

# **Australian Information Industry Association**

## **Submission on**

## **Supporting the development of sovereign capability in the Australian technology sector**

**23 February 2024**

## **Introduction**

The Australian Information Industry Association (AIIA) thanks the Senate Standing Committee on Finance and Public Administration for the opportunity to respond to its inquiry on the development of sovereign capability in the Australian technology sector. In principle, the AIIA supports uplifting domestic capabilities. We note that the fundamental policy objective should be to create ongoing business opportunities and supply chain certainty to enable long-term economic growth in Australia.

For these reasons, the AIIA contributed to the discussions pre-empting the Buy Australian Plan and Future Made in Australia Office (FMiAO) through its [2021 Domestic Capability Framework Policy](#) and also wrote the '[Growing Globally Competitive Industries](#) whitepaper, which remained relevant for this inquiry. We are keen to see a Minimal Viable Plan (MVP) that sets up the foundations for leveraging Government procurement power and tracking the outcomes by the end of 2024 and have included recommendations to accelerate the speed of delivery.

The AIIA has received direct feedback from its SME members that are exposed to commonwealth technology procurements that they are at real risk of closing their businesses and many are currently laying off staff due to a large slowdown in expenditure. The directive or policy position from the Albanese Government as expressed by the Finance Minister to reduce reliance on consultants and contractors is adversely affecting technology SMEs. The AIIA supports the capability uplift of the Australian Public Sector, but this will take many years and in the meantime technology projects have been placed on hold which is hurting SMEs.

## **Context: Principle of Retained Economic Benefit**

This submission is based on the principle of Retained Economic Benefit (REB), which considers the value of enduring “positive externalities” created from a vendor’s proposal, such as job creation, local wealth creation, technology transfer and propensity to reinvest revenue domestically, especially in local Research & Development activities and Intellectual Property creation. This extends existing commitments within Commonwealth Procurement Rules (CPR) to identify broader domestic economic benefits for significant procurements.

This principle builds on the REB model considered by the NSW Government Sovereign Procurement Taskforce and can provide a critical means by which the promotion of domestic capability is balanced against the risks of protectionist outcomes.

*Recommendation:* Add criteria to procurement assessments, particularly for information industry capabilities, that give weight to positive externalities generated by vendors

## **Definition: Strategic focus and benefits**

The AIIA is keen to ensure that growing domestic or sovereign capability is not conflated with protectionism which is detrimental to ongoing businesses by limiting trade. This has allowed the AIIA to bring focus on strategic gains for the Australian economy without erring on the side of nationalism/protectionism.

The benefits of enhancing domestic capabilities include:

- Enhanced domestic and export sales across information industries and jurisdictions.
- Strengthened business continuity and maintenance of global strength with technology as a critical enabler for Australian core industries.
- Innovation and growth to the information economy as a contributor rather than a consumer.
- Stimulated STEM opportunities across all corners of the digital eco-system, leading to sector growth.
- Positioned Australia as an attractive and easy place to do business for foreign multi-nationals that seek access to global capabilities.
- Sufficiency of independent capabilities to be considered a valued partner by those Australia wants to ally with.
- Support the Government policy of ensuring robust national supply chains in the event of unexpected disruption.
- Harmonisation with international technology and information security standards.

### Effectiveness of the Buy Australian Plan (BAP) and the Future Made in Australia Office (FMiAO)

The AIIA had been pleased with the FMiAO goal, and that using government purchasing power to boost Australian technology industry capability is now on the agenda; however, progress has been slow. While FMiAO plays an important role in driving change, it will need the support of the whole of Government, especially in achieving the BAP objective of ‘support industry sectors through the government’s purchasing power.’

The AIIA proposes the following actions to reform government procurement and report on the full and timely delivery of outcomes. We believe it bodes well for the Government to set up a system – an MVP – to coordinate the layers of Government by 2024 to that end.

