COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

FINANCE AND PUBLIC ADMINISTRATION REFERENCES COMMITTEE

Reference: The government's information technology outsourcing initiative

FRIDAY, 16 MARCH 2001

CANBERRA

SENATE

FINANCE AND PUBLIC ADMINISTRATION REFERENCES COMMITTEE

Friday, 16 March 2001

Members: Senator George Campbell *(Chair)*, Senator Watson *(Deputy Chair)*, Senators Buckland, Lightfoot, Lundy and Ridgeway

Substitute members: Senator Eggleston for Senator Watson

Participating members: Senators Abetz, Allison, Brown, Calvert, Carr, Chapman, Conroy, Coonan, Crane, Eggleston, Faulkner, Ferguson, Ferris, Gibson, Harradine, Harris, Knowles, Mason, McGauran, Murphy, Murray, Payne, Tchen and Tierney

Senators in attendance: Senators Buckland, George Campbell, Eggleston and Lundy

Terms of reference for the inquiry:

For inquiry into and report on:

The Government's information technology (IT) outsourcing initiative in the light of recommendations made in the committee's report, *Contracting out of government services—First Report: Information technology*, tabled in November 1997, and the Auditor-General's report No. 9 of 2000-2001, and the means of ensuring that any future IT outsourcing is an efficient, effective and ethical use of Commonwealth resources, with particular reference to:

(a) the need for:

    (i)   strategic oversight and evaluation across Commonwealth agencies,

    (ii)   accountable management of IT contracts, including improved transparency and accountability of tender processes, and

    (iii)   adequate safeguards for privacy protection and security;

(b) the potential impact on the capacity of agencies to conduct their business;

(c) savings expected and achieved from IT initiatives; and

(d) the means by which opportunities for the domestic IT industry, including in regional areas, can be maximised.

WITNESSES

Committee met at 9.04 a.m.

REEVES, Mr Chris, Executive Director, Canberra Business Council

MacDIARMID, Mr Ross, Chairperson, Outsourcing Committee, Canberra Business Council

CHAIR—I declare open the fifth public hearing of the Finance and Public Administration References Committee inquiry into the government's information technology outsourcing initiative. I welcome my Senate colleagues and witnesses. Before we commence, I wish to advise for the record that all witnesses appearing before the committee are protected by parliamentary privilege with respect to evidence provided. The committee prefers all evidence to be given in public. However, you may at any time request that your evidence or part of your evidence be given in private and the committee will consider any such request. I point out, however, that evidence taken in camera may subsequently be made public by order of the Senate.

In light of certain exchanges that have occurred during these hearings, I take the opportunity at this time in the committee's proceedings to put certain of the committee's powers clearly on the record. Senate committees have a clear constitutional authority to require the attendance of any person and to require the production of any document relevant to their inquiries. This committee may invite the attendance of a person or invite the production of a document and, if that invitation is declined, under standing orders 25, 15 and 34, the committee may require the attendance of that person or production of that document by a subpoena.

I draw to your attention that this power applies to a person and is not limited to public servants. There have been cases before this committee where witnesses have indicated that they have made a decision about what they will or will not provide to the committee or have made a decision about who they think should or should not attend before the committee. I make it clear that neither of these are courses of action open to a witness before a Senate committee. A committee may permit a witness to provide a reason for the non-attendance of a person or the non-production of a document and the committee will then determine whether or not it accepts that reason.

Witnesses before Senate committee are also protected by parliamentary privilege. In addition to the basic principles noted in my opening statement, it has become clear that there is misunderstanding and confusion about the protection which this affords. Concerns that secrecy provisions and statutes, terms and contracts, commercial arrangements, legal professional privilege and legal proceedings in general prevent disclosure of information to a Senate committee are misplaced. None of these are grounds for the non-provision of information to committees. The provision of information to a committee cannot subsequently be questioned in courts or tribunals. In that context I draw to your attention privilege resolution 610, which states:

> Any attempt by any party to influence a person in respect of any evidence given, or to be given, before a Senate committee or to induce them to refrain from giving evidence may be treated by the Senate as contempt.

I now invite the representatives from the Canberra Business Council to the table. Mr Reeves, do wish to make an opening statement.

Mr Reeves—Yes, thank you, Senator. I am the executive director, and Mr MacDiarmid is an honorary office bearer, of the Canberra Business Council. He is here in his honorary capacity as chairman of an outsourcing committee. The Canberra Business Council is a representative body in Canberra and the Australian capital region. We have corporate and individual membership plus membership of 35 other business organisations. Through those organisations we represent some 7,000 firms across all industry sectors. IT businesses, including many SMEs, make up about 19 per cent of our corporate membership. The Canberra Business Council has long held an interest in IT outsourcing. For the past five years we have held an annual IT outsourcing roundtable, which runs for more than half a day and into the evening, to explore various issues in relation to IT outsourcing.

The Canberra Business Council has long supported the concept of IT outsourcing because in our view it boosts industry development and provides opportunities for business, particularly SMEs, to develop and grow their business, which in turn means economic growth and higher employment. We made a submission to the Humphry review, which has been made available to this committee. We also sent a submission to this committee, which to a large extent was based on our submission to the Humphry review with some updates. We have made clear both publicly and in our submission to this committee that we, in general terms, welcome the findings of the Humphry review if it leads to more and smaller contracts, rather than larger aggregated bids, and if it leads to more opportunities for local SMEs to participate in IT outsourcing. That is all I wish to say in terms of an opening statement.

Senator LUNDY—Thank you for that opening statement, Mr Reeves. In terms of the process outlined in the Humphry review about further consultation with industry and industry development, can you tell the committee what contact you have had from the government about what happens next with the industry development provisions of the IT outsourcing?

Mr MacDiarmid—We have had little contact at this stage and therefore little consultation with the government on what would be the next phase of the IT outsourcing process. 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 continue to have is that there is a certain degree of sentiment to ensure that, through that report, SMEs will have a significantly greater opportunity to be involved in the process. As yet, we have not worked out how that is going to happen.

Senator LUNDY—We heard from the Department of Communications, Information Technology and the Arts representatives—I think from the IT industry development branch— who have carriage of monitoring the industry development components of the existing contracts and who have also been charged with the role of consulting as to what happens after the Humphry review. Have they formally contacted your organisation—the Canberra Business Council—in any way? I will leave the question at that because that will tell me what I want to know.

Mr MacDiarmid—No, there has been no contact. In the next two or three months, we are proposing to contact each of the agencies that have been involved in IT outsourcing and ask

them about the process by which they will move forward from here so that we can start to inform our membership and the business community generally as to what opportunities might be available to them to be involved, both in this process and in the corporate services outsourcing.

Senator LUNDY—The other area of interest to me particularly is that in the Audit Office report there was a significant chapter devoted to industry development issues, particularly the performance of contracts to date in the industry development area. Are you familiar with the reporting back, I guess, on industry development in that report?

Mr MacDiarmid—Broadly, yes, through the people who are represented on our committee who provide that sort of information.

Senator LUNDY—What I am interested in is your organisation's view, perhaps based on anecdotal evidence or stories that you have from members about their experience. You mentioned some of the frustration about not accessing the prime contracts, but I am interested in their experiences as subcontractors under the clustered arrangements. I do not know if you can give a few examples of the sort of feedback you have been getting from members that have been involved in contracts as subcontractors.

Mr MacDiarmid—I think that we can give some specific examples—which we do not have with us today—of where subcontractors had difficulty in just being involved with primes in the process of providing the services. I think it goes back to the process itself. If you look at the process that has been followed up until now, you could ask yourself how SMEs can actually play a role when there has been somewhat of an adversarial approach through the government saying to minimise risk and therefore ensuring appropriate accountability. That is the sort of feedback we are getting. Because there have been such thin margins available to the primes in industry development and particularly in the involvement of SMEs who could play a crucial role in the industry development process, there has not been the latitude within the margins available for them to go in there and offer a service that was going to enable them to develop new products or for them to necessarily be involved. I think that is the sort of comment we have been getting back from some of our members and some of the business community. In terms of specific examples, we could certainly find and make available some examples of where some subcontractors have had difficulty in dealing with primes. That is not necessarily a reflection on the primes; it is simply that the process itself has not really allowed for SME involvement in the entire process, particularly with an emphasis on developing products and services from that sector.

Senator LUNDY—To take that further, have you had any complaints or concerns raised with you about the treatment of intellectual property developed by small to medium enterprises? I guess the question relates to their relationship with the prime, but also generally.

Mr MacDiarmid—Yes, we have, but it has not been as significant an issue as the issue of just being able to deal in a cooperative partnership or alliance arrangement. That has been the primary concern of most of the SMEs we have had dealings with. However, the issue of intellectual property management, both with the prime and in turn with how government is going to respond to that, has been an issue but not something that has been really the highest priority, from the conversations we have had with SMEs.

Senator LUNDY—Some of the ministerial statements supporting the whole initiative when they have announced the successful tender for the big cluster contracts have talked about partnerships that have been created between SMEs and, say, CSE, EDS and IBM—the big companies. Do your members characterise those relationships as partnerships?

Mr MacDiarmid—No, I do not think so. There are obviously going to be some examples where they would be better with one prime than they would with others. I go back to the point we were making before, that the process by which the IT outsourcing has developed has not, because of its adversarial nature and the fact that there has been a focus on price and savings and efficiency without the emphasis being to some degree placed on industry and business development, means that that has translated to or flows down into the relationship that exists between a prime and an SME. I think that has been to the disadvantage of not just the ACTU business community but also I suspect some SMEs that would otherwise have been able to provide some services if the process had been better thought through.

Senator LUNDY—What about any examples of where a breakdown in the relationship between the SME and the prime has actually resulted in litigation or legal action of some kind? Are there any examples of that?

Mr MacDiarmid—We do not have any examples I am aware of, not in this community. But certainly we can canvass the views of our members in the IT industry and ask them whether they have been in that situation.

Senator LUNDY—I guess it is an issue where the pertinent question then becomes what position is an SME in to actually take a court action against a prime contractor if they are alleging unfair treatment or such activity.

Mr MacDiarmid—I suspect it would be very difficult.

Senator LUNDY—Yes. I do not know whether you would like to comment on that. In your experience with small businesses and small to medium enterprises, is that kind of action common, or is it something that they are not in a position to contemplate?

Mr MacDiarmid—I am going to give you an opinion here that is not based necessarily on information but based on my experience. It is very difficult for SMEs to consider litigation when they are dealing with large organisations, because often issues are very complex and, unless you have really got obvious and significant evidence, it is going to very difficult to actually win the case. If you go back to the process that was put in place around the IT outsourcing, it was difficult for SMEs to get involved in the first place because of the size of the business, the tendering process itself and the fact that the focus was principally on savings and efficiencies. It just was intimidating enough for SMEs to consider the possibility of getting involved. I make the point again that it has flowed down through into the primes, who have had to take exactly the same sort of position. I suspect they would be very reluctant on many occasions to take on the primes because they just do not have the resources to do that effectively. And, as I said, the issues have to be very clear-cut, otherwise you really are potentially going to throw good money after bad.

Senator LUNDY—The industry development clause that, in my understanding, is in the contracts—although I am not aware of the minute detail—provides for, I guess, a minimum degree of involvement with SMEs. Can you comment on how successful you think that approach—that is, putting a clause in a contract mandating a certain level of involvement of SMEs—has been in engaging in providing opportunities for SMEs?

Mr MacDiarmid—I think it was probably a reasonably effective way of trying to mandate SME involvement in industry development. But I am not too sure that, by actually having that sort of clause in a contract, under the sorts of conditions we were talking about before—the very complex tendering process and the very adversarial approach that seemed to be adopted—it was ever going to be able to be implemented effectively. If you are going to do something like that—and we have thought very long and hard about how we could provide some advice on how SMEs could actively play a role and we have not been able to find a solution, other than the sorts of things that were intended—you then have to have a process, a tendering process, that is far more about building relationships and having partnerships that enable that 10 per cent to be delivered, or whatever the number might be, than was there before. If you have to do something because you are mandated to do it, you are not necessarily going to be doing it with an intention of trying to ensure that that service we were requesting from an SME on a subcontract basis will be delivered in a way that is going to help that business and industry to develop generally.

Senator LUNDY—How developed are your thoughts on what is an appropriate mechanism to provide growth opportunities for IT SMEs? We have obviously talked a little and read about your response to the Humphry review—that you see the breaking down of the big clustered contracts as a good opportunity for greater participation. I am just interested if you have developed your thoughts any further on what you would see as an optimal environment for creating those growth opportunities through government procurement practices.

Mr MacDiarmid—We have not at this stage, no. That is part of the process we will be putting in place over the next three months as we start to research the agencies themselves to determine where they see an opportunity. Our focus is more on corporate services than on IT outsourcing, but we will be covering off some of those issues. So I really cannot give you a definitive answer on that, but certainly it will be interesting to talk to you again in two or three months time once we have actually done research.

Senator LUNDY—It is something you are thinking about.

Mr MacDiarmid—Yes. We represent both big and small organisations, of course. I hope we are not here representing one particular sector. But the point we wanted to make and emphasise was that the process that had previously been followed has not, from our point of view, delivered the industry development opportunities that I think were intended. We have an opportunity now, with the Humphry recommendations being supported by the government and the corporate services program being rolled out, to actually get it right. It would be a shame if we did not do that.

Senator LUNDY—I have two more questions. My first goes to the recent report released by the government about the industry development outcomes—that was the compilation report of

the first year of operation for most of the contracts. Have you had the opportunity to familiarise yourself with that report?

Mr Macdiarmid—No.

Senator LUNDY—Then I will not ask you any questions about that. Perhaps the committee can forward a copy of it to you, because I would be interested in your feedback. My follow-up question to you on that, if I can flag it now, would be : what is your organisation's view of the actual measures used in that report to report back on industry development achievements as they relate to the contractual requirements of the cluster contracts? The final question I have is quite a general one and it relates specifically to your constituency and obviously to this economic region's growth opportunities. Overall, how do you characterise the changes that have taken place in the IT sector over the last few years, primarily through the impact of this IT outsourcing program? I guess I am looking for your idea of whether or not it has added depth in the R&D area or whether it has created transient opportunities or if it has been all of the big end of town. How do you really characterise the changes? We hear a lot of good news about how the IT sector is taking off here, but I am interested in what the small business perspective is of the perceived growth.

Mr MacDiarmid—I will answer that in two ways. There is no doubt that the ACT and region's economy has improved significantly. We are all led to believe, primarily from the private sector, that that has grown now to a degree larger than the public sector. There is no doubt there are some indications that that has been because of the outsourcing process and the fact that we brought into the ACT and region a significant number of organisations and employees to service those large cluster accounts. I think the region and the ACT has benefited from the outsourcing process. It did not initially, but it has certainly come from a relatively low base in 1986 or 1987.

In terms of the IT industries, the SMEs, many of them would tell you that they have developed irrespective of the IT outsourcing process. The people we talk to would say that they may have been brought to Canberra to work on large outsourcing contracts but have then effectively gone out with a smaller group and started looking at software opportunities for themselves, and that may have been a spin-off from some things they were doing within that contract. I guess to some degree there has been some sort of peripheral benefit. A lot of the IT companies we see that are being successful in this region have developed software and programs that have, in some cases, nothing to do with IT outsourcing, and many of them are exporting their services. We can give you many examples of IT companies we have here that are servicing contracts and government contracts in the US that are not necessarily servicing contracts—

Senator LUNDY—We would welcome any examples of that nature that you would care to provide.

Mr MacDiarmid—I guess there are two that come to mind. Tower Software is the obvious one that is providing services to government institutions in the US. I think Tower Software is well known to most people. That is one that we often quote, but there are other examples. Protocom is a company that is selling its services throughout the US and in Europe now. The principal of Protocom is someone who worked in Centrelink for a while, not necessarily on the

IT outsourcing process, who left with an idea and started his own operation. There are those sorts of examples. If you wish, we can provide more comprehensive information, but they are two examples of businesses that have developed irrespective of the IT outsourcing process. But, and I go back to the point, there is no doubt the IT outsourcing program has benefited the ACT and we have an economy here that I do not think would be as strong if we did not have IT outsourcing.

