

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA  
JOINT COMMITTEE OF PUBLIC ACCOUNTS

REPORT 301  
FINANCE MINUTES

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SIXTEENTH COMMITTEE

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#### DUTIES OF THE COMMITTEE

Section 8(1) of the Public Accounts Committee Act 1951 reads as follows:

Subject to sub-section (2), the duties of the Committee are:

- (a) to examine the accounts of the receipts and expenditure of the Commonwealth including the financial statements transmitted to the Auditor-General under sub-section (4) of section 50 of the Audit Act 1901;
- (aa) to examine the financial affairs of authorities of the Commonwealth to which this Act applies and of inter-governmental bodies to which this Act applies;
- (ab) to examine all reports of the Auditor-General (including reports of the results of efficiency audits) copies of which have been laid before the Houses of the Parliament;
- (b) to report to both Houses of the Parliament, with such comment as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Parliament should be directed;
- (c) to report to both Houses of the Parliament any alteration which the Committee thinks desirable in the form of the public accounts or in the method of keeping them, or in the mode of receipt, control, issue or payment of public moneys; and
- (d) to inquire into any question in connexion with the public accounts which is referred to it by either House of the Parliament, and to report to that House upon that question;

and include such other duties as are assigned to the Committee by Joint Standing Orders approved by both Houses of the Parliament.

## PREFACE

Arrangements to ensure that appropriate action is taken in response to comments contained in the Committee's reports have been in operation since 1952.

The procedure has been that after a report by the Committee is tabled in the Senate and House of Representatives, the Chairman of the Committee forwards a copy of the report to the responsible Minister. A copy is also forwarded to the Minister for Finance together with a request that the report be considered and the Chairman subsequently be informed of actions to address the Committee's recommendations. The reply, in the form of a Department of Finance Minute, is then examined by the Committee and submitted, with comment if necessary, as a report to the Parliament.

In its Report No 291, Revised Procedures for Reports of the Joint Committee of Public Accounts, tabled in Parliament in June 1988, the Committee advised that it would consolidate the tabling of all Finance Minutes in the one annual report; the only exceptions being Finance Minutes that were urgent, lengthy or for some other reason required immediate reporting to the Parliament.

In accordance with these procedures, this Report tables the Department of Finance Minutes which were submitted in response to the Committee's reports. The Committee has also taken the opportunity to further refine the Finance Minute process, as indicated in the introductory Chapter of this Report.

For and on behalf of the Committee.

Robert Tickner, MP  
Chairman  
28 November 1989

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## INTRODUCTION AND COMMITTEE COMMENT

1.1 The Committee is constantly concerned that it deal efficiently with the follow-up procedures for Committee reports. Since 1952 the Committee has had a formal procedure known as a Department of Finance Minute to ensure that appropriate action is taken in response to each report.

1.2 The procedure has been that after a report by the Committee is tabled in the Senate and the House of Representatives, the Chairman of the Committee forwards a copy of the report to the responsible Minister. A copy is also forwarded to the Minister for Finance together with a request that the report be considered and the Chairman subsequently be informed of actions to address the Committee's recommendations. The reply, in the form of a Department of Finance Minute, is then examined by the Committee and submitted, with comment if necessary, as a report to the Parliament.

1.3 The Committee reviewed these procedures in Report 291 Revised Procedures for Reports of the Joint Committee of Public Accounts which was tabled in the House of Representatives in June 1988. The Committee indicated in Report 291 that it would in the future table all Finance Minutes in one volume to be presented annually to the Parliament.

1.4 This Report contains all of the Finance Minutes which are at present before the Committee. A complete list of the reports to which the Finance Minutes apply is provided on the Contents page of this volume. In all, 21 Finance Minutes are included in this Report.

1.5 Four of the 21 Finance Minutes contain supplementary material which was requested by the Committee as part of its overall consideration of individual Finance Minutes. This supplementary material is reproduced after the relevant Finance Minute, and concerns the following reports:

- No. 257 Administration of Quarantine Services
- No. 280 Defence Science and Technology Organisation  
- Task Cost Management
- No. 287 Australian Taxation Office - Computer System  
Re-equipment and Redevelopment
- No. 288 Review of Efficiency Audit - Administration of  
Capital Grants to Non-Government Schools

1.6 The tabling of these Finance Minutes should not be taken to mean that the Committee is completely satisfied with the contents of the Minutes. In particular, the Committee reserves the prerogative of conducting detailed analysis of a particular Minute at a later time. There have been instances when such analysis has led the Committee to a further formal inquiry.

1.7 The fact that detailed analysis of a Finance Minute may follow - rather than precede - its tabling does not indicate the Committee has reduced in any way its oversight of the responses. Nor does it indicate any reduction in the importance with which the Committee views the Finance Minute process.

1.8 Rather, the Committee believes that the overall process of accountability is aided by the prompt tabling of Finance Minutes. This gives Parliamentarians and the public an opportunity to comment on the adequacy or otherwise of the response of departments to particular concerns and recommendations of the Committee. In turn, the Committee can only benefit from taking account of such comment as it considers the Finance Minute in detail at a later stage.

## **Further Refinement of the Finance Minute Process**

1.9 While the Committee intends to continue the practice of tabling all Finance Minutes received in a particular year within one annual volume, it also intends to make each Finance Minute available to Parliament as soon as practicable after it is received. The reason for this action is the same as that outlined above, namely, to facilitate the process of accountability. This action involves a slight revision of the procedures for handling Finance Minutes outlined in Report 291, which referred to only an annual tabling of Finance Minutes.

1.10 In further refining its procedures for handling Finance Minutes, the Committee has benefited from discussions with the Minister for Finance, Senator the Hon Peter Walsh, and senior staff of the Department of Finance. Arising out of these discussions, the Committee makes two recommendations intended to improve the Finance Minute process.

1.11 During 1988 the Committee was deeply concerned about lengthy delays in obtaining appropriate responses from departments and agencies for inclusion in Finance Minutes. The Department of Finance undertook to initiate measures to ensure Finance Minutes were completed within six months of the tabling of a Committee report. The specific measures included more senior officers of the

Department of Finance becoming involved at an earlier stage in the Finance Minute process, and greater assistance being provided by the Department of Finance to departments preparing responses.

1.12 The Committee welcomes these initiatives by the Department of Finance and - in order to complement them - recommends that:

- departmental responses to Committee reports be prepared, oversighted and signed at the Secretary level.

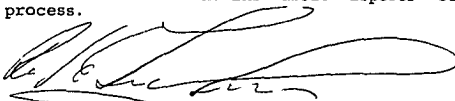
1.13 A further matter of concern to the Committee was the possibility that completion of some Finance Minutes could be inordinately delayed or rendered more complex than necessary by failing to distinguish between Committee recommendations relating to the operational activities of departments or agencies and those recommendations bearing on issues of government policy. Traditionally, the Committee's findings are aimed at improving the operational efficiency or effectiveness of government undertakings; but there are instances where particular recommendations have involved a government response on policy matters.

1.14 The Committee considers it undesirable for important issues of departmental operational efficiency and effectiveness to be unduly overshadowed by government policy responses.

1.15 The Committee therefore recommends that:

- the government's response to Committee recommendations on matters of policy be tabled separately within the timeframe applying to government responses to other Committees' reports.

1.16 The Committee reiterates its view that Finance Minutes are an important part of the accountability process associated with the administration of Commonwealth departments and agencies. Adoption of the measures outlined above will facilitate the accountability process. The Committee expresses its appreciation of the helpful role of the Department of Finance in responding to the Committee's concerns about aspects of the Finance Minute process.



R E Tickner, MP  
Chairman  
28 November 1989

**FINANCE MINUTE ON  
REPORT 249  
PROPOSED COMPUTER ACQUISITION  
FOR REPATRIATION GENERAL HOSPITALS**

## CHAPTER 3

## DEPARTMENT OF FINANCE MINUTE

3.1 This Minute has been prepared on the basis of responses received from the Departments of Veterans' Affairs, Administrative Services and Finance.

3.2 In this Chapter each of the Committee's recommendations and conclusions is reproduced in turn and is followed by the response.

General Comment by the Department of Finance

3.3 The Committee, in its 249th Report and in a number of other Reports on ADP projects, has made recommendations for ADP projects of the general nature that:

- (i) the initial proposal should assert in some detail the benefits to be achieved, and describe the method proposed for monitoring the achievement of benefits;
- (ii) agencies monitor the costs and benefits of projects and be in a position to provide this information to co-ordinating agencies; and
- (iii) Finance use this information in assessing any subsequent requests for funding of the project.

3.4 The Department of Finance supports the thrust of these recommendations. Finance also notes that the recommendations are consistent with current developments in the control of administrative expenses, the introduction of program budgeting and performance indicators, and initiatives of the Financial Management Improvement Program. Finance's particular interest would be in the evaluation of the cost-effectiveness of the proposal and the realisation of promised benefits, including savings.

3.5 New procedures which resulted from the acceptance of recommendations from the Efficiency Scrutiny Unit review of ADP acquisition processes took effect from 25 February 1988. In accordance with the new procedures the expected outcomes, including the specific level and timing of expected resource savings, will be agreed at the time of Cabinet approval of the project, and the Department's forward estimates of staffing and funds adjusted accordingly.

3.6 Guidelines for the application of the new procedures are currently being developed by this Department in conjunction with the Department of Administrative Services (DAS), Industry, Technology and Commerce and in consultation with the Committee and are expected to be issued soon.

3.7 The Government has also recently decided that the savings in running costs from major ADP projects should be considered separately from the measures introduced to control administrative expenses. Running costs for smaller ADP projects are included within the general running costs control system announced by the Prime Minister in his speech to Parliament on 'Public Service Reform' on 25 September 1986.

3.8 Consistent with these arrangements, Finance suggests that a two-tier approach might be taken in the monitoring of projects:

- . For projects above the threshold, eg all those which require assessment by an Acquisition Council and Cabinet approval (ie those costing more than \$5m, or having particular sensitivity), formalised review by departments and reporting on performance to the Department of Finance would be warranted.
- . For other projects below the threshold, it would be more compatible with the direction of budgetary reform for central agencies to provide advice and guidelines as appropriate, and in due course to delegate the power to make such ADP expenditure without formal scrutiny or approval by a central agency ie Departments decide if expenditure is warranted based on a cost/benefit analysis. This delegation would take place within a system which both gives managers incentives to improve efficiency and places considerable pressure upon them to do so through the responsibility of managing within the stringent real expenditure limits applying to running costs.

3.9 Finance recognizes that in some projects many complex issues are involved in the separate description, quantification and measurement of the benefits and costs of ADP projects, and that further guidance to departments and agencies in this regard would assist in giving effect to the Committee's recommendation.

#### Department of Veterans' Affairs

##### Conclusion (paragraph 1.2 of Report 249)

The Committee concludes that the Department of Veterans' Affairs has not to date conducted the Patient Care System project in a manner consistent with existing planning guidelines and sound project management practices.

##### Response

3.10 The Department of Veterans' Affairs (DVA) reaffirmed its commitment to the Patient Care System (PCS) Project in August 1985, appointed a senior officer as Project Director, and confirmed the responsibility of the PCS Steering Committee in the overall direction of the Project. Project management tools have been introduced.

Conclusion (paragraph 1.2 of Report 249)

The Committee concludes that there is a need for improved hospital services for the veteran community.

Response

3.11 There is an extensive, ongoing program of development and review of Repatriation Hospital services and facilities.

Conclusion (paragraph 1.2 of Report 249)

The Committee concludes that Repatriation General Hospital management and staff operate under difficulties due to inadequate computer systems.

Response

3.12 The PCS Project and other information systems under development are aimed at overcoming those difficulties.

Conclusion (paragraph 1.2 of Report 249)

The Committee concludes that the computing systems at Repatriation General Hospitals generally lag well behind those available in other public hospitals.

Response

3.13 The PCS-based systems being introduced progressively from 1987 will overcome that lag and will enable Repatriation Hospitals to adopt a suitable application of advanced integrated information systems technology.

3.14 The PCS comprises a number of complex applications modules that address a wide range of hospital information requirements. The development and implementation of these modules will extend over a period of at least five years, progressively addressing most patient-related hospital activities.

3.15 The first PCS application module was installed at Repatriation General Hospital (RGH) Concord in late 1987. Until the initial, high priority PCS applications are fully installed in the RGHs, their information systems will continue to be seen as lagging behind those in other public hospitals.

Conclusion (paragraph 1.2 of Report 249)

The Committee concludes that some form of integrated hospital information system is the most effective way for the Department of Veterans' Affairs to proceed to satisfy Repatriation General Hospital information requirements and that the Patient Care System offers the only appropriate vehicle to achieve this in an IBM compatible environment.

Response

- 3.16 The Department has noted the Committee's conclusion.

Recommendation (paragraph 1.3 of Report 249)

The Committee recommends that the Department of Veterans' Affairs proceed with its negotiations with the Department of Finance and the Department of Local Government and Administrative Services with a view to the acquisition of computers for the Repatriation General Hospitals.

Response

- 3.17 The Department requested a Certificate of Exemption from the Department of Administrative Services (DAS) on 26 June 1986. After further information was supplied to DAS (including the extent of commitment made to IBM through software development arrangements), the Certificate of Exemption was issued by DAS on 29 September 1986, permitting contract negotiations with IBM to be initiated. Public tenders were called on 31 March 1987 for all IBM compatible mainframe computers and IBM was recommended as the preferred supplier.

Recommendation (paragraph 1.3 of Report 249)

The Committee recommends that the Department of Veterans' Affairs supply the Committee, with comments from the Department of Finance, information on computer capacity requirements before placing an order for a computer at Repatriation General Hospital Concord.

Response

- 3.18 The Department of Finance was provided with drafts of PCS capacity requirements for comment on 26 June 1986. DVA was not prepared to accept a number of Finance's comments, but funds for equipment recommended by DVA were agreed for inclusion in the 1986-87 estimates.

Recommendation (paragraph 1.3 of Report 249)

The Committee recommends that the Department of Veterans' Affairs respond to the other Committee recommendations through the Minister for Finance Minute mechanism prior to proceeding beyond the purchase of the Concord computer.

Response

- 3.19 The Department has noted the Committee's recommendation.



Recommendation (paragraph 1.3 of Report 249)

The Committee recommends that the Department of Local Government and Administrative Services decides on the method of acquisition.

Response

3.20 See the response provided in paragraph 3.17.

Response by DAS

3.21 DAS has always preferred that all hardware for the RGHS be acquired through the public tender process (unless circumstances preclude this course of action).

Recommendation (paragraph 1.3 of Report 249)

The Committee recommends that, should the Department of Local Government and Administrative Services accept the arguments put to it by the Department of Veterans' Affairs for a Certificate of Exemption for an IBM computer for Repatriation General Hospital Concord, a supply and development contract be concurrently negotiated with IBM which ties further development and support for the Patient Care System related software to the initial IBM computer acquisition.

Response

3.22 Negotiations were undertaken with IBM on support requirements for PCS on the RGH Concord computer and recommendation was made to DAS on the composition of the supply and development contract.

Response by DAS

3.23 A contract has been agreed which ties further development and support for PCS software to the initial IBM mainframe acquisition.

Conclusion (paragraph 3.13 of Report 249)

The Committee concludes that the proposed integrated hospital management system is not based on a detailed analysis of the functional requirements of Repatriation General Hospital users but rather on the presumed analogous requirements of other users.

Response

3.24 The functional analysis conducted has provided a valuable information model and identified logical information system requirements and priorities. The analysis has been used by hospital managements in determining their short to medium term PCS application priorities and will continue to be used as a standard reference in the determination of PCS application priorities and the assessment of the suitability of packaged application software to the RGH operational environments.

Conclusion (paragraph 3.13 of Report 249)

The Committee concludes that the Department of Veterans' Affairs strategy is modelled on the successful implementation strategy of a number of other hospital systems.

Response

3.25 PCS users co-operate closely in applications development and in the exchange of implementation experience. DVA expects to establish close contact with successful Australasian and overseas PCS users.

Conclusion (paragraph 3.13 of Report 249)

The Committee concludes that the degree of success of the project will depend on the degree of compatibility between the real user requirements and the capabilities of overseas software.

Response

3.26 DVA and other Australian PCS users will be heavily dependent on overseas-developed PCS applications modules. Where modules need to be adapted or new modules developed, DVA will have the opportunity of working with IBM, other software suppliers and other hospitals to produce applications appropriate to the real user requirements. In some instances, inevitably, real user requirements may not be fully met by overseas PCS developments.

Conclusion (paragraph 3.13 of Report 249)

The Committee concludes that the greater the divergence between user requirements and software functionality, the more expensive will be the cost of adding new functions as the number of functions already implemented increases.

Response

3.27 The Department will seek to minimise the cost of additional functions through joint development arrangements. However, no such arrangement has been concluded. The Department is currently negotiating with IBM, Travanol Infohealth Australia Pty Ltd and the Western Australian Department of Health on joint development arrangements in respect of several required PCS application modules. No cost study has been undertaken for this arrangement.

Conclusion (paragraph 3.13 of Report 249)

The Committee concludes that the Patient Master Index is central to that implementation and the data analysis consultancy currently underway should put the planning for the Repatriation General Hospital information system on a better footing.

#### Response

3.28 The data analysis study was completed with a final report submitted in November 1986. The report identified in detail the hospital information system dependencies based on studies in two RGHS. The data analysis has assisted hospital managements in identifying PCS application requirements and priorities, and will continue to be used as a standard reference in the Department's hospital information systems planning.

#### Conclusion (paragraph 1.8 of Report 249)

The Committee concludes that there is an urgent need to complete the data analysis and carry out a functional analysis of hospital functions prior to acquisition of software modules.

#### Response

3.29 These analyses were addressed by Koranya consultants whose final report, incorporating the data analysis, was received in November 1986.

3.30 See also the responses provided in paragraphs 3.24 and 3.28.

#### Recommendation (paragraph 3.15 of Report 249)

The Committee recommends that the data analysis consultancy be concluded as soon as possible and its results be used to prepare a conceptual data base design for the total integrated hospital information system.

#### Response

3.31 The Hospital Information Systems (HIS) consultancy by Koranya was commenced in June 1986. Data model validation activity was transferred to RGH Concord on 4 August 1986. HIS co-ordinators have been given basic training in data analysis and validation methodologies.

3.32 See also the response provided in paragraph 3.28.

#### Recommendation (paragraph 3.15 of Report 249)

The Committee recommends that an analysis of processing functions be carried out in addition to the data analysis study currently under way.

#### Response

3.33 A functional analysis of the RGH's processing requirements was undertaken jointly with the data analysis conducted by consultants in 1986. Details of both the functional and data analyses were included in the consultant's report presented to DVA in November 1986.

Recommendation (paragraph 3.15 of Report 249)

The Committee recommends that it is highly desirable that this functional analysis be completed by the Department of Veterans' Affairs before it proceeds beyond the initial transfer of known Admissions, Discharges and Transfers (ADT) functions to the new computing network.

Response

3.34 As noted in paragraph 3.33, the functional analysis was undertaken by Koranya consultants and incorporated in the final report lodged in November 1986.

Recommendation (paragraph 3.15 of Report 249)

The Committee recommends that the Department of Veterans' Affairs modify its project plans based on the understanding of its requirements once the data analysis and functional analysis are completed.

Response

3.35 The data analysis and functional analysis were completed by Koranya consultants and provided to DVA in a final report in November 1986. The report was used by hospital managements in addressing a medium-term strategic plan for PCS applications in February 1987. The report has been accepted by the DVA Hospitals ADP Committee as a standard reference in all future hospital ADP planning.

Conclusion (paragraph 3.22 of Report 249)

The Committee concludes that extensive and ongoing consultation has taken place between Central Office staff and Concord Repatriation General Hospital senior medical managerial staff involved with the current Admissions, Discharges and Transfers system.

Response

3.36 The process of consultation at RGH Concord is ongoing and increasing.

Conclusion (paragraph 3.22 of Report 249)

The Committee concludes that consultation with other user staff has not been adequate in the period up to mid-1985 but staff consultation for the Admissions, Discharges and Transfers functions has improved considerably in the period since.

Response

3.37 An optimum level of consultation is difficult to achieve due to the wide geographical dispersion of the RGHS. The level that was achieved was considered adequate in view of the approval status of the Project.

Conclusion (paragraph 3.22 of Report 249)

The Committee concludes that the level of staff consultation for staff not scheduled to use automation in the near future is not adequate.

Response

3.38 The level of consultation was considered adequate in view of the approval status of the Project and the need to contain expectations after earlier delays in advancing the Project. As the PCS applications plan develops, and as a result of the data analysis study, staff consultation in all functional areas is rapidly increasing.

Recommendation (paragraph 3.23 of Report 249)

The Committee recommends that the Department of Veterans' Affairs take steps to inform its staff of the strategy for implementation of its integrated hospital information systems, the benefits accruing from the degree of integration, and management commitment to the strategy.

Response

3.39 Consultation with staff and staff associations in respect of the PCS Project and applications planning is regular and ongoing. It is conducted at the following levels:

- . National Consultative Council;
- . Technological Change Committee;
- . PCS Project Consultative Meetings;
- . Hospital Information Systems Steering Committees; and
- . PCS/Australian Patient Management System (APMS) Implementation Committees.

3.40 Meetings at the national level range from two to four per annum. Hospital committees generally meet at monthly intervals and, as APMS implementation approaches in several hospitals, the involvement of affected staff and consultation is on an ongoing, daily basis.

3.41 No statistics are held on the number of consultations with staff. However, over 500 hospital staff who will make use of APMS have been introduced to the system. There are presently no outstanding issues for resolution with staff associations prior to APMS implementation.

Recommendation (paragraph 3.23 of Report 249)

The Committee recommends that the Department of Veterans' Affairs provide and update as early as possible details for implementation of individual hospital functions, including timings, to staff.

Response

3.42 Consultation on APMS with affected and interested staff is well advanced and ongoing.

3.43 See also the responses provided in paragraphs 3.39 to 3.41.

Conclusion (paragraph 3.30 of Report 249)

The Committee concludes that the Department of Veterans' Affairs consultation with staff associations commenced after the Department decided to base its future integrated hospital information system on the Patient Care System, but these consultations are still in a preliminary stage.

Response

3.44 Formal consultation in accord with the DVA/Staff Associations Memorandum of Understanding on technological change has commenced.

Recommendation (paragraph 3.31 of Report 249)

The Committee recommends that the Department of Veterans' Affairs prepare a broad Job Impact Statement in conjunction with staff which addresses the impacts on staff numbers, duties, organisational arrangements and the work environment generally where manual systems are to be replaced by on-line, real-time computer systems and that this statement be widely circulated and discussed with relevant staff associations.

Response

3.45 Preliminary APMS staff impact documentation was provided to staff associations by December 1986 and full documentation, in accord with the Memorandum of Understanding with associations, was distributed in March 1987. These job impact statements were developed by the PCS implementation team in each RGH and centrally co-ordinated.

3.46 Development of job impact statements is required by the Memorandum of Understanding with staff associations. They are part of the SDM/70 approach for systems development. (SDM/70 is a formal proprietary systems development methodology used by DVA for the management of the development of new systems, enhancements to systems and for system maintenance. It is based on a pre-defined system life cycle within which all required development work can take place.)

3.47 Staff associations are being invited to work with DVA in the assessment of the staff impact of other planned PCS applications.

Recommendation (paragraph 3.31 of Report 249)

The Committee recommends that the Department of Veterans' Affairs prepare Job Impact Statements for each function to be implemented at the earliest possible time before the completion of the specification stage.

Response

3.48 See the responses provided in paragraphs 3.45 to 3.47.

Conclusions (paragraph 3.37 of Report 249)

The Committee concludes that, from an analysis of Departmental documentation supplied and from the other independent consultants' reports, it is clear that in the period to May 1985:

- . the project did not have sufficient project management experience for a project of the nature and size of the Patient Care System project;
- . the project's working environment was characterised by personality conflicts and low morale;
- . relationships between the Central Office and the project team had deteriorated;
- . there was a lack of commitment to the Patient Care System team from Central Office due to its underestimation of the amount of modification needed for the Patient Care System to meet Repatriation General Hospital requirements;
- . the Patient Care System was purchased without a proper study of requirements; and
- . these factors were the major contribution to the project's failure.

Response

3.49 DVA notes the Committee's conclusions and has taken steps to address the reasons why the initial PCS Project faltered. The Department has recognised that the success of the project is conditional on effective support from the PCS software suppliers.

3.50 The Department advertised the Project Manager position extensively among its professional staff and selected the most suitable applicant with skills in the hospital, medical and computing fields. It subsequently became necessary to assign a Senior Executive Service officer with extensive project management and Central Office experience to take charge of the project.

3.51 Location of the project applications staff at RGH Concord was necessary to their effective relationship with system users and to ensure responsiveness to user requirements. Relationships with Central Office were restored through the SES program manager providing the interface to Central Office. Staff morale and stability is now high.

3.52 The Patient Care System provided, and still provides, the only basis for the introduction of modern integrated hospital information systems in the IBM software environment adopted by the Department in the 1960s. PCS provides the flexibility to accommodate information systems requirements as these are determined by hospital system users.

3.53 A very major factor contributing to the project's faltering was the Department's then inability to secure, through the acquisition of an IBM mainframe, the level of support and co-operative systems development enjoyed by all other PCS users world-wide. Personality conflicts, low morale and deteriorating relationships are most likely the outcome of the team's having to undertake complex systems modification and development in the absence of effective support from the PCS software supplier.

#### Conclusion (paragraph 3.42 of Report 249)

The Committee concludes that the Patient Care System project has been delayed for a considerable period of time as a result of poor decision making, misunderstandings and mismanagement.

#### Response

3.54 The PCS project has been delayed due to a number of factors both within and outside the control of the Department. The Department's reaffirmation of its commitment to the Project in August 1986 addressed the majority of the Committee's concerns. Since that date, delays have been largely outside the control of the Department.

3.55 A request to procure an IBM 4381 computer from IBM was lodged with DAS on 26 June 1986 following the release of the Committee's 249th Report. The computer was imported by IBM at that time in expectation of the Department's requirement.

3.56 A Certificate of Exemption was approved by DAS on 29 September 1986 and the Department was given access to the IBM 4381 to establish its operating environment when an order was communicated to IBM by DAS on 5 November 1986. Until January 1987, PCS development proceeded using a restricted computer service provided by the (former) Department of Housing and Construction in Canberra.



3.57 The request placed with DHC for the construction of a computer building at RGH Concord in November 1985 could not be actioned until the Committee's Report was to hand in June 1986. Construction commenced in October 1986 and the RGH Concord IBM 4381 computer was installed on 7 March 1987.

3.58 Validation of the first PCS application module and its pilot implementation by hospital staff could not be initiated until the computer was installed and the commissioning process was completed in April 1987.

Conclusion (paragraph 3.42 of Report 249)

The Committee concludes that the Department of Veterans' Affairs has moved to correct these problems since early 1985 by the use of consultants and new staff appointments.

Response

3.59 The Department has noted the Committee's conclusion.

Conclusion (paragraph 3.42 of Report 249)

The Committee concludes that, while the Department of Veterans' Affairs recovered some ground, much needs to be done before the infrastructure for the implementation of an integrated hospital information system is in place.

Response

3.60 Progress has been made in establishing the organisational infrastructure for PCS implementation in the RGHs. The infrastructure will need to be significantly expanded to accommodate the PCS applications that are expected to be identified for implementation over the next five years.

Recommendation (paragraph 3.43 of Report 249)

The Committee recommends that:

- . the Patient Care System project be given a high priority in view of the effect on morale of Repatriation General Hospital staff if the project falters yet again; and
- . the Department of Veterans' Affairs make maximum use of its already established committee structure to ensure that the Department's commitment is translated into the necessary support and guidance to create a healthy project team environment for systems implementation.

Response

3.61 The PCS Co-ordination Committee is continuing under a new Chairman and RGH Committees are being encouraged to meet regularly with PCS officers.

3.62 See also the responses provided in paragraphs 3.39 to 3.41, 3.45 and 3.46.

Conclusion (paragraph 3.56 of Report 249)

The Committee concludes that for the Department of Veterans' Affairs' purposes the alternative, non IBM-compatible, integrated hospital information systems do not offer advantages over the Patient Care System.

Response

3.63 The Department fully supports this conclusion.

Response by DAS

3.64 DAS recognised the need for IBM compatibility because of the considerable investment already made in these systems, particularly software.

Conclusion (paragraph 3.56 of Report 249)

The Committee concludes that the Patient Care System appears to be the only suitable system for the Department of Veterans' Affairs in the IBM-compatible market.

Response

3.65 The Department agrees with this conclusion.

Response by DAS

3.66 Subsequent to the Committee's report, public tenders were invited and the contract was awarded to IBM for the remaining RGH's.

Conclusion (paragraph 3.56 of Report 249)

The Committee concludes that any tendering process should be restricted to the IBM-compatible market. It notes that the Department of Local Government and Administrative Services is in agreement with this view.

Response

3.67 The Department requires that the computers to be installed in the RGHs be compatible.

Response by DAS

3.68 While noting the conclusion, DAS wishes to record that the actions of DVA in acquiring software in this manner have "locked in" the Commonwealth to what is now, in effect, a multi-million dollar acquisition.

Conclusion (paragraph 3.80 of Report 249)

The Committee concludes that, at the time of purchase of the Patient Care System, the Department of Veterans' Affairs did not recognise the implications of its software acquisition.

#### Response

3.69 The Department undertook an ambitious project without the active support of IBM or other PCS software suppliers. The task of adapting the American PMS module to Australian and RGH requirements has been complex and demanding. The Department is convinced that PCS was the only suitable and available integrated hospital system; an attempt was therefore made to develop and implement this system on AMDAHL hardware. That approach was contrary to the overseas trend of PCS co-operative development with IBM.

#### Response by DAS

3.70 A preferable arrangement would have been to treat the acquisition on a project basis from the outset if acquisition proposal include all RGH's from the outset, as opposed to a pilot acquisition initially for one RGH only.

#### Conclusion (paragraph 3.80 of Report 249)

The Committee concludes that earlier mismanagement of the Patient Care System project and underestimation of the nature and size of the project have played a role in the Department's decision to seek a Certificate of Exemption for the Concord Repatriation General Hospital computer.

#### Response

3.71 The experience of endeavouring to develop PCS without IBM support confirmed the Department's long held view that DVA needed to work closely with the supplier, which is the situation with all other PCS users and the users of hospital systems provided by other companies. A Certificate of Exemption is necessary for a Commonwealth Department to restrict contract negotiations to a preferred supplier.

#### Response by DAS

3.72 As it is no longer feasible to treat the total acquisition on a project basis, the approach now recommended in the Report is the most appropriate to ensure maximum protection of the Commonwealth's interests.

#### Recommendation (paragraph 3.81 of Report 249)

#### The Committee recommends that:

- departments include in their Strategic Plans a clear statement where the proposed acquisition of software is subsequently likely to involve or influence hardware expenditures;
- this information be explicitly drawn to the attention of the Department of Finance, the Department of Local Government and Administrative Services and this Committee; and

the Department of Finance and the Department of Local Government and Administrative Services examine ADP Strategic Plans and software acquisition proposals to identify potential hardware acquisition implications.

#### Response by the Department of Finance

3.73 The Department of Finance agrees with the general principles contained in the recommendation, but has reservations regarding the use of agencies' Strategic Plans to identify the possible impact of software acquisitions on subsequent hardware requirements. New guidelines for the preparation of ADP Strategic Plans - now known as Corporate Information Technology Strategic Plans - were issued in October 1987. These plans are now required to be prepared on a three-yearly basis and address a higher level of planning strategy than was previously contained in the annual ADP Strategic Plans.

3.74 Finance considers that agencies would not always be in a position to comprehensively assess the longer-term effects of specific software acquisition proposals on their computing environment. It is suggested that this aspect should be given close attention when considering New Policy Proposals, and in the provision of co-ordination comments on major ADP acquisition proposals submitted to Cabinet for in-principle approval. Similarly, potential service-wide aspects of individual agencies software purchases may be identified from a scrutiny of annual Forward Procurement Plans for ADP facilities, guidelines for the preparation of which, are currently being developed by the Department of Administrative Services, and in the course of service-wide rationalisation reviews undertaken by the Information Exchange Steering Committee.

#### Response by DAS

3.75 DAS supports the objectives of the Committee's recommendations but notes that they would be difficult to achieve. Departments are now required to submit, annually, Forward Procurement Plans to cover three years. These plans are required to identify proposed purchase or lease of software from external sources but not software being developed in-house. Internally developed software is as likely as externally sourced software to involve or influence subsequent hardware expenditures and acquisition strategies. However, no arrangements are presently in place to maintain a register of such software and information regarding that type of software acquisition proposal will not necessarily appear in departments' Forward Procurement Plans. Consequently, when scrutinising annual Forward Procurement Plans for information technology facilities with regard to service-wide aspects of software purchasing, there will also be a need to bear in mind the significance of the use by departments of software developed in-house.

Conclusion (paragraph 3.82 of Report 249)

The Committee concludes that a case exists for the Department of Veterans' Affairs to call tenders for IBM-compatible equipment, and the acquisition and support for the Australian Patient Management System to determine the level of support for the Patient Care System in the market place.

Response

3.76 Open tenders for IBM-compatible equipment and a level of PCS support will be called to meet the needs of RGHs other than RGH Concord.

Conclusion (paragraph 3.82 of Report 249)

The Committee concludes that there may be a case for the granting of a Certificate of Exemption in favour of IBM for the Concord Repatriation General Hospital computer based on the special level of support for the Patient Care System that the Department of Veterans' Affairs claim they require from IBM.

Response

3.77 In response to a submission from DVA, DAS has now issued a Certificate of Exemption in favour of IBM for the RGH Concord computer.

