



Australian Government

**Department of Communications,
Information Technology and the Arts**

**INFORMATION TECHNOLOGY
OUTSOURCING INITIATIVE**

**INDUSTRY DEVELOPMENT
PROGRESS REPORT
ON 1997–2000 CONTRACTS**

2004–05

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INFORMATION TECHNOLOGY OUTSOURCING INITIATIVE

2004–05 Industry Development Progress Report on 1997–2000 contracts

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INTRODUCTION

In 1997, the Australian Government began the process of transforming the procurement of public sector information and communications technology (ICT) services. Agencies were encouraged to outsource their ICT requirements by open tender. Between 1997 and 2000 five major IT outsourcing cluster contracts were tendered, with a total projected value of \$1.2 billion. Apart from revitalising ICT services, a prime objective was the further development of the local ICT industry and each contract included a range of commitments designed to achieve this aim.

- The Cluster 3 contract was awarded to Computer Sciences Corporation in March 1998. It finished on 30 June 2003.
- The Australian Taxation Office contract was awarded to EDS Australia in March 1999. It finished on 30 June 2004.
- The Group 5 contract was awarded to Advantra (later renamed Telstra Enterprise Services) in April 1999. It finished on 30 June 2004.
- The Health Group contract was awarded to IBM GSA (now IBM Australia) in December 1999. It finished on 30 June 2005.
- The Group 8 contract was awarded to Ipex ITG (now merged with Volante) in March 2000. It finished on 30 June 2005.

This final progress report summarises the industry development (ID) outcomes achieved during 2004–05 and provides a summary of the achievements of the five cluster contracts over the period 1998 to 2005.

IBM and Ipex achieved good ID outcomes during 2004-05, surpassing the targets set in the original contracts.

Overall, the ID activities of the five contractors delivered new investment in ICT services and infrastructure, boosted employment and encouraged exports. Australian small and medium-sized enterprises (SMEs) benefited as subcontractors, allowing them to deliver specialised services and to establish relationships with both multinational prime contractors and government agencies.

Outcomes over the past eight years include:

- a major global IT operations centre being sited in Australia;
- significant overseas contracts secured by a variety of local ICT firms in cooperation with multinational partners; and
- 48 scholarships awarded to staff-members of SMEs to study management practices and entrepreneurship.

Overall, the five outsourcing contractors exceeded their ID commitments. Where there were specific areas of under performance or where commitments were altered due to changed market conditions and agency purchasing patterns, DCITA negotiated equivalent or better industry development outcomes. A performance audit conducted by the Australian National Audit Office in April 2003 found that progress in the delivery of ID commitments under the IT outsourcing initiative had been effectively monitored by DCITA.

This is the final report on the five IT outsourcing contracts entered into under the 1997 *Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative*. Current ID policy arrangements relating to Government ICT procurement can be found at the Department of Communications, Information Technology and the Arts (DCITA) website www.dcita.gov.au under “Australian Government procurement industry policies” section on the “Information and Communications Technology” page.

REPORT COVERAGE

The 2004–05 progress report covers outcomes from two cluster contracts:

Contract	Prime contractor	Report received
Group 8	Ipex ITG	Year 5
Health Group	IBM Australia, formerly called IBMGSA	Year 5

2004–05 INDUSTRY DEVELOPMENT HIGHLIGHTS

The achievements and highlights over the two contracts for 2004-05 were:

1. SMEs received \$50.2 million in business related to service delivery under the contracts, which equated to 40.4% of annual service charges across all contracts. The total Australian Value Add (AVA) was 86.3% of service charges.
2. Total strategic investment of \$2.5 million and total exports of \$99.5 million (including some import replacement activities) were achieved across a range of out-of-scope initiatives.
3. Out-of-scope initiatives employed a total of 878.5 IT and support jobs, of which 656.3 were in locations around Australia outside Melbourne and Sydney, namely Adelaide, Ballarat, Brisbane, Canberra and Perth.
4. The two contractors have now reached the end of their initial five-year terms, having achieved ID outcomes above the targets originally set.

