with an adjustment made to take into

consideration the volume of specialised Defence procurement that may be subject to paragraph 2.6 of the Commonwealth Procurement Rules or other exemptions.

Deloitte uses a more contemporary approach whereby the base of assessment uses the most recent year of data available and all procurement is included. Deloitte notes this includes a large volume of contracts that are exempt from the Indigenous Procurement Policy due to an exemption to the Commonwealth Procurement Rules. Deloitte also notes that such contracts may be of high value and for which an SME may not typically tender for. A comparison of the first year’s results against the 2015-16 IPP target of 0.5% is provided in Appendix 3.

39 Purposive sampling involves selecting a focus group sample with specific characteristics. This method is used when you want to set up focus groups that represent the relevant variations.

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## Economic Backdrop for the IPP

Global economic growth remains strong providing a solid foundation for growth here in Australia. While the prospect of a worsening in trade wars is a limited risk, global growth is strong now and should remain above trend in 2019, it looks like heading back toward trend come 2020.

Australia’s economy continues to accelerate and ongoing strength is forecast to be marginally above trend. Inflation will increase gradually rising, that mix should see the current growth in wages continue. The speed of Australian economic growth is the best that it has been since 2012, and unemployment is the lowest that it’s been since 2012. The recent fall in the Australian dollar has impacted on a few sectors and although pressures on China are growing, and global commodity prices have taken a tumble, to date that has not been a problem for the Australian economy. Demand for, and prices of, key Australian exports have held up well through 2018 to date. The upshot is that the two fundamental measures of economic health continue to hold: output growth (real GDP) is comfortably above its average of the past decade, and national income growth is ahead of the same benchmark. Despite this, there are some very important risks in play, namely i) Australia’s high housing prices and stretched family finances, ii) a tightening in credit; ii) rising global interest rates driving interest rate increases by Australian banks and, iv) drought gripping eastern Australia.

The state of business investment is important to map out for assessing future opportunities for SMEs. From late-2012 to mid-2016, spending by businesses on their capacity to produce dropped dramatically. The mining sector slowed sharply but that trough has dissipated. Notably related to the IPP, business investment is split into engineering and other non-housing work (including commercial and industrial projects), and other investment. Engineering work covers mining, manufacturing, energy (power and gas), water storage and drainage, as well as transport (roads, rail and ports).

Engineering construction, and the wider Australian economy for that matter, are no longer weighed down by large falls in mining investment. Almost all of the mega-projects which began construction during the resources boom are now producing. Yet while

that has been the case for some time, engineering construction has been pretty slow to recover. The good news is that 2018 has seen some improvement, thanks in part to a lift in private infrastructure investment in sectors such as transport and renewable energy, with private spending coming atop an already elevated level of public sector spending.

Looking forward, based on Australian and global economic influences, as well as a supporting policy – the IPP – Indigenous businesses have a strong opportunity to develop, grow, and influence.

Source: Deloitte Access Economics’ Business Outlook, September 2018

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## Findings

##### Literature Review

In developing a range of options that may improve the policy outcomes of the IPP, a range of previous studies and their recommendations were tested against the data (both quantitative and qualitative).

A number were identified for further consideration. These included:

* the *“Year One Review of the Indigenous Procurement Policy”* commissioned by the Department of the Prime Minister and Cabinet and undertaken by Cox Inall Ridgeway.40 This review found a relationship between the efforts made by portfolios to implement the IPP and the overall success of the implementation. Notable actions undertaken by portfolios included: 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. The review further found that ongoing education and training was the primary vehicle for enhancement to the IPP to further encourage uptake and implementation. This education and training for suppliers should be focused on:
  + 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.

Training and education for Commonwealth procurement staff should be focused on:

* + assessing value-for-money; and
  + obligations under the mandatory set-aside.
* a study by Professor Mark Morrison, Professor Jock Collins, Associate Professor P.K. Basu and Associate Professor Branka, Krivokapic-Skoko on behalf of the Australian Research Council (ARC) and Indigenous Business Australia (IBA) in 2014 titled *“Determining the Factors Influencing the Success of Private and Community Owned Indigenous business across Remote, Regional and Urban Australia”* found that female- run businesses were clearly disadvantaged in growth of sales revenue, employment, growth and survival (age of business). However, female entrepreneurs benefited from various forms of support such as Indigenous business networks, mentoring and completing a tertiary level diploma or degree

in business;41

* *“The Forrest Review - Creating Parity”* recommended that the Commonwealth procure at least 4.0% of its goods and services from Indigenous businesses. The report also recommended that the required level of Indigenous equity to be classified as an Indigenous business be set at 25.0%. The view of the author was that this allowed Indigenous business to get beyond being small to medium and potentially become greater than 200 employees. The author also raised other suggestions worthy of further investigation including the development of capability partners, joint-venture (JV) vehicles, and subcontracting arrangements;42

40 Cox Inall Ridgeway, 2017. *Year One Review of the Indigenous Procurement Policy*. Department of Prime Minister & Cabinet

41 Morrison, M., Collins, J., Basu, P.K., Krivokapic-Skoko, B., 2014 *Determining the Factors Influencing the Success of Private and Community Owned Indigenous Business across Remote, Regional and Urban Australia*. ARC and IBA

42 Forrest, Andrew, 2014. The Forrest Review - Creating Parity. Department of the Prime Minister & Cabinet

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* a study by Mathew Story in 2017, titled *“Factors Affecting the Efficacy of the Commonwealth’s Indigenous Business Exemption”*43 identified a lack of supplier development-oriented approaches as impeding utilisation of the IBE and associated remedial methods. This included factors such as ‘lack of supplier development work by procuring agency’ which was often connected at some level to ‘certification requirements’. The remedial methods that were suggested were ‘greater emphasis on supplier development’; ‘discussion with suppliers about allocations’; ‘more practical training for suppliers’ and having a ‘central point of contact in departments’;
* a study commissioned by Westpac in 2014 titled *“Enabling Prosperity: Success Factors for Indigenous Economic Development”*44 identified that any economic investment in Indigenous communities, including infrastructure, required appropriate and concurrent investment in human capital including ‘cultural capital’. This social infrastructure directly contributes to the capabilities of individuals and their ability to leverage opportunities. Without this, the benefits of land ownership and access to resources may not be able to be realised;
* a study by Boyd Hunter in 2014 titled *“Indigenous Employment and Businesses: Whose business is it to employ Indigenous workers”,*45 found that although Indigenous businesses were 100 times more likely to employ Indigenous workers than non-Indigenous businesses, the policy needs to consider where the majority Indigenous people are currently employed. Based on the Queensland sample, whilst non- Indigenous businesses are not performing well in terms of Indigenous employment, they employ almost 89.0% of Indigenous workers, with the vast majority of these being in large businesses (74.0% in the 101+ workers category);
* the 2014 study, the *“Economic benefits of closing the gap in Indigenous employment outcomes”,*46 commissioned by Reconciliation Australia and undertaken by Deloitte Access Economics, found that by addressing Indigenous disadvantage, significant positive implications for government budgets in the form of higher revenues and lower expenditure would be generated. The estimates indicate that, under a scenario in which the circumstances of Indigenous Australians improve to match those of the Australian average, by 2031 governments across Australia would experience a net gain of $11.9 billion. This reflects:
  + a $7.2 billion increase in revenues associated with the broadened tax base created by a larger economy; and
  + a $4.7 billion reduction in expenditure due to lower costs in areas such as health and social security, due to greater wellbeing and affluence among Indigenous Australians.
* a similar evaluation undertaken by Indian and Northern Affairs Canada in 2007 titled *“Summative Evaluation of the Procurement Strategy for Aboriginal Business (PSAB)”*47 found that finding an Aboriginal firm with the appropriate capacity to undertake particular government contracts remained a significant challenge. It identified that the lack of an accessible list of pre-qualified suppliers as well as gaps in capacity in particular fields, such as the medical architectural, engineering, and surveying fields, and the skilled trades were significant factors in this outcome. The report also found that there was a clear need to build capacity in certain areas, enhance Aboriginal business capacity, and to see the implementation of an Aboriginal benefits strategy. The Aboriginal benefits strategy would be a requirement on all large contracts to demonstrate some commitment to benefiting Aboriginal people in order to be awarded these contracts. These benefits could take the form of establishing a scholarship program, creation of jobs for Aboriginal people, or a commitment to acquire materials and supplies from Aboriginal vendors;

43 Storey, M., 2017 *Factors Affecting the Efficacy of the Commonwealth’s Indigenous Business Exemption*. Deakin University.

44 Urbis, 2014, titled *Enabling Prosperity: Success Factors for Indigenous Economic Development* Westpac

45 Hunter, B., 2014 *Indigenous Employment and Businesses: Whose business is it to employ Indigenous Workers*; CAEPR Working Paper No. 95/2014, ANU

46 Deloitte Access Economics, 2014. *Economic benefits of closing the gap in Indigenous employment outcomes.* Reconciliation Australia,

47 Indian and Northern Affairs Canada, 2007 *Summative Evaluation of the Procurement Strategy for Aboriginal Business* (PSAB). Available at [http://publications.gc.ca/collections/collection\_2018/aanc-inac/R5-708-2007-eng.pdf.](http://publications.gc.ca/collections/collection_2018/aanc-inac/R5-708-2007-eng.pdf) Accessed 11 September 2018

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* a USA Congressional report titled “SBA’s *“8(a) Program”*: Overview, History, and Current Issues”48 looked at a range of issues in respect to the effectiveness of the Native American Indigenous Procurement Policy. This study identified a recent decline in participation, reported variation in program service delivery, disagreements related to the program’s financial thresholds used to determine economic disadvantage, and concerns related to the performance measures used to evaluate the program’s success. As a result, they have commissioned further work to identify potential solutions to these issues including consideration of varying levels of ownership of businesses; and
* a study by Charles Jacobs for the Centre for Independent Studies titled *“Risky Business; the problems of Indigenous business policy”*. This study found that the enhanced focus on Indigenous businesses has had a profound impact on the market resulting in many non-Indigenous businesses looking to demonstrate their engagement with Indigenous businesses throughout the tendering process. The study also held that as a result many Indigenous businesses were approaching a point where they no longer needed the advantages provided by the IPP and that consideration be given to placing a threshold on access to preferential consideration when the business reached a certain capacity.49

##### Overview of Analysis

A foundational component of Deloitte’s analysis of the IPP’s performance was the analysis of contracts awarded by Commonwealth Government agencies to Indigenous businesses over the period 2015–16 to 2017–18.

Deloitte’s analysis uses data managed by PM&C which is sourced from Austender and directly from Commonwealth Government portfolios which is contained with the PM&C maintained IPP Reporting System (IPPRS). This provides an analytical base that is reliable and repeatable. It provides an evidence-base for developing future recommendations and proposing strategies for improved operation and success.

The IPP database’s parent data is the Department of Finance’s Austender data. Austender reports Contract Notices as a result of a contract being awarded by a Commonwealth Government agency at or above the reporting threshold value of $10,000 (including GST). A Contract Notice displays details of the contract, including the value and the supplier. An agency has up to 42 calendar days from the time the contract is entered into to report the details on Austender. Details of contracts awarded below the reporting threshold value, or contracts that are exempt from reporting requirements, are not published on Austender and

are provided to PM&C directly by portfolios. Consistent with the surveys and focus groups, critical issues investigated were:

* how is the IPP performing (and against the IPP target)?
* is the IPP target appropriate?
* is the Mandatory Set Aside (MSA) provision achieving its aims?
* are the Mandatory Minimum Requirements (MMR) leading to increased opportunity for Indigenous businesses?
* how well is the IPP implemented across all Commonwealth procurement activities?
* are the IPP governance arrangements and performance framework adequate? and
* are all relevant Commonwealth portfolios included or well supported to adhere to the IPP?

48 Dilger, R. J. 2018 SBA’s *“8(a) Program”: Overview, History, and Current Issues* Congressional Research Service USA. Available at https://fas.org/sgp/crs/misc/R44844.pdf. Accessed 20 September 2018.

49 Jacobs, C. 2017 *Risky business: the problems of Indigenous business policy*, Centre for Independent Studies. Available at [https://www.cis.org.au/app/uploads/2017/12/rr35.pdf](http://www.cis.org.au/app/uploads/2017/12/rr35.pdf). Accessed 8 October 2018

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Deloitte’s approach in assessing the IPP’s performance against the targets has employed the PM&C managed data in two distinct ways:

1. The Indigenous Procurement Policy. The IPP sets the volume target using a base from the years 2012- 13, 2013-14, and 2014-15 whereby the number of contracts are averaged. This provides a fixed baseline from which each individual year – 2015-16, 2016-17, and 2017-18 – is measured against. For example, 2015-16 is set against an average of the three preceding years. The target for the upcoming financial year is calculated based on an average of the domestic contracts entered into over the previous

three financial years (that data is available for) with some adjustments to the total number to take into consideration a proportion of contracts that would generally not be serviced by SMEs such as the

acquistion and sustainment of Defence material, foreign military sales, and essential security interests. The IPP then sets numerical targets for the number of contracts awarded to Indigenous businesses for the financial year ahead. The actual number of contracts awarded in each year is then compared to these pre-determined targets.

This approach was adopted due to the total number of domestic contracts for a financial year will not be known in advance, to manage fluctuations in the number of contracts from year-to-year and due to the large volume of very high value specialised procurement undertaken partially within the Defence Portfolio. Table 5 shows targets using this methodology.

**Table 5: Total Commonwealth Government Contracts Awarded and Target Indigenous Business Contracts, by year**

|  |  |  |
| --- | --- | --- |
| **Year** | **Total Contracts** | **Target Contracts** |
| 2011-12 | 58,219 | n.a. |
| 2012-13 | 48,640 | n.a. |
| 2013-14 | 46,940 | n.a. |
| 2015-16 Target | n.a. | 256 |
| 2016-17 Target | n.a. | 1,537 |
| 2017-18 Target | n.a. | 1,537 |

Source: Cox Inall Ridgeway, 2017. Year One Review of the Indigenous Procurement Policy Notes: The 3 year average for years 2011-12 to 2013-14 was 51,266

The target of 256 for 2015-16 is based on Indigenous procurement making up 0.5% of 51,266 contracts

1. Deloitte’s approach differs from the IPP. Deloitte takes a year-on-year approach whereby the assessment process uses the most recent single year of data available. For example, 2017–18 is set against 2016-17. In addition, Deloitte makes limited adjustments for procurements unlikely to be contested by SMEs. This approach assumes most procurements are accessible to Indigenous businesses. This approach is similar to market analysis reporting where the previous year sets the benchmark from which the next years’ performance will be measured against.

Further detail and analysis using Deloitte’s alternative approach is provided in the next section.

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##### Analysis of the IPP against its target

This section analyses the performance of the IPP over the years 2015-16, 2016-17, and 2017-18 by portfolio against individual year IPP targets as noted above as ‘Deloitte’s approach’. Deloitte used data collected and stored by PM&C from 19 government agencies.

Key measures assessed were:

* Total contracts (for 2015-16, 2016-17, and 2017-18)
* Total indigenous contracts (for 2015-16, 2016-17, and 2017-18)
* Percentage of contracts

Deloitte first assessed the performance using the methodology set by the IPP. Deloitte then compared the number and value of contracts awarded through the IPP against all procurements undertaken in the year prior (the Deloitte approach) to determine, in value terms, the proportion of the government’s supply chain being supplied by Indigenous businesses within a year.

Using the agreed IPP approach, both overall and portfolio-level performance against their IPP targets has been consistently good over the 3 financial years 2015-16, 2016-17, and 2017-18. While there was some variability across portfolios, all portfolios met their Indigenous business contract targets during each of these three years.

Tables 6, 7, and 8 provide detailed statistics by portfolio and financial year. Stand-out portfolios across the three years are the Department of the Prime Minister and Cabinet and the Department of Human Services, while the Department of Communications and the Arts and the Department of Education and Training both performed particularly well in 2016-17 and 2017-18.

Several other portfolios also exceeded their targets by significant margins in particular years. Overall, the number of contracts awarded to Indigenous businesses increased significantly over this period, along with the Indigenous business’ share of total contracts (shown as a percentage of target basis total contracts, rather than actual total contracts).

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**Table 6: Overall IPP performance, 2015-16**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Portfolio** | **Projected**  **Total Contracts\*** | **Indigenous Business Contracts Nominal Target\*\*** | **Indigenous Business Contracts**  **Actual** | **Variance**  **from Contracts Nominal Target** | **Indigenous Business Contracts Actual as**  **% Basis Contracts** | **Variance from 0.5% Percentage of Target (Percentage**  **Points)** |
| Agriculture and Water Resources | 1,037 | 5 | 55 | +50 | 5.3% | +4.8% |
| Attorney-General’s | 3,817 | 19 | 77 | +58 | 2.0% | +1.5% |
| Communications and the Arts | 933 | 5 | 24 | +19 | 2.6% | +2.1% |
| Defence | 14,005 | 70 | 282 | +212 | 2.0% | +1.5% |
| Education and Training | 711 | 4 | 43 | +39 | 6.0% | +5.5% |
| Environment and Energy | 2,804 | 14 | 95 | +81 | 3.4% | +2.9% |
| Finance | 1,616 | 8 | 28 | +20 | 1.7% | +1.2% |
| Foreign Affairs and Trade | 2,595 | 13 | 77 | +64 | 3.0% | +2.5% |
| Health | 2,440 | 12 | 28 | +16 | 1.1% | +0.6% |
| Home Affairs (then Immigration and Border Protection) | 3,715 | 19 | 57 | +38 | 1.5% | +1.0% |
| Human Services | 3,521 | 18 | 261 | +243 | 7.4% | +6.9% |
| Industry, Innovation and Science | 2,987 | 15 | 39 | +24 | 1.3% | +0.8% |
| Infrastructure, Regional Development and Cities | 1,597 | 8 | 15 | +7 | 0.9% | +0.4% |
| Jobs and Small Business (then Employment) | 1,474 | 7 | 69 | +62 | 4.7% | +4.2% |
| Parliamentary Departments | 843 | 4 | 17 | +13 | 2.0% | +1.5% |
| Prime Minister and Cabinet | 1,255 | 6 | 251 | +245 | 20.0% | +19.5% |
| Social Services | 1,281 | 6 | 37 | +31 | 2.9% | +2.4% |
| Treasury | 3,806 | 19 | 122 | +103 | 3.2% | +2.7% |
| Veterans’ Affairs | 827 | 4 | 21 | +17 | 2.5% | +2.0% |
| **TOTAL** | **51,266** | **256** | **1,598** | **+1,342** | **3.1%** | **+2.6%** |

Source: Derived by Deloitte from unpublished IPP data

\* Assumed or projected total used to calculate contracts target. In some cases this is significantly different to actual total contracts awarded.

\*\* Calculated using a percentage target of 0.5% using target basis total contracts.

Overall performance across the 19 portfolios in 2015-16 was strong-more than five times its target (2.6% compared to 0.5%). The three highest performing portfolios, in terms of volumes, were the Department of Defence (282 contracts), the Department of Human Services (261 contracts), and the Department of the Prime Minister and Cabinet (251 contracts). The portfolio with the highest positive variance from its target, exceeding the 0.5% target, was the Department of the Prime Minister and Cabinet (19.5 percentage points). Other portfolios that performed well were the Department of Human Services (6.9 percentage points), and the Department of Education and Training (5.5 percentage points). Although still meeting their respective targets, the Department of Infrastructure, Regional Development and Cities (0.4%), the Department of Health (0.6%), and the Department of Industry, Innovation and Science (0.8%) each had marginal variances

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from the target. In 2016-17, targets for the IPP were increased by 2.5 percentage points to 3% due to the solid overall performance across the 19 portfolios. Overall growth in IPP contracts was 4.5% year-on-year.