Mr Reeves—The figure often used is that there are some 800 IT companies, or thereabouts—a bit under that—in the ACT and region. Certainly some of them would have benefited from IT outsourcing, but at the same time there is no doubt that many of them have been established and thrive and prosper despite outsourcing and irrespective of outsourcing. They go their own way.

Senator LUNDY—I am interested in that. One of the issues raised in the first Senate inquiry into IT outsourcing was that small companies saw a government contract as quite a critical export credential for them. It was a very important badge of honour to hold up when selling your credentials overseas. Does that concur with feedback you currently get and do you think that is an important part of an opportunity that could exist with regard to government contracts?

Mr MacDiarmid—There is no doubt. You can imagine that, if you are going anywhere around the world trying to sell your products, it would be very difficult to break into those markets without a credible reference. Having supplied services to the government sector has, I think, made it a lot easier for some of those companies to break into some of those markets. I think that is a key point. If we can find a way to help those small organisations that have some great ideas with access to government contracts, whether that be state, territory or federal government, then I think we will significantly improve the ability of those businesses to export their products.

Senator EGGLESTON—My questions relate to some of the comments you make in your submission about what you see as the limitations on agencies in seeking to get government contracts. You talk about public accountability requirements imposing limitations on agencies, increased costs due to changes in the tender specifications midway through a tender process, agencies underestimating the time and cost of preparing a tender, and agencies needing to coordinate and time their outsourcing exercises better. Could you provide for the record some general comments about those problems so that perhaps the agencies reading the *Hansard* may take them on board and address them?

Mr MacDiarmid—The agencies would probably be aware of some of those issues themselves, but our view would be that the agencies were, through the government initiative-directive, required to move to IT outsourcing at quite a rapid pace, and that in itself put some significant burdens on them. This centralised influence of a single organisation like OASITO meant that they were not, in many ways and to some degree, in control of their own destinies. As you would know, quite a lot of these agencies are very complex in both the culture in the organisation and the systems that they have developed. We are not here to advocate that organisations should be developing their own systems in isolation, but I think that some of those things were underestimated. Because some of the primes did not quite understand the culture and some of the systems work that had been developed, and because there was this absolute focus on both speed and cost savings within time frames that seem to be a little unrealistic, there were some real problems for the prime deliverers as to what was expected, and I think the

agencies have felt probably that they have not got what they were expecting to get, for those reasons. But the agencies would be better qualified to comment on how they feel about it. That is some of the anecdotal stuff that we have been getting from SMEs and primes and from hearing the conversations in some of the agencies.

Senator EGGLESTON—Those sorts of problems have related to large cluster contracts, of course. Do you think that with a smaller contracts regime these problems can be more easily dealt with?

Mr MacDiarmid—It is a good question, because if you do not change the approach, if you continue to try to drive the organisations to time frames that may be somewhat difficult to conform to—recognising that if you do not have some time frames it may drift out for ever and a day, so there is a trade-off there somewhere—and if there is not that consultation process early to determine what is realistic, you may end up getting similar outcomes. Smaller agency by agency contracting and assessment gives us a significantly better chance of getting SME and industry development activity involved.

CHAIR—I draw the committee's attention to the tight time frame we have this morning. Senators, please keep one eye on the clock as well as on your questions.

Senator BUCKLAND—I am not going to be long. Mr Reeves, you mentioned in your opening statement that outsourcing led to high employment. I guess we could argue about that long and hard. Taking into account that you have said that, what services does your council give to the IT membership of the council? Do you offer a range of services to help them in preparation for tendering?

Mr Reeves—We have various forums within our council structure through which IT companies can have a voice and an influence on the overall policy of the Canberra Business Council. We have a separate IT committee and then we have an outsourcing committee which deals with issues relating to IT outsourcing and corporate services outsourcing. As I mentioned before, we have an annual outsourcing roundtable to which we invite prominent people. In the past, the Minister for Finance and Administration has been a guest speaker. Those are the sorts of mechanisms through which we involve our membership, particularly members who have an interest in the outsourcing arena.

Senator BUCKLAND—What I am trying to get at is what your association does. When you have your think tanks or roundtables once a year, for instance, do any employees, members or executives or anyone of that nature from government agencies attend, apart from by invitation?

Mr Reeves—Yes, they do. We have regular meetings of the outsourcing committee to which we invite people from different aspects of the outsourcing debate to contribute and have a dialogue between our members and those people. It might be a politician, it might be a public servant or some other person who has an interest in or a connection with the outsourcing debate.

Mr MacDiarmid—We work with the ACT government as well in running seminars on how to deal with the federal government in the purchasing of services, be it IT or be it corporate services. Those seminars are really about providing the expertise and education that enable

SMEs to more effectively understand how to deal with the federal government and hopefully to be able to enter some negotiations and agreements with them.

Senator BUCKLAND—Do you have any relationship with the Australian Information Industry Association or are they in competition with you?

Mr Reeves—We do have a relationship. As I mentioned in my opening remarks, there are some 35 other business organisations which are, in fact, members of our organisation. AIIA is one of those organisations. We work with them in relation to things like outsourcing.

Senator BUCKLAND—Unlike them, do you offer mediation arrangements, if two of your member companies vying for a contract get into a dispute?

Mr Reeves—No, we do not. Our executive does not see that is our role. We are really an advocacy organisation.

CHAIR—Thank you, Mr Reeves and Mr MacDiarmid. Members of the committee may want to put some further questions to you in writing. We would ask you to respond to them as quickly as possible.

[9.38 a.m.]

GLENN, Mr John Gregory, Principal for Strategic Development, Sausage Software Ltd

CHAIR—Is the submission you have made to the committee consistent with and does it contain all of the issues that were raised in your submission to the Humphry inquiry?

Mr Glenn—To the best of my memory, it covers the issues that we raised with Humphry, yes.

Senator LUNDY—Thank you for your submission. What is the Sausage group's relationship with Telstra?

Mr Glenn—Telstra has an equity ownership stake in Sausage—about nine or 10 per cent at this stage.

Senator LUNDY—In your submission, you appropriately declare your interest in that you are leading a bid—I guess you would describe it as priming a bid—for the group 11 requests for tender. Is that the case?

Mr Glenn—This is true. We have been a prime in responding to the group 11 tender—up until December.

Senator LUNDY—I note in the opening paragraph of your submission you say that it was only through your partnering with SMS that you had sufficient capitalisation to actually assume the corporate responsibilities demanded by the Commonwealth contractual arrangements. I am interested in what prerequisites were established by the Commonwealth in terms of those corporate responsibilities and questions of liability and how that presented a barrier to Sausage from participating previously.

Mr Glenn—Sausage purchased SMS. Sausage was a $10 million company in revenue but worth some $800 million in capitalisation. SMS was a $150 million company but not listed. We properly merged, but it was formally an acquisition by Sausage of the SMS group. Prior to that, while SMS was substantially privately owned, or a public but non-listed company, the capitalisation and the backing that one needed to stand up and provide the financial securities, performance securities and other contractual obligations would have been difficult. We as a company felt that, being a service based company, we did not have sufficient backing to be able to go to the financial markets and ask for the performance and financial securities that allowed us to compete for very significant tenders. We had been standing up before on much smaller opportunities, but $150 to $200 million exposure and contractual obligation was in quite a different league.

Senator LUNDY—When you say performance and financial securities, can you be really specific as to what those requirements are?

Mr Glenn—There are general requirements in terms of government contracts and specific requirements contract by contract, but in essence anywhere there is a payment by the government in advance then a financial security needs to be provided. That financial security is provided by a third party—a financial institution—to the value of the funds that are outstanding

for services yet to be delivered. That is less of an issue in outsourcing because it is a service based contract, but in systems integration style contracts a large proportion of the funds—typically 20 per cent to 30 per cent or so—may be paid on contract signature. In order to do that, the financial institutions wish to take a lien over your assets or your revenue stream or whatever. That is a contractual obligation in nearly all government contracts. Typically, a performance security needs to be put aside in escrow, essentially, for the case where the prime contractor might default—fail to deliver the services—and the government has the ability to step in and take those funds without recourse. So you need to be able to find those funds and set them aside. The other part of your question was: are they impediments to doing business? I think that significantly they are. In order for smaller and medium sized companies in Australia to be able to stand up and do some work there is the potential for the government to take a level of risk.

Senator LUNDY—In servicing those financial securities, does the amount have a formal proportional or percentage relationship with the value of the contract or is it something that is established arbitrarily depending on the actual contractor with which the government is negotiating? I am trying to find out how discretionary setting some of those figures is.

Mr Glenn—The amount is generally set as part of a tender process, of which there is usually a counter offer as part of the tender response. It depends on how well one manages to negotiate and find other values and protections. Part of the protections that are provided are through the way companies, when they manage contract negotiation, build the cash flow, for example, and how they value propositions work.

In essence, the principle that governments seek to apply, if my memory serves me correctly, is that where there are funds that are paid in advance for services which have yet to be delivered—systems integration jobs—then financial security will be provided. I would not like to be held to this, but I think the kind of standard on performance securities is somewhere between five and 10 per cent.

Senator LUNDY—I cannot remember from which witness but we heard that some small companies, to service those financial securities, found themselves using up their lines of credit and thereby exacerbating any cash flow issues for them as an entity. Is that an issue of concern that relates to this? I am obviously not suggesting Sausage has been in that position. I guess I am asking for your general experience as a businessperson operating in this space.

Mr Glenn—In a general sense it is a significant issue to be managed in the treasury function of a company. A company only has so many assets over which a third party can take a lien. If you use it up in one contract, then you may find yourself constrained in bidding for the next major contract. There is a secondary issue that goes with financial securities which I think is worth looking at, and that is they tend to cascade. When you have a prime contractor they tend to place the same obligations on their subcontractors. So now you see that there are three and four different levels of financial security cascading down the subcontractor path. The contract structure lends itself to do that because everybody wishes to protect themselves.

Senator LUNDY—So in that way the prime contractor hedges their risk, if you like, across the myriad subcontractors.

Mr Glenn—Yes, the principle of subcontracting is that you segment a part of the responsibility and you pass it off to someone else. This is how you manage risk.

Senator LUNDY—We also discussed yesterday the risk averse nature that many companies felt was a trait of the Australian Public Service, particularly when it comes to procurement. What is your general experience with this? 'No-one gets sacked for employing IBM,' I think was one of their previous campaign messages. I am looking for your insights as to what the tendency of the Public Service is in making decisions about how they procure to provide infrastructure and services.

Mr Glenn—We think a change to that catechism would be appropriate for Australian industry. The risk averse nature is your question. I think it makes it difficult to build value propositions. The essence of building a deal in moving forward with government or any other business is to say that risk is best owned by those who can mitigate it. Often the risks that are being asked to be taken on by companies in a government sense are outside the control of the companies. That leads to two reactions. It leads to the company seeking to protect itself in other ways and a more adversarial approach because it will not let any relationship build that challenges those risks and, secondly, it adds to the price. If it is unquantifiable risk, then you end up with unquantifiable costs.

There is a principle in building a deal that says that if there is an unreasonable demand there is an unreasonable cost associated with it. My personal experience is that, in building contracts with federal government, typically those from government are seeking to pass the risk off. In fact, the primary value proposition that they seek is to hand off risk rather than allow it reside where it can best be resolved.

Senator LUNDY—In that attempt to I guess contract out the risk, there was an Institution of Engineers report—I think it was a survey—which presented a compilation of responses from industry that demonstrated that companies actually loaded their price to compensate for what they perceived as the additional risk of doing business with government. Are you familiar with that survey?

Mr Glenn—I am aware of it.

Senator LUNDY—I am very interested in your response to the survey's findings and whether or not that is commensurate with your experience.

Mr Glenn—Without addressing the survey in detail, because I do not have the ability to do so, a commercial view—I think this could be consistent across most companies—is to say that where there is a risk taken there is a reward sought. Let me divide risk from contingency, because companies also apply a contingency factor as they do their price build-up. If you recognise that there is a risk that you assume, you expect a reward for it. If you know that you might have to resolve the risk should it come to fruition and be an actual event, then you need to allow some funds aside for contingency to deal with that. The two things that come to that are that if you do not understand the risk then you make wild guesses rather than scientific guesses, and if you do not have control of the risk then you apply dollars because you know this is something that is outside of your control. In general, my experience has been that price build-ups are done very strongly at the most senior levels with great detail and great effort but that

risk reviews of tenders are done so that these risks can be identified, and management becomes concerned when they feel that they do not have the control of resolving them and they apply loadings appropriately.

Senator LUNDY—Do you think the emphasis on cost savings in the IT outsourcing program fails to recognise those elements of risk that companies tendering are asked to take on?

Mr Glenn—I am not sure that the focus on cost savings fails to recognise that. I think that the focus on cost savings fails to recognise the other value propositions that come from outsourcing. The companies need to deal with the competitive nature of those. The issue that has not been recognised in building the contractual relationship is the principle that risk best lies where it can be resolved. For example, I made a comment in the submission that there was still a level of control that was sought by the agencies in the technical detail of how the outsourcing is delivered, not at the service level. From a company perspective, that is a risk. It is outside your control and somebody else can then tell you how you have to deliver the services. That attracts a cost.

Senator EGGLESTON—In your submission, referring to the OASITO process, you say that, while there were shortcomings in the OASITO process, positive outcomes should also be recognised. What positive outcomes do you think should be so recognised, in general?

Mr Glenn—Thank you for the question. I think the most positive outcome of the outsourcing process was the industry development function. The fact that Sausage took the ability to stand up and prime a response as an Australian medium sized company is, as I say in the submission, testament to the fact that there was some success in that industry development program. One of the fears as we move forward is that the central control or management of industry development, as an outcome which is not central to agencies' particular needs, will be lost.

Senator EGGLESTON—The last witness said that the industry development would have occurred anyway, that the Australian IT industry was expanding. Would you agree with that comment, or do you think that the role of the Commonwealth government is such because of its size that it really does act to enhance industry development?

Mr Glenn—I think the role of the Commonwealth government should be the wise use of its expenditure to generate industry development and other outcomes, so there is a leverage that can be had from a $200 million contract if it is used wisely to generate outcomes that benefit Australian industry. Would the Australian industry have developed anyway? I think elements of Australian industry may well have developed anyway. However, would the right elements of Australian industry that would serve our national good have developed? I think perhaps not. We would have seen more commodity based activity and more lower level product focused activity, but not the major responsibilities of companies standing up and saying, 'Now we can be a major player in what truly is an international standard activity,' because of both size and involvement with such a major client.

Senator EGGLESTON—Do you see the proposed system of smaller contracts enhancing industry development?

Mr Glenn—There are dangers associated with the smaller contracts. Firstly, the leverage that government could achieve from its expenditure is reduced while the size the contract is reduced, and it is not so lucrative. Let me say that bidding for a $100 million contract is probably pretty much in the same cost ballpark as bidding for a $200 million contract, but in this kind of space the returns are much smaller. One wonders whether the risk-return ratio would be appropriate, and we have to make that decision about whether we want to move forward. The other danger is that, for existing incumbent outsourcers—particularly the major companies—smaller contracts become an incremental growth to their existing business. So the start-up costs for another entrant to move into the market are much higher, and smaller contracts have the potential to militate against new entrants.

Senator EGGLESTON—That is an interesting point of view.

CHAIR—Mr Glenn, in your submission—the pages are not numbered so I cannot give you the page—under the heading 'Industry development', in the second paragraph, you say:

Value of industry development should not be measured in simple dollar terms. The outcomes to be sought for Australian industry should be primacy in the relationship, national level reference sites and support for international export and expansion. To date the industry development has seen market share owned by multinationals, with Australian companies relegated to subordinate partner.

Would you expand on that a bit?

Mr Glenn—I am being very parochial and self-interested in this statement—but please allow me; I have to pay my mortgage! I use ours as an example. We had been seeking for many years to move into a major contract relationship where we could gain the reference sites and the imprimatur to move offshore, to be able to go to another client, even an Australian client such as Westpac or ANZ or whoever else, in the commercial field and say, 'We have major contracts, major delivery, with a very demanding client—the Commonwealth government.' That is a value proposition in itself for industry development beyond simply the dollar return of how many dollars and how many jobs were purchased. What we have seen in a lot of the industry development program to date is really a calculation of what the job offsets have been to a small to medium enterprise. That is not necessarily the best outcome for the national good. We would like to give you one option for the national good, but I think in a more general sense it is that kind of value proposition.

