

## CHAPTER NINE

### INDUSTRY DEVELOPMENT

#### Introduction

9.1 The Committee's first report on information technology (IT) emphasised that its principal concern with regard to the impact of information technology outsourcing on Australian industry was how to ensure that local industry, especially small to medium enterprises (SMEs), had a genuine opportunity to participate in the supply of outsourcing services.<sup>1</sup> The report was tabled early in the IT outsourcing process and the final request for tender (RFT) for Cluster 3 was received just prior to the report's tabling. The Committee therefore was not able to receive feedback from industry groups on their experiences under the Initiative. Thus it welcomes the opportunity in this inquiry to revisit this important aspect of IT outsourcing.

9.2 The Australian National Audit Office (ANAO) report on the Initiative made some useful observations on the industry development (ID) evaluation framework and tender outcomes, which the Committee has taken into consideration in this report. Of note is the report's observation that since the first ID framework was established for IT outsourcing in 1997, the Department of Communications, Information Technology and the Arts (DOCITA) has improved its procedures and practices for monitoring ID commitments and outcomes. It developed, for example, in March 2000 a 'best practice' contract monitoring procedures manual for use by the department in monitoring ID commitments. The manual followed a review of existing practices and procedures by DOCITA's internal auditors (KPMG) that DOCITA commissioned following discussions with ANAO in November 1999. The discussions related to the Commonwealth's level of assurance with regard to ID reporting by external service providers (ESPs).<sup>2</sup>

9.3 The ANAO report, however, did not make any recommendations specifically on industry development. Chapter four of the report focuses on the combination of cost savings and ID objectives in the evaluation process for the major tenders that fell within the audit's scope of inquiry. Recommendation 8 states, in part, that for future IT outsourcing tenders agencies should incorporate into the evaluation 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'.<sup>3</sup> The

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

2 Australian National Audit Office (ANAO), *Implementation of Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative*, Audit Report No. 9 2000–2001, pp. 114–15.

3 *ibid.*, p. 30 (emphasis in original). Significantly, the Department of Finance and Administration (DOFA) whole-of-government response disagreed with this recommendation. In its response, ANAO commented that the recommendation 'is directed at supporting the establishment of an appropriate framework for

argument is that this will help agencies enhance the transparency and accountability of decision making in the tender process.

9.4 While the Committee does not wish to duplicate the Auditor-General's findings, the Committee has chosen to revisit some of these important issues because they raise questions about how, and by whom, the ID component of IT outsourcing is going to be managed under the new ID framework that was launched by the Government on 23 April 2001.<sup>4</sup>

## **Background**

9.5 There appears to be consensus among Australia's major IT players that government IT outsourcing can play an important role in the development of Australia's Information Technology and Telecommunications (IT&T) sector. Where opinions are likely to differ is on the question of which ID framework is best able to respond to the complex and fluid IT environment. Industry bodies such as the Australian Information Industry Association (AIIA), the Canberra Business Council (CBC) and the Information Industries Development Board (IIDB), advised the Committee of the potential benefits to industry of a government outsourcing initiative. But industry also raised a number of concerns with the implementation of the Initiative, and strongly supported the need for a new strategic approach to ID.<sup>5</sup> A number of agencies also raised with the Committee some concerns regarding their lack of involvement in the outsourcing process and the evaluation and monitoring of ID outcomes.

9.6 This chapter deals specifically with the ID component of IT outsourcing, past and present. The first sections focus on the ID framework that was established for the Initiative in 1997, the process used to evaluate ID tender proposals, and the role of agencies in monitoring industry outcomes in relation to the commitments made by companies in each IT contract. Also addressed are some areas of concern with the original ID framework that were raised by industry groups and several agencies. The Committee believes that these concerns must be addressed and taken into account in the formulation and implementation of the new ID framework.

9.7 While acknowledging the potential for IT outsourcing to facilitate the expansion of Australia's IT sector, the Committee wishes to draw attention to important weaknesses in the ID component of the Initiative. These include an absence of benchmarking against which to assess ID commitments, a lack of clarity in the roles and responsibilities of key agencies, and significant gaps in the procedures

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determining the basis on which the successful tenderer would be selected before the tender documentation is issued, and for devising suitable evaluation criteria that would provide a sound methodology for distinguishing between tenderers on that basis' (ibid., p. 104).

4 Department of Communications, Information Technology and the Arts (DOCITA), *IT Outsourcing and ICT Industry Development Framework*, April 2001.

5 Australian Information Industry Association (AIIA), submission no. 24; Mr Robey, Information Industry Development Board (IIDB), Committee, *Hansard*, 18 May 2001, pp. 540-554.

established for reporting industry outcomes. The Committee also notes the impact of clustering on the ability of small to medium sized companies, or SMEs, to win government contracts, and the absence of a strategic approach to the development of a local industry with the capacity to meet Australia's future IT needs. It also notes its concern with the current status of IT online communication networks, such as DOCITA's ID Project Register and the National Office for the Information Economy's (NOIE's) Capability Directory, that are supposed to assist industry bodies and agencies in promoting Australia's IT sector.

9.8 The second half of the chapter provides an overview of the current status of the new ID framework that will apply to the devolved IT outsourcing environment in light of the Humphry Review recommendations. It also provides an interim assessment of the extent to which the concerns that industry and agencies have conveyed to the Committee about ID under the Initiative are currently being addressed by the architects of the new ID framework.

### **The ID framework for the Initiative**

9.9 The Government's objectives, requirements and expectations for ID under the Initiative are stated clearly in each of the RFT documents and are included in the Office of Asset Sales and Information Technology Outsourcing's (OASITO's) submission to this inquiry. There are three core ID objectives under the Initiative: support growth in Australian IT&T industries; promote international competitiveness of Australian IT&T industries; and support employment growth and development in regional Australia. The evaluation criteria against which ID plans are assessed are also contained in the RFTs.

9.10 DOCITA also provided the Committee with a copy of the evaluation criteria that was used for Group 1 to illustrate how the industry component of the tender is assessed. It states:

63.1.1 Industry development proposals will be assessed by an evaluation team comprised of DOCITA representatives, consultants to the Commonwealth and an external business panel.

63.1.2 The highest rated industry development proposal will be the proposal that, in the Commonwealth's opinion, offers the most credible and sustained industry development, having regard to the nature and extent of remedies proposed by the Tenderer for non-achievement of those commitments and that is most likely to achieve the Government's objectives and priorities...<sup>6</sup>

9.11 DOCITA advised the Committee that the Office of Government Information Technology (OGIT) undertook at least two phases of ID consultation when the ID framework for the Initiative was being developed. In August 1997, Dr Ian Reinecke

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6 Answer to question on notice, 15 March 2001.

undertook a consultancy for OGIT on ID issues. As part of this process he held discussions with a range of companies and collected views on key aspects of the ID environment in Australia. A second round of consultations was held in October 1997 after the release of a draft RFT document for Cluster 3.<sup>7</sup>

9.12 OASITO's submission provides details on the ID policy, breaking it down into short and long-term objectives. The short-term objectives include leveraging technologies and methodologies from experienced major outsourcing companies to the benefit of Australian SMEs; maximising employment opportunities in the Australian IT&T sector; and maximising the use of Australian goods and services. The long-term objectives include development of a globally competitive Australian IT&T sector; access to international markets for Australian developed IT&T products and services; research and development in Australia's IT&T sector; and skills development across the spectrum of the industry.<sup>8</sup>

9.13 The RFTs contain the mandatory requirement that ID proposals are to be submitted as part of the tender. However, ID requirements are non-specific under the framework. The ID commitments, in other words, are not negotiated between the prime contractors and officers from, for example, DOCITA, but are offered as part of a competitive process presumably in the free market place. This process assumes that contractors are actually maximising what can be achieved locally—an assumption that is not tested by DOCITA. It accepts that ID commitments written into each agreement are the best available in terms of the overall contract.<sup>9</sup>

9.14 Tenderers are nonetheless required to specify their proposed ID commitments relating to the delivery of services under the Services Agreements, which are known as 'in-scope commitments'. Additionally, tenderers are required to provide details of ID initiatives, if any, that do not relate to the performance of the Group Agency Services Agreements, referred to as 'out-of-scope initiatives'. Tenderers are to be specific in describing the initiatives to which they are committed.

