CHAPTER ELEVEN

THE NEW IT OUTSOURCING ENVIRONMENT

Introduction

11.1   In this final chapter, the Committee focuses on moving forward with information technology (IT) outsourcing. It looks at the Government's future plans for the Initiative and assesses them in light of the evidence produced during this inquiry. The Committee begins by gathering together the more practical recommendations aimed at making the IT outsourcing process simpler, shorter, less costly and more rigorous. The recommendations are also designed to strengthen accountability and increase transparency. In turning specifically to contract management, the Committee suggests ways to improve its effectiveness and efficiency, to protect privacy and intellectual property rights and to promote both industry development and value for money outcomes. The Committee makes the clear distinction between public and parliamentary accountability and how it can be strengthened in both areas of Commonwealth IT outsourcing. It then tackles the broader policy issue of where whole-of-government IT outsourcing fits in a devolved environment and touches on matters such as the Commonwealth Procurement Guidelines (CPGs) and the role of a central unit to assist agencies with IT outsourcing in a truly devolved environment.

Guidelines and best practice

11.2   Competitive tendering and contracting is not new. Over the years government administrations have built up a wealth of experience as they adapt to the changing IT marketplace and look for more effective and efficient ways of procuring the goods and services they require. With the Commonwealth's IT outsourcing Initiative, however, the Committee found that planning, the most fundamental axiom of procurement, was bypassed.

11.3   Without fail, most agree that the Initiative was a major and important undertaking. Conventional wisdom would dictate that those managing the process would map the way ahead with care, foresight and in close consultation with all involved. Yet from the outset the Initiative was rushed with ambitious timeframes imposed on the process. This lack of planning influenced all levels of administration, from the overarching decision making taken in the Finance and Administration portfolio to the actual practices adopted during the tendering and contracting stages of the Initiative. This lack of research, analysis and adequate consultation meant that from the beginning cracks appeared in the process. The assessment of cost savings, the formation of the clusters and the tendering process itself were flawed. Many agencies were simply not committed to the Initiative and the Office of Asset Sales and IT Outsourcing's (OASITO's) 'crash through' approach further alienated some from the process. Moreover, even when the cracks widened, Government and the responsible agencies, the Department of Finance and Administration (DOFA) and OASITO, did not take heed.

11.4   The Committee has uncovered in the course of its inquiry a number of incidents that call into question the Government's assertion that its tendering process was rigorous and of high quality. The sheer weight of evidence indicates that the tendering process was not developed and managed in a way that ensured conformity to process and provided accountability, that protected the interests of the tenderers, and inspired public confidence. The evidence shows again and again a tendering process that lacked thoroughness and transparency.

11.5   The Committee received unfavourable evidence and submissions from a significant number of Commonwealth agencies and private IT industry representatives affected by the Initiative. A number of industry representatives have been critical of OASITO's strategic oversight and implementation of the Initiative. Criticisms ranged from OASITO's 'long and arduous tender process' and the apparent focus on cost savings that 'skewed the evaluation process'[1] to accusations from Commonwealth agencies that OASITO controlled the total tendering process reducing agencies to little more than contributors rather than partners and managers.[2]

11.6   What disappoints the Committee is that despite OASITO's claims of benefits, and its frequent reference to its expertise and strategic approach, according to the Australian National Audit Office (ANAO), the Initiative has cost three times as much as originally budgeted. Further, ANAO found that 'the extent to which those benefits have been realised by agencies in their initial implementation phases has been variable'.[3]

11.7   The Committee has highlighted a number of failings in the tendering process that can be rectified by simply putting in place measures that will ensure that the principles espoused in the CPGs are indeed observed. There is nothing original in these recommendations, they are commonsense measures to be found in procurement guides old and new.

11.8   The Committee recommends that:

- a reasonable timeframe be allowed for an agency to prepare for IT outsourcing. Agencies should be encouraged to set aside ample time to identify their particular needs and objectives, to determine the scope of their project, to engage in initial market testing involving consultation with industry, to devise a tender strategy, including a tender evaluation plan, and to issue and further refine draft tender documents;

- the formal tendering process to focus on the actual proposal and not be used for unnecessary market testing;

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1   The Sausage Group, submission no. 7.