CHAIR—I understand what you are saying. Others have argued that the only real industry development outcome in this process is if you can achieve Australian companies in the role of prime contractor. That is where the industry development benefits arise because companies get the experience and, as you say, they can build a platform of opportunity and go from there. So your comments are really supporting that.

Mr Glenn—Very much. In this instance we had a major multinational sitting behind us, as a subcontractor to us. That in itself is unusual. Their relationship promised more value to us because of their entry to or their growth in the federal government market. There were spin-offs that were not necessarily immediately related to dollars and jobs; they were to do with clients and access and market share.

CHAIR—The other side of that approach is there may well be a financial penalty on the government to achieve that outcome, in the sense that they may well have to pay a premium to get an Australian contractor into that prime contract role. You would argue that that is a justifiable investment?

Mr Glenn—I make a comment in the submission with regard to cost savings as well, that I think the government probably should not spend more money as a matter of course in outsourcing, or any other deal, simply to foster an Australian industry, but it would be one way of investing in Australian industry development. Certainly if it were to be cost neutral with the delivery of the services that the agencies were providing, that would seem to me to be a very reasonable outcome.

CHAIR—Did you feel, in the outsourcing experience, that there was a strategic approach being taken with respect to industry development issues, or was it simply an ad hoc thing that was being added into the various contracts?

Mr Glenn—I felt that there was a centralised management view on where industry development should go. There was certainly a set of principles that related to a strategic view of what industry development should be like.

CHAIR—Was that conveyed to you? It has not been conveyed to us.

Mr Glenn—The principles of industry development that were being sought under the outsourcing initiative were stated in the request for tender.

CHAIR—They were stated in the request for tender?

Mr Glenn—Yes. I cannot put my hand on it at the moment. I am happy to find that advice for you.

Senator LUNDY—We have not got time to go through it in detail, but I note that you have provided a series of comments about some of the difficulties you have confronted as part of the OASITO process. From what I am hearing, you are supporting a centralised approach to industry development strategies in that value proposition associated with industry development. Are you also advocating the centralised approach to actually managing the tender, like that seen by OASITO, as also being an appropriate approach? I guess I am asking you to consider both elements as separate. Do you think it is possible to centrally manage industry development but not centrally manage the actual tender negotiation, preparation of RFT et cetera?

Mr Glenn—Let me step back and say that I think that fundamentally outsourcing is a useful approach. I think it has been proven around the world to provide value, but not in all cases. I think it needs to be measured on a case-by-case basis. My comments say that the value to government in the way outsourcing is done is not necessarily just related to cost savings. I fundamentally believe that the relationship needs to be between the tenderer or the incumbent outsourcer and the agency that is delivering them.

Senator LUNDY—So you support the Humphry review recommendations in that regard?

Mr Glenn—I agree that a relationship needs to exist and manage. I beg the question about how quickly those activities will go and how fast people will move forward—there have been some recalcitrants in the past—to adopt outsourcing and give the responsibility of that to the agencies. The relationship in delivery starts well before contract signature, so I think that needs to be built into the tender process, with a greater involvement in that. My concern is that the other value proposition, which is industry development, gets lost. If you go to an agency and say, 'I wish you to pursue outsourcing' and their focus is about delivering the services that are related to their agency—policy implementation and so on—and the value of their services is enhanced by their reducing the costs of the IT, then the other value propositions, such as industry development, will be lost.

Senator LUNDY—So you think there is a central role on the industry development aspects?

Mr Glenn—Yes, and I do not think it should be small.

CHAIR—I have just looked at the document, and there are a number of principles there that no-one would disagree with but you could hardly call it a strategic plan for industry development.

Senator LUNDY—Just a follow-up question to that: in the Humphry review it was noted that there would be consultation. I think a press release from Senator Alston the day the Humphry review was released said that they would consult with industry—implying an ongoing role for DCITA's IT industry development branch as opposed to OASITO, which is being shut down—and that they would continue on the whole of government, for want of a better expression, approach to industry development. What is your view of that, and have you been consulted as yet?

Mr Glenn—We have been consulted and there is ongoing dialogue through the AIIA, and certainly we have had some involvement through that and some direct engagement with the department. What is my view of DCITA being responsible?

Senator LUNDY—Or that branch.

Mr Glenn—I guess I have no comment about where that should reside or how that should be managed. My view is that there should be very clear obligations about industry development in relation to the strategic outcome being sought, and that those obligations should be clearly placed and managed. I would be concerned that we would lose that. It was certainly in place under the OASITO arrangement, as part of the tendering process. I am not sure that that is in place or that it will be managed with any teeth. It might become a bit of a toothless tiger if we do not be careful.

CHAIR—Thank you, Mr Glenn. We have run out of time, unfortunately. Thank you for your contribution.

[10.08 a.m.]

ANGUS, Dr John, ACT Branch President, CSIRO Staff Association

BOULT, Mr Paul, President, CSIRO Staff Association

BREBNER, Mr Paul Charles, CSIRO Staff Association

GALLAGHER, Dr Pauline, Assistant Secretary, CSIRO Staff Association

CHAIR—Welcome. I now invite you to make an opening statement.

Dr Gallagher—The CSIRO Staff Association is a section of the CPSU. Any views that we express here are very much those of our members, not the official position of the organisation. I think we should note that the Humphry review was a tremendous relief for CSIRO. It recognised that the number one reason for not applying the initiative to the science agencies was simply that IT is integrated with science and that you cannot easily separate it out for outsourcing. Much of the work that the science agencies do is research, and particularly CSIRO—that is its primary function. That work is inherently unsuited to outsourcing. The whole of government initiative did not recognise the diverse functions of the public sector and, with IT, this was most keenly felt within CSIRO.

Science is very much a bottom up process—it is driven from the bench. It is very hard to dictate what its needs are and what innovations it will develop. It can certainly drive innovations in the IT industry itself. It is very difficult to dictate it in the longer term and to dictate it as a top down process. Because of the operations of the science agencies, particularly the CSIRO, the requirements on a contract would be high level, extremely diverse and complex. They would be dispersed in different locations and in unusual environments which may be complex, secure and hazardous in different ways. It makes it very difficult for any sort of contract to be written up that would actually be cost effective. It would be difficult to match the service we have without significant extra cost, and we would lose the skills and knowledge that our IT people have.

The OASITO process was very damaging to the science not only because of the deductions from appropriations—which now are amounting to around $21 million—but also because it took staff away from their research and affected the morale of the organisation in quite a significant way. Now that Mr Humphry has delivered his outcomes, that pressure has been relieved an enormous amount, and the organisation is getting on with its business. But the situation with the existing policy remains—that is, that outcomes on outsourcing have to be delivered at some stage, even though it is not clear how exactly those are going to be required. This is requiring a move away from the bottom up process of innovation and requirements being driven at the level of the bench scientist. You have to do that in order to outsource. You have to centralise in some way and dictate how it operates.

We gave you a written submission that covers most of these points. We put in two recommendations that we submit to the committee for consideration. One was to exempt the science agencies completely from the policy—that the policy does not fit with scientific process and the role of the science agencies. The other aspect is that we would ask for those savings

deducted from appropriations to be returned. The reasoning behind that, apart from the fact that the CSIRO, in particular, is a shrinking organisation and struggling to get by on the budget that it has, is that the $21 million in savings was never realisable in any practical way. Government hands down the CSIRO's budget on a triennial basis, and it is a single line budget. It is stated to the public that it is being spent on the organisation—on scientific research and development. $21 million amounts to 21 large projects in the divisions. It amounts to three to four major flagship projects that would have international significance. That work is not being done. The cost of the project, as far as it went—and it is currently unfunded—will have to be taken from the divisions out of research funds. That is why we submit this to the committee.

CHAIR—Have there been any discussions with the staff association and with the Chief Executive Officer of the CSIRO, given the recommendation from the Humphry report that the responsibility for outsourcing should go back to the agencies?

Dr Gallagher—We have not had direct discussions. There has been a change of chief executive since the Humphry review came out. We have had consultations with corporate ITS, IT services, in terms of the way that they are now handling the situation. Is that what you were looking for?

CHAIR—What sort of response have you had from them?

Dr Gallagher—At this stage they have no direction as to what exactly is going to be required. They are looking to any outsourcing that occurs being of value to the organisation. How they do that is not clear. They have structured a project called the IT upgrade project to try and take some of the information that they developed in a concerted way for the outsourcing project.

Mr Boult—Our IT infrastructure is always being increased within CSIRO. We are always supplying better techniques and better options for our scientists to produce the world renowned science that they do. The hardship comes, as Dr Gallagher has said, in that the money is not there. This is an unfunded situation for us, so we have to find our funding in an ever-shrinking environment. The whole approach of delivering IT within CSIRO is to give the best dollar value to the organisation. So we are always looking for smart ways to do our work and to produce the IT.

CHAIR—But there has been no strategic plan developed yet by CSIRO post Humphry?

Dr Gallagher—The IT upgrade project moves along those lines in trying to do exactly what Paul was saying, which is improve the system. They collected an enormous amount of data through the OASITO process and that has allowed for identification of efficiencies. But there is also this understanding that somewhere along the line there has to be some delivery on the government's policy on outsourcing. Certain of the moves would appear to be in that direction.

CHAIR—What is the implication of that in an organisation like CSIRO where a very substantial part of your value is your intellectual property? To what extent is the IP held by CSIRO exposed through the outsourcing process?

Dr Gallagher—I need to clarify the intellectual property that you are talking about. There is scientific intellectual property; there is also the know-how of operations. We talk about intellectual property tending to be on the scientific side of things—the stuff that we put out as scientific outcomes.

CHAIR—It is actually much broader than that.

Dr Gallagher—If you want the broader interpretation, that is fine. The intellectual property is located in the IT people. Because of the way that IT has developed in the organisation, it has been built up over the years through innovations coming out of CSIRO and the industry. So you have got this constant interplay. If you separate off any of those functions into a regionalised or centralised corporate group, while they can deliver those functions through an outsourcing environment, they lose that contact with the divisions and the moving needs of the scientists. You increase the tension between what the scientists need and what the corporate view is of how things actually get delivered.

CHAIR—Presumably your IT people are working in conjunction with your scientists in developing proprietary systems that are unique to CSIRO?

Dr Angus—I think there are products and processes developed for Australian industry by different parts of CSIRO. The risk that our members felt was that those products and processes would be available to the outsourcer, whether directly or just through osmosis—I know Paul Brebner has commented on that with the group where he works in IT, and that is at a high level of straight competition between a potential outsource provider and CSIRO. At the other level of providing decision support systems for industry, there could well be conflicts of interest.

CHAIR—Presumably in the outsourcing process these issues were discussed with OASITO. What type of response did you get from them? How did they respond to these issues that you raise?

Dr Gallagher—As the staff association, we did not have any direct contact with OASITO, so our impressions are indirect about that.

CHAIR—I am happy to hear your indirect impressions.

Mr Brebner—OASITO thought that you could solve all problems by putting them into the contract. That was their stock standard reply: 'It can be put in the contract. Any possible conflict of interest situation can be resolved contractually.' We do not believe that.

Mr Boult—I work for the division of marine research. We have some seagoing personnel, vessels that are owned by CSIRO and national research vessels. It was termed to be the F111 approach where the equipment, while it was tied up to the wharf, could be handled by the outsourcing company but once it went to sea it would have to be handled by CSIRO. So we would have duplication of processes and would have contractors and CSIRO personnel working side by side. You are actually increasing the amount of resources put into just one particular area. That is just a simplistic approach to a very complex question, because we have these vessels at sea for anything up to 21-28 days.

CHAIR—Is it your intention to seek discussions with the new CEO in respect of these issues?

Mr Boult—Yes, most definitely.

CHAIR—Have you put in a request?

Dr Gallagher—We have had initial get-to-know-you chats, if I can put it that way, that have covered wide ranging issues. We spoke to him after the Humphry review was delivered, and the heat was off the issue at that point. As I understand it, we will be sort of monitoring it but not at the level of the chief executive.

Senator EGGLESTON—I am quite interested in your view that outsourcing of science IT is inappropriate. As I understand it, a lot of research involves mathematical analysis and so on. Are you saying, in effect, that you need a whole series of smaller computer IT units rather than a big one outside? I find it a little hard to follow why data cannot be provided to an external contractor and a process of analysis occur. Perhaps you could enlighten me on that point.

Mr Brebner—The IT requirements of science are diverse and dynamic. One of the assumptions of the whole of government outsourcing is that there is a homogenous, uniform IT infrastructure which can be extracted from an organisation and given to another organisation. The way IT is used in scientific research is really quite diverse; there is no one particular way that it is used. IT is part of the scientific process. The scientist interacts with the IT staff and their IT infrastructure in quite different ways. Even in the course of one day, using the same computer, you can be using it for multiple purposes. That needs to change in response to ideas that you get, interaction with other projects or interaction with clients as well.

Senator EGGLESTON—In effect, are you saying that communication with the people running the computer system would not be there with an external contractor?

Mr Brebner—Yes. The nature of the communication, I think, will change. I come from a commercial background, so I have interacted with outsourced IT support people, and it is not an appropriate model when you are actually involved and are using the IT in an innovative way— in not just a stock standard desktop scenario. The type of research that I do is IT research, so we are actually developing new IT ideas and products. That involves an intrinsic interaction with the people who support us. They need to be aware of the type of science that we are doing and our goals and we need to be aware of some of the constraints and limitations that we might face in the IT support environment.

Senator EGGLESTON—My experience of science is that involves the accumulation of lots of data over a long period rather than a change every hour. I still find it a little difficult to really get my mind around the fact that accumulation of data over a long period could not be provided to an external contractor to produce the analysis that you are looking for. At the end stage, perhaps, one could imagine you might look for slightly different outcomes and nuances. But a lot of basic research really does involve simple accumulation of lots of data and analysis of the implications of it, surely.

Mr Boult—The problem is that CSIRO is such a diverse scientific organisation: it carries and covers every facet of science. It is one of only a few organisations around the world that do that. That means that people in my division would handle things differently from Paul's division and from John's division. Even within the division, the areas of science that you cover are incredible. It can be very simple data logging techniques through to extremely complex modelling, communications across wide-area networks, et cetera. Maybe John can expand on that further.

Dr Angus—To give an example, during this process I walked around and talked with my colleagues about what unique software they would have on their own systems. In some cases they have unique machines—they might have a Linux system or a UNIX box or something. Perhaps half will have unique software either developed by themselves or of a sort that nobody else uses, can use or wants to use. In order to be a unique scientist, you have to do some unique research, which means you have to have something different to be ahead of the game. Usually, that involves some unique data processing requirement. If it were all the same, it would have been done before.

Senator EGGLESTON—I agree that there are differences in different kinds of science, but in the end the analysis often becomes a question of statistics and mathematical issues, doesn't it? I accept, however, that there is a difference between somebody doing X-ray crystallography and somebody doing something else. Nevertheless, could it be that your requirements could be segmented into individual needs and broader general needs, so that you could have sections which were more suitable for outsourcing and sections which were more suitable for an individual, personalised system?

Dr Gallagher—You run into a lot of problems with the logistics of operating that way. To a certain extent, the organisation is moving in that direction with the IT upgrade project. The problem that you run into, apart from scientists all having different needs, is that some of the computational equipment is actually very old. You have instruments with a half-life of 10 years or 15 years and the IT, if it were outsourced, would be turned over every three years. So you have incompatibilities developing there. You have a situation like AAHL, the Australian Animal Health Laboratory, in Geelong, where the microsecurity is controlled by computer systems and it is as old as the laboratory. But to actually upgraded to contemporary systems for outsourcing would require a lot of money and a lot of input in terms of time and effort beforehand. So the systems are not really suited to going out and getting updated every three years, or less. Some people need real state-of-the-art equipment—they need a turnover every six months. Others need to actually hold on to their equipment. So you have to have support in laboratories dotted all around the country somehow dedicated to looking after and knowing how to look after all these different systems. Not everybody does just statistical analysis, and a lot of the analyses and data collections that are done are based on longer-term software that is not necessarily updated.