CUMMULATIVE TOTAL CONTRACTOR COMMITMENTS AND ACHIEVEMENTS: 1998-2005

Industry development activities under this initiative commenced in March 1998, and continued through until 30 June 2005. Four of the contractors were major IT services companies and one (Iplex) was an Australian SME.

Over the five contracts, the total industry development in-scope and out-of-scope **commitments** made by the prime contractors over the full period of the contracts included:

- AVA of \$845 million or 75% of the total service charges;
- SME participation of at least \$330 million of in-scope business, comprising 27.5% of total service charges; and
- additional investment of \$92 million and exports of \$277 million.

The total cumulative industry development **achievements** made by the five prime contractors under the outsourcing initiative, up to 30 June 2005, toward meeting these commitments were:

- AVA of \$1.45 billion or 78.5% of the total service charges;
- SME participation of \$617.6 million of in-scope business comprising 33.4% of total service charges; and
- additional investment of \$201.8 million and exports of \$589.4 million.

AGGREGATED ACHIEVEMENTS FOR 2004–05

In-scope and out-of-scope commitments

Industry development commitments are classified as either **in-scope** or **out-of-scope**:

- **In-scope** commitments are directly related to the contracted delivery of ICT services.
- **Out-of-scope** commitments are other activities offered by the contractor not directly related to the delivery of services, where the Government has sought to maximise activities such as strategic investment, exports and employment, especially employment in locations outside Melbourne and Sydney.

In-scope achievements, 2004–05

	Target	Achievement
Australian Value Add (AVA)	82.2%	86.3%
Payments to SMEs	\$28.4m	\$50.2m
Proportion of payments to SMEs	32.4%	40.4%
Total net employment—FTE*	338.5	423.5

* *FTE—full-time employment equivalent.*

The aggregated in-scope achievements in 2004-05 by the prime contractors exceeded all targets set.

Out-of-scope achievements, 2004–05

	Target	Achievement
Strategic investment	\$0.7m	\$2.5m
Exports and import replacement	\$48m	\$99.5m
Total employment—FTE	549	878.5

The aggregated results of out-of-scope achievements in 2004-05 exceeded all targets set. The activities included SME development programs, technical training programs, export creation and the operation of technical assistance centres—some of them located outside of Melbourne and Sydney. These activities are described more fully in the report.

Regional employment

For the purposes of the IT infrastructure initiative, regional employment was originally defined as any part of Australia outside metropolitan areas of capital cities. However, for reasons such as access to skills or sustainability, the metropolitan areas of all the capital cities, except Melbourne and Sydney, were accepted in the tender process as regional in certain circumstances. The following table gives a more detailed description of where the regional employment was located throughout Australia.

Location	In-scope employment	Out-of-scope employment
Adelaide	1	0.6
Ballarat	0	29
Brisbane	3	433.5
Canberra	399.8	19
Perth	1	108.2
Other locations	2.5	66
TOTAL	407.3	656.3

All figures are FTE – full-time employment equivalents.

Audit of annual reports

The figures for total achievements quoted in this report have been collated from the annual reports of the prime contractors which have been independently audited in accordance with Australian auditing standards applicable to review engagements—AUS902 *Review of Financial Reports*.

Disclosure of individual company results

The contractors have worked in concert with DCITA to report their performance against their respective contracts.

The ID schedules of the service agreements allow the Australian Government to use information marked ‘commercial-in-confidence’ in a public statement only when it has the prior written approval of the individual prime contractors. In implementing these schedules, the Government has taken into account the Department of Finance and Administration’s *Guidance on Confidentiality of Contractor’s Commercial Information (February 2003)*. Accordingly, information marked as commercial-in-confidence by the contractors has been withheld only where it has been assessed to be in accordance with the criteria outlined in these guidelines. Each contractor’s contribution has been cleared by the company.

