

CHAPTER THREE

THE INITIATIVE AND ITS IMPLEMENTATION

Introduction

3.1 In this chapter, the Committee briefly traces the implementation of the Initiative from its inception in 1997 to a shift in policy announced in January 2001. The shift followed an independent review, conducted by Mr Richard Humphry AO, of the risks involved in the implementation of the policy. The chapter describes the background of Australian Public Service (APS) reform; the decision to outsource information technology (IT) infrastructure; the importance of cost savings; the cluster model favoured by the Government; the role of the central agency appointed by the Government to implement the Initiative; the tensions generated by this model in a devolved APS; and the early experience of the Initiative. The Committee also looks at the findings of a performance audit of the implementation of the Initiative by the Australian National Audit Office (ANAO) and of the Humphry Review which examined the risks associated with making the transition from in-house IT operations to external provider.

A period of reform in the APS

3.2 The practice of outsourcing IT had been growing in popularity worldwide since the early 1990s. This trend was reflected in Australia in both the private and public sectors. The Commonwealth Government lagged behind in adopting decisive measures to outsource its IT.¹ On assuming power after the 1996 election, the Coalition Government was keen to push ahead. It believed, however, that there needed to be central control of the outsourcing process to overcome the perceived inertia preventing agencies moving forward with outsourcing.²

3.3 In April 1997, the Minister for Finance announced the Government's in-principle approval to outsource its IT infrastructure. He explained that the intention of the Initiative was to generate competition through multiple tenders. This arrangement meant that agencies would be formed into clusters in order to deliver economies of scale from aggregating services within and across budget-funded agencies.³

1 See for example, Mary C. Lacity and Leslie Willcocks, 'Survey of IT Outsourcing Experiences in US and UK Organizations', *Journal of Global Information Management*, April–June 2000, p. 5. Mary Graham and Helen Scarborough, 'Information Technology Outsourcing by State Governments in Australia', Faculty of Business and Law, Deakin University, *Australian Journal of Public Administration*, 56(3): 30–39, September 1997, p. 30.

2 See statement by the Minister for Finance and Administration, the Hon. John Fahey, transcript, '7.30 Report', 15 January 2001.

3 Media Release, Minister for Finance, the Hon John Fahey, 'Outsourcing of Information Technology Infrastructure', No. 16/97, 25 April 1997.

3.4 The Committee was told that the Initiative represented a significant process of change within the Commonwealth and was consistent with other recent reforms and performance improvement initiatives, including the introduction of accrual budgeting, privatisation and revised corporate governance arrangements for Commonwealth owned organisations. These numerous reforms were intended to increase transparency and accountability for performance, improve flexibility for the Government's service delivery arrangements, reduce the risk of exposure to litigation of the Commonwealth, and place government operations on a more businesslike footing to achieve more efficient and effective service delivery.⁴

The importance of cost savings

3.5 From the very beginning, the Government promoted the Initiative as a major cost saving measure. In May 1997, in anticipation of savings from the Initiative, the Government announced reductions in the forward estimates of agencies equivalent to the savings deemed achievable from outsourcing.⁵ Overall, agency budgets were to be reduced by \$37.9 million in 1998-99, by \$87 million in 1999-2000, and by \$99.2 million in 2000-2001. Savings in excess of these amounts could be retained by agencies but any shortfalls in savings would be made up by agencies.⁶

3.6 The focus on cost savings, however, did broaden over time to include other benefits deriving from IT outsourcing such as industry development. In June 1998, the Office of Asset Sales and Government Information Technology Outsourcing (OASITO) submitted that cost savings were not the only reason for outsourcing:

Outsourcing shifts the burden of managing a function out of the organisation and frees up organisational management. The point of it is to secure the services that the agency needs in the most cost-effective and responsive way, and that will depend on each agency...it allows the senior management of the organisation to focus much more sharply on strategic issues and on their purpose in life rather than having these in-house empires that absorb massive amounts of management effort to provide what is often just a utility service to an organisation.⁷

3.7 Even so, the Committee notes that the requests for tender (RFT), during the earlier stage of the Initiative, continued to underline the importance of cost savings. The RFT for the Health Group, released on 30 November 1998, stipulated that cost savings and industry development were the key Commonwealth objectives. It stated:

4 OASITO, submission no. 4.

5 OASITO's *Annual Report 1998-99*, states 'Agencies forward estimates have already been adjusted for the expected effects of IT outsourcing', p. 37.

6 See ANAO, *Implementation of Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative*, Audit Report No. 9 2000-2001, p. 42. 'Budget Savings'.

7 Mr M. Hutchinson, Finance and Public Administration Legislation Committee, *Hansard*, 4 June 1998, pp. 417-18.

Achievement of substantial cost savings is a precondition to the award of a contract. The Commonwealth will not award a contract unless the Commonwealth is satisfied that the preferred Tenderer will deliver a substantial and acceptable level of cost savings...⁸

The cluster model

3.8 According to OASITO, one of the fundamental principles underpinning the Government's policy was IT infrastructure consolidation—the rationalisation and standardisation of infrastructure. This led to the adoption of a 'shared services model' whereby groups or 'clusters' of agencies formed part of the Initiative's initial framework.

3.9 The fundamental reasoning behind this notion was that if a number of organisations pool their requirements, the unit cost of providing the service should be lowered. Although there are separate negotiations leading to individual contracts, the underlying assumption was that an agency will get a cheaper service if it combines its requirements with those of other bodies.⁹

3.10 IT infrastructure consolidation aims not only to deliver economies of scale but also to provide the flexibility and opportunities for cross-agency and individual agencies to re-design business systems to improve service, reduce costs and take advantage of immediate benefits available from streamlining current operations. Dr Andy Macdonald, former Office of Government Information Technology (OGIT) Chief Executive, maintained that the cluster model also enhances competition in the market place. He explained that they adopted the cluster design:

in order to get aggregation, to provide a phased approach to putting the IT infrastructure out for market testing, to enable competition to occur and to get multiple suppliers and to provide a range of offerings that could be made available to a variety of people which would bid.¹⁰

3.11 OASITO supported the view of its predecessor, OGIT, that grouping can lead to:

- cost benefits through economies of scale as well as benefits from more vigorous price and performance competition among vendors;
- reduced costs to government and industry; and

8 See 90.1 and 90.2 of request for tender (RFT), Health Group, released 30 November 1998. The emphasis had shifted to 'value for money' in the RFT for Group 1 released on 15 December 1999 and the RFT for Group 11 released on 12 September 2000 which stipulate that 'the tender evaluation is designed to select the tender that offers the best overall "value for money" consistent with efficiently and effectively meeting the business needs of each Group Agency'.

