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FINANCE AND PUBLIC ADMINISTRATION REFERENCES
COMMITTEE

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SENATE
FINANCE AND PUBLIC ADMINISTRATION REFERENCES COMMITTEE

Monday, 6 August 2001

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

Substitute members: Senator Eggleston for Senator Watson and Senator Greig for Senator Ridgeway

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

Senators in attendance: Senators Buckland, Campbell, Lightfoot, Lundy and McLucas

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

BELL, Mr George, Managing Director and Chief Executive Officer, Computer Sciences Corporation653

McNAMARA, Mr Mike, Program Manager, Computer Sciences Corporation653

Committee met at 11.25 a.m.**BELL, Mr George, Managing Director and Chief Executive Officer, Computer Sciences Corporation****McNAMARA, Mr Mike, Program Manager, Computer Sciences Corporation**

CHAIR—Welcome. Before we commence, I advise for the record that all witnesses appearing before the committee are protected by parliamentary privilege with respect to evidence provided. The committee prefers that all evidence 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. I also remind witnesses that the giving of false or misleading evidence may constitute a contempt of the parliament. Do you wish to make an opening statement, Mr Bell?

Mr Bell—Yes, indeed. Thank you for the opportunity to be with you today. I am happy to offer any comments or experience that I may have that might contribute to the work of this committee. We have provided the committee with a copy of our submission to Mr Humphry, and I note that his report broadly reflects the CSC position. The information technology industry is important to Australia and the government is a major part of that industry. We all have the opportunity to move this industry forward if we can work together. I thought it might be useful if I made some comments in a few areas: outsourcing in general, the IT outsourcing model and contracting or partnership issues. I thought it might be useful to comment on those three areas.

First of all, I will talk about outsourcing in general. The proposition that work can be done outside the walls of an organisation is not new. Indeed, we live in a world where intra-organisational activity will increase between entities. That is at the core of the e-business revolution. In information technology this has always been the case. In recent times, however, the management and operation of discrete parts of the information technology mission has increased and has come to be known as outsourcing. Australia, driven by the public sector, is a leader in this area in the world. Outsourcing is not a panacea, nor the root of all evil; it is a set of management techniques that have some basis in logic and may be appropriate in some circumstances. Outsourcing is growing globally. Only last week, for example, CSC announced it had won the right to outsource the United States National Security Agency. The potential is in excess of \$A10 billion. As all the participants in the outsourcing environment gain experience, outsourcing will evolve and change. One size does not fit all. The key experience of the past three years is that outsourcing must be based on a real partnership.

Cost is a valid criterion but must be weighed along with other and perhaps more important criteria. However, it is now generally agreed in the industry that cost is no longer the principal criterion for outsourcing. Other criteria should include the ability to focus on core business, access to appropriate skills in advanced technology, global coverage, innovative business solutions and predictability in delivery, performance and expenditure. Outsourcing will succeed where there is clear scope and where there is a desire from all participants to participate and where the governance is mutually constructive.

With the IT outsourcing model, the Commonwealth's objectives were to achieve taxpayer savings and facilitate development of the Australian IT industry. The Commonwealth also sought to move to a standardised cost-effective environment, to assure more efficient and effective services and to reduce technology risks. In the case of CSC, we believe we did achieve, and are achieving, cost savings, as endorsed by the Audit Office report, and we have greatly exceeded our industry development commitments in support of small and medium enterprises. Nevertheless, the proposition of having cost savings so prominent may, in light of the experience in my earlier comments, be less than appropriate going forward. As to industry development, I am not sure it makes sense to drive industry development on a transaction basis. I am encouraged by the thrust of the SIDA arrangements and the dialogue currently under way with the appropriate public sector agencies.

I now turn to contracting or partnership issues. Outsourcing can succeed in a partnership. We must avoid adversarial arrangements. We must all work together on the assumption that people will do their best to work well together if the governance model supports them. Indeed, it is only through the efforts of many of the public servants involved that the current arrangements are working, despite a sometimes less than supportive environment. We have all learnt a great deal in the last three years about each other during this process, and we should use what we have learnt to build better arrangements going forward. For example, industry must realise that the demands upon the public sector can be unplanned and that priorities can change. Not everything should be outsourced. On the other hand, industry cannot do things that lose money.

The crux of it is that we all need to jointly develop an alliance model that is flexible; that is clear on what the outsource is intended to achieve; that shares risk and reward; and that recognises that, in something as complex and large and continuous as an outsourcing relationship, things will go wrong and that, when they do, emphasis must be on improving the situation, not on penalties or argument. This is a real initiative. Today, for example, we do have such a model in operation with our Defence customer.