Conclusion (paragraph 3.82 of Report 249)

The Committee concludes that the decision on the method of acquisition properly rests with the Department of Local Government and Administrative Services.

Response

3.78 The Department has noted the Committee's conclusion.

Recommendation (paragraph 3.84 of Report 249)

The Committee recommends that, should the Department of Local Government and Administrative Services accept the arguments put to it by the Department of Veterans' Affairs for a Certificate of Exemption for an IBM computer for Repatriation General Hospital Concord, a supply and development contract should be concurrently negotiated with IBM which ties further development and support for the Patient Care System related software to the initial IBM computer acquisition.

Response

3.79 See the responses provided in paragraphs 3.22, 3.23 and 3.81.

Recommendation (paragraph 3.87 of Report 249)

The Committee recommends that the Department of Local Government and Administrative Services investigates:

- the legal aspects of the memorandum of understanding between IBM and the Department of Veterans' Affairs; and
- whether the Department of Veterans' Affairs should have entered into such arrangements prior to gaining approval to proceed with the chosen method of acquisition.

Response By DVA.

3.80 DVA's Legal Services Division has advised that the Memorandum of Understanding presents no legal problems in its opinion.

Response by DAS

3.81 A supply and development contract which ties PCS software development to the initial IBM computer acquisition was finalised on 24 December 1986. DAS queried the tying of IBM terminals to the acquisition, because these had not been funded, and there is already a contract in place for compatible Telex terminals at a much lower price. DVA insisted, on technical grounds, that the IBM terminals were essential. DVA also assured DAS of the availability of additional funds.

3.82 The Memorandum of Understanding between IBM and DVA was a very loose arrangement which had doubtful legal validity. DAS has insisted that the contract with IBM for development be much stricter, to ensure the rights and duties of the parties are unambiguously spelt out.

3.83 In DAS' view, the arrangements with IBM should have been undertaken through the consultancy contract proforma prepared by DAS. DVA did not plan strategically for the PCS system and related hardware but, had it done so, a very attractive development project could have been submitted to the market via the public tendering or consultancy quotation processes. The hardware could have been tendered separately.

Conclusion (paragraph 3.95 of Report 249)

The Committee concludes that no arguments exist for the Department of Veterans' Affairs restricting or avoiding public tendering in order that available funds be expended in 1985-86.

Response

3.84 The Department did not seek to restrict or avoid public tendering in order to expend funds within the financial year.

Recommendation (paragraph 3.96 of Report 249)

The Committee recommends that the acquisition proceed expeditiously commensurate with proper tendering procedures.

Response by DVA:

3.85 See the responses provided in paragraphs 3.17 to 3.23.

Response by DAS

3.86 DVA provided details on acquisition and support for the Australian Patient Management System. Public tenders were called on 31 March 1987 for all IBM compatible mainframe computers and IBM was recommended as the preferred supplier.

3.87 Acquisition of the software and one mainframe computer from IBM under a supply and development contract was finalised based on a quotation from IBM. Proper procedures have been followed at all stages.

Conclusion (paragraph 3.98 of Report 249)

The Committee concludes that the cost/benefit analysis carried out by the Department of Veterans' Affairs for this project is deficient in the following general respects:

- . the Department of Veterans' Affairs has not presented its project costing data in a comprehensive and consistent manner thereby making it difficult for the Committee to reach confident conclusions about the total costs and the benefits of the proposal;
- . discrepancies exist in the cost estimates and some costs appear to have been omitted;
- . the estimated benefits appear to be conservative and were not determined for the full range of software expected to be acquired or developed;
- . other unquantified benefits will accrue to the proposal; and
- . intangible benefits, such as better health care and patient convenience, will also accrue to the project.

Response

3.88 The Department considers that the nature of the Project, the lack of experience in Australia with integrated hospital systems and the continuing evolution of PCS application preclude the development of an overall cost/benefit analysis at this time. A full statement of Project costs has now been produced for the period to 1989-90.

3.89 The statement of Project costs is under regular review in the light of progress with PCS application development, computer acquisition and installation, staff recruitment and so on. The Department does not consider that the Committee would be advantaged by being provided with a statement at a particular point in time. Finance was provided with a full statement in September 1986 and a further detailed statement is being prepared following the 1987-88 Budget.

3.90 DVA will ensure that each PCS application that follows APMS is subject to cost/benefit analysis before it is implemented.

Conclusion (paragraph 3.125 of Report 249)

The Committee concludes that there is a lack of complete understanding of the Patient Care System on the part of the majority of Repatriation General Hospitals.

Response

3.91 Considerable effort is being applied to present information on PCS plans, progress and capabilities to RGH staff now that approvals to proceed have been obtained.

Recommendation (paragraph 3.126 of Report 249)

The Committee recommends that the Department of Veterans' Affairs take steps to maximise the gains resulting from the implementation of the Patient Care System at other Repatriation General Hospitals.

Response

3.92 There is increased awareness by RGH staff of PCS project activity and plans, and the benefits possible with integrated PCS applications. Regular meetings of PCS co-ordinators are being held and a consultancy proposal is under consideration for the development of a methodology for the accumulation of costs and benefits.

Recommendation (paragraph 3.126 of Report 249)

The Committee recommends that the Department of Veterans' Affairs make the experience, expertise and information gained at Concord readily available to other Repatriation General Hospitals.

Response

3.93 Regular meetings of PCS co-ordinators are being held. Staff secondment to PCS at RGH Concord from other RGHS has commenced with APMS validation and piloting from November 1986. The level of future secondment will depend on whether Concord is the sole IBM site for PCS development.



Recommendation (paragraph 3.131 of Report 249)

The Committee recommends that the Department of Veterans' Affairs institute a cost monitoring and control system such that accurate, timely and comprehensive project costing information is readily available to the Department of Veterans' Affairs management and external regulatory authorities.

Response

3.94 The Department has decided that a consultancy for the implementation of a cost monitoring system for the PCS Project was not yet warranted. The proposal will be considered again in late 1988 when the Project is further advanced, and cost and control issues are more complex.

3.95 PCS Project costs are separately identified within Central Office appropriations for Computer Equipment, Administrative Expenses and Salaries; they are not separately accumulated for each hospital. Project cost monitoring is not sufficiently complex at present to warrant the introduction of a sophisticated system.

3.96 A more formal system will be required and introduced during 1988.

Recommendation (paragraph 3.131 of Report 249)

The Committee recommends that the Department of Veterans' Affairs report to the Department of Finance its revised estimates of the Patient Care System project cost and benefits, any subsequent change in direction of the Patient Care System project and any increase in costs or additional costs to be incurred under the auspices of this project.

Response

3.97 Revised estimates of PCS Project costs were provided to the Department of Finance in September 1986. Further estimates are now being prepared.

Conclusion (paragraph 3.146 of Report 249)

The Committee concludes that insufficient evidence has been supplied to enable the Committee to be assured that Repatriation General Hospital Concord and Repatriation General Hospital Heidelberg require more capacity than the base power of the 4381 range of IBM computers.

Response

3.98 Additional evidence has been supplied to the Committee. The Committee has determined that the question of capacity should be left to the judgement of DVA.

Recommendation (paragraph 3.147 of Report 249)

The Committee recommends that the Department of Veterans' Affairs supply to this Committee a chart of expected demand for computing capacity before any order is placed for a computer for both Concord and Heidelberg Repatriation General Hospitals. The chart should differentiate the expected computer capacity usage of the various hospital software modules as their usage rises over time.

Response

3.99 The Department developed an initial computer capacity chart for PCS application in respect of RGH Concord in June 1986. (A copy has been sent to the Committee.) A similar chart is proposed for RGH Heidelberg.

3.100 See also the response provided in paragraph 3.18.

Conclusion (paragraph 3.157 of Report 249)

The Committee concludes that an expanded National Computer Centre could service Repatriation General Hospitals needs on a 24 hour basis if required with only slightly reduced reliability and some slight inconvenience to Repatriation General Hospitals during periods when the computer is dedicated to data base backups.

Response

3.101 Provision of bureau service on a transcontinental basis is understood to be provided by only two PCS user organisations in the United States of America (USA). Such an approach was considered by DVA to be high-risk and only marginally more cost effective than a decentralised approach. It would not necessarily address the concerns of the Brand Committee regarding levels of service provided to the RGHS from the existing National Computer Centre (NCC) central bureau.

Recommendation (paragraph 3.162 of Report 249)

The Committee recommends that the Department of Veterans' Affairs establish clear guidelines concerning the degree to which changes to the Patient Care System software can be undertaken by Repatriation General Hospital staff and the circumstances under which such changes should be attempted.

Response

3.102 Guidelines for PCS application module modification by RGH staff are to be developed and implemented.

Conclusion (paragraph 3.170 of Report 249)

The Committee concludes that regular backup of the Patient Master Index and transfer of the Patient Master Index from one Repatriation General Hospital to another, provide the basis for backup arrangements in the event of extended periods when the system is not available.

Response

3.103 Backup procedures were developed as a prerequisite to APMS implementation at RGH Concord in November 1987. Procedures will be adapted to meet the requirements of other RGHS ahead of APMS implementation at those hospitals.

3.104 Data base and communications advice is regularly provided to project staff by IBM, external and DVA specialists. Each RGH computer will be incorporated into the DVA computer network to facilitate communications and mutual backup.

Recommendation (paragraph 3.172 of Report 249)

The Committee recommends that the Department of Veterans' Affairs design its backup and recovery procedures prior to implementation and that these procedures should be tested prior to production use.

Response

3.105 Design, development and testing of backup procedures will be done prior to PCS module implementation.

Conclusion (paragraph 3.174 of Report 249)

The Committee concludes that the argument relating to the transfer of Repatriation General Hospitals to States' hospital systems carries little weight in the centralised/decentralised computer system issue.

Response

3.106 The Department has noted the Committee's conclusion.

Conclusion (paragraph 3.178 of Report 249)

The Committee concludes that the Department of Veterans' Affairs has not seriously analysed any alternatives in its proposal.

Response

3.107 The Government accepted the proposed installation of computing facilities in the mainland RGHS. It was not considered necessary to review in detail the alternatives to that approach in the submission to the Committee.

Conclusion (paragraph 3.178 of Report 249)

The Committee concludes that, although a centralised option based on a National Computer Centre was dismissed on qualitative grounds, it deserved serious quantitative evaluation.

Response

3.108 DVA believed that the qualitative arguments greatly outweighed the limited cost advantage expected to flow from a centralised bureau approach. A thorough quantitative evaluation of the centralised approach was not considered to be justified on the grounds of cost and potential delay to the Project.

Conclusion (paragraph 3.178 of Report 249)

The Committee concludes that the case for a decentralised, as opposed to centralised, strategy was insufficiently examined.

Response

3.109 The criticism of the Brand Committee regarding the current DVA Central Bureau service to hospitals, the world-wide trend to in-hospital computing facilities, and the risks to patient care in attempting a centralised PCS service in the Australian geographical environment, dictated a decentralised approach for the RGHS.

Conclusion (paragraph 3.178 of Report 249)

The Committee concludes that on the evidence available it is unable to decide whether the 10-15% reduction in costs of a centralised computer system is valid or not.

The Committee concludes that it is unable to weigh up the Department's qualitative arguments for decentralised Repatriation General Hospital computers against the potential cost savings.

Response

3.110 Provision of bureau service on a transcontinental basis is understood to be provided by only two PCS user organisations in the USA. Such an approach by DVA was considered to be high-risk and only marginally more cost effective than a decentralised approach. It would not necessarily address the concerns of the Brand Committee regarding levels of service provided to the RGHS from the existing NCC central bureau.

3.111 The Department has stated (see page 196 of Report 249) that it is not prepared to accept the risks associated with a central bureau service. Minimisation of risk would involve, as in the USA example, duplication of telecommunications links and of computing facilities. Such an approach, providing the same level of service and security to PCS users as available with facilities installed in the RGHS, could reduce five year acquisition and operations costs by 10%-15%. The cost differential was calculated by the Department in 1985 on the basis of known telecommunications tariffs, equipment and site costs, and assessed operating costs. Telecommunications costs in Australia have long been recognised as more expensive than those in the USA but are only one element in the cost comparison.

3.112 Production of a detailed, quantitative assessment of costs for the alternative centralised bureau approach was not considered to be warranted on the grounds of cost and delay to the Project. The Department considered that its indicative estimate of the cost difference between the centralised and decentralised approaches supported the arguments for computer installations in the mainland RGHS.

**Conclusion (paragraph 3.178 of Report 249)**

The Committee concludes that the Department of Veterans' Affairs is not able to indicate, by effective comparison between alternatives, that its proposal is the best it can make.

**Response**

3.113 DVA considers that its proposal represents the most appropriate method of meeting the computing and information systems needs of the RGHS. The proposal takes account of qualitative and quantitative factors and a range of overseas experience in the successful implementation of on-line, integrated systems in hospitals.

**Recommendation (paragraph 3.179 of Report 249)**

The Committee recommends that the Department proceed with the acquisition of Repatriation General Hospital computers on the grounds that:

- . the Department is now heavily geared to the decentralised option;
- . other National Computer Centre actions are already in hand; and
- . no clear evidence exists to recommend other options.

#### Response

3.114 The contract for RGH Concord was signed by IBM and DAS on 24 December 1986. The contract for computer facilities for installation at RGH's Heidelberg, Greenslopes, Hollywood, Daw Park and Hobart was signed on 18 December 1987.

#### Conclusion (paragraph 3.188 of Report 249)

The Committee considers that it is doubtful whether the Patient Care System team, which has yet to be fully restaffed and gain the full Patient Care System experience, will be able to affect the scheduled workload in the Draft Patient Care Project Plan.

#### Response

3.115 Delays are being experienced in meeting the targets outlined in the draft Project Plan. The delays are not attributed merely to Project team staffing or experience, but also to APMS availability and continued reliance on the (former) Department of Housing and Construction's computer facility for DVA's PCS development.

3.116 A revised, draft PCS applications plan has been produced which presumes that specialist user staff and software supplier resources will complement the team resources. Applications software requiring only limited adaptation will be acquired wherever possible.

3.117 If the Department can take a lead in PCS development in Australia, it can expect to attract resources from IBM, Travanol Information Systems and other PCS user organisations for a range of joint development activity.

#### Recommendation (paragraph 3.191 of Report 249)

The Committee recommends that the Department of Veterans' Affairs monitor achievements against the project plan closely so that when and if slippages occur, it is able to reprogram the plan early and with minimum disruption to staff training and the Department of Veterans' Affairs planning.

#### Response

3.118 Project management of APMS development and implementation is being formalised on a microcomputer. Other applications are to be similarly scheduled.

#### Conclusion (paragraph 3.194 of Report 249)

The Committee concludes that, in most instances, the quantification of benefits, resulting from computer acquisitions stating levels of variance and uncertainty, is a practicable and useful process and should be undertaken.

**Response**

3.119 Cost/benefit analyses will be undertaken and monitored in respect of all PCS applications that follow the APMS implementation.

Conclusion (paragraph 3.194 of Report 249)

The Committee concludes that departments should be in a position to demonstrate that the benefits claimed to justify projects prior to expenditure of funds, are realized.

**Response**

3.120 The Department supports this conclusion and intends to introduce procedures to monitor the costs and benefits of PCS applications.

Recommendation (paragraph 3.196 of Report 249)

The Committee recommends that all agencies institute performance/benefit monitoring measures which will permit the continuing assessment and review of the benefits which are achieved.

**Response**

3.121 See the responses provided in paragraphs 3.3 to 3.9, and 3.98.

Recommendation (paragraph 3.200 of Report 249)

The Committee recommends that the Department of Veterans' Affairs prepare a set of performance measures for the Patient Care System project once the initial system has been established at Concord Repatriation General Hospital.

**Response**

3.122 A consultancy proposal is under consideration.

3.123 See also the responses provided in paragraphs 3.88 to 3.90.

Recommendation (paragraph 3.200 of Report 249)

The Committee recommends that the Department of Veterans' Affairs attempt to quantify in some terms benefits relating to improved health care and patient convenience.

**Response**

3.124 The Department notes the Committee's recommendation.

Conclusion (paragraph 3.209 of Report 249)

The Committee concludes that:

- there may be a substantial market for the acquisition of overseas Patient Care System software and the modification of such software to enable it to be integrated with the IBM Australian Patient Management System and to meet individual hospital requirements using Patient Care System/Applications Development System; and
- potential exists for Australian software organisations to become involved in the Patient Care System hospital market.

Response

3.125 The Patient Care System could be adopted by a number of large health organisations in Australia. DVA is anxious to ensure that joint development arrangements can be entered into to reduce the costs of software development or adaptation. Significant initiatives by IBM and Travenol have already been taken to involve the local software industry in PCS activity.

Response by DAS

3.126 In the view of DAS, an opportunity for the local software industry to be in on the "ground floor" of this project has been lost because of the way DVA acted. IBM is now in a position to exploit development with little potential return for the Commonwealth's investment. Now that the Commonwealth is "locked in" to IBM, there is little or no incentive for IBM to involve local software organisations. In fact, the "local" input to date has been almost entirely from within DVA's systems organisation.

Conclusion (paragraph 3.215 of Report 249)

The Committee concludes that the integration of States' hospitals and Repatriation General Hospitals is expected to take at least 15 years to complete which is greater than the economic life of the equipment proposed for the Repatriation General Hospitals.

Response

3.127 The timing and nature of any integration of the RGHS with State hospital systems is a matter for the Government to decide.



Conclusion (paragraph 3.215 of Report 249)

The Committee concludes that, if integration of Repatriation General Hospitals and States' hospital systems occurs during the lifetime of the proposed equipment, neither hardware nor software which Department of Veterans' Affairs is proposing for Repatriation General Hospitals will present any more of a difficulty for integration into States' hospitals than other possible options.

Response

3.128 DVA does not necessarily agree with this view. The Department recognises that most States are currently planning the introduction of advanced hospital information systems and the extent of difficulty in integrating has yet to become fully apparent.



M S KEATING  
SECRETARY  
Department of Finance  
21 June 1988

**FINANCE MINUTE ON  
REPORT 252  
JOB SEEKER - COMPUTER ACQUISITION  
BY THE DEPARTMENT OF EMPLOYMENT  
AND INDUSTRIAL RELATIONS**

DEPARTMENT OF FINANCE MINUTE ON REPORT 252

1. This Minute has been prepared on the basis of responses received from the Departments of Employment, Education and Training, Administrative Services and Finance (Administrative Arrangements of July 1987).

2. In this Minute, each of the Committee's conclusions and recommendations is reproduced in turn and is followed by the response.

Department of Employment, Education and Training

Planning and Approvals for the Job Seeker Project

Conclusion (paragraph 2.12 of Report 252)

The Committee concludes that it was unwise, if not deliberately deceptive, to have not included in each of the proposals the full cost of implementing the individual projects without the presumption that the other would also be implemented. Additional cost savings and benefits which could have resulted from their joint implementation should have been separately identified.

Response

3. The Department of Employment, Education and Training (DEET) and the (former) Department of Employment and Industrial Relations (DEIR) have always attempted to arrive at the most realistic costing of major projects. At the time of preparation of these two proposals, they were perceived as being so closely interdependent in both technical and economic terms that the suggested distinction did not appear pertinent.

4. In the case of country Commonwealth Employment Service (CES) offices, the Committee's approach would have required the two systems to be costed on the basis of their implementation across common equipment. The Department's longer term strategy of progressively integrating Job Bank with Job Seeker and other departmental processing requirements further complicates the issues relating to the provision of statements on cost savings and benefits.

Conclusions (paragraph 2.25 of Report 252)

The Committee concludes that:

- the decision to pursue a dual mainframe/micro computer strategy where applications would be developed in parallel on both the mainframe computer and on micro computers was over-ambitious in terms of the time and development resources its successful implementation would require;
- the decision to adopt this strategy and proceed to tender was taken without proper consideration of its implications for the Department's overall computing strategy and the need for Job Seeker's integration with Job Bank and other proposed computer-based systems;

- . the subsequent decision to proceed to tender within three months of the decision to pursue a mainframe/micro computer strategy was not supported by proper planning and justification, including a comprehensive user requirements analysis and system specification and the application of a sound planning and project implementation methodology;
- . given this very significant change in not only the implementation strategy for the Job Seeker project but also its implications for the Department's overall hardware and applications development strategy, a more considered pace should have been adopted to ensure Job Seeker and other office automation systems were developed and implemented in a realistic time frame;
- . the Request for Tender which was issued in November 1984 was prepared with unjustifiable haste and was over-ambitious in its technological requirements. It specified a set of over 100 'major' mandatory requirements which could not all be met by any tenderer using currently available technology. This included the successful tenderer which, if it was able to meet all requirements only did so using an 'interim configuration', which was unacceptable as a permanent working arrangement;
- . the Department's 1984 ADP Strategic Plan did not provide an adequate basis for ensuring that the Job Seeker project and other computer-based systems were developed with due consideration to the availability of adequate development resources and mainframe capacity and to the need for the integration of these systems; and
- . given the problems which were emerging with the Job Bank project and the Department's over-extended ADP resources, the Department should have deferred the Job Seeker tender and consolidated its existing achievements with the Job Bank project. It should then have ensured that a decision to proceed with Job Seeker and other projects was based on a thorough and comprehensive assessment of the Department's total information needs and a fully integrated information technology strategy.

#### Response

5. The Department's actions in respect of the planning and approval of the Job Seeker project must be assessed within the context of the rapid labour market changes which occurred in the second half of the 1970s and the early part of the 1980s. The changes were accompanied by unprecedented levels of demand for the services and programs of the Department. In the circumstances, the Department decided to implement, as a matter of some urgency, modern technologies to enable it to respond more efficiently and effectively to the heavy demands being placed upon it.

6. The decision to adopt a distributed processing solution for the Job Seeker project was taken at a time when the existing mainframe environment was already under stress with the load of the Job Bank system and, in addition, had regard to:

- . the networking implications of the Government's decision at the time not to extend Job Bank to the non-metropolitan offices of the CES;
- . the rapid advances occurring in micro-computing technology, at a time when unit prices of the equipment were falling, which meant that micro-computers could perform far greater functionality than the Job Bank Raytheon terminal equipment at a very competitive unit cost; and
- . increasing demands from many other areas of the Department for local data processing and the desirability of integrating these needs with the Job Seeker equipment requirements.

7. In the circumstances, the Department agrees that the Job Seeker development strategy was ambitious in terms of its resource commitments, timescale and technology.

8. The Job Seeker project was seen as a major vehicle to respond to the demand for services by upgrading the client servicing role through automation of Job Seeker transactions. As an important by-product, the system also makes available an improved range of management information for enhanced service delivery, program management and labour market analysis. The Government decision to tighten the administration of unemployment benefits by requiring all persons claiming unemployment benefits to be registered with the CES, further vindicates the decision to automate the CES job seeker registers.

9. Since Job Seeker was initiated as a project, the Department has undertaken an empirical analysis of the organisation's responsibilities and functions and information system relationships to produce an Information Model of the portfolio. The Information Model identifies Job Seeker as an integral part of a sub-system incorporating "Vacancy, Employer and Job Seeker Servicing" functions. The Process Model of this sub-system supports the original decision to distribute the data processing across both local and corporate data bases. Importantly, however, the provision of micro computers to CES offices for Job Seeker is supported by a requirement to provide local processing facilities for a number of other systems, particularly text manipulation and general office support systems.

10. Equipment in the form of an intelligent workstation (micro-computer) that Job Seeker provided to the CES has therefore proven to be a necessary investment in terms of long term Information Technology requirements.

Conclusion (paragraph 2.25 of Report 252)

The Committee concludes that, given the technological uncertainties which the Department recognised were associated with the mainframe/micro computer strategy, a two-stage tendering process should have been adopted. A Request for Proposals should have been issued to permit a preliminary assessment of the ability of vendors to meet the Department's requirements.

Response

11. Against the background of the Department's decision to seek a sophisticated micro-computer solution to its Job Seeker project, and to integrate the equipment needs of all other areas of the Department with the Job Seeker equipment, the Department concedes that issuing a "Request for Proposal" as the final part of a two-stage tendering process may have provided useful information on the ability of vendors to meet DEIR's requirements.

12. It is also agreed that, in some situations, the documentation produced during the planning stages was inadequate and the Department has taken steps, particularly in terms of strategic planning and standards development, to ensure that these deficiencies do not recur.

13. Specifically, a project management methodology has been adopted based upon the proprietary product "System Development Methodology (SDM) - Structured". Standards for system development have been established and the system development component has been issued. The manual will consist of 7 volumes covering:

- . System Management;
- . System Planning;
- . System Development;
- . Data Management;
- . Technical Environment;
- . Facilities and Services; and
- . Administration.

14. As well, a Project and Systems Recording System is being developed which will assess projects, with all phases of the project being monitored, to facilitate management and control of resources, timetables and deliverables (including documentation).

Conclusions (paragraph 2.25 of Report 252)

The Committee concludes that:

- . the speed with which procurement action proceeded appears to have been motivated by the Department's concern to spend available funds by the end of the 1984/85 financial year. This placed extreme and unacceptable time constraints on the public tendering process; and

- . the desire to spend funds by the end of the 1984/85 financial year and the consequent haste with which requirements were specified and the whole tendering process undertaken have resulted ultimately in greater delay and cost than would have occurred had the planning and procurement proceeded at a more considered and responsible pace.

Response

15. The Department considers that the new procedures described in paragraphs 12 to 14 provide levels of control necessary to prevent recurrence of these events.

Recommendation 1 (paragraph 2.26 of Report 252)

The Committee recommends that a more cautious, properly planned and phased strategy be employed by DEIR in the future development and implementation of computer-based systems. Such a strategy should ensure these new systems are planned, developed and implemented in a realistic time frame.

Response

16. An enhanced Planning and Applications Branch has been established in Canberra under the control of an Assistant Secretary. This Branch includes a specialised Strategic Planning Section which services the Department through the full Executive Committee of the Department, consisting of Division Heads and above.

17. The Strategic Planning Section is responsible for establishing present and future requirements for information systems, and for documenting the strategies and tactical plans to meet these objectives. These processes identify and define individual system projects and conform to the methodology outlined in the Department of Finance's "Corporate Information Technology Planning Guidelines". The Section is also charged with the responsibility of establishing standards, project management and reporting mechanisms, and ensuring the integration of the planning process with the financial cycle.

18. In addition, a Standards Committee has been set up with the responsibility to establish clear departmental information technology standards for the planning, development and implementation of projects, systems development and data management. The Standards Committee consists of senior information technology managers and its role is to set policy on standards, endorse standards, and prioritise work on standards.

19. The aim of the Standards Committee is to ensure that standards are defined, promulgated and strictly followed unless written exemption is given from the Committee. A Standards Co-ordination Group within the Systems Support Section has also been established to co-ordinate the planning, production and maintenance of standards. Information centres are now used to assist end users with their projects and to ensure that departmental standards, currently issued in draft form, are followed.

Recommendation 2 (paragraph 2.26 of Report 252)

The Committee recommends that a more cautious properly planned and phased strategy be employed by DEIR in the future development and implementation of computer-based systems. Such a strategy should allow for the progressive refinement and consolidation of systems, avoiding overcommitment of human and other resources because of concurrent systems development.

Response

20. External consultants were engaged to work with senior staff on a comprehensive review of departmental strategy for information technology. A corporate information model has been derived for the total portfolio of existing and potential systems, and identifies functional interrelationships and data flows which will form the basis of future systems design.

21. The Department has a migration plan which is driven by needs as they are implemented. This strategy ensures that elements of the strategic information technology environment are brought on line in a controlled manner. Events such as the relocation of the Department's mainframe computing facility from Melbourne to Canberra, merging of the Employment and Education elements under one portfolio and upgrading of processing capacity will bring about migration to the standard processing environment. Procedures and guidelines ensure that any new developments conform to standards. Inherent in this is a systematic estimating process to ensure that projects will be prioritised and selected to ensure that resources are available.

Recommendation 3 (paragraph 2.26 of Report 252)

The Committee recommends that a more cautious, properly planned and phased strategy be employed by DEIR in the future development and implementation of computer-based systems. Such a strategy should apply a satisfactory planning and project implementation methodology, including provision for:

- user requirements analysis
- feasibility study and market appraisal
- strategic design study
- conceptual system design
- cost/effectiveness analysis of alternatives
- organisational and job impact study
- training and user support strategy
- specification of requirements
- definition and quantification of benefits
- development of performance monitoring system
- issue of Request for Proposals if necessary
- issue of Request for Tender
- evaluation and letting of tenders
- installation and acceptance testing
- detailed design of applications
- development of applications
- user education and training, and
- implementation and performance monitoring of applications.



#### Response

22. The Department uses the proprietary product "System Development Methodology - Structured" as a standard planning and implementation framework for its major information technology projects. Products of this nature are comprehensive, widely used and consistent with the Committee's recommended approach. In the case of smaller systems, the use of such exhaustive techniques is not always appropriate and in these instances the Department uses a sub-set of the SDM approach.

#### Recommendation 4 (paragraph 2.27 of Report 252)

The Committee also recommends that before the Department of Employment and Industrial Relations purchases or leases any additional equipment, including any additional micro computers from WANG Computer, and additional mainframe capacity as currently proposed, it should first produce a current and comprehensive ADP Strategic Plan.

#### Response

23. This recommendation was initially addressed in the interim Information Technology Strategic Plan published in February 1986, and has been reviewed through a strategic planning consultancy. It was apparent that a major shortcoming of strategic planning activities had been the absence of any established corporate modelling approach from which could be derived an empirical analysis of the Department's broad-ranging portfolio responsibilities and functions, and the information systems' relationships within and between them. Once this analysis had been performed, the forward strategies for information technology requirements within the Department could be properly determined.

24. The skills required to perform the initial corporate modelling and analysis were not available within the Department and, consequently, consultants were engaged. Astech Professional Consulting Services, in conjunction with Koranya Pty Ltd, were engaged during the period September 1986 to March 1987 to perform the necessary modelling and analysis, and to recommend a technological infrastructure which would be based on the Department's functions and information flows.

25. An Information Technology Strategic Plan has been produced and is largely based upon the consultant's report. It describes the Department's broad long term strategic directions for information technology. The Department of Finance's strategic planning guidelines urge agencies to establish firm links between corporate and information technology strategic planning. DEET's approach is completely consistent with Finance's guidelines.

Response by the Department of Administrative Services

26. The (then) DEIR lodged an ADP Strategic Plan with the Department of Administrative Services (DAS) in February 1986. This Plan was updated by DEET, which lodged an Information Technology Strategic Statement with the Department of Finance and DAS in April 1988. The Statement was prepared in response to the guidelines for strategic planning issued by the Department of Finance in October 1987 and covers the period to 1991. Actual implementation of the Plan will be determined by DEET in light of resources and facilities that may be available.

Recommendation 5 (paragraph 2.27 of Report 252)

The Committee recommends that before the Department of Employment and Industrial Relations purchases or leases any additional equipment, including any additional micro computers from WANG Computer, and additional mainframe capacity as currently proposed, it should first specify a development program over the next three years which is achievable without resort to the practices of which the Auditor-General and this Committee have been critical.

Response

27. See the responses provided in paragraphs 22 to 25.

Response by DAS

28. The development program contained in the ADP Strategic Plan covers the period to 1990. It is DEET's responsibility to seek and allocate funds for this purpose.

Recommendation 6 (paragraph 2.27 of Report 252)

The Committee recommends that before the Department of Employment and Industrial Relations purchases or leases any additional equipment, including any additional micro computers from WANG Computer, and additional mainframe capacity as currently proposed, it should first demonstrate that full consideration has been, and will continue to be, given to the need for the integration of current and proposed systems.

Response

29. The modelling process now in use is sufficiently rigorous to ensure that all opportunities for integration are identified and will be reflected in setting bounds and defining interfaces of current and proposed systems.

30. See also the responses provided in paragraphs 23 to 25.

Recommendation 7 (paragraph 2.27 of Report 252)

The Committee recommends that before the Department of Employment and Industrial Relations purchases or leases any additional equipment, including any additional micro computers from WANG Computer, and additional mainframe capacity as currently proposed, it should first complete a full survey and specification of user requirements in relation to currently planned applications including Industrial Relations, Apprenticeship Training Program, Youth Services and other office automation applications.

Response

31. The Information Technology Strategic Planning Review Consultancy provided:

- . an Information Model of the Department;
- . recommendations on a hardware/software strategy to ensure an integrated and standardised environment;
- . identification and prioritisation of systems requirements for all areas of the portfolio;
- . recommendations addressing the administration and management of the strategy; and
- . costing and implementation timetable options.

32. In the course of the study, all existing and planned applications were 'mapped' into the model and their status re-evaluated against the derived strategy. Importantly, the adopted strategic direction provides for the greater involvement of users and user areas in the control of information technology and the development of information systems.

33. There are three broad procedural mechanisms being put into place to achieve the necessary levels of end-user involvement and commitment. The first is application "sponsorship" and project management. The application 'sponsor' will be a senior manager who will chair an Application Steering Committee. The project team will be headed by the Project Manager - again representing the user area where practicable - who will report directly to the sponsor for the duration of the project.

34. The second mechanism involves the establishment and funding of projects. DEET's Executive Committee, consisting of senior management, establishes priorities and is the principal source of advice to the Secretary.

35. Steering committees have been established for all current projects. For larger applications, the 'user group' committee structure is also utilised to ensure further user involvement in the development process.

36. The third mechanism involves senior Technical Directors being responsible for particular Divisions and States within the Department. The Technical Directors are senior Systems Division staff whose role is to oversight and co-ordinate all information technology developments within particular policy areas. A co-ordination group has been established to ensure that duplication of effort is not made and that standards are maintained.

37. The 'Guide to Systems Development' Manual requires that documentation be produced for each phase of a project. These guidelines will ensure that a System Requirements Definition is completed to document user specifications. For smaller applications, the guidelines will provide an abbreviated process but with the same essential steps.