2   Australian Taxation Office (ATO), submission no. 22, Section 6, 'The OASITO Process'.

3   Australian National Audit Office (ANAO), *Implementation of the Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative*, Audit Report No. 9 2000-2001, p. 11.

- the tender evaluation plan, which is to be completed before the release of the RFT, provide some indication of the weightings to be assigned to the various components to be evaluated;

- all RFTs for IT outsourcing which contain clauses allowing the Commonwealth broad discretionary rights to alter the RFT or to exclude a tender from the process or any similar decision, also include a clause which places a clear and definite obligation on the Commonwealth to provide in writing the reasons for any variation, amendment, cancellation or termination.

11.9   In the Committee's view the need for it to spell out such basic recommendations is an indication of a deeper problem with the current CPGs.

11.10   It is one thing to have a document that espouses an impressive array of values and principles but it is quite another to see them in practice. While the Government has on any number of occasions stated that responsibility for implementing the Initiative now rests with agency heads, it cannot absolve itself of the responsibility for ensuring that Commonwealth agencies are fair and equitable in their dealings with the public and are accountable for their actions.

11.11   Under the current CPGs there is a high level of devolution of responsibility for procurement practices and very little guidance for agencies apart from broad statements of principle. As this report has demonstrated, this lack of clear and practical guidance has led to a degree of flexibility and loose interpretation particularly in the area of accountability and transparency. Moreover, it appears that in the absence of more detailed and down to earth guidelines, scant attention was given to some very basic and well established procurement principles such as procedures for late tenders.

11.12   The Committee would like to see the Government demonstrate in practical ways a firm and genuine commitment to the principles of free and open competition, fairness, accountability and equity. It recommends that:

- the Government re-introduce mandatory competency standards for all officers to whom responsibility for procurement is delegated;

- competency standards and training should be developed by the Department of Finance and Administration. This is to be done in consultation with the Public Service and Merit Protection Commission to ensure consistency with the Australian Public Service Values;

- the Public Service Commissioner report in the annual State of the Service report on the implementation of the Initiative together with the competency framework;

- the Government review and consider re-writing the CPGs with a view to making them more explicit and detailed and less likely to broad and uncertain interpretation;

- all officers performing duties in relation to the procurement of property and services be required to act in accordance with, rather than simply 'have regard to' the core policies and principles detailed in the CPGs;

- the accompanying Guide for Managers, which is under review, cover in greater detail procurement practices and procedures. These proposed guidelines should build on the collective experiences of Commonwealth agencies in procurement and offer clear, precise and practical guidance on the range of issues confronting procurement officers such as procedures to be followed for a late tender.

11.13   The Committee acknowledges that expert consultants play an important and dynamic role advising government on a range of issues, but contends that it remains the Government's ultimate responsibility to develop its own strategic policy. In this instance, the provision of strategic, legal/contractual and technical advice fell heavily on Shaw Pittmann Potts and Trowbridge (Shaw Pittman) an American legal and IT outsourcing firm appointed as Strategic Adviser. There is little evidence of any well-documented policy papers relating to the Initiative's implementation from the Strategic Adviser (although OASITO may have internal documents), nor is there any published report material from Shaw Pittman resulting from the Initiative. Thus, the only accessible corpus of knowledge on Initiative outcomes from which others may draw to refine or redevelop IT outsourcing policy for the future is an IT outsourcing Project Guide that would seem to consist of the Group 11 request for tender (RFT) and draft Services Agreement.[4]

The probity auditor

11.14   Apart from the specific recommendations aimed at improving the effectiveness and efficiency of the tendering process, the Committee is also concerned with ensuring the integrity of the process. The Committee was most concerned with the lack of documentation and poor record keeping of officers from DOFA in regard to the Humphry Review and OASITO during IT outsourcing transactions. It goes without saying that agencies must ensure that the practice of maintaining clear, complete and comprehensive documentation is established and that records are appropriately managed. Accurate and full documentation and sound record keeping practices are the mainstay of accountability. Again this is a matter that may be taken up in the re-evaluation and re-writing of the CPGs.