Outsourcing is a valid and rapidly growing set of management techniques around the globe based upon experience and logic. It may be appropriate in some circumstances. It is therefore vitally important to understand why an organisation should outsource, what it should outsource, what it should keep, how the responsibilities should be shared, how it should outsource and what partnership model should be put in place to ensure a constructive dialogue, especially when issues arise, as they inevitably will. Thank you.

Senator LUNDY—I have a couple of issues I want to traverse, but I would like to go to your comments about the industry development aspects. You mentioned SIDA. I am obviously following that process as best I am able and have read the discussion paper. I want to know specifically of your views about the degree of intervention and the specific requirements that still have a relationship, albeit more tenuously under the SIDA agreement line, with specific contracts; and how you, as a company, will need to change the way you do business to satisfy what is currently proposed in SIDA.

Mr Bell—I will make some general comments—I do not have all the detail of that—and then Mike may wish to comment. First of all, it is interesting that the nature of the Australian economy is such that government IT makes up such a large proportion of the IT industry, more so than in most of the economies overseas with whom you would compare us. It is really

important that that is leveraged in a sensible way when it forms such a large slice of the actual industry. We in industry always worry in a general sense about things such as whether those arrangements will cause us to find ourselves doing things that are not otherwise economically viable. That is always a worry and always has been—in other words, whether we will end up allowing ourselves to do things that do not make essential sense. That is one set of issues that industry always has. Another set of issues the industry always has is whether the reporting and audit requirements be onerous or expensive and, again, cause us additional cost. Those two sets of things generally play fairly heavily in the thinking that goes on on my side of the industry.

With respect to SIDA, I have only read an early draft. It seems a fairly constructive set of propositions. Nevertheless, we need to apply those two principles again. In general, I am a little uncomfortable with industry development being tied to a particular transaction. I would rather there was a way to make that a more strategic set of activities, otherwise one runs the danger of doing a thing for a particular deal. Secondly, although I have only seen an early draft, we will want to keep an eye on how onerous reporting is. I do not really have all the details. Those two general principles are ones I would always look at, recognising that because the government is such a large slice of the IT industry it obviously makes sense to leverage that. Do you want to comment further, Mike?

Mr McNamara—I did not think so at this stage. I think that is fine.

CHAIR—Can I just follow that up? How much of a focus was given to industry development issues in the cluster 3 contract? Was it something that you specifically addressed or that was accidentally picked up on the way through? Did you understand the sorts of weightings that were being given to these various elements, such as industry development, as part of the overall contract?

Mr Bell—Yes, we did. I am pleased to report—and it can be demonstrated through appropriately audited activities—that we have far exceeded them. Yes, we were aware and we have put a lot of effort into those activities. In fact, we have exceeded them considerably.

CHAIR—But do you believe that the actual view of the government was clearly articulated in terms of what its expectations were for industry development arising out of these contracts?

Mr Bell—Yes, we do.

CHAIR—That is not what comes through to us.

Senator LUNDY—Was that by virtue of the clause in the contract? I recall that, when the tender documentation was initially circulated, it did not contain the ID clause and that was subsequently inserted. I am just trying to ascertain whether or not you got your guidance, and picked up on what the government was pursuing, by virtue of the negotiations and the discussions around the insertion of that particular clause in the cluster 3 contract.

Mr McNamara—Senator, we can agree with the thrust of your question in part. I cannot give you a black-and-white answer. It comes through almost by osmosis. You get a feel for the requirements stated explicitly or implicitly. I was not involved in those particular negotiations but my impression—with the wisdom of hindsight and that makes us brilliant—is that we had

quite a good feel for what government was looking for. I think the point that Mr Bell made earlier was that this case by case approach makes you focus on one instance to the cost of broader industry development issues, which I think the government also had views on, even though they were not always explicit. There is a bit of tension there always. We are attracted to the SIDA arrangements because they are more general and broad based and there will not be what one of my friends calls a beauty contest.

Senator LUNDY—Just going on from that, the SIDA proposition obviously takes into account the devolved environment where in the future you would be submitting your tenders to agencies per se. Can you tell me how that will affect your capacity as a company to fund and support a potential multitude of smaller tenders? I am on just a bit of a different track, but I will come back to the other point in a minute. Do you see what I mean? The capacity to mount a bid was identified as one of the reasons why only larger companies such as yourselves could participate. How will it affect your company's ability to participate in the IT outsourcing if you are required to submit a multitude of smaller bids?

Mr Bell—I think the proposition of having some of the bids on a smaller scale, thereby opening up the competition to a wider set of bidders—including local industry—is a good one. It makes sense. Of course, it will depend upon the nature of the particular bid and so forth. Nevertheless, that seems to me to be a very sensible proposition.