Recommendation 8 (paragraph 2.27 of Report 252)

The Committee recommends that before the Department of Employment and Industrial Relations purchases or leases any additional equipment, including any additional micro computers from WANG Computer, and additional mainframe capacity as currently proposed it should first demonstrate that project and financial management systems have been put in place to answer the criticisms made by the Auditor-General in his September 1985 Report.

Response

38. The Department, in its submission to the Committee, addressed all the issues raised by the Auditor-General. The Department stated that it has strengthened the financial and administrative control in the information technology area by the establishment of a separate Administration Unit to co-ordinate all financial and procurement action.

39. The Department recognises the need to overcome deficiencies in its planning process and it is expected that procedure reform will enhance management and strategic planning in the ADP environment.

40. In addition to increased user involvement in projects and the introduction of SDM, the Strategic Planning Section, in conjunction with the Standards Committee, is undertaking investigation of project management tools and reviewing other management issues to ensure the most effective and cost efficient delivery of the information technology strategy.

41. A Systems Administration Section has been established within the Systems Division to centralise negotiations for major computer acquisitions, and to oversight the budgetary process and procurement action. Appropriate financial management systems for the Division are maintained by that Section.

Recommendation 9 (paragraph 2.27 of Report 252)

The Committee recommends that before the Department of Employment and Industrial Relations purchases or leases any additional equipment, including any additional micro computers from WANG Computer, and additional mainframe capacity as currently proposed, it should first demonstrate that appropriate output indicators and performance monitoring systems have been developed to permit an assessment to be made of the success of these projects in relation to initially asserted benefits.

Response

42. The CES utilises an output and staff utilisation system called the Planning and Performance Review System (P&PRS). This is completed on a monthly basis and stored on computer so that the database can be interrogated. It includes output detail for all placement and vacancy transactions including the method by which the transaction was completed eg self-service or staff matching. It also records the deployment of staff on a functional basis.

43. The P&PRS has been in operation for some years and changes resulting from the introduction of new technology will be clearly evident in terms of staff deployment and output ratios, eg placements per staffday. The CES also operates a function and output-based staffing formula, based on regression analysis of transactions and staff deployment during 1984/85.

44. Changes over time due to the introduction of technology will also be clearly evident as this same regression analysis technique is now applied twice yearly to determine the staffing levels required by the CES. Validating P&PRS indicated changes by comparing them with the results of the staffing formula application will produce clear evidence of shifts in productivity and staff utilisation. Changes resulting from the effects of shifts in the labour market will have to be discounted from this result. In the case of the Job Bank system, the CES has already fully realised the full 274 staff savings indicated in the original justification documentation.

Recommendation 10 (paragraph 2.27 of Report 252)

The Committee recommends that before the Department of Employment and Industrial Relations purchases or leases any additional equipment, including any additional micro computers from WANG Computer, and additional mainframe capacity as currently proposed, it should first demonstrate that the Job Seeker micro computers already acquired are being used fully and effectively, that staff training and user support services are operating effectively, and that predicted benefits have been achieved to date.

## Response

45. The Department acquired WANG equipment with the expectation that the Job Seeker system would be implemented by mid - 1986. The contract in January 1986 with WANG provided for delivery of full functionality by 30 June 1986. When WANG failed to deliver the functionality as contracted, the Commonwealth formally moved to terminate the contract and return all equipment.

46. WANG responded by taking out an injunction in the NSW Supreme Court to prevent the Commonwealth from terminating the contract and returning the equipment. Following advice from the Australian Government Solicitor's Office and Counsel, an 'out of court' settlement was negotiated, which effectively gave WANG a further 12 months to provide the required functionality. Full functionality to Departmental requirements has now been provided and has been fully tested and accepted.

47. The consequential delay in the implementation of Job Seeker has meant that the equipment has not been fully utilised as originally intended. However, work has continued to provide local systems using basic data processing utilities as well as word processing and spreadsheeting capability. The local systems include ASL Management, Staff Utilisation Monitoring Systems and Financial Monitoring. Appropriate training has been provided through the regionally based Information Technology Branches in the form of workshops in spreadsheeting and word processing.

48. In respect of Job Seeker, the issue of staff training and user support is being addressed by a Job Seeker Implementation Steering Committee which is planning and overseeing the phased implementation of Job Seeker.

49. Trialling of the Job Seeker (Partial Records) system commenced in November 1987 in 10 CES offices and the system has performed satisfactorily. Following resolution of a protracted industrial relations dispute, commissioning of the system will commence progressively from October 1988 with the system being operational in all CES offices by September 1989. Training commitments have been timetabled in conjunction with the introduction of the software. The training will be delivered in a phased approach involving technical staff, regional trainers and CES operations personnel, supplemented by a computer-based training package and a documented user guide.

50. The savings originally envisaged as flowing from the implementation of Job Seeker will be realised and are reflected in the published Forward Estimates.

Recommendation 11 (paragraph 2.27 of Report 252)

The Committee recommends that before the Department of Employment and Industrial Relations purchases or leases any additional equipment, including any additional micro computers from WANG Computer, and additional mainframe capacity as currently proposed, it should first provide evidence (viz., benchmark results) that the additional functionality promised by WANG by 30 June 1986 does meet all mandatory requirements of the Request for Tender and in particular the mandatory multi-tasking requirements.

Response

51. The Department has now fully tested the multi-tasking functionality developed by WANG and the product has been accepted. The renegotiated contract included a schedule of performance milestones and provided for penalties to ensure that the Commonwealth was protected should there have been a failure by WANG to meet the agreed timetable for delivery of functionality. The contract has now been signed off.

Response by DAS

52. On legal advice, a settlement was reached with WANG whereby the mandatory multi-tasking requirements were to be met using alternative software on microcomputers acquired. DEET has confirmed that the requirements have been achieved and has requested that associated bank guarantees be released to WANG.

Conduct of the Tender

Conclusions (paragraph 3.59 of Report 252)

The Committee concludes that:

- . the conduct of the tender evaluation was characterised by unprofessional conduct and abuse of proper procedures. In consequence the Committee does not believe that the impartiality of the tender result can be guaranteed or publicly defended;
- . certain features of the originally recommended tender and proposed contractual arrangements with WANG Computer Pty Ltd were improper, and were in part a consequence of the improper manner in which the tender evaluation and contract negotiations were conducted; and
- . senior management of the Department of Employment and Industrial Relations must carry principal responsibility for the manner in which this tender was conducted.

Response

53. The Department identified and published its proposed tender evaluation methodology in the Request for Tender. The need to identify weightings for desirable features was subsequently identified by DAS and they were applied accordingly. The evaluation was carried out under strict security in Jensen House, Swanston Street, Melbourne to provide the necessary privacy of documents and independence of the team.

54. The Department accepts that, in the context of the ambitious timeframe set, there were some procedural shortcomings in the evaluation and negotiation phases. However, the Department is satisfied that the eventual outcome of the tender evaluation process was at the time the most cost-effective one. The establishment of a Systems Administration Section, as discussed in the response provided in paragraph 41, has ensured the tightening of procedures.

Conclusion (paragraph 3.59 of Report 252)

The Committee concludes that, because the Department of Local Government and Administrative Services has been given clear responsibilities for ensuring that ADP procurement proceeds in line with Government purchasing practices and policies, it must also carry major responsibility in this matter.

Response

55. DAS notes this conclusion.

The WANG Contract

Conclusions (paragraph 3.60 of Report 252)

The Committee concludes that:

- . the Department of Employment and Industrial Relations gave WANG Computer Pty Ltd a strong oral commitment (but admittedly no legal commitment) that the Department would subsequently purchase the 600 'slave' micros and 300 printers loaned by WANG free of cost on an interim basis to meet the mandatory requirements of the Request for Tender;
- . WANG's expectation that this equipment would be subsequently purchased after the loan period was reinforced by the Department of Employment and Industrial Relations' decision to purchase memory upgrades for these 'slave' micros so that they could be used as fully functional micro computers;
- . the arrangements for the lease of memory upgrades for the 'slave' micro computers were improper and call into doubt the grounds on which the 600 'slave' micro computers were to be loaned to the Department of Employment and Industrial Relations;



- . the additional income (approximately \$1.7 million) resulting from the lease of the memory upgrades constituted a considerable incentive for WANG to loan the 600 'slave' micro computers free of cost (ie without an increase in the tendered price);
- . the Department of Employment and Industrial Relations had little or no intention of configuring the 600 additional 'slave' micros to provide the communications functionality required by the Request for Tender until well into 1986. In the interim it viewed their loan from WANG in conjunction with the lease of memory upgrades, as an opportunity to obtain without proper funding approval, 600 fully functional workstations which might then be used for office automation and other purposes;
- . the interim configuration involving three micro computers and two printers was clearly untenable as a permanent working configuration and would not have been offered as such by WANG because of the unacceptable financial consequences (over \$5 million in forgone income if the initially tendered price was to be maintained);
- . the arrangements for the loan of these 600 micro computers and the lease of memory upgrades were viewed by both the Department of Employment and Industrial Relations and WANG as a deferred purchase of 600 fully functional micro computers to the value of over \$5 million;
- . in the absence of the \$1.7 million income resulting from the lease of memory upgrades and a strong expectation of the future sale of the 600 'slave' micro computers to the Department of Employment and Industrial Relations, WANG would not have incurred the considerable cost penalty associated with the free loan of these 'slave' micros. It could not therefore have met the mandatory communications requirements of the Request for Tender even on an interim basis; and
- . the motivation of the Department of Employment and Industrial Relations in negotiating these arrangements was apparently to extract the 'best offer possible' from WANG. However, in doing so the Department did not observe proper tendering procedures, did not ensure the fair and equal treatment of other tenderers, attempted to circumvent proper approval processes for the acquisition of additional equipment and to precommit the Department to future equipment purchases.

Response

56. The RFT sought a particular functionality requirement rather than a particular unit or units of equipment. When it was established during the evaluation that none of the tenderer's initially proposed equipment configurations met all of the mandatory functionality requirements, the Department and DAS believed it was in accordance with accepted procedures for negotiations to be conducted with the lowest priced tenderers to see whether a reconfiguration of their tendered equipment could meet all mandatories at the tendered price.

57. WANG proposed to achieve this by providing the additional loaned equipment pending the availability of a single PC solution. This occurred without any change to their (lowest) tendered price and with no formal commitment to the purchase of the loaned equipment once it was no longer needed to meet Job Seeker functionality.

58. This "three for one" reconfiguration offer complied with the requirements stated at Section 2-5-6 of the tender document and, while not considered a completely satisfactory long term solution by both parties, it did ensure that mandatory functionality could be met.

59. While there was an expectation expressed in the RFT that further purchases from the successful tenderer were likely, these would necessarily have been subject to the normal equipment acquisition approval processes and hence no prior commitment to ultimately purchase the loaned equipment could be, or was, given to WANG despite the Company's desire for such a commitment. Clearly, the Company made a commercial decision to proceed with the "three-for-one" reconfiguration on the basis of its assessment of the likelihood of further purchases despite the lack of any certainty in this respect.

60. The Department accepts the Committee's concerns in relation to the leasing of memory upgrades for the loaned equipment and obtained the Company's agreement to its discontinuation.

61. A contract with WANG was signed on 31 January 1986. A revised contract was signed on 23 April 1987 and the following responses reflect the contents of the current contract and developments that have occurred since the Committee's concerns were first expressed to the Department.

Recommendations 12 and 13 (paragraph 3.61 of Report 252)

**The Committee recommends that:**

- the contract with WANG Computer should clearly identify the 600 computers, 300 printers and other equipment being loaned free of cost, and the purpose for which it is being supplied; and

- . the contract also include a specific undertaking that the loaned equipment is returned to WANG when the APC and MSDOS 4.0 software is available, and not later than 30 June 1986. The Committee would expect a commitment from the Department of Employment and Industrial Relations that this equipment is actually returned and not subsequently purchased by the Department under this or another contract.

Response

62. Given that WANG is now continuing under the contract, the Department has retained 107 of the original loaned micro-computers. This was foreshadowed to the Committee in the Department's letter of 18 June 1986. These micro-computers have been deployed on approved projects (not associated with the Job Seeker project) in Central Office and State and CES Zone Offices. They are utilised on tasks including word processing, spreadsheeting, local applications and continued project development for the Department's major projects. To achieve the required functionality and performance from these machines, it was necessary to include the memory upgrade boards in configuring them.

Recommendation 14 (paragraph 3.61 of Report 252)

The Committee recommends that the memory upgrades for the 600 loaned micro computers be deleted from the contract, and the 241 upgrades already supplied be returned immediately. The Committee notes that correspondence of 15 and 21 November 1985 between the Department of Employment and Industrial Relations and WANG indicates agreement on this action, although no indication has been given as to when the upgrades will be returned.

Response

63. The contract no longer contains the supply of memory upgrades for the loaned equipment.

Recommendation 15 (paragraph 3.61 of Report 252)

The Committee recommends that the contract with WANG include a commitment from WANG to supply the APC and MSDOS 4.0 software by 30 June 1986 and also include effective 'penalty provisions' to ensure that this commitment is met.

Response

64. The re-negotiated contract occurred as a result of WANG's inability to meet the multi-tasking functionality provisions of the contract by the agreed date. A claim for "excusable delay" lodged by WANG was rejected by DAS on 15 August 1986 and DAS notified WANG of its intention to terminate the contract under clause 38.1(c) unless WANG met its contractual obligations within thirty days of the notice. WANG subsequently initiated action in the Supreme Court of New South Wales to restrain the Commonwealth from terminating the contract and returning the equipment.

65. DEIR, acting on legal advice and through the Australian Government Solicitor, held intensive discussions with WANG to explore the prospect of an out-of-court settlement of the matter. Agreement on an appropriate settlement was reached on 20 November 1986 after several weeks of negotiations.

66. Under the terms of the settlement, WANG were obliged to continue to proceed under the contract and provide the required multi-user/multi-tasking operating software for the micro-computers by using the concurrent DOS operating system. A revised timetable for the phased delivery of the required software and functionality was agreed, which saw the majority of the software (sufficient to allow Job Seeker to proceed) being available by mid 1987. The remainder required has now been provided. In addition, the amount of liquidated damages which would be payable by WANG in the event of default was significantly increased under the terms of the revised contract.

67. In addition, the contract provides for the purchase of further WANG equipment in the context of a five year "preferred supplier" clause which are standard in Commonwealth purchasing contracts of this type. DEET is, therefore, continuing to acquire WANG equipment to meet its identified information technology needs where the WANG equipment accords with the Department's strategic, long-term technical infrastructure.

#### Response by DAS

68. The Committee was satisfied that the contract document met the above requirements, except for provision of adequate compensation should WANG default, or for adequate liquidated damages in the event of late delivery. While the Committee's observation concerning liquidated damages may have been valid in the particular circumstances which arose, the contract places no limit on the Commonwealth's entitlement to recover damages, losses, costs and expenses which the Commonwealth may sustain or incur in consequence of the contractor's default. However, the legal settlement reached between the Commonwealth, WANG and DAS included clauses which provided for adequate compensation in the event of delay in delivery.

#### Recommendation 16 (paragraph 3.61 of Report 252)

The Committee recommends that if a contract incorporating these provisions is not successfully negotiated with WANG by 30 January 1986 the contract should be cancelled and all equipment returned to WANG.

#### Response

69. This recommendation is no longer applicable.

Conclusions (paragraphs 3.63 and 3.67 of Report 252)

The Committee has reviewed that contract documentation and is satisfied on all matters except:

- . it has received no advice from DEIR on progress on the return of the 241 memory upgrades already supplied to DEIR and which the Committee recommended be returned to WANG;
- . it is yet to receive a commitment from DEIR that the 600 loaned micro computers will be physically returned to WANG by 30 June 1986 and not otherwise purchased by DEIR;
- . it is not fully satisfied that the contract signed with WANG provides adequate compensation in the event that the commitment by WANG to supply the additional functionality by 30 June 1986 is not met; and
- . the level of liquidated damages provided for in the contract with WANG does not provide adequate compensation in the event of late delivery of all or part of the equipment and software WANG has contracted to supply.

Response

70. One hundred and seven of the original loaned micro computers have been retained, and the revised contract contains significantly increased penalties in the event of WANG defaulting on the delivery of the required software and equipment.

Department of Administrative Services

Recommendation 17 (paragraph 3.68 of Report 252)

The Committee recommends that the Department of Local Government and Administrative Services ensure in future contracts of this type that the liquidated damages specified fully reflect the costs which would be incurred by client departments and agencies in the event of late delivery.

Response

71. Liquidated damages must be a genuine pre-estimate of the damages likely to be suffered in the event of failure to deliver. Damages can be extremely difficult to quantify in relation to new systems. Therefore a formula has been established and is included in the standard request for tender documents which is used for ADP acquisitions.

72. DAS always seeks to ascertain from departments any special circumstances which would warrant higher level damages than those provided for within the formula. It should also be noted that in the event of default, the Commonwealth has recourse to additional remedies which are included in the standard termination for default in provision in the documents referred to earlier.

Recommendation 18 (paragraph 3.72 of Report 252)

**The Committee recommends that a permanent officer of the purchasing department always be in charge of a tender evaluation team and that consultants only be involved in a clearly subordinate and advisory capacity.**

Response

73. This recommendation is endorsed and has been reinforced in the redrafted "Guidelines for the Acquisition of Information Technology Equipment and Services" (formerly "Guidelines for ADP Acquisitions") which will be finalised early in 1989.

Response by DEET

74. The Department is ensuring that this recommendation is met in relation to tenders that fall within the responsibility of DAS.

Recommendation 19 (paragraph 3.80 of Report 252)

**The Committee recommends that all departments and authorities staffed under the Public Service Act 1922 submit their ADP Strategic Plans to the Department of Local Government and Administrative Services by February each year.**

Response

75. Guidelines and procedures have been implemented for the submission of annual Forward Procurement Plans covering the following three years.

Response by the Department of Finance

76. This recommendation has been overtaken by a Government decision requiring that ADP Strategic Plans will be submitted on a three-yearly basis commencing in March 1988.

77. The new ADP acquisition procedures provide that facilities costing less than \$5 million can proceed subject to receiving approval in the budget process and it is not unreasonable to expect ADP Strategic Plans to be submitted well in advance of budget deliberations. However, response from government agencies in the first half of 1988 was far from satisfactory and this requirement may need to be reviewed.

Recommendation 20 (paragraph 3.80 of Report 252)

**The Committee recommends that the Department of Local Government and Administrative Services publish a summary of those ADP Strategic Plans by April each year to provide Australian industry with adequate advance notice of proposed ADP acquisitions.**

Response

78. DAS will annually publish a summary of Forward Procurement Plans lodged by departments as soon as a reasonable number are received. It is intended that the summary be published each February, provided departments submit responses within a reasonable period.

Recommendation 21 (paragraph 3.80 of Report 252)

The Committee recommends that where a purchasing Department does not provide DOLGAS with an ADP Strategic Plan by February and subsequently requests DOLGAS to take purchasing action later in the same year, DOLGAS should ensure that provision is made to ensure adequate opportunity is given to Australian firms to respond to any Request for Tender issued. This may require insistence on a two stage tendering process or the postponement of the close of tenders by several months to permit local Australian firms adequate time to prepare tender responses.

Response

79. DAS notes this conclusion. The Committee of Review on Government High Technology Purchasing Arrangements (The Inglis Report) has also recommended additional forward planning in the high technology area and use of two-stage tendering. The Financial Management Improvement Program Review of Commonwealth Procurement also encourages the use of two-stage tendering.

80. See also the response provided in paragraph 75.

The Request for Tender

Conclusions (paragraph 4.4 of Report 252)

The Committee concludes that:

- . the Request for Tender issued by the Department of Local Government and Administrative Services specified an unjustifiably large number (over 100) of mandatory requirements; and
- . the Department of Local Government and Administrative Services should have requested that these mandatory requirements be reduced to include only essential, rather than many highly desirable, features of the tender.

Response

81. At the time the DAS Technical Consultancy Section was not fully staffed and it was unable to conduct a proper review of mandatory requirements. All RFTs now undergo a thorough vetting and DAS advises departments to use functional specifications with a minimum of mandatory requirements in most circumstances.

Conclusions (paragraph 4.5 of Report 252)

The Committee concludes that:

- . the Request for Tender was technologically over-ambitious in that it specified a set of mandatory requirements that no tenderer could meet using currently available technology. Indeed no tenderer, including the successful tenderer, could meet even the major mandatory requirements of the Request for Tender; and
- . before issuing the Request for Tender the Department of Local Government and Administrative Services should have verified that the Department of Employment and Industrial Relations had undertaken a proper appraisal of vendor product offerings to ensure that the proposed tender specification was achievable using existing technology.

Response

82. There is now a great deal of information available within DAS on current technology and future trends. DAS' knowledge and expertise in this area is brought to bear when reviewing specifications. The Department is also required, under the local preference policy, to ensure that evaluations take account of product offerings which may not entirely meet specifications but can be reasonably adapted to do so.

Response by DEET

83. The Department understands that the definition of the mandatory requirements aspect of the RFT under existing acquisition guidelines was essentially a matter for DEIR. In defining mandatory requirements, the Department acted according to its judgement at the time as to the functionality required to meet its needs.

84. The Department notes that some companies, in responding to the RFT, made claims to be able to meet all mandatory requirements, although tender evaluation confirmed that full functionality could only be achieved using a reconfiguration of the equipment tendered by the successful tenderer. In the circumstances, the Department accepts that a two-stage tendering process may have reduced risks associated with equipment acquisitions.

Conclusion (paragraph 4.8 of Report 252)

The Committee concludes that the Department of Local Government and Administrative Services should have declined to issue the Job Seeker Request for Tender until the Department of Employment and Industrial Relations had reduced the number of mandatory requirements in the Request for Tender and had demonstrated that the specified requirements were achievable using existing technology.



Response

85. If similar circumstances to those encountered with the Job Seeker RFT arose again, DAS would certainly decline to issue an RFT. DAS would be arguing from a position of sound technical knowledge and experience and, if necessary, the Department would take the matter up with higher level departmental management.

Recommendation 22 (paragraph 4.9 of Report 252)

The Committee recommends that the Department of Local Government and Administrative Services critically review all tender specifications to ensure that mandatory requirements are minimised and represent only essential requirements.

Response

86. This is now standard practice within DAS.

Recommendation 23 (paragraph 4.9 of Report 252)

The Committee recommends that the Department of Local Government and Administrative Services reassures itself that departments have taken proper measures to establish that tender specifications are achievable using existing technology.

Response

87. DAS' vetting of tender specifications does take technological feasibility into account. However, care needs to be exercised to ensure that innovation using new technology is not ruled out of consideration.

Recommendation 24 (paragraph 4.9 of Report 252)

The Committee recommends that if there remains any doubt on this matter then the Department of Local Government and Administrative Services insist that a two stage tendering process be used, involving an initial Request for Proposals to test vendors' ability to meet proposed requirements.

Response

88. Draft "Guidelines for the Acquisition of Information Technology Equipment and Services" (formerly "Guidelines for ADP Acquisition") have been circulated to interested parties for comment and criticism. The draft guidelines state that it may be appropriate to invite offers in two stages: the first involving a public invitation for potential suppliers to register interest for the supply of the requirement and the second involving the calling of competitive tenders from a resultant short-list of suitable suppliers after the granting of a Certificate of Exemption.

89. Those circumstances where such an approach may be warranted include:

- . the requirement is novel, complex, difficult to define and/or capable of several technical solutions;
- . the Commonwealth wishes to assure itself that those tendering have the technical, managerial and financial support necessary to sustain and complete the project on schedule;
- . tendering costs may be high and the Commonwealth does not wish to put companies incapable of supplying the requirement to unnecessary expense; or
- . appropriate security clearance of the supplier is required.

90. It is anticipated that the final version of the guidelines will be available early in 1989.

Recommendation 25 (paragraph 4.9 of Report 252)

The Committee recommends that the Department of Local Government and Administrative Services ensures that it has at all times the in-house technical expertise to enable it to perform these tasks.

Response

91. It is the firm intention of DAS to maintain in-house technical expertise.

The Evaluation Methodology

Conclusion (paragraph 4.12 of Report 252)

The Committee concludes that an evaluation methodology which fully prescribed the scoring technique for evaluating tenders and which was acceptable to both the Department of Local Government and Administrative Services and the Department of Employment and Industrial Relations, was not agreed until after the tender evaluation had commenced and a shortlist of tenderers had been prepared.

Response

92. This conclusion is noted.

Response by DEET

93. While RFT evaluation methodologies are essentially a matter for DAS, the Department accepts that it was at fault in not meeting its oral undertaking that, prior to release of the RFT by DAS, the weightings to be applied to desirable characteristics within the methodology would be fully stated before evaluation commenced. However, as the Committee states, this did not in any way affect the tender outcome.

Conclusion (paragraph 4.12 of Report 252)

**The Committee concludes that the Department of Local Government and Administrative Services should have insisted on the satisfactory resolution of this matter before releasing tenders to the Department of Employment and Industrial Relations.**

Response

94. An examination of the facts does not support the conclusion that the total scoring technique had not been agreed. The matter in dispute between the two departments related to the values to be attributed to certain features. DAS agrees that it should have insisted on resolution of all aspects of the evaluation methodology before releasing tenders to DEIR. The Committee is aware of the reasons why tenders were released. DAS now ensures that release does not occur until all aspects of methodologies are finalised.

95. The draft "Guidelines for the Acquisition of Information Technology Equipment and Services" address this issue. The guidelines state that agencies are not restricted to current methodologies and are free to suggest alternatives. The methodology is required to be submitted to DAS for approval and tenders will not be released for evaluation until the methodology has been approved. A summary of the proposed methodology is required to be included in the Request for Tender but full details of the methodology are not to be provided to prospective suppliers.

Recommendation 26 (paragraph 4.17 of Report 252)

**The Committee recommends that the Department of Local Government and Administrative Services undertake a review of tender evaluation procedures and methodologies with a view to ensuring that provision is made for the objective comparison and scoring of tenders in circumstances where no tenderer can meet all mandatory requirements.**

Response

96. This issue is implicitly dealt with in the draft guidelines. Chapter 12 relates to the evaluation of offers and includes a list of possible methodologies. Under the Cost Only Technique, for instance, a tender which cannot meet all the mandatory requirements is not considered for evaluation. However, where a number of tenders satisfy all mandatory requirements, those offers are considered to be technically satisfactory and the lowest cost offer is chosen. It should be noted, however, that this technique is unsuitable for other than specific low valued information technology requirements such as smaller systems with static workloads and limited desirable requirements.

## Oversight of the Tender Evaluation

Conclusion (paragraph 4.25 of Report 252)

The Committee concludes that the Department of Local Government and Administrative Services should have ensured it was represented at all the Department of Employment and Industrial Relations' Evaluation Steering Committee meetings and all meetings with the final shortlisted tenderers during the tender evaluation.

Response

97. The evaluation was the responsibility of DEIR; DAS had a "watching brief" but resource constraints prevented regular monitoring, particularly on a "full time" basis. DAS was not aware, until after the event, that DEIR may have discussed contractual matters with WANG.

Conclusions (paragraph 4.28 of Report 252)

The Committee concludes that:

- . officers of the Department of Local Government and Administrative Services should have briefed the Secretary of the Department on the nature of their concerns about the Job Seeker tender;
- . the Secretary of the Department of Local Government and Administrative Services should have communicated these concerns to the Secretary of the Department of Employment and Industrial Relations; and
- . if this did not result in a satisfactory resolution of the matter, it should have been referred to the responsible Ministers for resolution.

Response

98. DAS agrees that it should have briefed its Secretary, and followed the other processes set out under these conclusions in the event that the problem continued. This process would now be followed in a similar situation.

## Complaints by Unsuccessful Tenderers

Conclusion (paragraph 4.34 of Report 252)

The Committee concludes that in view of the persistent complaints by a major vendor about the conduct of the tender evaluation and the documented instances of proper tender procedures not being followed, the Department of Local Government and Administrative Services should have commissioned an independent review of the tender process and outcome.

Response

99. Independent review of the tender process and outcome was considered, but rejected on the basis that the claims of Tenderer 2 had been investigated by DAS, and a debriefing provided. An overwhelming consideration was that tenderer 2's bid was much higher than that of WANG, and that tenderer 2 had not been disadvantaged in the evaluation. Expenditure of available funds had no bearing on DAS' consideration of whether such a review was justified.

Advance Payment for Equipment

Conclusions (paragraph 4.46 of Report 252)

The Committee concludes that:

- . a formal written contract should have been signed with WANG Computer Pty Ltd before any payments were made or equipment was delivered for the Job Seeker project;
- . the purported urgency of spending funds in the 1984-85 financial year provided no justification for payment for equipment in advance of formal contracts being signed; and
- . the delay of six months between payment for the equipment and the signing of contracts is unacceptable and indicative of the highly unorthodox circumstances surrounding this tender.

Response

100. DAS agrees that a formal written contract should have been signed. However, this proved to be impossible because DAS could not obtain final lists of equipment from DEIR. DAS usually insists that no orders be placed or equipment delivered before the contract is signed and formally accepted. However, because DEIR insisted that its vital programs would be prejudiced if equipment was not made available, DAS agreed to sacrifice the due process. Additionally, WANG advised of considerable lead times to obtain equipment and the delivery could only be assumed if advance payments were made. The Commonwealth was, however, given some measure of protection through the use of bank guarantees to secure the payments.

101. The draft "Guidelines for the Acquisition of Information Technology Equipment and Services" now formally state that no orders can be placed or equipment delivered before the contract is signed and formally accepted.

Response by DEET

102. As previously advised to the Committee, it is not unusual, in the case of urgent projects, to proceed with delivery of and payment for initial equipment lists while formal contract provisions are being finalised. Contract negotiations proceeded as rapidly as possible in the light of other pressures (including the Committee's inquiry) and DEET does not accept that the period involved was indicative of unorthodox circumstances.

Recommendation 27 (paragraph 4.47 of Report 252)

The Committee recommends that, in circumstances where a successful tenderer is unable to demonstrate and immediately supply all functionality required in a tender, no payments should be made in advance of the signing of written contracts with that tenderer.

Response

103. There is a fine dividing line between the DAS service and regulatory roles. DAS is often placed in a difficult situation where failure to act, given that a number of its activities occur at the end of the tendering and evaluation process, can lead to unacceptable delays, particularly where long lead times may be involved.

104. So long as steps are taken to recognise and minimise the risks involved, DAS has to be prepared to facilitate the process. In most situations, it is possible to finalise contracts before payments are made. This process will be assisted with the introduction of a pro-forma tender document, "Proforma M", which is the result of a joint effort between the Attorney-General's Department and DAS. A draft of Proforma M was presented on 30 September 1988 to industry bodies for comment and criticism.

105. DEET's response in paragraph 106 states that there are procedures which allow urgent projects to proceed ahead of contract signing. DAS is not aware of such procedures being documented anywhere for ADP purchasing. It is possible that DEET are referring to precedents where such a course was followed. Early negotiation of contracts during the evaluation phase is an effective way of avoiding the need to compromise the procedures which have now been set down in the draft guidelines. The use of mandatory contractual conditions in tender documents is the most effective strategy but it is likely to be unpopular with industry and may limit competition. Having agreed conditions such as Proforma M would be ideal but reaching agreement with industry is a slow process.

Response by DEET

106. With respect to the advance payment for equipment, the Department is aware of procedures which allow for urgent projects to proceed with delivery of and payment for initial equipment lists while formal contract provisions are being finalised. DEET believes that the Job Seeker Project was deserving of such urgent treatment and that, notwithstanding the advance payments, the contract negotiations proceeded expeditiously in the light of other matters of relevance at the time.

Department of Employment, Education and Training

Funding Approvals

Conclusions (paragraph 5.10 of Report 252)

The Committee concludes that;

- . the decision to change the implementation strategy for the Job Seeker project in August 1984 did have significant additional funding implications. It also had major implications for the Department of Employment and Industrial Relations' overall information technology strategy. In consequence the Department should have sought Cabinet approval for the change in strategy and the additional funds required before proceeding to tender;
- . this Cabinet submission should have sought approval for the full funding necessary to complete the Job Seeker project (ie funds to acquire workstations, additional mainframe capacity and to permit interconnection with the Job Bank network) and to support office automation applications over at least three years; and
- . the incrementalist and compartmentalised approach adopted by the Department in seeking separate funding approval for individual but often closely related computer-based projects and, in seeking funding approval only for the initial hardware component of what would clearly become much larger computer networks has:
  - masked and confused the full forward funding implications of these proposals;
  - made any confident appraisal and monitoring of costs and benefits of these systems very difficult;
  - resulted in too little emphasis being given to the need for the integration of these computer-based systems into a Departmental information system; and
  - permitted poor planning practices and inadequate definition of the objectives and implementation schedules for these systems.

Response

107. The Department accepts that the decision to change the implementation strategy for the Job Seeker project had major implications for its overall information technology strategy. However, the Department believes that the change was justified in the light of the significant mainframe capacity problems which had emerged at the time, the comparative costs considerations and the demands from many other areas within the Department for local processing capacity.

108. The Department notes that the major reasons behind the increase in the Job Seeker budget relate to an under-estimation in the calculation of initial terminal requirements and to growth in the staffing levels of the CES. Nevertheless, DEET has since put forward and obtained approval for a submission to the Government covering Job Seeker terminal requirements and upgrading of its mainframe computing facilities. That Submission was supported by a comprehensive cost-benefit analysis and was prepared in conjunction with the interim DEET Information Technology Strategic Plan which provides an integrated planning framework for the period 1985/1990.