HEALTH GROUP—IBM AUSTRALIA LIMITED

The Health Group comprised the Department of Health and Ageing (DHA) and the Health Insurance Commission (HIC, which has now been subsumed by Medicare Australia). Its prime contractor was IBM Australia (formerly IBMGSA).

This was IBM's fifth and final annual ID report. In 2004-05 IBM exceeded all the targets set out in the contract. No further reporting is required.

IBM's report was submitted within the timeframe agreed in the contract schedule. An independent review of this annual report was conducted as required in accordance with Australian auditing standards applicable to review engagements—AUS902 *Review of Financial Reports*.

In-scope achievements 2004–05

	Target	Achievement
Australian Value Add (AVA)	80.4%	95.9%
Payments to SMEs	\$11.6m	\$12m
Total net employment—FTE	238	303
Total regional employment—FTE	219	303

IBM achieved all in-scope targets for Year 5.

Out-of-scope achievements 2004–05

	Combined Target	Achievement
Strategic investment	\$0.4m	\$1.5m
Exports	\$33m	\$76.5m
Total employment—FTE	534	858
Total regional employment—FTE	119	652

IBM originally proposed ten out-of-scope initiatives (as outlined below), many of them focussed on developing local SME companies. Not all of these projects were completed as they were originally envisaged, but in total the results have exceeded the set targets, particularly in terms of export earnings and regional employment.

1. Wizard Information Services Marketing Agreement

Objective: IBM Australia committed to work with Wizard to develop and enhance the marketing of its WizDom client/server application development environment. This would build on IBM's previous agreement with Wizard to provide research and development resources for ongoing enhancement to the WizDom tool set.

Outcome: While this initiative did not progress as expected, IBM and Wizard reached an agreed commercial settlement in July 2004 in relation to it and the initiative was closed.

2. Approved Systems marketing agreement

Objective: IBM committed to work with Approved Systems to assist in the local market development of its services. The objective of this initiative was to accelerate the uptake of Approved Systems' advanced methods of Internet applications development and its systems integration and consulting services.

Outcome: Although some initial investment in this project was undertaken, IBM was unable to complete it when Approved Systems entered external administration. The initiative was terminated and its ID targets were incorporated into the targets for Initiative 3 (APITSEC).

3. Asia-Pacific IT Services Export Centre (APITSEC)

Objective: IBM committed to establish the APITSEC to leverage from its current services export activities to promote the remote delivery of Australian IT solutions and capabilities throughout the Asia-Pacific region.

Outcome: APITSEC has leveraged significant investments into Australia. The establishment of enterprises such as the Linux Technology Centre (OzLabs) in Canberra and software development centres on the Gold Coast and in Perth have generated significant results for IBM and associated SMEs. Employment was high and over \$50m in exports resulted from APITSEC activities in 2004-05.

4. Australian IT Technical Assistance Centre (AITTAC)

Objective: IBM committed to build upon the Technical Assistance Centre established in Brisbane as a result of Advantra's (later renamed Telstra Enterprise Services or TES) successful tender for the Group 5 services agreement, primarily servicing clients based in the Philippines and Singapore. This initiative was the second stage of the centre first developed under the original Group 5 contract.

Outcome: The AITTAC performed strongly against all indicators, particularly employment and export earnings. Most of the regional employment result is due to the success of this initiative.

5. Lexmark printer manufacture and Asia-Pacific corporate accounting relocation

Objective: Lexmark committed to establish operations to manufacture its high-end range of laser printers in its existing manufacturing facility in Sydney and to transfer the company's corporate accounting division from locations in Asia to the centralised Asia-Pacific headquarters in Sydney.

Outcome: Lexmark completed its initial commitment to manufacture printers locally and to relocate the corporate accounting division to Sydney.