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4   The Office of Asset Sales and IT Outsourcing (OASITO) informed the Committee that to assist transition to the new implementation model, the Office of Assets Sales and Commercial Support (OASACS) IT Outsourcing Advisory Unit produced a comprehensive IT outsourcing Project Guide in April 2001 for the use of agencies who were yet to embark on the outsourcing of their IT&T Infrastructure. The Committee, however, asked for copies of material that OASITO is forwarding to agencies and any other information that would be helpful to the Committee in simply understanding the procedures generally followed in the tendering processes such as those undertaken for IT outsourcing. OASITO replied**:** 'Agencies that have sought information have been provided with the Group 11 request for tender (RFT) and draft Services Agreement. Obviously agencies will alter these documents as they see necessary to reflect their needs and to reflect any agency specific processes'. The Committee assumes, in light of the evidence provided by OASITO, that this material constitutes the IT Outsourcing Project Guide.

11.15   The Committee looked closely at the role of the probity auditor in the IT outsourcing process and found deficiencies with some aspects of OASITO's contractual arrangement with the probity auditor. The role of a probity auditor has evolved over a number of years and there is a growing awareness of the importance of a probity auditor. Recent discussions about the functions of the probity auditor reveal that expectations have changed. Commonwealth agencies such as OASITO demonstrated no great interest in developments in this area and no inclination to open their minds to the possibilities of making better use of a probity auditor with a view to enhancing the integrity of Commonwealth procurement transactions.

11.16   The Committee believes that the value of future IT outsourcing contracts will be sufficiently high and administratively complex to justify agencies contracting both a probity auditor and a probity adviser to perform separate and distinct tasks. The Committee recommends that their respective roles and functions be carefully defined to ensure that the independence and objectivity of the probity auditor's position is maintained at all times.

11.17   The Committee further recommends that a probity auditor be responsible for producing a full report at the end of the tender process certifying that all procedures have been followed in accordance with probity principles covered in a probity plan that is established *before* the commencement of the tender process. The Committee is strongly of the view that the appointment of a probity auditor for complex and expensive outsourcing initiatives brings independent oversight of the tender process and strengthens its accountability and overall integrity. It also recommends that probity auditors' reports be made public.

Contract management

11.18   Even though a rigorous tender process may succeed in selecting the best provider of goods and services from the range of bidders, agencies still need to take measures to ensure that the arrangements finally agreed to will produce the best possible outcome.

11.19   The observations made above about the need for planning and clear specifications apply equally to contract management, especially during the negotiation stage which provides the last opportunity for agencies to specify exactly their requirements. A contract, even with clear identification and articulation of contract requirements, needs to be appropriately managed for the arrangement to work for the benefit of all parties involved.

11.20   The Committee accepts that both parties to an IT outsourcing agreement have to make significant adjustments when becoming partners in a new business. Each brings its own special interests and assumptions to the relationship and there are significant cultural changes to deal with. Initially, the agency has entered the arrangement with any number of expectations—cost savings, improved levels of service delivery, access to latest technology. On the other hand, the vendor, while endeavouring to meet the agency's objectives, must also satisfy its own requirements to make a reasonable financial return on its investment. These different approaches

can draw the parties into misunderstandings and disagreement leading to an adversarial rather than a cooperative relationship. But in the view of a number of witnesses this situation can be avoided.

11.21   As was the case during the tendering process, contract management also requires specialised knowledge and experience. Again agencies should be aware of the importance of placing themselves in a position where they retain control over their IT destiny and the costs involved.

11.22   The Committee believes that in order to contract out an agency's IT infrastructure successfully, there needs to be adequate in-house and outsourced staff with the knowledge and experience of, as well as commitment to, the agency's core business. Only then can adequate judgements be made as to which IT infrastructure arrangements would best suit the agency. A key means of maintaining and cultivating corporate memory of the agency's core business is ensuring that experienced and skilled senior agency staff are retained.[5]

11.23   The Committee believes that preparing agency staff for the changes ahead, especially in regard to anticipating and resolving problems with service delivery and raised expectations, is a sensible approach to managing the transfer to an External Service Provider (ESP) and is also a means of involving staff in the change over. Agencies that have been through the process provide an invaluable source of knowledge and experience for those yet to outsource their IT and provide lessons for those that are to re-tender.

11.24   The Committee also looked at specific and key provisions in the contract.

Privacy

11.25   The amendments to the *Privacy Act 1988* update the Act so that it better ensures adequate privacy safeguards in the private sector, and thus in an outsourced environment. Because the amendments reinforce the binding nature of the privacy obligations of an ESP contained in a contract, it will support the past privacy provisions contained in already signed contracts.