9.15 According to DOCITA, there is no mandated percentage for SME involvement in the ID framework agreement. Instead, the ID component of the tender process 'was competitive, with the best overall package of industry development offerings being ranked highest'. DOCITA refers to the Commonwealth Procurement Guidelines which require departments and agencies to source at least 10 per cent of their purchasing from SMEs. According to DOCITA the average SME level across the five contracts let under the Initiative was 30 per cent.<sup>10</sup>

9.16 The RFTs also require tenderers to include contractual sanctions for non-performance, in addition to performance obligations. The ID offerings are to be

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7 *ibid.*

8 Office of Asset Sales and Information Technology Outsourcing (OASITO), submission no. 4.

9 Answer to question on notice, 18 May 2001.

10 *ibid.*

consistent with the company's commercial objectives 'with a strategic fit for their business rather than "cheque book" ID'.<sup>11</sup> The relevant section of the RFT makes it clear that ID proposals are not to increase the overall price of the services to be provided under the contract.<sup>12</sup> Then Executive Director of OASITO, Mr Mike Hutchinson, in responding to a question about the ID requirements for Cluster 3 at an estimates hearing in November 1997, provided the following useful description of the ID requirements for the tenders:

It is mandatory that industry development proposals be submitted. It is mandatory that the tenderer indicates, firstly, the nature of those proposals and, secondly, the extent to which they are prepared to be locked in contractually and the sanctions they are prepared to accept in that contract for any breach of those obligations.

The tenderer will decide what industry development obligations it is prepared to offer the Commonwealth and what industry development steps make commercial sense for it. We will not specify the industry development obligations. However, depending on the nature of the proposals, we may choose to negotiate with the parties to strengthen the commitment to those obligations or flesh them out depending on their nature. But we are seeking innovative industry development proposals from commercial parties, rather than bureaucratic or political industry development obligations that may have no substantive effect.<sup>13</sup>

9.17 There is also a mechanism built into each ID plan to enable contractors to propose variations to the ID plan, reflecting the dynamic nature of the IT industry. According to DOCITA: 'When considering any ID Plan variations, proposals will only be accepted if they provide an equivalent or better industry development outcome. The Commonwealth...may reject variations in which case the ID Plan remains unamended'.<sup>14</sup>

### **Reported ID achievements under the Initiative**

9.18 DOCITA and OASITO have claimed above average industry development results for the prime contractors under three of the IT contracts—Cluster 3, the Australian Taxation Office (ATO) and Group 5. The figures published in OASITO's 1999–2000 annual report, for example, have been repeated on a number of occasions by the Government and have been an issue of debate at several Senate estimates hearings. The annual report claims that the IT contracts include commitments of \$280 million of exports and have generated approximately 400 new jobs in regional Australia. It also claims that 30 per cent of the work under the contracts is carried out

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11 OASITO, submission no. 4.

12 See, for example, request for tender (RFT), Group 1, part 3, section 2.4.3.

13 Finance and Public Administration Legislation Committee, *Hansard*, 24 November 1997, p. 468.

14 DOCITA, submission no. 13.

by SMEs and nearly 75 per cent of goods and services will be of Australian Value Added (AVA) content.<sup>15</sup>

9.19 OASITO informed the Committee that it had received positive feedback from Australian SMEs involved in the Initiative. SMEs apparently are expanding their management skills and building capabilities and experience through direct knowledge transfer agreements and participation in projects that they are incapable of handling on their own.<sup>16</sup> However, the number and names of the companies that have created this positive picture were not made available to the Committee. This information would have been useful given that industry bodies have presented a more qualified view of their experiences with ID outcomes, which is conveyed in a later section.

9.20 According to OASITO, the ID framework has encouraged a number of positive outcomes for Australian SMEs working with multinationals, such as a transfer of skills, technologies, and methodologies; access to business opportunities; and assistance for those Australian companies that might choose to look outside Australia for export opportunities.<sup>17</sup> Furthermore, OASITO claims that as a direct result of the Initiative a significant number of SMEs are providing services to government that are meaningful to the development of their business; leveraging their skills for contracts to governments; and developing Australian reference sites for global opportunities.<sup>18</sup>

9.21 In February 2001 DOCITA released its *IT Outsourcing Initiative 1999–2000 Industry Development Progress Report*, which is the main source of publicly available information on ID outcomes. The report discusses the ID objectives of the Initiative, the overall ID commitments across the five contracts finalised and the actual achievements of the three contractors who provided reports in 1999–2000: Computer Sciences Corporations (CSC) for Cluster 3, Electronic Data Systems (EDS) for the ATO and Advantra for Group 5. The report provides a snap-shot of ‘achievements’ and ‘highlights’ to date:

- SMEs received \$91 million of business related to the contract;
- AVA accounted for \$159 million representing 83 per cent of total services charged;
- total investment of \$33 million and total exports of \$23 million were achieved across a range of out-of-scope initiatives;
- out of 378 new IT and support jobs created out-of-scope, 149 are located in regional Australia;

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15 *OASITO Annual Report 1999–2000*, p. 24.

16 OASITO, submission no. 4.

17 *ibid.*

18 *ibid.*

- a total of 11 out-of-scope initiatives are now in place specifically aimed at developing the businesses of SMEs;
- apart from the major IT centres of Sydney and Melbourne, out-of-scope initiatives are being delivered in Brisbane, Adelaide, Canberra, Newcastle, Ballarat and Darwin; and
- a project register has been implemented which will allow companies tendering in the Initiative to make investments with the confidence that they can be included in future industry development proposals.<sup>19</sup>

9.22 Reports from contractors for Group 8 (Ipex) and the Health Group (IBM GSA) are not due until the end of 2001, therefore information on ID outcomes for these contracts is not included in the progress report. The report, however, flags the total ID commitments made by the five prime contractors over five years under the Initiative:

- AVA of \$845 million or 75 per cent of the total service charges;
- SME participation of at least \$330 million of in-scope business comprising over 30 per cent of total service charges; and
- additional investment of \$92 million and exports of \$277 million.<sup>20</sup>

9.23 The Committee notes that it has not received much direct evidence from industry groups to support the success or otherwise of these reported ID outcomes. An exception is the submission by the Sausage Group which notes that while there were some shortcomings in OASITO's processes, the ID outcomes flagged by DOCITA are significant and, in its view, demonstrate the success of the ID framework adopted for the Initiative. It states in relation to its own experience: 'Our willingness to obligate to hundreds of Australian industry jobs, tens of millions of export dollars with a consequent national engagement in the international economy is a testament to the potential success of the industry development program'.<sup>21</sup>

## **Compliance monitoring process**

### *Reporting ID outcomes*

9.24 Under the Initiative contracted companies are required to report annually to DOCITA on ID outcomes; that is, actual achievements against stated commitments. According to DOCITA, the 1999–2000 annual report is 'certainly the key accountability document' and the formal trigger for any action that may be required under the contract. Prime contractors are required to have their annual reports independently audited in accordance with Australian Auditing Standards applicable to

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19 DOCITA, *IT Outsourcing Initiative: 1999–2000 Industry Development Progress Report 2000*, p. 2.

20 *ibid.*

21 The Sausage Group, submission no. 7. See also Committee, *Hansard*, 16 March 2001, p. 353.

review engagements, AUS902 *Review of Financial Reports*.<sup>22</sup> DOCITA advised that as part of good contract management practice, it made arrangements whereby contractors are required to report on a quarterly basis in the first year of the contract and half-yearly thereafter.<sup>23</sup>

9.25 While DOCITA made arrangements to receive reports from the prime contractors there are no formal procedures in place for it to receive reports from subcontractors. According to Mr Sutton, DOCITA, departmental staff periodically arrange meetings with subcontractors ‘to gather their experiences as part of our general monitoring and the general industry development process that we undertake’. However, there is not a formal process for gauging the relative experience of SMEs engaged in the program or dealing with complaints from SMEs if they believed they were being exploited under the ID provisions of the contract.<sup>24</sup>

9.26 The Committee was advised that DOCITA maintains contact with primes, particularly during the first year of the contract, to ensure that systems were adequate and that they understood DOCITA’s requirements and the requirements of the contract—basically ‘to smooth the administration of the contract’. In addition, the overseeing officers make periodic site visits to various initiatives that might be put in place by contractors, particularly in relation to out-of-scope activities.<sup>25</sup>

9.27 Each contract contains specific sanctions for breach of ID commitments under the contract. According to DOCITA, if companies experience difficulties meeting a particular commitment DOCITA will negotiate with the prime contractor. ‘Our first priority is to ensure that the industry development outcomes are achieved...If there are any problem areas, we will work with them to identify means of addressing the problem and ensuring that their commitments are met’. However, if it is determined that a contractor has not met its ID commitments, a breach notice is issued by DOCITA which requires the contractor to provide a corrective plan. If a corrective plan cannot be agreed to, DOCITA may apply financial sanctions. Financial sanctions would only occur after consultation with relevant agencies to ensure that this would not adversely impact on service delivery.<sup>26</sup>

9.28 DOCITA informed the Committee that the independent review of Advantra’s first annual report to DOCITA for Group 5 was qualified to the extent that the employment level could not be verified for three SMEs that were engaged to perform services under the agreement.<sup>27</sup> However, the employment figures have since been

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22 DOCITA, *IT Outsourcing Initiative: 1999–2000 Industry Development Progress Report*, 2000, p. 2.