**Table 7: Overall IPP performance, 2016-17**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Portfolio** | **Projected Total**  **Contracts (approximate)\*** | **Indigenous Business Contracts Nominal Target\*\*** | **Indigenous Business Contracts**  **Actual** | **Variance**  **from Contracts Nominal Target** | **Indigenous Business Contracts Actual as % Percentage of Target Contracts** | **Variance from 3% Target (Percentage**  **Points)** |
| Agriculture and Water Resources | 1,033 | 31 | 82 | +51 | 7.9% | +4.9% |
| Attorney-General’s | 3,833 | 115 | 164 | +49 | 4.3% | +1.3% |
| Communications and the Arts | 933 | 28 | 244 | +216 | 26.1% | +23.1% |
| Defence | 14,000 | 420 | 605 | +185 | 4.3% | +1.3% |
| Education and Training | 700 | 21 | 108 | +87 | 15.4% | +12.4% |
| Environment | 2,800 | 84 | 302 | +218 | 10.8% | +7.8% |
| Finance | 1,600 | 48 | 54 | +6 | 3.4% | +0.4% |
| Foreign Affairs and Trade | 2,600 | 78 | 117 | +39 | 4.5% | +1.5% |
| Health | 2,433 | 73 | 377 | +304 | 15.5% | +12.5% |
| Home Affairs (then Immigration and Border Protection) | 3,700 | 111 | 265 | +154 | 7.2% | +4.2% |
| Human Services | 3,533 | 106 | 426 | +320 | 12.1% | +9.1% |
| Industry, Innovation and Science | 3,000 | 90 | 117 | +27 | 3.9% | +0.9% |
| Infrastructure, Regional Development and Cities | 1,600 | 48 | 49 | +1 | 3.1% | +0.1% |
| Jobs and Small Business (then Employment) | 1,467 | 44 | 97 | +53 | 6.6% | +3.6% |
| Parliamentary Departments | 833 | 25 | 44 | +19 | 5.3% | +2.3% |
| Prime Minister and Cabinet | 1,267 | 38 | 374 | +336 | 29.5% | +26.5% |
| Social Services | 1,267 | 38 | 74 | +36 | 5.8% | +2.8% |
| Treasury | 3,800 | 114 | 282 | +168 | 7.4% | +4.4% |
| Veterans’ Affairs | 833 | 25 | 47 | +22 | 5.6% | +2.6% |
| **TOTAL** | **51,233** | **1,537** | **3,828** | **+2,291** | **7.5%** | **+4.5%** |

Source: Derived by Deloitte from unpublished IPP data

\* Assumed or projected total used to calculate contracts target. In some cases, this is significantly different to actual total contracts awarded. Note: this number has been calculated by inference from the nominal targets provided, and is subject to some degree of rounding error.

\*\* Calculated as 3% of target basis total contracts. Due to strong performance in 2015-16 the IPP target was changed to 3% for 2016-17.

Department of the Prime Minister and Cabinet

The three portfolios broadly driving the 4.5% growth were the Department of Defence (605 contracts), the Department of Human Services (426 contracts) and the Department of Health (377 contracts). The

portfolio with the highest positive variance from its target, exceeding the 3.0% target, was the Department of the Prime Minister and Cabinet (26.5 percentage points). Other well-performing portfolios were the Department of the Communications and the Arts (23.1 percentage points) and the Department of Health (12.5 percentage points). Although still meeting their respective targets, the Department of Industry, Innovation, and Science (0.9%), the Department of Finance (0.4%), and the Department of Infrastructure, Regional Development and Cities (0.1%) each had marginal variances from the target.

In 2017-18 the IPP target remained at 3% (of projected total contracts) with most agencies increasing the number of Indigenous business contracts awarded compared to 2016-17.

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**Table 8: Overall IPP performance, 2017-18**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Portfolio** | **Projected**  **Total Contracts Basis Target** | **Indigenous Business Contracts (approximate)\*** | **Indigenous Business Contracts Nominal** | **Variance**  **from Contracts**  **Actual** | **Indigenous Business Contracts Actual as**  **% Nominal Contracts** | **Variance from 3% Percentage of Target (Percentage)** |
|  |  | **Target\*\*** |  | **Target** |  | **Points)** |
| Agriculture and Water Resources | 1,033 | 31 | 111 | +80 | 10.7% | +7.7% |
| Attorney-General’s | 1,733 | 52 | 179 | +127 | 10.3% | +7.3% |
| Communications and the Arts | 933 | 28 | 525 | +497 | 56.3% | +53.3% |
| Defence | 14,000 | 420 | 612 | +193 | 4.4% | +1.4% |
| Education and Training | 700 | 21 | 175 | +154 | 25.0% | +22.0% |
| Environment | 2,800 | 84 | 298 | +214 | 10.6% | +7.6% |
| Finance | 1,600 | 48 | 64 | +16 | 4.0% | +1.0% |
| Foreign Affairs and Trade | 2,600 | 78 | 180 | +102 | 6.9% | +3.9% |
| Health | 2,433 | 73 | 195 | +122 | 8.0% | +5.0% |
| Home Affairs | 5,800 | 174 | 856 | +682 | 14.8% | +11.8% |
| Human Services | 3,533 | 106 | 708 | +602 | 20.0% | +17.0% |
| Industry, Innovation and Science | 3,000 | 90 | 187 | +97 | 6.2% | +3.2% |
| Infrastructure, Regional Development and Cities | 1,600 | 48 | 79 | +31 | 4.9% | +1.9% |
| Jobs and Small Business | 1,467 | 44 | 216 | +172 | 14.7% | +11.7% |
| Parliamentary Departments | 833 | 25 | 44 | +19 | 5.3% | +2.3% |
| Prime Minister and Cabinet | 1,267 | 38 | 395 | +357 | 31.2% | +28.2% |
| Social Services | 1,267 | 38 | 84 | +46 | 6.6% | +3.6% |
| Treasury | 3,800 | 114 | 276 | +162 | 7.3% | +4.3% |
| Veterans’ Affairs | 833 | 25 | 53 | +28 | 6.4% | +3.4% |
| **TOTAL** | **51,233** | **1,537** | **5,238** | **3+,701** | **10.2%** | **+7.2%** |

Source: Derived by Deloitte from unpublished IPP data

\* Assumed or projected total used to calculate contracts target. In some cases, this is significantly different to actual total contracts awarded. Note: this number has been calculated by inference from the nominal targets provided and is subject to some degree of rounding error. \*\* Calculated as 3% of target basis total contracts.

The three portfolios broadly driving growth of 7.2% was the Department of Home Affairs (856 contracts), the Department of Human Services (708 contracts) and the Department of Defence (612 contracts).

The Portfolio with the highest positive variance from its target, exceeding the 3.0% target, was the Department of the Communications and the Arts (53.3%). Other well-performing portfolios were the

Department of the Prime Minister and Cabinet

Department of the Prime Minister and Cabinet (28.2 %), and the Department of Education and Training (22.0%). Despite marginally exceeding the target the Department of Infrastructure, Regional Development and Cities (1.9%), and the Department of Defence (1.4%), and the Department of Finance (1.0%) all had marginal variances from the target.

##### Mandatory Set Aside

A further consideration in evaluating the IPP is to consider how the Mandatory Set Aside (MSA) is being applied. The MSA gives Indigenous SMEs the chance to demonstrate value for money before a procuring officer makes a general approach to the market. The MSA applies for all procurements in remote Australia and all other new domestic procurements where the estimated value of the procurement is from $80,000 to $200,000.50 Deloitte notes that the Austender contracts, used to determine the percentage of contracts awarded to Indigenous business through the MSA, likely contain a high volume of contracts exempt from the MSA. Procurement ineligible for the MSA include contracts awarded through mandated whole of government arrangement and contracts exempt from the Commonwealth Procurement Rules. As a result, the conversion rate should be considered an undercount. Analysis of the MSA has been undertaken by Deloitte with performance shown to be improving. Refer Table 9.

**Table 9: Mandatory Set Aside, 2015-16 to 2017-18**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2015-16** | **2016-17** | **2017-18** | **Growth (2016-17)** | **Growth (2017-18)** |
| Number of MSA-related contracts | 132 | 226 | 305 | +71.2 | +35.0 |
| Number of MSA contracts, % of all Austender by value only | 1.4% | 2.5% | 3.2% | 1.1ppts | 0.7ppts |
| Value of MSA-related contracts, $m | $16.9 | $29.0 | $39.2 | +71.6 | +35.2 |
| Value of MSA-related contracts, of all Austender by value only | 1.4% | 2.5% | 3.2% | 1.1ppts | 0.7ppts |

Source: Derived by Deloitte from [www.pmc.gov.au](http://www.pmc.gov.au/)

\* Growth is calculated based on previous year

##### Measuring the impact of IPP policy settings on government procurement

As discussed above, there can be several approaches to analysing IPP data and thus, the performance of the IPP. Deloitte recognises that in order to set achievable targets, any approach would still require adjustments to remove procurements that SMEs are unlikely tender for.

Deloitte presents an alternative approach whereby the base of assessment uses the most recent year of data available. For example, 2017–18 is set against 2016–17 rather than the three year average method used by the IPP. For the purpose of this analysis, Deloitte did not make an adjustment for procurements not typically contested by SMEs (these often relate to the acquisition and sustainment of defence materiel, foreign military sales, and national security interests).

While both approaches are different – IPP using an average of years, and Deloitte basing the impact on the previous year – both are robust and provide information fundamental to policy analysis – the measure

50 The MSA requires Commonwealth portfolios to first consider Indigenous businesses for all contracts in Remote Areas regardless of value, and all other domestic contracts valued between $80,000 and $200,000.

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of change from the base. For one, it is set to a static base, the other (being Deloitte’s) a dynamic base. Deloitte’s analysis was undertaken according to the following assumptions:

* the primary data source, the IPP contract data, was complete and fit for purpose (that is, to address the abovementioned questions);
* regional and sectoral data reporting is consistent with the objectives of the policy;
* the PM&C IPP data was extracted from source between 17 September 2018 and 20 September 2018 with an as at date of 16 September 2018 (any new data added after this date was not included in this analysis);
* government procurement is defined as contracts published on Austender; and
* sub-contracts and other contracts not published on Austender have been included in the comparison between the number of IPP contracts awarded and the number of contracts published on Austender.

Over the past three years (2015–16 to 2017–18), since the IPP was introduced, total Commonwealth contracts awarded were 189,285 (refer Table 10). The total value of these contracts was $163 billion. During this period, there were 9,380 Indigenous business contracts, representing 5.0% of the total 189,285 Commonwealth contracts awarded. Financially, these contracts represented $1.4 billion, or 0.9% of the total value of contracts awarded indicating a significant disparity between the number of contracts awarded to Indigenous business and the value associated with those contracts.

**Table 10: Count and Value ($bn) of Commonwealth IPP Contracts, 2015–16 to 2017–18**

|  |  |  |
| --- | --- | --- |
| **Commonwealth IPP contracts** | **Indigenous contracts** | **All contracts** |
| Number of contracts | 9,380 | 189,285 |
| Value of contracts ($bn) | 1.44 | 163.13 |

Source: Derived by Deloitte using PM&C IPP data, 2015–16 to 2017–18

Total Commonwealth procurement, as captured from the PM&C IPP database, over the period 2015–16 to 201718, is presented in Table 11. Here, the volume of contracts awarded in total has fallen on average by 2.1% each year (from 66,066 to 62,060), its value has fallen on average by 6.5% each year (from $62.8 billion to $51.4 billion). While this indicates a lower number of contracts being issued by the Commonwealth, it also demonstrates a lower average contract value.

While out of scope for this project, yet still critical for robust analysis of the IPP’s performance, Deloitte found the health of the IPP database marginal to capitalise on its full utility. The lack of a master data framework and mature documentation limited analysis and its full potential. Further discussion of this is provided in the Recommendations section.

**Table 11: Count and Value ($m) of All Commonwealth Contracts, 2015–16 to 2017–18**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2015–16** | **2016–17** | **2017–18** | **Total** |
| Number of Commonwealth contracts | 66,066 | 61,159 | 62,060 | 189,285 |
| Value ($m) of Commonwealth contracts | 62,797 | 48,935 | 51,400 | 163,132 |

Source: Derived by Deloitte using Austender and PM&C IPP data, 2015–16 to 2017–18

The analysis of Commonwealth procurement is further expanded in Table 12 where individual portfolios have been identified. This table applies a detailed lens to each portfolio’s procurement behaviour and forms the basis for detailed analysis of the impact of the IPP in the following section.

Department of the Prime Minister and Cabinet

**40**

**Deloitte Consulting**

**Table 12: Count and Value ($m) of All Contracts Over Time, 2015–16 to 2017–18**

**2015–16 2016–17 2017–18 Total**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Portfolio** | **Count** | **Value ($m)** | **Count** | **Value ($m)** | **Count** | **Value ($m)** | **Count** | **Value ($m)** |
| Agriculture and Water Resources | 1,623 | 494.2 | 1,345 | 443.7 | 1,246 | 418.6 | 4,214 | 1,356.5 |
| Attorney-General’s | 2,037 | 560.4 | 2,190 | 460.0 | 2,237 | 423.9 | 6,464 | 1,444.3 |
| Communications and the Arts | 592 | 68.1 | 828 | 93.3 | 1,094 | 188.5 | 2,514 | 349.9 |
| Defence | 29,410 | 36,559.0 | 25,286 | 25,101.5 | 22,730 | 30,596.6 | 77,426 | 92,257.1 |
| Education and Training | 1,221 | 1,015.4 | 1,273 | 495.1 | 1,435 | 1,501.8 | 3,929 | 3,012.3 |
| Environment and Energy | 2,277 | 1,640.0 | 2,618 | 441.7 | 2,772 | 469.0 | 7,667 | 2,550.7 |
| Finance | 2,087 | 1,107.2 | 1,550 | 293.6 | 1,665 | 470.2 | 5,302 | 1,871.0 |
| Foreign Affairs and Trade | 2,291 | 3,187.0 | 2,088 | 1,453.7 | 1,910 | 2,037.3 | 6,289 | 6,678.0 |
| Health | 2,525 | 1,365.4 | 2,921 | 10,153.8 | 3,036 | 4,727.8 | 8,482 | 16,247.1 |
| Home Affairs | 3,439 | 1,487.8 | 3,311 | 1,673.3 | 4,734 | 2,405.1 | 11,484 | 5,566.2 |
| Human Services | 2,747 | 2,230.7 | 2,320 | 1,149.3 | 3,352 | 2,550.6 | 8,419 | 5,930.6 |
| Industry, Innovation and Science | 2,498 | 619.7 | 2,742 | 766.2 | 2,399 | 937.9 | 7,639 | 2,323.8 |
| Infrastructure, Regional Development and Cities | 1,302 | 408.0 | 1,368 | 510.4 | 1,413 | 371.0 | 4,083 | 1,289.5 |
| Jobs and Small Business | 2,321 | 9,027.5 | 1,999 | 470.6 | 2,026 | 334.8 | 6,346 | 9,832.9 |
| Parliamentary Departments | 689 | 266.9 | 643 | 156.1 | 523 | 71.0 | 1,855 | 494.0 |
| Prime Minister and Cabinet | 1,829 | 424.6 | 1,957 | 347.9 | 2,260 | 766.9 | 6,046 | 1,539.4 |
| Social Services | 1,361 | 508.2 | 1,000 | 334.6 | 1,027 | 894.4 | 3,388 | 1,737.3 |
| Treasury | 4,732 | 1,631.9 | 4,530 | 1,843.2 | 4,689 | 1,795.8 | 13,951 | 5,270.8 |
| Veterans’ Affairs | 1,057 | 191.0 | 1,140 | 181.6 | 1,507 | 438.0 | 3,704 | 810.6 |
| **Commonwealth Total** | **66,066** | **62,797** | **61,159** | **48,935** | **62,060** | **51,400** | **189,285** | **163,132** |
| Source: Derived by Deloitte using PM&C IPP data, 2015–16 to 2017–18 |  |  |  |  |  |  |  |  |

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IPP Impact Analysis by Portfolio

Assessed by portfolio, the count of total contracts awarded is wide-ranging, the total number ranged from 1,285 (Defence) to 95 (Parliamentary Services). When looking at contracts awarded to Indigenous businesses as a proportion of all contracts, Deloitte notes this consideration includes contracts exempt

from the IPP target setting. Despite this, the count of Indigenous and non-Indigenous contracts by portfolio in percentage terms was 5.0% of all contracts published on Austender, significantly higher than the aspirational IPP targets for each individual year.

The results for the Defence portfolio should be considered in context that a portion of contracts relate to the aquisition and sustainment of Defence materiel, foreign military sales, essential security interests and that those contracts would generally not be serviced by SMEs.

**Table 13: Count of Indigenous and Non-Indigenous Contracts by Portfolio, 2015–16 to 2017–18**

|  |  |  |  |
| --- | --- | --- | --- |
| **Portfolio** | **Indigenous Contracts** | **All contracts\*** | **Indigenous**  **(%)** |
| Total | 9,380 | 189,285 | 5.0 |

Source: Derived by Deloitte using PM&C IPP data, 2015–16 to 2017–18

\* Contracts exempt from the Commonwealth Procurement Rules and therefore the IPP are included in this count.

\*\* Deloitte’s analysis of the impact of the IPP’s different to the portfolio-agreed IPP reporting approach. The IPP’s published results are based on the same data but are based on an average of contracts for years 2012–13, 2013–14, and 2014–15. Deloitte’s approach uses a more contemporary approach whereby the base of assessment uses the most recent year of data available.

\*\*\* The targets for the IPP were 0.5% in 2015-16 as compared to 3.0% in 2016-17 and 2017-18.

Using IPP data, Deloitte was able to measure which portfolios were the most active in issuing contracts to Indigenous businesses. Figure 2 shows Defence was responsible for 14.0% of total Commonwealth

Government issued contracts. Human Services (13.0%) and Home Affairs (11.0%) rounded out the top three.

**Figure 2: Percentage of Count of Contracts per Portfolio, 2015–16 to 2017–18**

Treasury, 6%

Health, 6%

Prime Minister and Cabinet, 10%

Human Services, 13%

Environmnet and Energy, 7%

Communications and the Arts, 7%

Home Affairs, 11%

Defence, 14%

The Rest, 26%

Source: Derived by Deloitte using PM&C IPP data, 2015–16 to 2017–18

Note: Deloitte has removed the Defence-Garden Island contract to ensure an accurate representation of the data. At a volumes level this effect will be insignificant with the effect being when considering the value of contracts awarded. Deloitte notes the significance of the removal of this $230 million procurement and Deloitte notes the commitment of the Defence portfolio to medium and high value contracts.

Department of the Prime Minister and Cabinet

When assessed by portfolio, the value of contracts awarded is also wide-ranging. While it should be noted that there is currently no value-based target set, Deloitte’s analysis allows for an evaluation of any difference that may exist between the proportion of contracts awarded to Indigenous businesses in a volume-sense relative to the value of those contracts awarded.