11.26   To the Committee's and the Federal Privacy Commissioner's knowledge there has not been any significant breaches of privacy under the IT outsourcing initiative. The close consultation between OASITO and the Office of the Federal Privacy Commissioner (OFPC) when developing contract clauses has no doubt contributed to this absence of difficulties thus far in the Initiative. The Committee recommends that such consultation between agencies and the OFPC continue, both in establishing future outsourcing arrangements and in monitoring and evaluating current ones.

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5   Joint Committee of Public Accounts and Audit, *Contract management in the Australian Public Service,* October 2000, p. 95.

Data Security

11.27   The Committee supports the Australian National Audit Office's (ANAO's) proposal that if an independent security review is required, then it would be useful to include a form of service level for the management of security standards in the contract to encourage the contractor to be committed to completing the review.

11.28   The Committee also supports ANAO's recommendation 18 that 'where appropriate in outsourcing IT infrastructure services, agencies develop, in consultation with the Defence Signals Directorate, an integrated security architecture strategy that addresses operational security issues, identifies the necessary security safeguards, and the required timetable for their implementation by the external service provider.'[6]

11.29   For agencies with distinctive data security needs, such as the science agencies, and agencies with high security needs, for example the Australian Federal Police (AFP) and National Crime Authority (NCA), the situation under IT outsourcing may be more complex. The Committee recommends that for such agencies, evaluation of the merits of outsourcing will need to consider any impact on data security that might place agency business at risk as well as the cost effectiveness of outsourcing.

Intellectual Property

11.30   The Committee recommends the Department of Communications, Information Technology and the Arts (DOCITA) conducts an evaluation of the outcomes of the Initiative's intellectual property management clauses in existing contracts. The evaluation to include, but not exclusively, an examination of the generation of government royalties, the protection of government assets and the contribution to industry development.

11.31   It further recommends a more concerted and coordinated effort be made to promote and market Commonwealth-owned intellectual property to maximise returns on this valuable resource. The Committee notes that an intellectual property rights register is a feature of current contracts under the Initiative. It recommends that DOCITA investigate the feasibility of publicising and marketing this information, as well as details of intellectual property held by agencies that are not outsourced, with a view to maximising returns on Commonwealth intellectual property.

Succession plan

11.32   OASITO has to some degree refined contract provisions over the life of the Initiative, indicating that some evaluation has occurred. However, a comprehensive review of the effectiveness of contract provisions in each contract for each agency needs to occur as part of developing a succession plan. Further, while in a devolved environment the effectiveness of contract provisions needs to be evaluated for each agency, some coordination of knowledge and experience of the adequacy of

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6   ANAO, *Implementation of Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative*, Audit Report No. 9 2000-2001, p. 34.

contractual arrangements is also required. The Committee is concerned that there is no body to coordinate the accumulated knowledge of the effectiveness of current contractual arrangements for the benefit of agencies in re-tendering and future outsourcing arrangements. This situation leads to the idea of establishing a central repository of knowledge connected with IT outsourcing.

Objectives of the Initiative

11.33   The Committee was disappointed by the lack of effort being made to evaluate the Initiative's progress, to measure the actual benefits against predicted outcomes, and to record, assess and compare the experiences of agencies. It can only conclude that OASITO did not consider such an evaluation to be its responsibility and that agencies thought that the high degree of central control alleviated them of the task.

11.34   During this inquiry the Committee also discovered that information that would enable it to make an unqualified assessment of two key objectives of the Initiative—industry development and cost savings—was simply not available for scrutiny. In the Committee's view this is a serious weakness with the Government's financial management and accountability of IT outsourcing, and one which must be addressed by agencies who are now responsible for outsourcing their IT. The Committee calls on the Government to ensure that in future information is collected and published in a way that allows its policies to be evaluated against the stated objectives.

Industry Development

11.35   The Committee would like to see in place a process for industry development (ID) that clearly defines responsibilities, delivers certainty and transparency, and gives agencies the capacity to manage their own business. Thus the Committee suggests that DOCITA in close consultation with agencies develop and agree to an overall roadmap for ID under the IT outsourcing program. This strategic plan needs to spell out the objectives and targets of ID under the Initiative. For example, it would define and specify small to medium enterprise (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.