Layer of Government		Required Action	Measure of Success
1	<b>Albanese Government:</b> Prime Minister, Cabinet, Ministers, Expenditure Review Committee	<ul style="list-style-type: none"> <li>• Regularly communicate the vision <sup>(1)</sup></li> <li>• Incorporate the BAP in to the CPRs <sup>(2)</sup></li> <li>• Ministers to write to their Departments requesting data and a plan <sup>(3)</sup></li> </ul>	<ul style="list-style-type: none"> <li>• All departments to provide data and plans for BAP implementation by EOFY</li> <li>• New CPRs to be published by EOFY</li> </ul>
2	<b>Coordinating Agencies:</b> Future Made in Australia Office, Digital Transformation Agency, APS Net Zero, Finance, Treasury, Audit Office, Home Affairs	<ul style="list-style-type: none"> <li>• Create a (public) set of standard Accountable Authority Instructions (AAI) for the BAP <sup>(4)</sup></li> <li>• Centralise Department BAP reporting <sup>(3)</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Publish BAP AAI standards in three months.</li> <li>• Establish BAP reporting in three months.</li> </ul>
3	<b>Department Leadership:</b> Secretaries, Deputy Secretaries, Assistant Secretaries, Heads of Procurement	<ul style="list-style-type: none"> <li>• Update Department AAI to include BAP section <sup>(4)</sup></li> <li>• Set up BAP reporting processes <sup>(3)</sup></li> <li>• Document Department level BAP <sup>(3)</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Update Department level AAI by EOFY</li> <li>• Submit BAP reporting by EOFY.</li> <li>• Publish Department level BAP by EOFY.</li> </ul>
4	<b>Buyers:</b> Procurement Delegate functions, APS 6 to Band 2	<ul style="list-style-type: none"> <li>• Update procurement processes to include AAI BAP changes <sup>(4)</sup></li> <li>• Provide training to all buyers</li> </ul>	<ul style="list-style-type: none"> <li>• Roll out updated procurement processes by EOFY</li> <li>• Roll out training by August 2024</li> </ul>

(1) [Buy Australian Plan | Department of Finance, AIIA DOMESTIC CAPABILITY: FRAMEWORK POLICY](#) Communicate the vision to convey the compelling “why” about BAP – what is the burning platform and inspirational future this supports, why do we need more sovereign capability and in what areas, how does Government intend to use its power as a rule setter and a buyer to drive this agenda and create this future?

(2) [Commonwealth Procurement Rules](#) | Department of Finance

(3) AIIA Position on the Buy Australia Plan Part 1 of 3 19 August 2022. Put incentives in place to make it “good” to procure from sovereign businesses and support their growth – we should see agencies choosing to buy more sovereign because it’s the best option.

(4) [Model accountable authority instructions \(AAIs\) Corporate Commonwealth entities](#), [Accountable Authority Instructions \(AAIs\)](#) Simplify processes so that sovereign businesses have more equitable access to compete for opportunities

*Recommendation:* Increase speed of BAP execution by improving support from and reporting between layers of the Government.

*Recommendations:*

- Establish what the program wishes to achieve and how it should be measured (time-based) including current and future financial spend for critical industries, and categorise Australian Providers as ASX-listed, Australian headquartered or, for private businesses, majority Australian owned.
- Establish agreed baseline across the Government in these domains of activity.
- Establish targets for each of the domains being measured.

