



Australian Government

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

**INFORMATION TECHNOLOGY
OUTSOURCING INITIATIVE**

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

2002–03

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INFORMATION TECHNOLOGY OUTSOURCING INITIATIVE

2002–03 Industry Development Progress Report on 1997–2000 contracts

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INTRODUCTION

The Australian Government's information technology infrastructure outsourcing initiative commenced in 1997, with the further development of the Australian information and communications technology (ICT) industry as a primary objective.

While this initiative has undergone significant revision, contractual arrangements are in place to ensure that the specific industry development (ID) outcomes to which commitments were made in the 1997–2000 period will be delivered. This fourth summary report presents information on the ID outcomes achieved during 2002–03. The Government will continue to work with companies under these existing contracts to maximise ID outcomes.

The five companies that secured information technology (IT) outsourcing contracts over the 1997–2000 period have achieved excellent outcomes for industry during 2002–03, surpassing the aggregate targets set out in the original contracts.

ID-related business activities begun earlier in the outsourcing initiative have continued to develop and include such activities as a major global operations centre being set up in Australia and several local IT firms securing overseas contracts in cooperation with multinational partners. Australia's small to medium-sized enterprises (SMEs) continue to reap the opportunity to deliver services under the contracts and to establish new relationships with multinational prime contractors, to the benefit of all parties.

The industry development activities of the five contractors have delivered new investment, SME development, employment, exports and training programs, all of which are enhancing Australia's ICT capability.

The five contractors are meeting and exceeding their overall ID commitments. Where there have been specific areas of under performance or where commitments require change in the light of market conditions and agency purchasing patterns, the Department has successfully negotiated equivalent ID commitments. Negotiations in some areas are still continuing.

These ICT industry development activities complement other Government ICT industry development initiatives including the Incubator program and the establishment of the ICT Centre of Excellence. These ICT-specific programs sit alongside the Australian Government's other industry support mechanisms encouraging research and development, venture capital and tax reform initiatives.

Current arrangements applying to the outsourcing of major projects can be found at the Department of Communications, Information Technology and the Arts (DCITA) website www.dcita.gov.au under the "Commonwealth procurement and industry development" section of the "Information and Communications Technology" policy area.

REPORT COVERAGE

The 2002–03 report covers five contracts:

Contract	Prime contractor	Report received
Cluster 3	Computer Sciences Corporation (CSC)	Year 5
Australian Taxation Office	EDS Australia	Year 4
Group 5	Telstra Enterprise Services (TES), formerly called Advantra	Year 4
Group 8	Ipex ITG	Year 3
Health Group	IBM Australia, formerly called IBMGSA	Year 3

2002–03 INDUSTRY DEVELOPMENT HIGHLIGHTS

For the year 2002–03, the achievements and highlights for the five contracts were:

1. SMEs received \$168.4 million in business related to service delivery under the contracts, which equated to more than 40 per cent of annual service charges across the five contracts. The total Australian Value Add (AVA) was 81 per cent of service charges.
2. Total strategic investment of \$54.8 million and total exports of \$164.3 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 2303 IT and support jobs, of which 1707 were in locations around Australia outside Melbourne and Sydney, namely Adelaide, Ballarat, Brisbane, Canberra, Newcastle and Perth.
4. The first IT outsourcing contract, begun in 1997 (Cluster 3), has now reached the end of its 5-year term, with contractor CSC achieving ID outcomes well above the targets set during the period – in some cases more than double those agreed to.

Cumulative total contractor commitments and achievements

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 per cent of the total service charges;*
- *SME participation of at least \$330 million of in-scope business, comprising about 30 per cent 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 initiative up to 30 June 2003 towards meeting these commitments are:

- AVA of \$1.07 billion or 79 per cent of the total service charges;
- SME participation of \$485.4 million of in-scope business comprising 35.8 per cent of total service charges; and
- additional investment of \$187.8 million and exports of \$366.3 million.