Over the period 2015–16 to 2017–18, Indigenous businesses were awarded contracts worth a total of

$1.4 billion (or 0.9% of the total $163.1 million). This was significantly lower than the volumes average of 5.0%. This finding aligns with analysis from the survey of Indigenous businesses showing that almost half of all contracts awarded were up to $50,000 (with a third less than $10,000 and 14.0% between $10,000 and

$49,000). Communications and the Arts exceeded the average by 16.2 percentage points (at 17.3%) while Jobs and Small Business was 0.7 percentage points lower than the average at 0.2%.

**Table 14: Value ($m) of Indigenous and Non-Indigenous Contracts by Portfolio, 2015–16 to 2017–18**

|  |  |  |  |
| --- | --- | --- | --- |
| **Portfolio** | **Indigenous Contracts ($m)** | **All contracts ($m)** | **Indigenous**  **(%)** |
| Agriculture and Water Resources | 20 | 1,356 | 1.4 |
| Attorney-General’s | 19 | 1,444 | 1.3 |
| Communications and the Arts | 61 | 350 | 17.3 |
| Defence | 727 | 92,257 | 0.8 |
| Education and Training | 19 | 3,012 | 0.6 |
| Environment and Energy | 43 | 2,551 | 1.7 |
| Finance | 18 | 1,871 | 1.0 |
| Foreign Affairs and Trade | 32 | 6,678 | 0.5 |
| Health | 46 | 16,247 | 0.3 |
| Home Affairs | 47 | 5,566 | 0.9 |
| Human Services | 48 | 5,931 | 0.8 |
| Industry, Innovation and Science | 72 | 2,324 | 3.1 |
| Infrastructure, Regional Development and Cities | 34 | 1,289 | 2.7 |
| Jobs and Small Business | 16 | 9,833 | 0.2 |
| Parliamentary Departments | 6 | 494 | 1.2 |
| Prime Minister and Cabinet | 104 | 1,539 | 6.7 |
| Social Services | 18 | 1,737 | 1.1 |
| Treasury | 99 | 5,271 | 1.9 |
| Veterans’ Affairs | 5 | 811 | 0.6 |
| **Total** | **1,438** | **163,132** | **0.9** |

Source: Derived by Deloitte using PM&C IPP data, 2015–16 to 2017–18

Using the IPP performance data, the most active portfolio issuing contracts to Indigenous businesses in value terms was Defence, responsible for almost half ($727 million) of Commonwealth Government issued contracts. Prime Minister and Cabinet (8.0%) and The Treasury (8.0%) rounded out the three most active portfolios, when measured in financial terms.

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**Figure 3: Percentage of Value ($m) of Contracts by Portfolio, 2015–16 to 2017–18**

Health, 4%

Communications and the Arts, 5%

Home Affairs, 4%

Human Services, 4%

Industry, Innovation and Science, 5%

Treasury, 8%

Prime Minister and Cabinet, 8%

The Rest, 19%

Defence, 44%

Source: Derived by Deloitte using PM&C IPP data, 2015–16 to 2017–18

Note: Deloitte has removed the Defence-Garden Island contract to ensure an accurate representation of the data. At a volumes level this effect will be insignificant with the effect being when considering the value of contracts awarded. Deloitte notes the significance of the removal of this $230 million procurement and Deloitte notes the commitment of the Defence portfolio to medium and high value contracts.

An analysis of average contract value shows that there is a wide dispersion between contracts issued to Indigenous and non-Indigenous businesses. It should be noted that this analysis has been undertaken at the total market level and does not account for industry or duration within each contract at each level (that is, those below $10,000).

Over the three years to 2017–18, the IPP targets have grown from 0.5% in 2015–16 of total Commonwealth Government contracts to 3.0% (or actual growth from 330 contracts to almost 1,900 in both 2016–17

and 2017–18). Defence accounted for over a third (37.0%) of this increase, or 682 contracts, based on the total number of contracts it issues. Together, the top three portfolios accounted for around half of the IPP activity, namely Defence, PM&C, and The Treasury. Refer Table 15.

Department of the Prime Minister and Cabinet

**Table 15: Indigenous Procurement Targets, by Portfolio, Count of Contracts, 2015–16 to 2017–18**

|  |  |  |  |
| --- | --- | --- | --- |
| **Portfolio** | **2015–16** | **2016–17** | **2017–18** |
| Agriculture and Water Resources | 8 | 40 | 37 |
| Attorney-General’s | 10 | 66 | 67 |
| Communications and the Arts | 3 | 25 | 33 |
| Defence | 147 | 759 | 682 |
| Education and Training | 6 | 38 | 43 |
| Environment and Energy | 11 | 79 | 83 |
| Finance | 10 | 47 | 50 |
| Foreign Affairs and Trade | 11 | 63 | 57 |
| Health | 13 | 88 | 91 |
| Home Affairs | 17 | 99 | 142 |
| Human Services | 14 | 70 | 101 |
| Industry, Innovation and Science | 12 | 82 | 72 |
| Infrastructure, Regional Development and Cities | 7 | 41 | 42 |
| Jobs and Small Business | 12 | 60 | 61 |
| Parliamentary Departments | 3 | 19 | 16 |
| Prime Minister and Cabinet | 9 | 59 | 68 |
| Social Services | 7 | 30 | 31 |
| Treasury | 24 | 136 | 141 |
| Veterans’ Affairs | 5 | 34 | 45 |
| **Commonwealth Total** | **330** | **1,835** | **1,862** |

Source: Derived by Deloitte using unpublished PM&C IPP data, 2015–16 to 2017–18

The number of Indigenous contracts awarded by each department from 2015–16 to 2017–18 exceeded the respective annual target. For example, from a total Commonwealth perspective, the number of contracts awarded to Indigenous businesses increased. Refer Table 16.

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**Table 16: Count of Indigenous Contracts for Each Portfolio, 2015–16 to 2017–18**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **IB contracts** | **2015–16** | **2016–17** | **2017–18** | **Trend** |
| Agriculture and Water Resources | 62 | 49 | 65 |  |
| Attorney-General’s | 92 | 173 | 170 |  |
| Communications and the Arts | 23 | 216 | 450 |  |
| Defence | 282 | 484 | 519 |  |
| Education and Training | 43 | 97 | 130 |  |
| Environment and Energy | 95 | 279 | 264 |  |
| Finance | 28 | 49 | 52 |  |
| Foreign Affairs and Trade | 77 | 91 | 132 |  |
| Health | 28 | 370 | 160 |  |
| Home Affairs | 42 | 224 | 805 |  |
| Human Services | 261 | 414 | 565 |  |
| Industry, Innovation and Science | 41 | 103 | 135 |  |
| Infrastructure, Regional Development and Cities | 15 | 42 | 84 |  |
| Jobs and Small Business | 70 | 98 | 198 |  |
| Parliamentary Departments | 17 | 37 | 41 |  |
| Prime Minister and Cabinet | 250 | 344 | 324 |  |
| Social Services | 37 | 48 | 65 |  |
| Treasury | 122 | 219 | 188 |  |
| Veterans’ Affairs | 21 | 37 | 43 |  |
| **Total Commonwealth Contracts** | **1,606** | **3,381** | **4,393** |  |

Source: Derived by Deloitte using unpublished PM&C IPP data, 2015–16 to 2017–18

Table 17 analyses the percentage of Indigenous contracts by portfolio based on the volume of total contracts. This is a more appropriate comparison of impact when measured in volume terms with a feature being the column to the far right of the table providing a trend of this percentage over the three-year period. From a Commonwealth Government procurement perspective, in 2017–18, 7.1% of all contracts were awarded to an Indigenous business – well above the IPP’s current-year 3.0% target. All portfolios trended upwards confirming the impact of the IPP and its policy settings.

Department of the Prime Minister and Cabinet

**Table 17: Portfolio Net Performance, Measured by Count of Contracts, 2015–16 to 2017–18**

|  |  |  |  |
| --- | --- | --- | --- |
| **IB contracts** | **2015–16** | **2016–17** | **2017–18** |
| Agriculture and Water Resources | 54 | 9 | 28 |
| Attorney-General's | 82 | 107 | 103 |
| Communications and the Arts | 20 | 191 | 417 |
| Defence | 135 | -275 | -163 |
| Education and Training | 37 | 59 | 87 |
| Environment and Energy | 84 | 200 | 181 |
| Finance | 18 | 3 | 2 |
| Foreign Affairs and Trade | 66 | 28 | 75 |
| Health | 15 | 282 | 69 |
| Home Affairs | 25 | 125 | 663 |
| Human Services | 247 | 344 | 464 |
| Industry, Innovation and Science | 29 | 21 | 63 |
| Infrastructure, Regional Development and Cities | 8 | 1 | 42 |
| Jobs and Small Business | 58 | 38 | 137 |
| Parliamentary Departments | 14 | 18 | 25 |
| Prime Minister and Cabinet | 241 | 285 | 256 |
| Social Services | 30 | 18 | 34 |
| Treasury | 98 | 83 | 47 |
| Veterans' Affairs | 16 | 3 | -2 |
| **Total Commonwealth Contracts** | **1,276** | **1,546** | **2,531** |

Source: Derived by Deloitte using unpublished PM&C IPP data, 2015–16 to 2017–18

Tables 16 and 17 focus on the impact of the IPP following changes in the policy landscape with the number of contracts awarded (one of the original and driving intents of the policy). However, the distribution of contract dollars can often be significantly different to the number of contracts awarded. When analysed through a value-based approach, Commonwealth procurement is far less than the volumes target with 1.5% of all contracts attributable to an Indigenous business. Noting the IPP does not consider a value- based approach, Table 18 reflects the true investment in Indigenous procurement, and indicates the need to consider adopting a value-based approach for the IPP (refer Recommendation 1).

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**Table 18: Percentage of Procurement Value Going to Indigenous Contracts, 2015–16 to 2017–18**

|  |  |  |  |
| --- | --- | --- | --- |
| **IB contracts** | **2015–16** | **2016–17** | **2017–18** |
| Agriculture and Water Resources | 1.2 | 1.4 | 1.8 |
| Attorney-General's | 0.7 | 1.4 | 2.0 |
| Communications and the Arts | 16.0 | 22.1 | 15.4 |
| Defence | 0.4 | 0.5 | 1.5 |
| Education and Training | 0.9 | 0.4 | 0.5 |
| Environment and Energy | 0.5 | 2.3 | 5.3 |
| Finance | 0.4 | 3.0 | 0.9 |
| Foreign Affairs and Trade | 0.4 | 0.4 | 0.6 |
| Health | 0.3 | 0.1 | 0.6 |
| Home Affairs | 0.4 | 1.9 | 0.4 |
| Human Services | 0.5 | 1.1 | 1.0 |
| Industry, Innovation and Science | 2.4 | 3.2 | 3.5 |
| Infrastructure, Regional Development and Cities | 1.2 | 0.9 | 6.6 |
| Jobs and Small Business | 0.0 | 0.8 | 2.8 |
| Parliamentary Departments | 1.3 | 0.4 | 2.5 |
| Prime Minister and Cabinet | 6.5 | 13.0 | 4.0 |
| Social Services | 0.7 | 2.5 | 0.7 |
| Treasury | 2.3 | 1.7 | 1.7 |
| Veterans' Affairs | 0.4 | 0.6 | 0.7 |
| **Total Commonwealth Contracts** | **0.5** | **0.7** | **1.5** |

Source: Derived by Deloitte using unpublished PM&C IPP data, 2015–16 to 2017–18

From a value-based perspective, the Department of Communications and the Arts was the strongest performer, with Indigenous businesses receiving 15.4% of total procurement spend. Portfolios such as Environment and Energy, Infrastructure, Regional Development and Cities, and Prime Minister and Cabinet also providing value over 3.0%, five out of 19 portfolios (or almost a quarter) are awarding contracts that in total are less than 3 per cent of the total value of all contracts.

The abovementioned analysis of contract value demonstrates that while the count of volumes is an important measure of the distribution of Commonwealth Government contracts, it does not account for how the economic benefit related to the procurement of goods and services flows from Commonwealth portfolios through to Indigenous businesses and subsequently, communities.

Detailed analysis of the average value of a contract over the three years highlights two different trends of contract number and value. Table 19 shows the distribution of Indigenous contracts going to dollar ranges key to the policy, previously described. There has been a marked increase in contracts below $10,000 with average spend by contract remains an issue and over the three years assessed.51

51 Deloitte notes that the increase in growth in the number of contracts valued less than $10,000 is also driven by portfolios implementing new strategies to identify and report non-Austender contracts. For example, in 2015-16 it would be unlikely that any portfolio have the capability within their procurement systems to flag an Indigenous businesses at the time of purchasing. This type of functionality is being built into procurement systems.

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**Table 19: Number of the IPP Contracts by Average Value, 2015–16 to 2017–18**

|  |  |  |  |
| --- | --- | --- | --- |
| **Contract value ($)** | **2015–16** | **2016–17** | **2017–18** |
| $0 to $100 | 5 | 202 | 132 |
| $100 to $1,000 | 287 | 949 | 1545 |
| $1,000 to $10,000 | 370 | 872 | 1172 |
| $10,000 to $80,000 | 502 | 808 | 813 |
| $80,000 to $200,000 | 185 | 285 | 351 |
| $200,000 to $500,000 | 132 | 144 | 215 |
| $500,000 to $1.0 million | 50 | 56 | 84 |
| $1.0 million to $7.5 million | 68 | 59 | 73 |
| $7.5 million or $greater | 5 | 5 | 10 |

Source: Derived by Deloitte using PM&C IPP data, 2015–16 to 2017–18

Contracts worth less than $10,000 and awarded to Indigenous businesses increased from 41.0% to 65.0%. These are the main contracts fuelling the increased number of contracts reported by portfolios and judged against the portfolio number targets, as further expanded upon in Table 20.

**Table 20: Change in IPP Contracts, 2015–16 to 2017–18 (Count)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Contract value ($)** | **2015–16** | **2016–17** | **2017–18** |
| $0 to $100 | - | 197 | -70 |
| $100 to $1,000 | - | 662 | 596 |
| $1,000 to $10,000 | - | 502 | 300 |
| $10,000 to $80,000 | - | 306 | 5 |
| $80,000 to $200,000 | - | 100 | 66 |
| $200,000 to $500,000 | - | 12 | 71 |
| $500,000 to $1.0 million | - | 6 | 28 |
| $1.0 million to $7.5 million | - | -9 | 14 |
| $7.5 million or $greater | - | 0 | 5 |

Source: Derived by Deloitte using PM&C IPP data, 2015–16 to 2017–18 Note: Refer Table 20 for base years

##### Detailed Portfolio Analysis

The following section of the report analyses the level of dispersion in contract values between $10,000 and

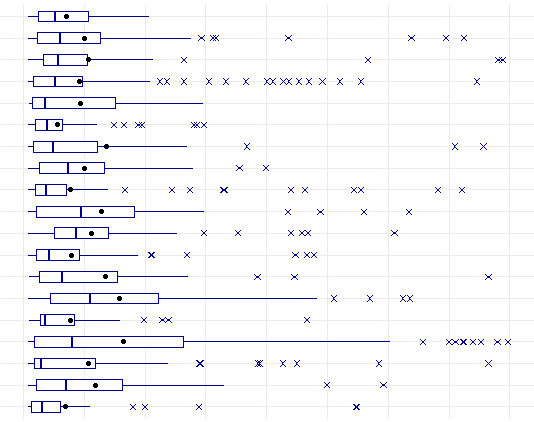
$2.0 million. This is shown using box and whisker charts. A limit of $2.0 million was chosen for this analysis due to the significant spread across portfolios and also the limited number of contracts that are often above $2.0 million relative to those below $2.0 million. The top eight portfolios by total Indigenous contract spend have been analysed, and have been broken down by financial year, 2015–16 to 2017–18, to assess differences in contract spend. Further analysis by portfolio is provided at Appendix 2.

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A high-level overview of Indigenous contracts by portfolio for 2017–18 is provided in Figure 4. Defence, Environment and Energy, and Attorney Generals have longer leading horizontal lines, indicating a higher degree of dispersion in Indigenous contract values. On the other hand, Agriculture and Water Resources, Jobs and Small Business, and Human Services tend to have low levels of dispersion in Indigenous contract values.

**Figure 4: Indigenous Contracts by Portfolio, 2017–18**





Source: Derived by Deloitte using unpublished PM&C IPP data, 2015–16 to 2017–18

##### Contract Subtype Analysis

The following section provides an analysis of contracts by volume. Each of the contract types have been defined for context below:

* Indigenous Contracts: Contracts awarded and delivered by Indigenous businesses over $10,000 in total value;
* Indigenous Purchases: Purchases from Indigenous businesses below $10,000;
* Indigenous Sub-Contracts: Contracts where Indigenous businesses are a subcontracting party;
* Indigenous Supply Chain Contracts: Contracts where Indigenous businesses are involved in the supply chain for delivery of the goods or services;
* Non-IPP Contracts: Contracts that do not fall under the IPP;
* Mandatory Minimum Requirements (MMR) Contracts: Contracts that fall under the MMR requirements for Indigenous participation; and
* Voluntary Reporting Contracts: Contracts where portfolios have voluntarily reported as having Indigenous involvement.

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Table 21 analyses different contract subtypes by count. Indigenous contracts experienced strong average growth of 40.0% over a three year period (2015–16 and 2016–17) while Indigenous purchases increased by 191.0%. Indigenous sub-contracts also increased significantly by 297.0% and 113.0%, respectively, over 2016–17 and 2017–18. MMR contracts were introduced in 2015–16 and experienced moderate growth (19.0%) between 2016–17 and 2017–18. This analysis shows growth in the Indigenous business sector has occurred in each contract subtype, although the most significant growth has occurred through Indigenous purchases (less than $10,000) and through sub-contracting arrangements.

**Table 21: IPP Contract Subtypes, 2015–16 to 2017–18**

|  |  |  |  |
| --- | --- | --- | --- |
| **Contract Volumes** | **2015–16** | **2016–17** | **2017–18** |
| Indigenous Contracts | 582 | 827 | 1,147 |
| Indigenous Purchases | 764 | 1,840 | 1,836 |
| Indigenous Sub-Contracts | 155 | 616 | 1,313 |
| Indigenous Supply Chain Involvement |  | 7 | 3 |
| Non IPP Contracts | 64,565 | 57,783 | 57,659 |
| Mandatory Minimum Requirements (MMRs) |  | 85 | 101 |
| Voluntary Reporting Contracts |  | 1 | 1 |
| **Total** | **66,066** | **61,159** | **62,060** |

Mandatory Minimum Requirements

The MMRs were implemented in 2016–17. The employment target for the MMR needs to be met over the life of the contract. Both the number and value of contracts are shown in Table 22.