23 DOCITA, submission no. 13.

24 Environment, Communications, Information Technology and the Arts Legislation Committee, *Hansard*, 24 November 2000, p. 210.

25 Committee, *Hansard*, 15 March 2001, p. 258.

26 DOCITA, submission no. 13.

27 DOCITA, *IT Outsourcing Initiative: 1999–2000 Industry Development Progress Report*, 2000, p. 15.

verified by the SMEs. DOCITA noted in its report that Advantra failed to meet the AVA target and was issued with a breach notice on 12 December 2000 requesting that Advantra provide it with a corrective action plan.<sup>28</sup>

9.29 DOCITA told the Committee that it examines carefully the ID reports provided by each contractor and that its specific role in relation to each contract is confined to monitoring the commitments within that contract. The Committee notes that there is no formal procedure whereby the case officers in DOCITA's IT Industries Development Branch who work on each of the IT contracts report to a separate departmental committee on ID outcomes and future strategic directions for the ID component of IT outsourcing.

#### *Weaknesses in reporting procedures*

9.30 The Committee notes that DOCITA's 1999–2000 ID progress report specifies the achievements of individual companies in percentage terms only, and does not indicate in dollar terms the direct benefits going to SMEs or provide clear information on the nature of employment opportunities created in regional Australia. Figures are provided for the total net employment and total regional employment, and are designated as 'full time employment' figures or FTEs.

9.31 To illustrate the nature of reporting on ID outcomes, the in-scope achievements for Cluster 3 for 1999–2000 are presented as the percentage of targets achieved for each of the following categories: Australian Value Added (108 per cent); Payments to SMEs (84 per cent); Total net employment—FTE (128 per cent); and Total regional employment—FTE (144 per cent).

9.32 The report, however, does not indicate how the number of new regional jobs claimed under the Initiative is calculated or how a new regional job is defined under the contract.<sup>29</sup> The report provides the following explanation for not publishing the specific targets which contractors include in their own reports to DOCITA:

Schedule 10 of the Services Agreement allows the Commonwealth to use information marked 'commercial-in-confidence' in a public statement only when it has the prior written approval of the individual prime contractors. The prime contractors have declined to give approval for the publication of specific targets as these are particularly sensitive, and industry development metric assumptions could easily be deduced by competitors. Therefore, with the approval of the individual companies, the Commonwealth has published the extent of their actual achievements in percentage terms only.<sup>30</sup>

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28 Answer to question on notice, 15 March 2001.

29 The new regional jobs figure associated with IT outsourcing were first raised by Senator Lundy at an estimates hearing on 24 November 2000. See Environment, Communications, Information Technology and the Arts Legislation Committee, *Hansard*, p. 203.

30 DOCITA, submission no. 13 and *IT Outsourcing Initiative: 1999–2000 Industry Development Progress Report*, 2000, p. 165. According to Mr Sutton, OASITO received legal advice that information contained

9.33 The aggregated figures published in the report present a glowing picture of in-scope and out-of-scope ID outcomes. It states, for example, that the aggregated in-scope achievements by the prime contractors:

show a strong performance in the key areas of Australian Value Add, SME involvement and employment. The SME achievement is particularly impressive with twice the scheduled amount of work going to SMEs. This reflects a strong commitment by the prime contractors to achieve the Commonwealth's objectives of enhancing local skills by involving Australian industry in contract delivery.<sup>31</sup>

A similarly effusive description is provided for out-of-scope ID achievements as well.

9.34 The Committee acknowledges that the industry outcomes for each contract specified in contractors' reports to DOCITA are audited against Australian Auditing Standards (AUS902), thus providing one level of assurance regarding the veracity of ID outcomes reported by DOCITA. However, it is concerned that DOCITA does not make the contractors' reports available for public inspection, and notes that the Service Agreements that have been provided to the Committee omit the contractors' in-scope and out-of-scope commitments.

9.35 The Committee considers these omissions to be a major weakness in the monitoring and accountability process for ID under the Initiative. In fact, the issue of whether individual contractors would publish their reports separately has been a source of controversy for several parliamentary committees at least as far back as mid-1999.<sup>32</sup>

9.36 The Committee believes, that it is not beyond the capacity of both contractors and DOCITA to work out a reporting regime that will present an accurate, comprehensive and intelligible account of how IT outsourcing is or is not contributing to ID. The Committee calls on the Government to direct DOCITA to stop hiding behind the commercial-in-confidence pretext and to make figures available in a form that will be of use to industry and that will allow public debate on IT outsourcing and ID.

9.37 In its submission to the inquiry, the Australian Chamber of Commerce and Industry (ACCI) expressed the view that the accountable management of IT contracting, including the need to improve the transparency and accountability of tender processes, was of the utmost importance. It stated that more information is

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in contractors' reports is commercially sensitive 'to the point of potentially being injurious to the companies involved'. Environment, Communications, Information Technology and the Arts Legislation Committee, *Hansard*, 24 November 2000, p. 203.

31 DOCITA, *IT Outsourcing Initiative: 1999–2000 Industry Development Progress Report*, 2000, p. 6.

32 See the exchange of questions and answers between Senator Lundy and Mr Sutton, DOCITA, Environment, Communications, Information Technology and the Arts Legislation Committee, *Hansard*, 10 June 1999, p. 324.

needed about the actual level of SME participation in IT contracts to improve the level of transparency and accountability of Commonwealth outsourcing:

Improved accountability of Government IT contracts should...include measurement of the extent to which Australia's SME sector has been contracted as part of the initiative. This does not only mean an assessment of the involvement proposed in the winning bid, but also an accurate assessment of how much of the outsourcing contract was undertaken by SMEs.<sup>33</sup>

9.38 The Committee refers to the discussion in the previous chapter 'Accountability and Transparency' regarding confidentiality and government contracts. It draws DOCITA's attention to the point that confidentiality clauses imply a level of control over confidentiality that does not exist in government contracts.<sup>34</sup>

9.39 Another significant weakness in the reporting of ID outcomes is that the results of in-scope and out-of-scope ID achievements reported by DOCITA do not take into account the outsourcing arrangements put in place *before* the Initiative commenced in 1997. A system to measure the level of SME participation and job creation was not established for ID commitments under the Initiative. Mr Sutton, DOCITA, advised the Committee that a system of benchmarking was not established prior to the implementation of the initiative because figures that would have assisted such a benchmarking process were not available at the time.<sup>35</sup> This has made it difficult for the Committee to measure accurately the level of SME involvement in each outsourcing contract and the extent of job creation arising from ID outcomes, especially in regional Australia.

9.40 Because IT requirements were outsourced, or selectively sourced, by some agencies prior to 1997, the figures presented in the ID progress report cannot be accepted as representing all new ID outcomes.<sup>36</sup> DOCITA informed the Committee that it had received advice from OASITO and the Department of Finance and Administration (DOFA) that the figures required to establish the proportion of IT related infrastructure and services outsourced under the Initiative is not readily available.<sup>37</sup> The Committee concludes that in light of these less than satisfactory circumstances the accuracy of figures contained in DOCITA's progress ID report must be brought into question.

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33 Australian Chamber of Commerce and Industry (ACCI), submission no. 23.