11.36   In an attempt to overcome what is, in fact, a serious accountability issue the Committee, to begin with, recommends that DOCITA review its procedures for reporting ID outcomes with a view to making the procedures more transparent and information on ID outcomes more intelligible.

11.37   Companies are currently required under contract to provide DOCITA with independently audited annual industry reports. The Committee believes that, in return, DOCITA has an obligation, as the department responsible for ID under the new framework, to make that information accessible to Parliament and the public. It would be helpful if DOCITA's intentions for ID reporting under the new framework were made clear before the execution of additional IT contracts, to satisfy the Committee

that figures published by DOCITA reflect accurately the extent of ID outcomes reported to it by industry.

11.38   In particular, the Committee recommends that DOCITA publish figures that can demonstrate, in dollar terms, the direct benefits going to SMEs and the opportunities created for the domestic IT industry in regional Australia. The Committee views DOCITA's current methodology for reporting ID achievements, which calculates industry achievements in percentage terms only, as inadequate given that ID was a core objective of the Initiative and has been given a new lease of life in the devolved outsourcing environment.

11.39   The Committee also recommends that DOCITA strengthen the accountability framework of ID reporting by putting in place benchmarks for new, or renewed, IT outsourcing contracts that will allow industry outcomes to be measured accurately and assessed with confidence.

11.40   Finally, 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.

Savings

11.41   The lack of reliable figures on cost savings from IT outsourcing is another area of concern for the Committee. It has not been able to formulate a clear picture of actual savings from IT outsourcing and make useful comparisons across agencies and departments. Neither OASITO nor DOFA accepted any responsibility for not being able to measure and record savings realised from the Initiative. Both were forthcoming in expressing the view that, in fact, savings could not be measured under their preferred financial methodology and that, even if it were possible, responsibility for realising cost savings resided with the agencies. The Committee finds this situation unacceptable given DOFA's policy responsibility and early involvement and OASITO's strategic oversight function and administrative responsibility for implementing the Initiative, which included imposing upon agencies a questionable financial methodology as the basis for proceeding with IT outsourcing.

11.42   As the ANAO report on the Initiative makes very clear, OASITO adopted a financial methodology that was flawed in a number of ways. Not least, it provided estimates of cost savings that were inflated, it was not consistent with the normal commercial practice of including the value of agency assets at the end of the contract period, and it overlooked the importance of benchmarking and tracking savings during the life of a contract.

11.43   The Committee, like ANAO, was unable to reconcile the level of projected savings announced by the Minister for Finance and Administration with the savings figures provided by a number of agencies during the inquiry. This, in the Committee's opinion, is another significant shortcoming for a major government program predicated on reducing, often by significant amounts, the forward estimates of agency budgets.

11.44   The Committee accepts that in a devolved environment agencies should, as a priority, strive to achieve value for money when IT outsourcing (of which cost savings is one part). But savings should be viewed by agencies as one of several factors that underpin a decision to outsource IT. It is also important for agencies to adopt accounting practices that will enable them to measure and report any savings realised from IT outsourcing.

Transparency and Accountability

11.45   Public access to reliable information is necessary for government accountability. Without full and accurate information people are unable to question government about its activities and ultimately to make an informed choice at the ballot box. The Audit Office of NSW observed:

> A contract can be written to maintain or even enhance accountability and access, or can be written to diminish both.[7]

11.46   The Council of Auditors-General found that 'recent experiences in Australia would indicate that government agencies are tending to use the pretext of commercial-in-confidence as a shield against the disclosure of information which is commercially embarrassing to the Government or which raises issues of probity.'[8]

11.47   In the Committee's opinion, this observation certainly applies to Commonwealth government contracts. It believes that the Government should be doing all that is possible to ensure that RFTs and contracts involving the Commonwealth are written to enhance accountability.

11.48   In particular, the private sector must be made aware that the disclosure requirements when dealing with the Commonwealth are different from those that pertain to commercial transactions between parties in the private sector. The Committee strongly recommends that agencies should take steps to ensure that contractors are fully aware of and appreciate the issues of accountability and public duty when dealing with the Commonwealth. With these thoughts in mind, the Committee recommends that:

- legislation enshrining the reverse onus principle applying to government contracts be enacted. This would ensure that government contracts were available for a greater degree of scrutiny. In this context the ANAO criteria would provide guidance on what, in such circumstances, would still be considered genuinely confidential;

- Government give serious consideration to introducing legislation that will provide a greater degree of transparency in Commonwealth contracts by for

7   Audit Office of New South Wales, *Contracting Out Review Guide,* http://www.audit.nsw.gov.au/contoutrev/contchklist.htm (7 November 2000).