#### Source of Funds

Conclusions (paragraph 5.17 of Report 252)

#### The Committee concludes that:

- . the device used by the Department of Employment and Industrial Relations to make funds available to purchase its third mainframe computer was improper and contravened Finance Directions;
- . the Department of Employment and Industrial Relations did not observe proper practice as indicated by Finance Directions in the use of funds to purchase micro computers for the Job Seeker project;
- . in view of the above, full disclosure to the Parliament of the use of funds for the purchase of computer equipment by the Department of Employment and Industrial Relations did not occur;
- . the intentions of the 1965 Compact between the Senate and the Government of the day on the nature of items to be included in Appropriation Bills No 1 and 2 has in this instance been circumvented; and
- . accurate information on the costs and use of computer equipment, including office automation equipment, in the Department of Employment and Industrial Relations is not available to the Department of Finance or to the Parliament.

#### Response

109. The Department accepts that it was inappropriate that computer equipment was acquired under funds from Appropriation Bill No 1. The Department emphasises that this was a single occurrence which will not occur again.

Conclusions (paragraph 5.21 of Report 252)

#### The Committee concludes that:

- . there is doubt as to the accuracy of information about the cost and use of computer equipment including office automation equipment in Commonwealth departments and agencies generally; and



- consequently the proper scrutiny of purchasing activities and the assessment and monitoring of the cost effectiveness of computer-based systems may not be possible.

Response

110. The Committee's conclusions are noted.

Department of Finance

Conclusion (paragraph 5.23 of Report 252)

The Committee concludes that there is an urgent need for a review to establish what computer and office automation equipment should be included in the respective financial appropriations and votes. This may require the involvement of the Senate in reviewing the operation of the 1965 Compact.

Recommendation 28 (paragraph 5.24 of Report 252)

The Committee recommends that the Department of Finance complete its review of funding appropriations for computer equipment as a matter of urgency and provide a report to this Committee and the Senate. The report should canvass the options available to deal with these concerns and an indication of the Department of Finance's recommended option.

Response

111. The Minister for Finance wrote to the President of the Senate, the Speaker of the House of Representatives and the Chairmen of the Joint Parliamentary Committee of Public Accounts, the Senate Standing Committee on Finance and Public Administration, the House of Representatives Committee on Finance and Public Administration and Senate Estimates Committees in August 1988 seeking their concurrence to minor capital items, part of normal ongoing departmental activities, being included in Appropriation Bill (No. 1) in future.

112. The Speaker of the House of Representatives has no objection to the proposal. The President of the Senate (speaking on behalf of the Chairmen of the aforementioned Committees) has advised the Minister for Finance that he does not see the proposal as being a re-interpretation of the 1965 Compact and has therefore given his concurrence to the inclusion in the non-amendable Bill of funding for minor items of equipment and fitout which are part of the normal continuing activities of departments.

113. The reasoning behind the Minister's proposal was that the Compact was intended to give effect to Section 53 of the Constitution which denies the Senate the power to amend Appropriation Bills for the "ordinary annual services of the Government". Appropriation Bills for ordinary annual services must contain only such items. Other items of expenditure must be included in other Appropriation Bills which may be amended by the Senate.

114. The 1965 Compact is an agreement between the Government of the day and the Senate on the types of items which may be included in the annual Appropriation Bills. It requires funding of expenditure on items of plant and equipment "clearly definable as capital expenditure" to be provided through the amendable Appropriation Bill. The (then) Treasury Directions gave effect to this agreement by prescribing items of expenditure to be included in Appropriation Bill (No. 1) (for ordinary annual services) and those items which must be included in Appropriation Bill (No. 2). The present Finance Directions provide for the inclusion of, inter alia, office machines and furniture and fittings within Appropriation Bill (No. 1), whereas plant and equipment, definable as capital in general, and all computer equipment, in particular, are included in Appropriation Bill (No. 2).

115. Technological progress such as that in ADP over the last two decades or so has made such distinctions anachronistic. Computers are clearly no longer always the expensive and significant items of expenditure that they were in 1965. Personal computers are now priced and operated as everyday office machines and can be less expensive than a typewriter. They are as integral to the ordinary annual services of government as any other office machines and equipment or furniture and fittings. The purchase of motor vehicles for routine use and minor fitout expenditures on accommodation are also everyday activities necessary to deliver the ordinary services of government.

116. The provision for such relatively small and unexceptional expenditure within Appropriation Bill (No. 2) has the following effects:

- (a) it limits the flexibility of departments and agencies to reallocate funds during the year and to seek improved efficiency in the use of resources;
- (b) it limits the impact of the medium-term planning approach and limits the ability to make rational end of year spending decisions; and
- (c) commonly purchased minor ordinary items, necessary for day to day administration, are included in a Bill intended for non-ordinary services.

117. The President's response to the Minister means that the operating rules which give effect to the Compact may now be amended to restore the 1965 agreement on ordinary annual services. To achieve this, the rules will now incorporate threshold tests. Thus, purchases of items of plant and equipment costing less than the threshold and constituting an unexceptional type of expenditure (ie a type of expenditure that is commonly undertaken) would be regarded as ordinary annual services. Accordingly, in future such expenditures will be provided for in the non-amendable Bill. This will enable purchase of minor items of plant and equipment (eg personal computers) to be funded out of Running Costs Appropriations.

118. Various options were considered in setting the threshold. An amount of \$250,000 for individual items was decided upon as a reasonable and workable solution; this was agreed to by the President of the Senate. This threshold coincides with the current definition of minor capital works used by the Government in the estimates process; it does not examine any details of these minor works. Any such absolute value threshold should be updated regularly in line with movements in the value of money (say every three years).

119. Consideration was also given to the exact operating rules which might apply in such a threshold system. It has been agreed that major projects involving the purchase of a large number of items individually costing less than the threshold will continue to be funded through Appropriation Bill (No. 2). Finance has undertaken to develop guidelines for defining major projects in terms of the total expenditure involved and whether the projects represent new initiatives. These proposals will be discussed with the staff of the relevant Parliamentary Committees.

120. While the definition of what constitutes the ordinary annual services of the Government will always remain a matter which the Parliament will determine, and it is safe to say that changing circumstances will from time to time vary that perception, Finance is satisfied that the current initiatives are consistent with both the spirit and the letter of the 1965 Compact with the Senate. They will also assist in realising the full potential of the running costs system.

Response by DEET

121. In the case of office automation equipment, the situation is not as clear. A clear definition of what constitutes an acquisition properly made within Appropriation Bill No 2 has still not been published. At the time of the acquisition of office automation equipment referred to by the Committee, DEIR believed it had the oral support of the Department of Finance. Subsequently this has been shown to be incorrect. However, the Department continues to seek a clearer definition in this regard.

*Michael Keating*  
M S KEATING  
SECRETARY  
Department of Finance

**FINANCE MINUTE ON  
REPORT 254  
PROJECT DESINE - DEPARTMENT  
OF DEFENCE COMPUTER PROPOSAL**

## CHAPTER 3

## DEPARTMENT OF FINANCE MINUTE

3.1 This minute has been prepared on the basis of responses received from the Departments of Defence, Finance and the (former) Departments of Housing and Construction and Local Government and Administrative Services.

3.2 In this chapter each of the Committee's conclusions and recommendations is reproduced in turn and is followed by a response.

Comment by the Department of Finance

3.3 The Department of Finance supports a five year period contract with a prime contractor, with no commitment to specific purchases. This should realise management efficiencies and prospective cost savings. Finance also notes that arrangements have been made to maximise Australian Industry Participation and have been agreed by the Departments of Administrative Services and Industry, Technology and Commerce.

3.4 A pre-feasibility study by Coopers and Lybrand completed in 1986 indicated a potential for benefits, and on this basis Finance considers further Committee examination of the Depot/Base Supply Systems Redevelopment Project (SSRP) would not be necessary. However, there should be no funds approval for substantial expenditure until completion of the systems definition and full cost-benefit analysis. A minimum amount of funding to complete this should be established initially and further funding then contingent upon the results of the cost-benefit analysis, which should be reported to Cabinet.

3.5 Finance notes that, in accordance with the Government's decision on DESINE, the other elements including later stages of SSRP, are to be assessed in accordance with the procedures applicable to the acquisition of information technology facilities.

The Project DESINE Proposals

Conclusion (paragraph 3.78 of Report 254)

The Committee concludes that:

- . the decision by the Department of Defence to implement Project DESINE and decentralise administrative computing subject to central control over a standardised computing environment, is soundly based;

- the decision to decentralise administrative computing on a functional basis centering initially on the Supply Systems Redevelopment Project and the Manpower Systems Redevelopment Project is also soundly based; and
- the technology appears to be available which can provide the broad functionality necessary to support the standardised computing environment envisaged by the Department of Defence under Project DESINE.

Response

3.6 The Committee's conclusions are noted.

Conclusion (paragraph 3.28 of Report 254)

The Committee concludes that:

- the timing, composition and funding requirements of the first two projects, the Supply and Manpower Systems Redevelopment Projects, which are to be implemented as part of Project DESINE, have not yet been:
  - subject to the full process of internal scrutiny and approval within the Department of Defence; or
  - endorsed by the Secretary of the Department of Defence.

Response

3.7 Noted. The two projects, Supply Systems Redevelopment Project (SSRP) and Manpower Systems Redevelopment Project (MSRP), have received appropriate approval at their relevant stages of development, including endorsement by the Secretary, Department of Defence. Defence uses a proprietary Project Management Methodology (SPECTRUM) which involves progressive approval freeze points and cost/benefit analyses at various stages of project development. Both SSRP and MSRP are being administered in accordance with this methodology.

SPECTRUM

3.8 SPECTRUM is a proprietary Project Management Methodology, pertaining to the introduction of computer systems, used throughout Defence, which ensures controlled project development and management. Its aim is to prevent project delays, cost over-runs, inadequate documentation, low productivity, excessive maintenance and enhancement costs, and seeks to ensure that the user requirements are met.

Conclusion (paragraph 3.40 of Report 254)

The Committee concludes that:

- . The Department of Defence has not yet completed the system definition, cost-benefit and other necessary studies for the first sub-projects of the Supply and Manpower Systems Redevelopment Projects; and
- . in consequence, insufficient information is available to permit the Committee to assess the adequacy of the planning and cost-benefit justification for these sub-projects which in aggregate involve expenditures of approximately \$310 million.

Response

3.9 Notwithstanding management procedures under SPECTRUM, it has always been recognised that more detailed cost/benefit analyses would need to be undertaken by the Department of Defence, as systems analysis progressed. A start has been made on these more detailed studies.

Supply Systems Redevelopment Project.

3.10 As reported to the Committee, in mid 1986 independent consultants were engaged to determine the use and impact of technology in the redeveloped Depot/Base supply systems and the associated costs and benefits. Their report recognized the study as being in the nature of a pre-feasibility study and indicated that the benefits identified represent, in fact, a potential for benefits, being labour savings associated with a time reduction in the processing and handling of supply functions. The achievement of such benefits is dependant on the redevelopment of the supply system. Such redevelopment is to be the first significant project to utilize DESINE and therefore those benefits have not been achieved as yet.

3.11 Defence accepts that a more detailed cost benefit analysis needs to be undertaken as system analysis progresses. A start has been made on these more detailed studies, using as a basis "A Guide to Cost Effectiveness Analysis of ADP Systems" by the former Public Service Board, enhanced by cost benefit techniques developed within the Department of Defence. Work continues on refining the consultant's estimates, and as Analysis of Requirement proceeds, further analyses will be undertaken to identify how potential savings can be achieved.

## Manpower Systems Redevelopment Project

3.12 Detailed studies have been completed for all the Phase 1 sub-projects relating to the Reserves Pay redevelopment, Navy Pay redevelopment, Net Pay Deposit, On-line Data Entry, and Network Prototyping. Studies have also been carried out on Phase 2 and Phase 3 sub-projects resulting in the production of overall cost estimates and savings. [REDACTED] revealing an expected cost saving over the project life cycle of \$9M and a staff saving of 166 civilians and 148 servicemen.

Recommendation 1 (paragraph 3.41 of Report 254)

The Committee recommends that:

The Department of Defence not procure implementation quantities of equipment for each major sub-project of the Supply and Manpower Systems Redevelopment Projects or any other projects to be implemented under Project DESINE until:

- the planning, systems definition and cost-benefit studies necessary to define and justify fully these sub-projects, have been completed;
- the Secretary of the Department of Defence has endorsed each of these sub-projects in turn and the funds necessary to implement them; and
- a submission dealing with these sub-projects has been made to the Committee under its standing reference to examine and report on ADP acquisition proposals over \$5 million. The Committee understands that the first of these is likely to be the Depot/Base sub-project of the Supply Systems Redevelopment Project which involves approximately \$30 million of capital expenditure.

Response

3.13 Resulting from the recent decision by the Government revising the arrangements for the acquisition of information technology facilities, the other elements of DESINE, including later stages of SSRP, will now be subject to assessment in line with those new procedures. However, in accordance with an earlier Government decision and reflected in the Minister of Defence's Statement in Parliament on 23 February 1987 the Depot/Base module of SSRP would not, in any event, have been referred to the Committee: due to the urgency of Defence's needs for Project DESINE, Cabinet agreed to the issue of a Request for Tender for a period contract by a prime contractor for a five year period without further reference to the Committee. The DESINE Request for Tender was issued on 20 March 1987. Tenders closed on 7 July 1987 and the evaluation of tenders is currently in progress. Consultation with the Departments of Administrative Services and Industry, Technology and Commerce has produced a strategy which will seek to maximise Australian industry participation within current Government policy.



Conclusion (paragraph 3.56 of Report 254)

The Committee concludes that:

- . the implementation of a standardised computing environment will substantially reduce levels of technical support required in comparison with those required under a non-standardised environment;
- . the Department of Defence has overstated the savings of in-house technical support which will result from the use of a prime contractor arrangement for Project DESINE; and
- . the Department of Defence has provided no convincing cost-effectiveness argument based on the lower costs of technical support, where that support is provided by a contractor rather than by Departmental staff, to justify the use of a prime contractor.

Response

3.14 Noted. Defence has not attempted to quantify the savings of in-house technical support. Its main concern has been to avoid the risk of involvement in the development of multi-vendor network solutions. A prime contractor arrangement would lessen technical support requirements and reduce the risk.

3.15 Defence has had considerable experience in acting as the entrepreneur for multi vendor network solutions at the expense of significant technical staff overheads. Notwithstanding current steps taken to attract and retain technical computing staff within Defence, past experience, coupled with continuing budgetary constraints and a high staff turnover, indicates that Defence should not venture down the same path again. Defence does not have the manpower nor the expertise to provide initial co-ordination of the implementation of the total network architecture and the ongoing integration of the large number of systems Defence proposes to procure over the term of the period contract. The actual number, size and complexity of the different systems which Defence proposes to procure is not known sufficiently at this stage to enable an assessment of such technical staff savings. DESINE establishes a Period Contract against which specific approved projects place their orders. Therefore, since the cost of performing prime contractor responsibilities of system integration and the co-ordination of and responsibility for sub-contractor performance are related to the number of systems procured, this concept is assessed as being more cost effective and practical than maintaining the necessary level, diversity and quantity of technical staff within Defence.

Conclusions (paragraph 3.67 of Report 254)

The Committee concludes that:

- . the proposed initial task of proving the selected network architecture and ensuring that the new systems will continue to interoperate with existing ones is sufficiently complex that the use of a prime contractor is warranted for this initial task;
- . the justification for a prime contractor arrangement will be greatly reduced once the Department of Defence has a proven network architecture in place and is proceeding to purchase implementation quantities of equipment and software; and
- . once the network architecture has been put in place and proven in all important respects, there will emerge a full set of specifications and procedures that will permit implementation quantities of equipment and software to be provided by part contractors.

Response

3.16 The concept of a Prime Contractor is a central element of the Period Contract being established. The specifications for the ongoing Defence requirements, both within the five years covered by the proposed period contract and beyond, are determined by the Network Architecture which will be set in place by the chosen solution. It has always been a part of the DESINE strategy that, after the first five year period contract, the provision of compatible items would be open, subject to the normal tendering processes, to part tenderers.

Conclusion (paragraph 3.83 of Report 254)

The Committee concludes that:

- . while the use of international standards called Open Systems Interconnection remains a goal of the DESINE strategy, no such international standards yet exist in complete form and there is considerable uncertainty about when they will be fully developed and agreed;
- . the Department of Defence therefore intends to accept an existing proprietary network architecture, while aspiring to select a contractor who has indicated a commitment to migrate to Open Systems Interconnection standards; and

- there remains considerable doubt about the ability of the Department of Defence to evaluate and enforce contractually such commitments. These commitments are consequently of questionable value.

Response

3.17 Noted. The International Standards for the lower four layers of the seven layer Reference Model for Open Systems Interconnection (OSI) have been established. The concern of the Committee regarding the difficulty of enforcing commitment to future OSI standards is understood. The ability of tenderers to utilize some established OSI standards is a mandatory requirement and it is in the interests of all manufacturers to comply with OSI standards as they are accepted and introduced within the international computer industry. ~~Not to do so would~~ lead to loss of competitiveness. Furthermore, there is no obligation to place orders under a period contract and should the contractor default in a significant sense, the Commonwealth could take appropriate action. In compliance with established OSI standards, such an evaluation is a routine task and is not expected to present any difficulties to the Defence evaluation team.

Recommendation 2 (paragraph 3.84 of Report 254)

The Committee recommends that:

The initial request for tender for a network architecture for Project DESINE include as a mandatory requirement the immediate supply and proving of a network architecture and, as a desirable requirement, the subsequent migration to Open Systems Interconnection standards.

Response

3.18 Agreed. The proving of the network architecture is addressed in the response at paragraph 3.19 whilst the matter of OSI standards is addressed at paragraph 3.17.

Conclusion (paragraph ~~3.91~~ of Report 254)

The Committee concludes that:

- there is a small but significant risk that the network architecture chosen for Project DESINE will not prove satisfactory, resulting in difficulties and delays in the major redevelopment projects to be implemented under Project DESINE;
- although the probability of this occurring is small, the consequent costs resulting from delay and disruption in these projects may be very large; and

- the Department of Defence's proposed acquisition strategy of procuring and proving a network architecture and then proceeding immediately, under the same period contract, to purchase the equipment, software and services for the implementation of the Supply and Manpower Systems Redevelopment Projects involves the risk of major delays and cost overruns if the selected network architecture does not prove fully satisfactory.

**Response**

3.19 Noted. The risk is minimal and manageable. The chosen network architecture will be proved within the Depot/Base phase of SSRP. The solutions tendered must all be proven products and the conduct of thorough evaluation, including site visits to operating installations using such proven products and the use of benchmark tests where considered necessary, will minimize the risk factor.

Recommendation 3 (paragraph 3.92 of Report 254)

The Committee recommends that:

The procurement arrangements and implementation schedule for Project DESINE be designed to minimize the risk and cost consequences of delay and disruption to the project.

**Response**

3.20 Agreed. In essence, the risk factor is minimized by the requirement that all tendered solutions must be based on proven products. The evaluation of tenders includes site visits to installations operating with the tendered products. Benchmark tests may also be used where considered appropriate. It is considered that all the appropriate action has been taken to ensure that the risk factor has been minimized.

Conclusion (paragraph 3.94 of Report 254)

The Committee concludes that:

- it is government policy to maximise opportunities for Australian industry to compete effectively for government contracts and this has direct consequences for the form of the proposed procurement arrangements for Project DESINE.

## Response

3.21 It is Commonwealth Government purchasing policy for all Commonwealth Departments to give preference to goods of Australian origin or of relatively greater Australian content. A statement of this policy was included in the Request for Tender (RFT) and the cost comparison of tenders during evaluation includes the preference adjustment of prices in accordance with the level of Australian / New Zealand content. An essential requirement is that "Australian / New Zealand involvement will be encouraged to the maximum extent possible."

3.22 An Industry Briefing conducted on 10 April 1987 was attended by approximately 170 industry representatives. At this briefing, the Department of Defence stated that:

"the Government is determined that the Australian Industry Involvement in Project DESINE should be maximised. In addition the offsets policy will apply with regard to imported components. The importance of this should not be underestimated."

Representatives from the (then) Departments of Local Government and Administrative Services (DOLGAS) and of Industry, Technology and Commerce (DITC) also spoke, stressing the need to maximize local content, the application of Government preference policies, the monitoring of local content throughout the period of the contract, and the need to propose offsets arrangements in accordance with current Government policies. As a result there should be a clear understanding of the importance being placed on the maximization of local content and Australian Industry Involvement. The Government policy in this regard is quite specific in the process to be followed to ensure the selection, within budgetary constraints, of a suitable solution with the highest Australian/New Zealand content.

Conclusion (paragraph 3.113 of Report 254)

The Committee concludes that:

- the procurement arrangements proposed by the Department of Defence, whereby a single prime contractor will supply both the network architecture and subsequently, will supply implementation quantities of equipment and software for Project DESINE, will offer very limited opportunities for Australian industry participation; and
- a part tendering arrangement for the supply of implementation quantities of equipment and software for Project DESINE will provide better prospects for Australian industry participation than a single prime contractor arrangement.

Response

3.23 Noted. The tender documents make arrangements for part tenders to be considered for particular products where these can be demonstrated to be compatible with the overall solution. Defence proposes to accept part tenderers but under a prime contractor arrangement to minimize risk. (See also response to paragraph 3.94.)

Conclusion (paragraph 3.120 of Report 254)

The Committee concludes that:

- the application of the existing Australian purchasing preference and offsets policies is unlikely to secure a satisfactory level of Australian industry participation in the DESINE contracts; and
- given the magnitude of the acquisitions proposed under Project DESINE, special measures are justified to ensure a satisfactory level of Australian industry participation in the DESINE contracts.

Response

3.24 The tender documents have also been developed so as to maximize Australian Industry Participation (AIP) where this is reasonably competitive. (See also response to paragraph 3.94.)

Recommendation 4 (paragraph 3.121 of Report 254)

The Committee recommends that:

Part tendering arrangements be adopted in the major implementation phase of Project DESINE to increase the prospects for Australian industry participation in the supply of specific categories of equipment and software.

Response

3.25 Agreed.

Recommendation 5 (paragraph 3.121 of Report 254)

The Committee recommends that:

In addition to the enforcement of the Australian purchasing preference and offsets policies, the level of Australian industry participation be a specific criterion in the evaluation of tenders for the DESINE contracts.

Response

3.26 Agreed.

Recommendation 6 (paragraph 3.121 of Report 254)

**The Committee recommends that:**

**The Department of Industry, Technology and Commerce and the Department of Local Government and Administrative Services participate in the weighting of this evaluation criterion and review the level of Australian industry participation in the recommended tenders before contracts are let.**

Response

3.27 Agreed. Discussions were held with the (former) DOLGAS and DITC resulting in the final wording and content of the RFT and both these Departments also participated in the Industry Briefing on 10 April 1987. Both Departments are to be represented on the Evaluation Steering Committee and each has been involved in the development of the evaluation methodology to be used in the assessment of tenders. Key elements of the assessment are the level of Australian / New Zealand content, and the offset status of the tenderer or the offsets proposed by them.

Recommendation 7 (paragraph 3.121 of Report 254)

**The Committee recommends that:**

**If a satisfactory level of Australian industry participation cannot be agreed at Departmental level, the matter be referred to the responsible Ministers for decision.**

Response

3.28 Agreed. This aspect is adequately covered by current Government policy which facilitates the application of additional Ministerial discretionary preference if considered appropriate and reference, where considered warranted, to the Cabinet Industry Committee.

Conclusion (paragraph 3.144 of Report 254)

**The Committee concludes that:**

**the Department of Defence intends the accomplishment of two separate tasks under the five year period contract with a prime supplier which it has proposed for Project DESINE:**

**- to select, acquire and prove a network architecture; and**

- to procure implementation quantities of compatible equipment and software for the Supply and Manpower Systems Redevelopment Projects;
- . a two-stage procurement arrangement for Project DESINE is feasible and desirable to permit these two tasks to be completed and to:
  - minimise the risks of major cost overruns resulting from any delays or complications in establishing and proving a network architecture;
  - permit broader competition and therefore better prices and performance, especially when implementation quantities of equipment and software are being procured; and
  - increase the opportunities for Australian firms to supply equipment and software in compliance with the established network architecture;
- . although a two-stage procurement arrangement may involve some additional administrative costs:
  - it need not cause any delays to the main implementation phase of the Supply Systems Redevelopment Project which is not scheduled to commence until 1990; and
  - any additional costs resulting from conducting two tenders and from any consequent small delay, are more than justified by the reduced risks, greater competition and greater opportunities for Australian industry participation which will result.

Response

3.29 Noted. The two tasks, perceived by the Committee as being separate, are not seen by Defence as being separate. Defence does not intend to proceed with the establishment of DESINE in the manner that the Committee concluded. The essence of the Defence strategy for implementing DESINE is:

- a. the establishment of a period contract and
- b. the acquisition of computing requirements for approved projects from the period contract.



3.30 Thus in the conventional sense Project DESINE is not an equipment project but rather a concept for an integrated network environment which will be implemented by the establishment of a period contract for the purchase of Defence computing requirements. Individual computer projects, such as SSRP and MSRP, will obtain their computing requirements from the DESINE period contract.

3.31 Establishment of a period contract involves the selection of a proven network architecture and proven hardware and software products. The procurement of implementation quantities of SSRP and MSRP equipment is part of the task of acquiring a proven network architecture.

#### Stage 1 Tender

Recommendation 8 (paragraph 3.146 of Report 254)

The Committee recommends that:

The Department of Defence issue a Stage 1 request for tender for a single prime contractor to supply:

- a network architecture for Project DESINE;
- sufficient equipment and software to test and prove that architecture; and
- a communications gateway to link Project DESINE equipment to Defence's existing equipment.

#### Response

3.32 The Government does not agree with the recommendations in paragraph 3.146 of the Report.

3.33 On 23 February 1987 the Minister for Defence announced the Government's decision that Defence issue a Request for Tender for a period contract to cover a range of computing systems (including the Supply and Manpower Systems Redevelopment Projects) by a prime contractor, for a five year period, without further reference to the Committee, noting that such a contract involves no commitment to specific purchases.

Recommendation 9 (paragraph 3.146 of Report 254)

The Committee recommends that:

The Stage 1 request for tender clearly indicate to potential suppliers of a network architecture and associated demonstration equipment and software that:

- this is the first stage of a two-stage tendering process, as outlined above;

- the network architecture which is supplied by a prime contractor in Stage 1 must be demonstrated to be non-exclusive to the equipment and software supplied by that prime contractor; and
- the supplier of the network architecture may be requested to demonstrate that non-exclusivity by integrating equipment and software from other vendors.

Response

3.34 See response to recommendation 8 above.

Recommendation 10 (paragraph 3.146 of Report 254)

The Committee recommends that:

The extent to which the proposed network architecture will admit other firms', and particularly Australian firms' equipment and software to be a specific evaluation criterion in the Stage 1 tender. This could be demonstrated by evidence that:

- the specification of the prime supplier's network architecture is available to other firms;
- equipment and software products of other, and particularly Australian, firms are currently available which conform with this network architecture; and
- other firms, particularly Australian firms, are able and prepared to develop products which conform with this network architecture.

Response

3.35 This recommendation relates to Stage 1 of the Committee's proposed two stage process which has now been rejected by the Government. As a result of a Government decision, Request for Tender 59/78320 was issued on 20 March 1987, seeking to establish under a prime contractor, a period contract for a five year period to cover a range of computing requirements.

Stage 2 Tender

Recommendation 11 (paragraph 3.147 of Report 254)

The Committee recommends that:

The Department of Defence issue a Stage 2 request for part tenders to supply implementation quantities of different categories of equipment and software compatible with the selected network architecture.

Response

3.36 This recommendation relates to Stage 2 of the Committee's proposed two stage process which has been rejected by the Government. The Minister's statement of 23 February 1987 together with the response to recommendation 10 is relevant.

Recommendation 12 (paragraph 3.147 of Report 254)

The Committee recommends that:

The level of Australian industry participation be a specific evaluation criterion and be given a substantial weighting in the evaluation of Stage 2 tenders.

Response

3.37 The level of Australian industry participation is being given specific attention during the evaluation and both the Request for Tender and the Industry Briefing have stressed the importance of this aspect. Government policy in this regard is being strictly followed. The weighting recommended is contained in the current Preference policy and involves a negative weighting of a notional reduction, for cost comparison purposes, of 20% of the value of Australian/New Zealand content in the tendered price.

Further Submissions

Recommendations 13, 14 and 15 (paragraph 3.152 of Report 254)

The Committee recommends that the Department of Defence provide to the Committee and subsequently to Cabinet:

13. a supplementary and succinct submission (Submission 1) as soon as possible which sets out proposed general arrangements for the two-stage procurements and detailed arrangements for Stage 1 procurements including:

- the numbers, types and cost of equipment and software necessary to test and prove the selected network architecture in Stage 1; and
- the broad specification of the network architecture to be included in the Stage 1 request for tender.

14. a further submission (Submission 2) as per the Committee's guidelines for submissions under its standing reference, which sets out detailed proposals for Stage 2. This submission will be made only when Stage 1 is complete, and detailed planning for the first sub-projects of the Supply Systems Redevelopment Project is also complete. It will include:

- the results of the Stage 1 evaluation and trial implementation of the selected network architecture;
- a full definition of the first sub-projects of the Supply Systems Redevelopment Project, and the cost-benefit and other information necessary to support them;
- comprehensive plans for monitoring the performance of, and benefits resulting from these sub-projects; and
- an indication of the proposed part tendering arrangements and the expected level of Australian industry participation in the Stage 2 contracts.

15. additional submissions for any other projects, including the Manpower Systems Redevelopment Project, to be implemented under DESINE, as and when required under the Committee's standing reference to examine and report on major ADP acquisition proposals over \$5 million.

Response

3.38 The Government does not agree with the recommendations in paragraph 3.152 of the Report. The Minister's statement of 23 February 1987 is relevant.

3.39 The two stage process was not accepted by the Government and a Cabinet Decision taken at that time resulted in the issue of the Request for Tender on 20 March 1987 without the need for further reference to the Committee.

Recommendation 16 (paragraph 3.153 of Report 254)

The Committee recommends that:

The Department of Defence provide an annual progress report to the Department of Finance and this Committee which summarises progress to date on Project DESINE and its component projects against agreed plans. This report will detail:

- the benefits achieved in comparison with those initially asserted at the time of project approval;
- = the costs incurred to date in comparison with those initially asserted;
- the degree of Australian industry participation achieved; and
- the proposed expenditure for DESINE projects for the following financial year.

Response

3.40 All projects for pursuit under the DESINE period contract, and the monitoring of that contract, will be progressed in accordance with the normal procedures. Defence considers that existing procedures meet the requirements for progress reporting.

Conclusion (paragraph 3.161 of Report 254)

The decision to use DISCON for Project DESINE administrative data communications, implies the requirement for an additional capital investment in DISCON to increase its capabilities and for additional maintenance and support costs. This investment may exceed the costs of using existing Telecom services.

Response

3.41 Analysis within Defence shows that to meet forecast Defence data communications requirements throughout Australia on a large number of Defence bases, the use of DISCON facilities, in many instances in conjunction with Telecom services, would be more cost effective than use of only Telecom services.

3.42 For example, the use of the Telecom AUSTPAC service is not considered cost effective; the use of AUSTPAC for 500 Australia wide Defence data services is estimated to cost in the range \$25M - \$150M (depending on traffic data volumes) in capital and recurring charges over 10 years, whereas expanding the use of DISCON is estimated to cost less than \$15M in capital and recurring charges over the same period.

Conclusion (paragraph 3.163 of Report 254)

The proposed use of DISCON for Project DESINE data communications has not been justified on cost-effectiveness grounds.

Response

3.43 Analysis within Defence of capital and annual ongoing costs show that the proposed use of DISCON facilities in conjunction with Telecom services for DESINE is considered to be more cost effective over a ten year period than the use only of Telecom services. The most cost effective solution will thus involve the use of DISCON facilities.

Conclusion (paragraph 3.165 of Report 254)

No case has been adduced by the Department of Defence to show that the proposed administrative computing systems to be implemented under Project DESINE will require the high levels of security provided by the DISCON system.

Response

3.44 The Department and the Services as a result of system security evaluations have indicated that some of the classified data to be transmitted will require the high national security protection provided by DISCON.

Recommendation 17 (paragraph 3.166 of Report 254)

The Committee recommends that the Department of Defence make no change from its present use of Telecom services for data communications for administrative computing, unless and until such a change is separately proposed and justified on the grounds of a high level, national security requirement or, on the basis of a cost-effectiveness analysis.

Response

3.45 The above responses to the Committee's conclusions 3.161, 3.163 and 3.165 indicate that Telecom services alone cannot economically or on security grounds efficiently and effectively meet the data communication requirements for all levels of Defence's administrative computing. The Defence reasons for proposing the use of DISCON facilities in conjunction with Telecom services, in support of DESINE are:

- a. some of the ADP projects to be implemented under DESINE have national security requirements for data protection which are well defined and will need the communication security arrangements provided by DISCON; and
- b. the proposal for use of DISCON facilities, in conjunction with Telecom services, for administrative data communications in support of DESINE, is based on detailed studies that show it to be an overall cost effective solution.

Conclusion (paragraph 3.183 of Report 254)

The Committee concludes that:

- . the proposed schedule for Project DESINE appears to be over optimistic in assuming the availability of large numbers of technical computing staff;
- . as a consequence the danger exists of unexpected and costly delays occurring in Project DESINE redevelopments because of shortages of technical computing staff; and
- . the supply of adequate numbers of technical computing staff will continue to be a major problem in future in the implementation of major computing projects in the Australian Public Service.

Response

3.46 Noted. Defence has long been aware of the problem of shortages in technical computing staff and has undertaken several innovative measures to improve staff recruitment and retention.