34 Dr N. Seddon, 'Is Accountability a Cost of Contracting Out?' in *Administrative Law for the New Millennium, Papers presented at the 2000 National Administrative Law Forum*, Australian Institute of Administrative Law, 2000, p. 43.

35 Committee, *Hansard*, 15 March 2001, p. 261.

36 DOCITA, *IT Outsourcing Initiative: 1999-2000 Industry Development Progress Report*, 2000, pp. 261-62.

37 Answer to question on notice, 15 March 2001.

### **OASITO and DOCITA: roles and responsibilities**

9.41 The Committee has experienced difficulty determining who was responsible for the ID component of the Initiative, and identifying the precise role of key players involved in the ID tender and evaluation processes.<sup>38</sup> Some Committee members expressed dissatisfaction with this situation at the public hearing of 15 March 2001 when it was noted that they believed they had been misled on more than one occasion by officers from OASITO and, as a result, had mistakenly directed questions to witnesses from the wrong agency.

9.42 A member of the Environment, Communications, Information Technology and the Arts Legislation Committee encountered the same problem the previous November (2000) when an attempt was made to establish which department had responsibility for the ID component of IT outsourcing. The member conveyed frustration at being continually referred back and forth between agencies and stated that the 'government needs to be accountable for the industry development aspects of IT outsourcing, and they are failing to be accountable'.<sup>39</sup>

9.43 The difficulty, it would seem, can be attributed to at least three factors. First, responsibility for ID moved from the Department of Industry, Science and Technology (DIST) to DOCITA midway through the Initiative following the 1998 federal election. DOCITA did not have any direct involvement in the formulation of the original ID framework in 1996 and 1997. Second, the IT Industries Development Branch of DOCITA played a central role in those ID programs that were not directly connected with the Initiative, including the Partnerships for Development Program (PFD) and, with DOFA, the ID aspects of the endorsed supplier arrangements (ESA).

9.44 DOCITA informed the Committee that it was responsible for assessing companies under the industry development section of the ESA. Under this section:

companies are expected to achieve a level of industry development that is commensurate with their total revenue in Australia, the type of business activities they are engaged in, and the stage of their business development. Activities that can count as industry development include product development, service delivery, investment, sourcing of local product/service, exports, research and development, and strategic alliances.

Assessment is based on review of information lodged by the company with DOFA and any relevant direct follow-up with the company to clarify figures provided. These assessments are conducted when companies first apply to join the ESA and through an ongoing review process (both random and targeted).<sup>40</sup>

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38 Committee, *Hansard*, 15 March 2001, p. 254.

39 Environment, Communications, Information Technology and the Arts Legislation Committee, *Hansard*, 24 November 2000, p. 205.

40 Answer to question on notice, 15 March 2001.

9.45 DOCITA's role extended to evaluating the ID credentials of companies applying for admission to the ESA and reporting back to DOFA. DOCITA could recommend that companies be refused endorsement or dis-endorsed from the arrangements if they were not meeting their ID credentials.

9.46 The third and, in the Committee's view, most important reason for the confusion is that evidence provided by DOCITA and OASITO relating to their respective roles is unclear, contradictory and, at times, misleading. In response to questions on notice arising from the public hearing on 7 February 2001, OASITO stated that 'DOCITA and OASITO's industry development advisers prepared the industry development elements of the RFT'. DOCITA subsequently corrected that advice:

DIST and OGIT developed the industry development framework for the Initiative. DOCITA has been consulted *by* OASITO on changes to the industry development framework since it has been involved in the process.<sup>41</sup>

9.47 Further clarification was provided by DOCITA regarding its involvement in the ID evaluation process. While OASITO's response was not incorrect, it did not present a clear picture of the arrangements then in place. The response covered the role of DOCITA in the evaluation process and stated, among other things, that DOCITA developed the ID Evaluation Guide and drafted the ID Evaluation Report in consultation with OASITO's ID advisers.

9.48 DOCITA clarified matters by stating that its key role in the whole process 'is monitoring and administering the contracts'. In practice this involved providing two officers to the industry development evaluation team (IDET) which was responsible for drafting the evaluation methodologies and the ID evaluation report for consideration by the Options Committee.<sup>42</sup> It clarified the status of IDET and the independence of this evaluation team from DOCITA itself.

The IDET was set up to conduct its evaluation activities independently of OASITO and DOCITA. The IDET was made up of a consultant appointed by OASITO who acted as chair, other commercial consultants and two representatives on secondment from DOCITA.<sup>43</sup>

These examples illustrate the difficulty the Committee has experienced in determining the roles and responsibilities of agencies involved in the ID component of the Initiative.

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41 DOCITA, Statement to Senate Inquiry into IT outsourcing on DOCITA Role in the IT outsourcing processes, received 15 March 2001 (emphasis in original).

42 Committee, *Hansard*, 15 March 2001, p. 270. A DOCITA representative was also on the Options Committee.

43 Answer to question on notice, 15 March 2001.

9.49 The Committee was further frustrated when it noticed information in OASITO's submission that contradicted evidence given to the Finance and Public Administration Legislation Committee during an estimates hearing on 20 February 2001. At that hearing representatives from OASITO went to great lengths to demonstrate OASITO's independence from the ID evaluation process. The Committee was told that the evaluation team consisted of DOCITA representatives and an external consultant, appointed by OASITO, who acted as chair. OASITO officers at the hearing maintained that this was incidental and did not in any way link OASITO to the ID process.<sup>44</sup>

OASITO did not participate in that evaluation. The industry development evaluation committee comprised external consultants and an officer from DOCITA. That evaluation committee was chaired by Yasmin King from Flexible Resources. OASITO did not participate in that evaluation.

The evaluation and negotiation of the outcomes with industry development were conducted by this evaluation committee, independent from OASITO.<sup>45</sup>

9.50 However, Attachment B to OASITO's submission describes at point 5, under the heading 'OASITO Roles and Responsibilities', those industry development responsibilities that were shared jointly between OASITO and DOCITA.

**Industry Development**...OASITO and DOCITA will jointly: a) Define the industry development requirements for each tender. b) Liaise with industry regarding industry development matters under the IT initiative. c) Develop and maintain a methodology for the evaluation of industry development offerings. d) Evaluate industry development offerings and prepare findings and recommendations for Government consideration, consistent with the evaluation and selection process approved for the IT initiative.<sup>46</sup>

9.51 The Committee believes that this extract demonstrates OASITO's direct involvement in the ID component of the Initiative. It contradicts OASITO's earlier claim that its role was totally independent of the evaluation and negotiation of industry outcomes carried out by IDET, and highlights inconsistencies in OASITO's evidence to the Finance and Public Administration Legislation and References Committees.

9.52 There was another and important level at which OASITO exerted significant influence and from which agencies were excluded—the Options Committee. This Committee, chaired by OASITO, was the final stage in selecting the preferred tenderer and considered and compared the evaluation reports from the three services evaluation teams and the ID evaluation team on the various tenderers. It is at this important point that the relative weightings given to the separate components, particularly to ID, are

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44 Finance and Public Administration Legislation Committee, *Hansard*, 20 February 2001, p. 208.

45 *ibid.*

46 OASITO, submission no. 4. Attachment B.

crucial. Yet the Committee has been unable to obtain any inkling into how the separate components rated against each other. The Committee has recommended that the weightings to be assigned to the separate components be included in the RFTs.

9.53 There was added confusion surrounding the issue of agency responsibility because the Committee did not initially identify that NOIE had a role in ID. For whatever reason, the DOCITA and OASITO submissions failed to advise the Committee of NOIE's policy coordination role in developing the overall strategic framework for industry development for the information technology and telecommunications (IT&T) sector.<sup>47</sup> In response to a question on notice at the public hearing on 15 March 2001, DOCITA provided the Committee with a copy of NOIE's strategic framework for the information economy. In the introduction the Minister for Communications, Information Technology and the Arts, described the framework as 'the Commonwealth Government's vision for Australia in the information age'.<sup>48</sup> At the same public hearing the Committee was advised that NOIE was consulted in the development of the new ID framework that was released in April 2001.<sup>49</sup>

9.54 The Committee believes relevant information on NOIE's strategic guidance role and the nature of its liaison with OASITO and DOCITA that has been provided to other parliamentary committees should also have been made available to it at an earlier date.