9 Mr Paul Stockdale, (IT Newcom Sourcing Consultants), Committee, *Hansard*, 19 March 2001, p. 213.

10 Dr Andy Macdonald, Office of Government Information Technology (OGIT), Finance and Public Administration Legislation Committee, *Hansard*, 18 August 1997, p. 143.

- increased opportunities for rationalisation and standardisation between agencies and efficiency in contract management downstream.

3.12 The shared services model was also expected to help industry development, as described by OASITO:

grouping would also assist the industry development objectives through the ‘pull-through’ opportunities afforded through commercial relationships with prime contractors and the leverage effect afforded by the Initiative to obtain the out of scope commitments.¹¹

3.13 The competitive tendering process was expected to draw on international and Australian experience and be completed within two years. The intention of this significant change of focus was summarised by the Minister in 1997:

This initiative will build on the experiences of other governments and private sector organisations, here and internationally, who have already successfully outsourced...

The consolidation and outsourcing of the Government’s IT infrastructure represents a fundamental change from twenty years of vertical, agency-focussed IT development. The Government will become a purchaser and not a provider of IT infrastructure, with services supplied by providers whose business—and core competency—is IT.¹²

3.14 Once the framework was established, OGIT was responsible for implementing the Initiative. On 6 November 1997, the Minister announced that the responsibility for the implementation of the Initiative would be moved from OGIT to the Office of Asset Sales, to be known as Office of Asset Sales and Information Technology Outsourcing. The new agency would provide advice and coordinate agencies in the implementation of the whole-of-government arrangements. As the Department of Finance and Administration (DOFA) described it, this included providing strategic direction and leadership for the conduct of the Initiative and the formation of clusters, developing and applying the financial evaluation models, and managing the tender process.¹³

Central control and agency resistance

3.15 It appears that the Initiative had strong backing from DOFA and the Department of the Prime Minister and Cabinet (PM&C), but that up to 20 agencies did not support the Initiative. According to the Minister for Finance and Administration,

11 OASITO, submission no. 4. See chapter nine for more details on ID.

12 Media Release, Minister for Finance, the Hon John Fahey, ‘Outsourcing of Government Information Technology Infrastructure’, No. 16/97, 25 April 1997.

13 Department of Finance and Administration (DOFA), submission no. 3.

the Government went ahead and endorsed the Initiative through Cabinet despite resistance to the proposal by many Commonwealth agencies.¹⁴

3.16 While agencies generally supported the principles of outsourcing, serious concerns were expressed about managing the process through the imposition of a ‘top heavy central agency focussed on administrative structure’. A number of agencies were concerned with the apparent requirement that they rely solely on such a body for the development of outsourcing tenders and negotiating contractual arrangements.¹⁵

3.17 This requirement was in direct conflict with the new public service reforms that emphasised the autonomy and personal responsibility of agency heads.

Implementing the Initiative—agencies’ need for control

3.18 Within months of the Minister’s 1997 announcement, the first group of Commonwealth agencies, known as Cluster 3, was ‘market tested’. On 24 July 1997, an invitation to register interest was advertised nationally and on 30 September a draft RFT was released. This draft was intended to provide a means for industry to provide constructive comment on the infrastructure services that the Government was seeking to purchase. A final request for tender was issued five weeks later on 4 November. A statement accompanying the announcement noted that the Government was intent on achieving substantial savings from the outsourcing process.¹⁶

3.19 Although OASITO would continue to work closely with OGIT in relation to the use of IT across the Commonwealth following the transfer of responsibility for implementation, the Minister had assigned clear responsibility to OASITO to execute the project. The Minister stated:

This move will give the IT outsourcing initiative greater access to a pool of staff skilled in the management of large scale projects. These skills will be particularly important now that the initiative has moved from a policy phase into implementation which will involve intensive periods of due diligence, tender evaluation and contract negotiations. The amalgamation will enable

14 See Statement of the Minister for Finance and Administration in transcript, ‘7.30 Report’, 15 January 2001.

15 Cabinet Submission on Information Technology Infrastructure, April 1997, Attachment B, para. 36 and para. 105, cited in Finance and Public Administration References Committee, *Contracting out of Government Services - First Report: Information Technology*, November 1997, pp. 18-19.

16 Media Release, Minister for Finance, the Hon John Fahey, ‘Outsourcing of Information Technology Infrastructure: Announcement of Cluster 3’, No. 37/97, 24 July 1997; Media Release, Minister for Finance, the Hon John Fahey, ‘Outsourcing of Information Technology Infrastructure: Release of Cluster 3 Request for Tender’, No. 59/97, 30 September 1997. Cluster 3 comprised the Department of Administrative Services; Department of Immigration and Multicultural Affairs; the Australian Electoral Commission and the Australian Industrial Property Organisation.

efficient utilisation of resources to manage the variable workload across the two functions.¹⁷

3.20 While OASITO provided direction and management, group agencies were responsible for defining business and technical requirements, evaluating the IT services component and preparing the agency for transition to outsourcing and subsequent contract management.

3.21 As noted earlier, a number of Commonwealth agencies held strong reservations about the Initiative in its present form. Indeed, as the policy moved further into the implementation stage, the relationship between OASITO and some agencies began to sour.

3.22 The former head of the National Crime Authority told the Committee that from his agency's perspective there were a number of very unsatisfactory elements throughout the actual negotiation of the Cluster 3 contract. He stated:

Our concerns were dismissed almost peremptorily. There were agreements reached with ministers which were simply not honoured. I felt the whole process was quite unsatisfactory.

...

It cost us a great deal of time, effort and grief to be part of it.

...

This was a classic example of a whole exercise where departmental secretaries and agency heads did not have control over it, yet they were to carry the can for it...¹⁸

3.23 Without doubt, a number of agencies would have preferred to have been more actively involved in the process. The Australian Taxation Office (ATO) explained to the Committee that OASITO managed and controlled the tender process that saw the eventual handover of the ATO's information technology and telecommunications (IT&T) infrastructure to Electronic Data Systems, Australia (EDS) on 24 June 1999.¹⁹

3.24 While the ATO was involved in all phases of the outsourcing process (other than industry development), it did not have the management of, or control over, the tendering process that it had expected.²⁰

17 Finance and Public Administration Legislation Committee, *Hansard*, 24 November 1997, p. 659. See also Media Release, Minister for Finance and Administration, the Hon. John Fahey, 'Industry Development and Savings in I.T. Outsourcing', No. 67/97, 7 November 1997. This quote is also given in chapter 11.