There is also the situation where people are working in collaboration with the sponsors—along the lines Paul Brebner was talking about—where they actually need to interact with the sponsor and share human resources. If you have a contract requirement excluding that or interfering with that, it becomes a problem. Finally, of course, there is the security aspect, particularly in areas of research that a large IT multinational would be quite keen to have its hands on.

Senator EGGLESTON—I accept the security argument, but I find the argument about not using more modern and updated equipment a curious one. I would have thought that enhanced IT equipment might enhance the outcome of your research. That is like saying that it is better to drive in a model T Ford than get a new truck, isn't it?

Dr Angus—That is a good point. But, for example, if you have an analysis instrument that might, as Pauline says, have a half-life of 10 years, that instrument might have a new value of $100,000 or $150,000 and a depreciated value of $10,000 or $20,000 but replacement of $200,000. I have one such instrument. It is driven by a computer that would probably be best used as a boat anchor if it were not used for that, but no modern computer will drive it. I have to keep this old machine.

Senator EGGLESTON—So you are arguing that, because of your financial structure in the CSIRO, you have to retain old equipment and therefore you need to use old computers to service them?

Dr Angus—No. The analysis instrument is still good—it is good for another 10 years—but the technology used in that 1990 instrument is no longer compatible with modern computers. It is easier and better to use an old computer on that. That would be incompatible with an outsourcing arrangement. We keep one or two old 1990 computers as spares. It is cost effective and it is still state-of-the-art analysis, but it happens to use an old piece of IT.

Senator EGGLESTON—I come back to the segmentation argument of your requirements. Isn't it possible to segment different bits of your requirements? For example, your administrative requirements could certainly use modern computer technology, one would have thought, and be outsourced, whereas some of your scientific research requirements might need to be serviced by the older type of computer that you are talking about because of the unique status of the equipment.

Mr Boult—The problem you have there is with the segmentation that you have. You are basically trying to segment out to probably 100 or 300 different segments because of the individual requirements of particular groups doing the research. It becomes a very large issue that you have to manage. The way the CSIRO manages that is to have professional staff in-house who are able to cope with that type of segmentation or that type of development and to supply support and added value into the system.

Senator EGGLESTON—So what you are arguing is that there are not enough common features to outsource different kinds of scientific research in different areas?

Dr Angus—Most of my IT colleagues spend most of their time on the more complex arrangements. Keeping the administrative computers and the simple sorts of computers going occupies only a small percentage of their time—they are rather simple to operate. It could be argued that they could be outsourced, but it would not be a big saving because you have to keep the high level IT staff to service the complex requirements.

Senator EGGLESTON—My last question relates to cost. The CSIRO is distributed all over Australia. There must be a cost penalty in having computer systems in all your locations for your different projects. Is there some potential for pooling of computers, if you like, to reduce

that cost penalty in the way you operate? Could that perhaps mean that sections of your work could be outsourced through a pooling arrangement?

Dr Angus—I do not understand 'pooling'.

Dr Gallagher—I do not understand 'pooling' either. It does not make sense in the scientific context.

Mr Boult—Do you mean that in a group of 20 people we have five computers?

Senator EGGLESTON—No, I mean you have got a lot of locations around Australia. You must have individual computers in each. What you are saying is that you prefer an option where you have a computer system to service each research project, in effect, or that seems to be what you are saying. What I am saying is that there must be similarities between some research projects: does that mean that they could be serviced by a pooled computer and could that kind of arrangement be outsourced?

Dr Gallagher—There are—how many computers in CSIRO?

Mr Boult—There are 6,000-odd people in CSIRO and the standard is about 1.3 to 1.5 computers per person in CSIRO. We are looking at about 10,000 computers around Australia that are used for scientific research within CSIRO. The other problem you have—

CHAIR—Is that in the network system or are they stand-alone?

Senator EGGLESTON—Individual, I think.

Dr Gallagher—Most of them are.

Mr Boult—That is basically networked. There are probably on top of that another percentage that are stand-alone equipment for doing whatever measurements they are actually doing. They are rough figures, by the way; that is my understanding. The problem comes in trying to coagulate, box together, where you have a common computer system that is distributed. We have run a distributed computer system all around Australia.

Dr Angus—For example, the group at Merbein, a relatively small group, currently gets its IT servicing done by a private contractor in Mildura. There is no way that that service could be provided effectively from one of the central locations. Does that answer the sort of question you are asking?

Senator EGGLESTON—That is a problem in any regional centre for anybody, whether it is a bank, a business or CSIRO. That is not quite what I meant. I thought there may be synergies between different research projects where a common computer system could be set up. You have spoken of 10,000 different computer systems in your organisation, which is quite a formidable number, I agree. My point was that having 10,000 systems, if you like, may apply a cost penalty to CSIRO and there may be some cost benefit in having some sort of networked or

pooled arrangement where a smaller number of computers served different areas of research with some features in common.

Mr Boult—Where we have a number of divisions on particular sites, we use what could be called a pooled IT service. CSIRO always tries to produce the best IT for the least money to allow more money for science. Science is what we are after.

Senator EGGLESTON—Okay. I have no further questions.

Senator BUCKLAND—Just going back to questions that were put to you by Senator Campbell, you made a comment, Dr Gallagher, that the heat is off for the moment as far as outsourcing is concerned. What leads you to that conclusion: your discussion with the new CEO?

Dr Gallagher—No, there have been various messages put out to staff, in particular Dr Ron Sandland, who has had oversight of the IT, who is the deputy chief executive responsible for information technology. Certainly that is the advice given to us by corporate ITS. We have asked them what instructions they have had from government and they have said they had nothing other than the public statement that the government was going to abide by the recommendations of the Humphry review. Back in November OASITO deferred the notification to industry with no date for resumption, and as far as I know they have received no explicit direct instruction beyond that. So everything was in a state of limbo and watching what is happening in the Department of Finance and Administration, recognising that the policy still applies.

Senator BUCKLAND—There has been nothing that your membership within CSIRO has seen from places such OASITO saying, 'Start preparing documentation or lists of what needs to be done to outsource you'.

Dr Gallagher—Nothing that our members have seen that they have advised us of.

Senator BUCKLAND—In your submission you mention that there is already a mix of in-house and outsourced services. Some of the services are already contracted out. What are those services?

Dr Gallagher—Dr Angus just referred to one example in Merbein. It tends to be servicing of equipment. The main area is in the corporate centre. The main computer there has a contract arrangement with Fujitsu. I have been trying to establish the full range of outsourced services there and I get fuzzy looks back. It is quite diverse what they have done there.

Dr Angus—There is an option that CSIRO prefers you to buy Dell computers. They have a three-year maintenance contract that we buy outright. So we are outsourcing, if you will, our hardware. There is also leasing of Dell equipment. We also outsource some of our wide area network.

Senator BUCKLAND—Could you expand on that? You are talking to an absolute troglodyte when it comes to computers or science.

Dr Angus—Wide area network is where you tie one location to another location. We have contractors in to help us handle those very intrinsic and specific needs.

Senator BUCKLAND—I am quite biased about the CSIRO, so I am very cautious with what I am asking. We were talking about intellectual property with Senator Campbell in the broader sense. You made a comment about intellectual property that I took to mean something you are developing, and the things that drive that along. Have I picked you up right on that? Then you asked about the broader aspect. There is the actual intellectual property, which is probably the thought you have in your mind: 'I could develop this stream of science', or whatever. But what drives it along also has to be protected in some sense—the nuts and bolts of it.

Dr Gallagher—The know-how.

Senator BUCKLAND—Could you expand on that and make it clearer for me?

Dr Gallagher—A lot of the know-how is something that the staff build up over years of working in a system, knowing how the system operates and having an intuitive understanding of what is needed. It is often not something that you necessarily can write down and sell off; it is something that a person would take with them if they left the organisation. Many of our IT staff have scientific backgrounds. That background may not actually give them better IT qualifications, but it helps them understand the needs of the scientists. So when the scientist says, 'I need to do this,' they can understand that and interpret it and deliver a solution or help out with a solution. That is the sort of know-how; it is an accumulation of knowledge that allows a person to deliver what is required without having to go through full explanations and training and getting someone from outside used to the way that things operate.

Senator BUCKLAND—You are educating me at the moment, and I appreciate that, but I do have a point I am trying to get to. I really do appreciate your help. I understand a bit more the work that Dr Angus is doing, but if you had an idea where you were developing, say, a new strain of wheat or something to help in the low rainfall areas, you would probably have something in your mind that is going to drive you towards that. To me that is intellectual property. During the development of that you would be writing down the process you have been through—the scientific facts. Wouldn't it be the case, though, that you would also be using machinery, devices, apparatus? That would need to be protected also, would it not? If your competitor saw you using that apparatus, he has only got to start playing around with it and get onto your thought line. Am I taking it too far, or have I been reading too many comics?

Mr Boult—No, in fact that has already happened. In CSIRO we do a lot of our voice telecommunications over the Internet. In other words, we use our Internet connections to do our voice connection. That was developed with Cisco, a multinational company out of America. It has a capital base larger than Microsoft's, the last time I looked at it. The intellectual property that we developed with them is very important to us and also to Cisco, and that has carry-on benefits. I mentioned before trying to give the best value for money for science. Through doing that sort of work we are able to generate savings within the organisation. That is put back into the science. All the time we are trying to work with our intellectual property in IT and science, we are trying to produce those sorts of outcomes.

Dr Angus—I suppose one of the aspects that might be relevant would be if there is an outsourcing supplier working with CSIRO and CSIRO wants to develop a contractual relationship with another company which is in competition with that outsourcer. There would be real problems. Even if there are no problems of security of intellectual property, there can be a perception of a security problem. So there would be difficulties in establishing a relationship with one competing company if we had another outsourcer.

Senator BUCKLAND—I have a lot more questions, but that will do for now.

Senator LUNDY—Could we place a few questions on notice, because time has not permitted me to ask some questions.

CHAIR—On these, could you try to get back to us as quickly as possible?

Dr Angus—For sure.

Proceedings suspended from 10.47 a.m. to 11.03 a.m.

LOVE, Dr Geoff, Deputy Director (Services), Bureau of Meteorology

GIGLIOTTI, Mr Peter Anthony, Assistant Director (Central Operations and Systems), Bureau of Meteorology

CHAIR—Do you have any comments to make on the capacity in which you appear?

Dr Love—Yes. Throughout the IT outsourcing process, I have managed the process from the Bureau's end, particularly the policy side.

Mr Gigliotti—I am head of computing and communications in the bureau.

Senator LUNDY—Welcome to the committee. Can you tell me the nature, if any, of your consultations with Richard Humphry as part of his independent review?

Dr Love—Yes. We provided a submission to this committee late last night. I apologise for the lateness of it, but we managed to fax it off late last night. I personally met with Richard Humphry once and had one telephone conference with him. We have covered the matter in the submission.

Senator LUNDY—You had budget reductions over the out years. For my benefit—because you have probably already provided this information to the committee—could you run through the total amount of budget reductions that you have endured?

Dr Love—The estimate made in 1996 was that we were spending $9.17 million per annum on IT. I believe the top of the head saving was estimated to be 10 per cent by OASITO, and so $917,000 came off the bureau budget commencing this financial year—so $917,000 has come off this year off the base, if you like, in an ongoing fashion.

Senator LUNDY—So you are nearly $1 million worse off this financial year than in the 2000-01 financial year?

Dr Love—Yes, it has come off that base.

Senator LUNDY—How has that stretched across the out years, according to budget documentation available to date?

Dr Love—Our forward estimates have just been reduced by that amount. So that is gone forever, if you like, from the forward estimates for the bureau.

Senator LUNDY—Do you have any information that has led you to believe that in fact those forward estimates will be restored to former levels as a result of the IT outsourcing program being changed in the way that it has?

Dr Love—No. We have no advice to that effect. Of course, there is a requirement on us now at an agency level to look at IT outsourcing and so, in theory, we could still pick up those savings. Until the scope of our outsourcing and market testing and so forth has been determined,

I imagine that the Department of Finance and Administration would consider it premature to enter into discussions as to whether or not that money should come back to us.

Senator LUNDY—I suspect that the department of finance would always consider those discussions premature, but that is their approach. On that point, what happens next for the Bureau of Meteorology? I take on board what you just said—that you are still shackled with this government policy of outsourcing—but what are you actually doing at the moment to deal with this?

Dr Love—I am not sure that I said 'shackled with this policy'.

Senator LUNDY—No. They were my words.

Dr Love—The bureau is not unused to using outsourced arrangements where they are appropriate. Through the OASITO process, our computing fell into a number of major categories. For discussion purposes here, to put it very simply, we have a supercomputer facility which we share fifty-fifty with the CSIRO, and it is resident in the bureau's building in Melbourne. The bureau has been in supercomputing, with its associated mass storage facilities, for a long time. It has a lot of expertise in a very specialised area. We had reached the point at an officials level with OASITO of agreeing that that would be out of scope in an outsourced arrangement, though it had had not been signed off by Minister Fahey.

Senator LUNDY—Would you say that again? Is the supercomputer out of scope?

Dr Love—We had reached that understanding with OASITO before the process reached some sort of determination. Then there is a bunch of mission critical systems scattered around the land. Because the bureau is a very diverse organisation in many ways, we have remote offices in all sorts of places like Gove, Tennant Creek, Meekatharra and so on, as well as regional offices in capital cities and a head office in Melbourne. So we are very geographically dispersed. Like the CSIRO, we have more computers than we have people, because computers are used to do other technical functions than just service people. So we have a lot of mission critical systems scattered around the land, and then we have some desktop systems which would do the normal administrative support work.

At a first look at the system we believe there is some value in market testing whether those desktop systems can be outsourced. We are working quite hard now to examine that. We have a lot of skilled IT staff in the bureau and we would rather they look after the specialised high-end equipment than spend time on the low-end desktop equipment. We are in a process of moving towards market testing the desktops and we will look to find arrangements which are, at least, cost neutral and free up people, specialised staff, or, optimally, save us money. So we will go through a rigorous market testing exercise based on our known costs. We are committed to that.

Then there are other aspects of our mission critical systems. We are still doing a detailed risk analysis to decide whether the risks are manageable and acceptable in outsourcing. Ultimately, the director of meteorology, the secretary of environment and the parliamentary secretary with responsibility for the Bureau of Meteorology will look at our technical assessment and make a decision on the risk management studies and where to go.

Senator LUNDY—And that conforms with the recommendations accepted by the government arising from the Humphry review about undertaking a risk assessment exercise?

Dr Love—Yes, that is consistent with the Humphry review. In fact, we are well down the track of doing that risk assessment exercise. We have external consultants doing that work with bureau people, and it will be a detailed risk assessment exercise.

Senator LUNDY—With respect to your point about your market testing of desktop support, what are your current arrangements in terms of sourcing desktop infrastructure per se? Do you have a contract with one of the PC suppliers already?

Dr Love—I will answer in the generalities and then I may get Peter to give me some assistance here. The bureau, like many technical organisations, was at the leading edge in some ways in bringing in desktops. We are also a very computer literate organisation. Most people are science trained in the bureau and are well able to manage their own desktops. What we found was that we put backbone communications infrastructure in and then many of the desktop machines were purchased on government panel period contracts, so the government would have preferred suppliers and they would supply at a certain rate. What that has given us is a bunch of desktops through the organisation which are fairly diverse. There is a diverse set of manufacturers and the software is fairly diverse—I mean, some people use Word and some of the Microsoft products but then very often they will have a particular science role to do and there might be some applications which are very specific to their particular task, whether it be ozone data gathering or doing weather observations or so on. So it has not always been an easy task to see how you can homogenise that; nevertheless, we are trying to do that in certain areas of the bureau. We are also trying to move certain branches and regions into a more standard environment just because it makes management and maintenance easier.

Senator LUNDY—That is a very useful insight. So you are saying that your staff have a certain level of expertise in that they are au fait with their own computing requirements at desktop level, that they are able to purchase hardware—for example, a PC with greater memory capacity, for want of a better example, or a bigger screen or a higher resolution screen—that does not necessarily conform with the standard offering of PCs and that they use the endorsed supply arrangements, the panel arrangements, that exist?

