

VICTORIAN INDUSTRY PARTICIPATION POLICY

ANNUAL REPORT
2014-15

PREPARED UNDER
SECTION 10 OF THE
VICTORIAN INDUSTRY
PARTICIPATION POLICY
ACT 2003



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November 2015

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TABLE OF CONTENTS

Executive summary	4
1. Introduction	5
2. Victorian Industry Participation Policy Act 2003	6
3. VIPP framework	6
3.1 General requirements	6
3.2 Grant and design requirements	7
3.3 Strategic Projects	7
4. VIPP outcomes in 2014-15	8
4.1 Strategic Projects	8
4.2 Contestability	8
4.3 New contracts	9
4.4 Contracts completed	10
4.5 Grants and design procurements	10
5. Compliance with VIPP	11
5.1 Contracts registered with ICN	11
5.2 Contracts not registered	11
5.3 Improving compliance	11
6. Role of the Industry Capability Network (Victoria)	12
7. VIPP reforms	13
8. Conclusion	14

EXECUTIVE SUMMARY

The Victorian Government is committed to providing a full and fair opportunity for local businesses to compete for government contracts.

The Victorian Industry Participation Policy (VIPP) is implemented by Victorian government agencies to raise awareness of local capabilities and to encourage participation by local small and medium enterprises (SMEs) in public sector purchasing.

The 2014-15 VIPP Annual Report reflects the data received from departments and agencies across government on procurements, projects and grants that either commenced or were completed during the financial year.

Under VIPP, large procurements that are of strategic significance to the Victorian economy are deemed Strategic Projects, with minimum local content requirements set to ensure local industry gets a fair opportunity to compete. Over 2014-15 the Victorian Government deemed six new projects, with a total value of \$7.42 billion, to be Strategic Projects, bringing the total number to thirteen.

Contracts commenced

Contestable contracts with a value of over \$1.91 billion commenced in 2014-15. Applying VIPP to these 147 procurement contracts has resulted in contracted suppliers committing to:

- using an average of 86 per cent local content, worth \$1.64 billion in orders for local industry
- creating 1,123 new local jobs and retaining a further 4,486 existing jobs
- creating 212 new, and 390 retained apprentice and trainee positions.

Contracts completed

Outcomes under VIPP were reported for 151 contracts with a combined value of \$1.23 billion that were completed in 2014-15. The majority of contractors reported that they exceeded their original local content commitment. The outcomes achieved for completed projects were:

- 91 per cent local content, representing \$1.12 billion in orders for local industry
- 981 new jobs and a further 3,697 existing jobs were retained
- 197 new, and 365 retained, apprenticeships/ traineeships positions.

VIPP reforms

The Victorian Government is committed to strengthening VIPP. On 1 July 2015, the threshold for classification as a Strategic Project was lowered to \$50 million in total value, with minimum local content requirements now set on build phase rather than ongoing maintenance or operational costs¹. These changes are already enhancing opportunities for local industry to participate in projects such as the High Capacity Metro Trains and the 50 Level Crossings Removal Project. A review of VIPP is currently underway and further reforms to VIPP are expected to come into effect from 1 July 2016.

¹. Maintenance projects valued over \$50 million will be classified separately as Strategic Projects.

1. INTRODUCTION

The Victorian Government is committed to providing a full and fair opportunity for local businesses to compete for government contracts.

VIPP is implemented by Victorian government agencies to raise awareness of local capabilities and to encourage participation by local small and medium enterprises (SMEs) in public sector purchasing.

The Industry Capability Network (Victoria) Ltd (ICN) supports the Department of Economic Development, Jobs, Transport and Resources (the Department) with implementation of VIPP and assists both Victorian public sector bodies and bidders to comply with VIPP.

The Department is responsible for administering VIPP and directing ICN Victoria in its implementation.

2. VICTORIAN INDUSTRY PARTICIPATION POLICY ACT 2003

The *Victorian Industry Participation Policy Act 2003* (the VIPP Act) requires all Victorian public sector bodies as defined by the *Financial Management Act 1994* to report on their implementation of VIPP in two ways:

- a consolidated report on VIPP implementation as part of agencies' normal Annual Reporting arrangements
- a detailed report to the responsible Minister to enable the Minister to report annually to Parliament on VIPP outcomes across government.