AGGREGATED ACHIEVEMENTS FOR 2002–03

In-scope and out-of-scope commitments

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

- **In-scope** means directly related to the delivery of the contract services.
- **Out-of-scope** means other activities offered by the contractor not directly related to the delivery of the 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, 2002–03

	Target*	Achievement*
Australian Value Add (AVA)	75.4%	81%
Payments to SMEs	\$72.7m	\$168.4m
Proportion of payments to SMEs	33%	40%
Total net employment—FTE [#]	786	1036

** Targets have been calculated from values expressed in the original contracts, while achievements are based on actual outcomes, reflecting increases in the value of services purchased by contracting agencies.*

FTE—full-time employment equivalent.

The aggregated in-scope achievements by the prime contractors continue to clearly exceed the targets set for AVA, SME involvement and employment, following on from the strong performances in 2001-02. Payments to SMEs were particularly high, reflecting the prime contractors' success in achieving the Government's objective of involving Australian companies in ICT procurement in large public sector contracts.

Out-of-scope achievements, 2002–03

	Target	Achievement
Strategic investment	\$22.4m	\$54.8m
Exports and Import Replacement	\$77.5m	\$164.3m
Total employment—FTE	810	2303

The aggregated results show continuing strong achievement against the additional business initiatives set up under the outsourcing contracts. These activities include SME development programs, the relocation of operations centres to Australia, IT training initiatives and scholarships, technology transfer, export creation and the expansion of various technical assistance centres—many of which are located outside of Melbourne and Sydney. These activities are described more fully in the individual prime contractors' sections. The contractors have performed strongly in all three categories, achieving well over double the targets set.

Regional employment

For the purposes of the IT Infrastructure Initiative, regional employment was originally defined as any part of Australia outside metropolitan areas of State 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	0	1073
Ballarat	0	24
Brisbane	0	261
Canberra	857	50
Newcastle	0	125
Perth	0	129
Other locations	0	45
TOTAL	857	1707

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 featured contractors have worked closely with DCITA throughout the year, reporting their performance against their respective contracts.

The industry development 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 Australian National Audit Office (ANAO) Audit Report No.3—*The Use of Confidentiality Provisions in Commonwealth Contracts*, 2000–01. 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 the ANAO report. Each contractor's contribution has been cleared by the company.

CLUSTER 3—COMPUTER SCIENCES CORPORATION (CSC) LIMITED

Cluster 3 originally comprised the Department of Immigration and Multicultural Affairs (DIMIA), Department of Finance and Administration (Electorate Office Services), Australian Electoral Commission (AEC), IP Australia, Australian Government Analytical Laboratories, Australian Surveying and Land Information Group and the Ionospheric Prediction Service. Its prime contractor for IT & Telecommunications services was Computer Sciences Corporation (CSC) Limited. However, there have been some modifications, including in 2001 telecommunications services being removed from CSC and awarded to Optus.

This is CSC's fifth and final annual report. It covers 15 months, from April 2002 to June 2003; previous reports were based on the CSC financial cycle ending each April, but this one includes the entire final period of the contract. Although the annual ID targets have not been correspondingly adjusted, this is consistent with the fact that the Year 1 report covered only 9 months, but reported against a full year's ID targets. All targets for Year 5 have been met and exceeded and the cumulative ID achievements for CSC over the five-year period 1998-03, set out below, show that all overall targets have been clearly exceeded.

CSC's industry development 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, 2002–03

	Target	Achievement
Australian Value Add (AVA)	80%	80.9%
Payments to SMEs	\$10m	\$18.5m
Total net employment—FTE	145	154
Total regional employment—FTE	55	64

CSC met all of its 2002-03 in-scope targets, particularly with regard to SME participation in the contract. Its report also notes that an error was made in last year's total net employment figure, which was under-reported as 94 instead of the actual number, 156. In both years, the regional employment occurred in Canberra.

Out-of-scope achievements, 2002–03

	Combined target	Achievement
Strategic investment	\$13.5m	\$41.7m
Exports	\$15.6m	\$45.9m
Total employment—FTE	120	388
Total regional employment—FTE	30	145

CSC had seven out-of-scope initiatives (detailed below). CSC's out-of-scope achievements were significantly higher in strategic investment, exports and

employment than was forecast in its business plan. Three initiatives – the Hunter Technology Centre, On-Shore Relocation of facilities and CSC’s Asia Pacific Outsourcing Centre – were primarily responsible for exceeding the aggregate out-of-scope targets. Regional employment occurred in Canberra and Newcastle.