Dr Love—The panel arrangements give you a lot of freedom. If somebody wanted to run a large spreadsheet program or have a Fortran compiler which needed a particular manufacture of machine, that person would work around the panel period contract arrangements and get what met their requirements.

Senator LUNDY—Are you concerned that, by consolidating that into an overarching infrastructure provision in the contract, you may lose that flexibility, or would that flexibility become a requirement of that contract?

Dr Love—I think flexibility carries with it cost, and there is always a trade-off. You can be infinitely flexible but you have to have a lot of resources. The bureau has a job to do, and that is to deliver meteorological outputs to the Australian community—so the most outputs at the least cost. To the extent that, as managers, Peter and I have to trim back flexibility in branches and regions and reduce costs, we will do that, but there is always a trade-off. You have to understand

the organisation and the output requirements as you make those trade-offs. That is why Peter is doing a number of case studies, trying to work through and understand our costs and setting up market testing on a very rational and scientific basis.

Senator LUNDY—Have you been able to identify any lines in the sand or benchmarks past which you are not prepared to venture because of the detrimental effects? I suppose I see it as applying a technology straitjacket or constraints around capability at a computing or a human resource level as a result of the cost implications. Have you as yet identified a series of benchmarks about where you are not prepared to go in the pursuit of savings?

Dr Love—It is not so much in pursuit of savings. In the bureau's case, we are a 365 days a year, 24 hours a day operation, and the transition to any outsource arrangement has to be very carefully managed. How often do you look at the television at night and not see the satellite picture? I do not think that ever happens because the bureau reliably delivers that satellite picture to every television station every day. We are happy to move into outsourcing arrangements when it saves money and we can do it in a way that we can manage the process. To give one example: during the Olympics we recognised that there might be a very high demand for our web services. So we set up a mirror site with connect.com—and they will be appearing here later today. Connect.com provide a mirror site service for the bureau. We have since that time introduced access to radar data, which is a new service we provide to the Australian community. That has been tremendously popular. We have found that it has been very handy to have connect.com because they have more scalability than we have in-house. They have proven to be a very reliable and cost-effective supplier. We are now moving to use that mirror site as our prime source of radar data. But we have done that carefully, slowly and in a managed way and in a way that we know that we will not disrupt services.

Senator LUNDY—In other words, you have been strategic about it? You have managed it, for a start.

Dr Love—That is right. We are happy to go down the outsourcing track, and that is what my brief submission to you says. We believe that it is our responsibility as managers to look for outsourcing opportunities, because we want to develop those capabilities in the Australian IT sector. We do want to push out of the bureau things that do not require specialist meteorological capability, but we want to do it in a way that we can control the cost and the services. We believe there are ways to do that. The Humphry review has probably taken us out of the large cluster arrangement and let us manage our own future. We are fairly comfortable with that, and we believe our staff are comfortable with that too.

Senator BUCKLAND—Going through your document it would seem that, in principle, you agree that outsourcing will not be grossly cumbersome and you could live with that. But you do indicate that there are some services you would be more sceptical about having outsourced. Can you tell me what those specific services are?

Dr Love—I might hand over to Peter, but let me say that before we get into the specific services you have got to understand that meteorology is quite specialised in some areas. There is only one national weather service, you see.

Senator BUCKLAND—I will come to other questions that address those more remote aspects of it.

Dr Love—Because of that, what we find is that you can work with an Australian company to build capability incrementally, and if you do that there are probably not many things that you have to do in-house, but you have got to gently build the capability in industry. Perhaps Peter might talk about some of the particular ones.

Mr Gigliotti—Just to go back one step, we worked eight or nine months with OASITO, looking at the scope of those services within the bureau amenable to outsourcing. We came to an agreement just before the Humphry report. As Dr Love mentioned before, the supercomputing systems were defined as being out of scope and our mission critical operation systems were also defined as being out of scope. So we had come to an agreement with OASITO that we would go down a particular track that would look at primarily the outsourcing of the desktop and corporate services systems. The Humphry report basically confirmed that in terms of the various recommendations, and that is where it stands today. We are looking very closely at the desktop and corporate areas but, getting back to Senator Lundy's question, if there was a line in the sand, it was really our supercomputing arrangements and our mission critical systems. The main argument behind that was that for our mission critical systems we write the majority of our applications software for those specific components and the support of those is basically undertaken by our specialist staff—the same staff that probably would not be available to an outsourcer to move across to. After about eight months of reviewing that analysis, I think we got OASITO's approval that in fact that was the case.

Senator BUCKLAND—Talking of staff, then, would going down the path of outsourcing mean that there would be a reduction in the number of employees of the bureau?

Mr Gigliotti—It is still to be determined. As I said before, the majority of our specialist staff are there to support the applications that we write ourselves. In essence, the corporate support component within the bureau is pretty small. As Geoff mentioned, we have some 1,350 staff within the bureau, and probably over 1,000 of those have science or technical backgrounds, who are all capable of managing their own desktops. In an outsourced environment, the maintenance of the equipment is pretty reliable. The costs associated with that are quite small. The real costs are in the support of those systems in terms of the software that runs on them. If we separate our mission critical systems from our PC desktops and the like, an outsourcer would not be able to provide us with the same support for our mission critical systems, because we write the software and they would not be familiar with the support of that software. In the case of the PC based applications, most of our staff are quite capable of managing their own desktop environment. What we are attempting to do with this next process is to find ways of streamlining the processes of getting the systems up and running. Once the systems are up and running, the staff are able to maintain them with minimal cost.

Senator BUCKLAND—I was going to ask you about that too, because you made mention that, like CSIRO, you have got quite a lot of equipment that is not desktop and you do have a lot of remote locations now for measuring and doing whatever it does. Who services your equipment now? s that internal? It was said earlier by Dr Love that you have a lot of skilled IT people in the bureau as it is now. Is that the type of person you are talking about?

Dr Love—Yes. The most high-end computing that we would have distributed across Australia supports our observation program. Our radars very often have computers on site which bring the data back and let you see it if you want to look at it on the web. Also, where we let the balloons go we have computers; once again, the balloons are radar tracked and the data comes through computers. We have a set of engineers or trained technical officers that we put through a four-year program to train them up, in association with RMIT in Melbourne. Those technical people can do everything on the radars from maintaining the radars to all the IT and the software. They can do end-to-end maintenance on radars and on observing systems. We have probably about 40 technical officers—engineering, as we call them—who maintain the infrastructure. They will wire up the local area networks, maintain the high-end computing and so on. They are mulitskilled because, if you have a radar in Darwin or Gove and they have to go to one of those sites, they have to be able to look after everything. I believe that nobody in the commercial IT sector would have access to staff with the skills that our people have to do those things.

Senator BUCKLAND—So come the day that outsourcing is in place, the contract, if you like, with the provider would not be to provide those specialist services? Would they be retained?

Dr Love—OASITO had reached the conclusion that we would not be able to get those specialist services in the marketplace.

Senator BUCKLAND—That is as far as I need to go.

Senator LUNDY—I want to ask you about the supercomputer. You mentioned the fact that it was not 'in scope' as such. In terms of the operation of the supercomputer, can you tell me what your thoughts are about its future management? Also, can you tell me whether or not any plans that you are embarking upon with your outsourcing—or strategic sourcing—impact or affect the operation of the supercomputer in any way?

Mr Gigliotti—We have a fairly small number of staff that actually manage the supercomputing facility. Those staff are a range of both IT specialists and people who come from our research areas. In fact, the bureau has a highly integrated structure and, because the supercomputer is state of the art, we use a lot of our researchers to basically help define the strategic direction of supercomputing. They are also involved in bug fixing and monitoring the systems. Because we write most of our own applications, those applications have to be tuned very carefully with the underlying infrastructure. So we do not have a very clear split, if you like, between the support people and the researchers; in fact, there is a fairly large overlap with that. We convinced OASITO that there was not a market for supercomputing, particularly these types of supercomputing. The machine that we have is probably one of only one or two in Australia. It has a particular configuration, et cetera, that is not used in commercial environments; it is used primarily in other atmospheric science agencies. There is not a large what we could call 'pool' of expertise that we can just take in off the street, either in Australian industry or overseas. We are often working very closely with the vendors to basically solve problems that come up on the system itself. I think it is clear that supercomputing within the bureau is pretty strategic to its function. In that regard, I feel that it would be a backward step to see any of that strategic expertise diluted outside the organisation.

Senator LUNDY—I have a final question in relation to market testing of your desktop infrastructure. Are you at a stage where you are clear on whether you are contemplating and operating a finance lease as part of a potential contract? I am particularly interested in your thoughts to date on the treatment of assets, given that was such a focal point of the financial methodologies deployed by 0ASITO, and quite contentious, I might add.

Mr Gigliotti—In essence, we have not made a final decision on that. In terms of the asset question, in our computing environment within the bureau everything is heavily skewed towards the cost of the supercomputer. It is about 80 percent of the budget. Although we have some 2,000 desktops in the organisation, that is still a very small amount of money in comparison to the main—

Senator LUNDY—Sure, but even within that small proportion of the budget—I am sorry for dealing slightly in the hypothetical because you are not there yet—if you did outsource the provision of that infrastructure, are you considering issues like the exit process post that contract and all those implications?

Mr Gigliotti—We are considering them. We run a mixture of leased equipment within the bureau and equipment that we purchase and replace on a regular basis. We have sat very much in between and not jumped either way, and that was a risk management decision given the uncertainties that we were faced with. I do not think we have a position which says that we would prefer to lease equipment as distinct from purchase equipment—basically, that is on record. We try to manage our assets in terms of the best mixture of operating leases, finance leases and asset replacement.

Senator LUNDY—Are you still getting advice from OASITO?

Mr Gigliotti—We are not getting advice from OASITO at the moment. In the last communication I had with them, we were discussing OASITO's role in the post Humphry era. We are waiting to get notification of how they see their role progressing. The Humphry report gave a six-month period where they would be looking at assisting agencies.

Senator LUNDY—If anyone wants them.

Mr Gigliotti—Yes. I should point out that OASITO have a very difficult task with the science agencies. They produced a scoping study which highlighted the difficulties with going through an outsourcing exercise in a 'one suit fits all' arrangement.

Senator LUNDY—They did not ask for a business case, though, did they?

Mr Gigliotti—They asked us for a business case to look at what we should exempt from the policy.

Senator LUNDY—But not a business case to substantiate the process?

Mr Gigliotti—No.

Senator LUNDY—I did not think so.

Dr Love—Could I just make one comment on OASITO's involvement. Peter is correct: OASITO appears to have receded from the scene a little. Our parent agency, Environment Australia, has outsourced in one of the clusters and we will have on our steering committee the chief information officer from Environment Australia, who will bring to us some of the experiences. OASITO did have a great deal of experience in the legal and contractual side and, to be honest, we do not have that kind of experience in the Bureau of Meteorology and we do need access to it. We will get that from our parent department, to some extent, because they have been through the OASITO process from beginning to end and can extract the obvious strengths that were in that process. I think the Humphry report identifies some deficiencies, but they did have very high-powered legal advice—

Senator LUNDY—Very expensive, too, from my recollection.

Dr Love—One might argue about how cost effective it was—and I cannot draw conclusions on that—but certainly there is a set of documentation there which is useful. Why waste what has been paid for? We will be looking to get that into our process to the extent that it is relevant.

Senator LUNDY—Thank you.

CHAIR—Thank you, Dr Love and Mr Gigliotti.

[11.36 a.m.]

BARRY, Dr Jerard Michael, Delegate, Community and Public Sector Union (Professional Division)

DENTON, Mr David Thomas, Assistant Delegate, Community and Public Sector Union (Professional Division)

MATTHEWS, Mr Howard, Site Delegate, Australian Manufacturing Workers Union

MISKELLY, Mr Paul Charles, Membership Secretary, Association of Professional Engineers, Scientists and Managers, Australia

CHAIR—I welcome the representatives of the combined unions of ANSTO. Do you have any comments to make on the capacity in which you appear?

Dr Barry—I am chair of the CPSU Professional Division at ANSTO.

Mr Denton—I am a delegate from the CPSU at ANSTO.

Mr Miskelly—I represent the APESMA group at ANSTO. I am the membership secretary there and I am here on behalf of the local group chairman, Mr Geoff Watt.

Mr Matthews—I am convenor for the AMWU membership at ANSTO.

CHAIR—Do you wish to make an opening statement?

Dr Barry—Yes, if I may. I am accompanied by three people here today and I thought I would give you a bit of background so that we can cover a fairly broad range of things related to IT. David Denton is an IT systems specialist. Paul Miskelly's training is as an engineer and a computational scientist. Howard Matthews is a radiopharmaceuticals production engineer and I have a background as a mathematician and a computational scientist.

Together, my colleagues and I are in a position to provide you with a clear indication of the harm that an inappropriate IT outsourcing policy has had on ANSTO and the difficulties that we continue to face post the Humphry review. The Humphry review has been critical of many implementation aspects of the enforced government IT outsourcing policy. However, we take little comfort from its recommendations and the direction in which the whole of government IT outsourcing initiative policy is now headed. Our fundamental premise is that IT and science are so highly integrated that any imposed separation of the two will be detrimental. There has been considerable evidence presented in our written submission and in others to this inquiry and also to the Humphry inquiry—so much so that further amplification is probably superfluous. To save your time, we will avoid following Voltaire's axiom that 'the superfluous is very necessary'. Instead, we want to focus on ANSTO's specific history to show where suitable functions are provided by external sources and to gauge circumstances where external provision is appropriate. Subsequently, we will argue that the IT status quo should be preserved in ANSTO; that present and past IT practices actually accord with government policies; why external pressure to change existing policy is unnecessary; and how the present external pressures will

lead to inefficiencies and misdirections of resources. Finally, we believe that pressured policies will damage the intellectual IT capital of our organisation.

ANSTO has followed a policy of outsourcing IT functions that were not core to its business. At the present time, for example, the organisation is in the process of implementing a new business information system that will cost in the order of several million dollars. This system will be developed, installed and further supported with external suppliers playing key roles. The implementation accords with the whole of government IT policy. It is essential to observe that its method of acquisition was actually not in response to the initiative but arose from a carefully considered and much longer ANSTO strategy of outsourcing non-core functions. In support of this, we draw attention to its predecessor, the financial management system—FIMS—which predated it and also predated government policy. It was an example of ANSTO IT putting out a significant service that benefited both ANSTO and the Australian software industry.

The important thing to notice about those two features is that they had no impact on the way scientists perform their computational activities at ANSTO. All in all, we agree that those forms of outsourcing were a wise move for ANSTO. Similarly, we can show you evidence where ANSTO willingly took advantage of external markets for some network, database, consultancy, scientific and educational services, software and hardware. However, ANSTO has keenly guarded its IT systems, functions and services, which it has identified as essential in its pursuit of its scientific and technological roles. It is important to stop and see what distinguishes functions considered to be non-core from those that are best retained. The most important criterion is the interaction of the staff supporting the IT function under consideration and the science and technological staff of the organisation. In the above examples, there was no direct and very little indirect interaction between the units or functions outsourced and the scientists of ANSTO. As a result, the fashion in which the services were supplied is somewhat arbitrary. The same cannot be said for other IT functions and services provided to support the scientific aspirations of ANSTO. The functions ANSTO has chosen to retain involve a high degree of integration between the scientific staff and IT specialists. The integration is so great that frequently staff are crossing boundaries between the two roles.

Let us consider two examples of functions commonly touted as suitable for outsourcing in organisations like ANSTO: desktop and server support. The contention by misinformed champions of outsourcing is that these are standard functions and are better supplied elsewhere. It is necessary to counter such advocates head-on, and this is best done by observing the way scientific organisations function. ANSTO is not a standard desktop environment, due to the nature of science, but pushes the envelope of IT in all directions. Hence, it is difficult to locate a standard desktop computer on a scientist's workbench. Consequently, external services reliant on providing a uniform environment to obtain advantages of scale and hence profit margin will find the scientific operation difficult and less profitable at ANSTO in comparison. I might add that the same comments would apply to server support.