VIPP delivers the government's commitment to achieving value for money and operates within a clear policy framework in order to meet Victoria's obligations under Free Trade Agreements.

The 2014-15 VIPP Annual Report reflects the data received from departments and agencies across government on procurements, projects and grants that either commenced or were completed during the financial year, as required by the Act.

3. VIPP FRAMEWORK

3.1 General requirements

VIPP is applied to all government procurements with a project value over \$1 million in regional Victoria and \$3 million in Melbourne or state-wide.

For projects that meet the applicable VIPP thresholds, Victorian public sector bodies are required to undertake a contestability assessment to determine the potential for local content in the project, and therefore whether a VIPP Plan is required as part of a bidders' tender documentation.

Contestable means there is competition between competitive local suppliers and international suppliers. As such, there is value in raising awareness of local capabilities to bidders for government procurements.

If the items to be procured are found to be contestable a VIPP Plan is required to be submitted by all shortlisted bidders. Information captured in a VIPP Plan includes:

- local value-added activity of the goods and services to be engaged
- number of jobs created and retained by the head contractor and sub-contractors
- number of apprentices and trainees created and existing positions to be utilised
- training and innovation outcomes to be achieved.

Requiring contractors to submit a VIPP plan outlining training and innovation outcomes to be achieved through delivery of the contract creates further opportunities for building local capacity and capability and enables government procurement to be used to address skills gaps in manufacturing, construction and service industries.

3.2 Grant and design requirements

Under VIPP, grants funding and design tenders that exceed the relevant monetary thresholds are also required to fulfil the objectives of VIPP, without undergoing the full standard VIPP process.

Grant recipients and design contractors are required to actively engage with ICN to discuss opportunities for local SMEs relating to the project. ICN issues an Interaction Reference Number (IRN) confirming the interaction, which must then be submitted by the grant recipient or design contractor to the agency in order to demonstrate that local content has been considered.

3.3 Strategic Projects

Procurements that are of strategic significance to the Victorian economy are deemed Strategic Projects under VIPP.

Under the VIPP guidelines applicable during 2014-15, Strategic Projects were defined as projects with a whole-of-life value of \$250 million or more, or a capital cost of at least \$100 million.

Strategic projects are expected to:

- contribute to the productive capability of Victoria and make a strategic economic contribution to the State
- potentially generate significant local industry participation, employment or skills and training/technology transfer
- create opportunities to build ongoing industry capability, skills and employment benefits, and/or
- contain significant contestable items.

Strategic Projects have minimum local content requirements applied to help drive additional economic activity and jobs. The minimum local content requirements for Strategic Projects are determined on a case-by-case basis by the Victorian Government.

Other conditions that may be applied to Strategic Projects include requirements to demonstrate other industry outcomes such as number of new and retained jobs, number of new and retained apprentices/trainees, training and skills development of the workforce and technology transfer (such as through innovation, research and development, transfer of intellectual property or transfer of know-how).

Shortlisted bidders on Strategic Projects under VIPP prepare a Local Industry Development Plan (LIDP) in place of a VIPP Plan. LIDPs collect a more detailed level of information on the local goods and services that would be engaged on the project, should the bidder be awarded the contract.

Strategic Project requirements are not applied to standard VIPP procurements. Instead the market indicates the level of local content, employment, apprentices and other local benefits it would deliver should it be awarded the contract.

4. VIPP OUTCOMES IN 2014-15

4.1 Strategic Projects

During 2014-15, thirteen Strategic Projects were underway, with a total value of \$7.92 billion. Six of these Strategic Projects were declared in 2014-15, the remaining seven projects were ongoing from prior years.

Each of these Strategic Projects has minimum local content requirements applied to help drive additional economic activity and jobs. The minimum local content requirements for Strategic Projects are determined on a case-by-case basis by the Victorian Government, with consideration to analysis undertaken by ICN based on their experience with previous projects of a similar nature and information provided by the responsible Agency.

In addition, the Victorian Government has set additional requirements for the Level Crossing Removal Project packages to use 100 per cent local steel and maximise the use of local steel in the West Gate Distributor.