3.47 Some of the measures undertaken by Defence include:

- a. The "Trawl" Programme. Recruiting, within Defence, of staff with the appropriate aptitude for training as Computer Systems Officers Grade 1 (CSO1s). 54 persons from 360 applicants commenced training to make up the expected shortfall of graduate CSO1s. After one year of the programme, some have already been promoted to CSO2 positions and the remainder will be eligible to apply for CSO1 promotion early in 1988.
- b. Graduate Recruitment. Defence has also undertaken a programme of visits to tertiary institutions providing computing studies. This approach sells Defence computing in a more personal way as well as acquainting staff at those institutions with the Defence computing environment. Although the success of this approach is difficult to quantify, the interest shown to date is encouraging. This approach has the added effect of portraying Defence as a very professional organization and students may well join Defence at a later stage in their careers as a result of this early exposure.

3.48 The progress of Defence computing projects is under constant review, a part of which is the assessment of availability of technical computing staff. Projects are reassessed on their relative priorities and timings are adjusted as necessary to achieve the most effective utilization of available resources.

3.49 One of the advantages of period contracts is that acquisition, and therefore expenditure, can be scheduled for times most suitable for the customer. Defence therefore will be able to minimize the effects resulting from any delays in the progress of computing projects due to shortages of technical computing staff by rescheduling funds, tasks, manpower and other resources, and competing requirements.

Recommendation 18 (paragraph 3.184 of Report 254)

The Committee recommends that:

The Department of Defence reschedule some of the concurrent redevelopment tasks presently included in the Supply and Manpower Systems Redevelopment Projects, so as to reduce the large peak demand for technical computing manpower which now exists during the period 1988-1993.

Response

3.50 Agreed. Rescheduling is already happening in accordance with normal procedures.

Supply Systems Redevelopment Project.

3.51 Manpower constraints necessitated a scheduling review in late 1986. As a consequence of that exercise, the Defence Force Development Committee endorsed continuing priority for the Depot/Base and Enhancement Projects; cancelled the initial Policy and Resources Project; and deferred commencement of the systems definition phase for the Executive Level redevelopment for two years. A further review of the total Supply Systems Redevelopment Project is currently being conducted with the assistance of external consultants. This review is to advise on:

- a. whether the existing concept continues to be a cost effective means of meeting requirements for efficient supply management system within the Defence function, and identify changes which might have to be made to the concept to improve its cost effectiveness;
- b. the development and implementation strategy for the project and its major components, including:
  - (1) management arrangements within the Defence Logistics Organisation;
  - (2) ways in which the benefits can be obtained earlier;
  - (3) the potential for use of commercially available systems; and
- c. the costs and benefits of the project and of bringing forward major components.

Manpower scheduling will be considered as part of this consultancy.



Manpower Systems Redevelopment Project.

3.52 Rescheduling is an ongoing process which has resulted in the production of a manageable technical computing manpower requirement within the project. This has been achieved by the deferment of a number of projects such as the redevelopment of Army and Air Force Pay, the use of existing software as a base for Navy Pay redevelopment, and the use of consultants to redevelop the Reserves Pay System. Technical computing requirements have also been reduced by taking advantage of a common development approach and the use of existing hardware and software packages.

Recommendation 19 (paragraph 3.184 of Report 254)

The Committee recommends that:

Technical staffing requirements and proposed measures to meet them be addressed as specific issues in all major computer acquisition proposals submitted to Cabinet and/or this Committee.

Response

3.53 See Defence response to Recommendation 18 above.

The Proposed Procurements for the Office of Defence Production

Conclusion (paragraph 4.16 of Report 254)

The Committee concludes that:

- . the Office of Defence Production failed to secure suitable working accommodation for a warehoused computer already owned by the Office and which could have met its interim computing capacity requirements up until the end of 1987;
- . in consequence the Office maintains that this equipment cannot now be used to meet the Office's interim computing capacity requirements for its Manufacturing Computing Bureau as originally planned;
- . this situation represents an unacceptable failure of planning and action by the Office and/or by the Department of Local Government and Administrative Services and the Department of Housing and Construction, in not ensuring suitable accommodation was provided for the existing equipment; and

- instead the Office proposes to expend substantial additional funds (\$1.85 million) to purchase a 'surplus' computer which has become available in the Commonwealth Bank.

#### Response

3.54 At the time that the Committee's original proposal was being developed it had been anticipated that ODP's capacity requirements to 1988 would be substantially met by existing equipment, the Amdahl V6 and V8 processors. It was recognised that this would depend on the availability of suitable computer room accommodation. However it was anticipated that this would be available by the end of 1986. Subsequent to the submission of the proposal to the Committee the Department was informed by the then Department of Housing and Construction that suitable accommodation was unlikely to be available before the end of 1987.

3.55 On 14 May 1986, shortly after being informed of the delay in availability of accommodation, the Department was informed by the former Department of Local Government and Administrative Services (DOLGAS) of the imminent availability of surplus Commonwealth computing equipment. At the time of the Committee's public hearing on 5 June 1986 the suitability of the surplus equipment and its cost effectiveness were still being investigated. The investigation, which was completed on 11 June 1986, concluded that the capacity of the surplus equipment was such that it would only meet ODP's requirements until mid 1988 and therefore its acquisition would not impact the proposal before the Committee which addressed requirement from 1988 onwards.

3.56 However the Committee was notified of the proposal to bid for the surplus equipment on 13 June 1986, for information. On 28 October 1986 the Committee's Secretariat acknowledged the acquisition of interim computing capacity by ODP, as part of a package of procurements involving other Departments, and does not intend making comment further to those contained in Report 254.

#### Recommendation 20 (paragraph 4.20 of Report 254)

The Committee recommends that the Department of Local Government and Administrative Services and the Department of Housing and Construction make submissions to the Committee's inquiry into the Administration of the Commonwealth's Property Functions, explaining the reasons for the delay in providing suitable accommodation for the Office of Defence Production's existing equipment.

## Response

3.57 Defence has no comment on this recommendation which was addressed to the former Departments of Local Government and Administrative Services and Housing and Construction. (The Housing and Construction Group has now been consumed into the Department of Administrative Services.)

3.58 Both the former Departments of Housing and Construction and DOLGAS made submissions to, and appeared before, the JCPA Inquiry into the Administration of the Commonwealth's Property Functions to explain reasons for the delay in providing suitable accommodation for ODP's existing equipment. Project DESINE was the subject of specific questioning and a supplementary submission by that Department, during the inquiry.

3.59 The Committee reported on this project as one of three detailed case studies at Appendix D of its 272nd Report. The case study of accommodation aspects of Project DESINE included the following finding (272nd Report, Appendix D(1)):

"However, on receipt of submissions from the two departments it was clear that principal responsibility for the failure to secure accommodation lay with the Department of Defence and the ODP itself, rather than with the Department of Housing and Construction or DOLGAS. The Department of Defence failed to adequately plan for its proposed acquisitions and to keep the central service agencies advised of its proposals. This failure to advise DHC and DOLGAS made their co-ordinating and service roles more difficult. It appears that both DOLGAS and DHC performed their respective responsibilities both conscientiously and expeditiously. Delays occurred as a result of matters outside their control."

Conclusion (paragraph 4.27 of Report 254)

The Committee concludes that:

The capacity demand projections on which the proposals to purchase a 'surplus' computer is based are likely to be inflated by the absence of any real user charging and cost recovery for the Manufacturing Computing Bureau's services.

## Response

3.60 The Capacity projections were based on planned growth of existing computing systems, by extending them to more establishments and by broadening the scope of systems already running. The plans are controlled by Central Office, and are not 'demand driven' in the normal sense. The Bureau does not run systems which can experience unplanned growth, such as general purpose packages like spreadsheets and word processing. A charging formula for the use of Bureau services has been developed based on Department of Finance guidelines. Currently a notional charging system is used. Under this system accounts for usage are issued and users must take into account these charges in preparing system cost effectiveness analyses.

Recommendation 21 (paragraph 4.28 of Report 254)

The Committee recommends that:

The Office of Defence Production introduce, as a matter of high priority, real user charging and cost recovery for the Manufacturing Computing Bureau's services to ensure that the level of use of these services is cost-benefit justified.

Response

3.61 Agreed. ODP is moving as quickly as possible towards implementation of real user charging and cost recovery for the Bureau's services. See also response to conclusion for paragraph 4.27 above.

Recommendation 22 (paragraph 4.35 of Report 254)

The Committee recommends that:

The Department of Defence expedite the Office of Defence Production's tender independently of the Project DESINE tender, to allow new computing equipment to be delivered to the Office as soon as possible.

Response

3.62 The tender for the Office of Defence Production has been issued independently as recommended by the Committee and tender responses are currently being evaluated.

Recommendation 23 (paragraph 4.35 of Report 254)

The Committee recommends that:

The Office of Defence Production review its capacity demand projections for the Manufacturing Computing Bureau with a view to deferring the provision of lower priority services until suitable accommodation can be found for its existing equipment and/or new equipment is delivered.

Response

3.63 An ongoing review of priorities is presently being made; however, the interim computer issue has been overtaken by subsequent events. The recommendation also called for a review of capacity demand projections to allow deferral of lower priority services until accommodation for the existing equipment was found and/or new equipment was delivered. Such deferral, and the necessity for a review, is no longer necessary since an IBM 3081K processor was acquired through the normal tender process in December 1986.

Recommendation 24 (paragraph 4.35 of Report 254)

**The Committee recommends that:**

**The Department of Local Government and Administrative Services take the necessary urgent action to accelerate the provision of suitable accommodation for the Office's equipment.**

Response

3.64 Defence has no comment of Recommendation 24.

3.65 DOLGAS advise that the Committee reported on this project as one of three detailed case studies at Appendix D of its 272nd Report. The case study of accommodation aspects of Project DESINE as demonstrated in the chronology of events in the Report, clearly shows that DOLGAS took urgent action to accelerate the provision of suitable accommodation for the ODP's equipment.

Conclusion (paragraph 4.42 of Report 254)

**The Committee concludes that:**

- . the requirement for a single prime contractor to minimise risk and complexity is not the first priority in the planned computer acquisitions by the Office of Defence Production; and
- . part tendering arrangements are justified by the greater levels of competition and opportunities for Australian industry participation which will result.

Response

3.66 Noted. Defence accepts the Committee's conclusions and has evaluated part tenders for the Office of Defence Production's various requirements (See also response to Recommendation 25).

Recommendation 25 (paragraph 4.43 of Report 254)

**The Committee recommends that:**

**The Department of Defence invite part tenders for the proposed five year period contract to be established for the supply of equipment to the Office of Defence Production.**

Response

3.67 Following evaluation of responses to the Office of Defence Production's tender, a number of contracts is now being negotiated with several successful part tenderers..

The Small, Stand-alone Systems Contract Proposal

Conclusion (paragraph 5.13 of Report 254)

The Committee concludes that:

- . insufficient justification has been given for establishing a separate period contract for small stand-alone computer systems for the Department of Defence;
- . the Department of Local Government and Administrative Services has recently established a panel period contract for the purchase of equipment and software for small, stand-alone systems of this type; and
- . in the past the Department of Defence's annual expenditure on stand-alone systems has exceeded the limits now prescribed for the use of the panel period contract established by the Department of Local Government and Administrative Services.

Response

3.68 Further review of the requirement for small stand-alone computer systems indicates there is insufficient demand for a separate Defence contract.

3.69 It is proposed to obtain the Defence requirements of small stand-alone computers from the DESINE period contract as has been recommended by the Committee (Recommendation 27). This approach will have all the benefits provided by the DESINE strategy as well as minimizing the administrative aspects of the preparation of a separate Request for Tender, the evaluation of tenders and the subsequent management of an additional contract.

Recommendation 26 (paragraph 5.14 of Report 254)

The Committee recommends that:

The Department of Defence's proposal to establish a separate period contract for small, stand-alone computer systems not proceed.

**FINANCE MINUTE ON  
REPORT 256  
FORWARD OBLIGATION OF  
GOVERNMENT EXPENDITURE**

## CHAPTER 3

### DEPARTMENT OF FINANCE MINUTE

3.1 This minute is a response from the Department of Finance, as the agency administering Forward Obligation procedures.

3.2 In this chapter each of the Committee's conclusions and recommendations is reproduced in turn and is followed by the response.

Conclusion (paragraph 5.5 of Report 256)

The Committee concludes that:

- . forward obligations are no longer important to overall budgetary strategy, but are still important at the departmental level.

Response

3.3 See response to recommendation 5.10.

Conclusion (para 5.7 of Report 256)

The Committee concludes that:

- . it is time to review the purpose and the operations of the system within a broader context than that adopted by the Auditor-General in his September 1985 report.

Response

3.4 See response to recommendation 5.9.

Recommendation (paragraph 5.9 of Report 256)

The Committee recommends that:

- . the current review, by Finance, of the forward obligations system be expedited.



### Response

3.5 The review of the obligations system undertaken within the Department of Finance has now been completed. Based on recommendations arising from the review, Cabinet has approved the introduction of revised obligation procedures to be effective from 1 July 1988. (A copy of the proposed Estimates Memorandum to Departments and relevant Authorities outlining the new procedures is attached.)

Recommendation (paragraph 5.10 of Report 256)

The Committee recommends that:

The new procedures arising from this review:

- . specify that the main purpose of the system is to authorise departments to enter into forward commitments in certain expenditure categories;
- . limit the extent of monitoring by Finance to those obligations which could have a significant impact on overall budget outlays.

### Response

3.6 This recommendation is accepted in part. In determining the most suitable future direction of the obligations system consideration has been given particularly to the continuing relevance of its original objectives. Finance agrees that the importance of the obligations system in preserving budgetary flexibility has been reduced since it was first introduced in 1976, as current arrangements (which exempt most special appropriations) apply to less than 20% of budget outlays. The refinement of the forward estimates process has also served to reduce the relative importance of the obligations system as it applies to all budget outlays. The forward estimates, however do not, and are not intended to, provide legal authority to enter into obligations - this remains the role of the forward obligations system.

3.7 The proposed changes to the system, which limit Finance involvement to obligations that have significant budgetary impact, will allow both the Government and Finance to concentrate on the major programs which will influence future budgets and yet continue to provide managers with the necessary budgetary assurance and authority to enable the effective forward planning of approved Government programs and projects.

Recommendation (paragraph 5.11 of Report 256)

The Committee recommends that:

- . In developing the details of the new regulatory arrangements, the policy of greater devolution of responsibility to departmental secretaries be given as much weight as possible. In this context, the Committee considers that monitoring arrangements by Finance which rely on global obligation limits for departments would be preferable to arrangements which monitored obligations at the program level.

Response

3.8 This recommendation is accepted in part. The revised procedures provide for devolution to Departmental Secretaries, or Statutory Office Holders with the powers of a Secretary, and to the Director-General of the Australian International Development Assistance Bureau, of the Minister for Finance's power under Finance Regulation 44A(1)(d)(i) to approve and vary forward obligations limits in specified circumstances. Those specified circumstances approved by the Minister for Finance, are outlined in the instrument of delegation copied at Attachment 1 of the attached Memorandum. It is to be noted that the Department of Finance has undertaken to monitor the adequacy and suitability of circumscribed delegations.

3.9 As Finance considers that one of the objectives of the obligations system must continue to be to contain the extent of future budget lock-in in large program areas, a system whereby limits are operated at the program level would be more effective than global limits in achieving this objective.

Recommendation (paragraph 5.14 of Report 256)

The Committee recommends that:

- . Departments rectify the inadequacies identified by Audit in terms of record keeping, monitoring, and control of commitments and expenditures within approved limits.

Response

3.10 Pursuant to section 2AB of the Audit Act 1901 responsibility for ensuring approved obligation limits are not exceeded rests with Departmental Secretaries. The Department of Finance, in recognition of its role to advise on, and promote efficiency and effectiveness, has in the attached Memorandum, encouraged departments to ensure that adequate systems are in place to monitor, on a continuing basis, actual performance against approved obligation limits so as to ensure limits are not exceeded. (See paragraphs 11, 12, 14 and 22 of the attached memorandum.)

3.11 The requirement under Finance Direction 25/15 to adequately record forward obligations and to keep such records was removed in July 1987 as a result of a recommendation contained in the Efficiency Scrutiny on 'Processing of Accounts'. With the repeal of this Direction it is no longer mandatory for departments to maintain such records. The new policy, as set out in Guideline 25/7, is that departments now have complete discretion on the ways in which they control obligations, provided the methods adopted are adequate for that task, in the circumstances.

*M S Keating*  
M S KEATING  
SECRETARY  
Department of Finance.

**FINANCE MINUTE ON  
REPORT 257  
ADMINISTRATION OF  
QUARANTINE SERVICES**

## CHAPTER 3

### DEPARTMENT OF FINANCE MINUTE

3.1 This minute has been prepared on the basis of responses received from the Australian Customs Service, the Attorney-General's Department and the Departments of Transport and Communications, Community Services and Health, Primary Industries and Energy and the Treasury (July 1987 Administrative Arrangements).

3.2 In this chapter each of the Committee's recommendations is reproduced in turn and is followed by the response.

#### Recommendation 1 (paragraph 2.17 of Report 257)

The Committee recommends that the Department of Primary Industry, as a matter of priority, undertake full consultation with all States and the Northern Territory on the proposed Commonwealth/State Agreement and that any relevant comments be incorporated prior to finalisation with the Attorney-General's Department and subsequent submission to Government during the 1986-87 financial year.

#### Response

3.3 The Department of Primary Industries and Energy (DPIE) undertook full consultation with all of the States and the Northern Territory in the latter half of 1986 to negotiate a Commonwealth/State Agreement. The States of New South Wales, Western Australia and Tasmania, and the Northern Territory have signed the Agreement and, in the spirit of the Agreement, have already started to provide the detailed financial information sought by the Commonwealth. It is not known when the remaining States will sign the Agreement, although endorsement of the agreement is currently being sought by each of these State Governments.

#### Recommendation 2 (paragraph 2.19 of Report 257)

The Committee recommends that, following the resolution of the general quarantine function, the Department of Primary Industry further pursue with the States the integration of animal and plant quarantine operations.

### Response

3.4 Administrative responsibility for general quarantine matters was transferred from the (former) Department of Health to the (then) Department of Primary Industry on 15 September 1986. The Prime Minister wrote to State Premiers and the Chief Minister of the Northern Territory on 11 February 1987 seeking their agreement to consultations taking place on the transfer of the remaining general quarantine operational functions to the States, as part of the process of amalgamating and co-ordinating all quarantine operations. Integration of animal and plant quarantine operations is being progressively pursued in several States.

3.5 A Committee established by the Minister for Primary Industries and Energy to examine all aspects of quarantine operations (the Lindsay Committee) is considering these matters and is due to report in June 1988.

### Recommendation 3 (paragraph 2.20 of Report 257)

The Committee recommends that the Department of Finance report to the Committee as a matter of urgency on the question of the legality of payroll tax being paid by the Commonwealth to the States.

### Response

3.6 The Attorney-General's Department has advised that there does not appear to be any legal reason why the Commonwealth should not pay to the States, as a component of the amounts which it agrees to pay to them for the quarantine services which they provide, an amount in relation to payroll tax.

3.7 The Government's policy is that where it is normal practice for a State to levy payroll tax in respect of its own employees, then this should be allowed for in setting the level of Commonwealth funding. Funding would not be forthcoming if evidence suggested that any State was deliberately manipulating its administration of payroll tax to benefit itself at the expense of the Commonwealth.

### Recommendation 4 (paragraph 2.25 of Report 257)

The Committee recommends that the Department of Primary Industry, in developing a proposal for computer systems, give early consideration to existing computing facilities already in operation in the States with the view to compatibility of systems enabling satisfactory data transfer.

Response

3.8 A consultant's report covering the computer needs associated with quarantine operations, including compatibility of ADP systems in the States, was received by the (then) Department of Primary Industry in November 1986. However, this report is being reconsidered due to the restructuring of the Australian Agricultural Health and Quarantine Service (AAHQS) into the Australian Quarantine and Inspection Service (AQIS) and the Bureau of Rural Science (BRS).

Recommendation 5 (paragraph 2.27 of Report 257)

The Committee recommends that the proposed Commonwealth/State Agreement on quarantine services be amended to reflect details of performance indicators.

Response

3.9 The Commonwealth/State Agreement requires the States and the Northern Territory to provide detailed financial information and activity indicators in relation to all aspects of services performed by the States on the Commonwealth's behalf. The information provided to the Commonwealth will allow monitoring of individual State performance and comparison in the delivery of services between the various States and the Northern Territory.

Recommendation 6 (Paragraph 2.36 of Report 257)

The Committee recommends that the Department of Primary Industry, through its management information system and provisions within the proposed Commonwealth/State Agreement for State quarantine activity data, annually revise fee schedules in the budget context to ensure maximum recovery of cost of services provided.

Response

3.10 Fees for plant and animal quarantine services were revised in the context of the 1986 and 1987 budgets and substantially increased in order to meet the Governments cost recovery policy. A recent Government Decision altered the charging base for quarantine services from 100% of direct operating costs to 60% of the total costs. At the same time it was decided that the exemption provided to Commonwealth and State Government Departments and educational and research bodies be removed. Fees were varied with effect from 1 April 1988 to reflect these decisions. The opportunity was also taken to change from a quantity based charging system to a more equitable fee for service approach which relates quarantine fees to the time taken to provide the service. New fees were also introduced on 1 April 1988 to recover the cost of clearing, for general quarantine purposes, aircraft and vessels entering Australia. All quarantine fees will continue to be monitored and revised on an annual basis to ensure that they comply with the Government's recovery policy.

Recommendation 7 (paragraph 2.42 of Report 257)

The Committee recommends that the Department of Primary Industry oversight a quarantine officer training program.

Response

3.11 A consultant, who was commissioned in 1986, recommended the development and implementation of uniform training modules. Development of the Introductory Training Program is expected to be completed in the 1987-88 year with presentation of this phase of training commencing in April 1988.

Recommendation 8 (paragraph 2.45 of Report 257)

The Committee recommends that newly appointed quarantine officers be required to have a minimum educational level equivalent to a TAFE certificate in Horticulture/Agriculture and that where Australian Customs officers or others carry out quarantine duties on behalf of the Department of Primary Industry that short training courses be provided.

Response

3.12 AQIS is negotiating with State Public Services that the minimum entry requirement for the Agricultural Quarantine Service be successful completion of at least a middle level TAFE certificate course in Agriculture, Biology, Horticulture or other similar appropriate discipline. ACS staff who are appointed as Quarantine officers are given a short training course, with assistance from quarantine authorities.

Recommendation 9 (paragraph 2.46 of Report 257)

The Committee recommends that the proposed Commonwealth/State Agreement be amended to reflect the educational requirement for animal and plant quarantine officers.

Response

3.13 The Commonwealth/State Agreement was amended to take account of educational requirements for animal and plant quarantine officers.

Recommendation 10 (paragraph 2.54 of Report 257)

The Committee recommends that separate reference manuals for animal and plant quarantine be maintained until such time that all States integrate animal and plant quarantine operations.



Response

3.14 AQIS is pursuing the longer term development of an integrated operational manual covering all aspects of quarantine. In the interim, separate manuals are being maintained and progressively updated as required.

Recommendation 11 (paragraph 2.55 of Report 257)

The Committee recommends that any necessary revision of the animal and plant quarantine manuals be effected to reflect quarantine functional changes.

Response

3.15 See the response provided in paragraph 3.14.

Recommendation 12 (paragraph 3.19 of Report 257)

The Committee recommends that the Department of Health, in consultation with the Department of Primary Industry and international flight carriers, complete its evaluation of aircraft cabin disinsection procedures and identify flight arrivals that do not present a quarantine risk and that do not therefore require spraying. The evaluation should be completed as soon as possible and in any event by December 1986.

Response

3.16 A re-evaluation of aircraft disinsection has been completed by the appropriate authorities and airlines. As a result of this re-evaluation, the responsibility for the disinsection of aircraft has been passed from quarantine staff to the individual airlines from 1 August 1987.

3.17 Holds are to be sprayed "blocks away" at the last port before Australia, with an insecticide having a residual and knockdown components. The cabins are to be sprayed at "top of descent" before arrival at the first port in Australia. Those parts of the aircraft not sprayed at "top of descent", that is, flight decks, toilets and enclosed lockers are to be given a pre-spray with a residual and knockdown components before the passengers and crew embark at the last port before Australia.

3.18 These new procedures relating to aircraft disinsection apply to all aircraft entering Australia. However, as a number of aircraft such as itinerant and Foreign Air Force aircraft could not be expected to know of these requirements, the agents for these aircraft (such as Qantas or the RAAF) are expected to carry out the procedures on behalf of the aircraft operators.

Recommendation 13 (paragraph 3.20 of Report 257)

The Committee recommends that the current disinsection of aircraft cargo holds continue and that alternative methods be actively pursued.

Response

- 3.19 See the responses provided in paragraphs 3.16 to 3.18.

Recommendation 14 (paragraph 3.22 of Report 257)

The Committee recommends that the Department of Health, in conjunction with the Department of Aviation, further investigate the concept of snug-fitting aerobridges with the view to developing such an aerobridge at an international airport on a trial basis.

Response

3.20 Following discussions between the Departments of Transport and Communications and Primary Industries and Energy, it was agreed that an investigation into the feasibility of developing and installing an aerobridge on a trial basis at Tullamarine International Airport would be undertaken by the Department of Transport and Communications. Enquiries with leading aerobridge manufacturers in Australia and New Zealand determined that no satisfactory unit was currently available within the industry.

3.21 Consequently, a preliminary proposal to develop a suitable aerobridge was sought from Wenco Air Services Pty Ltd (Wenco). Wenco advised that it would require approximately 8 months to develop and trial a prototype at an estimated cost of \$245,000. Subsequent to the Wenco proposal, discussions have been held with other suppliers of aerobridges in operation at Australian airports. These discussions were primarily held to ascertain the availability of such a facility on the world market and the feasibility of its development and possible marketing.

3.22 Indications to date are that this particular aerobridge is not available and a world market is probably not a viable concept given the individual different problems from country to country. Therefore it does not appear the proposal will be proceeded with at this stage.

Recommendation 15 (paragraph 3.23 of Report 257)

The Committee recommends that insect traps continue to be maintained and monitored in and around all Australian International Airports.

Response

3.23 The maintenance and monitoring of insect traps at Australian International Airports is an established policy which will continue to be implemented.

Recommendation 16 (paragraph 3.28 of Report 257)

The Committee recommends that, notwithstanding possible changes to the location of the health check barrier, the quarantine declaration form be amended, to readily identify those passengers who are a yellow fever risk, as suggested by Audit.

Response

3.24 ACS assumed responsibility for the health clearance of passengers on 18 February 1987. The combined Customs, Quarantine and Wildlife Statement was revised in mid June 1987 to incorporate a question concerning yellow fever risk. The form was subsequently amended in November 1987 to include additional countries identified as having a yellow fever risk.

Recommendation 17 (paragraph 3.30 of Report 257)

The Committee recommends that, subject to the final location of the general quarantine barrier, the Department of Health investigate a more prominent location for the quarantine video tape recording and that the Department enter into negotiations with the Department of Aviation to ensure the best possible siting and design of quarantine warning signs at all Australian international terminals.

Response

3.25 As a result of the establishment of the Federal Airport Corporation (FAC) a range of airport operations are under review. Negotiations are taking place between the Department of Administrative Services and FAC to determine arrangements at airports for the accommodation of such functions as customs, quarantine inspection and immigration processing. The Australian Quarantine Inspection Service acknowledges the Committee's recommendation and the final placement of quarantine warning signs and video display is being considered as part of the reorganisation of airport operations.

Recommendation 18 (paragraph 3.30 of Report 257)

The Committee recommends that all international airlines be required to advise passengers on Australian requirements for customs and quarantine purposes, as part of pre-disembarkation customs and quarantine procedures already carried out.

Response

3.26 Section 74AA of the Quarantine Act 1908 requires the person in charge of each aircraft entering Australia to notify, in an approved manner, all persons on board of Australian quarantine requirements. The nature and content of such approved statements was reviewed and all airlines have subsequently been issued with a copy of the approved statement.

Recommendation 19 (paragraph 3.41 of Report 257)

The Committee recommends that the Department of Health continue to monitor operating costs of all waste disposal sites and annually review its fees to ensure that cost recovery is maximised.

Response

3.27 In September 1986, the General Quarantine function, including seaport waste disposal, was transferred from the Department of Health to the Department of Primary Industries and Energy. Since that time fees have been increased significantly and are now at a level which recovers the full cost of the disposal operation. The Department is continually monitoring the costs and operations of the disposal function to ensure the most efficient arrangements are in place. In January 1988 the responsibility for monitoring the costs of these arrangements were devolved from the Department's Central Office to the Regional Offices who have greater access to and knowledge of the operations. The overall responsibility however, on an Australia wide basis, still rests with the Central Office.

Recommendation 20 (paragraph 3.41 of Report 257)

The Committee recommends that the Department of Health further encourage State Government agencies, city councils and other organisations to use Commonwealth waste disposal facilities.

Response

3.28 State Government agencies, city councils and other organisations are encouraged to use Commonwealth waste disposal facilities wherever practicable, where this procedure is not likely to compromise disposal of quarantine waste.

Recommendation 21 (paragraph 3.53 of Report 257)

The Committee recommends that the Department of Primary Industry, as convener of a working party reviewing imported goods inspection, report the findings to the Committee for examination in the context of the Auditor-General's recommendations. These findings should also be advised through the Department of Finance Minute on this Report.

Response

3.29 The initial task set for the Working Party on Imported Foods was to address whether or not there was a need for a federally co-ordinated system of imported foods inspection. The Working Group completed its deliberations on the first part of its terms of reference (namely whether the Commonwealth Government should implement a uniform system of inspection) in November 1986. Further work was then delayed pending Ministerial direction.

3.30 The Working Group resumed its deliberations in November 1987 and is now addressing the second part of its terms of reference (to recommend on ways and means whereby an efficient and cost effective program could be implemented). It is anticipated that the Working Group will report in August 1988 and a submission is expected to be put to the Government in September 1988.

3.31 It should be noted that the Working Group's Terms of Reference related only to imported foods. The Department of Primary Industry and Energy's responsibilities relating to animal and plant quarantine are being reviewed in detail by a quarantine review committee chaired by Professor D.R. Lindsay. It is anticipated that its findings, which are likely to be released next month, will be reflected in a new Agricultural Quarantine Act.

Recommendation 22 (paragraph 3.62 of Report 257)

The Committee recommends that Fairfield hospital be retained as Australia's National High Security Quarantine Unit and that World Health Organisation containment of viral haemorrhagic fevers be monitored with a view to continued assessment of the viability of the Unit.

Response

3.32 The Department of Community Services and Health agrees that Fairfield Hospital should be retained as Australia's National High Security Quarantine Unit.

3.33 The Department examines monthly computer print-outs monitoring World Health Organisation containment of viral haemorrhagic fevers, with a view to continued assessment of the viability of the Unit.

Recommendation 23 (paragraph 3.72 of Report 257)

The Committee recommends that the Department of Health undertake, as a matter of priority, a review of options for surface monitoring that in selected areas may be identified as being more effective than quarantine control by aerial surveillance and report back to the Committee on this matter via the Department of Finance Minute.

Response by Department of Primary Industries and Energy

3.34 AQIS has commenced a full-scale review of the program including a re-assessment of the quarantine threat, the nature and intensity of surveillance, and cost options. A Committee established by the Minister for Primary Industries and Energy to examine all aspects of quarantine operations (the Lindsay Committee) has already submitted an interim report on coastal surveillance. The interim report was requested by the Minister in the light of the cancellation of the Amann contract and the possible effect that the views of the review may have on future requirements.

3.35 One of the Lindsay Committee's recommendations concerns an upgrading of surface monitoring particularly in the Torres Strait region. This recommendation has been taken into account by the wider ranging review of coastal surveillance established by the Government. This latter review was undertaken by Mr Hugh Hudson, and his report is now under consideration by relevant Ministers.

Response by Department of Community Services and Health

3.36 Following the transfer of responsibility for general quarantine (including the littoral surveillance program) to DPIE, the Department of Community Services and Health's interest in coastal surveillance is confined to human quarantine.

3.37 The Department of Community Services and Health believes aerial surveillance is of minor relevance to human quarantine. At present, the highest risk area in the north of Australia, from the human quarantine viewpoint, is the Torres Strait, because of the high volume of traditional movement under the Torres Strait Treaty. A senior officer from the (then) Department of Health visited the area from 24 June to 26 June 1986 to assess the surface monitoring requirements, and his findings were as follows:

- . Medical Aid Post (MAP) staff on the islands are well placed to monitor traditional movement.
- . The health surveillance procedure suggested by Dr Peter Holt of Thursday Island Hospital is relevant to the human quarantine program. Elements include such matters as:
  - = visitors report to MAP on arrival for a malaria blood test;
  - malaria treatment is given weekly; and
  - any Papuan staying longer than two weeks is requested to attend the next (monthly) medical air clinic for clinical screening to exclude open tuberculosis, leprosy, and ensure radical treatment for any arrival whose blood test has shown malaria.
- . The Department of Community Services and Health's Regional Office in Queensland could receive reports from Dr Holt on aspects of the screening program relating to human quarantine, and would also ensure that records were examined in the course of the regular surface patrols.

3.38 Since June 1986, the arrangements for monitoring by MAP staff have been improved and the cost to the Commonwealth of payments to MAP staff for human quarantine purposes is estimated at less than \$30,000 per annum.

3.39 Further to the west, landings other than from scheduled vessels and aircraft are much fewer, and a special arrangement like that described above is unnecessary. Regular surface patrols undertaken in the Torres Strait and off the Northern Territory coast are of benefit to human quarantine, particularly in maintaining local community awareness of quarantine requirements. Responsibility for these patrols has now been taken over by DPIE.