Profitability to the outsourcer is enhanced by employing trailing edge technology in the latter part of any arrangement. It is difficult to specify up front what mid- and long-term functions are required for a scientific organisation where leading edge technology is generally employed first. Dynamic IT changes in an agreement of a fixed life span can lead to excessive charges in a non-competitive environment, but of more importance is the way in which IT staff interact with scientists and the long-term commitment between the two groups—if, indeed, there is a

separation in organisations like ANSTO. We consider that this is a very important distinguishing feature that invalidates the argument advanced by the champions of outsourcing.

ANSTO has succeeded in attracting staff with better than average qualifications, due to the scientific nature of the organisation. These staff would view their employment with ANSTO as a very long-term commitment, albeit a permanent commitment. These people are the IT intellectual capital of ANSTO. Upon initial appointment, they are assigned simple tasks in the IT area where they rapidly learn to interact with scientists. They take on more scientifically oriented tasks and can and do ultimately become part of a scientific team. ANSTO has a very proactive policy, encouraging the development of staff. Our written submission shows how this has advantaged ANSTO strategically.

ANSTO traditionally grows its IT intellectual capital in areas that may be inappropriately considered for outsourcing. In an outsource environment, this development would no longer be possible. Without the internal development paths, ANSTO is unlikely to be able to obtain strategic IT decision makers, particularly those who understand its requirements, as the Australian IT industry does not nurture people with such skills. There would be little or no chance of obtaining these staff from other scientific agencies. All of this is in addition to the reduced IT service of staff without a science background who are likely to be supplied by the outsourcer. ANSTO, compared with other organisations, is not large; so the question of critical mass arises. While there may be reasons to outsource IT functions that come up in the future, there is little scope for outsourcing present functions without damaging the critical mass or destroying the intellectual capital. Some form of partial outsourcing of present functions to mollify misguided ideology would damage the organisation, yet there is a danger that such a form of detrimental compromise may be forced upon organisations such as ANSTO.

We return to the Humphry report recommendations to justify this apprehension. We are concerned that contentions can arise with the acceptance of recommendations 3 and 9 of the Humphry report. In recommendation 9, ANSTO should not proceed with outsourcing until its CEO is satisfied that the implementation and risks are adequately addressed. The recommendation gives the agencies the decision making power as to what, if any, element should be outsourced. It is our view that this recommendation is sound because it recognises the integrity and experience of the agency head. On the other hand, recommendation 3 puts in the agency head's performance agreement specific tests on outcomes following government IT outsourcing policy. This may give rise to undue pressure on an agency head in situations where IT outsourcing is inappropriate. There are two detrimental possibilities. Firstly, it may lead to the unnecessary use of resources to demonstrate to a much higher degree than is necessary that a particular IT function is best retained in-house. We think this is particularly likely to be the case in ANSTO. Secondly, perceived advancements achieved through satisfying personal objectives related to government policy may influence decisions.

In the enactment of government policy by OASITO, some highly qualified staff were driven away from the organisation. While the threat of outsourcing remains, it is difficult to attract new staff of equivalent ability. The morale of remaining staff certainly has not been enhanced. As long as inappropriate pressure is applied to an agency post, OASITO, this situation will continue. In our written submission, we contend that ANSTO has already struck an appropriate balance in its procurement of IT resources. ANSTO has exerted careful judgment in deciding what it should retain, but the functions retained are likely to be subject to further time

consuming and morale debilitating scrutiny where there is virtually no likelihood that ANSTO's original position will be reversed. In order to take this scrutiny, IT resources will continue to be directed away from the scientific coalface, and strategic planning for more important IT decisions in the organisation will be delayed. This is likely to be a protracted process, taking several years.

Senator BUCKLAND—It is irrelevant who answers because you probably all have the answers to my questions. Have the combined unions at ANSTO been invited to discuss the outsourcing process with management?

Dr Barry—We have had some consultation with the director of information management. The peak council, which is a body that meets periodically with the chief executive officer and other members of senior management, has raised this issue from time to time.

Senator BUCKLAND—Is it something that is on the table for a forum type negotiation that you will go through, meet monthly on and discuss progress as to where it is at?

Dr Barry—No, there are no formalities for a timetable for negotiations. It is not a subject that you would say was even for negotiation. Consultation, I think, would probably be a more apt word.

Senator BUCKLAND—But there is no hostility from management towards the unions about the subject? They are quite open about what they are out to do?

Dr Barry—I personally have experienced no hostility.

Senator BUCKLAND—That is good. Have they explained to you what the outcomes they are seeking by going down the path of outsourcing might be?

Dr Barry—I think at the present time it is very muddied waters.

Senator BUCKLAND—So at the moment it has not really been discussed?

Dr Barry—Various options have been discussed at the level of the director of information management, but there is no clearly defined path at this point in time. The OASITO process, for people working at the bench, offered a whole host of options, and there was no ultimate decision as to which option OASITO wanted the organisation to move to. There were just lots of possibilities.

Senator BUCKLAND—You said in your submission that ANSTO is not a large organisation. What is 'not large'? Could you give me an idea of the numbers.

Dr Barry—We are looking at approximately 800 staff. I am comparing this to other government departments that have been either considered or outsourced.

Senator BUCKLAND—You could help me a bit further with the part of your submission where you were talking about desktop computers and servicing support and where you said that

that is not desirable in your view within ANSTO because this is not a standard system. I can understand the information stored within the computer system not being standard, but what if the machine broke down and wasn't working? How is it done now? Have you got specialist staff who come in and fix it or is it sent out to a computer repair shop? I am just trying to get a picture of that.

Dr Barry—I think some others here would like to comment on that, but I would just comment that there is no one solution in an organisation like ANSTO, because of the diversified nature of the equipment and software, to the question you are raising.

Senator BUCKLAND—So all of it, in that case, would be serviced in-house at the moment?

Dr Barry—No, computer hardware would generally be serviced externally.

Mr Matthews—It is broken down into three components. We are a very small player in this game. We only have four members who are affected, but we have about 60 affected on a second rung who are users of the system. There are three rungs to it. The first is that, sometimes when the equipment breaks down or needs repair, it is sent off-site. I have members on the second rung who actually repair equipment—the instrumentation people. We have other areas—for instance, in terms of the Therapeutic Goods Association requirements—where we have people inside the department, for example, for the cyclotron and ARI, who actually do the programming and repair work themselves. So it is tiered down.

Senator BUCKLAND—My questions are a bit hypothetical because there has not been very much discussion with your management, but is it expected that there will be or has there been any discussion with management as to whether the process of outsourcing will lead to direct job losses within the organisation?

Dr Barry—Actually, we have a letter that we received from Mr Fahey's department—I think dated about three years ago—saying that there would be no job losses.

Senator BUCKLAND—So there would be no job losses?

Dr Barry—You would have to ask him what he actually meant by that—whether he meant job losses from ANSTO or job losses in the Australian IT industry. It was not clearly defined.

Senator BUCKLAND—I see.

CHAIR—Do you have a copy of that letter?

Dr Barry—I would have it back at ANSTO; I do not have it with me at the moment.

CHAIR—Can you provide it to the committee?

Dr Barry—Certainly.

Senator LUNDY—I am particularly interested in the comments you made about the loss of expertise and about people feeling, I guess, undervalued and driven out. Can you expand on those comments and give me a more in-depth insight into the impact of the IT outsourcing proposals on the general skills and capability of staff in ANSTO?

Dr Barry—The nature of the organisation—I ask my colleagues to please add or take over if they wish to—is that IT is integrated very closely into virtually every scientific operation of the organisation. Our contention would be that, if you are functioning as what is deemed to be a physicist in the morning, you could well be deemed in a snapshot taken in the afternoon to be functioning as an IT specialist. That is, I think, the level of the closeness of the two. The danger at the end of the day is that if the organisation were to shed its IT skills the science part of the agency would be seriously damaged in the way it functioned. Hanging on to this, straightaway you have raised the issue of morale. You can see where morale comes in, where people think, 'Oh, we are not valued for the work that we are doing here. We are thought to be dispensable to Joe's computer services down the road. They are not recognising our scientific abilities and why we need to do both science and IT.' I think that people sitting at the table here—particularly Paul Miskelly and I—very much come from these backgrounds. We are into both fields and will appear in either camp within five minutes of one another.

Mr Miskelly—Senator Lundy, I can think of specific examples. It is perhaps not that people feel undervalued by their colleagues but by the situation that has arisen with the OASITO process. The example I can give—speaking of people such as UNIX system administrators—is that one might immediately say, 'Well, you can have a system administrator provided by an outsourcer,' but again Dr Barry has made the point that the people that we have need to have scientific skills and an understanding of the scientific tasks that are being done. We have recently lost probably one of the best UNIX system administrators in the country. We have only one left and, incidentally, he is on leave at the moment. So we have a very large problem on the site but we cannot replace the person who has left in the sense that we cannot offer—when I say 'we', I mean our director—any position that is beyond a 12-month contract.

Senator LUNDY—Why not?

Mr Miskelly—As I understand it, that is the situation that applies to our division until the OASITO process has been carried through. At least, it has been the case until quite recently.

Senator LUNDY—Is that still a requirement, despite the Humphry review and the changes?

Mr Miskelly—That seems to be the climate. We do not seem to be able to offer sufficient inducement to folk out there.

Senator LUNDY—So it is an outstanding problem despite government acceptance of the Humphry review?

Mr Miskelly—Yes, indeed. At the coalface, it really is.

Dr Barry—The IT system specialist we lost—whom Paul referred to—was primarily a mathematician and scientist by training. He went from operating as a scientist into operating in the IT area. While he was 90 per cent IT, he had a 100 per cent understanding of the science he

was interacting with and was able to give the scientists the best solution because he knew what they wanted.

Senator LUNDY—Okay. The point you are making is that this person was classified as a systems administrator but that they brought a set of underlying skills that informed their work as a systems administrator?

Dr Barry—Yes.

Senator LUNDY—This might be a tough question, but have you speculated as to what you would be paying in the private sector for someone who not only had all of that systems admin experience but also understood the core operations of the person or organisation they were to work for? My understanding is that the wages and packages are pretty lucrative if you have that skills set. What is your knowledge?

Mr Matthews—ANSTO is currently trying to get one of its radiopharmaceutical diagnostic tools registered in the US. The US department of health came out and did an inspection and declared that the computer program that works out calibration dates and does that gamma spectrum as to whether it is that isotope or not had to be validated. ANSTO immediately took off and got a consultant—I am not obliged to tell what the dollars were, but they were substantial.

Senator LUNDY—I will do you a favour and not ask you who it is.

Mr Matthews—When it came down to the last, a nuclear physicist who had left that department to go and work in another part of ANSTO had to be recalled to validate the sums—I think it was an array—inside the body of it. That showed to me, and I think to everybody, that you can get a consultant in and he can read code, or whatever they call this stuff, but in the end you need to be an expert to understand that and make a validation which satisfies the US department of health.

Senator LUNDY—I think that sums it up quite well—that it is not just a question of procuring expertise externally but that you require those inherent skills that are built up by virtue of experience within the organisation.

Mr Matthews—It has to take into account that this is not a special computer; it is a computer that has been bought from the local computer shop but it has been programmed to do these functions. In some cases, for some of them, there is electronic circuitry that is bought from the US and other places and which is integrated by ANSTO staff.

Senator LUNDY—Let me further develop this point. What sorts of in-house programs does ANSTO have for continually training, upgrading and developing the skills of employees?

Dr Barry—Within the IT area there are basically two categories of programs. One would be the short-term courses supplied by Microsoft, if we are dealing with Microsoft equipment, or other suppliers. That is what I would classify as a short-term strategy taken through to various levels of certification as appropriate inside that. Running in parallel with that is a system called Studybank. Studybank is a system which encourages people to go and do higher university

degrees particularly and, in the case of technical people, to go and undertake a first university degree. ANSTO has over the years grown an awful lot of its intellectual capacity through Studybank or its predecessor. Within our information management division, I think there are four PhDs and all four of them used that system to develop their skills. They are in very senior positions in ANSTO. They know the organisation thoroughly, having been there virtually the whole of their working lives.

Mr Denton—In my area, there are certainly two home-grown undergraduate degrees in computer science and a Master of Science honours degree in computer science. That is certainly working in my area.

Senator LUNDY—Do you have a figure overall as to the number of those formal opportunities that ANSTO is currently offering? Can you take that on notice and give the committee some details?

Dr Barry—If you want an accurate number, I will have to give it to you later. It is a policy that ANSTO and its predecessor—the AAEC—treated most seriously because it recognised that the background for the skills was not generally available, so it encouraged people to undertake research degrees.

Senator LUNDY—What is your assessment of the impact of outsourcing on those opportunities for postgraduate programs and so forth within ANSTO?

Dr Barry—Outsourcing will effectively mean that the strategic IT skills are not going to be held within the university; they are going to be held within outsourcing companies. If that is going to be the way it goes, ANSTO will not be inclined to support those types of study programs in the organisation, seeing that, once someone got particularly skilled in that area, they would then be deemed to be excess to requirements and staffing numbers.

Senator LUNDY—Earlier, you mentioned intellectual property as also being an area of concern.

Mr Miskelly—Could I make a comment on that question regarding training?

Senator LUNDY—Please do.

Mr Miskelly—We ought to stress that—and I think this also applies to some of Senator Buckland's earlier questions—for training of standard desktop activities, such as Office, Access and the usual sorts of software products, we would normally send people on commercially provided courses. We do not try to duplicate that. That is all I wanted to say.

Senator LUNDY—So, at the moment, you do strategically source externally when it makes sense for the organisation?

Mr Matthews—The people whom I represent are non-professionals—although we do represent professionals these days, as well—and, basically, they need to enhance their skills. You cannot work in a scientific organisation these days at the more senior technical level unless you have fairly good computer skills. Most of my peers—and I am one of them—have been

through a number of courses, and in my case I went through a higher education course, and ANSTO pushed that along. I think a lot of people whom I represent would not be able to do the higher level functions of their jobs if they were not given access to that type of training.

Senator LUNDY—To sum up: this is not a question of whether or not to outsource because, effectively, where it makes sense, you are already externally sourcing provisions, services and training courses—

Mr Miskelly—And repairs to PCs and things like that.

Senator LUNDY—So you cannot be put in an ideological box?

Mr Miskelly—And we do not wish to be.

Senator LUNDY—I am belabouring the point, but it is an important point to make, because quite often in the political debate the government likes to present it as an either/or, and it is really important that we understand that it is not an either/or for the vast majority of agencies—many do strategically source their requirements currently—and that what is being proposed is something different altogether.

Dr Barry—To the point of almost being trite: if the thing is not broken, do not fix it.

Senator LUNDY—You do not think you're broke; right?

Mr Matthews—To enhance that point, the people I represent—the electricians and people like that—have already been outsourced. They were the people who used to run the cables. The only people who are left—and they are two of my members—are the people who manage the system and who do the electrical thinking about the system. The rest of it is done by contractors.

Mr Miskelly—For example, on our computing network system on the site we have two people who, as Howard has implied, manage the network and do the thinking about the kinds of—

Senator LUNDY—The strategic direction.

Mr Miskelly—Yes, the strategic direction. And we do need state-of-the-art boxes for the network that is on the site because, of course—and no doubt this point has been belaboured by many others—information currency is terribly important within a scientific organisation. I am sorry; I am getting off the point. The point is that we have two people who manage the network, but all of the cable laying and the box provision and all of those sorts of things are done by contractors, and those people manage contractors.

Senator LUNDY—Thank you for that; that has been a useful extrapolation of that issue. Going back now to my question about intellectual property: how important is it to retain control and ownership of intellectual property derived from your endeavours, and what risks would exist to that intellectual property if you were to proceed down an IT outsourcing path?

Dr Barry—You use the words 'intellectual property'; in my oral submission I use the words 'intellectual capital'. I want to make sure that we are not confusing the two concepts. I was particularly talking about the capital—human capital—that is built up in the staff.

Senator LUNDY—Whether or not it is codified in a patent or a copyright or in whatever other format—in other words, it may or may not be codified in some way.

Dr Barry—Your question, I think, is directed more towards ideas and the protection of ideas. Organisations like ours often, hopefully, come up with novel concepts. Generally, in this day, a novel concept is going to involve computation at its core. Long before the concept can get to the stage of being considered for patenting, there will be an IT component in there, and IT will be involved in the early discussions. That is where one of the dangers could arise, when people from outside the organisation could be involved.