4.2 Contestability

In 2014-15, 419 contracts with an aggregate value of over \$7.39 billion underwent a contestability assessment by ICN.

Of these, 210 contracts, with a total value of \$1.82 billion, were found to be contestable. As such, there is value in raising awareness of local capabilities to bidders for these contracts.

The remaining contracts were found to have nil to limited contestability, and consequently were not required to prepare VIPP Plans.

Of the contracts found to have nil to limited contestability, 79 per cent were found to be local by nature, as the products or services being tendered were only available in the local market with low competition from international suppliers. The remaining 21 per cent were found to be international by nature, due to the products or services not being available in the local market. Products and services not available in the local market included certain items of computer software, medical equipment, medical consumables and specialised vehicles.

Table 1: New and ongoing Strategic Projects in 2014-15

Strategic Projects	Local Content Requirement (%)
New in 2014-15	
High Capacity Metro Trains and maintenance depot	50
Level Crossing Removal Project – Caulfield to Dandenong Nine Level Crossings Package	92
Level Crossing Removal Project – Second Package	90
Melbourne Park Redevelopment Stage Two – Rod Laver Arena Refurbishment	82
New Schools Public Private Partnership	90
West Gate Distributor – Northern Section Stage One	93
Ongoing in 2014-15	
Bendigo Hospital	90
Level Crossing Removal Project – First Package	90
Melbourne Park Redevelopment Stage One	83
Melbourne Trams Procurement	40 ²
Monash Children's Hospital	85
Ravenhall Prison	85
Victorian Comprehensive Cancer Centre	90

2. The Melbourne Trams Procurement Strategic Project has a minimum whole-of-life local content requirement of 40% and a minimum locally-manufactured content requirement of 25%.

4.3 New contracts

In 2014-15, 316 contracts that were registered with ICN were reported as having commenced during the year. Of these, 147 contracts with a value of over \$1.91 billion were assessed as contestable and therefore required the preparation of VIPP Plans.

The total number of VIPP Plans prepared by businesses in bidding for these contracts was 470. SMEs prepared 351 of these VIPP Plans, representing 75 per cent of the total number of VIPP Plans prepared.

The successful bidders for contracts that commenced in 2014-15 have committed to using an average of 86 per cent local content, representing \$1.64 billion in orders for local industry, creating 1,123 new local jobs and retaining a further 4,486 existing jobs.

The contracts are also expected to create 212 new, and retain 390 existing, apprenticeships/traineeships across Victoria. Details are at Table 2.

New contracts in 2014-15 cover a range of activities, including infrastructure works, public transport investment, information technology services and the purchase of medical equipment.

Commitments that have been made by contractors with regards to skills and technology transfer outcomes for the Victorian economy are diverse and include:

- skills development in engineering disciplines, including software, mechanical, civil and electrical engineering
- skills development in construction techniques, including electrical and mechanical installation techniques, plumbing, pipe laying, carpentry and earthworks
- skills development in environmental protection and resource management techniques
- research and development activities and product innovations
- training, development and mentorship opportunities for apprentices and other employees.

Table 2: Local content commitments from contestable new contracts in 2014-15

REGION	Number of Contracts Commenced	Total Contract Value (million)	New Job Creation	Retention of Existing Jobs	New Apprenticeship/Traineeship Creation	Retention of Existing Apprenticeships/Traineeships	Average % of Local Content Committed
Metropolitan	54	\$1,198	500	2,298	104	176	80%
Regional	87	\$439	322	1,515	60	188	91%
State-wide	6	\$275	301	673	48	26	77%
TOTAL	147	\$1,912	1,123	4,486	212	390	86%

4.4 Contracts completed

During 2014-15, 191 contracts that applied VIPP were reported as completed. Of these contracts, 151 were contestable, with a total value of \$1.23 billion.

For contestable contracts, most contractors reported achieving or exceeding the local content commitments made at the commencement of the contract. The average local content commitment made at the commencement of contracts was 90 per cent, and contractors reported an aggregated local content outcome of 91 per cent. This local content outcome represents \$1.12 billion in orders for local industry.