*Recommendation:* Establish an advisory council comprising a mix of Australian industry experts with an understanding of the verticals, and senior serving or past public servants from information technology policy and procurement roles to refine targets, review performance over time, and oversee the council reporting

**Level of engagement and consultation between the Australian Government and technology companies**

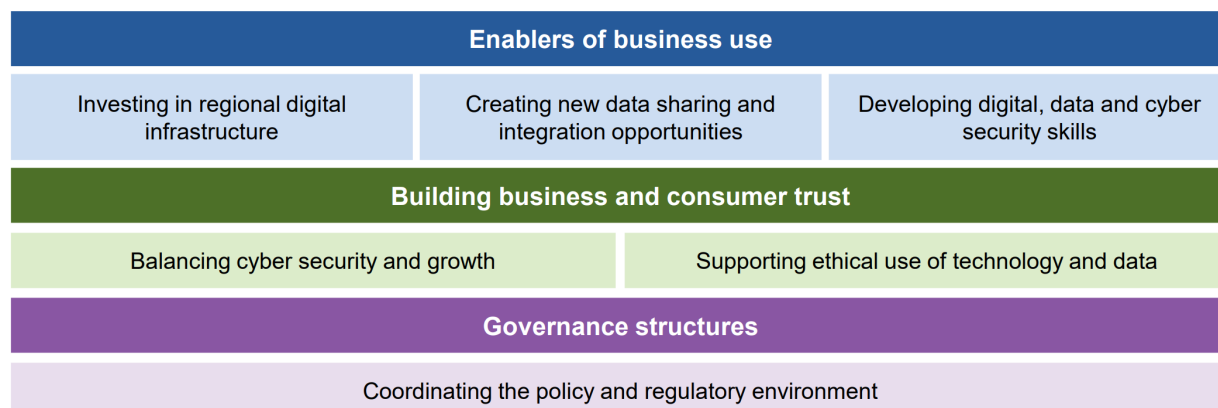
The AIIA notes, with concern, the lack of a comprehensive industry policy to support promising domestic companies in commercialisation, scaling operations, securing business opportunities, and competing effectively against their foreign counterparts.

Government procurement and spending

There is a marked reduction in Government spending on technology. Recent high-profile decisions of the government to stop digital transformation projects is a major concern (for example Medicare payments and Services Australian Welfare Payment Infrastructure Transformation program to name two). While Australia is ranked 5<sup>th</sup> in the [OECD Digital Government Index](#), there is a growing technology legacy debt across the commonwealth agencies that require substantial investment from government. Australians now have heightened expectations of the Government improving digital service delivery while ensuring the securing of their information and investments in MyGov and Digital Identity and Service Australia remain critical as do back-end systems and Enterprise resource planning reforms.

This AIIA view is supported by findings in the 5-year Productivity Inquiry recommendation, in [which Volume Four](#) listed six potential areas for governments investments to improve Australia's digital, data and cyber security foundations (See Figure 3.1 in next page). These recommendations are on top of work already proposed in the [Digital Economy Strategy 2030](#), which seeks to establish Australia as a leading digital economy and society by 2030.

**Figure 3.1 – Potential areas for governments to improve Australia’s digital, data and cyber security foundations**



For these reasons, the AIIA notes that the Government ought to take a proactive stance in continuing digital transformation to boost national productivity and cyber security. Some critical projects include digital identity (myGov), adoption of Artificial Intelligence and automation, and e-invoicing. Increased government spending, powered by increased speed of spending on domestic capabilities, will ensure healthy development of the technology ecosystem and supply chain certainty. We understand the government has done an audit of its technology legacy systems which could serve as a foundation to establish funding parameters.

*Recommendation* – Increase size and pace of government spending, particularly in critical technology projects for digital transformation, such as myGov, AI, automation and cyber security as well as paying down technology legacy debt.

#### Government-led industry policy

While there have been several positive developments such as the National Reconstruction Fund<sup>1</sup>, \$17.5M Responsible AI adopt program<sup>2</sup> and the Industry Growth Program<sup>3</sup>, the AIIA recommends a comprehensive review of how Australia supports innovation, from ideation through to commercialisation to on-going operation, with the objective of creating a national framework for support and recommending how existing gaps can be addressed. This review must necessarily consult with key stakeholders including state governments, industry associations, research institutions and higher education and should cover tax incentives, grants and other government programs that currently support industry-based innovation. The outcome would be an industry development plan that steers Government procurement activity via measurable target impact factors in Australia’s technology industry.