18 Mr J. Broome, Committee, *Hansard*, 17 May 2001, p. 399-400.

19 Australian Taxation Office (ATO), submission no. 22.

20 *ibid.*

3.25 Put succinctly, the ATO believed that OASITO did not give due recognition to the considerable experience of ATO staff in managing large scale procurement tenders and operating large scale IT environments.²¹ It submitted:

The management framework of the whole-of-government IT&T initiative was different from that which would have been applied by the ATO had the ATO been in control of the process. The ATO still believes that it was competent to manage the process in its own right and, possibly, more aware than OASITO of what was required to make the outcome of the process a success.²²

3.26 Mr Ross MacDiarmid, Chairperson, Outsourcing Committee, Canberra Business Council, was of the view that the centralised influence of an organisation such as OASITO meant that agencies were ‘not in many ways and to some degree, in control of their own destinies’.²³

3.27 Mr Rob Durie from the Australian Information Industry Association (AIIA), made a similar observation. He stated ‘...the atmosphere between OASITO, the agencies and the industry was confrontational, primarily because of the approach ... [of] OASITO taking the view that nothing would happen unless they forced it through’.²⁴

3.28 In his December 2000 review of the implementation of the Initiative, Mr Richard Humphry also found that agencies felt that they did not have adequate control over the process—that there was a feeling of disillusionment.²⁵ He noted that agency heads believed that if they had had the final say over where the contract would go then at least they would have been able to ensure that it fitted with their specific requirements. Mr Humphry told the Committee:

It came down to whether being part of a broader cluster or group meant that they lost choice and many of them did feel that. They were concerned that it might lead to a situation in which they would not get adequate service. That was commonly expressed.²⁶

21 *ibid.*

22 *ibid.*, See also comments by Dr J. Harmer, Health Insurance Commission (HIC), Committee, *Hansard*, 19 June 2001, p. 638.

23 Mr R. McDiarmid, Committee, *Hansard*, 16 March 2001, p. 345.

24 Mr R. Durie, Committee, *Hansard*, 15 March 2001, p. 282.

25 Mr R. Humphry, Committee, *Hansard*, 7 February, 2001, p. 61; Mr Rob Durie, Australian Information Industry Association (AIIA), Committee, *Hansard*, 15 March 2001, p. 279. Also note comments by Dr J. Harmer, HIC, who told the Committee: ‘We did not give any ground to OASITO. I am sure OASITO would say that we were quite a thorn in their side as they were, understandably, looking to get the outcome they wanted, but we in the Health Insurance Commission...had very significant responsibility under the CAC Act to make sure that we did not give any ground unless we agreed, and we did not’. Committee, *Hansard*, 17 May 2001, p. 499.

26 Mr R. Humphry, Committee, *Hansard*, 7 February, 2001, p. 59.

3.29 OASITO's description of its role did not completely disagree with Mr Durie's and Mr MacDiarmid's suggestion that it dominated the process:

To suggest that we somehow ran the process as far as agencies were concerned is absolutely wrong in my view. It is repeated over and over...The one thread that pops up that is true is that we had to adopt a fairly on-the-front-foot position in driving the process forward. It was claimed, for example, that we were timetable driven. We use a timetable as a discipline in a tender process, but that suggestion sits oddly with the audit conclusion that in fact we had blown the timetable out. Somewhere in the middle is about right. There is no other way to move a process forward where the agency ends up with a contract for five years with an outsourcer and then to have the agency fully signed up in all aspects of it. Any suggestion that we somehow subjugated their interests is absolutely wrong.²⁷

3.30 OASITO did, however, acknowledge the difficulties it had in working with the agencies. It explained to the Committee that it was trying to manage the implementation of the project in accordance with 'the day-to-day requirements of the agencies'. It accepted that throughout the tendering process it faced challenges with agencies about responding to time frames and in obtaining information when 'they had other things to do in their business'.²⁸ But, put bluntly by Mr Ross Smith, CEO, OASITO: 'We had a policy framework that had to be implemented by government, and we implemented it, as we were required to do'.²⁹

3.31 Despite the differences in interpretation about the nature of the interaction between agencies and OASITO, there were times when the relationship between OASITO and agencies came under considerable strain. It is clear that significant tensions were caused by OASITO's dominance in the process and that this situation attracted considerable public attention when OASITO began considering outsourcing knowledge-based agencies such as the Australian Nuclear Science and Technology Organisation (ANSTO) and the Commonwealth Scientific Research and Industrial Research Organisation (CSIRO).

The 1997 experience

3.32 The private sector also began to question aspects of the Initiative. In October 1997, the AIIA issued a position paper in which it expressed concern at the Government's approach to IT outsourcing. It identified three major areas of concern—

27 Mr D. Yarra, Finance and Public Administration Legislation Committee, *Hansard*, 20 February 2001, pp. 298–9.

28 Mr R. Smith, Finance and Public Administration Legislation Committee, *Hansard*, 23 February 2001, p. 351.

29 Mr R. Smith, Committee, *Hansard*, 19 June 2001, p. 649.

the high cost of tendering, industry development obligations and the lack of a partnering approach.³⁰

3.33 A number of key findings of a survey conducted in Australia at this time by Deloitte & Touche also challenged some fundamental assumptions about the benefits of IT outsourcing and had particular relevance for the Initiative. It indicated that:

- significant savings are rarely realised with IT outsourcing;
- 2 to 10 times more time was required than planned, particularly in project management and implementation; and
- the public sector experienced substantially more difficulties during the outsourcing process, particularly in staff communications, loss of expertise and selecting the activity to be outsourced.³¹

3.34 These findings were consistent with the warnings sounded in the early 1990s. Other contemporary studies reached similar conclusions about the difficulties being encountered with the management of the process of IT outsourcing and its failure to meet stated objectives including suppliers not achieving expected service levels.³²

3.35 Against this backdrop of public sector uneasiness with the Initiative and studies that were questioning the benefits of IT outsourcing, this Committee conducted an inquiry in 1997 into all aspects of outsourcing IT requirements of Commonwealth departments and agencies.

3.36 The subsequent report, *Contracting out of government services—First report: Information technology*, highlighted the concerns of a number of individuals and organisations. The report noted the remarks of Dr Andy MacDonald, Chief Executive of OGIT, who while acknowledging that IT outsourcing required great care if it was to yield the desired results, seemed complacent in the belief that the Commonwealth would succeed where others had not. The report observed:

Studies of outsourcings that had failed to meet their objectives were dismissed as reflecting the relative inexperience of the early days of

30 AIIA Position Paper, 'Outsourcing of Information Technology', 29 October 1997.

31 Deloitte & Touche Consulting Group, *Information Technology Outsourcing Survey*, A Comprehensive Analysis of IT Outsourcing in Australia, version 3.1, November 1997.