### **Agency involvement in the ID process**

9.55 A number of agencies have informed the Committee that they played a limited role, or no role, in the ID process. When asked at an estimates hearing about the rationale for not having agency representatives on the Options Committee the then Chief Executive of OASITO, Mr Mike Hutchinson, responded by saying:

...agencies, as purchasers of IT services, do not of themselves have an interest in industry development. Indeed, as ID affects them, if they regard industry development as imposing costs on a bid, they may have a negative interest in industry development. The purpose of excluding the customer agencies from the ID discussion is to ensure that the trade-off for the whole of Commonwealth is made by those who have responsibility for, first of all, the Commonwealth budgetary position—the minister for finance—and, secondly industry development, and in this case DOCITA, for the IT industry and DISR more generally.<sup>50</sup>

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47 Committee, *Hansard*, 15 March 2001, p. 257. Attempts were made at previous estimates hearings to establish NOIE's role in ID and its relationship with OASITO. See, for example, Environment, Communications, Information Technology and the Arts Legislation Committee, *Hansard*, 17 February 1999, p. 368.

48 Commonwealth of Australia, *A Strategic Framework for the Information Economy: Identifying Priorities for Action*, December 1998, forward by the Minister, p. 1.

49 Mr M. Sutton, Committee, *Hansard*, 15 March 2001, p. 272.

50 Finance and Public Administration Legislation Committee, *Hansard*, 17 February 1999, p. 314.

9.56 This view was rejected outright by some agencies and departments. The ATO, for example, had a strong desire to be involved in the ID component of the Initiative. It believed that a greater level of involvement would have provided it with more benefits and enabled industry to leverage future ATO IT initiatives. The ATO did not participate in the assessment of the ID component of the tenders received in relation to the outsourcing of the ATO's IT&T infrastructure as OASITO's model excluded participation at that level.<sup>51</sup>

9.57 The Department of Health and Aged Care (DHAC) likewise advised the Committee that it played no role in either the negotiations or discussions about the supplementary industry development requirements of IBM GSA as part of the Health Group.<sup>52</sup> Agency personnel acknowledged that their awareness of the ID requirements contained in the contract was only very general and did not impact on their responsibilities for delivering IT services. However, DHAC agreed with the Humphry Review's finding that suggested it might be appropriate for departments and agencies to play a greater role in determining ID outcomes in their respective IT contracts.<sup>53</sup>

9.58 The Health Insurance Commission (HIC) did not include ID requirements as part of the contract as it is a body under the *Commonwealth Authorities and Companies Act 1997* (CAC Act). It determined that the Commissioner's duties to ensure that decisions are made in the best interest of the HIC may not necessarily coincide with ID objectives.<sup>54</sup> On the other hand, at least four other CAC Act bodies were involved in contracts that had ID commitments in place.

9.59 Agency involvement in the ID process is an issue the Committee believes should be addressed in the new ID framework, taking into account the fact that in a devolved environment agencies are responsible for outsourcing their IT. The matter of identifying the relative importance of ID against other evaluation components such as the technical and service delivery side of IT outsourcing and costs must also be clarified.

### **Humphry Review: findings on ID**

9.60 The Humphry Review notes the views of agencies and industry groups regarding ID that were raised during its inquiry process. While the Review summarises the concerns conveyed to it by agencies and industry bodies, it does not provide specific examples or refer to any submissions to support its views. According to the Review, agencies had expressed the following concerns:

- that they were locked out of the ID evaluation process;

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51 ATO, submission no. 22.

52 Committee, *Hansard*, 9 March 2001, p. 126.

53 *ibid.*, p. 127.

54 Health Insurance Commission (HIC), Correspondence, 30 March 2001.

- they had restricted opportunities to seek out ID initiatives;
- the ID obligations under the contracts were a constraint;
- there were few opportunities to move away from non-performing sub-contractors because of ID obligations under the contract;
- opportunities for SMEs were limited by the size of the clusters, thus limiting the scope for innovation through niche providers and new technology; and
- significant opportunities for SMEs existed with smaller or niche agencies and these opportunities were not accessible when agencies were included as part of larger clusters.<sup>55</sup>

9.61 Likewise, industry apparently raised their concerns with the ID component of IT outsourcing. These include that:

- the Initiative's ID requirements are a piecemeal approach to achieving true ID in Australia; and
- the requirement to resubmit information for the outsourcing process that had already been submitted to achieve Endorsed Supplier status should be removed. Being an Endorsed Supplier should be recognised in the tender process to eliminate this duplication.<sup>56</sup>

9.62 The Review stated that while the objectives and benefits of the ID element of the Initiative are well accepted, in future 'it is necessary to closely consider the best methods to achieve industry development goals. It is important that the process for assessing ID is transparent and that responsibility for ID policy is clearly defined'.<sup>57</sup>

9.63 The Committee wishes to point out that the Review's brief summary of agency and industry concerns does not always capture the flavour of concerns expressed in some of the submissions made to it. The AIIA provides the best example. Its submission to the Humphry Review conveys the view that ID:

is probably the most contentious component of the whole outsourcing program. Many members feel that it has been implemented in an ad hoc, contract specific manner that is inconsistent with long term strategic corporate development plans. As a result, it has not realised its full potential with neither SMEs or MNCs [multinational corporations] happy with the present arrangements.<sup>58</sup>

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55 Richard Humphry, *Review of the Whole of Government Information Technology Outsourcing Initiative*, Commonwealth of Australia, December 2000, p. 35.

56 *ibid.*, pp. 35–6.

57 *ibid.*, p. 36

58 AIIA, submission to the Humphry Review.

9.64 The submission also includes brief extracts from two AIIA members that support the claims advanced in the submission:

*While our success in tenders to date appears fruitful on the surface the reality is our government business is less; our manufacturing output is less; yet we are now tied to ID that is disproportional to the return—AIIA member.*

*Any reasonable businessman would question why we should continue to expand resources and make future (ID) commitments when the return is getting smaller—AIIA member.<sup>59</sup>*

### **Industry response to the Humphry Review**

9.65 Evidence presented to the Committee is consistent with agency and industry concerns that were conveyed to the Humphry Review. Much of the evidence, however, adopts a positive outlook on future ID arrangements in a devolved IT outsourcing environment, provided certain issues are addressed. The AIIA's submission to this inquiry makes several observations about ID in light of the Humphry Review. It argues strongly that IT outsourcing should promote a true partnering between government agencies and the information and communications technology industry, and that Government should facilitate a smooth and quick transition period for industries and agencies to overcome uncertainty and minimise cost. AIIA also argues that the Government's ID objectives should focus on building a world class information and communications technology industry in Australia, with a key objective being to encourage collaboration between multinational corporations and SMEs.<sup>60</sup>

9.66 CBC also conveyed the view that the approach to IT outsourcing recommended in the Humphry review, 'will lead to more opportunities for local industry, including business in Canberra and the Australian Capital region'. A system of IT outsourcing based on single agency initiatives will be beneficial, according to CBC, because 'individual agencies will be able to give greater attention to business solutions rather than the contractual issues. This scenario will lead to better business and program outcomes for agencies, business and the community'.<sup>61</sup> The view was subsequently repeated at a public hearing when Mr MacDiarmid of CBC's Outsourcing Committee, stated: 'Smaller agency by agency contracting and assessment gives us a significantly better chance of getting SME and industry development activity involved'.<sup>62</sup>

9.67 CBC reiterated to the Committee the view expressed in its submissions to the Humphry Review and to this inquiry, but added a note of concern about the risks of

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59 *ibid.* (italicised in original).