6. University of Ballarat e-Health Project

Objective: The contractor committed to assist the University of Ballarat's Collaborative Centre for e-Health (CCeH) to promote the capability of the Australian software industry to support government health initiatives. The CCeH worked with a range of IT and health enterprises to perform research and development in the application of electronic technologies to improve the provision of health care in Australia.

Outcome: This initiative was completed in the first two years of the contract.

7. ASI Solutions

Objective: IBM committed to work with ASI Solutions to implement an Enterprise Resource Planning (ERP) solution to support ASI's proposed manufacturing and services operation in Darwin.

Outcome: This initiative was completed in the first year of the contract.

8. Telstra core network design

Objective: This industry development initiative involved Telstra awarding contracts for the roll-out of its core network on the basis that they included a provision for one per cent of the labour to be subcontracted to SMEs located in regional Australia. This was to be implemented through Telstra inserting a clause in the awarded contracts ensuring that the requirement be met.

Outcome: Due to difficulties in obtaining data from Telstra on the outcomes of this initiative, it was agreed to close the initiative and transfer its employment targets to Initiative 3 (APITSEC).

9. Industry training

Objective: IBM committed to employ 50 students per year for each of the five years of the Services Agreement. The amount payable to each of the students was \$25 000 in the first year, rising by 4% for each year thereafter (actual amounts to be calculated on a *pro rata* basis).

Outcome: The Cooperative Student Placement Program employed 109 students in 2004-05, most of them from NSW and Victorian Universities. This is more than double the agreed target. Of these, 29 were placed in IBM's Ballarat facility.

10. Synergy Plus (formerly Nettrack)

Objective: IBM committed to provide assistance to Synergy Plus to increase its annual revenues by \$2.5m per year over four years. Synergy Plus is a group of highly skilled UNIX and network-based computer professionals providing leading edge information technology services.

Outcome: A lack of achievement in the first two years of the contract led IBM and Synergy (with the Department's agreement) to restructure the project and redistribute the \$10m additional revenue target over the last three years of the service contract. The yearly targets have all been met, and this initiative met its goal.

Cumulative ID achievements 2000-2005

	Target	Achievement
<i>In-Scope</i>		
Australian Value Add (AVA)	79.6%	93.2%
Payments to SMEs	\$63.7m	\$96.7m
Percentage of payments to SMEs	19.4%	21.5%
<i>Out-of-Scope</i>		
Strategic Investment	\$3.8m	\$20.9m
Exports	\$118.9m	\$256.5m

The total in-scope employment over the five years of the contract (i.e. the sum of the FTE staff-years during the period) was 1364 FTE years, just short of the target of 1376 FTE years. Total out-of-scope employment reached 3425 FTE years, considerably above the target, 1972 FTE years. Regional employment for both in and out-of-scope sectors totalled 3246 FTE years, exceeding the target of 2000 FTE years.

IBM is the fourth of the five original IT outsourcing contractors to complete its initial multiyear services contract. Most industry development targets were exceeded by significant margins. In-scope spending on SMEs approached \$100m and programs to assist the development of SMEs have had largely positive outcomes. Exports have increased and employment has been buoyant.

Three of the ten out-of-scope initiatives were ended prematurely due to changed circumstances. In two cases their targets were transferred to other projects, ensuring that equivalent or better outcomes were achieved and in the third case a commercial settlement was reached with the SME involved.

The Health Group has now dissolved into its constituent agencies, both of which currently have IT services contracts with IBM Australia through to 2009.

GROUP 8—IPEX ITG

Group 8 comprises the Department of Agriculture, Fisheries and Forestry, Department of Environment and Heritage, Public Service and Merit Protection Commission, Australian Broadcasting Authority, Australian Communications Authority, Civil Aviation Safety Authority and (until 30 June 2004) the former Aboriginal and Torres Strait Islander Commission (ATSIC).

This was Ipex's fifth and final annual report. Since commencing the Group 8 contract the company has merged with another Australian IT provider, Volante, and is now known by that name; however it continued to report on outcomes to this contract as Ipex ITG. Ipex achieved all of its ID commitments for 2004-05. No further reporting is required.