**Table 22: Number and Value ($m) of Contracts with MMR Targets, 2016–17 to 2017–18**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2016–17** |  | **2017–18** |  | **Total** |  |
|  | **Number of contracts** | **Value ($m)** | **Number of contracts** | **Value ($m)** | **Number of contracts** | **Value ($m)** |
| 1. Activate MMR Contract | 8 | 582.5 | 14 | 1,389.0 | 22 | 1,971.5 |
| 2. Contact Details | 21 | 2,436.3 | 18 | 846.9 | 39 | 3,283.1 |
| 3. Assessment Setup | 1 | 12.6 | 1 | 8.4 | 2 | 21.0 |
| 4. Quarterly Performance | 12 | 246.0 | 28 | 1,584.1 | 40 | 1,830.0 |
| 5. Final Assessment | 1 | 8.88 |  | 0 | 1 | 8.9 |
| All MMR Contracts | 43 | 3,286.2 | 61 | 3,828.3 | 104 | 7,114.6 |

Source: Derived by Deloitte using unpublished PM&C IPP data, 2015–16 to 2017–18 Note: MMR requirements were not implemented until 2016–17.

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Over this period, a total of 104 contracts, representing $7.1 billion, have MMR targets. The Commonwealth Government, categorises a MMR’s ‘life span’ into 8 stages. Stage 1, Activate MMR Contract which represents the contract being signed and processed into the system through to Stage 8 when the contract has had all assessment complete and signed off.

To date, only Stages 1 to 5 have been reported on in the IPP database. This means that at time of the analysis no MMR contracts have been completed. One contract has reached stage 5, Final Assessment, which means its final assessment has occurred and been entered into the system but not yet accepted and signed off and agreed by the contractor. Subsequently, the performance of the MMR sub-policy cannot be comprehensively evaluated.

To date, as only one contract has had a final assessment, and the majority of contracts have not delivered a quarterly performance report, it cannot be confirmed that the MMR is delivering intended increased business to Indigenous businesses.

Mandatory Set Aside

There has been a steady increase in MSA contracts over the life of the IPP in both the number of contracts and dollar value. Contracts have increased at an average annual rate of 24.2% with their value increasing by 57.8%. However, this represents a fraction of total contracts, namely less than 1.0% of number and value of all Indigenous contracts. Deloitte notes that historical data limitations prevent an accurate identification of contracts eligible for the Mandatory Set Aside. This prevents a meaningful analysis of conversion rates. Procurements not subject to the MSA include procurement undertaken via a mandatory WoG panel and procurements subject to an exemption to the CPRs.

**Table 23: Number and Value ($) of Mandatory Set Aside Contracts, 2015–16 to 2017–18**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2015–16** | **2016–17** | **2017–18** | **Total** |
| Count | 188 | 220 | 290 | 698 |
| Value ($m) | 23.8 | 49.3 | 59.3 | 132.4 |

Source: Derived by Deloitte using unpublished PM&C IPP data, 2015–16 to 2017–18

Deloitte reviewed the impact of the MSA at the industry sector level for the top 20 sectors.

The Management and Business Professionals and Administrative Services sector accounted for around half (51.0%) of MSA contracts over the 3 years (355) and a third of total MSA contracts’ value.

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**Table 24: Number of MSA Contracts by Industry Sector, 2015–16 to 2017–18**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Industry Sector** | **2015–16** | **2016–17** | **2017–18** | **Total** |
| Management and Business Professionals and Administrative Services | 46 | 131 | 178 | 355 |
| Building and Facility Construction and Maintenance Services | 23 | 9 | 17 | 49 |
| Information Technology Broadcasting and Telecommunications | 9 | 17 | 18 | 44 |
| Politics and Civic Affairs Services | 9 | 14 | 12 | 35 |
| Engineering and Research and Technology Based Services | 5 | 13 | 12 | 30 |
| Education and Training Services | 4 | 7 | 10 | 21 |
| Environmental Services | 9 | 1 | 2 | 12 |
| Furniture and Furnishings | 2 | 3 | 4 | 9 |
| Editorial and Design and Graphic and Fine Art Services | 2 | 3 | 3 | 8 |
| Manufacturing Components and Supplies | 0 | 2 | 3 | 5 |
| Public Utilities and Public Sector Related Services | 1 | 1 | 2 | 4 |
| Financial and Insurance Services | 2 | 1 | 1 | 4 |
| Structures and Building and Construction and Manufacturing Components and Supplies | 1 | 1 | 1 | 3 |
| Printing and Photographic and Audio and Visual Equipment and Supplies | 0 | 1 | 2 | 3 |
| Apparel and Luggage and Personal Care Products | 2 | 1 | 0 | 3 |
| Office Equipment and Accessories and Supplies | 0 | 0 | 2 | 2 |
| Defence and Law Enforcement and Security and Safety Equipment and Supplies | 0 | 0 | 2 | 2 |
| Domestic Appliances and Supplies and Consumer Electronic Products | 0 | 2 | 0 | 2 |
| Published Products | 0 | 1 | 1 | 2 |
| Industrial Cleaning Services | 0 | 1 | 1 | 2 |

Source: Derived by Deloitte using unpublished PM&C IPP data, 2015–16 to 2017–18

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**Table 25: Value ($m) of Contracts in the MSA Range by Industry Sector, 2015–16 to 2017–18**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Industry Sector** | **2015–16** | **2016–17** | **2017–18** | **Total** |
| Management and Business Professionals and Administrative Services | 6.09 | 16.44 | 22.64 | 45.17 |
| Building and Facility Construction and Maintenance Services | 3.13 | 1.22 | 2.10 | 6.45 |
| Information Technology Broadcasting and Telecommunications | 1.14 | 2.28 | 2.31 | 5.73 |
| Politics and Civic Affairs Services | 0.87 | 1.75 | 1.28 | 3.90 |
| Engineering and Research and Technology Based Services | 0.60 | 1.69 | 1.71 | 4.00 |
| Education and Training Services | 0.57 | 0.86 | 1.29 | 2.71 |
| Environmental Services | 1.09 | 0.16 | 0.24 | 1.48 |
| Furniture and Furnishings | 0.18 | 0.33 | 0.53 | 1.04 |
| Editorial and Design and Graphic and Fine Art Services | 0.22 | 0.33 | 0.32 | 0.86 |
| Manufacturing Components and Supplies | 0.00 | 0.28 | 0.43 | 0.71 |
| Public Utilities and Public Sector Related Services | 0.19 | 0.16 | 0.24 | 0.59 |
| Financial and Insurance Services | 0.22 | 0.16 | 0.10 | 0.48 |
| Structures and Building and Construction and Manufacturing Components and Supplies | 0.18 | 0.13 | 0.12 | 0.42 |
| Printing and Photographic and Audio and Visual Equipment and Supplies | 0.00 | 0.18 | 0.27 | 0.45 |
| Apparel and Luggage and Personal Care Products | 0.28 | 0.11 | 0.00 | 0.39 |
| Office Equipment and Accessories and Supplies | 0.00 | 0.00 | 0.27 | 0.27 |
| Defence and Law Enforcement and Security and Safety Equipment and Supplies | 0.00 | 0.00 | 0.20 | 0.20 |
| Domestic Appliances and Supplies and Consumer Electronic Products | 0.00 | 0.34 | 0.00 | 0.34 |
| Published Products | 0.00 | 0.18 | 0.15 | 0.33 |
| Industrial Cleaning Services | 0.00 | 0.16 | 0.11 | 0.27 |

Source: Derived by Deloitte using unpublished PM&C IPP data, 2015–16 to 2017–18

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Stakeholders Views

Given the compressed timeframe of the review, it was important that each stakeholder was provided an opportunity to be engaged in a manner that was efficient and effective in order to develop appropriate recommendations.

Noting the broad spectrum of stakeholder communities and the high number of members of each community, Deloitte determined that in order to optimise input it would need to utilise multiple channels of engagement including surveys, teleconferences, focus groups, one-on-one meetings as well as quantitative analysis of procurement data to determine portfolio performance and trajectory of uptake. The multichannel methodology utilised for this review was designed to ensure the optimal input of contributions from stakeholders across all the identified stakeholder communities whilst also ensuring that quantitative analysis of data was also available to inform recommendations.

Stakeholders in business, government and representative chambers and councils were invited to contribute through Deloitte-developed online surveys, with a sample from each community invited to participate in a focus group. Given the vast geographic spread of a number of these participants, focus groups took the form of either a teleconference or a face-to-face meeting. Interviews were also held with Supply Nation and Indigenous Business Australia as they represented Commonwealth funded portfolios.

Findings from the Surveys

Survey of Indigenous Businesses

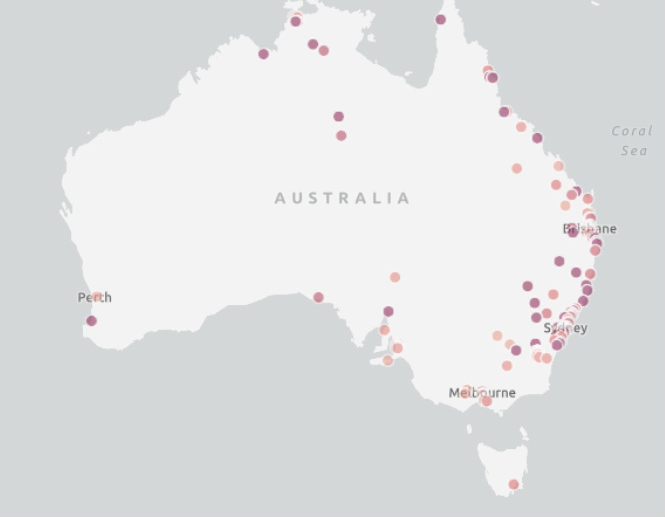
The Indigenous business network was approached using Supply Nation’s business directory. This directory was considered the best source from which to approach the wider Indigenous business network given its geographical and industry sector diversity, its assurance given Supply Nation’s compliance and registration processes, and its recent upgrade.

From a total of 1,585 Indigenous businesses invited, 366 responses were received (or 23.0%). The profile of respondents was heavily weighted to the Australian east coast when considering location as shown in Figure 5.

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**Figure 5: Location of Respondents for the Indigenous Business Survey**



Source: Derived by Deloitte

Note: The colour shades of the dots indicate the number of respondents

Respondents were largely from businesses with less than 20 employees, approximately 85.0% as shown in Table 26.

**Table 26: Business Size**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Employees** | **1 to 4** | **5 to 19** | **20 to 199** | **200+** |
| % | 49.6 | 35.0 | 12.8 | 2.7 |

Source: Derived by Deloitte

**Table 27: Proportion of Indigenous Ownership**

|  |  |  |  |
| --- | --- | --- | --- |
| **Indigenous Ownership** | **Less than 50%** | **50%** | **Greater than 50%** |
| % | 0.6%\* | 11.5% | 87.4% |

Source: Derived by Deloitte

\* Deloitte notes this value (of 0.6%) as an error given ownership needs to be 50% or greater.

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The Survey of Indigenous businesses showed that while there was a very high awareness, amongst those surveyed, of the IPP (88.0%), only half of Indigenous businesses responding had bid for Commonwealth Government work, with a little over half again (27.0%) of businesses being awarded a Commonwealth Government contract. While this was 10 percentage points higher relative to other state or territory Indigenous procurement policies, it was still relatively low – possibly reflecting the maturity of the policy and also how government procurement systems require further development. The private sector was a significant contributor to Indigenous contracting with 52.0% of contracts coming from that sector while the not-for-profit sector was responsible for almost 6.0%.

The success rate in securing Commonwealth Government contracts was mixed. Businesses that either ‘always’ or ‘usually’ won contracts were 3.0% and 14.0%, respectively. The survey showed a relatively low contact rate (or direct approaches) from the Commonwealth Government toward Indigenous businesses since 1 July 2015 (with 62.0% noting they had not been contacted). This may be a contributing factor as to why approximatively 50.0% of Indigenous businesses do not believe the Commonwealth’s IPP is creating opportunities for their business.

Indigenous businesses were asked to rate the most likely areas they supplied goods and/or services: capital cities ranked highest (59.0%) and inner regional second (16.0%). Remote and very remote represented 16.0% when combined or 9.0% and 7.0%, respectively.

The most active industry sectors for Indigenous businesses, over the last three years, have been “Building, construction and maintenance services”, “Politics and civic affairs services”, and “Education and training services” (respectively at 44.0%, 11.0%, and 21.0%, respectively or three quarters when combined). Of note, these three industry sectors are subject to MMR for contracts greater than $7.5 million in value.

Around half of Indigenous businesses (49.0%) were considering opportunities to diversify into another industry with Building, construction and maintenance services (36.0%) and Education and training services (36.0%) being the top two sectors.

Indigenous businesses reported that the most common Commonwealth Government contracts awarded were for less than $50,000 (with a third being for less than $10,000 and 14.0% for between $10,000 and

$49,000). The typical term of a Commonwealth Government contract awarded to an Indigenous business was zero to five months (55.0%). Further, 26.0% of businesses had been sub-contracted by another organisation in a manner that complied with the requirements of the IPP.

Feedback is an important link between government and business and almost four in five businesses request feedback if unsuccessful in securing a contract. However, for those that did, only 32.0% viewed the information as useful in helping win future business.

Business support is viewed as an important growth driver. The survey results show both positive and negative associations: Indigenous businesses do not consider the support services to source government contracts effective; Supply Nation was viewed as an important part of their assurance and registration process with 71.0% of Indigenous businesses responding being highly familiar with Supply Nation (36.0% extremely familiar and 35.0% very familiar). Supply Nation’s registration and listing services were the most popular (84.0%), with connecting your business with prospective buyers and trade shows used heavily (36.0% and 46.0%, respectively). Almost two-thirds (62.0%) of Indigenous businesses were listed on a directory other than Supply Nation’s Indigenous Business Direct.

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Government Portfolios

Commonwealth Government portfolios were approached based on the IPP Cross Agency Working Group (IPP CAWG) membership. Forty one responses were received from 19 portfolios approached.

Main findings from the survey found that two portfolios had publicly committed to a target higher than, or in addition to, the 3.0% target. When asked to rate how straightforward it had been to reach the aspirational target, 3.0% regarded it as being ‘very difficult’ and 37.0% as being ‘difficult’ while 57.0% rated the target as being either ‘simple’ (50.0%) or ‘very simple’ (7.0%). This result is consistent with 87.0% of procuring officers viewing their IPP target as achievable.

Major cities and inner regional Australia are where government organisations procure the most goods and or services. Two-thirds of portfolios view the MSA as being effective in driving demand for services from Indigenous business. For remote Australia, 13.0% viewed the MSA as being ‘very effective’, 43.0% as being ‘somewhat effective’, 20.0% as being ‘not so effective’ while 17.0% viewed MSA as ‘not at all effective’.

A broad range of information is provided by procurement teams to mandated portfolios (that is, non- corporate as per the PGPA Act) within portfolios to implement the IPP. These include policy and guidance papers (69.0%), factsheets (31.0%), checklists (23.0%), decision trees (23.0%), and templates (27.0%).

Around 85.0% pf portfolios felt there were no barriers to communicating across their portfolio on IPP- related matters. The most effective channel of communication to ensure officers understand their requirement to comply with the MSA and MMR are email (35.0%), face-to-face meetings (39.0%), and telephone/teleconference (4.0%).

Government portfolios stated that they build contractor and supplier awareness of their obligations under the MMR through a range of mechanisms with the two main forms being written into contracts (86.0%) and reporting mechanisms (52.0%). Despite this, 59.0% of portfolios believe the MMR has not been effective in driving demand for Indigenous business from their respective portfolio. While 35.0% of portfolios believed the MMR aspect of the IPP could be improved to drive further demand for Indigenous business, 59.0% did not view change (of the MMR) would drive demand for Indigenous business.

As was found with Indigenous businesses, a high rate (73.0%) of government portfolios found Supply Nation’s directory easy to use. When asked about Supply Nation’s business directory, 56.0% rated the directory ‘sometimes’ helping them achieve their desired outcomes with 5.0% ‘always’ having success and 37.0% ‘usually having success’. Half (53.0%) of portfolios responded would prefer to have one directory as part of their usual regular procurement process.

Focus Groups

The interviews were recorded and summarised into the salient themes. The reports were then collated and divided into sections corresponding with broad themes. The interview transcripts were analysed by Deloitte analysts and ‘coded’ so that the information was subdivided into categories for the purpose of creating links between locations in the data and sets of concepts or ideas. The data, once assigned into categories, was tabulated and the number of respondents identifying a factor as impacting negatively on the use of the IPP was summed. Respondents’ comments on mechanisms to improve the IPP were similarly categorised, tabulated and summed.

Department of the Prime Minister and Cabinet

Themes Identified

Communication and Use of Language

One of the clearest themes identified across all stakeholder communities identified in the focus groups was one of effective communication and understanding of the IPP. Clearly evidenced was the fact that the detail of the IPP was not well known amongst a wide variety of Indigenous businesses, particularly in the more regional and remote areas. There was also a degree of confusion between the IPP and wider Indigenous policies and programs including programs and funding arrangements managed by IBA.

Consideration needs to be given to the impact of language on the success of Indigenous businesses interacting with the Commonwealth Government. Much of the feedback from the focus group highlighted the fact that there was often a fundamental breakdown in understanding between a government agency and the local Indigenous businesses. This misunderstanding often stems from the language used in typical procurement documentation used by the Commonwealth and the fact that, particularly in regional areas, for many Indigenous communities English is either a second language or a dialect of Aboriginal English

is spoken.

Aboriginal English is a group of dialects that are often misunderstood. They are sometimes perceived as colloquial but in fact have complexities that are missed by those who don’t speak it. It varies considerably among communities for a range of reasons, including the historical influence of different local Aboriginal languages. It is a complex and coherent language system which is the result of clever use of the resources of English to express Aboriginal conceptual distinctions. In fact, Aboriginal English has different grammatical rules from English in terms of tenses, plurals, prepositions, pronouns, possessions and questions.52

This, when confronted with very formally written and outcome focused technical specifications, can result is significant ambiguity. This ambiguity, if not cleared up, can result in Aboriginal businesses submitting

responses to procurement opportunities that do not meet the expectations of the relevant Commonwealth agency and as such give rise to a perception that the required capability does not exist.

An example of this misunderstanding was highlighted in a focus group where a Commonwealth agency approached a number of Supply Nation registered businesses looking for a graphic artist. The understanding of the agency was that they were looking for high-level digital design services. The responses they received were from a number of artists who regularly undertake commissioned graphic artwork. The result was

that the procurement officer formed an opinion about the capability that existed in the market and the responding artists felt disenfranchised when they were told that they were unsuccessful due to the fact they didn’t have the required capabilities. While a very simplistic example, it serves to highlight some of the issues with the Commonwealth’s approach to doing business and therefore presenting a barrier to encouraging Indigenous business to participate in the process.

Consideration should also be given to the fact that many small businesses often struggle with understanding the expectations of government when first seeking to engage with an agency. Responding to a formal request for quote (RFQ) in the form of a written suite of documents may be placing a compliance requirement on new and emerging businesses that have no experience working with government that may be too difficult to complete.

52 What is Aboriginal English. Available at [http://www.tesol.org.au/esl/docs/whatis.pdf.](http://www.tesol.org.au/esl/docs/whatis.pdf) Accessed 26 September 2018.

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Understanding of Government, Policy Intent and Application

A common theme expressed by Indigenous businesses was that it was difficult to identify a person within a government agency that they could talk to about what opportunities existed for their businesses. There was also a view expressed by a number of Indigenous business representatives that the work being offered under the IPP was either for low skilled work such as catering or cleaning or for “Indigenous jobs” such as Reconciliation Action Plans, smoking ceremonies, and artwork. This theme was also identified in

discussions with government portfolios. While the intention and application of the IPP was well understood and supported by the procurement cells within portfolios, most portfolios have a devolved procurement model where the procurement transaction is carried out by the relevant business area. It is under the devolved model where, based on numerous anecdotal accounts, a disconnect between policy intent and implementation appears to occur. This could be mitigated by increased communication and education and could be combined with trade shows as a means of connecting a planned procurement with the relevant Indigenous capability and capacity.