60 AIIA, submission no. 24.

61 CBC, submission no. 15.

62 Committee, *Hansard*, 16 March 2001, p. 346.

not moving forward and how to implement the Humphry recommendations to guarantee SME involvement:

A concern that we have is that it is one thing to arrive at some findings and recommendations but it is now a matter of determining how we are going to implement these changes. The concern that we have is that there is a certain degree of sentiment to ensure that...SMEs will have a significantly greater opportunity to be involved in the process.<sup>63</sup>

9.68 It is precisely the issue of SME involvement, or lack thereof, in the original ID process that most concerns CBC in the current uncertain IT outsourcing environment. It raised three specific issues with the Committee. First, the tendering process under the Initiative was not conducive to building relationships and partnerships between the major companies—CSC, EDS and IBM GSA—and SMEs because from the outset the Government's focus on savings and efficiency overshadowed industry and business development concerns. The large size of IT contracts and the complexity of the tender process made it 'difficult for SMEs to get involved in the first place'. Second, SMEs are at a distinct disadvantage if treated unfairly by a prime contractor: 'I suspect they would be very reluctant...to take on the primes because they just do not have the resources to do that effectively'.<sup>64</sup> And finally, many SMEs in the ACT region have developed, sometimes significantly, irrespective of the IT outsourcing process. 'A lot of the IT companies we see that are being successful in this region have developed software programs that have, in some cases, nothing to do with IT outsourcing, and many of them are exporting their services'. Examples provided by CBC are Tower Software (which provides services to government institutions in the US) and Protocom (which provides services throughout Europe and the US).<sup>65</sup>

9.69 Mr Glenn from the Sausage Group offered a qualified perspective on some of the issues raised by CBC. On the issue of whether ID would occur without government intervention, he expressed the view: 'I think elements of Australian industry may well have developed anyway. But would the right elements...that would serve our national good have developed? I think perhaps not'. Mr Glenn also alerted the Committee to certain dangers associated with a system characterised by a large number of small contracts. The leverage that government can expect to achieve from its expenditure may reduce with the smaller IT contracts, and small contracts not only encourage incremental growth for the major industry players, they also have the potential to militate against new entrants into the IT market because of higher start-up costs.<sup>66</sup>

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63 *ibid.*, p. 340.

64 *ibid.*, p. 344.

65 *ibid.*

66 *ibid.*, p. 352.

### Industry development framework: April 2001

9.70 Following the release of the Humphry Review, the Minister for Communications, Information Technology and the Arts, Senator Richard Alston, announced on 12 January 2001 that DOCITA would initiate consultations with major industry representative bodies, government agencies and a range of industry participants on the ID framework applying to IT outsourcing.<sup>67</sup> DOCITA advised the Committee that this review of ID would take into account the devolved nature of any future IT outsourcing contracts, the findings of the Humphry Review in relation to ID issues, and the views of stakeholders that would be sought during a period of extensive consultations.<sup>68</sup>

9.71 As indicated earlier in this chapter, the review process and consultations resulted in a new Industry Development framework, entitled *IT Outsourcing and ICT Industry Development Framework*, that was launched by the Minister on 23 April 2001.<sup>69</sup> The Minister's media release states that the new framework 'favours strategic industry development outcomes and complements the Government's strategies to encourage the growth of Australia's information and communications technology (ICT) sector'.<sup>70</sup> It also highlights the importance of attracting SME involvement in government IT contracts. To this end the new framework flags two initiatives that, when finalised, will address impediments to SMEs selling IT goods and services to government and establish an online notification system 'to ensure that SMEs are aware of relevant IT outsourcing opportunities'.<sup>71</sup>

9.72 The new framework takes into consideration Mr Humphry's Recommendation 1, that responsibility for implementing the Initiative should be devolved to agency Chief Executives or Boards. In its response to the Humphry Review the Government agreed with this recommendation, and that DOCITA would retain responsibility for the ID component of IT outsourcing. It was also decided that the evaluation of ID commitments will be undertaken in accordance with an evaluation framework to be established in consultation with each agency.<sup>72</sup> DOCITA will involve NOIE closely in work on the implementation of the new ID framework when the need arises.<sup>73</sup>

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67 DOCITA, submission no. 13.

68 *ibid.* A review of the industry development aspects of Commonwealth outsourcing, as suggested in the Humphry Review, received support from some industry groups. See, for example, IIDB, submission no. 8.

69 DOCITA, *IT Outsourcing and ICT Industry Development Framework*, April 2001.

70 Media Release, 'Industry development framework for IT outsourcing', Senator the Hon Richard Alston, 23 April 2001.

71 *ibid.*

72 Committee, *Hansard*, 18 May 2001, p. 536.

73 *ibid.*, p. 521.

### *Objectives and process*

9.73 The new framework has two core objectives: develop strategic industry development outcomes and complement existing government strategies to encourage the growth of Australia's information and communications technology sector; and increase opportunities for SMEs and identify and address impediments to SMEs selling IT goods and services to government. To support these core objectives the framework consists of four elements:

- It defines the rules that will apply to the ID aspects of the tendering process (i.e., what agencies and bidders need to do to comply with the formal requirements).
- It defines the broader strategic aspects of the Government's use of IT procurement for industry development purposes. The framework states: 'The Government's vision is to build a leading role for Australia in the global information economy, and to maximise the benefits to all Australians from innovation, production and use of information and communications technologies'.<sup>74</sup>
- It provides an enforcement provision that can lead to loss of Endorsed Supplier status. Under the ESA administrative arrangements, dis-endorsement would result from DOFA accepting a DOCITA recommendation to dis-endorse. Circumstances where dis-endorsement would be considered include non-compliance with ESA requirements, non-compliance with ID agreement commitments (including reporting requirements) and failure to enter into discussions with DOCITA and make appropriate adjustments to their ID arrangements following the winning of a contract over \$10 million in value.
- It rationalises and consolidates existing government purchasing related ID programs (PfD and the ID elements of the Major Projects Program) under a new umbrella called the Strategic Industry Development Agreement (SIDA). According to DOCITA, SIDA is being designed as an umbrella program that will pull together and integrate as far as possible the current procurement related ID programs. This should enable government to adopt a more strategic approach to the ID activities of Australian companies. For contracts over \$10 million, 'the successful bidder will be expected to have a SIDA in place, or we will review an existing SIDA'.<sup>75</sup>

9.74 The new framework outlines a two-tiered approach to the ID tender process. First, no formal evaluation of ID will be required for contacts of less than \$10 million. Contractors and any sub-contractors will only need to comply with ESA requirements. Apparently, the level of \$10 million was chosen to coincide with the threshold figure that is used for all major government projects.<sup>76</sup> Also under the new framework, out-

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74 DOCITA, *IT Outsourcing and ICT Industry Development Framework*, April 2001, p. 2.

75 Mr M. Sutton, DOCITA, Committee, *Hansard*, 18 May 2001, p. 529.

76 Environment, Communications, Information Technology and the Arts Legislation Committee, *Hansard*, 6 June 2001, p. 212.

of-scope initiatives are separated from the outsourcing regime, which means that companies will not be forced to establish projects unrelated to the delivery of services specified in a contract.<sup>77</sup> Second, for contracts over \$10 million the contractor and sub-contractors will need to comply with ESA requirements *and* set out the ID activities involved in delivering the contract in terms of SME involvement, Australian Value Added (AVA) and the new concept of SMEAVA.<sup>78</sup> The RFT will note that DOCITA will evaluate ID elements in consultation with agencies, specify the weighting of ID in the evaluation, and require the successful bidder to enter into a strategic development plan.

### *Unresolved issues*

9.75 At face value the new ID framework is long on prescription and short on detail. It functions as a preliminary information paper that addresses only the first of four elements identified above—the rules that will apply to the ID aspects of the tendering process. A number of issues are currently in the process of being finalised and DOCITA anticipates that they should be completed by approximately the end of 2001.

- A final strategic industry development framework will be completed following consultations with relevant industry bodies.
- DOCITA is developing model RFT ID content and evaluation criteria to form the basis of the ID section of the RFT.
- Under the final framework, DOCITA and agencies will jointly develop the ID aspects of the RFT and evaluate the ID aspects of the bids received.
- DOCITA is preparing an ‘action plan’ designed to review and address inhibitors to SME involvement in outsourcing contracts. According to DOCITA, the aim of this review is to identify ‘specific factors that may impact negatively on the ability of SMEs to get contracts’.<sup>79</sup>
- An on-line notification system is being developed that will alert SMEs to relevant IT outsourcing opportunities.

9.76 In June 2001, DOCITA released two discussion papers that address some of the issues foreshadowed in the new ID framework. The papers address, respectively, the implementation of a SIDA to complement the ESA and contract-specific industry development outcomes, and an investigation of impediments to SMEs selling IT goods and services to government.<sup>80</sup> The main purpose of the discussion papers is to

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77 Mr M. Sutton, DOCITA, Committee, *Hansard*, 18 May 2001, p. 530.