32 Dr J. W. Houghton, 'Targeting IT Activities for Outsourcing', *Policy Research Paper no. 31*, Centre for International Research on Communication and Information Technologies, RMIT, October 1992, pp. 26–9. See also 'Outsourcing of IT Moves Slowly', *Directions in Government*, December 1992, pp. 28–9; 'Hurdles in Outsourcing Policy', *Directions in Government*, June 1993, pp. 22–3; Mary C. Lacity, Leslie P. Willcocks and David F. Feeny, 'IT Outsourcing: Maximise Flexibility and Control', *Harvard Business Review*, May–June 1995, pp. 84–93.

contracting out or as little more than useful additions to the body of knowledge of the subject.³³

3.37 Evidence presented to the inquiry showed that some Government agencies were well aware that worldwide experience with outsourcing demonstrated mixed success. Treasury submitted that ‘Outsourcing poses major business and management risks without, in all cases, certain financial gains’. The Department of Social Security acknowledged that the scale of outsourcing proposed was ‘unprecedented and that there are numerous studies of less adventurous outsourcing exercises with very low success rates. These studies show that if we can achieve “best practice” in outsourcing we may still have a 50 per cent failure rate.’ According to the Committee’s report, the consequence of failure extended far beyond failure to meet savings targets and included significant losses and breakdown of programs.³⁴

3.38 Aware of the challenges ahead, agencies also expressed concerns to the 1997 Committee about the shortage of personnel within the APS ‘skilled in the development of outsourcing tenders and contracts’ and in contract management.³⁵

3.39 The report reviewed the literature on IT outsourcing which presented a broad range of findings. It concluded:

It is clear that there are examples where some of the objectives sought have been achieved: costs have been cut; services improved; agencies freed to concentrate on their core business; more flexible and responsive IT services put in place; employment stimulated and industry development encouraged. Equally one can point to examples where outsourcing has not delivered the predicted outcomes, presenting agencies with significant problems and costs in finding an alternative supplier or re-establishing an in-house service. A balanced review of the published analyses of outsourcing supports a cautious approach to this issue and a recognition that it is only one of a number of alternatives which agencies may wish to pursue in seeking to reduce costs or improve efficiency.³⁶

3.40 The message coming out of the Committee’s inquiry, the Deloitte survey and independent surveys and studies at that time, was that caution was needed in implementing the Initiative if the potentially significant benefits were to be realised. The report did not make any recommendations and the Government made no formal response to its findings.

33 Finance and Public Administration References Committee, *Contracting out of Government Services—First Report: Information Technology*, November 1997, p. 17.

34 *ibid.*, p. 18.

35 *ibid.*

36 *ibid.*, p. 3.

Unrealistic objectives and timeframes

3.41 In December 1997, the Minister for Finance and Administration announced a timetable and framework for the ongoing implementation of the Initiative. It was anticipated that over the following twelve months, in addition to Cluster 3, the Government would be releasing four mainframe clusters and six mid-range and desk top clusters.³⁷

3.42 This timeframe was to prove unrealistic. Computer Sciences Corporation (CSC) was selected as the preferred tenderer for the Cluster 3 contract in March 1998. This was the first contract to be awarded under the Initiative.³⁸ In February 1998, the Government released the RFT for the Department of Employment, Education and Youth Affairs (DEETYA) and Employment National (EN). The Government had given industry preliminary notification of the release of this RFT three weeks earlier. The Government looked forward to receiving ‘innovative bids which meet the Government’s cost savings objectives whilst helping to develop the Australian IT&T industry’.³⁹

3.43 Four months later, however, the Government announced that the tender process was being discontinued. Tenders closed on 14 April 1998 but only one tender had been received. The Government announced that following an evaluation process, the Commonwealth had exercised its right not to award a contract under this RFT. It explained that the tender process had been discontinued because ‘no bid was received that offered the Commonwealth an acceptable competitive solution’.⁴⁰

3.44 Despite this early setback to the implementation of the Initiative and the warnings issued, the Government remained determined to pursue its IT outsourcing program within an unrealistic timeframe.

3.45 The Minister restated the Government’s position:

Through its whole-of-government IT Infrastructure Outsourcing Initiative, the Government is committed to achieving optimal savings for the Australian taxpayer, substantial and sustainable development of the

37 Media Release, Minister for Finance and Administration, the Hon John Fahey, ‘IT Infrastructure Outsourcing—Implementation Timetable’, No. 87/97, 22 December 1997; Media Release, Minister for Finance and Administration, the Hon John Fahey, ‘Government IT Outsourcing of Information Technology Infrastructure’, No. 16/97, 25 April 1997.

38 Joint Media Release, Minister for Communications, Information Technology and the Arts, Senator the Hon Richard Alston and the Minister for Finance and Administration, the Hon John Fahey, ‘Small Australian Firms Reap Benefits of I.T. Outsourcing’, No. 36/99, 6 August 1999. The contract was valued at \$160 million.

39 Media Release, Minister for Finance and Administration, the Hon John Fahey, ‘Government IT Infrastructure Outsourcing: release of Department of Employment, Education, Training and Youth Affairs (DEETYA)/Employment National (EN) Request for Tender’, No. 7/98, 20 February 1998.

40 Media Release, Minister for Finance and Administration, the Hon John Fahey, ‘IT Infrastructure Outsourcing discontinuation of DEETYA/EN Request for Tender’, No. 54/98, 11 June 1998.

Australian IT industry both within Australia and internationally, and to assisting regional development and creating jobs through the competitive outsourcing of Commonwealth IT infrastructure requirements. To secure this business, vendors must propose competitive, innovative and viable solutions that deliver substantial savings and commercially sensible and sustainable industry development proposal to which they must be prepared to commit contractually.⁴¹

3.46 Other significant developments in 1998 were the release of the RFT for the supply of non-mainframe IT services to the Group 5 agencies; the release of the RFT for the provision of IT&T services to the ATO; and finally, the November release of the RFT for the Health Group.⁴²

3.47 By October 1998, the Strategic Adviser, Shaw Pittman Potts & Trowbridge (Shaw Pittman), advised OASITO that the timetable for implementation would outstrip industry's ability to bid competitively.⁴³ A revised implementation schedule extending the completion date for the Initiative was endorsed in December 1998. At this point, OASITO informed the Minister for Finance and Administration of emerging problems and advised that there was 'a need for greater clarity as to the underlying intent of the Initiative, as well as the respective roles to be played by OASITO and the agencies involved in each tender'. In response, the Minister issued revised guidelines regarding the respective roles of OASITO and agencies, and the coordination and management role of OASITO was strengthened and clarified in some areas, including the role of financial evaluation.⁴⁴

3.48 At the close of the year, the Prime Minister reaffirmed the Government's outsourcing policy for the APS in a letter, dated December 1998, to all portfolio ministers. It stated:

41 *ibid.* As at 30 June 2000, the Department of Education, Training and Youth Affairs (formerly DEETYA) and the DEWRSB formed part of Group 11, which was near completion of RFT documentation with release expected in the third quarter of 2000 (see *OASITO Annual Report 1999-2000*, p. 28). In response to the Humphry Review, the Government agreed with the recommendation that Group 11 should not proceed until the Chief Executives of each agency were satisfied that the implementation risks have been adequately addressed. See Media Release, the Hon John Fahey, 'Review of the Implementation of the Whole-of-Government Information Technology Outsourcing Initiative', No. 01/01, 12 January 2001.