Another significant area in respect to understanding the policy intent and how government operates can be seen in respect to the articulated understanding of what constitutes “value for money” under the

policy. A view that was expressed on a number of occasions was that value for money should incorporate consideration of the social value generated through engaging within Indigenous businesses. A number of Commonwealth portfolios commented that many of the quotes sought from Indigenous businesses were 20.0% or higher than those sought from the open market. A number of Indigenous businesses stated that they had found it extremely difficult to get access to reliable information on the IPP. This included finding information through Supply Nation. This was significantly more prevalent in regional and remote areas where communication is potentially more sporadic and there is less procurement volume resulting in a disconnection between the intent and the application of the policy.

Need for Greater Business Support Services

Another notable theme expressed was the inability to compete with joint ventures and larger companies due to an inability to easily and affordably access to high-level skills. A sentiment echoed by a large number of participants was that they felt that it was difficult to compete with joint ventures where they perceived

”Indigenous” arms had been established to support other or related operations of that larger non-Indigenous business. The view expressed was that these organisations were able to access skills and expertise that they simply did not have and could not afford to source in the near-term future. These skills include:

* business start-up planning and advice;
* financial management;
* tender response advice including legal and probity advice;
* proposal preparation including editorial skills;
* cost modelling;
* financial information systems;
* computer systems advice;
* cash flow forecasting and management;
* efficient invoicing and cash collection; and
* long-term business plans including growth and expansion plans.

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It should be noted that these views were expressed prior to the changes to the IPP Joint Venture arrangements announced on 4 October 2018.53

Perception of Black Cladding

Linked to the view outlined above was the perception that black cladding exists and is on the increase.54 Black cladding is the practice of non-Indigenous companies creating a business structure where the shareholding percentage is technically enough to qualify as an Aboriginal business under the terms of the IPP but little or no benefit is received by the Aboriginal or Torres Strait Islander business owner.

The issue to be solved is how this could be managed in a manner that does not apply such an administrative overhead that any benefits of the change are lost.

One of the features that was referenced on a number of occasions was that in “black clad” organisations the Indigenous partner had no control or influence in the management of the company or joint venture. There was also a strong perception that the Indigenous business owner may not be entitled to dividends that reflected the “at least 50.0% ownership” The most common solution discussed was to broaden the definition of Indigenous business to “at least 50.0% Indigenous owned and controlled”. While not seen as a failsafe solution it was held that at least this would curb the perceived rise in the incidence of black cladding going forward.

Another claim of black cladding refers to larger companies establishing “Indigenous” arms or divisions for the purposes of winning work under the IPP. The views expressed in focus groups was that when

these “Indigenous” arms won the work they simply subcontracted the parent company to deliver the work. In workshopping solutions to this issue that do not place an additional burden on compliance, a number of options were discussed including placing a requirement for a degree of Indigenous control over the parent company in line with the accounting standards.

While seeking to achieve an altruistic outcome, this requirement may have the effect of adding unnecessary burden and compliance confusion into the process. An alternate process that was discussed was the concept of broadening the MMR requirements to all market segments and potentially reducing the threshold. This may negatively impact the market place by placing a demand on the market that cannot be met by existing supply. A hybrid of this solution may be to place a requirement similar to MMR on any IPP contract that seeks to subcontract out more than 40.0% of the work (value or effort) to a related entity.

Value for Money Consideration

Sentiment among Indigenous businesses is that the value for money consideration always results in the acceptance of the cheapest response to tender, which may not result in the best community outcomes or quality of work. Some Indigenous businesses do not understand how bigger businesses can provide cheaper quotes for work, when the Indigenous businesses are calculating their pricing to meet legal requirements and have a very small or non-existent margin on top of this. There is a concern that some

businesses are paying cash to their employees and not paying minimum wage. Indigenous businesses are also being undercut by bigger businesses in their proposals, where those big businesses then submit a variation on the contract to be able to complete the work. Some large companies may also have their own award, which allows those companies to pay lower wages to their employees than what is required by small businesses. This makes it very difficult for Indigenous businesses to compete.

53 Commonwealth of Australia 2018 *Changes to Indigenous joint venture registration*. Available at [https://www.pmc.gov.au/resource-](http://www.pmc.gov.au/resource-) centre/indigenous-affairs/changes-indigenous-joint-venture-registration. Accessed 22 October 2018.

54 It should be noted in October 2018, during the analysis phase of this evaluation, the government announced changes to the registration of Indigenous joint ventures.

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Responding to RFQs can be a big impost on a small business, where they must sacrifice time and resources to prepare a response. Indigenous businesses see it as a waste of time to ask for a written response on the value for money in the submission, when it seems as though the cheapest tender is always accepted. The current ‘value for money’ consideration in procurement does not include the social impact of a response to a request for tender.

Indigenous representative bodies have experienced some contractors expecting extra capital to be available because they are Indigenous, and believe that there needs to be expectation setting around pricing structures. It is likely that these experiences around the margin on Indigenous services differ across industries depending on supply and demand.

Appreciating the social impact of Indigenous procurement opportunities and including this in the value for money equation may assist in recognising the long-term benefits of the IPP. At present, procurement

officers only consider the value for money of investment in that year (and their annual budget) and are not considering the enduring benefits to communities in future years. In the past, a Government agency found success in addressing this issue through the promotion of the IPP with published examples of Indigenous procurement stories and the impact on a community level. Another department has been successful in IPP implementation for employment services, with an approach to go to Indigenous business first, and only going beyond that if necessary to determine value for money. However, placing a requirement to demonstrate the social return on investment (SROI) on Indigenous businesses could equally be viewed as placing an unfair burden on an Indigenous business when compared to a non-Indigenous business. This could be achieved by including SROI into the consideration of “national interest” under clause 10.31 of the CPRs for contracts with a value of greater than $4.0 million.

Supply, Demand and the Development of a Skilled Indigenous Workforce

In the current landscape of Indigenous businesses, there is an overrepresentation of Indigenous businesses in industries such as in cleaning, gardening, human resources and stationery service. These types of unskilled services do not necessarily result in providing long-term employment or development. It should be noted however, that the intent of the IPP is not employment or skill development, but to increase the number of Indigenous businesses winning contracts.

Across a number of industries, there was a view expressed that Indigenous businesses are only being approached to do Indigenous specific work, rather than work that is in line with their wider service offerings and capabilities. Where Indigenous businesses do secure work, their employees may not be given work that aligns with their trade and specialised skill sets, particularly in the construction industry.

Provision of Longer-term, Sustainable Contracts Rather Than Piecemeal

A strong view expressed was that across Government, currently, there is not enough consideration for the pipeline of procurement opportunities for Indigenous businesses. While there is a billion-dollar

wave in procurement opportunities for Indigenous businesses, the respective supply chain has not been established to adequately meet this wave in a sustainable and efficient manner.

It was viewed that this is a self-exacerbating issue; if Indigenous businesses are not successful in securing work from government, they cannot invest in providing training to their employees, and they do not have the capacity to grow and deliver on larger procurement opportunities to government.

In looking at the policy settings that might encourage an increase in the skilled Indigenous workforce to meet demand in procurement opportunities, it was held that if Indigenous businesses are awarded more long-term procurement opportunities, and have a stable and secure line of procurement opportunities,

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they can build more sustainable business models and the rate of return will mean that they can afford to invest in training the Indigenous workforce.

Training costs for Indigenous businesses may also be higher given there is a 10.0% gap in education attendance rates between Indigenous and non-Indigenous students (and that this gap is wider in remote and regional areas).55 As a result, many Indigenous people may be starting from a lower base when seeking to build industry ready skill sets. This fact will add additional cost to their bottom line in building long-term sustainable capability.

A sentiment shared by a large number of Indigenous businesses is that they tend to be successful in securing smaller dollar value contracts. Inconsistent income is a risk and can lead to the unsustainable development of businesses and Indigenous people, and does not fulfil the intent of the IPP. Closing the gap is a long-term problem, which cannot be solved through the provision of short-term contracts.

There are a number of examples where it does not seem as though the Commonwealth has considered the position regional communities are left in when Indigenous people are initially employed through Commonwealth contracts in their local community, and then, following, there is little or no subsequent investment in that region. Where procurement opportunities are small and piecemeal, young Indigenous people often become disenfranchised from the short-term opportunities in their communities. They are given opportunities to acquire a trade for a short-term contract, but after this is completed there may be no further development opportunities, and they must move between regional locations to chase work, with increased competition from other young people who are in the same situation.

A challenge for Indigenous businesses working with the Commonwealth is managing demand. If a business’ growth plan is not in alignment with the procurement opportunities available, that business is faced with the option to bypass the opportunity, or to commence an expansion plan beyond the original intent of

the business to meet the capacity required for the procurement opportunity. This presents risks for the business because they will have an outlay before they have secured work, and the expansion plan will often mean the business has grown at an unsustainable rate. In this way, the opportunities presented through the IPP can put a heavy weight on newly established and small Indigenous businesses. If more consideration was given to a clear, longer-term pipeline of procurement opportunities for Indigenous businesses, they could develop business models and growth plans in line with expectations of future Commonwealth RFQs. To ensure there is a secure pipeline of procurement opportunities for Indigenous businesses, more needs to be done in identifying where future opportunities might be in regional areas.

Based on the significant funding pool available under the National Disability Insurance Scheme (NDIS), the potential for Indigenous businesses to provide NDIS-related services in remote areas should be considered, especially where healthcare is already an issue. This is also supported by a study on the Future of Work by Deloitte, which identified the growing employment opportunities of the future being based around high tech (e.g. artificial intelligence) or high touch (e.g. healthcare) industries.56

Consideration could be given at a whole-of-government level to look at cross agency opportunities that provide a long-term pipeline of opportunities for Indigenous businesses in regional and remote areas. This would involve smaller government portfolios looking to work collaboratively with other portfolios to provide procurement opportunities on an aggregated level rather than providing piecemeal contracts. An example of the potential to achieve this outcome is outlined in the Evolve FM case study include in this report.

55 Commonwealth of Australia *Closing the Gap: Prime Ministers Report 2018* Department of the Prime Minister and Cabinet. Available at https://closingthegap.pmc.gov.au/sites/default/files/ctg-report-2018.pdf. Accessed 15 October 2018.

56 Bersin, J. 2017 *Future of Work: The People Imperative* Deloitte Consulting LLP. Available at: https://www2.deloitte.com/content/dam/ Deloitte/Documents/human-capital/HR\_and\_Business\_Perspectives\_on\_The¬\_Future\_of\_Work.pdf. Accessed 1 October 2018

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## Case Studies

Two case studies were selected to demonstrate the opportunities that can be leveraged using the IPP as a tool. These case studies look at a joint venture arrangement between a Tier 1 property company and an emerging Tier 1 Indigenous property company as well as an Indigenous entrepreneur who has been successful in a number of businesses. Both of these examples represent the possibilities that are open to Indigenous businesses and entrepreneurs under the IPP. While these examples showcase success, it should also be noted that a number of issues remain and need to be overcome to achieve this level of success not the least being access to education, skills and reasonable finance.

##### Evolve FM

Evolve FM is an example of a dynamic Indigenous business. Evolve FM is a joint venture between Pacific Service Group Holdings (PSGH) and Jones Lang LaSalle (JLL). PSGH is the majority shareholder and is

an Indigenous-owned national construction, cleaning and vertically integrated services business. PSGH has built a strong reputation for outstanding customer service, reliability, on-time delivery and quality. Within a commercial framework, PSGH delivers a significant difference to the lives of Indigenous men and women. This is achieved by high levels of Indigenous employment, and significant use of Indigenous subcontractors in the delivery of services, underpinned by a strong education and training platform.

JLL serves clients in 80 countries worldwide, from 230 corporate offices and is an industry leader in property and corporate facility management services. On behalf of its clients, the firm provides management and real estate outsourcing services for a property portfolio of 316.0 million square

metres, and completed US$118.0 billion in sales, acquisitions and finance transactions in 2014. JLL’s Integrated Facilities Management business in Australia spans a portfolio of more than 10.0 million square metres, has more than $3.2 billion in property operating expenses under management and employees over 700 people.

Evolve FM have recently been appointed, as one of only three businesses, to the whole of government panel for facilities management services for Commonwealth buildings across the country. Evolve FM’s vision is to ‘maximise outcomes for Indigenous Australians‘, challenging the market to think differently about the way it services its places, unlocking value for clients across their portfolios.

Evolve FM aims to partner with and foster Indigenous enterprise, hiring and supporting Indigenous Australians and businesses and encouraging growth, development and engagement in the FM sector, and more broadly, across the community. The services that they subcontract range from maintenance, cleaning, security, landscaping, painting and many other trades In demonstrating an innovative approach to engaging Indigenous businesses as subcontractors, they have entered an agreement with the other two providers, JLL and Broadspectrum to trial awarding Indigenous businesses all of the subcontract work that each company has in specific geographic regions. This will provide the local businesses with a significant, viable and steady stream of work. This concept is to be trialled initially in Townsville, followed by Mackay, Tamworth, Wollongong and Bendigo if successful. These locations were selected on the basis that they were non-metropolitan areas where all three companies had properties they managed, and where there is a significant local Indigenous population.

Whilst this initiative is still in the planning phase, when fully rolled out it is hoped that it will result in the engagement of over twenty Indigenous businesses and generate in excess of forty employment opportunities for local communities.

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##### Jasmin Herro

Jasmin Herro is an Indigenous business woman and entrepreneur who has owned and operated several successful businesses over the past two decades. As an award-winning entrepreneur, Jasmin Herro

is breaking new ground for Indigenous businesspeople and in particular Indigenous women. Jasmin is a role model for younger women and girls, bringing a fresh approach to teaching children about Indigenous culture.

Torres Strait Islander women from Mer (Murray) Island, Jasmin is a registered artist with the Australian Indigenous Art Code and has created, designed and launched two Indigenous brands: Tjindgarmi and Teter Mek.

Tjindgarmi is a range of stationery and office products provided through Office Max that provides sustainable products including: copy paper, toner, art and craft supplies, coffee cups, office chairs and washroom products that also support the Teter Mek Foundation to preserve Australian Indigenous culture through stories and language.

Teter Mek is a series of story books and classroom resources created in collaboration with OfficeMax as a response to the request from teachers to provide resources for teachers and children as many

have struggled to engage, not for the lack of will, but for the fear of mistakes and unintentionally causing offence. Jasmin is the current CEO of the Teter Mek Foundation which creates products and programs that encourages school children of all ages and backgrounds to connect with their local Aboriginal and Torres Strait Islander cultures. Jasmin’s entrepreneurial spirit can be seen in action from as early as nine years of age when she sold fruit from the family’s backyard in order to earn money for the Cairns show.

In 2010, Herro established iSustainable – a sustainable solutions consultancy for businesses and government. Then, in 2013, she became Australia’s first Indigenous premium tea and coffee importer when she formed the Outback Tea & Coffee Company. She is still Chief Executive Officer of both companies. It was with iSustainable that Jasmin joined Supply Nation in 2010. “As soon as I got the list of 200 corporates and government portfolios I rang them all,” she says. “I was in telephone sales for eight years. Don’t give me a list of people’s numbers because I’ll call them. All of them.”

In 2012, with support from the Commonwealth Government body, Indigenous Business Australia, Herro was among a delegation of Indigenous business people to attend a National Minority Supplier Development Council (NMSDC) conference in Denver, Colorado, in the US. It was as a result of this trip that Outback Global was born. Outback Global supplies uniforms, workwear, safety boots, luggage and promotional goods. Since then, Outback Global has supplied some giants of Australian business, including Boeing, Qantas, Leighton Contracting, News Corp, Johnson & Johnson and Westpac.

Within 3 years of its launch, Herro had opened offices in China and the US, and began targeting multi-million dollar contracts with governments and corporations in Australia and overseas. The success of Outback Global was in part due to the fact that Outback Global as an Indigenous-Australian-African-American joint venture was the first fully Indigenous-owned company from outside the US to attain minority business certification. This minority business certification gives Outback Global access to corporate and US government contracts set aside for minority businesses.

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In 2013, Outback Global won the Supply Nation “Supplier of the Year” and “Supplier to Supplier of the Year” awards. In 2014, Jasmin received a Special Recognition Award from Supply Nation and was a finalist in the Indigenous Business Category at the Ethnic Business Awards. She was also named one of the 100 Women of Influence (Business Enterprise) by The Australian Financial Review and Westpac, and became the first Indigenous person to be named Outstanding Recent Alumnus by the Melbourne Business School, after graduating from the MURRA Indigenous Business Class in 2013 – a course for Indigenous entrepreneurs.

In 2013, office supply company OfficeMax Australia, a member of Supply Nation, approached Jasmin (who, as well as being a businesswoman, is a registered artist with the Indigenous Artcode), and asked her to collaborate on a range of Indigenous branded products. Jasmin’s response was to say, “I don’t want to just tick a box,” “If you just want to put dot paintings on things, I don’t want to be involved”.

Jasmin stated that as part of this collaboration she wanted to develop an Australian educational program that is aimed at sharing and making Indigenous culture accessible to everyone. OfficeMax jumped at the opportunity to be involved and by May 2015 Jasmin was travelling around Australia, launching her social enterprise platform that is helping develop the Indigenous educational kits, and involved in high-level discussions with education authorities to get the kits into schools.

In a bid to make the educational kits financially sustainable, Jasmin and OfficeMax Australia have also developed a range of more than 100 office and school products featuring artwork by Jasmin based on her fictional Torres Strait Island warrior character, Tjindgarmi. Jasmin hopes the foundation will create Indigenous jobs in the form of photographers, graphic designers, IT coders, game developers, ‘cultural curators’ and more.

Also, in 2015, Jasmin picked up another Supply Nation award, the Supplier-to-Supplier Partnership of the Year, with the Indigenous training and recruitment company, Pacific Services Group. Outback Global provides them with uniforms for their staff.

One frustrating aspect of doing business with corporations as an Indigenous company is that the big players almost always want to see social outcomes, Herro says. “The social outcome is me,” Herro says. “But that’s not good enough. They want to see some magic happen.”

In her spare time, Jasmin is also an international keynote speaker on supplier diversity and Indigenous business. To manage her many competing priorities (art, public speaking and diversity consultancy services), Jasmin formed a new company, J Herro Pty Ltd, with all profits from the Indigenous educational kits and up to 50.0% of the profits that J Herro Pty Ltd receives from the Tjindgarmi range going to the newly formed not-for-profit Teter Mek Foundation – which develops education programs so Australians can connect with their local Aboriginal and Torres Strait Island communities through stories and language.

When it comes to inspiring girls, and particularly Indigenous girls, Jasmin loves the idea of being a role model.

“It’s important to share knowledge and be the best example you can be for young women”, “Society is happy for women to come second. We need to show that it’s OK to be first.”

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## Options Analysis

In considering the outcomes of the literature review, data analysis and feedback provided through surveys and focus groups, a wide range of options for improvement were identified for further investigation.