8   Australasian Council of Auditors-General, *Statement of Principles—Commercial Confidentiality and the Public Interest,* http://www.acag.organise.au/accomm00.htm (7 November 2000)

example making all contracts publicly available. It could use the Victorian legislation as a model and publish on the internet all government contracts over $10 million. Again this would ensure that government contracts are available for a greater degree of scrutiny. As noted above, the ANAO criteria would provide guidance on what, in such circumstances, would still be considered genuinely confidential and may be withheld from publication.

11.49   Another related issue is accountability to the Parliament. The Senate has delegated to each Senate Legislative and General Purpose Standing Committee the power to conduct inquiries, and if it deems necessary, to summon witnesses to give evidence and to order the production of documents. A person refusing to give evidence or to produce documents may be found to be in contempt of the Senate which can, under the *Parliamentary Privileges Act 1987*, result in punishment by way of fine or imprisonment.

11.50   Although Committees rarely choose to exercise their full powers, it is important for both the private and public sectors to understand the wide powers of parliamentary committees and their implications for those entering into an agreement with the Commonwealth.

11.51   The cumulative experience of this inquiry shows that little effort was made by OASITO to inform contractors of their parliamentary reporting requirements. Although clauses regarding such requirements were included in most RFTs and contracts, OASITO clearly did not ensure that contractors understood the implications of such clauses.

11.52   The Committee considers that it was OASITO's responsibility to inform itself and contractors of their parliamentary reporting obligations and the powers of parliamentary committees. The Committee recommends that:

- Commonwealth agencies take immediate action to ensure that before entering into any formal or legally binding undertaking, agreement or contract that all parties to that arrangement are made fully aware of their obligation to be accountable to Parliament;

- future RFTs and contracts entered into by a Commonwealth agency include provisions that require contractors to keep and provide sufficient information to allow for proper parliamentary scrutiny of the contract and its arrangements. The powers of parliamentary committees should be stated explicitly in the RFT and the contract.

The devolved environment

11.53   This report has looked at many aspects of contract management. Individually, whether it is drawing up specifications for the statement of work or determining and agreeing on levels of service, managing staff during the transition or engaging consultants, each phase is complex and presents difficulties. The Committee understands that agencies need time to formulate their IT strategy—that it is an undertaking that requires care and planning. The Committee also accepts that once the

decision is taken to outsource IT, both parties to the arrangement must work together to make it a success.

11.54   The Committee believes that the Government has a vital role in assisting agencies to outsource their IT. It is disappointed, however, that the Government does not seem to appreciate that agencies need not only encouragement to outsource their IT but also support and guidance to prepare for and manage their IT outsourcing program.

11.55   At this point, the Committee returns to a dominant theme running through this report—the importance of having a central body of experience and expertise that will help agencies through the potential minefield of IT outsourcing while allowing them the autonomy to which they are entitled. The Government's current proposal for a unit to be set up in DOFA falls far short of meeting the needs of agencies.

11.56   When OASITO was first assigned responsibility for implementing the Government's Initiative, the Minister for Finance and Administration 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 efficient utilisation of resources to manage the variable workload across the two functions.[9]

11.57   Clearly, OASITO failed to provide high quality advice and to effectively and efficiently manage the IT outsourcing process. Now that the Government has accepted the recommendations in the Humphry Review, the major concern about a highly centralised system controlling the process has been removed. With the devolution of responsibility for implementing the Initiative to agencies, outsourcing expertise, according to the Minister for Finance and Administration, would now 'increasingly be located in agencies'.[10] Nonetheless, this inquiry, and indeed, previous inquiries emphasised the importance of having a centre of knowledge and expertise to advise agencies with IT outsourcing.

11.58   ANAO addressed this matter in its first recommendation in its report on the Initiative:

> ANAO *recommends* consideration of the advantages to the Commonwealth of having a specific agency assigned responsibility for the conduct and

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9   Finance and Public Administration Legislation Committee, *Hansard*, 24 November 1997, p. 659. See also Media Release, Minister for Finance and Administration, 'Industry Development and Savings in I.T. Outsourcing', No. 67/97, 7 November 1997.