42 Media Release, Minister for Finance and Administration, the Hon John Fahey, 'IT Infrastructure Outsourcing Initiative; Group 5—Request for Tender', No. 49/98, 28 May 1998; Media Release, Minister for Finance and Administration, the Hon John Fahey, 'Government IT Infrastructure outsourcing: release of ATO Request for Tender', No. 75/98, 4 August 1998.

Agencies comprising Group 5 included the Australian Competition and Consumer Commission, Department of Communications, Information Technology and the Arts (DOCITA), Department of Industry, Science and Resources (DISR), Department of Prime Minister and Cabinet (PM&C) and Department of Transport and Regional Services (DTRS).

43 ANAO, *Implementation of Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative*, Audit Report No. 9 2000-2001, p. 55.

44 *ibid.*, p. 43.

As a general government policy, outsourcing of IT infrastructure services should proceed unless there is a compelling business case on a whole-of-government basis for not doing so. I have attached a high importance to the early implementation of this Initiative.⁴⁵

3.49 In the Committee's view this directive to establish a business case for IT outsourcing on a whole-of-government basis was an implicit acknowledgment by the Government that the cost savings on an agency by agency basis was simply not working and that, indeed, some agencies were not saving money.

3.50 In March 1999, EDS Australia was selected as the preferred tenderer for the ATO.⁴⁶ Later that month the Government also announced that the Australian company, Advantra Pty Ltd, had been chosen to provide IT services to the agencies in Group 5.⁴⁷

3.51 By April 1999, the Minister was pleased to summarise the achievements of the IT outsourcing program. He told an audience from the AIIA:

We have saved money and promoted cost-effective IT services to agencies and departments.

Our policy has acted as a catalyst, attracting international operations to Australia; fostering relationships between the public and private sectors; encouraging SMEs to develop an international focus; and building internationally competitive capabilities within local companies.

...

So far, three tenders have been let—resulting in three different companies providing IT outsourcing services to the Commonwealth and consequently opening up opportunities for a diverse range of suppliers.⁴⁸

3.52 Despite the Government's encouraging words, the implementation program was slipping further behind schedule. By December 1999, only four of the originally planned eleven tenders had been completed and by March the following year only one had been added to this list.⁴⁹ Concerns continued to be expressed about the Initiative,

45 DOFA, submission no. 3 and *OASITO Annual Report 1998-99*, p. 31.

46 Media Release, Minister for Finance and Administration, the Hon John Fahey and Minister for Communications, Information Technology and the Arts, Senator the Hon Richard Alston, 'Australian Company Wins Major IT Contract', No. 14/99, 12 March 1999.

47 Media Release, Minister for Finance and Administration, the Hon John Fahey and Minister for Communications, Information Technology and the Arts, Senator the Hon Richard Alston, 'IT Project Saves \$100 Million outsourcing: release of DEETYA/Employment National Request for Tender', No. 18/99, 26 March 1999. See Figure I.

48 Media Release, Minister for Finance and Administration, the Hon John Fahey, Speech to the Australian Information Industry Association (NSW), Bradleys Head, Sydney, 22 April 1999.

49 Computer Sciences Corporation (CSC) had been awarded the contract for Cluster 3 (signed 31 March 1998); Electronic Data Systems (EDS) for the ATO (signed 31 March 1999); Advantra for Group 5

particularly by staff in some of the science agencies that feared their IT services would be degraded if outsourced.

3.53 In responding to these concerns, the Minister for Finance and Administration stated that the Government was committed to ensure that there would be no diminution in the provision of IT Infrastructure or services for the science agencies participating in the Group 9 process. He dismissed claims that outsourcing would compromise CSIRO's capacity for scientific research, stating:

This claim is completely false and constitutes nothing more than an attempt to sow the seeds of fear in the staff of CSIRO and other science agencies. The fact is that CSIRO's research capacity will not be impaired as a result of outsourcing. This is because the Initiative seeks only to outsource 'off the shelf' IT infrastructure. Outsourcing will not involve the transfer of responsibility for specialist research systems to the outsourcer.

...

The IT infrastructure Initiative will allow our world class scientists to concentrate on their particular fields of endeavour instead of being distracted by having to undertake basic IT infrastructure tasks.⁵⁰

3.54 The Minister, however, did not allay their concerns. Science agencies became increasingly agitated in their opposition to the Initiative and on the 29 August 2000 the CSIRO staff association organised a national day of action to demonstrate against the Initiative. The Minister again offered reassurance that there would be no degradation of IT services. He acknowledged that outsourcing the IT infrastructure of science agencies may require some unique responses.⁵¹

The Auditor-General's Report

3.55 On 6 September 2000 the Auditor-General's report on the Initiative was tabled in parliament. The report concluded a performance audit commenced in March 1999 which focused on the implementation by Commonwealth entities of the Government's Initiative.⁵²

3.56 As an overview, the report explained that public and private sector organisations in Australia had been increasingly outsourcing non-core business

(signed 14 April 1999); IBM GSA for the Health Group (signed 6 December 1999) and Ipex ITG for Group 8 (signed 9 March 2000).

50 Media Release, Minister for Finance and Administration, the Hon John Fahey, 'IT Outsourcing for Science Agencies', No. 44/00, 8 August 2000.

51 Media Release, Minister for Finance and Administration, the Hon John Fahey and the Minister for Industry, Science & Resources, Senator the Hon Nick Minchin, 'IT Outsourcing for Science Agencies', No. 29/2000, 49/2000.

52 ANAO, *Implementation of Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative*, Audit Report No. 9 2000-2001.

activities as a means of improving efficiency. It acknowledged that the outsourcing of IT services could provide a range of benefits that included cost savings, accessing new technical solutions, enhanced flexibility and increased access to specialist skills.⁵³

3.57 The report also expressed a cautionary note that such a process needed to be well-planned and prudently managed. It stated that the process requires an informed analysis of the basis on which outsourcing is undertaken; a clear understanding of the business implications of outsourcing; well managed evaluation and selection processes; productive contractual relationships; and the maintenance of effective long-term control through appropriate exit strategies.

3.58 The Government issued a whole-of-government response that, in the main, agreed with the majority of the recommendations in the report.⁵⁴ The Committee highlights a selection of the Auditor-General's recommendations in order to convey the general thrust of the ANAO findings. A summary of the Government's response is provided to illustrate the spirit in which the Government received the advice.

- *Recommendation 3 (b)*—Relevant agencies develop an evaluation strategy for consistently assessing and reporting outcomes achieved under IT outsourcing arrangements from the perspective of agency groups and individual agencies.