For us, it would simply be a case of prioritising those particular bids which we felt we could win. Let me explain what I mean by that. That would typically mean that, if a certain agency put out a certain bid—and if there were multiple bids—we would prioritise where we spent our time and effort. It is a very expensive process. We would bid for the ones where we felt we could win by having something unique or something to offer that could solve the problem and where we perhaps had a long relationship or some experience. Perhaps armed with hindsight we will be very selective. The bidding process is expensive for large as well as small companies. We would prioritise bids; we would be selective; we would not pursue everything. There is a sort of maturity in the outsourcing market now along these lines. It would be a case of prioritising how we spent our money. We would probably tend to go for the larger of those bids. It is in the nature of our company. But that is what we would do: we would prioritise and bid for the ones we thought we could be successful at.

Mr McNamara—I just add to that. I am hesitant to disagree with my chairman but the other issue that we do pick up—regardless of where we stand on some of these tenders which are yet to hit the public arena—is that we would be looking to have alliancing arrangements in our own right with small and medium-size enterprises. There is no compulsion necessary for us to do that. We recognise that they have skill sets that we, firstly, do not possess; secondly, that we would not seek to develop; and, thirdly, that are very nimble. We can quote you numerous examples in the way we do business in the city that require us to have those relationships. It is very important for us to be seen internally to have those relationships, but also to be viewed by our alliance partners as good people to do business with. I think that is particularly significant.

Senator BUCKLAND—Does the alliance equate to subcontracting out?

Mr Bell—It can, but it does not have to. Perhaps I can explain it this way: if a government department has a piece of activity which it wishes to be carried out it may be certain it wants a

prime contract so it has accountability in one place. That would lead to a prime subcontract relationship. An alliance need not be that. An alliance could be the coming together of a group of different people each of whom brings something. Generally speaking, you would typically find it is a prime subcontract driven by the need for accountability, but it need not be. We do not think it need be at all.

Senator LUNDY—That is a point I wanted to pursue. First, can you tell me if you have any of the application development contracts within your cluster 3 agencies?

Mr Bell—We, first of all, have a basic infrastructure outsource, as you know.

Senator LUNDY—Yes.

Mr Bell—Certainly, the word ‘outsourcing’, as it is used in Canberra, typically does mean infrastructure outsourcing. Secondly, we have an alliance in addition to that where we do what I would call business integration services—systems integration services. Yes, we are involved in some aspects of project management for those kinds of activities. I am just racking my brains to think if any of those are involved in application development. I believe they are jointly. We are involved in a more holistic set of project management and integration services with parts of cluster 3 than just the infrastructure outsourcing. That is certainly the case.

Senator LUNDY—How would your company respond to the prospect of much clearer lines being determined between things like applications development, systems integration or administration and infrastructure provision in the releasing of those tenders? That would include not only agency devolution but also potentially a much stronger alliance model managed effectively by that agency or department where a series of contracts—like the three I have just described—were let. How would you respond to that sort of environment?

Mr Bell—It is kind of perverse. If you look at our company in Canberra, for an extended period of time before outsourcing raised its other head as a high profile word and set of techniques, we have been doing that kind of activity for years, especially with the defence department. There is nothing new here. We would not have a problem with that.

At the end of the day, we look at every situation from a practical point of view: can we actually do it, first of all; can we make money doing it; does it make economic sense? But you have two schools of thought here. One of the points I made in my opening comments was that it is not a panacea and one size does not fit all. One school of thought says that an outsource might be a very large entity—BHP would be an example; the Commonwealth Bank would be in a similar vein, I believe—where a decision is made to do a large outsource of many aspects of IT, the benefit being that it hangs together, as it were. A completely contrary view would be, ‘No, we will outsource selectively’—sometimes called smartsourcing—‘and we will do this with this organisation and this with that organisation.’

Senator LUNDY—That is more the sort of area I am getting to in what I have described to you.

Mr Bell—It is perfectly viable. I mentioned in my opening comments that we have all matured in outsourcing, and I think we will see more of that model around the world. It has

pluses and minuses. The minuses are that the department now assumes the role of integrator, which is probably perfectly fine in a large, sophisticated department. So there are some issues around that. The pluses are that you get to pick, if you like, a series of organisations that might be good at that particular thing. Of course, for Australian industry, you can see how that might lead to smaller pieces of work, which might make sense. We would react constructively. It is not an either/or situation. In that agency situation, it really does depend on whether they know what they want to do, whether it is clear, how they want to do it and how they are going to manage it. Obviously the management and governance of a situation where you might have, say, five partners who are not prime contractors is more complex than when you have a prime contractor. We think either model can work. We would react favourably to either model. It is really a question of what makes sense.