78 SMEAVA refers to the Australian value add of small to medium enterprises.

79 Committee, *Hansard*, 18 May 2001, p. 521.

80 DOCITA, *Strategic Industry Development Agreement Program*, Discussion Paper, June 2001; *Inhibitors to Small-to-Medium Sized Enterprise Participation in Commonwealth Government IT Outsourcing Contracts*, Discussion Paper, June 2001.

identify any unresolved issues that might upset a smooth transition to the new strategic ID environment. DOCITA invited responses to the discussion papers, and says the papers will underpin a consultation process, including round-table discussions and one-on-one meetings, with key stakeholders, including ICT suppliers to Commonwealth, state and territory governments, industry associations and relevant agencies.

9.77 The paper on SME inhibitors invites the views of stakeholders on the nature and extent of inhibitors, evidence of their impact, and suggestions on how they might be addressed. The paper on SIDA also invites comments from interested stakeholders on the issues and proposed directions raised in the paper. According to DOCITA, the consultation period for both discussion papers will result in the formal announcement of a SIDA program and the release of guidelines in August 2001, and development and release of an action plan on SME inhibitors by September 2001, with implementation to commence thereafter.

9.78 The Committee has identified a number of problems with the new SIDA proposal that are unresolved. The proposed new arrangements do not seem to address adequately the tension that may develop when a central body assumes responsibility for overseeing a whole of government policy, and whose vision is broad and across agencies, while agencies are more intent on promoting their own interests. One of the main difficulties is establishing who has authority for decision-making and, ultimately, responsibility for ID in a devolved IT outsourcing environment.

9.79 The new SIDA arrangements carry the risk of replicating the situation that developed between OASITO, DOCITA and the agencies under the old ID framework where the issue of who carried the responsibility for setting ID criteria and evaluating ID outcomes could not be resolved. Mr Robey, from IIDB, shares the Committee's concern that DOCITA will assume control of the ID process leaving agencies to play, at best, a token role. He told the Committee that ideally DOCITA would establish the industry framework and industry guidelines then hand over to agencies the responsibility for their implementation:

Otherwise you are splitting the procurement process in two again, and we are going to get into all this trouble about who should be making what decisions and that these decisions are contrary to the strategic outcomes of the agency... That was just the battle between OASITO and the agencies.<sup>81</sup>

9.80 The Committee would like to see in place a process for ID that clearly defines responsibilities, delivers certainty and transparency, and gives agencies the capacity to manage their own business.

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81 Committee, *Hansard*, 18 May 2001, p. 552.

**Recommendation No. 20**

**The Committee recommends that DOCITA in close consultation with agencies develop and agree to an overall roadmap for ID under the IT outsourcing program. This strategic plan is to spell out the objectives and targets of ID under the IT outsourcing Initiative, to define and specify SME involvement, and establish the evaluation criteria, including the weighting to be assigned to ID in the overall evaluation of tenderers for an IT outsourcing contract. This information to be included in the RFTs.**

9.81 From this point on, agencies assume responsibility for managing the tendering and contracting process. The confusion about who makes the final decision on the preferred vendor is settled and all involved in the tendering process have a clearer indication of the relative importance given to ID in the evaluation of the tenders. DOCITA, however, would retain responsibility for monitoring and reporting on ID under the IT outsourcing contract.

*Compliance monitoring under the new framework*

9.82 An important issue relating to the administrative arrangements for the new framework that is carried over from the Initiative—compliance monitoring—has not been addressed to the Committee’s satisfaction. Based on DOCITA’s evidence relating to the new ID framework, the Committee remains concerned with what it expects will be a continuing lack of transparency in the reporting of ID outcomes under these arrangements.

9.83 Again, this issue in part relates to the initial confusion surrounding the role of OASITO and DOCITA in managing the ID framework for the Initiative, the question of which agency was responsible for managing the ID evaluation process, and the transparency of procedures for reporting ID outcomes. According to Mr Sutton, DOCITA, under the new post-Humphry outsourcing regime, ‘responsibility for the conduct of the [ID] process will primarily rest with individual agency heads, so it will be up to agency heads to make decisions on the extent to which [ID] documents will be released’.<sup>82</sup>

9.84 He went on to say that under the new outsourcing arrangements DOCITA will continue to report annually on ID outcomes: ‘we will be continuing the requirements for there to be audited reports from each of the companies which win bids’. Apparently, the second progress report on ID outcomes will be released by DOCITA by the end of 2001, and will include information on all IT outsourcing undertaken since the release of the first report in February 2001. However, although Mr Sutton envisaged that audited reports from each company ‘would certainly be coming to us...we have yet to work out the mechanics of exactly how it [will] work’.

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82 *ibid.*, p. 535.

9.85 The Committee asked DOCITA why the Government had chosen not to release the ID reports, and presumably will not release future reports, ‘given that they are such an important part of the whole public policy strategy’. It answered with a general comment about encountering the likelihood of ‘commercial sensitivities’ with respect to the ID reports. In an apparent attempt to allay the Committee’s concern, DOCITA stressed that its administration of the new ID framework would fully recognise the power of parliamentary committees. Mr Sutton summarised DOCITA’s position when he stated:

We anticipate and certainly recognise the strong public interest in the outcomes of the [ID] process...Exactly how this new framework is going to work is yet to be fully worked through. We recognise the need to report on the outcomes but we also consider that there are legitimate commercial sensitivities involved potentially in releasing some of the information.<sup>83</sup>

9.86 The Committee notes that this response resonates with a number of answers that have been provided by OASITO during this inquiry in which public statements recognising the powers of parliamentary committees are overshadowed by behaviour that shows a complete disregard for those same powers. The Committee draws attention to paragraph 8.21 of this report and the distinction between publishing the legitimately commercially sensitive material and responding to a committee request for it.

9.87 The Committee’s concern about ID reporting under the new framework extends to previous claims by the Government about the 400 or so jobs that are alleged to have been created in regional Australia. During the November 2000 estimates hearings, questions were asked about the ID figures that were published in OASITO’s 1999–2000 annual report. Information requested included a breakdown of regional employment and the commitments from each of the existing contracts. Answers provided by OASITO have heightened the reservations of some Committee members about the real extent of employment growth in regional Australia that can be attributed to IT outsourcing, and the criteria that were used by DOCITA to define regional employment. DOCITA provided the following figure 5 in an answer to a question on notice to the Senate Environment, Communications, Information Technology and the Arts Legislation Committee from the supplementary budget estimates 2000-2001.

The Committee finds that if the statistics for Adelaide, Brisbane and Canberra are taken out of the figure given below, the number of jobs cited as new regional jobs is not impressive.

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83 *ibid.*, p. 537.

**Figure 4:** IT Outsourcing Contracts— Regional Employment Commitments

<b>Project</b>	<b>Employer's Name</b>	<b>Principal Location</b>	<b>5 year Target</b>
<b>Cluster 3</b>			
Hunter technology centre	CSC	Newcastle	24
Canberra software centre	CSC	Canberra	12
<b>Group 5</b>			
Australian IT technical assistance centre	IBM	Gold Coast	101
<b>ATO</b>			
E-business centre	EDS	Adelaide, Canberra	87
SME international marketing program	EDS	Adelaide, Canberra	2
SME scholarships to EDS executive course	EDS	Canberra	0.3
<b>Health Group</b>			
Wizard Information services marketing agreement	Wizard Information services	Canberra	15
Approved Systems marketing agreement	Approved Systems	Canberra	7
Australian IT technical assistance centre	IBM	Brisbane	117
University of Ballarat E-health project	University of Ballarat	Ballarat	5
ASI Solutions	ASI Solutions	Darwin	5
Nettrack	Nettrack	Canberra	1
<b>Group 8</b>			
Graduate training program	Ipex	Various Ipex regional locations	9
Technician education program	Ipex	Various Ipex regional locations	4
<b>Total</b>			<b>389.3</b>

Source: Environment, Communications, Information Technology & the Arts Legislation Committee, Department of Communications, Information Technology & the Arts, answer to question on notice, Supplementary Budget Estimates 2000-2001.