A total of 981 new jobs were created across Victoria as a result of these completed contracts and a further 3,697 existing jobs were retained.

The contracts resulted in the creation of 197 new, and the retention of 365 existing, apprenticeships/traineeships across Victoria. Details are at Table 3.

Outcomes achieved by contractors with regards to skills and technology transfer outcomes for the Victorian economy were diverse and include:

- training of apprentices in trades identified as experiencing a national skills shortage, including carpentry and electrical apprentices
- training in the operation of construction vehicles and machinery, new technologies and plant machinery
- skills development in construction techniques, including formwork, earthworks, joinery, steel reinforcement and bridge construction
- skills development in quality, environment and safety management.

4.5 Grants and design procurements

In 2014-15, proponents registered 48 grants or design procurements with ICN to obtain assistance in increasing opportunities for local SMEs. 28 registrations related to grants and 20 to design contracts.

Of these 48 grants or design procurements, 41 (85 per cent) presented opportunities to utilise local content. The remaining seven grants or design procurements did not present opportunities for localisation.

Table 3: Local content outcomes from contracts completed in 2014-15

REGION	Number of Contracts Completed	Value of Contracts Completed (million)	Average % of Local Content Committed	Average % of Local Content Achieved	New Jobs Created	Existing Jobs Retained	New Apprenticeships/Traineeships Created	Existing Apprenticeships/Traineeships Retained
Metropolitan	45	\$717	87%	88%	387	1,615	90	174
Regional	103	\$497	91%	92%	576	2,030	101	186
State-wide	3	\$15	100%	100%	18	52	6	5
TOTAL	151	\$1,229	90%	91%	981	3,697	197	365

5. COMPLIANCE WITH VIPP

5.1 Contracts registered with ICN

Of the contracts commenced in 2014-15 and registered with ICN, 309 were reported by agencies as fully adhering to the VIPP process, representing 72.2 per cent of total contracts.

Of the contracts completed in 2014-15 and registered with ICN, 182 were reported by agencies as fully adhering to the VIPP process, representing 95.3 per cent of total contracts.

In 2014-15, all grants and design contracts registered through the IRN process were reported as compliant with VIPP.

5.2 Contracts not registered

In 2014-15, agencies reported a number of contracts that had commenced or completed during the year and met the VIPP thresholds, however had not been registered with ICN.

In 2014-15, 47 commenced contracts, 16 completed contracts and 10 grants and design contracts were reported by agencies as not being registered with ICN.

As these contracts did not fully adhere to the VIPP process, the responsible agencies were unable to report on whether consideration was given to local content.

The responsible agencies have acknowledged that under the VIPP guidelines the contracts should have been registered with ICN and have committed to ensuring that future contracts adhere to the VIPP registration guidelines.

5.3 Improving compliance

Reported non-compliance with VIPP for projects registered in 2014-15 has increased from 3.37 per cent of commenced contracts in 2013-14.

Reported reasons for non-compliance included a lack of awareness of requirements under VIPP and required VIPP data not being collected/provided by the agency or department.

The increase in reported non-compliance from 2013-14 is due to increased monitoring and reporting activities being undertaken by the Department to expose non-compliance and ensure that VIPP is being effectively implemented. In 2014-15, the Department has strengthened monitoring and reporting through interrogating reporting data more rigorously.

In 2014-15, the Department also undertook activities to increase awareness of VIPP, through providing education sessions to procurement teams and delivering presentations to procurement committees with membership drawn from departments and agencies across government. This resulted in an increased number of departments and agencies identifying and self-reporting instances of non-compliance.

The activities being undertaken by the Department align with a number of commitments made by the government to strengthen VIPP, these commitments include raising awareness and emphasising the importance of VIPP across government departments and agencies. The Victorian Government has recognised the value of improving compliance with VIPP to deliver a strong industry participation policy and is now working to achieve these outcomes.

The importance of VIPP will continue to be communicated across government and additional monitoring and information sessions will be undertaken with departments and agencies to improve compliance with VIPP.

6. ROLE OF THE INDUSTRY CAPABILITY NETWORK (VICTORIA)

The Industry Capability Network (Victoria) Ltd (ICN) facilitates the delivery of VIPP on behalf of the Victorian Government, by certifying VIPP Plans prepared by short-listed bidders for all contracts to which VIPP is applied.