Senator LUNDY—If I couch the question in the negative: you are not likely to walk away from this market if, in fact, you are faced with a devolved and smartsourcing approach to IT outsourcing?

Mr Bell—No.

Senator LUNDY—I am particularly interested in the applications development area, and you mentioned intellectual property management. Are you in a position to offer your company's approach to how to manage intellectual property, particularly in that applications development area? Perhaps to throw something forward: previous witnesses have suggested it is necessary to come up with an intellectual property regime that allows the outsourcer, or the selective sourcer, to have some ownership or control or the ability to use that IP under licence. I am interested in your thoughts and approach to that.

Mr Bell—One of the interesting things about this public debate is that things have so often tended to fall into black or white. In my view, the world is not like that. Let us say that we are talking to a particular department, department X, and we are about to outsource their applications. We would have to be cognisant of whether we are stepping into any areas where they have IP. If that is the case, we might come to a joint arrangement. It might suit us, for example, to onsell that for them and pay a commission. In the case where we are creating IP together, we would have to think through who owns that, but think in advance. We would also have to consider whether there are any SMEs involved who have IP who might be nervous about what happens to their IP. I honestly think it is not such a difficult thing. It is difficult in a general sense, but it is not such a difficult thing to sit down with a department and have that discussion.

First of all, you have to recognise that departments would naturally think we have spent a lot of years developing this, that there has to be some value in it, that it is a valid position. They would have to recognise that any small to medium enterprises involved would have their IP involved and that they would have to be protected. I would say that we would sit down and say, 'Let's construct a relationship for this situation.' As a general rule, it might be very attractive for us to write some agreement so that we could perhaps jointly market that overseas. Being a global company, obviously we have opportunities to help market that overseas. I really do not see it as a minefield but more that you have to get specific with a particular situation. It is not beyond the wit of all the people involved to construct a deal that is fair for those participants. That is how we would approach it. It really is, as with many of these things, commonsense.

CHAIR—What would be wrong, Mr Bell, with an environment being created, such as has happened in the private sector in some areas, of a pool arrangement being set up of IP that is created out of government outsourcing activities which would then be open to bidders to bid for access to that IP to market and develop it?

Mr Bell—Nothing. That would be a perfectly valid approach.

CHAIR—That would allow you then to maximise the return for all of the IP and the people would have it across the spectrum.

Mr Bell—At the end of the day, I suppose we need to be sure that each stakeholder is treated fairly. Secondly, if, when we all come together, we can do something for Australia because we can take some IP developed by a department here and sell it overseas, we should maximise that.

CHAIR—But doing it on a pooling arrangement would also seem to me to open up opportunities for smaller Australian companies to get access to the IP if it links into whatever they happen to be doing and the opportunity is there to actively exploit it.

Mr Bell—I had not thought about that, so my response is not that well considered but in principle I cannot see a problem with that.

Senator LUNDY—One of the issues with the current environment is what happens next for the existing clustered contracts, particularly 3, 5, 8 and health to a lesser degree. The contracts are due to end when—in a couple of years or a year?

Mr McNamara—On 30 June 2003, according to the department of immigration submission.

Mr Bell—I think that is right.

Senator LUNDY—I know in the SIDA discussion paper the spectre is raised, but there are not a lot of answers in it for companies like you, who have obviously invested a great deal in the cluster 3 infrastructure. Have you contemplated or expressed a particular view about what should happen when the contract is terminated? Can you tell the committee your views if the decision was made then to disaggregate that cluster and re-let tenders on an individual agency basis or a basis different from what it currently is?

Mr Bell—It is the answer really that I gave earlier. We have no problem in principle with that. We would look at everything from a purely practical point of view. If any of the existing contracts were disaggregated and came to the market in separate pieces then we would look at those pieces in the light of the criteria I expressed earlier, which are, ‘Can we do it? Does it make sense for us? Is this a relationship we can build and sustain?’ So again, we have no problem with this. It is purely practical. We would look at it and we would say, ‘Which pieces of these do we think we can build a successful relationship with?’

Senator LUNDY—That is really what I wanted to know. I asked the question before generally but if that attitude still prevails with respect to when the cluster 3 contract comes to its end—

Mr Bell—Our position is one where we want to have ongoing, long-term, successful and profitable contracts. We want to add value to our customers and if we can do it in a different way there is no set of principles which will cause us to throw up our hands here.

Mr McNamara—I agree with that. I think that the submission from the Department of Immigration and Multicultural Affairs quite effectively looks at the implications of decisions on contract renewal for cluster 3 and we have no comment because they are factual. In fact, it is a very succinct way of stating the situation.