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**SUPPLEMENTARY MATERIAL ON  
REPORT 257  
ADMINISTRATION OF QUARANTINE  
SERVICES**



JOINT COMMITTEE OF PUBLIC ACCOUNTS  
ADMINISTRATION OF QUARANTINE SERVICES

Submission by the Department of Primary Industries and Energy

1. Commonwealth/State Agreement on Quarantine Services.

The Department of Primary Industries and Energy has been actively pursuing the signature of the remaining States to the Agreement. Subsequently both South Australia and Queensland have signed the Agreement with the only remaining State, Victoria, expected to sign shortly.

2. Integration of Animal and Plant Quarantine Operations.

The delivery of the animal and plant quarantine functions is by the States/NT on the Commonwealth's behalf. Where these two functions are not already integrated, State Ministers have agreed to do so as part of the establishment of a single quarantine service in each State/NT.

Current position in each state as follows:

NSW Fully integrated.

VIC Fully integrated.

QLD Not integrated - Integration agreed to in principle. Presently being investigated by a Interdepartmental Integration Steering Committee with the intention that integration commence by 1 October 1989.

SA A Steering Committee has been set up to facilitate the integration of Plant and Animal Quarantine. Integration to be completed by 1 July 1990.

WA To be integrated from 1 July 1989.

TAS Fully integrated.

NT Fully integrated.

ACT Fully integrated but operated by Commonwealth (DPPE) personnel.

NOTE: At the Departmental Central Office level the "animal", "plant" and "general" quarantine functions have been organisationally integrated in the Australian Quarantine and Inspection Service (AQIS) Quarantine Imports and Exports Division.

To enable establishment of a truly single quarantine service, the Government in responding to the Lindsay Committee Report (refer item 3) has decided to also transfer delivery of the "general" quarantine function to the States/NT. This transfer is presently being negotiated on a State by State basis with the first transfers (of function and staff) expected around October 1989 and the remainder by early 1990.

### 3. Lindsay Committee Report.

The Government considered the report of the Lindsay Committee and responded by releasing, in December 1988, a Government policy statement on quarantine:- "Australian Quarantine - Looking to the Future". Copy to be forwarded after reprint.

AQIS is implementing these policies with additional resources specially allocated by Cabinet for this purpose.

### 4. Compatibility of Computer Systems.

The Government policy statement referred to in 3 above specifically addressed this issue and a number of developments are underway in this area as part of the policy implementation.

An interface strategy between the States and the Department is built around the National Pesticide Residues Database which allows file transfer and enquiry between different host computers in State Departments to the Central host mainframe. This strategy is also applicable to quarantine services, provided adequate funding and resources are made available.

AQIS is developing an Information Technology (IT) strategy which will encompass the portfolio and Departmental IT strategies in developing compatible computer systems between the State Government and the Regional/Central office environments of the Department.

### 5. Quarantine Officer Training Program

As part of the integration of agricultural and general quarantine into a single service (refer item 2) a specific training strategy was devised for all quarantine staff and was to commence in April 1988. The formal commencement date was put back to October 1989 due to significant changes in quarantine policy and practices, difficulties in authors meeting deadlines and changes to quarantine legislation. Some training from the program has already been undertaken in relation to the amalgamation of plant and animal quarantine. The remainder is scheduled to coincide with the progressive transfer of the general quarantine function and staff to the States/NT.

It should be noted that the amalgamation of general Quarantine will require development of additional Quarantine Training Packages.

6. Reference Manuals for Animal and Plant Quarantine.

Currently, separate animal and plant quarantine manuals are being utilised by quarantine officers. Integration is not considered feasible due to the volume of specialised/ technical information that each manual contains. For example the current Plant Quarantine Manual is over 500 pages.

7. Siting and Design of Quarantine Warning Signs.

New sign proposals have been developed in conjunction with the advertising agency appointed to assist in the quarantine awareness campaign commissioned by the Government in November 1988

Preliminary discussions have been held with the Federal Airports Corporation (FAC) and specific proposals for the Tullamarine international airport are presently under consideration by the airport management.

Other instrumentalities such as the Customs Service and the National Parks and Wildlife Service also have an interest in airport information and their concerns will be incorporated with those of AQIS in future discussions with the FAC.

It is anticipated that resolution of the sign placement problem in all international airports will be achieved in 1989.

8. Working Party on Imported Foods.

The Working Party on Imported Foods continued to meet until December 1988 when it finalised the draft of its second report.

After responsibility for the Government's policy in this area moved to the Minister for Consumer Affairs in January 1989, the Federal Bureau of Consumer Affairs sought comment from the food industry, importers, consumers and the union movement on this draft report in April 1989.

The matter is currently before the Government for consideration and its response is likely to be made public in the next few months.

In 1988 on the basis of the identified risks to human health, AQIS instituted an interim program for screening imported cheeses for Listeria and imported cooked and peeled prawns for Salmonella using existing provisions of the quarantine act.

AQIS continues to reject some consignments of both these products due to these microbiological problems.

29 June 1989

**FINANCE MINUTE ON  
REPORT 259  
DEPARTMENT OF COMMUNITY SERVICES -  
PROPOSAL TO ACQUIRE  
COMPUTING FACILITIES**

### CHAPTER 3

Since the 259th Report of the Joint Committee of Public Accounts was published, the following has occurred:


- . The Department of Community Services put forward a Cabinet Memorandum in November 1986 proposing that it proceed with the computer acquisition;
- . Cabinet, in December 1986, provided authority for the Department of Community Services to proceed to tender for computing facilities with tenders being sought on the two options of a distributed system and a centralised system;
- . Following the issue of the new Administrative Arrangements Order (AAO) in July 1987, the Department of Community Services was amalgamated with the Department of Health;
- . Cabinet has taken decisions on the rationalisation of computing resources between Departments affected by AAO changes. The Department of Community Services and Health (former Department of Health) computer is being upgraded at a cost of \$11 million over two years, providing sufficient centralised processing power to accommodate the Central Office component of the former Department of Community Services' proposal for distributed computing facilities;
- . The Department of Community Services and Health reviewed the former Department of Community Services' tender for ADP facilities following the changes to the AAO of 23 July 1987 and the upgrade of the new Department's central computer. Having reduced the extent of the tender requirement in light of the upgrading of existing ex-Department of Health IBM-compatible central processing capacity, the new Department proceeded with the tender requirements for State and Regional Office support, and enquiry and analysis functionality only. No complete tenders proposing a fully centralised solution were received; and
- . The Minister for Community Services and Health is expected to announce the successful tenderer in the near future.

The Information Exchange Steering Committee (IESC) was established in late 1985 to examine the question of inter-agency transfer of computer-based information. The concerns expressed by the JCPA in recommendation 10 on this subject were referred to the IESC when it was chaired by a Commissioner of the Public Service Board.

Since the AAO of 23 July 1987, the IESC has been chaired by a Deputy Secretary of the Department of Finance. The Departments of Administrative Services, Defence, Industry, Technology and Commerce and Social Security, and CSIRO are members of the present IESC.

The JCPA was provided with a copy of a discussion paper on recommendation 10 on 11 September 1987 (Attachment 1).

In a practical sense, the concerns expressed by the Committee in Report 259 have been largely overtaken by the new AAO of 23 July 1987. The draft Finance Minute which was in preparation when the AAO was amended is included at Attachment 2 for your information.

  
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ATTACHMENT 1

IESC RESPONSE TO JCPA RECOMMENDATION ON COMMON COMPUTER ENVIRONMENT OR SYSTEMS ARCHITECTURE FOR APS

In reporting on the Department of Community Services computer acquisition submission JCPA Report 259 of 10 October 1986 on DCS, Recommendation 10 the Committee recommended that:

"the Public Service Board, in consultation with the Departments of Finance and Local Government and Administrative Services undertake an examination of the cost effectiveness of establishing a common computing 'environment' or systems architecture to enable a high degree of systems compatibility between departments and agencies with closely related responsibilities and information requirements."

The IESC has considered the issue of a common computing environment or architecture in more detail and identified five levels of compatibility:

- . hardware and operating systems;
- . database software;
- . applications programs;
- . communications; and
- . data storage and transport media.

The implications for achieving compatibility at each of these levels is considered in more detail.

Hardware and operating system compatibility exists when computers of similar architecture, but from different vendors, can utilise the same operating system. Examples of this are IBM's MVS operating system which is not only used on IBM's large scale computers, but also on computers from IBM 'plug compatible' manufacturers eg Amdahl and NAS. The UNIX system is another example of an operating system that is transportable across dissimilar computers.

widespread acceptance of the IBM computing environment (on IBM or other vendor's products) within the PS means that many agencies are now compatible at this level. However, the disparate nature of agencies objectives, and the variety of data base software they operate causes the potential of such compatibility for data interchange to be not fully realised.

Database software (DBMS) controls the structure of stored data and the methods by which it is stored and retrieved. Differing database systems have until recently been largely incompatible. There is now a move towards standardisation for database access, and manipulation languages such as SQL (Systems Query Language) which is coming into more widespread use appears likely to develop as a common interface to most database management systems. The IESC will be monitoring progress towards standards in this area. The recent Block Scrutiny Review of personnel systems in the Service and the work undertaken by the PSB on the adoption of common data standards within personnel systems, is seen as important steps to achieving better interchange of information.

Applications programs have until recently been heavily dependent on the operating and database environments in which they are developed. Although there is a standard ANSI COBOL, each vendor has enhanced it with non-standard extensions causing COBOL programs to become, to some extent, dependent on specific environments. Within the PS the compatibility and transportability of application programs is most affected by the differing database systems in use with their own built-in fourth generation language eg Adabas and Natural. Until these can be standardised, the level of compatibility will be limited.

Communications. An important issue concerning Commonwealth agencies in the compatibility of their computer systems is considered to be the degree of ease with which they can exchange information. The computer industry is developing and implementing standards that will permit most (if not potentially all) computer industry vendors to support standard interfaces that will enable data interchange in a number of ways, for example:

- . between like computer systems through proprietary, but more or less open and de facto industry standard, network architectures such as IBM's Systems Network Architecture (SNA);
- . between dissimilar computer systems through implementation of the International Standards Organisation (ISO) Open System Interconnection (OSI) recommendations; and
- . through public networks utilising international standards (eg ISO x.25 and x.400).

Standardisation of computer communications is greatly facilitating the interchange of information between dissimilar architectures.



Competitive commercial pressures are also forcing vendor organisations to produce systems that are, or include the capability to become, compatible with both ISO and de facto standards. It is likely that this trend will continue and the ready interchange of data between different computer architectures is becoming technically feasible and will be readily achieved well before OSI standards are generally implemented.

Data storage and transport media become compatibility issues when bulk data transfers are considered or when transfer through a communications network is impractical. Conversion of data between the various industry and vendor standards is relatively easy with software utility programs available to handle the majority of likely conversion requirements. However the storage of data is an area of the computer industry that is presently subject to substantial technological change and it appears there will be an ongoing requirement for specific conversion facilities as new types of storage (eg optical disk) and de facto standard formats (eg 5 1/4 inch floppy diskettes) change.

Compatibility summary. In essence the APS has two different needs which are addressed by compatibility. The first is the ability for an organisation to communicate easily with other organisations. This can be achieved in a variety of ways but common to them all is the necessity to have agreed data definitions and data models to ensure that the information that is communicated has the same meaning to all parties concerned.

The second is the ability to readily transfer components of a computer system from one organisation to another, say, when the functions served by that part of the computer program are transferred. This can at present only be achieved where a common hardware and software architecture is used (eg all equipment and systems from the same or compatible suppliers). The issue of underlying compatibility of computer systems is not clearly developing toward industry standardisation although considerable standardisation has been achieved in the IBM compatible market. However, now software products in the data management and programming productivity environments are tending to achieve a higher degree of hardware/software independence. Moreover standard products such as SQL are now being implemented by many main stream vendors enabling wider transportability without the requirement for significant changes that applies to database applications systems developed in older languages/environments.

In summary the communications compatibility issues are being overcome by current industry developments. However realisation of a common systems architecture is a longer term objective and can only be achieved in the current environment through use of the same machine architecture.

In considering the possibility of defining a common environment that includes all these types of compatibility and to which mainstream Commonwealth agencies might be expected to comply, several major issues arise.

1. The agencies that presently have significant investments in computer systems generally cannot easily or cost-effectively change the underlying computer architecture, eg the Taxation Office redevelopment project is estimated to cost \$180m in terms of new equipment and software purchases and applications system conversion and redevelopment.
2. The rate of technological change occurring in the computer industry through the 1980s has been rapid and there is no evidence that it is slowing down. It is essential that any standardisation by the Commonwealth Government is closely in step with the development and acceptance of standards in the industry as a whole.
3. There is the risk that premature acceptance of any standard may reduce the number of vendors capable of tendering for Commonwealth business.
4. Many agencies within the APS have adopted de facto standard architecture (eg IBM's compatibility) and are realising substantial benefits from using such long established and accepted standards. This includes a considerable degree of compatibility with other agencies using similar architectures. Any wholesale move towards a different standard for these departments could involve very substantial costs both in terms of software/hardware conversion and in resource commitments, with no short term benefit to the agency concerned. In such instances the provision of 'gateways' to other computer environments could provide a more cost effective solution to achieving standardisation.

In summary, the IESC considers that overall adoption of a common computer architecture in the PS environment is not cost effective in the short term. As systems are redeveloped and departments acquire new computing systems the opportunity arises to adopt standard architecture to facilitate data interchange (eg OSI or SNA). Until OSI is generally accepted by the industry, SNA is seen as being the de facto communications standard. The IESC has accordingly recommended to the Department of

Administrative Services that all Commonwealth tenders for computing equipment which have a capacity to communicate with other computers require tenderers to provide information on the degree to which equipment meets appropriate SNA standards and the level of commitment of the tenderer for the support of OSI standards as they are developed.

The IFSC will be closely monitoring progress towards adoption of OSI standards and will be undertaking relevant projects and studies and actively encouraging the adoption of common standards for data interchange. The prospects of achieving a considerable degree of compatibility look most encouraging although the widespread adoption of service-wide standards, given the general constraints identified, must remain a somewhat longer term goal.

ATTACHMENT 2

DRAFT DEPARTMENT OF FINANCE MINUTE

3.1 The material in this minute is based on advice from the former Departments of Community Services, Local Government and Administrative Services, Finance and the Public Service Board (September 1986 Administrative Arrangements).

3.2 In this chapter each of the Committee's conclusions and recommendations is reproduced in turn and is followed by a response.

General Comment by the Department of Community Services

3.3 The further studies recommended by the Committee were undertaken by the Department with the assistance of the Department's consultants, Koranya Pty Ltd. Those studies have confirmed the decision that a distributed computing capability is the most cost effective and appropriate means for the Department to achieve minimum performance of its primary policy and program management objectives, including the introduction of needs based planning.

3.4 The Department has since put a further Submission to Cabinet, referencing the results of the further studies recommended by the Committee, which was considered on 15 December 1986. Cabinet was satisfied with the Department's work in response to the recommendations of the 259th Report of the Joint Parliamentary Committee of Public Accounts and agreed that it proceed to call tenders for its new ADP facilities.

3.5 A detailed cost/benefit analysis was completed by the Department and demonstrated that the overall acquisition proposal is cost effective. This analysis has been reviewed since Report 259 was tabled and the apparent 'technical error' identified by the Committee in its report is in fact a mistake apparently committed by the Committee in its reading of the cost/benefit analysis (refer to Attachment 1). The Department of Finance has agreed that there is no apparent technical error.

3.6 The cost/benefit analysis of the Department's options, contained in its submission to the Committee was both comprehensive and thorough and involved substantial time and effort from Departmental staff. Any further, more detailed cost/benefit analyses of applications can be expected to involve substantial additional costs. The further cost/benefit analysis (See Attachment 3) undertaken by the Department to satisfy the Committee

recommendation is therefore based on a simpler and less expensive approach than that originally provided to the Committee.

Conclusion (paragraph 11 of Report 259)

The Committee concludes that:

- . the corporate and information strategies proposed by the Information Services Consultancy commissioned by the Department of Community Services appear soundly based; but
- . the systems strategy proposed by the consultants, while consistent with the corporate and information strategies, has not been demonstrated to be the most cost effective strategy for meeting the Department's information needs.

Response

3.7 The Department's cost/benefit analysis, contained in its submission to the Committee, identified an estimated \$104m in benefits over a ten year period (\$25m in notional staff savings, \$79m in increased efficiency) that could be expected to result if the applications identified in the Department's ADP Strategic Plan were implemented on a distributed network comprising minicomputers in Central and all State offices and linked by a communications network.

3.8 A significant portion of the \$79m increased efficiency benefits was dependent on the advantages to Departmental operations of running the applications on a distributed computer capability. Such an arrangement would enable each State office to control and have immediate access to its own data, an essential feature if needs-based planning is to be effectively implemented in the Department. The States would be able to set their own priorities in terms of their operational responsibilities.

3.9 The Committee has recommended that the Department conduct cost/benefit analyses on other possible options for meeting its information needs. The 'lowest cost' other option would be to upgrade the Department of Health (DOH) mainframe in Canberra and run the Department's applications on it. The Department has undertaken a detailed cost benefit analysis of this option against the preferred option (results at Attachment 3). This option, in cost terms only, would be about \$12m less expensive over ten years than the Department's preferred distributed option.

3.10 The DOH upgrade is the least expensive of all options considered and by demonstrating that the preferred option is more cost effective than the DOH upgrade then the Department believes it has demonstrated that the preferred option is more cost effective than all centralized options.

3.11 The \$104m of benefits that will accrue from the distributed system would not result if the applications were to be run on an upgraded DOH mainframe or any other centralized option. Such a system:

- . does not allow the States control over and immediate access to their data, thereby not allowing them to set their own planning and operational priorities; and
- . would be less responsive, in terms of system performance, than the distributed option, and this would further hamper State and Central Office operations.

3.12 One notable area where these factors would impact significantly to degrade Departmental operations is in its cost-shared programs. An example is the Children's Services Program. In Victoria, for instance, a number of components of this program (eg vacation and occasional care) are cost-shared between the State and Commonwealth governments whereby Commonwealth funds are acquitted by the State. In order for this program to operate effectively the Department's Victorian office needs to have the relevant data 'on-hand', it cannot afford to go to Canberra for it and be put on the end of a queue of other users needing to access the system. Another example where a DOH upgrade would decrease benefits is in the Department's Rehabilitation Services Program. The benefits that could be anticipated from the regionalisation of this service would be severely curtailed if the offices were all connected to a central mainframe. The same lack of responsiveness and flexibility would apply, to the detriment of the Department's clients as well as to the Department's operational efficiency.

3.13 The officers involved in the original survey for the cost/benefit analysis re-assessed the likely benefits that would accrue if the centralized option was implemented. They considered that the effective implementation of needs based planning would not be possible and that this would result in a substantial reduction in benefits. This reduction in benefits was estimated to be at least 15% to 20%. This implies that, of the \$104m in benefits identified under a distributed solution some \$15-20m of these would not be realized under the centralized option.

3.14 It is clear from the above that the Department's preferred systems strategy of a distributed option is more cost effective than the DOH upgrade or any centralized options. While this distributed option costs about \$12m more over ten years, the benefits associated with it are estimated by the Department at \$15-20m more, giving an overall estimated savings of between \$3-8m over ten years.

Recommendation 1 (paragraph 12 of Report 259)

The Department of Community Services review the cost effectiveness of the systems strategy proposed by its consultants in relation to its information priorities.

Response

3.15 The Department has completed a review of the cost effectiveness of its proposed systems strategy (see Attachments 3 and 4). The Department also conducted a comprehensive cost/benefit analysis of the systems strategy as part of the development of the proposal and this has been reviewed as part of the Committee's recommendations. This further review has supported the Department's contention that the overall strategy is cost effective.

3.16 The Committee has recommended that the Department conduct cost/benefit analyses on other possible options for meeting its information needs. The 'lowest cost' other option would be to upgrade the Department of Health (DOH) mainframe in Canberra and run the Department's applications on it. The Department has undertaken a detailed cost benefit analysis of this option (see Attachment 3) against the preferred option.

3.17 The DOH upgrade is the least expensive of all options considered. The Department believes it has demonstrated that the preferred option is more cost effective than the DOH upgrade, and that therefore the preferred option is more cost effective than all centralised options. It should also be pointed out that the preferred option of a distributed computing capacity is the least expensive of the range of distributed options considered by the Department.

Recommendation 2 (paragraph 12 of Report 259)

The Department of Community Services undertake a cost effectiveness analysis of each of its proposed computer applications, and assign priorities to each.

Response

3.18 A simplified cost/benefit analysis (see Attachment 4) has been undertaken for each proposed application and priorities have been assigned to each. This analysis has revealed that four small applications can be deferred until the high priority applications have been developed.

Conclusion (paragraph 15 of Report 259)

The Committee concludes that:

- . the Department of Community Services has not adequately justified its stated requirement for computer processing power and data storage for its preferred option of a distributed computing capability; and
- . the assumptions and methodology underlying the estimate of computer processing power requirements for both the options of a centralised computing capability and a distributed computing capability appear to inflate the estimates to a considerable degree.

Response

3.19 The Department has now used three different methods to estimate its proposed computer capacity. All methods have resulted in similar estimates. In addition the Department's consultants engaged to prepare its Request for Tender (RFT) independently undertook a sizing exercise which produced similar results. The Department is convinced that the assumptions used in the sizing estimation process are reasonable given the circumstances, and as such the requirement of 15 Million Instructions Per Second (MIPS) of processing power is an estimate of its maximum computing requirements for a centralised solution. This processing power extrapolates into approximately 25 to 27 MIPS for a distributed solution. The Department therefore rejects the Committee's conclusions that the sizing is not adequately justified or is inflated to a considerable degree. Detailed supporting information for this is included at Attachment 1.

Recommendation 3 (paragraph 16 of Report 259)

The Committee recommends that:

The Department of Community Services undertake detailed studies to substantiate its capacity estimates for computer processing power and data storage for centralised, distributed and intermediate processing options based on:



- cost effective applications, including appropriate use of on-line and batch processing;
- appropriate and cost effective use of 'dumb' and 'intelligent' terminals to suit the needs of particular system users;
- estimates of transaction rates for each proposed application derived directly from current systems, whether computer or manual; and
- assumptions for rates of conversion from logical transactions to machine instructions based on current systems.

Response

3.20 The Department has taken the following action in response to these recommendations:

- . a broad cost/benefit study for each of the proposed applications was performed (see Attachment 4). The non-cost effective systems were removed from the sizing calculations. This resulted in a reduction in processing power of approximately 5% but because of the incremental nature of computer power the size of the resultant configurations for each option would not vary significantly;
- . the use of 'dumb' and 'intelligent' terminals to suit the processing requirements had been undertaken as part of the work in preparation of the Request for Tender. The use of 'intelligent' terminals has been retained for this exercise for costing purposes to help in minimising the risk of cost over-runs;
- . the estimates of transaction rates of the proposed applications were directly derived from the current systems and where this was not possible these were estimated from the various workload indicators. This information could have been made available to the Committee if requested;
- . the conversion from logical transactions has been performed using two methods:
  - an upgrade from the existing processing requirements based upon functionality; and
  - using a formula supplied by the Committee.

- . International Business machines (IBM) Australia has also performed independent sizing and costing estimates for the Department and produced similar results.
- . the Department's consultants preparing its Request for Tender have also independently produced similar sizing estimates.

Conclusion (paragraph 18 of Report 259)

The Department of Community Services appears to have underestimated initial and on-going costs for all the options considered by it.

Response

3.21 The Department strenuously denies this. All costs and estimates of sizing differences between the two options were based on advice from IBM and the Digital Equipment Corporation (DEC). This includes central processing units, disks and site preparation. These have been reaffirmed by those organisations since Report 259 was published.

3.22 On the issue of estimates for development manpower, the Department believes the estimates are as accurate as possible at this stage. The estimates are based on a simplified systems development methodology and in deriving them it was always understood that they could not be finalised until after the System Design Alternatives Phase had been completed.

Conclusion (paragraph 18 of Report 259)

The costs of the preferred option of a distributed computing capability appear to have been underestimated in comparison with a centralised computing capability.

Response

3.23 All costs and estimates of sizing differences between the Department's preferred option of a distributed computing capability and the option of a centralised computing capability were based on advice from IBM and the Digital Equipment Corporation (DEC). These costings have since been reaffirmed by both IBM and DEC and therefore the Department rejects the Committee's criticism in this area.

3.24 The Committee has singled out software costs (Appendix 5 pg 240 para 5.7) as an example of over-estimating costs for the centralised solution. The

Department has shown the \$4m for software costs for the centralised option as an initial cost rather than maintenance costs over 10 years for comparative costing purposes only. It is impossible to know until a particular supplier is selected whether it will be cost effective to lease or purchase the software. In any case, if the software costs are shown annually, the effect on Net Present Value (NPV) is minimal and the cost/benefit of the option changes by less than 0.04%.

Conclusion (paragraph 18 of Report 259)

In consequence, should approval be given to the Department of Community Services for the expenditure of \$19.68 million to acquire a distributed computing capability, there is a likelihood that cost over-runs would occur.

Response

3.25 As stated before, the Department strenuously denies this. All costs and estimates of sizing were based on advice from IBM and DEC which are both market leaders in the centralised and distributed processing ends of the market respectively.

3.26 The costings were provided for estimates and cost/benefit purposes and were taken from list prices in February 1986. Obviously cost variations will occur in an open tender situation but the Department is confident of the broad reliability of the estimates. The final price will depend on the equipment selected, its price at the time, any discounts offered, and the exchange rate at the time. The price will not be known until the Tender has been evaluated and any excess funds would be returned to Consolidated Revenue. The Department believes that the costs are realistic, that they do not favour a particular option and that costs under both options could be less, depending on the offerings from suppliers. The Department therefore rejects that "there is a likelihood that cost over-runs would occur".

Conclusion (paragraph 21 of Report 259)

The Department of Community Services has not given sufficient consideration to alternative options for the provision of computing capability which may meet its strategic requirements for information systems more cost effectively than the Department's preferred option.

## Response

3.27 The Department has considered a number of different options, both centralised and distributed; on balance each of the 4 sub-options evaluated under the centralised option differ from one another in cost only. The options and the respective costs of each are detailed in Attachment 2. All centralised options suffer from the following deficiencies:

- . they do not match the logical processing model identified as part of the Information Consultancy. The effectiveness of performing needs based planning would be reduced because of this factor;
- . vulnerability to deliberate or accidental disruption - if the site or equipment is affected by deliberate or accidental disruption processing must cease throughout the entire Department;
- . they do not provide local management with the best level of control or ability to set local priorities which is essential for effective needs based planning; and
- . low adaptability to organisational change and large incremental upgrade paths. Changes must be catered for in large increments.

3.28 The least cost option of the centralised options considered (see Attachment 2) is the expansion of the Department of Health facility. This option was used in the detailed cost effectiveness comparison shown at Attachment 3. As can be seen, this option is not cost effective when compared with the option of distribution to State level; the Department's preferred option. As expansion of the Department of Health is the least cost option, detailed cost benefit analyses were not undertaken of the other more expensive options.

3.29 On balance, the option of distribution to State level is preferred by the Department because:

- . it is the most cost effective solution;
- . it most closely matches the Department's logical processing model;
- . it best supports needs based planning and information sharing at the local level;
- . it provides an appropriate level of resilience to disruption and failure at an acceptable cost;

- . it best provides local management with the ability to set local priorities; and
- . it has a high probability of success since it has the highest level of user acceptability.

Conclusion (paragraph 21 of Report 259)

The Department of Community Services has not considered less ambitious but potentially more cost effective options for the provision of computing capability which do not include lower priority applications.

Response

3.30 Refer to the response provided at paragraph 3.11.

3.31 The least cost option considered by the Department is the expansion of the Department of Health's computer facility. This option is not as cost effective as the option of distribution to State level; the Department's preferred option. As expansion of the Department of Health's computer is the least cost option, detailed cost benefit analyses were not undertaken of the other more expensive options.

3.32 The Department considered in total four centralised options and two distributed options to meet its requirements. These are detailed at Attachment 2.

Recommendation 4 (paragraph 22 of Report 259)

The Department of Community Services review the cost effectiveness of alternative options for the provision of computing capability, including partially decentralised facilities, the use of some external facilities such as those operated by commercial bureaux, and the expanded use of upgraded facilities operated by the Departments of Health and Social Security.

Response

3.33 The Department has taken the following action on the above recommendations:

- . costs for each of the options in the Committee's recommendations were obtained from suppliers;
- . the cheapest of these options was subjected to a cost/benefit analysis and proven to be not as cost effective as the preferred option (see Attachment 3).

Recommendation 5 (paragraph 22 of 259)

The Department of Community Services review the cost effectiveness of a range of options which would exclude the computerization of some of its lower priority and less cost effective systems.

Response

3.34 The Department has reviewed the costs and benefits of its proposed individual systems. Details are at Attachment 4. If non-critical systems are excluded, a reduction of approximately 5% of computer capacity is required. The non-critical systems include library systems, document monitoring, correspondence monitoring and appeals tracking. However it should be noted that this is unlikely to have a significant effect on total costs because of the incremental nature of computer hardware.

Conclusion (paragraph 26 of Report 259)

The cost effectiveness analysis undertaken by the Department of Community Services does not show the Department's preferred option of a distributed computing capability to be cost effective in comparison with the option of improving existing administrative procedures.

Response

3.35 The Department's cost effectiveness analysis clearly shows that the preferred option of a distributed computing capability is more cost effective than the continuation of the use of existing computing facilities in the Departments of Health and Social Security.

3.36 The Committee itself states that the continuation of existing arrangements "should not be regarded as a realistic option" (para 7.11 p 248 of Report 259).

3.37 The Department's Information Services Consultancy confirmed that its existing computing facilities were totally inadequate if the Department is to meet its stated charter for the following reasons:

- . they do not provide the necessary facilities to effectively manage the Department's annual portfolio expenditure of approximately \$1.9 billion;
- . they support only part of the Department's overall program administration;

- . the existing systems are not integrated and are totally inadequate for sound policy development and planning; and

- . a major upgrade to the DOH or DSS systems architectures would be required as well as new strategic systems developed and implemented, if DCS were to be provided with sufficient long term computing support and the necessary integrated information systems.

3.38 The Department's charter to manage against 'needs-based planning' criteria requires the development of a comprehensive and integrated information base from which to make sound policy and planning decisions.

3.39 In the absence of this information base the department is unable to plan the balanced development of welfare policy against specific needs criteria, or measure and assess the effectiveness of its welfare expenditures on the community.

3.40 Specifically, without an improved information base and computing facilities to collect, analyse and use the diverse program and demographic data at the base of the welfare industry, the Department is not able to define, in terms of efficiency, effectiveness or strategic appropriateness, the impact of welfare expenditure in the community. Hence, efforts at expenditure control will remain judgemental and open to criticism. Similarly, planning for services will remain subjective and lack robust targeting.

3.41 The Department needs strategic information systems to allow it to move from essentially program administration to both program and policy administration where it can be proactive to the needs of the community rather than reactive to specific welfare issues.

3.42 It is because the existing computing facilities cannot be used to develop and then run these integrated strategic information systems that the Department's Consultancy recommended that the department replace its existing applications with a wide range of new community program based, corporate service and administrative support systems. The proposed systems will enable the department to:

- . identify areas of highest need and better target programs to meet those needs;

- . obtain basic service accountability information;

- . integrate policy and planning information and operational systems;
- . have access to accurate and timely information for policy analysis, senior management and the Minister;
- . develop programs in line with specific Commonwealth/State agreements;
- . share information with Federal and State Government Departments and other agencies;
- . improve the efficiency and effectiveness of program administration, including the standard of service provided to the community; and
- . improve control over program-related expenditure through the introduction of Financial Management Improvement Program initiatives.

3.43 In order to develop and implement these strategic information systems the Department must have a viable computing capability.

Conclusion (paragraph 26 of Report 259)

The cost/benefit analysis carried out by the Department of Community Services does not include discussion of whether the capacity in the Department of Health and Department of Social Security computers which are currently used by the Department of Community Services will be put to cost effective alternative use.

Response

3.44 The external effects of this proposal on the Departments of Health and Social Security are minimal. DCS currently uses only one MIP of processing power on the DOH mainframe and three MIPS of processing power on the DSS mainframe. DSS has indicated that it requires the three MIPS of processing capacity for its own purposes and the external effect of DCS freeing up the one MIP of processing power on the DOH facilities is negligible.

Recommendation 6 (paragraph 27 of Report 259)

The Department of Community Services review the cost effectiveness of its Options A and B and undertake serious cost effectiveness examinations of other options for meeting its information requirements.



## Response

3.45 The Department has undertaken a review of the cost effectiveness of Options A and B and established that there is no technical error in the analysis as suggested by the Committee. Option B (the Department's preferred option) is cost effective. The Department has also undertaken further cost effectiveness examinations of other options and these analyses have revealed that the preferred option is the most cost effective as it is the only one that can realistically support the introduction of needs based planning.

3.46 The cost effectiveness analysis contained in the Department's proposal shows that the preferred option of a distributed computing capability is clearly more cost effective than the continuation of the use of existing computing facilities in the Departments of Health and Social Security. In net present value terms, the analysis found that Option B (the Department's preferred option of a distributed computing capability) had a positive Net Present Value of \$29.389 million over a ten year period compared to a negative Net Present Value for Option A (the continuation of existing levels of support provided by the Departments of Social Security and Health) of \$31.835 million.

3.47 The Committee stated in its Report that the Department's Cost Effective Analysis contained a technical error. The Department has re-examined its analysis and established that there is no technical error. The Committee's review itself is in error in that it ignores an additional cost to Option A of about \$79 million.