The ICN also provides assistance to short-listed bidders for Strategic Projects to prepare their LIDPs, under strict probity arrangements. ICN operates the VIPP Management Centre, which administers the implementation of VIPP by industry and government departments and agencies.

In 2014-15, ICN's early project involvement through VIPP assistance services and the IRN process resulted in local industry securing approximately \$167 million worth of orders. In addition, ICN continued to provide dedicated resources to support major projects under VIPP, working closely with the bidders and successful contractors.

Over 2014-15, ICN's VIPP team processed 769 VIPP Plan certification requests and conducted contestability assessments on 419 contracts across Victorian public sector bodies, 210 of which were found to include contestable goods and services.

ICN also assisted 687 short-listed bidders to complete VIPP Plans and to explore opportunities to replace imported goods and services with products from local suppliers during 2014-15.

7. VIPP REFORMS

The Victorian Government has made a range of commitments to generate local jobs and boost economic activity, through strengthening VIPP and leveraging the government's role as a major procurer of goods and services.

From 1 July 2015, the first stage of the Victorian Government's improvements to VIPP will apply. These include:

- lowering the value of thresholds for Strategic Projects to \$50 million or more total project value, excluding maintenance and operational costs
- retaining minimum local content targets in Strategic Projects
- emphasising the importance of VIPP to departments and agencies
- developing a forward plan of expected Strategic Projects
- calculating minimum local content targets on build phase, rather than ongoing maintenance and operational costs³.

The Victorian Government is committed to strengthening VIPP. A review of VIPP will be undertaken from September 2015 to early 2016 to develop a new industry participation policy to increase local economic activity and create new employment opportunities for local workers. The review will pursue the government's remaining commitments to enhance VIPP and further opportunities to improve the effectiveness and efficiency of a new industry participation policy. Changes being considered include:

- streamlining VIPP Plans and Local Industry Development Plans
- introducing a minimum 10 per cent formal weighting system for local content
- enhancing the communication of government purchasing to the market to improve investment, competitiveness and local jobs.

3. Maintenance projects valued over \$50 million will be classified separately as Strategic Projects.

8. CONCLUSION

As the largest purchaser of goods and services in the state, the Victorian Government is committed to leveraging government procurement to boost local economic growth and job creation.

VIPP is the mechanism through which the government is achieving outcomes for local industry, through ensuring that consideration is given to competitive local suppliers.

The Victorian Government has set a strong vision for a competitive and sustainable economy that creates job opportunities for a growing population. VIPP is an important tool for delivering on government's broader objectives through:

- setting requirements for local industry to respond with solutions that will drive improvements in business capability and competitiveness, as well as public value for Victoria
- opening up access for competitive and capable local businesses to supply into government projects
- increasing employment and training opportunities for local workers.

Victorian Government public sector bodies have demonstrated their commitment to delivering outcomes for local industry in 2014-15.

In 2014-15, successful bidders for commenced contracts committed to using 86 per cent local content on average, representing \$1.64 billion in orders for local industry.

The successful bidders also committed to creating 1,123 new jobs, and 212 new apprenticeships/traineeships. In addition, commitments have been made to retain a further 4,486 local jobs and 390 existing local apprenticeships/traineeships.

For contracts completed in 2014-15, most contractors reported achieving or exceeding the local content commitments made prior to the awarding of the contract. The average local content commitment made at the commencement of contracts was 90 per cent, and contractors reported an aggregated local content outcome of 91 per cent. This local content outcome represents \$1.12 billion in orders for local industry.

In addition, a total of 981 new jobs, and 197 apprenticeships/traineeships were created across Victoria as a result of these contracts, whilst a further 3,697 local jobs and 365 existing local apprenticeships/traineeships were maintained.

Where non-compliance with VIPP was reported, it was largely due to a lack of awareness of requirements under VIPP.

The Department wishes to acknowledge the support and cooperation of all of VIPP administrators and procurement officers across the Victorian Government public sector bodies, ICN and government suppliers in applying the Victorian Industry Participation Policy and providing information for this report.