The government agreed with this recommendation adding that OASITO would 'continue to explore opportunities to further enhance its existing lessons learned processes through improved clarity in documenting these processes'.

- *Recommendation 5*—In future IT outsourcing tenders, relevant agencies ensure that a comprehensive brief confirming the contractual arrangements negotiated with the preferred tenderer, including updated analysis of cost savings, industry development commitments and satisfaction of evaluation criteria, is provided to the relevant Ministers in support of any recommendation to enter into final contract.

The Government response suggested that ANAO acknowledge that, in the two cases in issue, the basis of the outsourcing business decision did not change between the selection of each preferred tenderer and contract signing. The Government agreed with the recommendation.

- *Recommendation 8*—For future IT outsourcing tenders, relevant agencies enhance transparency and accountability of decision making in the tender process by incorporating into the evaluation planning process consideration of the means by which tenderers will be ranked in terms of the best combination of value for money/cost savings and industry development criteria.

53 *ibid.*, p. 50.

54 Media Release, Minister for Finance and Administration, the Hon John Fahey, 'ANAO Report into IT Outsourcing', No. 48/00, 6 September 2000.

The Government disagreed with this recommendation. It stated that the evaluation planning process is clear and takes full account of government policy objectives.

- *Recommendation 9*—In future IT outsourcing tenders, relevant agencies consider the release of a draft RFT for industry comment to assist in the development of IT offerings that will maximise competitiveness and support the achievement of cost-effective outcomes.

In agreeing to this recommendation, the Government stated that OASITO and Group agencies would continue to determine for each tender process, where the release of draft tender material in advance of the RFT release was warranted. It noted that this decision had been taken in each tender process run under the IT Initiative to date.

- *Recommendation 10*—In future IT outsourcing tenders, relevant agencies enhance the transparency and accountability of decision making by documenting explicit consideration of the extent to which tenderers comply with all evaluation criteria and preconditions identified in the RFT.

The Government agreed with this recommendation noting that all tender processes have considered the extent which tenderers comply with all evaluation criteria.

- *Recommendation 16*—To assist in the verification of external service providers' reported performance, their compliance with contractual obligations, and as an aid to effective contract and resource management, relevant agencies consider the formulation and implementation of an independent review and evaluation program as soon as practicable in the term of an IT outsourcing arrangement.

The Government agreed with this recommendation and asserted that 'Agencies will continue to develop mechanisms and processes to ensure effective contract management, having regard to the costs and anticipated benefits of introducing additional layers of review.

- *Recommendation 20 (c)*—Consider including in the transition milestones and deliverables required to be met in order for the external service provider to receive full payment of transition fees, a requirement that the External Service Provider (ESP) demonstrate adequate capacity to provide invoicing that will satisfy the special threshold requirements.⁵⁵

The Government agreed that this requirement should be considered.⁵⁶

55 ANAO, *Implementation of Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative*, Audit Report No. 9 2000–2001, pp. 28–35.

56 Media Release, Minister for Finance and Administration, the Hon John Fahey, 'ANAO Report into IT Outsourcing', No. 48/00, 6 September 2000.

3.59 In agreeing with the majority of the above recommendations, the Government clearly indicated that it believed that many of the measures were already in place or were being addressed. Indeed, it believed that many of the recommendations would ‘complement the extensive continuous improvement processes of OASITO’.⁵⁷ In effect, the Government disregarded the substance of the recommendations by brushing aside any notion that there were any serious problems with the implementation of its IT outsourcing policy. It was critical of the report which it found:

provides only a limited view that does not reflect the overall quality and rigour of the tender processes and the implementation/transition efforts undertaken for each service agreement. In relation to contract management, the Report focuses heavily on process and documentation and, consequently, encourages an overly process-oriented and literal approach to contract management that may not produce the best service delivery and value for money outcomes for the Commonwealth. It also fails to provide a balanced assessment of the effectiveness of the various processes undertaken.⁵⁸

3.60 The Committee believes that the Government should have reassessed its performance objectively in the light of the ANAO recommendations rather than defend its Initiative with a blanket assertion of the ‘overall quality and rigour’ of the tender processes. The ANAO report provided an ideal opportunity for the Government to take stock and refine its approach. The Initiative was over three years old and the time was ripe for the Government to conduct a genuine, searching and open review of the Initiative, to re-evaluate its tendering practices and to ensure that reference documents were updated for guidance in future transactions.

3.61 During the course of this inquiry, sufficient evidence has come to light to suggest that the Government’s assertions about the quality and rigour of processes are unfounded.⁵⁹ The complacency that the Committee detected in the administration of the Initiative during its inquiry in 1997 was again evident in the Government’s response to the ANAO performance audit.

3.62 Overall, the Committee observes there is no evidence that the Government has countenanced any revisions to the processes criticised. In the spirit and practice of continuous improvement, the Committee expected that weaknesses identified by ANAO would have prompted a serious internal re-evaluation with a view to improve the effectiveness of the IT outsourcing program, to increase market competitiveness, and to minimise any risks to the integrity of the processes. There is no evidence that DOFA or the Government considered the Auditor-General’s findings in this light.

57 *ibid.*

58 ANAO, *Implementation of Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative*, Audit Report No. 9 2000–2001, p. 27.

59 The number of examples cited in chapter 4 regarding lapses in tender procedures and the lack of sound record-keeping practices.

3.63 Within a week of the tabling of the ANAO report, the Government announced the release of a RFT for the provision of IT&T services to the Group 11 agencies.⁶⁰

The Humphry Review

3.64 At the time the ANAO report became public, the Government announced that it remained committed to the implementation of the Initiative which, it argued, provided ‘a structured and strategic approach to ensure Commonwealth agencies’ IT requirements can be met as the Commonwealth moves into the twenty first century’.⁶¹

3.65 Not surprisingly, criticism of the Government’s IT outsourcing program continued, now strengthened by the ANAO’s findings. The project was clearly well behind schedule, predicted cost savings were not being realised and some staff organisations and unions were vocal in denouncing the IT outsourcing policy.⁶² Scientists at CSIRO, in particular, were continuing their high-profile campaign opposing the Initiative.⁶³

3.66 Without reference to private and public sector misgivings, on 7 November 2000 the Minister announced the establishment of what he described as an independent review into aspects of the whole-of-government IT outsourcing.⁶⁴ He stated that this review, to be conducted by Mr Richard Humphry AO, was in keeping with the ‘continuous improvement processes’ of OASITO which was responsible for managing the Initiative.⁶⁵

3.67 In announcing this independent review, the Government restated its commitment to the completion of the Initiative which it asserted ‘has demonstrated a capacity to deliver value for money for Australian taxpayers, quality and service of IT infrastructure and substantial industry development outcomes for the Australian IT&T industry, particularly Australian SMEs’. The Government believed ‘the Review could only strengthen the outcomes achievable in the remaining tender processes’.⁶⁶

3.68 It appears to the Committee that the Government, by so strongly defending its policy at this time, betrayed its blinkered approach to IT outsourcing. Clearly, before the review was even under way the Government had already determined that the

60 Media Release, Minister for Finance and Administration, the Hon John Fahey, ‘Group 11—Release of a Request for Tender for the Provision of IT&T Services’, No. 50/00, 12 September 2000.