10   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.

coordination of market surveillance and analysis to support and inform strategic planning by agencies for the re-tendering or outsourcing agreements following the completion of the initial implementation of the IT Initiative.[11]

The Humphry Review also recommended that:

> There is a need for agencies to receive support from a separate organisation in managing transition and implementation of IT outsourcing. 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.[12]

11.59   The Minister for Finance and Administration made plain that the Government would continue to set the overall direction of IT outsourcing and would retain its current objectives including obtaining value for money and maximising industry development. Agency heads would now be 'directly accountable for achieving these objectives within a reasonable timeframe, grouping wherever possible to establish the economies of scale required to maximising outcome'.[13] The only mention of providing assistance to agencies in the new IT outsourcing environment was a Government announcement which stated:

> Acknowledging that it has always been the responsibility of individual agencies to transition to IT outsourcing, the government has agreed to establish a body to advise agencies, at their request and for a fee for service basis, on managing this transition. This body will reside in the Department of Finance and Administration.[14]

11.60   The Committee found this response contributed nothing toward clarifying or resolving the difficult policy matter of where IT outsourcing actually fits in a devolved public service environment.

11.61   Dr Boxall from DOFA added little to the Committee's understanding of the role and function of this new unit. The Committee was left with the strong impression that this unit was not going to be the centre of leadership that is needed to give the Commonwealth's IT outsourcing program the direction and encouragement necessary to re-boot the Initiative. In referring to the establishment of the unit, he confirmed that it would be on a fee for service basis and at the request of agencies. He stated bluntly:

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11   ANAO, *Implementation of the Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative*, Audit Report No. 9 2000-2001, p. 28. Recommendation No. 1.

12   Richard Humphry, *Review of the Whole of Government Information Technology Outsourcing Initiative*, Commonwealth of Australia, December 2000, p. 14.

13   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.

14   ibid.

> When we get the business and get the fee for service we will resource it…the acting secretary sent a letter to all secretaries after the release of the government's response to the Humphry Review and indicated where they could call to start the ball rolling in the event that they wanted advice on this issue.[15]

11.62   The Committee is disappointed that the Government has swung from one extreme to the other—from central control to hands off. This disengagement from the IT outsourcing process is unfortunate because the process needs to be reinvigorated and given direction. A gap needs to be filled—at least in the short term.

Agencies need guidance from a centre of expertise

11.63   OASITO's failure to live up to expectations is not a reason to abandon completely the notion of a central advisory body to guide and direct Commonwealth IT outsourcing. The Committee believes that there is no point in throwing out the good with the bad.

11.64   Clearly one of the loudest and most persistent messages coming out of this inquiry is that the IT outsourcing process is a complex undertaking that requires a great deal of forethought and planning. Agencies will need assistance to help them identify and specify their IT needs, especially in such a dynamic industry, to make a smooth transition from an internal provider to an outsourcer, to effectively tender and manage their IT outsourcing contract and to take a constructive role in industry development. This needs to be done within the context of central government policy and devolved agencies.

11.65   The Committee is fully aware that there are benefits to be gained from IT outsourcing and takes note of the number of agencies that are pleased with the outcome.

11.66   ScreenSound Australia told the Committee that outsourcing their corporate IT services was not its preferred approach, nevertheless it explained that it recognised that some potentially beneficial outcomes can be realised from the arrangements with its selected contractor. It submitted:

> We also recognise the government wide policy on outsourcing to which we are fully committed. We remain determined to work hard with the current arrangements to ensure the best possible outcome for the Archive, its customers and the contractor.[16]

11.67   Throughout this report, the Committee has highlighted the need for expertise in a number of areas—legal and procurement practices, information technology, human resources and contract management. Depending on the level of knowledge and experience required for the various aspects of IT outsourcing, agencies may seek

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15   Dr P. Boxall, DOFA, Committee, *Hansard*, 7 February 2001, p. 91.

16   ScreenSound Australia, submission no. 11.

advice from in-house experts or external consultants. On some matters, however, the Committee expects that the best possible advice and guidance would come from a central government body which has a far better understanding and broader appreciation of the whole-of-government policy under which the individual agencies are operating.