Senator LUNDY—The issue of the treatment of assets at the termination of your cluster 3 contract is another interesting area. Can you explain what would happen under a scenario where the contract was disaggregated, with respect to the assets contained within the cluster 3 contract or transferred to you as part of the contract?

Mr Bell—I do not have that at my fingertips, but let me give you a general answer which I am fairly sure will apply—if it does not, we will get back to you. In general with outsourcing contracts the outsourcer buys the assets, acquires the assets and is the asset owner. Not many outsourcing contracts around the world have gone back to insourcing. I am struggling to think of an example. In general, were that to happen one could anticipate that there would need to be some fair evaluation of the value of those assets and that they would need to be offered to the now insourcer at an appropriately fair price—which might be market value or what is on the books. So, basically, if someone went from outsourcing back to in-house, they would need to have the opportunity to acquire those assets at a fair price, and that is what we would do.

Senator LUNDY—Is that written in your contract?

Mr Bell—I am not familiar with that level of detail—and we will certainly go and check that—but that is the general proposition that one would expect.

Senator LUNDY—What if it were to go to another outsourcer; you were not successful in the bidding process? Obviously, through your bid you had leveraged that advantage, as you would expect. The suggestion was not that it came back in-house but that it went to another outsourcer. Does the same position apply that you would negotiate on a commercial basis with the incoming outsourcer about the handling of those assets?

Mr Bell—Essentially, yes, but we will check the deal. In these situations people are using the assets on a daily basis—something occurs, but they are still using the assets. So we would seek to allow the insourcer, their new partner or whomever to acquire the assets which we own and are being used on a daily basis on some sort of fair and equitable basis. That is essentially how outsourcing works around the world.

Senator LUNDY—So when your competitors are preparing their tenders would they get the information about the valuation of those assets from you or from the agency or the department? Because it would form a critical part of everyone's bid, I want to know how your competitors would get that information. There needs to be a commercial negotiation effectively between you and the department at some point to get that information.

Mr McNamara—I understand your point. You will recall Mr Bell in his opening comments mentioning the good work that has been done by public servants in this context. The management regime that cluster 3 has established to work with us is operating very effectively and has improved our performance and the client's performance enormously. Part of that regime has us in continual dialogue with the participants in cluster 3 and we would continue that in this case. We are not going to hide our situation from them. It would be in our worst interest to do that. So we would have an open dialogue with them. They would have a view as to whether they would publicise the value of the assets or we did, but we would come to an agreement with them. It is hard to be specific about a hypothetical situation, but if they go to the market, regardless of whether we participated or not—we would take a decision on that separately—we would ensure that the appropriate information was available to the departments involved, and it may be only one department, as we know in the aftermath of the decisions flowing from Mr Humphry's report.

Mr Bell—There would need to be a mechanism by which they would need to allow any customer—in this case, a department—who was able to get access to the data to have that dialogue with another company, in the same way as when you outsource for the first time there has to be a mechanism by which one gets a sense of the value of the assets. I really do not think it will be a practical problem at the time, but that is the sort of principle that would apply.

Senator LUNDY—I am trying to get an idea as to whether there is an opportunity to exploit a commercial opportunity by virtue of the handover from one company to the next. This does not necessarily apply in this scenario, but it is a very general question given that one of the fears expressed about outsourcing is how much an agency or department becomes captive, whether it is a cluster or a single agency. I am trying to draw a little bit on CSC's experience about a handover. How often, for example, have you been involved in a contract where you have been in place, lost the contract and then had to handover—or indeed won a contract from another outsourcer and had to handle the transition?

Mr Bell—I am not aware of any that we have lost globally. So I do not have a specific answer to your question. In reality, though, as assets are refreshed constantly, I suspect it is less of a hurdle than you might think. Probably of more interest down the track—you are going down here—would be organisations which have worked together for a long time, building up a lot of knowledge about each other and a working relationship and so forth. Obviously, that is worth something. I suspect you are seeking to probe what barriers there might be. I am not sure there would be any seriously on the assets, but we would expect in most organisations which have lived together for five years—sometimes through tough times, let us face it—that some of the IP will in fact be how they have learnt to work together. If you have done a good job, that is certainly going to be useful.

CHAIR—Does that mean, Mr Bell, that currently there are no arrangements in place for the transfer of assets back in the event of a contract not continuing or is that something that will have to be negotiated at that point?

Mr Bell—I am not aware of that clause. I will check and give you a specific answer. I am not aware of the details of that contract, but as a general rule that is what one would expect to happen—there would be some sort of third-party view of their market value or book value,

something of that sort. I am afraid I do not have the specifics of that. We will look at that for you.