Mr Denton—In computing history we have a number of applications that we term 'killer' applications, and they are the things which take us to the next level in the use of technology to improve whatever it is that we are trying to do. Remember, computing infrastructure and systems are just tools to achieve an end. The risk that we may run with our intellectual property or capital—call it what you like—is that we as an organisation, and potentially as a country, lose a killer application.

Senator BUCKLAND—Can you expand on that idea of the killer application?

Mr Denton—What was the first killer application? We think, maybe, that the first killer application came from Mr Bill Gates, and it was called Microsoft Basic. It allowed us to not code our computers in bits and bytes but in words, programming languages and algorithms. It advanced the ability of people to program computers to another level. Another example of a killer application—for those of us who were around—is the Lotus 1-2-3 spreadsheet. Before we had the electronic spreadsheet program we used to have pieces of paper and pencils and peaked caps and we filled in boxes—and accountants were very good at that. With the introduction of the spreadsheet program, for example, another level in the ability to use a computer application to improve what we were trying to do—in this case calculate spreadsheets—came about. The next example of a killer application is the World Wide Web. Think about the difference between where we were in IT terms even five and seven years ago and then now with the introduction of the World Wide Web. We do not know what the next killer application is going to be, but there is certainly one thing to say: if you have got it you want to have it.

Senator BUCKLAND—I might be a bit slow with technical terms, but is that an actual term—killer application?

Mr Denton—Yes, it is in the computer jargon.

Senator LUNDY—Thank you for making that point. That is all I have.

Senator EGGLESTON—I think I understand the point of view of ANSTO towards outsourcing in terms of the specific needs of science and the need for security. In your submission you say that the Humphry review transformed the initial OASITO controlled implementation of the government outsourcing strategy but that there still remains a

government policy to outsource IT that is inappropriate for ANSTO. That is a blanket statement. I still feel there may be areas where individual organisations can achieve cost savings and perhaps have access to more sophisticated technology than they might have in-house with outsourcing. Do you think there is any scope for that kind of benefit through outsourcing?

Dr Barry—In our written submission we went to considerable detail in looking at that—and we also ran through it in our oral presentation this morning; unfortunately, you were not here for it. ANSTO has been following a policy that is not counter to the general thrust of looking at what is available on the outside to see whether it is appropriate to our needs. But the decision was always taken on what is best for ANSTO, not on forcing ANSTO to move into those fields. We gave the examples of the business information system, a multimillion dollar system that is currently being acquired, and the outside world is going to play a key role in that. Its predecessor, the financial infomanagement system, was introduced in the early 1990s without any need for government outsourcing. ANSTO saw that as a wise way of doing it. We have outsourced certain functions in the network area—not the whole network but some functions of the network we did not want to retain inside, such as the database, some of the education functions and even some scientific aspects that we did not want to do in-house. We have already been doing this, but the point is that we have been doing it successfully and we have been doing it in keeping with what the executive director and senior management feel appropriate. Our concern is that someone in Canberra will think they know better than our executive director and force a policy that is detrimental to the organisation. Per se we are not opposed to using the outside world; we have been using it for quite a long time.

CHAIR—Thank you, gentlemen. That concludes this session.

Proceedings suspended from 12.17 p.m. to 12.33 p.m.

PERRY, Mr Neil, General Manager, e-Commerce, connect.com.au Pty Ltd

TROETH, Mr Simon Charles, Consultant, ACIL Consulting Pty Ltd

CHAIR—Do you wish to make an opening statement?

Mr Perry—I would like to thank the committee for the opportunity to appear before the Senate Finance and Public Administration References Committee inquiry into IT outsourcing. The e-Commerce Division of connect.com.au Pty Ltd was founded in 1992 and is a wholly owned subsidiary of AAPT Ltd. AAPT is Australia's third largest long-distance telecommunications company and has operated since July 1997 as a licensed communications carrier. The e-Commerce division of Connect was previously known as AT&T Easy Link Services Australia Ltd and before that as Paxus. Our origins actually lie in the CSIRO.

AAPT operates one of the largest switched networks in Australia and provides a wide range of services, including voice, data, frame relay, mobile, facsimile and Internet. connect.com.au was one of the first companies to bring the Internet to Australia, is a nationwide network provider and is one of Australia's largest Internet access and e-commerce providers.

The company aims to make Australian business more competitive by maintaining a high level of investment in leading hardware and infrastructure supported by ongoing training of our support teams and a focus on the provision of real solutions for customers. We offer wholesale solutions to many of Australia's leading ISPs, who rely on Connect to provide a fast, reliable Internet backbone connection and international bandwidth. In fact, there are about 200 downstream ISPs, including AOL Australia, which use our backbone service.

Our company's interest in the issue of IT outsourcing has arisen because of our recent experiences with the Australian Customs Service. Our link with the ACS is explained in our submission, but essentially it consists of the provision by Connect of various services to Tradegate—an industry association representative body—which in turn facilitates the use of electronic commerce in the exchange of trade related data. We provide an industry gateway to the ACS which enables a link for communications traffic to the ACS and between companies and individuals engaged in the business of international trade.

I would like to take this opportunity to table diagram 1, 'Current Trade and Transport Industry Network', which explains what we do. Perhaps I could draw your attention to the bottom right-hand corner: 'Tradeway—connect.com .au'. Tradeway is the name of a communications network that we have established. Tradeway itself replaces a network that was known as the COMPILE access network, which provides interactive access to the Customs application for import declarations. All the people on Tradeway have dedicated lines into us which we provide for them, so it is not a dial-up service—it is all dedicated. We have moved the network into the Internet space, so they are able to use Internet technologies in a private, managed environment. We have lines and routers to each customer's premises and there is high security—every device is registered—so that when Customs get transmissions from those users they know exactly where they have come from.

The way that this is funded is quite unique. It is part of our contract with Tradegate, which is back to back with our contract with Customs. The funding of the network itself is laid down in that contract and is based on a cost plus formula. There is a group that includes Customs and the user representatives, and every year we go before them and explain what the costs are and they agree on the price for that service for the next year.

There are several other interesting features. One is that the costs are then averaged over all entries; so whether you are in North Queensland or in Sydney right next to the airport it actually costs the same to put in a Customs entry. Whether you are a large business or a small business, the cost per entry is the same. Obviously the cost of delivering that service is not the same. For example, we have customers in North Queensland, and the cost of providing telecommunications infrastructure up there is a lot more than it is in metropolitan Melbourne or Sydney. But the way it is all averaged out means that the cost of a Customs entry put in by them is the same as it is for another, larger business right next to the airport. That is the way it has been designed, as an industry approach, from the start.

Moving into the middle, you can see the Tradegate hub. The Tradegate hub has connections to various other services, and there are a couple of little dots at the bottom that go straight in. They represent customers of ours who are not on that dedicated Tradeway network but just dial in to the server and send their cargo reports, their export entry requests and so on. They do not go through the Internet generally to get there; they just dial in and it is just a local charge. One of the key designs of this architecture is that customers can actually choose to use—

CHAIR—Mr Perry, I do not want to cut you off, but I am struggling to relate this to our terms of reference.

Senator LUNDY—Perhaps I could say that, from my perspective, having pursued this specific issue with Customs at the hearing the other day, it is a very clear relationship between the impact on companies which have current arrangements with departments and what is proposed to change with the implementation of outsourcing. In Customs's case, EDS have had a contract for quite some time, and they are going through a subsequent phase of development within that contract that is impacting on services both to government clients and to companies contracted to government. I suppose I want to put a case of relevance to you, and I am sure that the witnesses will come to their points. I think you will see by my subsequent questioning the depth of that relationship.

CHAIR—I am very conscious of this committee not getting embroiled in what may be a dispute between particular companies in relation to contracts. Could you try to keep it focused on the terms of reference, which is really looking at the outsourcing issue.

Mr Perry—Just to wrap this up very quickly, I would just like to bring to your attention that there is Internet access on this diagram and there is a choice of different approaches users can use to get in.

We are not opposed to the process of IT outsourcing. In fact, our company benefited from outsourcing of the ACS national interactive network to access the COMPILE system in 1992, and we have been doing it ever since. What I explained to you on that diagram, particularly the first piece, was a form of outsourcing that took place in 1992. Customs used to provide that

network themselves. The industry asked them if they could take it over, and Customs went along with that, and the industry then employed us to do the job. So we have been an outsourcer for some time. We support the findings of the Humphry review that the outsourcing of IT is of benefit only when it is properly managed, with due consideration paid to the full range of implementation risks.

We lodged a submission with the committee and requested an opportunity to appear before it because those implementation risks, in the context of actions taken by ACS under the umbrella of its IT outsourcing, have not been properly managed and, in fact, threaten the provision of a high quality, cost-effective service to many small and medium Australian firms—particularly in rural and regional Australia.

We now find ourselves in a most uncertain position regarding the validity of existing contracts. In addition, sensitive information provided to ACS has been passed to one of our competitors, and the capacity of ACS to conduct its business will suffer if the proposed alternative to the Tradegate service that we operate becomes a reality. I would like to briefly outline the points that we have made with reference to the committee's terms of reference.

Actions taken by ACS have reduced the accountability of ACS to parliament and put responsibility for outsourcing arrangements in the hands of a private company. First, EDS have provided advice to ACS on the establishment of an alternative supplier to Tradegate than ourselves, which appears to empower a private company to decide on options which are more properly the province of the government and ACS. In addition, EDS appears to have outsourced part of its own responsibilities to IBM—actions which in our view should have been the sole responsibility of ACS. The move to place the ACS IT arrangements outside the accountability framework which would normally apply greatly reduces the capacity of parliament to oversee such arrangements.

Second, there is a lack of certainty regarding the future of our existing contracts, which will apparently not continue, according to ACS, despite the enabling legislation for a replacement not yet being passed by the parliament. Incidentally, we have some concerns about exactly how that legislation, the Customs Legislation Amendment and Repeal (International Trade Modernisation) Bill 2000, will affect people like us and how our existing contracts will be safeguarded. We will be putting these issues of detail to the legislation committee when it examines the bill.

We are most concerned that information which we supplied to ACS was apparently used to undermine our position by enabling EDS to develop an alternative service which we contend is clearly inferior to the existing service. Extensive detailed information which we provided as part of a request for information was passed to EDS by ACS in apparent contradiction of confidentiality provisions. In addition, we believe that many small to medium enterprises and rural and regional users will suffer when electronic access to ACS services is reduced and costs are increased under the proposed new system.

We strongly support the concerns expressed in the Humphry review regarding scant consideration being given to potential risks prior to outsourcing taking place. ACS is risking the integrity of its interface system by exchanging a superior system for one which is arguably inferior. I would like, if I may, to table a couple more documents at this stage.

CHAIR—Can you identify them, please, for the *Hansard*.

Mr Perry—One document is a network architecture diagram and the other is an Australian Customs Service document entitled 'Cargo management—re-engineering Customs connect facility'. Regarding the network diagram, you can see that the similarity with the first one is strong. All that has happened is that the piece in the middle that the industry provides through its body Tradegate which we deliver has been replaced by the gateway that EDS will be providing to Customs under the IT outsourcing contract and which they had subsequently further outsourced to IBM. The functions that we now provide in the middle on behalf of the industry are effectively being insourced, I suppose you could say, back to Customs under their outsourcing agreements. No-one knows the scope of those outsourcing agreements because the contract is not public.

Moving to the second document, if you would turn to page 2, there is a comparison between the current services which we provide and the proposed services. First, I would like to say that we were not consulted at all in the production of this document which purports to describe our services. In fact, it does not describe them very well at all. If you look at the second block, EDI messaging, and the first block in it, it states 'Clients send X.400 messages to the Tradegate hub'. X.400 is an addressing protocol which is used by very few of our customers. Most customers simply dial in. They do not use an Internet service provider and they do not pay those charges; they simply dial into our service. Other customers of ours use communications methods which they will not be able to use under the new service because, if you look at the right hand box, the only options are through Internet mail, which is what SMTP means, or through a web interface—in other words, you have to sit at a screen and look at the web. Most of the customers in this area have applications that are integrated with their messaging service. What is happening in the community is quite advanced. Not many people realise it, but the industry has made a lot of strides in integrating its services and that integration involves a lot more than the communications options they will have under the proposed service. To give you examples: Ansett currently use an IBM protocol, which they will not be able to use. Qantas uses a specialised communication protocol which is not included in the new set. The freight companies AEI, TNT and others use IBM protocols which are not covered in the proposed solution.

We would contend that the service we now provide on behalf of the industry is a lot more flexible and more cost effective than is being proposed here through the outsourcing arrangements. As such, it appears to be an outcome that is hard to understand. We contend that the management of the transition to EDS has been poorly handled, in particular the treatment of ongoing contractual obligations which, until recently, were totally disregarded. There is no excuse for ACS treating connect.com.au in these ways. As the Humphry review noted, IT outsourcing is not simply a matter of signing a workable contract for IT services. It demands proper management of human resources and cultural change. We trust that the committee will recommend changes which ensure that future management of IT outsourcing is carried out with due regard to accountability, respect for existing contracts and proper attention to transitional issues.

We would like to take this opportunity briefly to correct two items of misinformation regarding Customs which have been drawn to our attention. The first item relates to the Senate Legal and Constitutional Committee's estimates hearing of 19 February. During that hearing,

the CEO of Customs claimed that, following the movement by New Zealand Customs of network providers to the Electronic Commerce Network Pty Ltd and from the X.400 to the Internet, the industry's EDI charges were reduced from $2 million annually to about $200,000 annually. We contend that an analysis of the charges levied on importers of goods into New Zealand shows that these claims do not stand up. We contend that the actual charges levied on industry for EDI services in New Zealand are substantially higher than claimed by the CEO of Customs.

Figures from New Zealand Customs show that, for the 2000 calendar year, 773,856 customs import entries were recorded for all ports in New Zealand. Recent invoices sent to a Customs broker in Auckland show that Electronic Commerce Network charges businesses NZ50c for each document received by New Zealand Customs and 50c for each document despatched by Customs. However, based on these invoices, a typical import entry requires a slightly higher number of documents to be despatched by NZ Customs than received—in other words, you actually put in an entry, but on average you get more than one response per entry because oftentimes there are mistakes and things like that. Our calculation of charges levied on a typical importer therefore included 50c for one document per entry received by Customs—which is a total for the whole of New Zealand of approximately $NZ386,928—and 50c for the 1.13 documents that, on average, are despatched per entry, totalling $NZ437,282. This means that the estimated EDI charges by ECN to New Zealand businesses totalled at least $NZ824,210— considerably in excess of the $NZ200,000 quoted by Customs. Present New Zealand costs are actually now in line with Australian costs, under the current service. It is also worth noting—

CHAIR—Mr Perry, you are correcting information that was given to another committee.

Mr Perry—Yes.

CHAIR—Have you written to the committee and advised them of the incorrect information?

Mr Perry—We will be writing to the committee in these terms—yes. It is also worth noting that this figure does not include the costs of extra software which companies were constrained to purchase to comply with the new requirements of New Zealand Customs, nor does it include the Internet service provider charges, both of which will apply here as well. We note in the explanatory memorandum of the trade modernisation bill currently before parliament that it is expected that many companies will likewise need to re-equip with new or extra software if the cargo re-engineering proposals are put into law. That concludes my opening statement.

Senator EGGLESTON—I understand that the contract between Customs and Tradegate expires in June this year. Is that the case?

Mr Perry—Yes, it is.

Senator EGGLESTON—Therefore, I assume that the contract between Tradegate and connect.com would expire at the same time.

Mr Perry—Yes, that is correct.

Senator EGGLESTON—So, in that case, your contracts have got three months to go. Is that not the case?

Mr Perry—Not quite. Both contracts can expire at the end of June, but in both cases there is provision for a one-year extension on the agreement of the parties.

Senator EGGLESTON—Basically, we have agreed that the contracts are due to expire. I did not know that there was an option for extension.

Mr Perry—My information is that Tradegate have been advised that Customs wish to extend that contract for another year.

Senator EGGLESTON—That is interesting information. In any case, if the contract is due to expire either in June or next year, surely it is Customs's business if it puts its whole operation out to tender again and you then have to compete in that commercial situation to regain a contract rather than a situation of, as you are implying, being hard done by Customs.