1. Hunter Technology Centre

Objective: CSC committed to establish a technology centre in the Hunter region to ensure that quality IT skills are available for regional employment growth in both CSC’s and other locally based IT companies’ activities.

Status: The Centre was established in August 1998 when CSC contracted a local business manager to assist with the implementation of the Hunter initiative. CSC has also worked alongside an informal cluster of local IT SMEs and was instrumental in formalising the Hunter Technology Consortium (HunterTech). The Consortium’s objectives are to foster close collaboration between local SMEs and to enable them to take on larger projects by partnering with other consortium members. Membership of HunterTech has grown from six companies to 70 over five years. CSC’s staff in Newcastle undertake support, maintenance and development projects. The number of staff employed in the Hunter has increased significantly following CSC’s purchase and consolidation of BHP’s IT Division.

2. Canberra Software Centre

Objective: CSC committed to establish a Centre with a particular focus on application software. Establishment of the Centre would involve skill transfer from experienced personnel from CSC’s European operations and those in the United States. CSC would employ graduates of the Centre throughout Australia and there was scope to expand the initiative to deploy skilled staff to CSC’s international operations.

Status: Following its establishment in Canberra, CSC rolled its Security Consulting Group into a new global security group. The Canberra group is now a key component of the CSC Global Information Security Services (GISS). The GISS continues to work with various SME groups, in particular the IT Security industry. The new GISS Australia has staff in Canberra, Melbourne, Perth and Sydney and works with a number of SMEs across Australia delivering a range of security services. A significant development is CSC’s recent agreement to transfer its Computer Emergency Response Team (CERT) from the US to Australia; it will provide 24-hour service to clients in the region and will eventually operate on a global scale.

3. Access to world-class know-how

Objective: CSC committed to develop a support program for SMEs in the IT industry to leverage the capabilities, knowledge and resources of CSC’s management consulting arm, CSC Index. Expertise in areas such as business re-engineering and information on global technology trends and strategies of interest to CSC’s corporate clients will be made available in an offering targeted at local SMEs.

Status: CSC has provided support and expertise to SMEs in various ways throughout the year. Specific activities included financial support for research forums, access to

research databases and Business Briefing, Venture Capital (VC) and e-business seminars. CSC offered a total of 322 SME forum events during 2002-03, well ahead of the 200 targeted in the business plan. CSC has performed well in this regard over the five years of the contract.

4. Facilitation of access to investment capital and market opportunities

Objective: Together with Australian venture capital companies, CSC committed to develop a program focussed on facilitating access to investment capital and markets for SMEs in Australia. Candidate SMEs were given assistance to market themselves to potential investors and further their export activities.

Status: Through its investment consulting activities with numerous SMEs, CSC has referred a further sixteen SMEs in 2002-03 to various venture capital companies (a total of 76 over 5 years). This year CSC has expended 137 consulting hours in discussion with numerous companies throughout Australia. VC seminars were organised in Adelaide, Brisbane, Canberra, Melbourne and Sydney during the year. Throughout the contract period, over 1000 hours were spent advising companies on VC options.

5. Global Management Centre

Objective: CSC committed to undertaking ongoing global support and development of key components of CSC's proprietary suite of development tools, processes and methodologies.

Status: CSC established its Global Management Centre (GMC) in Sydney in preference to Singapore. This major project enables the management of all CSC's networks, as well as those of its clients, for 12 hours of the 24-hour global day, on a 'follow the sun' strategy between GMC US and GMC Australia. Significant software expertise from the US has been deployed in the GMC, which has led both to a significant investment in money and staff and to a good export performance. The GMC manages over 37,000 desktop PCs. Export income was over target by 360%. Employment was also well ahead of expectations in the business plan.

6. On-shore relocation

Objective: CSC committed to bringing more of its services personnel, which were originally sourced offshore, to Australia. Candidate areas included consultancy resources, software support customisation and disaster recovery services.