Senator BUCKLAND—The issue Senator Lundy raises is quite an interesting one. I think I am picking up what is really being asked. There comes a time when there is a renewal of the contract. If XYZ comes along and wants to compete against CSC, is there a requirement that at the time leading up to the contract renewal you have to provide the asset value of the equipment to the department? What is the process? If you were to lose the contract, no doubt the incoming contractor would carry on with the machinery part of it—I do not know these days whether it is hardware or software. Something has to store the information. How is that valued?

Mr Bell—As I said, I do not recall the specifics—which obviously I will now go and check—but in general the department would construct a path of tender, whatever process they choose to construct for the rebid. As part of that process, we would provide them with certain information—otherwise, it will not be practical to do it. As part of the process, the department would need to know the value of the assets if it were going to in-source—that certainly is the case. Generally speaking we would provide that and we would be quite relaxed about having a third party run some sort of audit or something of that sort. Essentially, we would provide the value of the assets our client was going to buy.

CHAIR—Are you talking about book value or market value?

Mr Bell—That is why I need to check the specific contract. I do not recall in the case of that contract.

CHAIR—What has the experience been?

Mr Bell—Some sort of book value, some sort of fair view of the undepreciated value of the asset.

CHAIR—Would this be a third-party assessment?

Mr Bell—It could be. There would be no problem in doing that. For example, we have a bunch of PCs or UNIX boxes, something of that sort. To the extent that they are specific to the client—and not everything is, of course—and to the extent that the client wishes to take those now in-house, we would provide a mechanism to create a fair value for which they would then pay us. I do not recall the details of that one, but it could be book value, for example.

Senator BUCKLAND—I am still not clear on that because you keep talking about insourcing. I understand insourcing and what it means. That is easy to do. When you are tendering against other competitors, your competitor surely has a right to know the value of the equipment that they will take over.

Mr Bell—That is quite right. It is exactly the same scenario.

Senator BUCKLAND—You have to present an audit report to them on what assets you have.

Mr Bell—Correct. They would need to know the cost of those assets because they would be buying those assets. We would provide that.

Senator BUCKLAND—I will just go to something else. When you were bidding originally for the outsourcing contract, were external consultants provided to assist you or the individual agencies within the cluster?

Mr McNamara—I think the arrangements, which are somewhat dated now and predate our personal involvement with this, involved the Office of Asset Sales and IT Outsourcing—it may not have been called that in those days—having the principal role. They certainly utilised consultants, as people will know from Mr Humphry's report and the Australian National Audit Office report. In terms of providing consultants to us, that was not on the radar screen at the time.

Senator BUCKLAND—Do you feel that the cost of those consultancies was a bit high? Do you have a view on that?

Mr Bell—That is really not for me to say. That is the government's business.

Senator LUNDY—We are happy to give you the opportunity, though.

Senator BUCKLAND—I would like to know.

Senator LUNDY—Did they add value to your experience when negotiating with the federal government?

Mr Bell—First of all, it is true to say that, if you look around the world today at large outsourcers, public and private, you will more often than not find that the customer makes use of various specialist consulting firms. The idea of a customer making use of specialist consulting firms to help them assess what is a very complex activity is common around the world in both public and private. That is not unusual.

Senator LUNDY—I just tip forward the thought that it arguably is a bad reflection on companies like you because of the complexity in trying to find alliances and partnerships and some clarity in the relationship. Is it a fair suggestion that the need for the customers to have millions of dollars worth of consultants is potentially a challenge to you to improve your performance in the negotiation stages?

Mr Bell—Just for the record, it is not uncommon to use the consultants. That is my point. Why is that? That is because it is a very complex exercise. I am not in a position to comment on the process the government had in place 3½ years ago. Firstly, I was not here and, secondly, it was a long time ago.

Senator BUCKLAND—Does your company, CSC, have an arm that provides consultants to companies looking at taking up outsourcing?

Mr Bell—Yes—and I would be delighted to employ it—but as a general rule clients would either do it themselves or seek third-party assistance in constructing a proposition with someone like CSC. Yes, we can do it and, yes, we do do it. In some instances, we have a thing called rapid-sourcing. One of the problems with this process is that it is expensive and takes a long time. I would argue—and this is more difficult to argue in the public sector for obvious reasons—that, once a decision has been made in principle to proceed with a certain company, it might be appropriate to use that company in some sort of joint venture to create the outsource. But, as a general rule, using third parties, especially in the public sector, is quite common.

Senator BUCKLAND—In bidding for this cluster 3, did you feel there was too much money spent on consultancies?

Mr Bell—It was spent by the government, not by me. I am not in a position to—

Senator BUCKLAND—I understand that, but do you have a view on that that you would like to share with us? I would certainly like to hear your view. I have a view about it.