Mr Perry—It is not going out to tender; it is being supplied under the IT outsourcing arrangements that were entered into in 1997.

Senator EGGLESTON—But that is Customs's prerogative, isn't it? It is not your prerogative to argue about how Customs conduct their business when your contract itself is due to expire within a few months. You seem to be complaining about what is really just a factor of commercial life. You have a contract which is due to expire, Customs are making alternative arrangements—so be it.

Mr Perry—Firstly, our contract is actually with Tradegate rather than with Customs.

Senator EGGLESTON—Tradegate's contract is with Customs; your contract is with Tradegate. So really, if Customs are replacing the arrangement with Tradegate, that is just a matter of commercial activity.

Mr Perry—One of the problems we have always had is understanding what the bounds of the outsourcing arrangements are and how we can conduct ourselves commercially in that environment. For example, some of the services that we provide we understand now, from information that is coming out, will be included in that gateway functionality. The information relating to that is information which is involved in laying out the scope of the outsourcing arrangements, and that scope is not public.

Senator EGGLESTON—But the whole tenor of your submission is critical of Customs's right to make their own decisions. You have criticised EDS for having outsourced part of their responsibilities to IBM, but it is not unusual for large service providers to subcontract to other providers, is it? That is their decision to do that; you do not have some sort of special right to demand that only your services should be used.

Mr Perry—That is certainly true, but, with respect, I am not criticising EDS for outsourcing it; I am criticising the arrangements which allow that to take place. While EDS would outsource

many of its services, I imagine, where this is concerned, we, for example, were not given an opportunity to bid for that.

Senator EGGLESTON—But isn't that a commercial decision of EDS? It is no different from EDS deciding who they will hire as staff as to who they decide to engage as individual contractors.

Mr Perry—I think we have a legitimate expectation that existing contracts will be given some recognition, and we have been excluded from bidding on this as part of the outsourcing arrangement. So we feel that, in terms of our legitimate expectation, we have a strong point to make.

Senator EGGLESTON—There may be commercial reasons for that, I do not know. You say that EDS has assumed the role of Customs in outsourcing part of its responsibilities to IBM. I put it to you that EDS is entitled to do that. You do not have a case to make in saying that they do not. If that is what they choose to do within the area of their responsibility, they are entitled to hire individual contractors as they see appropriate.

Mr Perry—Our point remains that we believe that the whole outsourcing arrangement in this regard was not handled transparently and we believe that commercially we have been put in a position of risk because of that.

Senator EGGLESTON—Again, you are coming to the end of a contract and the commercial world is a world where contracts end and other people are awarded the right to supply services. Perhaps you are asking for special conditions which might not apply in other circumstances.

Mr Perry—With respect, in the commercial world normally you get a chance to bid for your contracts that are expiring. Certainly it is my experience.

Senator EGGLESTON—You also have criticised the fact that Customs appears to have passed on to EDS information which you say has enabled EDS to build a system which is inferior to your service. Would you like to detail what aspects of the technical architecture you believe have been misused by EDS?

Mr Perry—We would not have made the submission we made to Customs had EDS been running the request for information. It was a request for information by Customs, not by EDS. We were surprised that it was passed on. The actual submission we made covered a lot of the detail of the service we provide because many of the people in Customs itself were not familiar with the user dimension of the systems. They were not, for example, familiar with the way, from the first diagram I tabled, that the charging is a completely level playing field. They thought that, because the EDI messages came through us, we charged everyone for that. I had to point out that that was not the case.

There was quite an information gap within Customs that we were attempting to cover with our submission. That submission was passed on and, not long afterwards, an EDS officer was visiting us on other matters. He stated to us, to the chief executive, that it was the best piece of market intelligence that he had ever had and thanked us very much for it. Needless to say, we were flabbergasted by this and we wrote in very strong terms to the CEO of Customs about it.

Senator EGGLESTON—You said that was a breach of the agreement between you and Tradegate promising to treat as confidential any information which came into Customs's possession about your operation under that agreement.

Mr Perry—Could you repeat the question, please?

Senator EGGLESTON—On pages 10 and 11 you make the comment that the agreement between Customs and Tradegate promised to treat as confidential any information which came into Customs's possession under that agreement which might relate to your operation.

Mr Perry—Yes.

Senator EGGLESTON—But isn't it the fact that the information which Customs provided was in response to a public request for information and not under the Tradegate contract at all?

Mr Perry—I would have thought it would be covered as information that was passed, but I really would not be able to argue one way or another on that level. But I would like to point out that the RFI included section A.3.2.1 which said:

Customs undertakes to maintain the confidentiality of information received in response to this RFI ...

And it goes on to say that it:

... will not release such information to any competitor or potential competitor without written authority of the Respondent.

Not only did we not give written authority but we were not asked for it either. Quite clearly, from the evidence that I have tabled, the service that is being provided is competing with the service that we now provide.

Senator EGGLESTON—As I understand it, Customs has indicated that the RFI document clearly states that responses would become the property of Customs and would be shared by other parties and Customs advisers. If you had reservations about how Customs might use the information, why did you respond? And, in your response to the RFI, did you indicate that you were supplying information under your contract with Tradegate rather than to the RFI?

Mr Perry—Taking the first question, we took comfort from the condition in the RFI that I have just quoted that said that information would not be passed on to a potential competitor. As to the second question, each page of the RFI response was marked 'commercial-in-confidence'. I do not recollect that we actually said it was provided under the terms of the Tradegate contract; in fact, I do not know why we would have had to. But we did certainly mention the Tradegate contract extensively in that RFI response.

Senator EGGLESTON—I suppose, though, if you do not specify the Tradegate contract, it would seem that you are applying unilaterally in response to the RFI, would it not?

Mr Perry—I do not know that it is my job to point out to Customs what contracts they have signed.

Senator EGGLESTON—It was your information that you were supplying to Customs, and we have already pointed out that the information you supplied to Customs would become the property of Customs and they could share it with other parties.

Mr Perry—Except not with any potential competitor without our written authority, as I have just quoted from the conditions of that RFI.

Senator EGGLESTON—I know. Under the Tradegate contract, surely, rather than the RFI.

Mr Perry—We were responding to the RFI, so we took comfort from the conditions of the RFI.

Senator EGGLESTON—You are critical of Customs and the fact that they are considering other arrangements, but Customs have stressed user choice. Surely, from the public point of view, the opportunity to provide other avenues of service is a good thing.

Mr Perry—Indeed, it is. Our point of view is that the model they are proposing involves less choice. I have already gone into some detail how there is less communication choice. There are only two options allowable. One is via a web front end and the other is via Internet email. Under the current arrangements, there are a lot of other alternatives which many corporations are taking advantage of. So we contend strongly that there will be less choice under this model. Furthermore, if we refer back to the first diagram that I tabled, it is clear that currently there is a great deal of choice. In fact, I believe there are about 800 users of Telstra who come in through the hub, there are several shipping companies that use GEIS, and P&O Shipping use IBM. We have hundreds of people using the Internet to get into our service at the moment. That is all on the diagram. I am really at a loss to understand this. At one stage in the public forum I did have a discussion with a representative of Customs who contended that it was a unique supply model. At the time, I pointed out that it is not unique if you look at it from a user's point of view. That is really where any questions of monopoly should lie. As far as the users are concerned, they have the choice under these arrangements and it is a choice which does not have any commercial ties to it—in other words, we do not charge those users anything if they come in through another network.

Senator EGGLESTON—It seems to me the diagrams are essentially the same under the proposed Cargo Connect facility and the range of user access seems to be very similar. We will have to leave that as a point of difference, I suppose. You also claim that the proposed system will reduce the level of security. I put it to you that under the new arrangements all messages are going to be encrypted. What is it that makes you feel that security will be reduced?

Mr Perry—I suppose at the moment encryption is a bit of an open question. For example, if you look at the Deloittes web site where they talk about the PKI methods it says:

PKIs are confusing to consumers and to business people alike. And the costs of developing the technology and putting the infrastructure in place are steep … Not surprisingly, businesses have been reluctant to adopt these systems.

Concerning the business activity statement where there is an option to encrypt that and send it in, I do not think businesses wholeheartedly accepted that approach. So I do not really see this as a closed issue by any means.

Senator EGGLESTON—There seems to be an inference that Customs would have a reduced ability to provide accurate and timely operational information to the user base. That is what you said on page 3 of your submission. Customs clearly contest this. What evidence do you have to support your view?

Mr Perry—Could you specify the paragraph? I am having trouble locating it.

Senator EGGLESTON—Do you agree with the view that there would be a reduced ability to provide accurate and timely operational information to the user base?

Mr Perry—In some cases, yes. It is a bit technical, but if you look at the distribution of reference files for import processing and the way that is done now, if it were just posted on a web site, which we understand is the way through that Customs are proposing, there are some issues about how you would get that data back into your office system if you were a user, because users have integrated systems. They receive these EDI messages from us and they go straight into their applications. If you had to look at a web site and do things like that, it may take a little longer. I am not sure whether I have answered the question.

Senator EGGLESTON—That is certainly more roundabout, but they could still get to the information.

Mr Perry—Yes. The question was about being timely. The way it is done at the moment, it is automatic. That was the point.

Senator EGGLESTON—I will leave it at that.

Senator LUNDY—You have made some pretty serious allegations about a breach of what you understood to be commercial-in-confidence material. I do not want to focus on the issues around that because I am sure you have other avenues of seeking redress. What I am concerned about is how you, as a pre-existing contractor providing a service to the government, have been treated in relation to the IT outsourcing system that has been put in place. Apart from you having made your points very clearly about that, can you tell me what opportunities you now have to present your case to Customs? I am not so much interested in the subjective issues or the qualitative claims you make about your service being better than somebody else's but just in the due process to now find a way forward for the role that you play in relation to the Australian Customs Service.

Mr Perry—I do not know whether it is possible for Customs to revisit this process at all in terms of the contracts that they have obviously signed, but we would certainly like to see that happen if it is possible. We would like to see a bit of an evaluation of what has happened. For example, I believe this Customs contract was outside the Humphry review, so I do not know that it has received the scrutiny of others. But we would like to be part of revisiting the process because we feel that we were excluded from it in the past. Not only that, previously our work with Customs had been very effective, and in fact the systems that we jointly put in are world class and people come from all around the place to look at them. So we were certainly very disappointed that the opportunity to continue that relationship was withdrawn.

Senator LUNDY—I suppose one of the issues this committee is investigating is either perceived or real vulnerability of small to medium enterprises, Australian companies, versus the big, bad multinational, if you like. How do you see your status as a current service provider stack up against that of EDS—(1) because they have a huge contract with Customs and (2) because of what sounds to me almost like scope creep in terms of the services EDS are providing to Australian Customs Service?

Mr Perry—Certainly the majority of our customers using the service are small businesses, and they are spread all around the countryside, so our whole infrastructure to support them has been put in place with that in mind. For example, in areas such as customer support, these users ring us frequently. If there is any service issue, we have a whole support regime. In the future, if people are sending encrypted messages through an Internet service provider and they do not get a response, it is not quite clear whom these fairly small businesses will call. If they are going to call an Internet service provider, they will not get very far because an ISP does not have any interest in what it carries. It only supplies bandwidth; it does not do any document level tracking. So there are those issues which I do not really think have been played through adequately from an industry point of view. I know there is a lot of concern from our customers' point of view. They are concerned about costs, because if they have to buy encryption software it is notoriously difficult to use—as we have seen in the BAS situation—and they are small businesses which actually do not have IT skills. We supply a lot of them in many cases. The actual lines and routers on their premises are owned by us and we lease them through these arrangements. If all that had to be encrypted as well, I can really see difficulties for that sector in coming to terms with it, yes.

Senator LUNDY—What about your status as a business providing services, albeit through Tradegate, to customers? What does this mean for you? Senator Eggleston has kind of hit the nail on the head when he said that your business is under threat, obviously, through these changes. Let us get on the record what is at stake here.

Mr Perry—It certainly is under threat, and that is at the nub of why we were very disappointed that we did not have an opportunity to be part of the process. The role that we would be relegated to would be one of operating at what is known as the transport layer, not at the application layer. We would simply be providing, as it were, Internet services to the customers rather than tracking documents, archiving them, and providing that level of customer support. That would all move to the gateway. Yes, it is certainly correct to say that this proposal, or the track that we are moving down, would radically affect our business and that is underlying many of the points I have made. We feel that we should have had an opportunity to be part of the solution more than we have.

Senator LUNDY—This is more the area I want to focus on. You have made a comprehensive case for how you think these changes will impact on your clients down the track. That is certainly something that is of interest to me, but for the purposes of this committee it is important to find out how you have been affected by these changes—how connect.com.au has been affected by these changes. On that path, you have described a change in status—a downgrading, I guess—of your role. From your knowledge of the way the EDS contract was put in place, how much of this expanded role that EDS is pursuing in conjunction with the Australian Customs Service extends into the services that you specifically previously supplied? What do you think the motivation for that expansion of scope has been? We have heard from

Customs, who are claiming reduced costs and efficiencies which, like everything in outsourcing, are unproven. What do you think the motivation is for that expansion of the scope of their business to the extent that, as you say, you are getting cut out of the picture?

Mr Perry—To pick up on one of the things you said, Senator, the costs are interesting because the focus has been on these communication costs. The cost of creating, lodging and paying a customs entry under the current service with a dedicated network without any Internet or telephone charges is, at the moment, $2.75 to the user. But the Customs cost recovery charge on an air import is $29. I have often thought that it is strange that the focus is on the $2.75 rather than the $29. That, I guess, is where the cost recovery point is. To reiterate, we certainly do see that our business has been affected by the way the outsourcing has been applied and the fact that we were unable to participate in the bidding, if you like, for the services we currently supply.

Senator LUNDY—Is it a lucrative space that EDS is seeking to move into? Let us get down to brass tacks: is there money to be made by EDS by moving into this gateway space that you have occupied? I have read the information about the costing structures. What is in it for Customs and for EDS to want to knock you out in this way?

Mr Perry—It certainly increases the scope of work that EDS would be doing, so it increases the revenue. The architecture that has been selected pushes a lot of our costs, the costs of providing that service—if they take it into the gateway—back out to the users, so it is the users who have to buy the encryption software, it is the users who have to pay the Internet charges, it is the users who will have to do a lot more support for themselves, rather than relying on anybody else. In other words, what EDS or whoever is running that service gets out of it is a sort of concentrated piece in the middle without the higher cost, customer support type activities at the edge. It is a very attractive commercial piece to provide.

Senator LUNDY—You claimed that the solution you were providing through Tradegate was world class. Expand on that. What is your claim as to why you are a preferable solution?

Mr Perry—The service now runs at reliability levels, in the contract, of 99.97 per cent up time, and you will not get that from any Internet service provider. There are guaranteed delivery times. There is a level of integration of application that will not happen in any other configuration, and it is cost effective for the users. We do not sense any great move from the user base to go in any different direction. We provide Internet access facilities for people who want to use that method, and increasingly people are doing it, so we are catering for the current trends, and we will be catering for more trends. We have just put in a portal that is specific for this industry. Those are the sorts of value added services that you can provide as part of a whole of industry approach that you cannot really provide if you deconstruct it and have one set of services for the big users and another set of services for these users. The costs will actually increase if you go down that route.

Senator LUNDY—Did Customs have any cause for complaint either to Tradegate or to yourselves about concerns they had about the service you were providing or were you under pressure to reduce your costs? Was there anything to give you any indication that there was a level of dissatisfaction with the service you were providing?

Mr Perry—Under the terms of the contract, every quarter we have a service quality review here in Canberra with Customs. That review has been going on for many years and at no stage has there been any comment along the lines that you mention; there has been no statement at all. We have worked very well with Customs up to the time they started outsourcing. We certainly developed a lot of things together and our support people here had very strong relationships at a technical level with technical people in Customs who were delivering applications. So we do have a very strong background there that is now under threat.

Senator LUNDY—Those are all the questions I have, thank you.

CHAIR—Thank you. That concludes the public hearing. The committee has set Thursday, 22 March as the date for answers to questions taken on notice today. Those interested in following the inquiry should refer to the committee's Internet page, which will provide information about the progress of the inquiry. Thank you.

Committee adjourned at 1.28 p.m.