Status: All three proposed areas have been relocated to Australia and CSC has continued to achieve significant new employment and export results above the targets set. Actual exports over 5 years exceeded expectations by 171%.

7. Asia-Pacific Outsourcing Centre

Objective: CSC committed to increase the scope of the functions of this Centre in Chatswood, Sydney, so that its status would be elevated to one with Asia-Pacific support responsibilities. Key functions at the Centre include technical and call centre

support with state-of-the art facilities and services to enable it to meet regional requirements.

Status: This initiative has greatly exceeded all its targets, with ongoing employment numbers almost five times above those forecast in the business plan. Exports and strategic investment are similarly high this year. Over 5 years, total exports exceeded the target by 170%. The Centre has focused on standardising the processes so that economies of scale can be achieved and a global CSC operation provided. Help desk support services are located in Canberra, Melbourne and Perth.

Cumulative ID achievements, 1998-03

	Target	Achievement
<i>In-Scope</i>		
Australian Value Added (AVA)	80%	84.2%
Payments to SMEs	\$40m	\$64.1m
Percentage of payments to SMEs	24%	29.8%
<i>Out-of Scope</i>		
Strategic Investment	\$47.4m	\$121.5m
Exports	\$58m	\$118.5m

The total in-scope employment over the five years of the contract (ie the sum of the FTE staff-years during the period) was 910 FTE years, against a target of 791 FTE years. The total out-of-scope employment was 1102 FTE years, against a target of 462 FTE years. Regional employment for both in and out-of-scope totalled 757 FTE years, against a target of 487 FTE.

CSC is the first of the five IT outsourcing contractors to complete its initial five-year cluster contract. As the above figures show CSC has performed very well against its agreed industry development commitments and has exceeded all of its targets. This has included high levels of strategic investment, exports and employment, and involved CSC relocating several IT functions into Australia. CSC also assisted many small local enterprises in gaining access to information and funding guidance to aid their development.

AUSTRALIAN TAXATION OFFICE (ATO)—EDS AUSTRALIA LTD

This is Electronic Data System's (EDS) fourth annual ID report, covering the period 2002-03. The report shows that it exceeded all its targets in relation to ID commitments during the year, in most cases by a significant margin.

EDS' annual report was initially submitted within the timeframe agreed in the contract schedule. However, the late discovery by EDS of additional, unreported export revenue led the contractor to retract the document for redrafting. In the interest of ensuring that all qualifying activities were accounted for in EDS' report, the Department agreed to allow the revision. Accordingly, the final, re-audited report incorporating the additional export revenue was submitted after the due date. The 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, 2002–03

	Target	Achievement
Australian Value Add (AVA)	78%	79.9%
Payments to SMEs	\$22.6m	\$87.2m
Total net employment—FTE	242	343
Total regional employment—FTE	178	284.9

EDS performed well in its fourth year, more than meeting all its in-scope targets. Payments to SMEs were high, more than correcting last year's slight shortfall in this area, and it is notable that despite the contract's scope having expanded significantly over the last four years, AVA remains strong.

Out-of-scope achievements, 2002–03

	Combined target	Achievement
Strategic Investment	\$6.5m	\$9.5m
Exports	\$15.8m	\$18.7m
Total employment—FTE	210	1348
Total regional employment—FTE	69	1107

EDS has five out-of-scope initiatives (detailed below). EDS achieved above-average results overall from its fourth year of out-of-scope initiatives. In particular, the Global Partner Solutions program has continued to generate significant export results for SMEs and the EDS Credit Service Facility has far exceeded its employment targets.

1. E-Business Centre

Objective: EDS has committed to establish an e-business centre in Sydney, under a mandate to serve the Asia-Pacific region, supported by offices in Adelaide, Canberra

and Melbourne. It will formulate technical and business strategies for the conduct of e-commerce applications in the region.

Status: The Centre, established in North Sydney, with supporting offices in Adelaide, Canberra and Melbourne has met its targets in Year 4. The Centre acts as a focus for EDS involvement with selected SMEs, to identify internationally compliant Australian products in the electronic business field. This has involved a significant investment in resources and staff and helped create exports to the Asia Pacific region.