3.48 As the Committee has recognised (Appendix 7.3), Option B produces greater output than Option A, and the two need to be brought to a common output level for a valid comparison to be made. The output superiority of Option B over Option A comprises a wide range of factors, of which the Department was able to quantify two, viz:

- . notional staff savings (the staff not needing to be hired if Option B is adopted); and
- . increased effectiveness and efficiency, due to automation of processes.

3.49 The Department expressed these output differences as benefits accruing to Option B rather than as costs to

option A. Therefore the Department's analysis can be summarised as follows:

Option A: Operating Costs	<u>\$ 31,835,000</u>
Option B: Notional Staff Benefits	\$ 25,371,000
Option B: Increased Effectiveness	\$ 79,425,000
Total	\$104,796,000
Option B: Operating Costs	\$ 75,407,000
Option B: Benefits less Costs	<u>\$ 29,389,000</u>

3.50 This analysis reveals that the benefits for Option B outweigh its costs by over \$29m and the costs for Option A outweigh its benefits by over \$31m. On this basis, Option B is obviously more cost-effective than Option A. Benefits and costs common to both options have been ignored in line with the PSB Guidelines.

3.51 The Committee contends that those output differences which the Department has accounted as benefits to Option B should be treated as costs to Option A. The Committee's error lies in the fact that it has not attributed all of these output differences as costs to Option A, contrary to the following statement made by it:

"The correct treatment is to include the notional salaries as a cost of Option A and regard the outcomes of the two options as equivalent."  
(Appendix 7.7)

3.52 The point is that the outcomes of the two options are NOT equivalent. The Committee has forgotten the additional cost to Option A of \$79m representing the effectiveness gains attributable to Option B and which would be forgone were Option A to be chosen. The Committee's estimates should therefore read:

Option A: Current Operating Costs	\$ 31,835,000
Additional Staff Costs	\$ 25,371,000
Loss of Efficiency (cf to Option B)	\$ 79,425,000
Total	\$136,631,000
Option B: Operating Costs	\$ 75,407,000

thereby vindicating the Department's analysis.

3.53 Merely on the basis of the output differences that the Department was able to quantify between the two options, Option B is cost effective both in its own right and relative to Option A. There are, in addition to these quantified benefits, a whole range of unquantified output differences listed in Section 10 of Attachment A of the Department's Submission. The Committee has also chosen to ignore these. This is directly contrary to the Public Service Board A Guide to the Cost Effectiveness Analysis of ADP Systems which states that the indicators of cost effectiveness should not be considered in isolation, but in conjunction with the Statement of Benefits (3.9.1).

Recommendation 7 (paragraph 27 of Report 259)

The Department of Finance examine the external effects of the Department of Community Services no longer using computing capacity in the Departments of Social Security and Health.

Response by the Department of Finance

3.54 The Departments of Health and Social Security have commented on the proposed computer acquisition and both departments indicated that they will not be adversely affected by no longer having to cater for DCS' computing needs. Specifically:

- DSS have indicated an urgent need of the computer capacity currently used by DCS and have recently had to upgrade their own capacity;
- DCS usage of Health computer capacity amounts to less than four per cent of that machine's total usage. The effect of removing DCS usage would be to release capacity to satisfy the longer term needs of health, possibly resulting in a deferral on the next upgrade of their facilities in the short term.

3.55 The only other obvious 'external effect' would be that charges made by DSS and Health for the Bureau services provided to DCS would no longer be made. DCS estimates that these amount to \$1.6m annually. Aside from broad order reductions to usage of Departments of Health and Social Security capacity, as well as \$1.6m saving of Bureau costs to DCS, other external effects cannot be quantified in detail.

Conclusion (paragraph 29 of Report 259)

The Department of Community Services has not considered the cost effectiveness of its intention to develop all its applications in a high level fourth generation computing language.

#### Response

3.56 The Department currently uses fourth generation languages extensively for its online processing. This includes large scale online processing as well as small scale applications and ad hoc enquiries. It understands the issues of balancing programmer time against equipment costs and believes that use of fourth generation languages in the proposed environment is cost effective.

3.57 However, notwithstanding this belief, the Department also proposes to implement an active capacity management program to measure the trade-offs between the use of 4GLs, with their greater staff productivity as against lower computer productivity, with a view to using 2 and 3GL's where there is a particular need to do so. Its objective in this regard is to ensure the most cost-effective use, reasonably available, of both staff and computer resources within the overall objective of rapid delivery of systems to users and in the environment of industry-wide shortages of skilled staff.

#### Conclusions (paragraph 29 of Report 259)

- The use of a fourth generation language for small-scale applications and ad hoc enquiries as proposed by the Department of Community Services is likely to be cost effective; however
- the use of a fourth generation language may not be cost effective for the development of larger scale on-line applications proposed by the Department of Community Services.

#### Response

3.58 In large systems, most system code is necessary but relatively infrequently used. As part of its system design the Department will attempt to identify those system components for which alternatives to fourth generation languages must be considered for computer system performance or like reasons. Bearing in mind the greater staff productivity of 4GLs, alternatives will be used wherever necessary. Cost effectiveness should be retained by this technique.

#### Recommendation 8 (paragraph 30 of Report 259)

The Department of Community Services examine thoroughly the various categories of computing applications proposed, including their complexity and frequency of use, in order to determine for which applications the use of a fourth generation language will be cost effective.

Response

3.59 The Department believes that it has sufficient experience with the use of fourth generation languages to understand the costs, benefits and risks.

Conclusion (paragraph 34 of Report 259)

It is not possible to determine a strategy for maximising Australian industry participation in the acquisition of a computing capability by the Department of Community Services before the Department has undertaken further review of alternative options as recommended in this report.

Response

3.60 The review of options has now taken place. The Department has consulted extensively with the Departments of Local Government and Administrative Services and Industry, Technology and Commerce, and with suppliers of hardware and software. The Department is aware of its responsibilities in this regard and believes that its preferred option is the one which allows for maximised participation by Australian industry. In addition the Department has conducted extensive briefings with industry including relevant Australian Industry Associations.

3.61 The strategy, which includes adherence to state Government policies on Offsets and Australian/New Zealand preference, has been determined and agreed with these relevant Departments during the preparation of the RFT and Evaluation Methodology. Also, the Department's Tender Evaluation Methodology includes as an essential part of the solution formulation process, a requirement for positive action to seek out the substitution possibilities in relation to Australian suppliers, eg where Australian hardware, software products and/or services can viably replace those of multinational tenderers.

Recommendation 9 (paragraph 35 of Report 259)

Following a review of its system requirements and of alternative options for meeting these requirements, the Department of Community Services consult with the Departments of Local Government and Administrative Services and Industry, Technology and Commerce to determine a strategy for maximising Australian industry participation.

## Response

3.62 In regard to Australian industry participation, the Department has consulted with the relevant Departments, as part of the preparation of the Request for Tender and Evaluation Methodology, to determine an appropriate strategy, including:

- . ANZ preference;
- . adherence to Government Offsets policies;
- . consultation with Australian computer industry associations; and
- . industry briefings.

## Conclusions (paragraph 39 of Report 259)

- . there may be benefit in departments with related responsibilities and information needs having computing facilities with a common computing 'environment' or systems architecture;
- . the Department of Community Services is examining the feasibility of sharing information with other Commonwealth, State and Local Government organisations, but appears to have accorded a higher priority to compatibility with State and Local Government organisations rather than related Commonwealth Government departments and agencies.

## Response

3.63 The Committee appears to have misunderstood the Department's position. The Department intends to ensure that its equipment is capable of accessing and being accessed by computers from a wide range of organisations. It is not necessary to have similar equipment to do this, rather it is necessary to ensure that adequate gateways exist in the network and that international network standards are used as far as practicable. The Department's Request for Tender has catered for this.

## Recommendation 10 (paragraph 40 of Report 259)

The Public Service Board, in consultation with the Departments of Finance and Local Government and Administrative Services undertake an examination of the cost effectiveness of establishing a common computing 'environment' or systems architecture to enable a high degree of systems compatibility between departments and agencies with closely related responsibilities and information requirements.

#### Response

3.64 The Department believes that it has catered for the thrust of the recommendations in relation to systems architectures by specifying gateways and international standards, in the RFT, for its communications network,

#### Response by the Department of Local Government and Administrative Services

3.65 The extent of compatibility will depend very much upon the need for, and level of, interaction between systems. Technical advances in communications have meant that systems from different suppliers can now communicate with each other, transferring information at a relatively sophisticated level. This means that full compatibility, ie systems needing to be from the same supplier, may not be necessary.

3.66 The Department felt it would be more appropriate for this matter to be handled by the Public Service Board as part of their examination of Commonwealth communication standards.

#### Response by the Public Service Board (PSB)

3.67 A committee was established in late 1985, chaired by a Commissioner of the PSB, called the Information Exchange Steering Committee (IESC). Finance and DOLGAS were members of that committee.

3.68 The IESC was established to examine the question of interagency transfer of computer based information which is affected by such things as hardware and software standards and common data definitions.

3.69 This seemed the most appropriate body to promote the examination suggested and the recommendation was accordingly referred to that Committee.

#### Response by the Department of Finance

3.70 Finance recognises and supports the need for data interchange between departments and is developing and promulgating interface standards that will allow other agencies to readily access central financial systems. These developments we consider will assist in establishing acceptable standards for data interchange that will have wider applicability in the Public Service environment. The industry move to development and adoption of Open Systems Interchange (OSI) standards will, in the longer term, greatly assist in information exchange.

Recommendation 11 (paragraph 40 of Report 259)

Future submissions by departments to the Committee for computing capability should take account of the need for arrangements to facilitate systems compatibility with the computer systems of related departments.

Response

3.71 Noted.



## REVIEW OF SYSTEM SIZING

## CONSIDERATION OF THE ISSUES

## (1) ASSUMPTIONS UNDERLYING THE ESTIMATES

In regard to the underlying assumptions, the Committee states that the basis for assuming that transaction rates for the Residential Programs are one third of total program transactions is not provided and that the derivation of transaction rates for other systems is likewise not provided. The Committee did not ask for this information. The derivation of the estimates for each system shows in summary:

- . average daily transaction rate for the proposed community based systems is 24,700 logical transactions;
- . average daily transaction rate for the proposed Residential Programs is 8,300 logical transactions which approximates one third of transactions for community based systems.

These transaction rates are for online processing and were derived from an estimated sizing of the proposed systems based on current workload indicators. It may be that the misunderstanding of the basis of derivation of the estimates arose from the terminology being used and may have been avoided if the Committee's advisors had spoken to the Department or asked the Department for clarification prior to the Report being published. A hearing may have been another way of avoiding this confusion.

The estimated transaction rates for Corporate Services systems are estimated at 14670 online transactions per day.

These estimates are based on user supplied estimates of workload. When validating the estimates, as part of this exercise, for these systems, some revisions were made in order to equivalence all transactions to a uniform base. These were:

- . correspondence monitoring - load decreased to 1500 from 3000 since these transactions are classed as simple transactions;

- . word processing - load increased from 3000 to 5300 since these transactions are classed as complex transactions;
- . library - load decreased to 200 from 500 transactions because of decreased activity.

This revision of estimates for individual systems has no significant effect on the sizing assumptions used in the original submission since a figure of 14,500 transactions per day was originally used for Corporate Services systems.

As stated in its supplementary submission, the Department believes that comparisons of current systems transaction rates to projected transaction rates for the proposed strategic information systems are not valid. The figure of 39,370 transactions per day has not been produced by scaling up estimated processing requirements for a small part of the Department's processing as suggested by the Committee. This figure was obtained by taking details of the various program workload indicators such as the number of payments, clients and service providers and relating these to the proposed systems.

#### (2) TRANSLATION OF ESTIMATES TO PROCESSING POWER

The Department's sizing estimate for the centralised option was for equipment capable of executing 15 million instructions per second (MIPS). This was extrapolated to 27 MIPS for the distributed option. The Department notes that the Committee did not question the extrapolation of processing power from centralised to distributed. The Department feels that this extrapolation is justified. Because of this the Department has concentrated on the centralised option when validating the sizing assumption. Calculations are based on the original number of online transactions for comparative purposes.

(a) ORIGINAL METHOD

The original estimate was made by comparing the functionality of the current systems with that of the proposed systems. The functionality was estimated to be increased by a factor of two. Using this factor of 2 and the current computer usage of about 4 MIPS, it was estimated that the Department would require processing power of 8 MIPS plus an allowance of 2-3 MIPS for Word Processing (based on current usage). This total of 10-11 MIPS is the estimate for processing power for production systems in the base year of 1989/90. An allowance of 3.5 MIPS was made for development purposes giving an initial power requirement of 14 MIPS approximately. Allowing for a growth rate of 5% per annum over the remaining 6 years, the total processing capacity required for production systems for the final year of the analysis period is estimated to be 14.7 MIPS. Although the majority of development will be completed by this time an allowance for systems maintenance must be made. This was estimated to be 1 MIPS and is included in the above figure.

(o) JPCPA METHOD

In its response to the JPCPA's request for further information dated 25 July 1986, the Department used the conversion formula suggested by the JPCPA. The formula is:

$$\frac{l \times c \times p \times i}{n}$$

where	l	is the number of logical transactions per day;
	c	is the conversion factor of logical to physical transactions - assumed to be 5 to 6;
	p	is the percentage of transactions to be supported;
	i	is the number of instructions per transaction - assumed to be 1,000,000; and
	n	is the number of instructions executed per hour in MIPS ie $n = 3600 \times 1,000,000$ .

When discussing this formula the Department has produced a range of processing power. The lower figure relates to the usage of a conversion factor of 5 while the larger figure relates to a conversion of 6.

The Department has since reworked that formula by surveying other Departments with major online systems in order to provide a more practical basis for the assumptions inherent in the formula. An analysis of the results shows that the Department should aim to provide sufficient capacity to cater for 20% of online transactions in a peak hour and that the peak workload is more likely to be of 5 hours duration than the 6 hours used in the Department's original submission to JPCPA.

The formula should be, therefore:

$$\frac{39,370 \times c \times 0.2 \times i}{n}$$

giving a range of processing power of 10.94 to 13.12 MIPS for production systems in a peak hour (this includes word processing but excludes development).

The analysis of the survey shows that the Department should aim to provide sufficient capacity to cater for 75%-80% of online transactions in a peak period of 5 hours.

The formula for 75% is:

$$\frac{39,370 \times c \times 0.75 \times i}{5 \times n}$$

given a range of processing power of 8.2 to 9.85 MIPS for production systems in the peak period (this includes word processing but excludes development).

The formula for 80% is:

$$\frac{39,370 \times c \times 0.8 \times i}{5 \times n}$$

giving a range of processing power of 8.75 to 10.5 MIPS for production systems in the peak period (this includes word processing but excludes development).

When allowances are made for Systems development, backup and recovery processing, the Department estimates that:

- . 14.44 to 16.62 MIPS are required for the peak hour;
- . 11.7 to 13.35 MIPS are required for the peak period of 75%; and
- . 12.25 to 14 MIPS are required for the peak period of 80%.

When the growth factor of 5% is taken into account these ratings become;

- . 15.66 to 18.58 MIPS are required for the peak hour;
- . 12 to 14.2 MIPS are required for the peak period of 75%; and
- . 12.73 to 15.07 MIPS are required for the peak period of 80%.

The Committee, in Report 259 questioned the use of the formula and gave the following reasons:

- . "The Department assumed that all its 40,000 transactions will be online".

After a review of its transaction load the Department confirms that it has only used the online portion of the systems for sizing purposes, since the Department has always planned to run batch work after hours as stated in its submissions.

. "The Department assumed a requirement of 50 per cent additional processing power for development and maintenance work".

The Committee correctly points out that it is invalid to use transaction rates to estimate development workload. This was introduced by the Department in its supplementary submission and should have stated that an allowance of 3.5 to 4 MIPS is needed to accommodate the development load. This approximates to 50% of the additional processing power.

. The Committee also states that the development load will decrease as the applications are developed.

The Department agrees with the Committee on this and has stated this in its supplementary submission and has made allowances for this when estimating workloads in the future. Any growth required over the next decade could most likely be largely accommodated through a decline in the need for development. In its supplementary submission the Department has taken this aspect into account when calculating its expected growth over the next ten years (page 195 of Report 259) and discounted the size of computing power required by 2 MIPS.

. The Committee queries the use of 1,000,000 machine instructions per transaction in the above formula, even though the Committee itself proposed this figure (Page 173 of JPCPA Report 259).

The Department's research has shown that the number of instructions per transaction using COBOL and IMS ranges from 300,000 to 600,000. The Committee suggested a figure of 500,000 for this type of transaction and allowed a 100% increase for use of a fourth generation programming language. The figures from both sources are comparable and the Department feels its use of 1,000,000 machine instructions per transaction is justified. In addition it must be pointed out that the number of instructions executed depends directly on the operating system, data base and data communications software used by the Department. More precise estimates cannot be made until these are known, ie until the results of the Request for Tender process are known.

The Department fully intends to use the intelligent workstations for end user computing and local word processing as suggested by the Committee. The Department has not made any allowance for end user computing in its sizing estimates for mainframe computing power nor made any allowance for word processing except for the downloading of documents to intelligent workstations for processing.

(c) IBM METHOD

At the request of the Department, IBM performed a sizing and costing exercise for the proposed systems. A brief description of the IBM method is:

"in predicting application workloads, IBM typically uses the expected number of attached workstations to provide the basic load information. A basic assumption is made that each workstation will create so much system load in a given time. A peak figure is thus obtained when we assume that all workstations are concurrently active."

This method produced the following results:

"From the sizing estimates, the projected peak workload would utilise approximately 80% of a balanced 3090-180 configuration."

This is similar (14.4 MIPS) to the sizing obtained from the other two methods.

### (3) DATA STORAGE

The Committee questions an allowance of 53% of data storage for system overheads. The Department's submission proposed 47%, not 53%. Some of this 47% is to be used as data backup (a function normally performed by tape in other installations). When this function is removed an allowance of 35% has been made for system overheads. This compares favourably with other installations where this overhead is of the order of 40% for system use, training, development, etc. The Department feels that its estimate of data storage capacity is reasonable based on current information.

The Department disagrees with the Committee about the extent of duplication of these overheads required for a distributed solution. Not all of these overheads need to be duplicated at the various sites. The allowances made for development need not be duplicated and the allowances made for system usage is smaller at each of the sites, since only operational factors need to be considered with training and development being performed on the ACT installation. Therefore the allowance of 100% of total extra disk space for a distributed solution is considered justified.

### (4) TERMINALS

The Committee questions the need for all terminals to be intelligent. The Department agrees with the Committee on this point. The configuration was used for pricing purposes only in order to give a maximum price and to minimise the potential for cost overruns. The extra work undertaken in preparation of the RFT has considered the ratio of dumb terminals to intelligent workstations as outlined by the Committee. The result of this extra work has been reflected in the RFT. The necessary costs for the interconnection costs for intelligent terminals have been included in all costings to date.



(5) APPLICATIONS

The Department has rated all proposed systems with their corresponding benefits (see Attachment 4). Using the Committee's suggested criterion of not implementing low priority systems the total processing power would be decreased by approximately 5%. If these systems were not to be implemented then the initial processing power would be 14.1 MIPS in a centralised solution. Because of the incremental nature of computer power the size of the resultant configurations for each option would not vary significantly and have been retained for estimates purposes. Clearly the cost of the equipment will vary depending on the price at the time, discounts offered, and the particular hardware and software architecture selected by the Department.

## APPENDIX 2

### OPTIONS EVALUATED BY THE DEPARTMENT OF COMMUNITY SERVICES

#### A. CENTRALISED SOLUTION

There are four sub-options:

- (1) the acquisition of 2 mainframe computers with a total capacity of 15 MIPS located in the ACT and servicing the entire Department via a network. Two mainframe computers were chosen to allow the isolation of development from production work and to provide a level of backup if the production computer failed for any reason;
- (2) the acquisition of 1 large mainframe computer of 15 MIPS processing power located in the ACT and servicing the entire Department via a network. This is not as resilient as the previous option, and, depending on the failure rates, some cost may have to be allowed for the loss of system availability;
- (3) the expansion of the capacity of the Department of Health by a single mainframe computer of 15 MIPS. This option is the same as the previous one except it is positioned within the Department of Health computer room. This assumes that the Department of Health has space available within its computer room and that site preparation costs are not as large as the previous sub-options;
- (4) the use of a Service Bureau supplying 15 MIPS of processing power. This option is similar to the other options with computer time and operations support being leased not purchased.

#### B. DISTRIBUTED SOLUTION

The two sub-options considered by the Department were:

- (1) the acquisition of computers to be situated in each of the capital cities throughout the country. The computers are of a size to need special computer room facilities in the ACT only, with diminishing needs for the rest of the sites;

- (2) the acquisition of computers to be situated in each of Sydney, Melbourne and Canberra. This would require 7 MIPS of processing power in Sydney and Melbourne and 8 MIPS in Canberra.

The relative hardware and software costs of each of the options are:

- . dual mainframe in the ACT costed at \$19.67m;
- . single mainframe in the ACT costed by IBM at November 1986 is \$21.39m. Because the original costing was performed at February 1986 prices a reduction of 10% has been made (for comparison purposes) bringing the cost to an estimated \$19.25m (IBM prices have risen during this period). A ten year cost of \$66.66m;
- . expansion of the Department of Health facility, by a single mainframe, is the same as the previous option less the site preparation cost of \$1.5m giving a total cost of \$17.75m. A ten year cost of \$65.3m;
- . a service bureau is costed at \$81.5m over the ten year period. These costs are based on costs provided by Australian Consolidated Industries (ACI). This is the most expensive of the centralised solutions;
- . distributed one per State as originally costed at \$19.68m. A ten year cost of \$75.41m; and
- . distributed in Sydney, Melbourne, Canberra costed on 3 IBM 3090 Model 150 computers gives a cost differential over the first option of \$2.06m for computers and an extra \$2m for site preparation. The total acquisition cost is estimated at \$23.73m (\$76.18m over ten years). When costed with Digital Equipment Corporation (DEC) configuration of dual 8600 computers at each site the cost differential over the distributed one per State option is \$0.22m for computers and an extra \$0.5m for site preparation. The acquisition cost for a DEC solution is estimated to be \$20.4m (\$75.86m over ten years) not including the additional staff costs.

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ATTACHMENT 2

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The two sub-options considered by the Department were:

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COST EFFECTIVENESS ANALYSIS - PREFERRED OPTION vs UPGRADE TO DEPARTMENT OF HEALTH INSTALLATION

This table summarizes: costs and benefits over the ten year analysis period of the preferred option.  
 (a) the Present Value costs and benefits worth of this option and the cost effectiveness of it relative to the DOH option.  
 (b) indicators of the investment worth of this option and the cost effectiveness of it relative to the DOH option.  
 All Present Values are derived from a discount rate of 10%.

	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	(000'S)
PRESENT VALUE COSTS										
PREFERRED OPT. #100	-6,031	-13,650	-14,668	-10,249	-5,985	-5,411	-5,133	-4,809	-4,740	-4,832
PRES VALUE BENEFITS										
PREFERRED OPT. #100	19,208	17,581	16,094	14,736	13,483	12,361	11,322			104,786
NET PRESENT VALUES:										
PREFERRED OPT. #100	-4,031	-13,650	-14,668	-9,959	-11,596	-10,643	-9,603	-9,588	-7,621	-6,690
DOH OPTION #100	-6,018	-19,193	-10,087	-5,717	-4,413	-4,172	-4,007	-3,886	-3,816	-3,809
PRES VALUE BENEFITS										
DOH OPTION #100	16,986	15,413	14,123	12,945	11,965	10,880	9,976			92,187
NET PRESENT VALUES:										
DOH OPTION #100	-4,028	-19,161	-10,087	-11,769	-10,800	-9,952	-9,937	-7,979	-7,064	-6,167
DOH OPTION #100										
NET PRESENT VALUE OF PREFERRED OPT.: \$ 29,389 000										
NET PRESENT VALUE OF DOH OPTION: \$ 24,890 000										

NET PRESENT VALUE OF PREFERRED OPT.: \$ 29,389 000  
 NET PRESENT VALUE OF DOH OPTION: \$ 24,890 000

THE DIFFERENCE BETWEEN THE NPV OF PREFERRED OPTION AND NPV OF DOH OPTION IS \$ 2,499 000  
 COST/BENEFIT RATIO (PREFERRED) 1.405 (BENEFITS/(COST - COST 'DO NOTHING'))  
 PAYBACK PERIOD: YEAR 6 (1992/93)

ANALYSIS OF INDIVIDUAL SYSTEMS

APPLICATION	BENEFITS	RESOURCES	PRIORITY	COMMENTS
<u>COMMUNITY SYSTEMS</u>				
Planning System	High	Medium	High	System essential to introduce needs-based planning. Part of the system will be batch.
Service Provider Applications Processing	High	High	High	These systems are essential to provide the appropriate level of support for the Department's program functions and responsibilities.
Service Provider Register	High	High	High	Flexibility will be essential in their design to ensure effective support for daily operations. On-line systems will be a vital factor in this flexibility.
Service Monitoring System	High	Medium	High	
Capital Works Monitoring	High	Low	High	A high level of intangible benefits will accrue to these systems. The most significant relate to enhanced efficiency and the greatly improved level of service that will be provided to the Department's clients, as well as to the Minister, Parliament, other State and Federal Departments, and Service Providers. Improved staff morale and therefore productivity gains will also result from the implementation of these systems.
Client Processing System	High	High	High	
Client Register Systems	High	Medium	High	
Financial Management Systems	High	Medium	High	
Payment Processing System	High	High	High	
Policy and Procedures System	Medium	Medium	Medium	This system will provide on-line information on Departmental policies and procedures.
<u>CORPORATE AND ADMINISTRATIVE SYSTEMS</u>				
Human Resource Management	Medium	High	High	This system is vital for the control of staff budgeting and the Personnel management functions. It must be on-line, and will generate considerable intangible benefits, related mainly to better service to staff.
Accounts Control	High	Low	High	An accounts control system will ensure effective control over public funds and will streamline current manual arrangements with considerable benefits for those providing goods or services to the Department and a resulting benefit in staff productivity.

APPLICATION	BENEFITS	RESOURCES	PRIORITY	COMMENTS
<u>CORPORATE AND ADMINISTRATIVE SYSTEMS (cont)</u>				
Assets Control	High	Medium	High	Audit and Finance requirements alone demand that the Department be able to account annually for equipment purchased by it. Other benefits will accrue from an assets control system, particularly the speeding up of stocktaking, in administering maintenance contracts, and in disposal arrangements.
Library	Low	Medium	Low	Packaged software may be appropriate.
Document Monitoring	Low	Low	Low	Packaged software may be appropriate.
Correspondence Monitoring	Low	Low	Low	These systems will benefit the Minister, MPs, and the public by providing better service to each.
Freedom of Information	Low	Low	Low	This system should be a low cost migration to the new systems environment.
Appeals Tracking	Low	Low	Low	Packaged software may be appropriate.
Financial Management	Medium	Medium	Medium	With program budgeting effective control is essential to provide managers with appropriate and timely financial information.
Project Management and Planning	Low	Low	Low	Packaged software would be appropriate.
Decision Support Software	High	Low	High	When coupled with the other Community and Administrative Systems will increase their benefit levels considerably by extracting significant management information for decision support. Essential for needs-based planning, financial management and policy formulation and monitoring.
Systems Support	Low	Low	High	Would allow monitoring and control of systems resources usage, and the setting of priorities.
Problem and Change Management	Low	Medium	High	Essential to maintain proper and effective control over software assets.
Office Automation	High	Low	High	Essential to support office functions and increase overall efficiency.
018ly				

**FINANCE MINUTE ON  
REPORT 261  
REVIEW OF ACTION  
EFFICIENCY AUDIT**



## CHAPTER 2

## DEPARTMENT OF FINANCE MINUTE

2.1 This Minute has been prepared on the basis of advice from the Australian Capital Territory Internal Omnibus Network (ACTION) within the ACT Administration.

2.2 In this Chapter each of the Committee's recommendations is reproduced in turn and is followed by the response.

## ACT Transport Policy

## Recommendation (paragraph 2.7 of Report 261)

The Committee recommends that subsequent to the Department of Territories/NCDC Joint Study a paper be prepared forthwith on ACTION's policies, objectives and standards. This paper should then become the basis of a ministerial policy statement.

## Response

2.3 The Joint Study Report was issued in August 1987 and has been generally accepted as the basis for a 10 year strategy for ACTION. A Business Plan for 1988/89 is currently being developed for ACTION incorporating the recommendations of the Joint Study and acknowledging ACTION's responsibilities and objectives within the new structure of the Office of City Management. (As a result of the devolution of responsibilities referred to in paragraph 2.13 below the greater autonomy invested in the Office of City Management means that a Ministerial Policy Statement would not be appropriate.) The Business Plan will provide the first step in the development of a more corporate approach to the planning and operation of ACTION. The current policy and standards manual is to be reviewed as part of the development of a specific ACTION corporate plan.

## Performance Standards

## Recommendation (paragraph 2.35 of Report 261)

The Committee recommends that ACTION institute a regular review of existing operational standards.

## Response

2.4 This recommendation is accepted. Services and operational standards were reviewed in conjunction with staff and appropriate agreements reached as part of a major assessment of ACTION's services. Efficiency improvements recommended in the Joint Public Transport Study have now been incorporated. Changes to ACTIONS routes, shifts, timings and service levels is to take place from early July and a regular monitor of standards and services is to be maintained.

Recommendation (paragraph 2.35 of Report 261)

The Committee recommends that additional operational standards implemented subsequent to the Joint Department of Territories/NCDC Public Transport Study be reviewed on a regular basis and at least every 3 years.

Response

2.5 This recommendation is accepted and will be incorporated in the Business Plan/Corporate planning timetable.

Recommendation (paragraph 2.41 of Report 261)

The Committee recommends that an annual report of ACTION be published with information necessary to satisfy guidelines for annual reports.

Response

2.6 Annual reports for ACTION were published for the years 1984/85 and 1985/86. The information in these reports was an extract from the annual report of the (then) Department of Territories. ACTION's 1986/87 report is more comprehensive and includes detailed financial statements. Future annual reports for ACTION will be upgraded to comply fully with guidelines for annual reports.

Recommendation (paragraph 2.41 of Report 261)

The Committee recommends that ACTION's full operating and cost data, and in particular the cost of individual services, be disseminated as widely as possible.

Response

2.7 Full financial statements for ACTION are included in the 1986/87 annual report and will appear in all future reports. Additionally, extracts of financial data are published as 'fact sheets' for public information. ACTION also now reports to the ACTION liaison Committee, a public forum, on cost matters, including the costs of specific services, particularly where new services are proposed or where it appears services may not be viable. Detailed costings on all individual services are not readily available for distribution. The availability of such detailed data will depend on the integration of cost data from the new Financial Management Information System (FMIS) and resource usage information from network planning systems which are yet to be developed.

Recommendation (paragraph 2.41 of Report 261)

The Committee recommends that the the proposed Financial Management Information System be implemented as soon as possible.

Response

2.8 The Financial Management Information System (FMIS) is now operating satisfactorily for General Ledger and Accounts Payable functions. This system will be expanded to accommodate purchasing as resources permit. Separate systems for Assets and Stores Inventory are fully operational.

Strategic Planning

Recommendation (paragraph 2.51 of Report 261)

The Committee recommends that upon the completion of the Joint Study ACTION promptly proceed to develop a corporate plan for ACTION giving due consideration to the ten year plan developed by the Joint Study.

Response

2.9 The restructuring of the ACT Administration and the introduction of a separate ACT budget will form the basis for a practical strategic/corporate plan for ACTION incorporating the recommendations of the Joint Study. The program approach now being implemented across the ACT Administration and the development of a five year capital budget for ACTION provide a firmer framework for the development of an ACTION corporate plan which will be an extension of the Business Plan for 1988/89 currently being developed.

Recommendation (paragraph 2.52 of Report 261)

The Committee recommends that:

ACTION continue to develop, fully document and review short term plans; and

ACTION establish and regularly maintain a register of short term plans.

Response

2.10 This recommendation is accepted. A register of short term plans has now been established.

Management Information Systems

Recommendation (paragraph 2.79 of Report 261)

The Committee recommends that an ACTION ADP strategic plan be developed as soon as possible and no later than 30 June 1987 and that this plan set out:

- achievable objectives for the implementation and operation of information systems;
- projected methods of attaining such objectives.

Response

2.11 This Recommendation is accepted. An interim ADP Strategic Plan has been developed and is being implemented.

Recommendation (paragraph 2.79 of Report 261)

The Committee recommends that ACTION present a statement of achievements in implementing and operating information systems against stated objectives in its annual report.

Response

2.12 This recommendation is accepted and initial indications of achievement have been included in the 1986/87 annual report.

ACTION Independence

Recommendation (paragraph 2.106 of Report 261)

The Committee recommends that steps be taken to form ACTION into a ministerially accountable authority to serve the public transport needs of Canberra.

Response

2.13 Recent Government initiatives have resulted in the ACT Administration being created and major structural changes are currently under way. This includes significant devolution of activities and responsibilities to various program areas, including ACTION, across the Administration. ACTION has now been established as a specific program in the Office of City Management responsible directly to the City Manager. A proposal currently with the Department of Finance sets out the case for a strengthened senior management structure. Along with the restructuring of the ACT Administration as a whole, ACTION will be reorganised to stress its commercially oriented and independent nature. At this stage the creation of a separate authority is not proposed but this would be a matter that needs to be fully assessed following the restructure of the ACT Administration and in the context of Self-Government for the ACT.

Fare Structure and Collection

Recommendation (paragraph 3.19 of Report 261)

The Committee recommends that ACTION record in its annual report progress towards incorporating the full cost of ACTION services in recommendations for fare variations.