Mr Bell—From my own experience, I would offer one observation on the use of third parties in such transactions. I think it is quite a useful thing to use third parties, because they have a lot of knowledge, often of dozens of similar situations around the world. I think it is very important that the actual client, the department, controls the process. In other words, I think it is very important that, if I am the customer, I bring in expertise to help but that I actually use that expertise to advise me in my decision making. I do think there is a role for them. I think the role is to advise and support the principals. I think that is very important. I do not know how much was spent; I really have no knowledge of that and I would be speculating.

Senator LUNDY—Just to follow on from that point, the whole issue of the management of those contracts by a third party, as distinct from the actual client themselves, or the department, is something the Humphry review found no longer to be desirable in the dismantling of OASITO's role in that regard. But the Humphry report did say:

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

Do you have a view on such a third party within the client structure; if you like, some sort of central unit in supporting departments in providing that knowledge and experience?

Mr McNamara—Mr Bell talked before about one of the issues in outsourcing being allowing you to focus on your core business. As a corollary to that, agencies will engage in outsourcing in relation to their non-core business. In many cases, therefore, they will lack some particular expertise in undertaking that task. We have talked already about consultants. From a public sector vantage point, I see advantage in having access to specialist expertise within government—not exclusively within government, but a core body of corporate knowledge that agencies can call upon. It needs to be advice they can call upon. I believe it needs not to be mandated, that you will do X. They can be involved in the process, and I think Mr Humphry got it right in saying that the client agency needs to control the process. Again, consultants need not be on top; they need to be on tap. It needs to be a consultative arrangement, not a dictatorial arrangement. To summarise, you need some position of expertise within government and an

arrangement that allows that expertise to be drawn upon but not to be shoved down people's throats.

Senator LUNDY—Not managing the program but being there as a source of advice?

Mr McNamara—Yes. We have talked already today about the SIDA arrangements. I applaud the way the Department of Communications, Information Technology and the Arts is involved.

Senator LUNDY—But what are they proposing there? Are they proposing that that repository of expertise resides within DOCITA or NOIE or elsewhere?

Mr McNamara—My recollection from the press statement that came out announcing the government's decisions on the Humphry report is that the Department of Finance and Administration would have a body available to be called upon. I would need to go back to refresh my memory, but I think that is the case.

Senator LUNDY—Do you have a view on where such a body of advice should reside? Given the Department of Communications, Information Technology and the Arts has carriage of the policy aspects of the IT and also potentially administering the SIDA program, is that a more appropriate place? Do you have a view one way or the other?

Mr McNamara—There is a nice dilemma here because the department of finance still retains policy responsibility for procurement generally and it currently has some responsibilities for the government information contracting principles and also for the endorsed supplier arrangements, all of which impinge on this. I guess from our vantage point it would be helpful to have all those eggs in one basket in DCITA, but there needs to be some linkage to the Department of Finance and Administration. I am not sure how that can be done, but I would see it as preferable to have the specialist expertise in information technology contracting—not just outsourcing—residing within one agency, and I would see an advantage in that being DCITA.

Mr Bell—The industry really would want clarity and simplicity. It is really that simple. Obviously the government has to organise itself as it has to organise itself, but we really want clarity and simplicity because that leads to a less expensive process.

Senator LUNDY—I am interpreting from what you are saying that you would like to see it all reside with one department because you would have to deal with only one department, albeit in a number of aspects.

Mr Bell—The order one issue from the Humphry report, as I read it, is that the CEOs of the departments need to be in charge of their destiny because they have to live with this partnership for a long time. I think that is very true of the private sector. So that is the order one issue. At the end of my opening comments I said—and this would apply in this situation—when talking about an organisation in a large department, for example, you have to answer the questions: why do we want to outsource? What do we want to outsource? What should we not outsource? How should we outsource? What governance and partnership models should we build? That is a really productive discussion to have with the principal, the CEO. That would happen in the private sector, for example. The fact that the principal is getting experience and advice from either another government group or an external group is a good thing, but I would like to see

that advice synthesised to the principal and then we talk to the principal, because when the contract is signed we have to live together for five to seven years. That is what is really important.

Senator LUNDY—This committee has experienced great difficulty in getting access to key documents during the inquiry, primarily because OASITO has claimed that they are commercially sensitive. In many cases this is in spite of advice in those original RFTs and contracts advising that disclosure to meet public accountability requirements may be required. Can you tell me whether or not OASITO informed CSC of your obligation to provide documents, including commercially sensitive documents, to parliamentary committees at any stage?

Mr Bell—I cannot. As I said, this was all done prior to my joining CSC, so I cannot in and of myself answer specifically that question.