Ipex's audited industry development report was not submitted within the time agreed in the contract schedule. Corporate reorganisation and delays in obtaining data were the stated reasons for the delay. The report was eventually submitted several months late. An independent review of this annual report was conducted as required in accordance with Australian Auditing Standards applicable to review engagements—AUS902 *Review of Financial Reports*.

In-scope achievements 2004–05

	Target	Achievement
Australian Value Add (AVA)	58%	66.7%
Payments to SMEs	\$31.4m	\$38.2m
Total net employment—FTE	97.8	120.5
Total regional employment—FTE	88.7	99.3

Ipex exceeded its targets for in-scope AVA, payments to SMEs and employment. Ipex itself falls within the definition of an SME contained in the contract but in practice it was not credited with 100% SME performance.

Out-of-scope achievements 2004–05

	Combined Target	Achievement
Strategic investment	\$0.3m	\$1.0m
Exports and import replacement	\$15m	\$22.9m
Total employment—FTE	15	19.9
Total regional employment—FTE	4	4.3

Ipex had three out-of-scope initiatives (detailed below). Ipex achieved all its out-of-scope commitments in Year 5.

1. Graduate recruitment program

Objective: Ipex committed to undertake a new graduate training program based in Melbourne, employing at least 12 graduates per year and including an extensive three-month training course.

Outcome: The merger of Ipex with Volante during Year 4 of the contract ultimately resulted in the cancellation of this program. The Department agreed to transfer the initiative's final two years' staffing targets (amounting to 26 FTE) to the in-scope employment indicator in compensation, and this revised goal was achieved.

2. Technician education program

Objective: Ipex committed to implementing a new re-education program in Melbourne for 14 technicians over a four-month period (i.e. an FTE of 5) each year of the service agreement. The program was to provide technicians with update training including the upskilling of network integration capabilities.

Outcome: Ipex continued to operate this program and successfully achieved an FTE of 9.1 technicians trained in 2004-05 (4.3 in regional areas).

3. Increased level of exports and import replacement program

Objective: Ipex committed to \$50m in net exports and import replacement over the five years of the service agreement.

Outcome: Ipex's original exports commitment was renegotiated during Year 3 to include revenue earned from domestic sales of Ipex computer equipment (import replacement) and overseas services (such as brokerage fees earned in contracts between foreign companies). Ipex achieved \$22.9m in revenue under this revised initiative in Year 5, for an overall total of \$94.9m.

Cumulative ID achievements 2000-2005

	Target	Achievement
<i>In-Scope</i>		
Australian Value Add (AVA)	64.7%	61.2%
Payments to SMEs	\$105.2m	\$186.2m
Percentage of payments to SMEs	81.3%	94.2%
<i>Out-of-Scope</i>		
Strategic Investment	\$3.5m	\$4.0m
Exports	\$50m	\$94.9m

The total in-scope employment over the five years of the contract (i.e. the sum of the FTE staff-years during the period) was 724 FTE years, against a target of 573.3 FTE years. Total out-of-scope employment reached 116.6 FTE years, above the target of 105 FTE years. Regional employment for both in and out-of-scope sectors totalled 686.5 FTE years, against a target of 636.1 FTE years.

Ipex is the last of the five original IT outsourcing contractors to complete its initial multiyear services contract. It exceeded all but one of the targets set. In the case of AVA, Ipex achieved only 61.2% over five years instead of 64.7% as expected. This shortfall was partly due to the dissolution of ATSIC during the contract period, which impacted on the supply of services and equipment across Group 8. In view of this, and in consideration of Ipex's overall performance of the ID targets set, DCITA does not believe that further action on this matter is required.

A significant Australian industry development outcome of the contract has been the transformation of Ipex/Volante from a medium-sized company to a major supplier of IT services.

Group 8 has renewed its contract with Ipex/Volante for a further four years.