These options were examined by Deloitte and shortlisted to viable options capable of informing the recommendations of the Evaluation. These options are set out below.

##### Varying the Ownership Requirements for Qualification as an Indigenous Business

Reducing the level of Indigenous ownership required to qualify for access to the IPP is examined as a potential option, however, prior to being able to examine this option, it is necessary to clearly define what an Indigenous business is. IBA has the following criteria for a business to be identified as being an Indigenous business:

* 1. at least one applicant must be of Aboriginal and/or Torres Strait Islander descent;57
  2. and at least 50% of the ownership of a business must be by person(s) of Aboriginal and/or Torres Strait Islander descent.

Supply Nation, have two definitions of what constitutes an Indigenous business. Firstly, for registration to be included in the IPP database, you must be able to demonstrate at least 50.0% Indigenous ownership.

However, to become a Supply Nation certified supplier, a business must be able to demonstrate the following:

* ownership – at least 51.0% ownership of the company by an Indigenous Australian(s);
* management – the company is led / managed by a Principal Executive Officer who is an Indigenous Australian;
* control – the key business decisions regarding the company’s finances, operations, personnel and strategy are made by an Indigenous Australian(s);
* for profit – the company is able to distribute its equity to members;
* trading as a business – with a minimum annual revenue of $50,000.00 and a demonstrated recent history of trade (ideally, at least 6 months trade history); and
* business is located in Australia.58

The Queensland Government has its Black Business Finder (BBF) – which is used by the Industry Capability Network (ICN) for contractors to source Indigenous businesses for major contracts – has the following categories of membership:

* a business that is majority owned by Aboriginal or Torres Strait Islander people;
* a business that is 50.0% owned by Aboriginal or Torres Strait Islander people;
* a non-Indigenous business that employees at least 75.0% of Aboriginal or Torres Strait Islander workers; and
* an equal Joint Venture agreement with a majority owned Aboriginal or Torres Strait Islander business entity.59

57 Commonwealth of Australia 2018, Indigenous Business Australia. Available at [http://www.iba.gov.au/business.](http://www.iba.gov.au/business) Accessed 25 September 2018

58 Supply Nation Certification. Available at https://supplynation.org.au/benefits/indigenous-business. Accessed 25 September 2018

59 Black Business Finder Available at [http://www.bbf.org.au/about/definition-of-an-indigenous-business.html.](http://www.bbf.org.au/about/definition-of-an-indigenous-business.html)

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In looking at requirements in other jurisdictions in Australia, those with Indigenous procurement policies were all consistent with the IPP at 50.0% Indigenous ownership. Investigating other examples of Indigenous procurement, the Canadian Government have the following requirements:

* at least 51.0% Indigenous owned and controlled;
* if there are more than 6 staff, at least one third must be of Indigenous decent;
* at least 51.0% JV / Consortium ownership with at least at least one third of staff must be of Indigenous decent; and
* if an Indigenous supplier of JV subcontracts part of the requirement, the Indigenous component of the work must be maintained.60

Andrew Forrest, in the 2014 Forrest Review,61 stated that definition of an Indigenous business should be set at 25.0% Indigenous ownership and board membership. This definition is consistent with the Pilbarra Aboriginal Contractors Association 2010 definition of what constituted an Indigenous business.62

Following careful consideration of the feedback provided through the focus group sessions and surveys, there is a high perception of an increasing incidence of black cladding on a wide variety of contracts.

While being difficult to accurately quantify, this would typically call for a tightening of the criteria to make it more difficult to qualify. However, this would have the effect of adding additional bureaucracy and

red tape to the transaction as well as potentially shrink the available pool of businesses available to the Commonwealth to purchase from. This would favour larger and more established businesses and micro- businesses but could possibly be to the detriment of small to medium enterprises due to their inability to maintain the requirements over time (noting that exemption 16 only supports SME and not large

businesses). It would also inhibit the ability of a successful SME to expand to become a larger business due to the inability to partner with a non-Indigenous business as a means of expanding skills and capabilities.

Lowering the requirements in line with the recommendation from Andrew Forrest would have the effect of increasing the perception of black cladding and potentially diminishing the positive effects of the policy to date by significantly increasing competition for work by enabling a greater number of Joint Ventures backed by mature organisations to undercut emerging businesses.

However, there is a reasonable basis for amending the definition of ownership to include a requirement for control. This level of control can either be set at a predetermined percentage (such as 50.0%) or be made subject to the Accounting Standards definition of control, however, for ease of operation it would be

recommended to simply use a target of “at least 50.0%” to remain consistent with ownership requirements. In addition, in seeking to address the view that some businesses have established “Indigenous” arms that seek to win the work under the IPP and resource the work using the parent companies’ resources, it is recommended that a requirement similar to that of the MMR be applied to any contract where greater than 40.0% was to be outsourced or subcontracted.

60 Indian and Northern Affairs Canada, 2007 *Summative Evaluation of the Procurement Strategy for Aboriginal Business (PSAB)*. Available at [http://publications.gc.ca/collections/collection\_2018/aanc-inac/R5-708-2007-eng.pdf.](http://publications.gc.ca/collections/collection_2018/aanc-inac/R5-708-2007-eng.pdf) Accessed 11 September 2018

61 Forrest, Andrew, 2014. The Forrest Review - Creating Parity. Department of the Prime Minister & Cabinet. Accessed 25 September 2018.

62 PACA (2010) Review of Contractual Arrangements Between Australian Aboriginal Enterprises and the Resource Industry. Available at [http://www.pacainc.com.au/uploads/paca\_report.pdf.](http://www.pacainc.com.au/uploads/paca_report.pdf) Accessed 25 September 2018.

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##### Increasing or Changing the IPP Procurement Target

The experience gained since the introduction of the IPP clearly demonstrates the ability for the sector to meet the volume demand from the Commonwealth. Unfortunately, based on the data to date, it is also clear that the 3.0% target can be met by awarding low value contracts to Indigenous businesses. At present,

in excess of 30.0% of Commonwealth contracts directed to Indigenous businesses are valued under $1,000, with greater than 50.0% being valued at less than $10,000. While this approach benefits micro-businesses and start-ups, it does not encourage the growth of capability and capacity to successfully take on more complex or larger projects which will be the basis for generating meaningful skill and wealth. Based on data extracted in September 2018 from the IPP database, 5 of 19 portfolios (approximately 25.0%) would have failed to meet their 2017–18 IPP targets if they were unable to include contracts of less than $10,000 in their reporting.63

The primary purpose behind the IPP is to support and encourage Indigenous business participation in the wider economy to a point that approaches parity with the wider market place. As stated earlier, based on 2016 Census data, 3.3% of the Australian population identify as Indigenous. By simply extrapolating this figure to Commonwealth Government Procurement spend, this would indicate that 3.3% of the value of government procurement spend would be required to approach parity in the government sector. Currently, in 2017–18, under the volume-based targets, 3.0% of the number of contracts translates to approximately 1.5% of the value of Commonwealth procurement spend, shown in Figure 6.

**Figure 6: Projections of Volume and Value to 2023–24**

25%

24.00%

22.00%

20.00%

18.00%

17.00%

16.00%

16.00%

14.00%

15.00%

13.00%

12.00%

14.00%

10.00%

13.00%

12.00%

11.00%

7.10%

9.00%

8.00%

5.50%

2.40%

3.00%

1.50%

1.75%

2.00%

2.25%

2.50%

2.75%

0.50%

0.70%

20%

15%

10%

5%

0%

15-16 16-17 17-18 18-19 19-20 20-21 21-22 22-23 23-24

Financial Year

Actual Number Actual Value Desired Value Growth

Low Projection Average Projection High Projection

Source: Derived by Deloitte using available published IPP data.

Note: Projections of the approximate total volume required to increase the total value of Indigenous contracts across the Commonwealth as a whole.

63 IPP Database, September 2018. Includes Multiyear, and Purchases /Sub-contracts. No application of conversion rule.

The current total Commonwealth Government ratio is approximately 7.0% of contract volumes equating to 1.5% of contract value in 2017–18, as seen in Figure 16. This ratio has ranged between 4.7% and 7.9% over the past three years. By extrapolation, it would require approximately 14.0 to 28.0 % of total Commonwealth contract volume going to Indigenous businesses to achieve 3.0% of total government spend for Indigenous businesses. This large relativity reflects the diverse nature of portfolio budgets and spending behaviours. Figure 7, below, further visualises how the volume-based target has led to

considerable increases in the volume of contracts but also the vast differences between the value that each portfolio delivers.

**Figure 7: Visualising Portfolio Contract Volume and Value Delivered in 2017–18**

18



15 Communications and the Arts

12

9

$Value (%)

Infrastructure, Regional Development and Cities

6

Environment and Energy

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3

Human Services



0 Home Affairs

0 3 6 9 12 15 18 21

24 27 30 33 36 39 42 45

Number of Contracts (%)

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Source: Derived by Deloitte using available published IPP data

Note: The vertical green line represents the 3.0% volume (measured on the x-axis) target that has incentivised portfolios to increase the volume of Indigenous Contracts (left to right on the graph as shown by the arrow).

One solution may be to increase the value of Government contracts from a target based on number of contracts to a target based on the value of contracts. This reduces the incentives to issue large numbers of low-value contracts. Deloitte notes that the premise of low value contracts is not a negative issue overall with a range of industries with low unit costs (such as catering and stationery) and therefore a greater

proportion of contracts may be awarded in the lower end. Further, low value contracts can provide a critical growth path for micro and small business.

This will also fairly recognise efforts to develop higher-value and longer-term more commercially focused contracts. This should be phased in over a sufficient time to enable the appropriate development of sustainable Indigenous businesses that are not reliant on grants funding for asset acquisition, who are able to reasonably access business loans to grow their businesses, and develop their business base such as staff and skills.

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Another objective of this change to the parameters of the IPP is to encourage a greater diversity in the type of contracts being offered and in doing so drive an increase in the average value of contracts being awarded to Indigenous businesses. This will support the growth and development of the sector, including providing a tangible demonstration of their ability to manage and deliver on increasingly larger and more complex contracts. This will also support the longer-term policy objective of creating a greater economic impact on Aboriginal and Torres Strait Islander people, family and communities. Higher-value contracts will also support the growth and sustainability of the wider sector, and aid in building and demonstrating a track record of delivering increasingly larger and more complex contracts.

The move to adjust the target needs to be carefully managed so as not to impact the sector or the Commonwealth negatively. Increasing the targets too quickly risks demand outstripping supply and may result in market failure. The market must be given sufficient time and incentive to grow the capability and capacity to meet the ongoing increase in demand. If implemented too slowly, this change to targets could provide disincentives and price competition in the market sector that results in unsustainable business practices and potentially market failure. Implementing a values-based target can be done in different ways. Importantly, for the following two suggested approaches, the volume target is maintained for a transitional period only until the volume target can be completely phased out.

##### Volume or Value Target

Firstly, this could be achieved by having a soft implementation of the target with government portfolios more actively aligned to contracts’ value and steadily increasing the targets of both to the point that either target ensures that the market segment is approaching value-based equity. Deloitte notes that portfolios currently report on both volume and value of contracts awarded with that information being required to assess the performance of the IPP against the KPIs. This approach reflects the projections in Figure 18, noting that determining the exact amount of total Commonwealth volume that will yield 3.0% of Commonwealth value is inherently difficult due to the vast differences in the behaviours of each Commonwealth portfolio, each with a different average contract value.

The higher the average contract value, the less volume required to meet/parallel a direct value-based target as shown by the high and low projections in Figure 16. It is suggested that the target for value be increased by 0.3% year-on‑year until such time as the target is 3.0% of total Commonwealth procurement value. The volume target should be increased by 1.0% year-on-year while closely monitoring the value percentage to determine if this target and the implementation of other recommendations have been sufficient to achieve the required value going to Indigenous businesses. At which point the volume-based target would be ceased and reporting would be on value alone.

While this approach has two targets, portfolios can choose the best option for them at which point they will only need to worry about one target. However, by allowing an increasing volume-based target, this approach increases the risk of portfolios offering more low-value contracts to meet the target.

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##### Volume and Value Target

An alternate way to introduce a value-base target is to maintain the current volume target at 3.0% while introducing the value-base target incrementally over time. The volume-based target has increased the volume of contracts going to Indigenous businesses representing a level of interaction with Indigenous businesses which is useful to maintain going forward. If we can consider the 3.0% volume target to be a floor of required interaction, to be maintaining at least this, the individual portfolio should be to the right of the green line. However, as discussed this is not a complete measure of performance, ideally portfolios should also be delivering 3.0% of value, this final situation is shown below in Figure 8 which introduces a new 3.0% value line.

**Figure 8: Visualising a More Complete Measure of a Portfolio’s Performance**

18



Communications and the Arts

Infrastructure, Regional Development and Cities

Environment and Energy

Industry, Innovation and Science

Prime Minister and Cabinet

Attorney-General’s

Human Services Home Affairs

15

12

9

$Value (%)

6

3

0

0 3 6 9 12 15 18 21 24 27 30 33 36 39 42 45

Number of Contracts (%)

Source: Derived by Deloitte using available published IPP data

Note: Visualising a more complete measure of a portfolio’s performance as measured by volume and value of contracts delivered. The vertical green line represents the 3.0% volume (measured on the x-axis) target. The horizontal green line represents the 3.0% value (measured on the y-axis) target.

By introducing the value-based target, we create a 2x2 matrix created by the green lines in Figure 18. Together, these targets define success as being in the top right quadrant – that is, delivering 3.0% of volume and value for Indigenous businesses. Under this definition of success, currently, five portfolios are successfully performing. This further highlights the potential misrepresentation of success when defined only by a volumes target. For example, it is difficult to say that Home Affairs or Human Services is truly outperforming Attorney-General’s (1.0% and 0.4% respectively) when Attorney-General’s is delivering 2.0% value.

Similar to the option above, the value target would be introduced incrementally. This would mean that different departments would have different amounts of leeway time before needing to escalate their value delivery based on their current performance. As we move the horizontal green line from the bottom upwards, as shown by the green arrow in Figure 8, portfolios delivering less value (closer to the bottom)

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will be impacted first. A possible implementation timeline could start the value-based target at 1.5%, the current Commonwealth value, which eleven portfolios are already meeting and then increment at 0.3% per year to allow for sustainable development.

This approach avoids further incentives for increased volumes of small contracts as the volume target is no longer increasing. However, it does now mean that portfolios will need to contend with two targets, ensuring they do not fall below the volume target as they start to ramp up value delivery.

##### Innovation and Support Hubs

Providing new and emerging Indigenous businesses with a means to access specialist business skills and networks is seen as a lever to accelerating the rate of skills acquisition in the Indigenous business sector. An expansion of the “project hubs” proposed in the IBSS consultation paper64 would provide business support and connect Indigenous businesses with opportunities within their region or industry sector.

Care should be taken to ensure that this investment is streamlined to avoid the potential of over servicing some areas and not servicing others.

Creating a thriving Indigenous business sector requires equal focus on supporting supply and creating demand. Only by doing this will it be possible to build intergenerational wealth and economic independence for Indigenous businesses and communities. This could be achieved through the Commonwealth creating

a policy environment that supports collaborative partnerships between the broader private sector and Indigenous businesses to drive greater growth across the wider sector. This capability could be achieved with additional funding from government to pay for the spaces and administrative staff. Noting that, to be fully effective, these hubs need to be able to provide access to the wide range of specialist skills and capabilities an emerging business may need. This capability could be sourced by providing an additional category for MMR compliance. This assumes that the MMR requirements are applied to all industry sectors. This will result in an increase of demand on capability and capacity, at least in the short-term.

Noting that capability and capacity need to be nurtured, one method of achieving that may be to allow a Tier 1 firm to fulfil their obligations under MMR by providing a predetermined percentage of the total

contract value as Pro Bono services to the “Innovation and Support” hubs. This would provide existing and emerging Indigenous businesses access to specialist skills and experience without it being cost prohibitive. In addition, this could also function as a mechanism for skills transfer thereby accelerating the rate of growth in capacity and capability.

The expansion of Innovation and Support Hubs Program to support Indigenous innovation and entrepreneurship, not only in metropolitan areas but also in regional and remote areas, will encourage innovation and support local economies to create jobs for Indigenous communities. The hubs will operate to support creative, positive and determined Indigenous people to collaborate with others to create value from their ideas will drive real innovation and market differentiation to create sustainable and prosperous businesses.

The Innovation and Support Hubs will provide access to:

* a wide range of commercial skills and expert advice;
* unique training opportunities;
* one-to-one mentoring opportunities;
* expert helpdesks with high-profile industry contacts; and
* professional development seminars.

64 Department of the Prime Minister & Cabinet, 2017. *Indigenous Business Sector Strategy Consultation Paper*. Page 12

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Specifically targeting regional and remote areas as well as communities through a hub-and-spoke model will allow business people and entrepreneurs in these communities to access the necessary talent and expertise and capability to create an ecosystem that brings together the various participants allowing new ideas to emerge and become commercialised.

The Innovation and Support Hubs will provide the physical space and catalyst needed by new and emerging Indigenous businesses as well as entrepreneurs to create, develop and produce ideas and products to meet market expectations and generate ongoing social and economic benefits for the region. This will connect local entrepreneurs and business people with access to:

* places and spaces. This will take the form of both physical and virtual spaces to create the necessary critical mass and reputation to drive the scale of innovation in the broader region where people can go to test ideas and solutions as well as seek advice;
* collaboration and connectivity. Bringing groups of likeminded individuals together creates the opportunity for the development of mutually beneficial networks and collaborations. This may take the form of people already in business looking to expand or start something new, or may involve connecting successful professional with expertise and/or capital to support others to make their idea a reality; and
* communities of practice. As the capability and capacity of Indigenous businesses matures and expands, networks will form into collective areas of learning and mentoring.

##### Capability and Capacity Assessment

The terms ‘capability’, ‘competency’ and ‘capacity’ are often used interchangeably, however for the purpose of this paper:

* ‘competency’ refers to knowledge, skills, expertise or strength at a particular at a particular role or function. It is typically used to refer to individuals in an organisation. The collective competency of the individuals of an organisation give rise to organisational capability;
* an organisation’s ‘capability’ is its potential to perform by successfully applying its skills and resources to accomplish its goals and satisfy in stakeholders expectations; and
* organisational ‘capacity’ refers to the amount or volume of work the organisation is capable of undertaking.

Determining the capability and capacity of an organisation to undertake a function is a multi-criteria assessment that considers the skills and resources that make up an entity’s capability include staffing, infrastructure, technology, financial resources, strategic leadership, process management, and networks and linkages with other organisations and stakeholders.

In respect to supporting the IPP, a capability and capacity assessment provides an evidence-based tool for determining the ability of an Indigenous business to enter into a contract with government. It also provides a tool for the business to identify the competencies and skills it requires to move to the next level of capability. As such, a capability assessment can:

* identify the core competencies and skills of an organisation;
* its capacity to undertake and deliver on a contract with government; and
* its governance structures and support services.

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The benefits of developing such a framework to apply in the IPP include:

* provides a common framework and language on expectations for Indigenous business and government portfolios;
* identifies the level of contract readiness an Indigenous business possesses to take on a contract of a particular level or complexity;
* is a reliable way of streamlining engagements with Indigenous businesses based on an agreed understanding of expectations;
* allows the development of streamlined pre-cleared documentation thereby reducing time to market and uncertainty in establishing the contract;
* guides organisational development activities to build a sustainable business; and
* includes key skill sets that are critical to delivery of the businesses goals.