Senator LUNDY—Can you tell me whether, during your time at CSC, OASITO has explained to you that providing documents to a committee is not the same as making them public? Has it explained to you the way the committee works in handling documents that you believe are commercially sensitive?

Mr Bell—I have not been in such a discussion, but we have quite large teams working with the government through this process. I have not been in such a discussion. I am not sure whether that discussion has occurred or not.

CHAIR—You referred earlier to the agreement or contract your company has recently signed with the US government on the National Security Agency. In the context of contracting with the United States government, those contracts would have been made public, wouldn't they?

Mr Bell—I believe they have a very aggressive freedom of information regime in the US, so to that extent perhaps so.

Senator LUNDY—Could you take on notice for us what the treatment of that contract is, particularly the NSA one but also other contracts that you may have with the US government?

Mr Bell—We will, yes. But, as a general rule, I would expect—and around the world it seems to be the principle involved here—that we would not want to declare material that was sensitive commercially. It seems to me that that is a reasonable principle to try and live by, but we will take that on notice.

CHAIR—One of the issues that we have been trying to grapple with is who the initiator of the confidentiality provisions is and whether the initiator is a company like CSC who says, 'We have sensitive information here. We want to keep that in-house. That could aid our competitor, et cetera,' while the confidentiality provisions are being driven by a government agency or a government department, whose negotiator is saying, 'We want all of this to be kept confidential between you and us.' We have not been able to identify who is originating these claims of confidentiality—whether it is the companies, because the information may be commercially sensitive, or whether it is the government or a government agency.

Mr Bell—In the case of our recent submission to this committee, for example, we requested that. That was clear.

CHAIR—That is a different set of circumstances.

Mr McNamara—It is actually our submission to Mr Humphry that we forwarded to the committee.

Mr Bell—Right. That was a clear case where we said, ‘We would like this to be confidential.’

CHAIR—Do you still require us to accept your submission in camera? I have read through it. I do not know that there is much in it that will cause trouble.

Mr Bell—No, I do not think there is, to be candid. I would like the opportunity to have a quick look at our submission. There may well be some pieces of it which we might want to change or take out—I do not know. In general, I have not got a great problem with it, but I might ask if we can do that.

CHAIR—I think the committee will accept the submission in camera, but if you advise us what specific points you want to remain in camera then we can publish the rest.

Mr Bell—We will do that. Frankly, there may be none. It is just that that was our thinking when we compiled it.

Senator LUNDY—On 21 December this year, the Privacy Act will be amended to govern the private sector’s handling of personal information. Have you assessed the impact of this legislation on your existing contract? Do you have any general views about the amendments that will come into effect?

Mr Bell—Yes, we have a task force under way. We are approaching this a similar way to Y2K. In a sense, it is a major piece of activity. We have a task force that reports to our board at the moment, and it is assessing what the legislation will say, where we will have to make changes and what additional safeguards we will have to put in place. We are well aware of it. We are treating it as a major project within our company and we have a task force looking at it in much the same way as we did Y2K. We will no doubt have to make some changes internally in the way we handle some information, and we will go ahead and do that. We do anticipate some changes. We do not think they will be dramatic, but we are certainly looking at it.

Senator LUNDY—I am not sure if this question will have any meaning, but if you find you have to do anything in response to those changes that bears a relationship to the recommendation in the Auditor-General’s report on privacy would you be able to—

Mr McNamara—Is that Mr Barrett’s view about access to contractors?

Senator LUNDY—Yes, and I cannot recall off the top of my head the summary of CSC or cluster 3 performance in relation to privacy. I do not think there were any negative reflections; I

think there were some reports, but it linked the application of the Privacy Act 1988 to your work within that cluster.

Mr McNamara—Can we take that on notice?

Senator LUNDY—It is a fairly non-specific question, but if you could have a look at those recommendations and get your task force to maybe make an assessment and provide that to the committee that would be great. I have one last question and that relates to the challenges you faced with the transition of staff when you first took up the cluster 3 contract. Firstly, are there any key difficulties that you can highlight to inform the committee of the issues surrounding that process? Secondly, are there any challenges or difficulties in recruiting appropriately qualified staff to handle your needs?

Mr Bell—Let us take that on notice, because that is a big cultural issue which warrants a significant discussion, I feel.

Senator LUNDY—I think that is an incredibly important issue across a number of things, so we would appreciate any time you could put into providing us with a comprehensive answer.

Mr Bell—We can do that.

Senator LUNDY—Thank you.

CHAIR—That concludes the public hearing for today. On behalf of the committee, I thank Mr Bell and Mr McNamara for participating. Those interested in following the inquiry should refer to the committee's Internet page, which will provide information about the progress of the inquiry on an ongoing basis.

Committee adjourned at 12.25 p.m.