Response

2.14 This recommendation is accepted and full costing of services is being undertaken and will be included in future annual reports.

Recommendation (paragraph 3.22 of Report 261)

The Committee recommends that ACTION continue to closely monitor fares and, where appropriate, act decisively to modify the fare structure.

Response

2.15 This recommendation is accepted. Fare levels and fare structure are reviewed annually prior to setting the budget.

Recommendation (paragraph 3.22 of Report 261)

The Committee recommends that ACTION use the media to keep the public informed of the fare structure and changes to it.

Response

2.16 ACTION agrees with this recommendation and has made arrangements to improve public information through the ACTION Liaison Committee, improved media campaigns and releases, and regular paid advertising in papers and on radio. The major re-arrangement to routes and timetables proposed for implementation in July 1988 incorporates an extensive public information campaign including all media and the distribution of a new timetable/information booklet to all Canberra Households.

Recommendation (paragraph 3.22 of Report 261)

The Committee recommends that upon completion of the Joint Department of Territories/NCDC Public Transport Study ACTION proceed to a full and detailed investigation of available automated ticketing systems with a view to the early implementation of an automated ticketing system.

Response .

2.17 Automated ticketing systems are being assessed by the ACTION Ticketing Committee and detailed requirements for an automated system are being developed.

Subsidy from the ACT Schools Authority

Recommendation (paragraph 3.48 of Report 261)

The Committee recommends that the ACT Schools Authority, in conjunction with the Catholic Education Office, the Education Branch of the Department of Territories and the appropriate transport policy branch of the Department, develop a strategy and seek expressions of interest from any interested body, including ACTION, to tender for the provision of school bus services for schools covered by the Authority's stated policy.

## Response

2.18 The Joint (NCDC/Department of Territories) Public Transport Study has recommended that ACTION retain school bus services because of networking efficiencies but allowing contract services where ACTION cannot provide services or where it would not be cost effective in terms of network efficiency. However, the provision of school bus services is being examined by a joint working party whose membership includes ACTION, ACT Schools Authority and officers of the Employment Education and Training Branch of the Department of Arts, Sport, the Environment Tourism and Territories. A Study of Private Bus Operators in the ACT commissioned by the Administration will provide the Private Sector perspective on school bus services.

## Shift Arrangements

Recommendation (paragraph 4.20 of Report 261)

The Committee recommends that upon completion of the Joint Department of Territories/NCDC Public Transport Study ACTION conduct a detailed evaluation of split shifts and part-time drivers in consultation with the Transport Workers' Union.

## Response

2.19 Initial negotiations were undertaken in the National Wage Case Second Tier discussions. ACTION proposes to undertake a review during 1988-89 of operations resource utilisation which will include alternative shift arrangements.

## Resource Scheduling

Recommendation (paragraph 4.38 of Report 261)

The Committee recommends that ACTION ensure standards exist for the documentation of all procedures and practices and that such standards are adhered to for all existing documentation and future documentation of procedures and practices.

## Response

2.20 ACTION agrees with this recommendation. Documentation on procedures and practices is being prepared and will gradually be standardised.

Recommendation (paragraph 4.41 of Report 261)

The Committee recommends that ACTION management fully evaluate all operating activity options, including detailed costings of manpower scheduling to ensure sound management decision making.

Response

2.21 ACTION agrees with this recommendation. Refinement of costing information with the introduction of FMIS and the completion of the data base containing route, shift and scheduling information is improving the quality of information available for assessing operational options.

Acquisitions Policy

Recommendation (paragraph 4.71 of Report 261)

The Committee recommends that ACTION develop a methodology for estimating the economic life of its bus fleet and then proceed to estimate the expected bus life of the various types of bus in the ACTION fleet.

Response

2.22 Principles to improve fleet maintenance information are currently being developed. Detailed methodology will be dependent on improved fleet maintenance information and a Study of workshop capacity and facilities which is planned for commencement in September 1988.

Recommendation (paragraph 4.71 of Report 261)

The Committee recommends that ACTION formulate a bus acquisitions policy and that such a policy be reviewed annually.

Response

2.23 A bus acquisitions program is being developed in line with the recommendations of the Joint Public Transport Study. A five year capital program is to be instituted with annual review based on network performance, population and demographic shifts, new development and capacity demand and availability.



M S KEATING  
SECRETARY  
Department of Finance

18 JUL 1988

**FINANCE MINUTE ON  
REPORT 263  
ASPECTS OF DEFENCE EQUIPMENT  
SUPPORT, VOLUME 1: SPARES  
AND AMMUNITION**



## CHAPTER 3

### DEPARTMENT OF FINANCE MINUTE

3.1 This Minute has been prepared on the basis of responses received from the Departments of Defence, Finance, Industry, Technology and Commerce, and Administrative Services.

3.2 In this chapter each of the Committee's recommendations is reproduced in turn and is followed by the response.

#### Department of Defence

Recommendation 1 (paragraph 3.56 of Volume One of Report 263)

The Committee recommends that the Department of Defence:

- (a) reviews the definition of user requirements for the Supply Systems Redevelopment Project (SSRP) in the light of the results of the Supply Performance Measurement Study; and
- (b) includes in the further submission on the SSRP requested by the Committee in Report 254 a report on the results of that review.

#### Response

3.3 The Department will take any applicable results of the Supply Performance Measurement Study into account in defining user requirements for SSRP; the Study was initiated with SSRP and general supply management requirements in mind.

3.4 The results of the Study will be included in a further submission to the Committee on SSRP. However, in accordance with a Government decision, the Depot/Base module of SSRP will not be referred to the Committee.

Recommendation 2 (paragraph 3.56 of Volume One of Report 263)

The Committee recommends that the Department of Defence gives consideration to supplementing the current Surge and Sustainability Study by conducting, within existing training levels, a program of specific exercises in the north of the continent, supported from bases in the south, to test and identify possible weaknesses in the Services' supply systems.

### Response

3.5 This recommendation is accepted. Resource constraints limit Australian Defence Force (ADF) ability to conduct exercises of long duration which test all levels of the ADF logistic system, but logistic support is currently tested in exercises. For example, Exercise Kangaroo 86 provided a sound, but limited, test of the ADF logistic system in a low level contingency. Exercise Kangaroo 89 will involve significant ADF operations in the north of Australia, and should provide a realistic test of the ADF logistic system.

Recommendation 3 (paragraph 4.69 of Volume One of Report 263)

The Committee recommends that the Department of Defence re-structures the Supply Systems Redevelopment Project (SSRP) to achieve a major up-grading of the existing Navy supply EDP systems in the short-term possibly using the Army SCUBA system as a model.

### Response

3.6 This recommendation is not accepted. There is an urgent and priority need to replace the existing ageing supply mini-computer network through redevelopment of the SSRP Depot/Base system for all three Services. SSRP as presently planned also includes specific enhancements to Navy's executive level systems and will provide a major improvement in Navy supply computer support. The most effective long term approach involves committing resources to SSRP, not diverting them into a Navy version of SCUBA, which both Navy and Army agree is not suitable for the proposed application.

Recommendation 4 (paragraph 4.69 of Volume One of Report 263)

The Committee recommends that the Department of Defence requires, before the re-structured SSRP is approved:

- (a) its endorsement by each of the Services, and
- (b) the development of an adequate project performance monitoring system.

### Response

3.7 This recommendation is accepted. The existing processes already ensure that the Services are fully involved in and endorse all phases of SSRP. Extensive and adequate project performance monitoring systems are already in place and opportunities for improvements to existing practices will be carefully considered and evaluated.

Recommendation 5 (paragraph 5.72 of Volume One of Report 263)

The Committee recommends that the Department of Defence institutes a uniform policy on the level of supply margins for major munitions items.

Response

3.8 This recommendation is accepted in principle. In 1980 the Department produced an overall policy on supply margins and the Services, in making decisions about application of the policy, are able to take account of relevant factors such as uncertainty in demand and replenishment, and availability of funds.

Recommendation 6 (paragraph 5.72 of Volume One of Report 263)

The Committee recommends that the Department of Defence establishes a joint project to plan and supervise the computerisation of the Services' ammunition inventory management systems.

Response

3.9 This recommendation is accepted in part. The Department accepts that it is desirable to have a computer-based ammunition management system, but believes that SSRP in effect embraces a project of the type proposed by the Committee. Computerisation and redevelopment of inventory management systems at Service ammunition depots are part of the Depot/Base phase of SSRP. The need for a computerised system at the Executive (ie higher management) level will be examined as part of the SSRP Executive Redevelopment Project.

Recommendation 7 (paragraph 5.72 of Volume One of Report 263)

The Committee recommends that the Department of Defence urgently reviews the operation of the Government Munitions Factory Workload Co-ordination Committee with a view to allowing more economic production runs and minimising the disruptions to delivery programs caused by changing customer priorities.

Response

3.10 This recommendation is accepted in part. The Government Munitions Factory Workload Co-ordination Committee (GMFWCC) recently conducted a review of its operations and concluded that it should continue with its present membership and activities. A study into Forecasting, Ordering, Production and Delivery of Munitions has been produced for the GMFWCC. The study aimed to identify problems in the sequence from forecasting to delivery, and to recommend any changes that could result in improved delivery performance. The study and comments on it will be reviewed by the GMFWCC.

Recommendation 8 (paragraph 5.72 of Volume One of Report 263)

The Committee recommends that the Department of Defence takes major steps to improve the quality of factory management and to bring the supporting management information systems up to an acceptable level.

Response

3.11 This recommendation is accepted. The Department has already taken significant steps to address these issues, as evidenced by recent major developments such as the Office of Defence Production Corporate Plan and the Yearly Business Plan. The Department believes that it is important to continue the process of improvement in these areas.

Recommendation 9 (paragraph 5.72 of Volume One of Report 263)

The Committee recommends that the Department of Defence allows the government munitions factories to purchase materials in advance or in anticipation of orders after the successful introduction into the factories of computer-based materials planning systems.

Response

3.12 This recommendation is accepted. Under existing arrangements, the munitions factories have only limited ability to purchase materials in advance of orders. The question of appropriate funding for this purpose needs further examination. Consideration of production scheduling by the GMFWCC is an important aspect of this issue.

3.13 All munitions factories are introducing appropriate computer-based materials planning systems, with development being most advanced at the Munitions Filling Factory at St Marys.

Recommendation 10 (paragraph 5.72 of Volume One of Report 263)

The Committee recommends that the Department of Defence undertakes a study to develop objective quality standards to replace existing subjective quality standards in ammunition manufacture.

Response

3.14 This recommendation is accepted in part. The development of objective quality standards to replace subjective quality standards is supported, and is practised by the Department wherever it is practicable and cost effective. Undertaking a dedicated study across the current inventory of Australian manufactured ammunition is not supported because of the prohibitive resource implications.

3.15 The elimination of subjective quality standards over the complete range of ammunition items raises complex issues and would require a prohibitively large commitment of resources to the effort. Most ammunition quality standards are objective, with very few subjective ones. Some subjective quality standards will continue to be the most cost effective and practicable standards, particularly in the area of surface blemishes and coatings.

Recommendation 11 (paragraph 5.72 of Volume One of Report 263)

The Committee recommends that the Department of Defence promulgates uniform Defence Quality Assurance policies which minimise the undertaking of additional audits of suppliers where those suppliers have been assessed as meeting the appropriate Australian Standard and whose quality control systems are audited on an annual basis.

Response

3.16 This recommendation is accepted. The Department already promulgates uniform Defence Quality Assurance policies in the technical series of Defence Instructions (General). Annual quality system audits to maintain credibility in the continuing conformance with the Australian Standard is standard practice in Australia and in overseas (eg NATO) countries.

3.17 A single intensive annual audit (eg over a week) may be appropriate in some cases, but in others "annual" audit activity may be a continuing process during the year. The latter approach is preferable for complex and critical items, such as ammunition, where it is essential to have complete confidence that factory output complies with quality standards at all times.

3.18 It should be noted that the assessment of whether a supplier meets the appropriate Australian Standard must be made by the Defence Quality Assurance Authority.

Recommendation 12 (paragraph 6.66 of Volume One of Report 263)

The Committee recommends that Navy and Army:

- (a) undertake an in-depth review of their inactive stocks to better identify candidates for disposal possibly using the recent Air Force study as a model; and
- (b) give consideration to developing automated inventory screening and disposal management EDP systems similar to the Air Force ELCID system.

Response

3.19 This recommendation is accepted in part. Navy and Army do operate programs which review the inactive inventory, and these have led to reductions in the number of central and locally procured inactive items. This review effort will continue - Navy will examine the inactive inventory question in more detail whilst Army believes its ongoing review activity is sufficiently intensive already. Relevant Air Force studies will be examined by both Navy and Army.

3.20 The ELCID system is being developed for Air Force as a SSRP enhancement. The general concept of computer-assisted disposal management is applicable to Navy and Army, but it would be necessary to develop separate computer systems for those two Services because their data systems are different from those Air Force systems on which ELCID will operate.

3.21 Navy will continue to consider possible use of ELCID, but the introduction to Navy of stock management by weapon system would be a necessary prerequisite to use of an ELCID-like system. Army will monitor ELCID and will introduce a similar system if it offers advantages.

Recommendation 13 (paragraph 6.66 of Volume One of Report 263)

The Committee recommends that the Department of Defence considers implementing a scale of inventory holding charges whereby customers would be debited for material used and be credited for material returned.

Response

3.22 This recommendation is accepted. The Department is aware of overseas initiatives in this area, but these were developed under organisational and financial management arrangements different from our own. It is not clear that such a system would be feasible or cost effective in the Australian context.

Recommendation 14 (paragraph 6.66 of Volume One of Report 263)

The Committee recommends that Air Force determines the level of wastage of lifed items in its stores inventory and reviews the adequacy of its present controls.

Response

3.23 This recommendation is accepted in part. Air Force data on wastage of lifed items is available, but this data is not collected at Air Force Office level. A shelf life control system will be a component of SSRP, and this is expected to provide for more effective management of lifed items.

Recommendation 15 (paragraph 6.66 of Volume One of Report 263)

The Committee recommends that the Department of Defence undertakes a major study to identify domestic stores in the Services' centrally-managed inventories, as candidates for local procurement or single-Service management with the ultimate objective of achieving major reductions in the numbers of items carried in the Services' inventories.

Response

3.24 This recommendation is accepted in part. The Department accepts that there is a continuing need to review this area, and various actions are in hand. Navy is currently implementing a system which enables a selected range of high usage consumables to be purchased locally and the range is to be expanded. To gain the full benefit of this initiative, however, it will be necessary to automate and simplify many local purchase procedures.

3.25 Army already has a significant level of local procurement. Commodity managers review the situation as an ongoing process. An Air Force working party recently reported on depot and unit provisioning and, as a result, computer system changes have been initiated which will identify items to be managed in depots and units, with consequent central inventory savings.

3.26 At a Defence Central level, the Item Reduction Program has been a major initiative in removing items from the inventory. In the 1975-1986 period, 5093 items were designated 'Not Authorised for Procurement'.

Recommendation 16 (paragraph 6.66 of Volume One of Report 263)

The Committee recommends that the Department of Defence evaluates existing Service warehousing technologies to ascertain the scope for improved labour productivity and/or reduced staffing levels in stores depots.

Response

3.27 This recommendation is accepted. Warehousing technology developments are evaluated as an ongoing process. The Report of the Technology Study - Depot/Base Supply Systems Redevelopment - produced by consultants in 1986 examined the application of new technologies to warehousing as part of the SSRP Depot/Base project. The theme of the report was that use of new computer technology would produce considerable savings through the automation of many manual tasks. Some of the report's recommendations have resulted in certain equipment being specified in the request for tender for Project DESINE.

3.28 Army has commenced a number of warehousing development projects which involve modern warehousing technology. This experience is relevant to developments in existing stores depots.

Recommendation 17 (paragraph 6.66 of Volume One of Report 263)

The Committee recommends that Navy assigns greater priority to the enhancement of computer support of its stores depots with a view to improving the accuracy of stockholding records and reducing the costly by-passing of the computer systems by manual stores demands.

Response

3.29 This recommendation is accepted in part. Navy currently assigns high priority to enhancing computer support for the stores system, and believes the current level of priority is appropriate. Most development work on computer system change requests is aimed at improving computer support of Navy stores depots. It is, however, sometimes difficult to implement desirable changes because of a shortage of appropriate computer personnel. All but one of the Navy enhancements for development under SSRP are for improved computer support for operations at Naval Support Command, Zetland. The SSRP Depot/Base system and executive level enhancements are also relevant to Navy stores depots.



Recommendation 18 (paragraph 6.66 of Volume One of Report 263)

The Committee recommends that Air Force and Army take major steps to reduce the number of service personnel engaged in inventory management.

Response

3.30 This recommendation is accepted in part. Army and Air Force accept that the number of Service personnel engaged in inventory management should not be excessive. Implementation by Defence of the recommendations of the Efficiency Scrutiny of Australian Defence Force Wholesale Warehousing Manning will result in the conversion of a total of 393 Service positions to civilian equivalents with 182 positions being converted in 1987/88 and the remainder in 1988/89.

Recommendation 19 (paragraph 6.66 of Volume One of Report 263)

The Committee recommends that the Department of Defence re-commences, as a matter of priority, its study of single-Service management of warehousing.

Response

3.31 This recommendation is accepted in part. The Department is studying the scope for rationalised support (including single-Service management of warehousing) by first conducting studies in smaller geographical areas; a start is being made in the Northern Territory. A form of single-Service warehousing is being introduced for some equipment in the context of single-Service Logistic Management arrangements agreed when equipment is introduced into service. The current inventory is also being examined to identify additional opportunities in this area.

Recommendation 20 (paragraph 7.98 of Volume One of Report 263)

The Committee recommends that all Services increase the level of surveillance of prices paid for replacement stores procured under direct purchasing arrangements, especially the prices of parts purchased from single sources.

Response

3.32 This recommendation is accepted in part. Such surveillance is undertaken, but it is very manpower intensive to methodically monitor and query stores procurement prices. This limits the extent to which this recommendation should be implemented, especially in overseas offices where the workload is increasing.

3.33 The Department is finalising an instruction 'Defence Purchasing' to remind officers of the need to maintain vigilance against over-pricing. Promulgation needs to take into account the Report of the Efficiency Scrutiny of Payment of Accounts, which is in the process of implementation. In addition, further use of computer systems will facilitate more effective surveillance of prices.

Recommendation 21 (paragraph 7.98 of Volume One of Report 263)

The Committee recommends that Navy attempts wherever possible to purchase replacement stores direct from the actual manufacturer of the item rather than through the parent equipment manufacturer possibly using Air Force procedures as an appropriate model.

#### Response

3.34 This recommendation is accepted. Navy seeks to purchase replacement stores direct from actual manufacturers. To do this, it is necessary to have adequate technical data and specifications from the prime manufacturer. Some difficulties in obtaining this information from the prime manufacturer at the project stage have subsequently created problems in finding alternative sources of supply later in the life of equipment. Securing the necessary component source details and quotations at a later time is often a time consuming task which may provide only limited benefits.

3.35 Navy will examine Air Force procedures to assess their application to Navy purchasing.

Recommendation 22 (paragraph 7.98 of Volume One of Report 263)

The Committee recommends that all Services improve their spares assessment procedures and equipment management systems to provide for the specification of lower cost commercial spares wherever possible and to monitor the performance of those items.

#### Response

3.36 This recommendation is accepted in part. The Services agree that it is desirable to use the lowest cost spares obtainable (including those from commercial sources), with the important caveat that the first consideration is that the spares conform to specifications. It is currently standard practice to do this. It is, however, difficult to apply this procedure to weapons systems of foreign origin, if all relevant technical data are not available.

Recommendation 23 (paragraph 7.98 of Volume One of Report 263)

The Committee recommends that all Services increase their monitoring of US Foreign Military Sales purchases to identify opportunities for lower cost or local sources of supply.

Response

3.37 This recommendation is accepted in part. The monitoring of US Foreign Military Sales is performed in the course of new capital acquisitions, and it is current practice to identify items for which a lower price source exists, or which may be obtained from local sources of supply. For equipment now in service, when earlier action was not taken to identify local sources, later corrective action is very manpower intensive. Use of local sources may be complicated by factors such as minimum order requirements and the existence of items unique to defence requirements.

3.38 The Services agree that it would be desirable to increase existing monitoring effort, but an increase in resources would be needed to achieve this.

Department of Industry, Technology and Commerce

Recommendation 24 (paragraph 7.98 of Volume One of Report 263)

The Committee recommends that the Department of Industry, Technology and Commerce provides assistance to the Services, in consultation with State industry development authorities, to identify suitable qualified Australian suppliers for spares and ammunition presently purchased from overseas.

Response

3.39 The Department of Industry, Technology and Commerce is prepared to assist, where necessary, in identifying suitable Australian suppliers of spares, particularly when substantial contracts are involved. However, it believes that the routine examination and advice on suppliers for all spares requirements is better served by the Defence Industry Development Division located in the Department of Defence.

3.40 The Defence Industry Development Division has a network of Regional Offices and consults with various State bodies, departments and agencies as necessary. It thus already provides the assistance to the Services as proposed by the recommendation and routine involvement of the Department of Industry, Technology and Commerce would only serve to duplicate the existing mechanisms.

**Department of Defence**

Recommendation 25 (paragraph 7.98 of Volume One of Report 263)

The Committee recommends that Navy takes steps, as a matter of urgency, to apply economic order quantity principles in its replenishment provisioning.

**Response**

3.41 This recommendation is accepted. The practical application of economic order quantity principles will be examined in the Navy "Bow Wave" study.

**Department of Finance**

**Department of Administrative Services**

Recommendation 26 (paragraph 7.98 of Volume One of Report 263)

The Committee recommends that the Departments of Finance and Local Government and Administrative Services respond, in the Finance Minute on this Report, to the proposals put to the Committee by the Defence Contracting Organisation to improve Commonwealth purchasing policies and procedures.

**Response**

3.42 The Defence Contracting Organisation (DCO) identified several policies and procedures which could be changed to improve efficiency, namely, Advertising in the Purchasing and Disposals Gazette; Funds Availability Requirements; and Australian/New Zealand Preference Policy.

**Advertising in the Purchasing and Disposals Gazette**

3.43 The underlying objective in requiring the advertising of tenders to initially be published in the Purchasing and Sales Gazette has been to promote full and open competition. Nevertheless, the Department of Administrative Services (DAS) is aware of difficulties that have been encountered because of this requirement.

3.44 The broad issue of advertising in the Gazette is being considered in the context of a current Financial Management Improvement Program review which is examining the efficiency of Commonwealth wide procurement. The Committee will be advised of the progress and ultimately the outcome of the review.

3.45 It is proposed to repeal Finance Direction 25.2A shortly thereby breaking the nexus between the advertisement of tenders in the Gazette and the preparation and release of tender documentation. The removal of restrictions currently imposed by this Direction will overcome Defences concerns relating to delays in release of tender documentation. The Gazette provides a high degree of visibility by comprehensively listing details of tenders invited and contracts arranged therefore it is envisaged the Gazette would remain the principle media for public notification of Government purchasing.

#### Funds Availability Requirements

3.46 The problems highlighted by the Defence Contracting Organisation's (DCO) proposal on funds availability are essentially administrative and not legislative as was indicated to the Committee. In Finance's view this is a matter for resolution by senior management within the Department of Defence. There is no legal requirement for Defence to 'fund' the requisition or obtain approval to incur expenditure from the Regulation 48C delegate prior to tender evaluation, indeed it may be preferable to obtain such approval once a firm contract price is apparent.

3.47 The approval to incur expenditure given by the Finance Regulation 48C delegate within Defence has been discussed on several occasions by the Departments of Defence and Finance. The practice of raising requisitions for a fixed amount when the actual expenditure requirement is unknown or variable leads to inefficiencies such as those highlighted in the DCO Submission. Defence was advised in July 1984 that it could introduce arrangements whereby additional approval for variations to overseas requisitions would not be required. In August 1984 it was agreed that this arrangement was also appropriate for contracts with Australian suppliers.

3.48 The basis for the arrangement rested on the understanding that the approval to incur expenditure would be given to enable a contract to be entered into for specified supplies at an estimated cost (that is considered reasonable) rather than an approval for expenditure up to a certain dollar amount. In effect what would be approved would be expenditure for specified supplies inclusive of price variations. This interpretation applies at what ever stage the approval is received.

3.49 The Committee's attention is also drawn to the Efficiency Scrutiny on Processing of Accounts' recommendation on the adoption of such arrangements as a way to improve current work practices of Departments. Paragraph (b) of Attachment D to the Scrutiny Report states that:

"Where an estimated amount on a requisition is exceeded by an invoice, there is no need to seek a further approval from the Finance Regulation 48(c) delegate and have the additional amount funded under Finance Regulation 47(1) by a prescribed officer."

## Australian/New Zealand Preference Policy

### (a) Simplification of its administration

3.50 The DCO suggested that the administration of the Australian/New Zealand Preference Policy should be simplified to eliminate the reference of discretionary preference cases. It was stated that the long delays caused by the present system lead to tender validity expiry which in turn gives rise to other problems of tender revalidation.

3.51 The purchasing preference policy requires that cases of purchases over \$100,000 and cases where application of preference would involve additional budgetary cost of \$200,000 or more be referred to the Minister for Administrative Services for the exercise of his discretion. Discretionary preference is normally limited to an additional 10 per cent margin over the automatic general margin of a notional 20 per cent discount of the value of Australian/New Zealand content in tender evaluation.

3.52 The exercise of discretionary preference is based on criteria involving:

- . assistance in the development of competitive industries offering growth potential;
- . assistance in establishing or maintaining Defence strategic capabilities; and
- . avoidance of significant additional disruption in severely depressed labour markets.

3.53 While efforts have been made to reduce the time taken in handling discretionary preference cases, there remains cause for concern about the delays and costs involved in the present arrangements. DAS has consulted purchasing authorities on their experience of the current preference arrangements and is currently considering a range of options for streamlining the discretionary preference process.

3.54 Finance supports the proposal that the minimum threshold for consideration for discretionary preference be increased from its current level of \$100,000 as it should result in discretionary preference procedures being applied where the financial implications are large and are likely to outweigh the associated administrative costs. It could, therefore, lead to a streamlining of the discretionary preference process. However, the inefficiencies caused by the discretionary preference itself would still continue.

3.55 Finance considers that not only does the added margin of preference exacerbate the problems associated with the general margin of 20 per cent, but that it has the additional problems of:

- . adding directly to the costs of Government purchases;
- . adding further indirectly to the costs of goods purchased, as compliance with discretionary preference procedures often leads to delays during which tender prices are revalidated or additional information is sought;
- . adding further to administrative costs due to compliance with discretionary preference guidelines;
- . restricting the timely implementation or acquisition of purchases; and
- . inhibiting the flexibility of managers to make appropriate decisions in the light of existing circumstances.

3.56 In summary, Finance believes that the current policy of discretionary preference is ineffective in addressing its aim of assisting industry through Government purchasing, leads to additional administrative costs and unnecessary delays, encourages inefficiency in Australian industry and can lead to inefficient Government purchasing decisions. In light of the difficulties and problems associated with discretionary preference, Finance believes that the interests of both the Government and Australian industry would be best served by abandoning the policy. Abolition of the discretionary preference margin would not affect application of the automatic general margin of 20 per cent which would continue to be applied.

(b) Application of preference policy

3.57 As well as seeking to simplify the administration of the Australian/New Zealand Preference Policy, DCO also suggested that the preference policy should apply only up to the threshold at which the offsets policy comes into operation (ie \$2.5m).

3.58 While both the preference and offsets policies are directed to achievement of the Government's industry policy objectives, they are quite distinct in their approach. The preference policy seeks to increase opportunities for local industry to gain Government business by a range of measures directed at eliminating procurement practices which discriminate against Australian industry and by the application of a margin of preference which rewards local content in tender evaluation. The offsets policy imposes obligations on foreign suppliers aimed at raising the productive capability and capacity of Australian industry.

3.59 Offsets obligations may be discharged through a range of mechanisms including technology transfer, research and development programs, venture capital investment, education and training activities and Australian value added export activity. Because of the different objectives and application of the preference and offsets policies, DAS is not attracted to DCO's proposal that the application of preference be restricted to cases of purchases below \$2.5m.

3.60 Finance agrees with DAS that there appears to be no logical reason to set a maximum value on purchases subject to the preference policy which would be directly linked to the offsets minimum threshold (currently \$2.5m). Nonetheless, Finance considers that there is merit in introducing such a ceiling as a means of limiting: the costs of administering the purchasing preference scheme; the potential costs of that scheme to the Budget; and any distortionary effects on industry of the policy. In Finance's view, it is matters such as these which should be taken into account in determining the dollar value of the ceiling rather than the threshold value of a largely unrelated policy such as offsets.

3.61 As noted in paragraph 3.51 above, application of the automatic 20 per cent preference is normally limited to cases where the cost of doing so does not exceed \$200,000. With the preference margin set at the level of 20 per cent, this could only eventuate where the contract in question exceeded \$1m in value (for tenders with 100 per cent Australian/New Zealand content), which is therefore an implicit "threshold" for the maximum use of the preference policy. Finance believes that this should serve as a benchmark for establishing an explicit maximum contract value up to which the preference policy may be applied. Finance would suggest that this value be set at \$1m for a trial period and be adjusted if need be following an evaluation.

3.62 DAS recognises that the increasing complexity of major purchases and developments in industry policy provide an opportunity for reviewing the appropriateness of the continued application of the preference policy in the traditional manner. Accordingly, DAS is consulting with the Department of Industry, Technology and Commerce on this issue.

#### The Public Tender Threshold

3.63 The DCO also discussed the public tender threshold and cautioned against the Department of Defence's suggestion that it should be increased. This issue is currently being examined by an inter-departmental review group under the auspices of the Financial Management Improvement Program. The group is consulting widely with all departments and expects to make some recommendations by mid 1988. As mentioned in paragraph 3.44, the Committee will be advised of the progress and ultimately the outcome of the review.



**Department of Defence**

Recommendation 27 (paragraph 7.98 of Volume One of Report 263)

The Committee recommends that the Department of Defence increases the level of financial delegations to the commanding officers of Navy and Air Force stores depots to the same level as exists in Army.

**Response**

3.64 This recommendation is accepted. The Department has examined the question of delegation levels and, subject to Ministerial approval, it is proposed to raise the level of financial delegations to commanding officers of Army stores depots, and to concurrently raise the delegations held by commanding officers of Navy and Air Force stores to the same level proposed for Army.

**Department of Finance**

Recommendation 28 (paragraph 7.98 of Volume One of Report 263)

The Committee recommends that the Department of Finance considers issuing further guidelines on the use of credit cards for the payment of accounts, preferably after taking into account the results of the present pilot exercise in the Department of Defence.

**Response**

3.65 Since the publication of the 263rd Report, the Government has accepted a recommendation of an Efficiency Scrutiny on Processing of Accounts, that corporate credit cards be used wherever possible to pay for goods and services. Use of the card is expected to:

- . eliminate or at least reduce separate paperwork - requisitions, purchase orders, receiving reports;
- . reduce the number of claims (particularly small claims), because they will be consolidated on a single monthly claim, and therefore reduce cheque issues;
- . ensure the Commonwealth's debt to suppliers is discharged promptly; and
- . improve the Commonwealth's cash management.

3.66 A tender by the Westpac Banking Corporation has been accepted for the provision of corporate credit cards. The issue of cards commenced from 1 December 1987. The Department of Finance has issued guidelines on the operation of the cards under issue of Finance Circular 1987/22.

#### Department of Defence

Recommendation 29 (paragraph 8.31 of Volume One of Report 263)

The Committee recommends that the Secretary of the Department of Defence and the Chief of the Defence Force:

- (a) jointly review, as a matter of priority, the performance of the Defence Logistics Organisation against its stated objectives taking into account the shortcomings in supply support identified in this Report; and
- (b) inform the Committee of the timetable and progress of the review in the Finance Minute on this Report.

#### Response

3.67 In response to the Committee's recommendation the Secretary of the Department and the Chief of the Defence Force (CDF) established the Logistics Review Group in August 1987. The Review had two primary tasks, firstly, to examine the organisational structure of the Defence Logistics Organisation (DLO) to address how the structure might be rationalised to more effectively meet the objectives of the organisation and, secondly, to examine procedures and processes with the aim of improving performance and effectiveness across a range of logistics functions. A temporary SES Level 6 position 'Head of Logistics' was established to oversee the review and administer the organisation pending the outcome of the first part of the review. While the review is being undertaken by DLO there is close consultation with Headquarters Australian Defence Force (HQADF) and the Services. The Secretary and CDF also decided to strengthen the HQADF staff dealing with logistics.

3.68 In a joint statement issued in December 1987 the Secretary and CDF indicated the objectives of the review had their full support and urged other areas of the Department to extend the greatest possible assistance in the conduct of the review.

3.69 The recommendations concerning the rationalization of the top structure of the DLO have been agreed to and were implemented with effect 1 February 1988. The authority of the organisation has been enhanced by establishing the Head of Defence Logistics as a level 6 position on a permanent basis this replaces the Chief of Supply and Support (a level 5) which has been abolished. The new DLO organisation structure effectively amalgamates the functions of both the former Supply Division and Technical Services and Logistic Development Division thereby merging supply and support policy and procedures into one area known as the Logistics Development Division. The new structure together with changes to practices in relation to approval processes will speed up decision making, recognise the links between engineering, maintenance, quality and supply, and further develop working arrangements with HQADF and the Services. Recommendations on an appropriate sub-structure are presently being formulated and are expected to be submitted for approval by mid 1988 after consultations with staff associations.

3.70 The Logistics Review submitted its first report to the Minister in February 1988. Recommendations are being implemented progressively and the Secretary and CDF will be looking at the results of these activities in mid 1988 and again at the end of the year.

*M. S. Keating*

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