61 Media Release, Minister for Finance and Administration, the Hon John Fahey, ‘ANAO Report into IT Outsourcing’, No. 48/00, 6 September 2000.

62 For example see transcript ‘7.30 Report’, ABC Television, 7 September 2000; ‘Background Briefing’ ‘Outsourcing’, ABC Radio National, 17 December 2000.

63 For example, see Tom Skotnicki, ‘Outsourcing: All Systems Go’, *Business Review Weekly*, vol. 22 (43), 3 November 2000.

64 OASITO, submission no. 4.

65 See Media Statement, Minister for Finance and Administration, the Hon John Fahey MP, ‘IT Outsourcing Initiative—Review of Implementation Risks’, No. 63/00, 7 November 2000.

66 *ibid.*

Initiative had delivered the benefits that were expected. For the Government, the underlying ideology of the Initiative was beyond question—it was to remain intact. The focus of the review was to identify and assess the implementation risks to be managed when making the transition from in-house IT operations to an outsourced environment managed by an ESP.

3.69 The Humphry Review was premised on the notion that it would make recommendations that would build on and improve the existing policy. Mr Humphry was certainly placed on a short leash and could not stray beyond the confines of the Review's limited terms of reference. His work was also constrained by his timeframe.

3.70 This important review was conducted over a period of only six weeks and in January 2001 the Government released Mr Humphry's report. It made ten recommendations that were in the main accepted by the Government. Mr Humphry found that three clear and consistent messages came out of his inquiry. These were:

- While it is always the prerogative of Government to set central policies, the responsibility for implementation and management lies with agency Chief Executives and Boards in accordance with the legislative requirements of the *Financial Management and Accountability Act 1997*, the *Commonwealth Authorities and Companies Act 1997* and the *Public Service Act 1999*.
- A key response to the perceived unwillingness of agencies to implement the Initiative was the adoption of a compulsory, centralised approach under the direction of OASITO. It was felt that an agent of change—like OASITO—was needed, at the beginning, to help deliver the Initiative's goals.
- Priority has been given to executing outsourced contracts without adequate regard to the highly sensitive risks and complex processes of transition and the ongoing management of the outsourced business arrangement.⁶⁷

3.71 Mr Humphry concluded that the 'Initiative's approach demonstrates the tension between the centralised approach to implementation and the legislated responsibilities of agency heads or governing boards'.⁶⁸

3.72 A dominant theme underlying the first block of recommendations in the report and embodied in recommendation 5 was that implementation of the Initiative should proceed but that responsibility for this be transferred from OASITO to individual agencies.⁶⁹

67 Richard Humphry, *Review of the Whole of Government Information Technology Outsourcing Initiative*, Commonwealth of Australia, December 2000, p. 9.

68 *ibid.*

69 Recommendation 5 reads 'although OASITO has been an important and necessary catalyst for change and moving the Initiative from a point of inertia to realisation, it is no longer appropriate for them to continue with their centrally managed role. However, OASITO has significant experience in the formal process of government contracting for outsourcing and should continue to be available to agency heads as a reference point for procedural aspects', *ibid.*, p. 7.

3.73 According to the Minister for Finance and Administration, the Review endorsed the Government's policy to outsource the Commonwealth's IT infrastructure requirements. He suggested that the Review found that there was now a general acceptance in APS management that this policy can provide an effective solution for broader access to technical expertise and technology support.⁷⁰

3.74 Accordingly, the implementation strategy was modified on 12 January 2001 when the Minister for Finance and Administration released the report of the Humphry Review and the Government's response. The Government announced that it would continue to set the overall direction of IT outsourcing and retain its current objectives which would require Commonwealth agencies to obtain value for money (including savings) and maximise Australian industry development outcomes. It accepted the recommendation that responsibility for implementing the Government's IT outsourcing policy be devolved to agency heads in accordance with the culture of performance and accountability incorporated in the legislation.⁷¹ The Department of Communications, Information Technology and the Arts (DOCITA) would retain responsibility for the industry development component of the Initiative.⁷²

3.75 From now on, agency heads would be held directly accountable for achieving the objectives of the Initiative 'within a reasonable timeframe, grouping together wherever possible to establish the economies of scale required to maximise outcomes'.⁷³ In the Minister's words:

All that's occurred as a result of the Humphry report is that the actual people who will now have the responsibility are the agencies themselves.

The onus is fairly and squarely on their head.⁷⁴

3.76 The Committee is pleased that the Government finally accepted that the centrally controlled and imposed 'cluster' model used to implement its IT outsourcing policy was simply not working. It believes that the Humphry Review was quite right to highlight this problem and the Committee supports the move to devolve responsibility for IT outsourcing to the respective heads of the Commonwealth agencies. It regrets, however, that the Government failed to act more quickly and decisively to address this matter.

70 Media Statement, the Hon John Fahey, Minister for Finance and Administration, 'Review of the Implementation of the Whole of Government Information Technology Outsourcing Initiative', No. 01/01, 12 January 2001.

71 DOFA, submission no. 3.

72 OASITO, submission no. 4.

73 Media Statement, the Hon John Fahey, Minister for Finance and Administration, 'Review of the Implementation of the Whole of Government Information Technology Outsourcing Initiative', No. 01/01, 12 January 2001.

74 The Minister for Finance and Administration, transcript, '7.30 Report', ABC Television, 15 January 2001.

3.77 It further regrets that the Government did not undertake a thorough review and re-evaluation of its IT policy, its financial methodology and other aspects of the process criticised by the Auditor-General's report. The Government's dismissive approach to criticism indicated that while it claimed that a process of continuous improvement was in place, such a process was, in fact, absent.

3.78 The Committee believes that the concern expressed at the outset of the Initiative about the tension that exists between the prerogative of government to set central policies and the responsibility of individual agencies to implement policies should have been addressed. These early concerns were borne out by experience. This difficult matter was raised in 1995, mentioned again in the Humphry Review and remains unresolved today.

3.79 The Committee notes that the Humphry Review found there was a need for agencies to receive support from a separate organisation in managing the transition and implementation of IT outsourcing. The Review stated:

It is essential that such a supporting body adopts the nature of a service organisation, acting as a central repository of skill and knowledge—accessible to agency heads or governing bodies in implementing IT outsourcing.

3.80 Mr Humphry recommended that consideration should be given to the portfolio location of such a body. He suggested that such a body could draw on OASITO's experience.