However, achieving an optimal benefit from this outcome would require significant investment in resources and time. An alternative approach may be to investigate the possibility of expanding the existing Indigenous business directory managed by Supply Nation to include assessments of “contract readiness”. Combined with this change to the directory, would be the move away from the UNSPSC-coded structure to one that

is a plain English description of service offerings. This would allow Indigenous businesses to more clearly articulate what services and capability they have as well as what level of readiness they have to contract with government and allow Commonwealth portfolios a higher level of discernment about the skills and experiences they are seeking to source. This option would have limited implications in respect to costs and resources while still providing significant clarification for both sides of the procurement transaction.

##### Joint Ventures and Partnerships as a Capability Development Tool

Establish a framework to encourage joint ventures as a capability development tool. The concept is based on the theory of mutual growth for both the supplier and contractor. An Indigenous business is given

a share of a work, for example 30.0% of a larger contract. However, written into the contract are clear parameters around an expectation of a tangible skills transfer from the Tier 1 company to the Indigenous business. This skills transfer would be evidenced by a change in the level of control of the joint venture operation over time with the Indigenous business continuing to grow its level of control and ownership in the venture. As the capability of the Indigenous business increases over time, the other party increases the suppliers share of the contract. It must be noted that this method heavily relies on the willingness of the senior partner to commit to the growth of the Indigenous business. This may come at a financial cost and could also create a future competitor.

In October 2018 the Minister for Indigenous Affairs announced changes to the joint venture arrangements under the IPP that address the majority of issues identified since this option was considered and analysed. It was considered that there needed to be a reasonable opportunity to assess the impact of these changes prior to any further changes being recommended and as a result this option was not taken forward in the Recommendations.

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##### Commonwealth Government Trade and Procurement Shows

Continuation of Commonwealth-led trade shows in capital cities and major regional areas to further complement the annual Supply Nation Trade Show in Sydney. It was well understood by the evaluation team that Supply Nation is funded by PM&C to conduct a number of trade shows. These are often in partnership with state governments and held in major metropolitan areas which feature a dedicated space where businesses can speak directly with PM&C and representatives of major purchasing departments as well as providers of business support programs and government funded employment programs. It was considered that there would be significant additional benefit provided by the Commonwealth leading these trade shows and directly engaging with prospective Indigenous business in regional as well as in major metropolitan locations.

The Commonwealth’s attendance should be based on the Annual Procurement Plans of all agencies bound by the CPRs therefore providing an opportunity for state-based Indigenous business and representative bodies to become aware of what procurement is planned in their state over the coming year. In addition, this forum will also provide an opportunity for the establishment of networks and relationships between state-based Indigenous businesses and procurement officers within the Commonwealth. These trade shows could also host training sessions to aid new and emerging Indigenous businesses to understand how the processes and requirements around procurement in the Commonwealth.

##### Increased Data Governance

One of the key findings in undertaking the stakeholder engagement was based around accurate and timely access to the relevant data. This included the ability to easily reconcile data between the PM&C database, Austender data and the data held by Supply Nation. Benefits to having a well-governed data set are that it:

* enables knowledge led decision-making;
* enables accurate and timely reporting to government;
* provides operational efficiency;
* provides standardised and repeatable processes; and
* ensures transparency and integrity of processes.

Data governance is made up of a range of components that when linked together form an asset of value and a decision support tool for policy management and evaluation. Effective data governance has a range of benefits to the Commonwealth:

* consistent, uniform data and processes at an organisational level provides for better and more comprehensive decision support;
* increased efficiency and reduced red tape through the use of synergies (such as reusing processes and data);
* higher confidence in data through quality-assured and certified data as well as complete documentation of data processes;
* security for internal and external data by monitoring and reviewing privacy policies;
* increased process efficiency by reducing coordination processes; and
* clear and transparent communication through standardisation.

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Data governance is vital for government portfolios to remain responsive. A good data governance process would provide cross agency benefits such as accuracy, consistency and timeliness in reporting at all levels. In addition, good data governance will ensure that the names of registered businesses and their contact details remains current and therefore providing operational efficiencies to portfolios in seeking to engage Indigenous businesses.

Access to timely and accurate data also provides the opportunity for government to start to measure the SROI of the IPP and related policies. This will allow government to make informed decisions about

adjustments to the policy framework to enhance the policy outcomes over time. Access to this data will also be an invaluable to the open market and thus spreading the benefit of the IPP.

##### Establishing Targets for Female Led Indigenous Businesses / Entrepreneurs

Consideration of developing incentives to encourage female Indigenous entrepreneurs. Studies have sound that some standard forms of assistance for early stage businesses such as mentors and participation

in mainstream business networks have not assisted in the success of female entrepreneurs. However, support in the form of participation in Indigenous business networks, mentoring and achieving tertiary business diplomas and degrees have proved successful and may provide a rationale for increasing funding for these activities.

While supportive of the concept of introducing gender equity into the IPP, it was considered that this would add a significant layer of red tape without demonstrating a significant uplift to the outcomes of the IPP at this point. The IPP needed the opportunity to further mature and drive increased capability in the sector prior to adding an additional measure that may not be able to be met by the market in the short-term. It was felt by the Evaluation Team that there was insufficient data to be able to support a recommendation for this type of measure at this point.

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## Recommendations

##### Recommendation 1 – Move from Volume-Based Targets to Value- Based Targets for Commonwealth Portfolios

*It is recommended that:*

* *the Commonwealth move to a value-based target of 3.0% of all contestable Commonwealth procurement value to be sourced through Indigenous businesses. This implementation to be staged over 5 years commencing at 2.0% of value in 2019–20 and increased at a rate of 0.3% year-on-year.*

The Commonwealth is on track to exceed the current 3.0% target for the third year in a row. In 2016–17, Commonwealth performance was approximately 5.7%. This fact alone demonstrates that there is a growing capability in the Indigenous business sector. However, unfortunately the value of each contract, on average, remains low with greater than 50.0% of contracts awarded in the last financial year having a value of less than $10,000. As such, this is limiting the potential benefits of the IPP to positively impact a range of lifestyle factors in Indigenous communities by creating sustainable contracts to support new and emerging businesses.

In line with this, the Commonwealth should move to targets that are value-based. In seeking to drive an outcome that actively encourages Indigenous involvement the target should not be aimed at an arbitrary mathematical solution but at an aspirational but achievable level. Currently approximately 3.3% of the Australian population identify as Indigenous.65 For the IPP to demonstrate its optimal effectiveness, it must be able to demonstrate that the value of Commonwealth procurement spend is approaching equity within a defined period of time. Accepting that there currently does not exist the capacity or capability in the marketplace to achieve this, it is recommended that the value-based targets be introduced over a five- year period to achieve 3.0% of all Commonwealth Procurement spend. This target would increase by 0.3% year on year commencing in 2019-20 with a target of 2.0% of value. This would see the Commonwealth achieve a 3.0% target in 2023-24. In looking at how this may be implemented to ensure progressive and

achievement of this target over time, consideration should be given to retaining the target for volume‑based contracts and increasing this target at a rate of 1.0% year on year commencing with 4.0% in 2019-20.

Careful consideration needs to be given to determining “contestable spend” under a value-based target (noting not all procurement should be considered when measuring performance). Contestable spend should include as many categories of discretionary procurement spend as it reasonably feasible for businesses that the IPP is targeting. In the short-term it will, by necessity, exclude current long-term contracts. However, in taking the policy forward, removal of a category of spending from inclusion as part of the contestable spend should be done on an exception basis and only when it can be demonstrated that

it is not possible to the Indigenous business sector to achieve the targets in that area. Examples of this include areas such as building leases and foreign military spend. These categories that are exempt should be reviewed at least every five years to determine if the exemption is still valid or if the market has matured and therefore, the exemption is no longer required.

65 Commonwealth of Australia *Estimates of Aboriginal and Torres Strait Islander Australians, June 2016*, Australian Bureau of Statistics. Updated 12 September 2018

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##### Recommendation 2 – Definition of Indigenous Business

*It is recommended that the definition of Indigenous ownership be amended to require:*

* *at least 50.0% Indigenous ownership; and*
* *at least 50.0% Indigenous control of the company.*

While the IPP defines an Indigenous enterprise as an organisation that is “50.0% or more Indigenous owned”.66 Supply Nation recognises two levels of Indigenous ownership, both with a subtle difference in respect to the level of Indigenous ownership. To be registered with Supply Nation, a business must be at least 50.0% Indigenous owned, whereas to be certified as an Indigenous enterprise, the business requires a minimum 51.0% Indigenous ownership and control for an enterprise.67

Given that the Supply Nation listing of registered businesses is the primary basis used by procurement officers to determine eligibility for access to the IPP, potential confusion can be caused on the part of procurement officers and Indigenous businesses seeking to leverage the IPP. In particular, partnerships between Indigenous and non-Indigenous people may have the effect of creating a perception of disqualification from being able to access opportunities under the IPP when reviewing the different standards.

Andrew Forrest in his 201468 review argued that the level of Indigenous ownership should be reduced to 25.0% to encourage business growth. The primary risk of refining that definition is that of potentially diluting Indigenous involvement in the enterprise and significantly increasing the risk of more innovative forms of ‘black cladding’. While the Supply Nation definition is in alignment with the registration

requirement of the CATSI Act, it should also be remembered that Indigenous businesses are approximately 100 times more likely to employ Indigenous people than non-Indigenous businesses. Based on this fact and supported by quantitative research undertaken by Morrison et al69 which identified very few existing Indigenous businesses with less than 50.0% Indigenous ownership, and in line with the IBA definition.70

However, noting the concerns raised in respect to the perception of an increase in the incidence of black cladding (where the Indigenous owner has little or no say over the company or any of its dealings), and the issue about larger companies with Indigenous arms that subcontracted work back to the larger or parent company, the concept of having a minimum level of Indigenous control would likely mitigate this risk

and perception.

66 Commonwealth of Australia 2015, *Commonwealth Indigenous Procurement Policy* PM&C Page 11

67 Supply Nation, 2018 *How We Verify Aboriginal and Torres Strait Islander Business*. Available at https://supplynation.org.au/about-us/ indigenous business accessed 10 September 2018.

68 Forrest, Andrew, 2014. The Forrest Review - Creating Parity. Department of the Prime Minister & Cabinet

69 Morrison, M., Collins, J., Basu, P.K., Krivokapic-Skoko, B., 2014 *Determining the Factors Influencing the Success of Private and Community Owned Indigenous Business across Remote, Regional and Urban Australia*. ARC and IBA

70 Commonwealth of Australia 2018, IBA – Business Ownership. Available at <http://www.iba.gov.au/business>accessed 7 September 2018.

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##### Recommendation 3 – Commonwealth-led, State Based Annual Trade Shows

*It is recommended that:*

* *Trade shows in the 2019-20 financial year are led by the Commonwealth in all state and territory capitals and in regional areas where more than six Commonwealth portfolios are in the region.*

Trade shows are open to a large and sometimes diverse range of audiences providing a dynamic platform for Indigenous businesses to promote their products and service to a broad group of government procurers that may have little or no knowledge of the available products and services. If held in cooperation with State Government, who have aligned policies, this could have a greater impact on understanding and market penetration, thereby increasing the IPP outcomes.

A significant amount of feedback received from all stakeholder communities identified a lack of visibility and understanding of the potential marketplace for the IPP. For small and emerging businesses, the thought of doing business with the Commonwealth Government is aspirational but also may be a daunting task. This combined with the often complex documentation and requirements included in the majority of tenders can cause businesses to avoid responding. In addition, a lack of understanding of the

Commonwealth fuelled by some pre-conceptions of the amount of money that might be on offer can cause an expectation mismatch that results in wildly uncompetitive quotes or quotes that do not meet the strict specifications set out in the documentation. This can lead to frustration and disengagement on both sides of the procurement activity.

However, if the Commonwealth – as a collective – led a series of annual state-based trade shows, it could bring significant benefit to both Indigenous businesses and the Commonwealth. Potential benefits to the Commonwealth include:

* Raising awareness of the Commonwealth and the IPP – exhibiting at industry events is a good way to raise your profiles and generate increased awareness;
* Development of effective networks – trade shows are a great way to connect Commonwealth procurement officers with Indigenous suppliers and to learn more about the services that are available and to begin to develop relationships. This also has the potential to create a front door for Indigenous businesses to make contact with various government portfolios; and
* Build and update supplier databases – this would enable contact databases to be refreshed on a regular basis overcoming some of the issues encountered with data integrity during the Evaluation.

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##### Recommendation 4 – Education and Engagement

*It is recommended that:*

* *the Trade shows will feature education sessions run by Department of PM&C and the Department of Finance to discuss the application of the IPP and the CPRs including issues such as how “value for money” is be determined; and*
* *the Trade shows form a basis for ongoing sector engagement and communication between Indigenous businesses and Commonwealth portfolios – in particular, PM&C and Department of Finance.*

One of the strongest themes coming through every form of engagement was the need for education and engagement on both sides of the procurement equation. Education needs to be clearly about shifting mindsets. This means moving from a compliance-based model of operating, which has the potential to result in the creation of large amounts of very low-value contracts to ensure attainment of target numbers of contracts, to one of designing a collaborative process. This ensures that all stakeholders have the opportunity to contribute to the design of a system that is efficient and fair in its application.

The need for ongoing education was clearly apparent on both sides of the procurement transaction to ensure a common understanding of the policy intent. The immediate need for ongoing education is in regional and remote areas where it was apparent there is little understanding of the objectives of the IPP.

In part, this education drive should also involve the development of a common taxonomy and nomenclature to ensure that communication is effective between procurement officers and Indigenous businesses.

In looking at the educational outcomes, the goal sought should be one where people from all stakeholder communities are able to explore and develop a common understanding of content to ensure better and more consistent outcomes.

##### Recommendation 5 – Broadening of Application of the MMR to all Industry Sectors and WoAG Contracts

*It is recommended that:*

* *the MMRs be broadened to apply to all government contracts over $7.5 million;*
* *an additional category for compliance be introduced to enable non-Indigenous companies access to IPP contracts where they commit to providing Pro Bono services to the Innovation and Support Hubs equal to 2.0% of the contract value;*
* *MMR to apply to supply chain workforce where an Indigenous business outsources or sub-contracts greater than 40.0% of the contract work (or value) to a related entity; and*
* *consideration be given over the longer-term (three years) to lowering the MMR threshold from $7.5 million to*

*$4.0 million.*

The application of MMR should be broadened to apply to all government contracts including WoAG contracts (such as mandated whole of government arrangements) from 1 July 2019. This is supported by evidence of the fact that a number of industry groups outside of the MMR categories have demonstrated strong growth under the IPP. This variation to the policy should include requirements for Deed of Standing Offers for WoAG arrangements to contain MMRs at Head level. In addition to the broadening

of MMR across all industry categories, an additional channel for compliance with the provision should be introduced. This is to allow a non-Indigenous firm to enter into a contract where a predetermined

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percentage of the contract value was to be set aside to provide pro bono services to Indigenous businesses to rapidly build capability and capacity in the sector. This could be in the form of a construction firm assisting small Indigenous construction firms to develop documentation for contract compliance

or assisting them with Office of Federal Safety Commissioner Compliance. Another option would be management consultancy firms providing business establishment and planning services to new and emerging Indigenous businesses to assist them to grow and to engage with government. In addition, supply chain MMR should apply to any Indigenous business that seeks to outsource or subcontract greater than 40.0% of the contract value or workload top a related entity.

Over the longer-term (up to three years), consideration should also be given to lowering the MMR threshold to $4.0 million in line with the impending requirement for companies doing business with the Commonwealth to produce a Statement of Tax Record from the ATO as part of their tender compliance. This will also align with the CPR requirement to undertake an assessment of national interest. This would enable Indigenous business a period of time to build capacity prior to lowering the threshold. The lowering of the threshold encourages active participation by Indigenous businesses in the wider range of Commonwealth procurement in a constructive and supportive environment.

##### Recommendation 6 – Establishment of Indigenous Business Hubs

*It is recommended that:*

* *the rollout of the “Project Hubs” in the IBSS be broadened to include Indigenous Innovation and Support Hubs based on a Hub-and-spoke model to ensure regional and remote areas are able to access services;*
* *that these hubs function to assist Indigenous businesses connect with a wide range of skills and experience to support their ongoing maturity and growth; and*
* *consideration be given to sourcing the technical resources for the hubs from Tier 1 firms in line with the additional category for MMR compliance (Recommendation 5).*

These hubs are an extension of the “project hubs” proposed in the IBSS. They would focus on providing advice, mentoring and specialist expertise and assisting Indigenous businesses to develop and connect with professional networks, nationally and potentially even internationally. In addition, these hubs would act as brokers to access expertise across a wide range of skill sets required by new business owners, such as: finance, accounting, marketing, IT, Web design, supply chains, business and consumer networks.71

Services provided could include:

* establishment of business hubs based on a hub-and-spoke model to ensure business located in regional and remote areas also have access to the services;
* identify a series of industry partners who can provide assistance and mentoring services through the hubs. This could take the form of Tier 1 providers in certain industry sectors providing a direct and measurable skills transfer program with emerging Indigenous businesses. This skills transfer would cover knowledge such as competitive pricing, working with government, and preparation of business cases and proposals; and
* identification of future growth industries, particularly in regional and remote areas, such as services to be delivered under the NDIS that might provide opportunities for new Indigenous businesses. This could then link them with the resources necessary to upskill in these areas.

71 Morrison, M., Collins, J., Basu, P.K., Krivokapic-Skoko, B., 2014 *Determining the Factors Influencing the Success of Private and Community Owned Indigenous Business across Remote, Regional and Urban Australia*. ARC and IBA

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The application and operation of these hubs can be augmented by combining them with the implementation of an additional category in the MMR definition (Recommendation 5) and well as Capability Development framework (refer Recommendation 7) that utilises joint venture and partnership arrangements as means to drive skills transfer.

##### Recommendation 7 – Development of a “Contract Ready” Business Directory

*It is recommended that:*

* *Supply Nation be funded to broaden their existing business directory to enable certification of Indigenous businesses as “contract ready”; and*
* *documentation be developed that more clearly articulates the business opportunity from a skills and capability perspective rather than from the United Nations Standard Product and Services Classifications to remove any confusion or ambiguity.*

One of the issues often faced by both the Commonwealth and Indigenous businesses is the ability to clearly and concisely demonstrate capability. This is augmented by the use of outcome-based targets in many procurement opportunities that may give rise to ambiguity. This results in Indigenous businesses bidding for work that they are unable to demonstrate either the capacity or capability to deliver. This in turn

has the potential to create (or confirm) an unconscious bias that Indigenous businesses do not have the capability or capacity to deliver to the Commonwealth’s expectation. By broadening the existing function of the Supply Nation business directory to include an assessment of a business’ “contract readiness” (such as governance, finance, insurances, and service offering), it would remove confusion around the capability and capacity of a range of businesses to undertake Commonwealth work. This in turn would facilitate greater ease of use of the MSA and Exemption 16 provisions of the IPP and CPRs.

