



**Australian Government**

**Department of Communications,  
Information Technology and the Arts**

## **SME SHARE IN AUSTRALIAN GOVERNMENT ICT PURCHASING**

The core principle underpinning Australian Government procurement is value for money. The Government does not believe it is in the Australian ICT industry's long term interests to be given subsidies through preferential access to Government procurement.

However, the Government is working to facilitate access by SMEs to its ICT procurement market. The Commonwealth Procurement Guidelines, issued by the Minister for Finance and Administration, require Government purchasing officers to ensure that SMEs have an appropriate opportunity to compete for business. Department of Finance and Administration data indicates that 60% of contracts gazetted by agencies in 2001-02 were with SMEs, representing 25% by value. SMEs also capture work as subcontractors.

The Government is also working directly to help SMEs in accessing its ICT market. A guide to provide practical advice to SMEs in selling ICT to government has been published and a complementary guide for agency buyers is being prepared. A range of seminars has been conducted. AusTender has been implemented, which advertises Government business opportunities and enables firms to register their interest in being notified of tender processes. The Government is also working to achieve appropriate capping of liability and commercialisation of intellectual property in Government ICT contracts. The Government has been assisted in these activities through a government industry working party.

More generally, the Government has a range of programs that support ICT SMEs and that help develop the ICT industry locally. A brochure on these is available on the Department of Communications, Information Technology and the Arts (DCITA) website.

### SME share of Australian Government ICT procurement market

Following a competitive tender process, DCITA engaged a consultant, Intermedium, to report on the level of SME participation in the Australian Government ICT procurement market.

The consultant surveyed 11 large Australian Government agencies covering about 80% of the Government's ICT procurement. For these agencies, the level of SME participation in Australian Government ICT contracts was 27.5% in 2001-02 and 29.9% in 2002-03. Telstra attained a further 5.2% and 9.3% in these years. The overall level of SME participation is likely to be larger than this, because SMEs are likely to be more able to compete for smaller contracts

from smaller agencies not surveyed, and SME subcontracting was not measured, but further sampling would be necessary to verify this.

The full report can be found elsewhere on the DCITA website, under SME ICT Development.

### SME participation in ICT contracts over \$20m

To further facilitate SME access, the government implemented a policy in June 2002 that, for ICT contracts over \$20m, minimum SME levels of 10% for hardware and 20% for software and services would apply.

Consistent with devolved Australian Government procurement arrangements, individual agencies are responsible for complying with the policy. Given the core principle of value for money in Government procurement the policy provides for an agency to adjust the level downwards, for example where the minimum SME levels would unfairly exclude potential suppliers or if the minimum levels are impacting on the efficient supply of ICT goods and services.

The Australian National Audit Office, in its April 2003 audit of DCITA's monitoring of industry development commitments under the former five major outsourced ICT contracts, recommended that DCITA collect data on the SME participation rates for contracts over \$20m.

The outcomes for 2002-03 and 2003-04 appear in detail below. There were 5 contracts over \$20m in this time. Of these:

- 2 contracts (\$150m and \$90m) were being negotiated as the new policy was announced. Applying the new SME levels would have involved extra time and cost. Nevertheless, SME levels of around 10% were still obtained.
- 1 contract (\$35m) specified, and has achieved, an SME level of 20%.
- 2 contracts (\$122m software and services and \$24m supercomputer) have no SME participation. The agencies advise the special nature of the contracts afforded little or no opportunity for SMEs.

In summary, while the minimum SME participation levels were not fully obtained, this was due to agencies applying the exemptions provided for in the policy where they considered this necessary to obtain value for money, including in the context of the phase-in of the policy. In addition, the SME levels in these specific contracts over \$20m needs to be seen in the context of the overall level of SME participation in ICT contracts of 27.5% and 29.9% for 11 large agencies surveyed in 2002-03 and 2003-04.

The Government will continue to help facilitate SME access to the Government's ICT procurement market and to analyse SME participation rates.

SME participation rates in 5 contracts over \$20m 2002-03 and 2003-04

1. *Cluster 3 – Department of Immigration and Multicultural and Indigenous Affairs (DIMIA), Australian Electoral Commission and IP Australia.* Cluster 3 signed a contract in August 2002 for a 4-year, \$150m extension to an existing contract with Computer Sciences Corporation (CSC). The June 2002 announcement of the new policy occurred during the finalisation of contract negotiations with CSC. Cluster 3 advises that re-opening negotiations with CSC to include the new SME levels required under the policy would have involved delays and a higher contract price. The applicable SME participation level for this contract under the policy is 17.6% based on the weighted average of hardware and software to be supplied. The contract provides for an SME level of 11.8% - which was met by CSC in 2003-04.
2. *Department of Veterans Affairs (DVA).* A 5-year \$90m contract renewal was signed by DVA in August 2002 for the supply of ICT services by IBM Australia. The new policy was announced during the contract negotiation phase, after DVA had already decided to exercise its option to negotiate a new contract with IBM. The agency advises that no minimum SME participation levels were specified and that new conditions of this type would have caused delays and extra expense. The applicable SME participation level for this contract under the policy is 20.0% as the contract is for the provision of software and services only. While the contract does not specify minimum SME participation levels, IBM achieved SME participation of 7.9% in 2002-03 and 8.3% in 2003-04.
3. *Australian Taxation Office (ATO).* A 3-year \$35m contract was signed with Microsoft in October 2002 for the provision of software to the ATO. The applicable SME participation level for this contract under the policy is 20.0% as the contract is for the provision of software and services only. The agency advises that the contract included two local SMEs as service and support partners and the specified SME participation level for this contract under the policy is 20% - which Microsoft achieved in 2003-04.
4. *Department of Defence.* During 2002-03, an existing Defence contract with IBM (originally signed in 1999) was on two occasions modified and extended through to 2008. The value of the contract was increased by about \$111m, making an expected total contract value of \$122m. The agency advises that it considered that the nature of the software and services to be provided under this contract afforded little or no opportunity for local SME involvement. The applicable SME participation level for this contract under the policy is 20.0% as the contract is for the provision of software and services only. The contract provides no SME participation levels. No SME participation has occurred to date in this specialised contract.
5. *Bureau of Meteorology.* A 4-year \$24m supercomputer acquisition contract was signed with NEC Computers Australia in December 2003. The agency advises that, as the market for the provision of supercomputers is extremely specialised, and as it was determined that no local SMEs had

the required expertise, it did not include an SME component. The applicable SME participation level for this contract under the policy is 11.0% based on the weighted average of hardware (which is 90%) and software to be supplied. No SME participation has occurred to date in this specialised contract.

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