In its recent [2024-2025 pre-budget submission](#), the AIIA highlighted best practices in how Governments are fulfilling their modern role to support domestic capabilities in a rapidly-evolving technological landscape and a technology-driven economy. We showcased examples of dedicated Government support for

<sup>1</sup> National Reconstruction Fund Corporation, [National Reconstruction Fund Corporation](#), 2023.

<sup>2</sup> Department of Industry, Science and Resources, [\\$17 million to boost AI adoption by SMEs](#), 8 December 2023.

<sup>3</sup> Department of Industry, Science and Resources, [Industry Growth Program](#), 2023.

overseas counterparts/competitors, which have access to tailored set of financial and non-financial assistance. Specific actions include Government diplomacy to harmonise regulations and standards with important trade partners for successful digital exports and/or joint innovation. One such example is the [US-Singapore Strategic Technology Partnership](#), which resulted in agreements to integrate ecosystems, and cross-train workforce in latest technical tools.

*Recommendation:* Comprehensive industry policy review and improve access to funding.

*Recommendation:* The Government should facilitate the economy-wide adoption of emerging technologies for productivity, train future workforce and create overseas business opportunities in addition to local procurement opportunities

*Recommendation:* The Government should encourage cross-border collaboration to harmonise regulation, standards, and training for domestic and export sales.

*Recommendation:* Provide assurance programs for domestic supply chain similar to Federal Risk and Authorization Management Program (FedRAMP)

#### Government engagement

It is crucial for the Australian Government to work closely with the industry. It should engage promptly to understand new technologies and the implications of new or changes to policies. More than ever, a key ingredient of national economic success is to ensure parties are properly informed of the implications and able to respond responsibly while remaining competitive.

One example of concerning policy development carrying unintended consequences is the proposed updates on the [‘sophisticated investor’ test](#). Sophisticated investors can legally access complex but often lucrative investment opportunities such as in private equity, venture capital, and seed rounds for early-stage start-ups. In short, ASIC has proposed raising the threshold required for retail investors to qualify as a “sophisticated investor” due to recent increase in property values. This change will reduce the number of individual investors and the availability of capital to the technology start-up sector, making raising capital and starting businesses much harder. It will also leave domestic businesses tied into aligning themselves with overseas funds who are not constrained by this change.

*Recommendation:* Engage with the technology sector in an agile manner to understand the implications of new technologies and policy proposals to avoid unintended consequences. Layers of Government should include ‘how their proposed changes might have primary or secondary impact on domestic capabilities’ as a key consideration.

*Recommendation:* Collaborate with Federal and State Governments through established structures like the national digital council to create shared policies and programs

## Conclusion

The AIIA appreciates the opportunity to make a submission. As BAP and FMiAO were AIIA's initiatives, we are keen to see it succeed – quickly. We are keen to discuss the content of this submission. Should you have any questions, please contact Ms Siew Lee Seow, General Manager, Policy and Media at [siewlee@aiia.com.au](mailto:siewlee@aiia.com.au).

Yours sincerely  
Simon Bush  
CEO, AIIA

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## About the AIIA

The Australian Information Industry Association (AIIA) is Australia's peak representative body and advocacy group for those in the digital ecosystem. We are a not-for-profit organisation to benefit members, which represents around 90% of the over 1 million employed in the technology sector in Australia. Since 1978, the AIIA has pursued activities to stimulate and grow the digital ecosystem, to create a favourable business environment for our members and to contribute to Australia's economic prosperity.

We do this by delivering outstanding member value by:

- providing a strong voice of influence
- building a sense of community through events and education
- enabling a network for collaboration and inspiration; and
- developing compelling content and relevant and interesting information.

We are unique in that we represent the diversity of the technology ecosystem from small and medium businesses, start-ups, universities, and digital incubators through to large Australian companies, multinational software and hardware companies, data centres, telecommunications companies and technology consulting companies.