3.81 The Government agreed with qualification to the recommendation. It maintained that agency heads had always been responsible for managing the transition to IT outsourcing and announced:

The government will establish a body to advise agencies, at their request and on a fee for service basis, in managing the transition of IT functions to the private sector. This body will reside in the Department of Finance and Administration.⁷⁵

3.82 The Committee found this response contributed nothing toward clarifying or resolving the difficult policy matter of how government policy on IT outsourcing might best be managed in a devolved public service environment. In brief, it found the response both vague and superficial and looks more closely at the possibility of a genuine resolution in chapter 11. Such a resolution would ensure that agency heads are supported in the free exercise of their authority in accordance with legislation and, when doing so, have sufficient guidance to effectively protect the Commonwealth's interests.

75 Media Statement, the Hon John Fahey, Minister for Finance and Administration, 'Review of the Implementation of the Whole of Government Information Technology Outsourcing Initiative', No. 01/01, 12 January 2001.

3.83 Furthermore, although the Committee welcomes the change in implementation, it is deeply concerned that, while OASITO's role came under the full glare of the Review's spot light, other problems raised by Mr Humphry have been obscured. In particular, the Committee refers to the Review's finding that inadequate regard had been given to 'the highly sensitive risks and complex processes of transition and the ongoing management of the outsourced business arrangement'.⁷⁶

3.84 Thus, in its response to the Review, the Government fixed its attention on this one matter of devolution as the panacea for the Initiative's problems, and then only partially addressed this complex matter. The Committee is very concerned that having latched onto the single issue of OASITO's central role in implementing the Initiative, the Government has ignored other critical issues, and indeed may have papered over some very significant problems.

3.85 Mr Humphry identified, in particular, some fundamental aspects of the outsourcing process and its outcomes that he deemed unsatisfactory. He argued that:

There has been considerable concern about the way in which the Initiative has been implemented to date. There has been inadequate consideration given to the full range of implementation risks, especially with regard to transition and the ongoing stability of agencies' IT environment. There has been insufficient focus on the managerial and operational aspects of implementation, for the sake of settling legal and contractual arrangements according to a pre-determined timetable.⁷⁷

3.86 He concluded that the risks associated with transition from in-house provision to an ESP requires careful planning and close management. Experts and commentators have been making these same observations for years, and not just in Australia. Recognising a problem is one thing, setting it right is another.

3.87 The Government must take measures to ensure that careful planning and close management become established features of the Commonwealth's IT outsourcing process. To make OASITO the scapegoat and to suggest that its removal from the IT outsourcing scene will solve these problems is simplistic.

Summary

3.88 In summary, since 1997 when the proposal was brought forward, organisations in both the private and public sector have been urging caution. Yet the Government seems unwilling to acknowledge the warning signs and appears determined to push on with existing policy and approach regardless. Ignoring ANAO findings, the Government has been issuing statements espousing the policy's merits and benefits. The Committee argues that this blindspot needs to be removed.

76 Richard Humphry, *Review of the Whole of Government Information Technology Outsourcing Initiative*, Commonwealth of Australia, December 2000, p. 9.

77 *ibid.*, p. 30.

3.89 Elements of the policy that have caused particular apprehension and remain a source of concern include:

- the tension between a central agency that directs the outsourcing process and the right of agencies to retain control of decisions for which agency heads will be held accountable;
- the absence of genuine engagement with constructive criticism which betrays a lack of commitment to the process of continuous improvement; and
- the need for agencies to allow adequate time to plan ahead for the tendering and contracting of IT infrastructure in a devolved environment.

3.90 In the following section the Committee, building on the previous reports and relying heavily on the work of ANAO, examines in detail the tendering process and contract management with a view to drawing the Government's attention to the strengths and weaknesses of the Initiative.

The following chapter deals with the Commonwealth's IT outsourcing initiative.

The figure below provides a summary of the tenders conducted and contracts entered into under the OASITO managed process.

Figure 1: Tenders conducted and contracts entered into under OASITO

Agencies	Key dates	Contractor	Contract Value
<u>Cluster 3</u> Department of Immigration and Multicultural Affairs; DOFA MAPS; Australian Electoral Commission; Australian Government Analytical Laboratories; Australian Surveying & Land Info Group; Ionospheric Prediction Services; IP Australia; National Crime Authority (NCA)	RFT released 4 Nov 1997 Contract signed 31 March 1998. Handover of services on 1 July 1998 NCA withdrew from cluster April 1999.	CSC Australia Pty Ltd	\$160m
DEETYA/Employment National	RFT released 23 Feb 1998 Process discontinued June 1998	-	-
Australian Taxation Office	RFT released 7 Aug 1998 Contract signed 31 March 1999 Handover of services on 24 June 1999	EDS Australia	\$490m
<u>Group 5</u> Department of the Prime Minister & Cabinet; Department of Communications, Information Technology and the Arts; Department of Transport and Regional Services; Department of Industry Science	RFT released 1 June 1998 Contract signed on 14 April 1999 Handover of services on 1 July 1999	Advantra Pty Ltd	\$90m

Agencies	Key dates	Contractor	Contract Value
and Resources; and Australian Competition and Consumer Commission			
<u>Health Group</u> Department of Health and Aged Care; Health Insurance Commission; and Medibank Private Limited	RFT released 30 Nov 1998 Contract signed 6 December 1999 Handover of services on various dates	IBM GSA	\$351m
<u>Group 8</u> Environment Australia; Agriculture, Fisheries and Forestry Australia; Civil Aviation and Safety Authority; Aust Communication Authority; Public Service and Merit Protection Commission; Aboriginal and Torres Strait Islander Commission; and Aust Broadcasting Authority	RFT released 12 March 1999 Contract signed 9 March 2000 Handover of services on 26 June 2000	Ipex ITG.	\$130m
<u>Group 1</u> Centrelink; and Department of Family and Community Services	RFP released April 1999 RFT released to pre-qualified tenderers 15 Dec 1999 Tenders closed 13 April 2000 Process discontinued 31 January 2001	-	-
<u>Group 11</u> Department of Employment Workplace Relations & Small Business; Department of Education Training & Youth Affairs;	RFT released 12 September 2000 ASIC, Treasury and NLA withdrew from the tender process in	-	-

Agencies	Key dates	Contractor	Contract Value
Treasury; Australian Securities & Investment Commission; and National Library of Australia	January 2001		
<u>Small Agencies</u> Various	OASITO released in June 1998 an information kit to small agencies (ie those with less than 300 desktops) which provided guidance to those agencies in conducting their own tender processes	-	-

OASITO was also involved in the preliminary stages of outsourcing for agencies in Groups, 9, 10 and Department of Defence and in arrangements put in place for Group 6

Source: OASITO, submission no. 4.