This recommendation is accompanied by the need to allow effective use of the resources available through the Innovation and Support Hubs to assist Indigenous businesses achieving a contract ready status as well as identifying a capability development plan for those businesses wishing to continue to grow and develop.

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##### Recommendation 8 – Implement and Report on Measurement of Social Return on Investment Through IPP

*It is recommended that:*

* *PM&C engages with the Department of Finance to consider the option of including Social Return on Investment as part of the national interest test under clause 10.31 of the CPRs for contracts with a value of greater than*

*$4.0 million.*

SROI is defined as “a framework for measuring and accounting for the much broader concept of value.

It seeks to reduce inequality and environmental degradation and improve wellbeing by incorporating social, environmental and economic costs and benefits”.72 SROI is a principles-based method for measuring

extra-financial value (such as triple-bottom line or blended-value accounting) relative to resources invested. It works by placing a monetising value on the desired social change and measuring the costs of inputs required to achieve that goal. As such, it has capacity to measure the broader economic outcomes and benefits of the IPP.

Using such a methodology recognises that culturally Indigenous businesses contribute back to their communities in the form of resources, assets, jobs, education, even housing. As a direct and tangible result of this cultural tendency, there is a correlating reduction in social security benefits required by the community. This leads to increased self-esteem and self-determination in these communities further reducing the need for other forms of government and non-government support. A failure to recognise this phenomenon potentially undermines the broader value of the IPP to the Australian public. By aligning this requirement with the existing requirement under clause 10.31 of the CPRs (which requires portfolios to consider the economic value of the procurement to Australia for contracts in excess of $4.0 million) should provide a consistent and manageable approach to ensuring the optimal outcomes of the IPP.

##### Recommendation 9 – Data Governance

*It is recommended that:*

* *PM&C commence a co-Design process with stakeholders including government portfolios, Department of Finance, Indigenous Business Australia, Supply Nation and FACCI to develop and implement an agreed Data Governance framework based on leading practice standards. This governance framework should identify all data points to be captured in the IPP contracts including geo-spatial data and data definitions.*

Data is the backbone of nearly every business, be it small, medium or large. The rate of data generation is growing rapidly through its four primary forms: volume, variety, velocity, and veracity. The value of data makes its management critical. IPP data is an asset that must be managed with the highest priority to achieve the desired business and policy goals. Mismanaged or unmanaged IPP data can lead to spurious

or poor representations of the operation and performance of the IPP. It may also lead to a policy that does not align with reality, further increasing risk to stakeholders, or the Commonwealth’s, processes. This is why IPP data governance is so important and in this context data governance can be defined as an overall management of quality, usability, availability, security and consistency of an organisation’s data.

72 Nicholls J, Lawlor E, Neitzert E, Goodspeed T. A Guide to Social Return on Investment. 2. London: The Cabinet Office; 2012

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In addition, it is essential that efficient, accurate and timely access and communication between procurement officials in government portfolios and Indigenous businesses is enabled. The primary opportunity to do this is to improve the IPP data collection, its governance processes, and maximise opportunities to broaden its dissemination base. Further, self-service data capabilities must be enabled to ensure the current and potential value of the IPP Performance database is fully realised. This will require strategic and financial investment.

An agreed database structure that is adaptable to changing technologies, data, and stakeholders is necessary. At a minimum, this should include routine data and technology maintenance with an

increased focus on self-service analytics. The acceptance of a common (data) taxonomy to be used across government portfolios, Austender, Supply Nation and Indigenous businesses would reduce the potential for confusion in understanding the expectations and requirements of each party in a procurement exercise and would facilitate progressive growth of the IPP database in line with other standards. Developing a robust integration between IPP data and other data (such as Austender, ORIC, and Supply Nation) would also facilitate greater assurance (such as claimed Indigenous business ownership and structures).

Both the number and dollar value of non-IPP contracts and purchases under $10,000 (where relevant in the assessment of the IPP) should be reported by portfolios to facilitate a more accurate assessment of a portfolios’ IPP’s performance (through joint consideration of contract volumes and values). Additionally,

and in line with Recommendation 8, more timely estimates of the size and value of the Indigenous business sector is necessary. This will deliver foundational information to measure the ongoing impact of the IPP and allow deeper policy analysis to be performed informing more nuanced policy development and to respond to, and inform, the future direction of Indigenous businesses growth.

The inclusion of geo-spatial data is necessary and would greatly assist the Government and stakeholders understand how the IPP is tracking by location; where IPP-related contracts are being delivered and where economic value is being realised. This would be particularly useful for understanding the impact of the MSA (which includes a remote area dimension).

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# Appendices

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## Summary of Previous Review

This review of the first year of the IPP was undertaken by Cox Inall Ridgeway73 on behalf of the PM&C and was intended to identify early lessons to continue to improve implementation. It is also used to ensure appropriate data collection and methodology is in place for this evaluation of the IPP.

The review sourced qualitative data through survey responses, interviews and focus groups. Further, qualitative data was sourced from 50 individual officers across Commonwealth portfolios; 80 Indigenous businesses as well as key stakeholders from within the Indigenous business sector.

Quantitative data was sourced from the raw data collected by reporting portfolios on the number, value and types of procurement since the commencement of the IPP in July 2015. The review also examined the implementation approach undertaken across four portfolios.

The report found, based on procurement data available combined with detail from interviews and surveys, that the IPP, in its first 12 months, had exceeded its planned outcomes. In addition, it found that a majority of contributors expressed a motivation to continue with the policy objectives.

Analysis of procurement data found:

* 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;
* spread of achievement across portfolios was not consistent across government with a small number of portfolios accounting for a disproportional number of the contracts awarded to Indigenous businesses;
* 51.5% of all contracts by number were awarded by only three portfolios (Defence, Human Services and PM&C);
* 76.9% of all contracts by value were awarded by only four portfolios (Defence and PM&C, Treasury and DFAT);
* 379 contracts (196 remote contracts and 183 within the 80,000 - $200,000 range) were recorded as awarded within the mandatory set aside provisions representing 1.7% of all contracts in the mandatory set aside category; and
* average value of Indigenous business contracts was $188,326. Median value was $19,372. The median value is consistent with a high number of contracts valued below $10,000.

Analysis by Cox Inall Ridgeway demonstrated a relationship between the efforts made by portfolios to implement the IPP and the overall success of the implementation. Notable actions that were undertaken by the portfolios listed above included: assignment of a 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.

73 Cox Inall Ridgeway, 2017. *Year One Review of the Indigenous Procurement Policy*. Department of the Prime Minister and Cabinet.

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Reasons provided by stakeholders for a slower implementation included issues with:

* accessing the Supply Nation database access;
* lack of capacity on the supply side; and
* a perception of complexity of the IPP processes particularly with respondents articulating an inconsistent understanding of the CPR requirement of assessing value for money.

Cox Inall Ridgeway identified ongoing education and training as the primary vehicle for enhancement to the IPP to further encourage uptake and implementation. This education and training should be focused for suppliers on: 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. Training and education for Commonwealth Procurement staff should be focused on: assessing value‑for‑money and obligations under the MSA.

Finally, the report made a number of suggestions in relation to the third year evaluation. The suggestions included focusing on:

* examining performance of both number and value of contracts awarded, investigating each available variable, taking into account various levers within the policy (as detailed below);
* examining the impact of the policy on Indigenous businesses, Joint Venture partners, procurement officers and businesses subject to the Mandatory Minimum Requirements; and
* analysing the value of subcontractor arrangements flowing from IPP contracts. Mandatory Set Aside (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).

Mandatory Minimum Requirements (MMR):

* examine portfolio / agency efforts to connect Indigenous businesses to Tier 1 suppliers;
* analysis of value and number of contracts/ employment patterns delivered under the MMRs; and • examine attitudes and strategies undertaken by Tier 1 suppliers to engage with Indigenous businesses.

Definitions/JVs:

* analysis of the composition of Indigenous Business Direct, and its trajectory over in terms of ownership structures of Indigenous businesses;
* analysis of Indigenous businesses who have contracted to government against the value and structure of Indigenous businesses; and
* analysis of % of value of contracts delivered by Indigenous businesses and their JV partners. Tools and resources:
* assessment of improvements to Indigenous Business Direct in terms of utilisation and functionality; and
* assessment of usefulness of additional tools, resources and communication approaches delivered by PM&C to both Indigenous businesses, Commonwealth procurement officers and businesses subject to the MMR.

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## Summary of Previous Review

##### Detailed Portfolio Analysis

The following section of the report analyses the level of dispersion in contract values between $10,000 and

$2.0 million. This is shown using box and whisker charts with a limit of $2.0 million chosen for this analysis due to the significant spread across portfolios and also the limited number of contracts that are often above

$2.0 million relative to those below $2.0 million. Deloitte notes that several portfolios, notably Defence, often have contracts that will far exceed the variation shown.

The top eight portfolios by total Indigenous contract spend have been analysed, and have been broken down by financial year, 2015–16 to 2017–18, to assess differences in contract spend.

Provided below is a short description on how to read and interpret data represented as a box and whisker chart. Each financial year represented on a separate line (y-axis) and the spectrum of contract values

(x-axis). The red numbering in the figure below aligns to the numbers described in the overview table below.





**Table 28: Box and Whisker Plot Overview**

|  |  |  |
| --- | --- | --- |
| **#** | **Name** | **Description** |
| 1 | Minimum | The beginning of the horizontal line above. The minimum represents the lowest contract value for a specific financial year. |
| 2 | Quartile 1 | Left side of the rectangle, the first vertical line. The first quartile (Q1) represents the bottom 25.0% of all contract values for a specific financial year. |
| 3 | Median | Vertical line within the rectangle. The median represents the middle value of all contract values in a specific financial year. It also indicates 50.0% of all contract values below it, and 50.0% of all contract values above. |
| 4 | Quartile 3 | Right side of the rectangle, the last vertical line. The third quartile (Q3) represents the top 75.0% of all contract values for a specific financial year. In this case, Q3 is approximately  $0.2m. |
| 5 | Mean | Black dot. The mean is the average contract value for a specific financial year. In the case above, the mean is approximately $0.2m. |
| 6 | Outliers | X dispersed on the graph. Outliers are contract values that lie an abnormal distance away from other contract values in the dataset. In the case above, any contract value above approximately $0.4m is an outlier. |

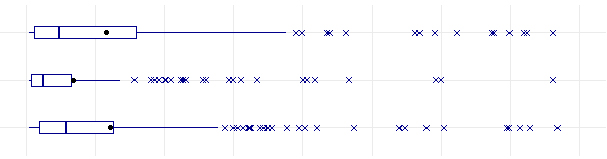
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The Defence portfolio experienced some fluctuation in average Indigenous contract spend (mean) over the three financial years. As shown in Figure A.2.1, the median for Defence Indigenous contracts showed marginal fluctuation over the three-year period. The range of Indigenous contract values have changed significantly over time, characterised by the longer leading horizontal line in 2017–18 compared to 2015–

16. Indigenous contract values above around $1.0 million in 2017–18 are outliers, an increase compared to 2015–16 of around $0.8 million.

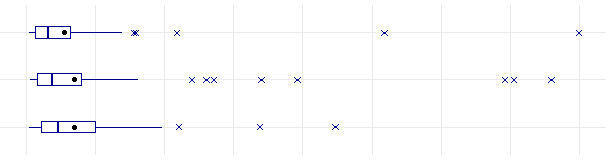
**Figure 9: Indigenous Contract Spend by Financial Year - Defence**





The Treasury experienced a decrease in average Indigenous contract spend (mean) over the three financial years. As shown in Figure A.2.2, the median has also showed a slight decrease, which occurred gradually over the three-year period. The range of Indigenous contract values has decreased over time, characterised by a shorter leading horizontal line in 2017–18 compared to 2015–16. Indigenous contract values above around $0.4 million in 2017–18 are outliers, a decrease compared to 2015–16 of around $0.50 million.

**Figure 10: Indigenous Contract Spend by Financial Year - Treasury**

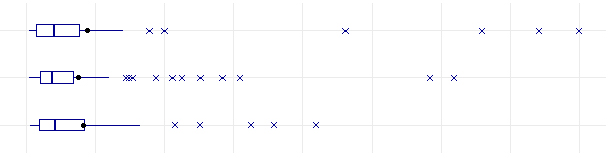




Jobs and Innovation experienced an increase in average Indigenous contract spend (mean) over the three financial years. As shown in Figure A.2.3, the median showed no significant change over the three-year period. The range of Indigenous contract values decreased slightly over time, characterised by a shorter leading horizontal line in 2017–18 compared to 2015–16. Indigenous contract values above $0.4 million in 2017–18 are outliers, a slight decrease compared to 2015–16 of $0.4 million.

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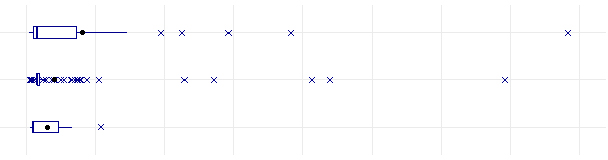
**Figure 11: Indigenous Contract Spend by Financial Year - Jobs and Innovation**





The Communications and Arts portfolio experienced an increase in average Indigenous contract spend (mean) over the three financial years. As shown in Figure A.2.4 below, the median showed no significant change, and was constant at around $0.1 million over the three-year period. The range of Indigenous contract values increased over time, characterised by a longer leading horizontal line in 2017–18 compared to 2015–16. Indigenous contract values above around $0.4 million in 2017–18 are outliers, an increase compared to 2015–16 of around $0.2 million.

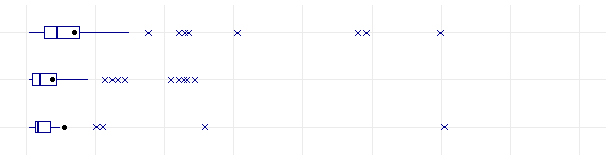
**Figure 12: Indigenous Contract Spend by Financial Year - Communications and the Arts**





Health experienced an increase in average Indigenous contract spend (mean) over the three financial years. As shown in Figure A.2.5, the median increased over the three-year period. The range of Indigenous contract values has significantly increased over time, characterised by a longer leading horizontal line in 2017–18 compared to 2015–16. Indigenous contract values above around $0.4 million in 2017–18 are outliers, an increase compared to 2015–16 of around $0.1 million.

**Figure 13: Indigenous Contract Spend by Financial Year - Health**





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PM&C experienced a decrease in average Indigenous contract spend (mean) over the three financial years. As shown in Figure A.2.6, the median has shown no significant change over the three-year period. The range of Indigenous contract values has increased between 2015–16 and 2016–17 but has decreased between 2016–17 and 2017–18. Indigenous contract values above $0.3 million in 2017–18 are outliers (approximately equal to the outlier range in 2015–16).

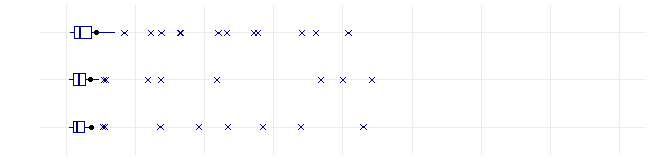
**Figure 14: Indigenous Contract Spend by Financial Year - Prime Minister and Cabinet**





Human Services experienced no change in average Indigenous contract spend (mean) over the three financial years. As shown in Figure A.2.7, the median also remains unchanged over the three-year period. The range of Indigenous contract values has increased slightly over time, characterised by a longer leading horizontal line in 2017–18 compared to 2015–16. Indigenous contract values above around $0.2 million in 2017–18 are outliers, a decrease compared to 2015–16 of around $0.1 million.

**Figure 15: Indigenous Contract Spend by Financial Year - Human Services**

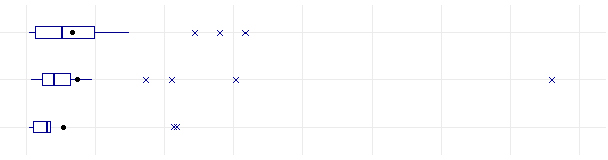




Home Affairs experienced an increase in average Indigenous contract spend (mean) over the three financial years. As shown in Figure A.2.8, the median also increased, which occurred gradually over the three-year period. The range of Indigenous contract values increased over time, characterised by a longer leading horizontal line in 2017–18 compared to 2015–16. Indigenous contract values above around $0.4 million in 2017–18 are outliers, an increase compared to 2015–16 of around $0.2 million.

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**Figure 16: Indigenous Contract Spend by Financial Year - Home Affairs**





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## Assessment Comparison

Over the 3 years to 2017–18, IPP targets have grown from 0.5% in 2015–16 of total Commonwealth Government contracts to 3.0%. In undertaking this Review, Deloitte considered the current methodology that underpins the targets and an approach best suited for this broad analysis.

The IPP target is calculated from a base of three years – 2012–13, 2013–14 and 2014–15 – whereby the number of contracts are averaged. This provides a fixed baseline from which each individual year – 2015– 16, 2016–17, and 2017–18 – is measured against. For example, 2017–18 is set against the average of the three averaged years. In addition, an adjustment has been made to this average in consideration of the large volume of Defence procurements exempt from the Commonwealth Procurement Rules.

In conducting this analysis, Deloitte has used the most recent year of data available and has included all contracts published on Austender, including procurement exempt from the CPRs such as military equipment. For example, the 3 per cent 2017–18 target is set against all 2016–17 procurement data as published in Austender. Deloitte recognises that this alternate method may include a significant volume

of specialised large value military contracts that are unlikely to be contested by any small to medium size business in Australia. While both methodologies are different, both are robust. While Deloitte’s approach uses a traditional markets-based approach, both approaches provide information fundamental to policy analysis – the measure of change from the base. For one, it is set to a static base and the other (being Deloitte’s), a dynamic base.

**Table 29: Comparison of IPP published results versus IPP Review, 2015–16**

|  |  |  |  |
| --- | --- | --- | --- |
| **Portfolio** | **PM&C-published**  **IPP results** | **IPP Review published**  **results** | **Percentage point**  **difference** |
| Agriculture and Water Resources | 5.3 | 3.8 | -1.5 |
| Attorney-General’s | 2.4 | 4.5 | 2.1 |
| Communications and the Arts | 0.8 | 3.9 | 3.1 |
| Defence | 2.0 | 1.0 | -1.0 |
| Education and Training | 5.8 | 3.5 | -2.3 |
| Employment | 4.5 | 3.0 | -1.5 |
| Environment | 2.9 | 4.2 | 1.3 |
| Finance | 1.7 | 1.3 | -0.4 |
| Foreign Affairs and Trade | 2.9 | 3.4 | 0.5 |
| Health | 1.1 | 1.1 | Nil |
| Human Services | 7.2 | 9.5 | 2.3 |
| Immigration and Border Protection | 0.8 | 1.2 | 0.4 |
| Industry, Innovation and Science | 1.1 | 1.6 | 0.5 |
| Infrastructure, Regional Development and Cities | 0.8 | 1.2 | 0.4 |
| Parliamentary Departments | 1.8 | 2.5 | 0.7 |
| Prime Minister and Cabinet | 19.0 | 13.7 | -5.3 |
| Social Services | 2.8 | 2.7 | -0.1 |
| Treasury | 3.0 | 2.6 | 0.4 |
| Veterans’ Affairs | 2.3 | 2.0 | -0.3 |
| **TOTAL** | **2.9** | **2.4** | **-0.5** |

Source: Derived by Deloitte using IPP performance data



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