11.68   Such a body is also better placed to coordinate and bring cohesion to programs such as ID and to deal with issues such as intellectual property. Moreover, it is ideally placed to assist agencies share their knowledge and experiences in the area of IT outsourcing across a range of activities covering technology, contract management and partnership building. The Committee considers that DOFA may not be the appropriate body to have responsibility for offering advice to agencies across this range of expertise. It is also concerned that, given the department's budget-related focus, it will be more difficult for agencies to access balanced and informed advice beyond costs issues.

11.69   Indeed, Mr Mike McNamara from Computer Sciences Corporation (CSC) recognised the dilemma for future IT outsourcing with DOFA retaining policy responsibility for procurement generally and government information contracting principles and also for endorsed supplier arrangements while DOCITA has carriage of policy aspects of IT and also industry development in relation to IT. He explained:

> from our vantage point it would be helpful to have all those eggs in one basket in DOCITA, but there needs to be some linkage to the Department of Finance and Administration. I am not sure how that can be done, but I would see it as preferable to have the specialist expertise in information technology contracting—not just outsourcing—residing within one agency, and I would see an advantage in that being in DOCITA.[17]

11.70   The Committee recommends that the Government consider establishing a centre of IT outsourcing expertise in DOCITA concerned with the technological and industry development side of IT outsourcing but not necessarily the tendering and contracting process. The Committee proposes that the role of a service unit in DOCITA would be far different from the OASITO model and be more consultative and helpful than the service unit now established in DOFA. It would have broader horizons on IT and would establish and form the hub of a network between IT outsourcing units in Commonwealth agencies. Further, it would assume an education and training role in IT outsourcing with its focus on IT planning for the future rather than the legal tendering aspects.

11.71   Indeed, if measures are taken to improve the CPGs and to upgrade the qualifications of officers responsible for Commonwealth procurement, the need for specialist tendering and contract advice may be reduced.

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17   Mr. M. McNamara, Computer Sciences Corporation (CSC), Committee, *Hansard*, 6 August 2001, p. 665.

11.72   One important function for such a unit would be to draw on the experiences of agencies and to facilitate information sharing across agencies on matters such as industry development and intellectual property. Indeed, such a unit could ensure that intellectual property residing within Commonwealth agencies be better utilised.

Partnership with business

11.73   The Committee has already touched on the complexities and difficulties involved in negotiating the contractual arrangements and in making the transition from government supplier to external provider. Clearly, all parties to the contract need to make adjustments to the changed environment. Indirectly, the report has on many occasions referred to the relationship between the agencies and the provider.

11.74   Some agencies, such as the Australian Taxation Office (ATO) and the Department of Transport and Regional Services (DTRS), have reported success in building a genuine partnership with their providers. They set the standard for what can be achieved and indeed, for what both agency and business should be working toward.

11.75   The Committee believes that the experiences of these agencies is a valuable resource and one that the Government should be drawing upon to assist agencies develop strong and productive links with private industry. Again a central unit located in DOCITA would be an ideal vehicle to circulate information on and to facilitate partnership building between Commonwealth agencies and external providers.

Restoring confidence

11.76   The Committee recognises that in the aftermath of the Humphry Review, the Government needs to take active measures to restore confidence in the business world. To date, there has been no indication of a revitalisation of the Commonwealth's IT outsourcing program. The Government seems unwilling to engage in open and robust public debate about moving IT forward in the Australian Public Service.

11.77   In the current period of transition, there is a significant amount of uncertainty. If left unchecked, this could prove very costly for both industry and government. The Australian Information Industry Association (AIIA) believes that the Government should play an important role in assisting industry and agencies to make the transition to the revised government outsourcing arrangements quickly and smoothly. In particular:

> Agency heads should be provided with appropriate guidelines regarding the relative merits of outsourcing models. Were a multitude of models to emerge, both government and industry may incur high tendering costs. These costs may be reflected in contract price.[18]

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18   Australian Information Industry Association (AIIA), submission no. 24.

Information regarding the future role of relevant departments, particularly OASITO and DOCITA, should be disseminated to industry and agencies.[19]

11.78   At the moment there appears to be a vacuum in policy making and a lack of overall direction for the future of Commonwealth IT outsourcing. The Committee calls on the Government to remove the uncertainty surrounding the Initiative and to restore confidence in the process.

Senator George Campbell

Chairman

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19   ibid.