9.88 Mr Sutton, DOCITA, took on notice a question about what constitutes a regional job and how a regional job is going to be defined under the post-Humphry regime, for the purpose of measuring and assessing future ID outcomes. The answer provided states that the definition of ‘Regional Australia’ used by OASITO during the Initiative was developed by OGIT, in consultation with DIST, during the development of the ID framework for the Initiative. The definition provided states:

‘Regional Australia’ means any part of Australia outside metropolitan areas of State capital cities. However, if, for reasons such as access to skills or sustainability, the metropolitan area of an Australian capital city other than Melbourne or Sydney is proposed by the Contractor, the Commonwealth Government may apply regional principles.<sup>84</sup>

9.89 DOCITA is currently proposing to adopt a definition of ‘regional’ for the new SIDA program that includes all areas outside state and territory capitals. The definition will be settled once consultations about the SIDA program have been finalised and guidelines have been produced.<sup>85</sup>

*Responses to the new ID framework: strengths and weaknesses*

9.90 The new ID strategic framework has reignited discussion, debate and consultation among government and industry players about the desirability of linking a specific outsourcing strategy with broader industry development objectives. A variety of views about the framework have been conveyed to the Committee. The AIIA made clear its position at a public hearing on 17 May 2001. Mr Durie, Executive Director, stated that overall the Association is ‘extremely pleased’ with the framework because for several years it had been advocating that the ID element of the Initiative ‘be conducted within the broader strategic industry development arrangements that the government had in place’.<sup>86</sup>

9.91 One of the main advantages of the new approach, according to AIIA, is that in theory an increase in the number of smaller contracts will result in greater opportunities for SMEs to participate in ID projects, either as partners or as primes. On this point, NOIE argued that a main objective of the change in approach to ID issues in a post-Humphry environment is to provide opportunities for Australian SMEs to be involved in significant IT markets, including international ones.

9.92 The Government’s effort to replace an ad hoc approach to ID with a strategic framework targeting specifically Australian SMEs is viewed generally as a positive development and heading in the right direction. However, four main areas of concern with the new ID strategic framework were identified in evidence provided to the Committee. There is, firstly, what the AIIA describes as the ‘inevitable tension’ that

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84 Environment, Communications, Information Technology and the Arts Legislation Committee, answer to question on notice, 6 June 2001.

85 *ibid.*

86 Committee, *Hansard*, 17 May 2001, p. 426.

exists between the centralised management of ID issues and ‘devolution that underpins the federal government’s approach to financial management’.<sup>87</sup> Agency and departmental heads are not only responsible for targeting specific opportunities for SMEs, they must at the same time comply with an overarching government policy. Devolution of responsibility and strategic policy oversight, in other words, do not always complement or reinforce each other and may actually work to undermine the policy objectives being promoted.

9.93 A second weakness identified by the AIIA is that DOFA does not have the resources or the power to demand that agencies purchase IT services only from endorsed suppliers. So far this has resulted in an unquantified amount of ‘leakage’ across public sector agencies, a situation that cannot be prevented as long as agency heads sign off on purchases from non-endorsed suppliers, or ‘until we go back to a centralised approach, which I do not think anyone on either side of politics is proposing’.<sup>88</sup>

9.94 A third shortcoming with the new ID framework is that it does not place sufficient responsibility on government and individual agencies to assist SME involvement in ID programs. The Committee holds the view that the strategic policy objective of developing the capability of local industry will require governments to be ‘proactive and to look at companies and areas where there is potential for new technologies or technology transfer to the local industry’.<sup>89</sup> The AIIA argued that ‘the best thing that the government can do for small business is buy from it’, perhaps with the involvement of NOIE or DOCITA. This would have to involve more explicit direction to agency heads in relation to their dealing with SMEs.

9.95 The Committee believes that one of the barriers to government being more proactive in the IT area is the tendency for agencies and departments to be risk averse in their choice of contractors, and to ignore innovative and unconventional solutions that are often forthcoming from smaller companies. The challenge, then, is to bring about a cultural change within agencies and departments so that the qualities and capabilities of SMEs are recognised, procured and developed.<sup>90</sup>

9.96 Mr Sutton, DOCITA, suggested there was evidence that such a cultural change was beginning to evolve in the Australian Public Service. He said that some agencies had already indicated that there were distinct advantages in *not* relying on a company the size of an IBM or a CSC to provide the required services. For example, when entering into a contract with a small company ‘there is the opportunity to work much more intensively and directly with the people involved with that company’. Some agencies, in other words, are beginning to look favourably at developing

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87 *ibid.*, p. 427

88 *ibid.*

89 Committee, *Hansard*, 18 May 2001, p. 544.

90 *ibid.*, p. 523.

contracts with small companies ‘because of the...immediacy and responsiveness of the SME to what [agencies] need, which they feel they may not get from dealing with large companies’.<sup>91</sup>

9.97 The importance of agencies having the confidence to purchase IT services directly from small companies and to forge long term relationships is a view shared by Dr Willcocks. In his submission, Dr Willcocks argued that the Australian Government should be making international comparisons to understand how other countries are actively facilitating industry development in the IT area. He believes that Singapore and India provide interesting, but different, case studies where governments have adopted interventionist policies to support domestic IT companies, often at a regional level. This involves developing contracts that involve only domestic companies or, in the case of Singapore, use suppliers from other countries.<sup>92</sup>

9.98 Finally, the AIIA believes that while smaller contracts under the new ID framework will allow greater participation for SMEs, the high cost of contracting remains an important impediment to their increased participation. In fact, there are a whole raft of impediments that should be subject to review. These include unrealistic time scales, prohibitive cost, government insistence on non-commercial terms and conditions, unlimited liability, and financial guarantees.<sup>93</sup> The Committee appreciates the efforts currently being made by DOCITA to address the issue of barriers to SME participation in Commonwealth IT outsourcing contracts. It awaits the outcome of the current round of consultations arising from the recently released discussion paper on this issue, namely an action plan on SME inhibitors.

9.99 Nonetheless, the Committee believes that prompt action must be taken to reduce the obstacles making it difficult for SMEs to participate in the Initiative.

### **Recommendation No. 21**

**The Committee recommends that the Government act immediately to remove barriers, such as onerous requirements including financial guarantees, that hamper the participation of SMEs in the Initiative.**

9.100 The Committee had difficulty establishing which agency or department is responsible for managing online resources in the ID area. It sees the need for improved communication networks that operate between government and industry bodies in relation to ID. The Committee holds the view that an up to date register of services is an important avenue for addressing what is arguably the most important barrier to SME involvement—a lack of knowledge of services that local companies

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91 *ibid.*, p. 524.

92 Committee, *Hansard*, 17 May 2001, p. 514.

93 *ibid.*, p. 432.

are capable of providing to government. There is some confusion over the status of a confidential ID Project Register that was launched by the Minister for Finance and Administration, Mr Fahey, and the Minister for Communications, Information Technology and the Arts, Senator Alston, on 26 September 2000. According to the Government:

The Project Register formalises consultation processes, previously adopted by the Office of Asset Sales and Information Technology Outsourcing (OASITO) and the Department of Communications, Information Technology and the Arts (DOCITA), for the management of industry development, consistent with probity and policy objectives of the IT Initiative.<sup>94</sup>

9.101 Apparently, NOIE maintains a separate Australian Information Industry Capability Directory, which collects information about companies. The AIIA, however, indicated that it was not aware of the Directory, and that it was in the process of creating its own database.<sup>95</sup> The Committee believes that closer liaison between agencies and industry should identify such needs and encourages NOIE and DOCITA to utilise their directories for broader benefit.

9.102 The audit and accountability features of the new ID framework, as they have been described, do not reflect an acceptable level of transparency and accountability. The Committee is keen to see significant improvement in benchmarking arrangements under the new ID framework. It is not satisfied that ID outcomes under the Initiative are measured with sufficient rigour nor does it accept that more meaningful information cannot be provided without compromising commercial interests of companies.

9.103 The Committee notes that ANAO has scheduled an audit of DOCITA's management and monitoring of the ID framework for 2001–02.<sup>96</sup> The Committee strongly endorses the view of the Auditor-General, Mr Barrett, that it is important to have a 'strong, ongoing monitoring role' for the ID component of the Initiative, to have an intelligence capacity to obtain opinions and tangible evidence from those involved in the ID process. However, the Committee would prefer to see such tangible evidence in the public domain as a result of the normal reporting processes already in place.

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94 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, 'ID Project Register', No. 51/00, 26 September 2000.

95 Committee, *Hansard*, 18 May 2001, p. 525.

96 Committee, *Hansard*, 17 May 2001, p. 475.