2. Global Partner Solutions Program (formerly SME International Marketing Program)

Objective: EDS has committed to establish a national Global Partner Solutions program to support SMEs into export markets building on the EDS Channels to Asia-Pacific program and focusing on European and North American markets.

Status: The GPS Initiative continued to deliver strong results in Year 4, with several of the program's 43 SME participants gaining high-profile IT work in overseas markets with help from the international network of EDS offices. For example, local company Proxima Technology has secured over \$2m in contracts for its business metrics technology in the US and UK this year in alliance with EDS. Proxima and other SMEs expect to benefit further from working with EDS in future years. Contacts in State and Territory governments and IT industry associations are continuing to identify and screen suitable SME candidates for the program.

3. EDS Credit Services Facility

Objective: EDS will locate one of only three worldwide Global Credit Process Operating Units in Adelaide. The facility is a key resource supporting one of EDS' Global Lines of Business, Operations Solutions. The focus of Operations Solutions is to assist clients to achieve a superior value in the digital economy by aligning the right people and integrating the right processes.

Status: The facility is operating in Adelaide and generating a large number of high value-added IT positions – over 1000 positions in Year 4, five times the employment target set for the year. EDS is developing processes at the Centre which allow it to provide services to multiple financial institutions, leveraging existing staff and positioning it as a centre of excellence and hub for the provision of EDS credit management services, potentially leading to further expansion in the Asia-Pacific region.

4. Re-manufacture of raster output scanners

Objective: Fuji Xerox has committed to re-manufacture and export raster output scanners to Japan, including providing resources to establish the Sydney facility and supply logistics to handle the export business.

Status: Fuji Xerox's facility at Mascot in Sydney is fully staffed and exports to Japan continue. It is the only operation of its type outside the US to be fully accredited to handle the entire re-manufacturing process. Exports remain on target.

5. SME Scholarships to EDS Executive Education Course

Objective: EDS has committed to fund at least five scholarships each year for SME employees to attend a three-to-four week executive development program aimed at executives in high technology industries and developed by a tertiary institution situated in regional Australia.

Status: EDS funded fourteen scholarships for SME employees to attend an executive development program provided through the National Graduate School of Management at the Australian National University (ANU) in Canberra, two more than last year. Participants came from NSW, Victoria, Queensland, South Australia, the Australian Capital Territory and, for the first time, Tasmania. The participants will have attended six management modules during the 2003 calendar year. Feedback from this Initiative has been very positive.

GROUP 5—TELSTRA ENTERPRISE SERVICES (TES)

Group 5 comprises the Australian Competition and Consumer Commission; Department of Communications, Information Technology and the Arts; Department of Industry, Tourism and Resources; Department of the Prime Minister and Cabinet; and the Department of Transport and Regional Services. Its prime contractor is Telstra Enterprise Services (TES), formerly known as Advantra (a partnership between Telstra, IBM and Lend Lease which has now been dissolved).

This is TES's fourth annual report. It was submitted a month later than 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, 2002–03

	Target	Achievement
Australian Value Add (AVA)	85%	89%
Payments to SMEs	\$1.37m	\$6.2m
Total net employment—FTE	39	98.3
Total regional employment—FTE	29	98.3

TES exceeded all of its in-scope targets. Regional employment was limited to Canberra.

Out-of-scope achievements, 2002–03

	Combined Target	Achievement
Strategic Investment	\$0.063m	\$0.017m
Exports	\$6.1m	*
Total employment—FTE	101	*
Total regional employment—FTE	101	*

* TES was unable to report on these elements, although the targets were achieved. They are reported under the Health Group – IBM Australia contract.

The bulk of this out-of-scope commitment related to Initiative 1 (the Australian IT Technical Assistance Centre [AITTAC]). This was a joint initiative by TES and its former Advantra partner, IBM Australia. Following the dissolution of the Advantra partnership, the achievements of the AITTAC initiative are now reported in full under the ID outcomes of IBM's contract with the Health Group (see next section).

1. Australian IT Technical Assistance Centre (AITTAC)

Objective: IBM (a former partner of Telstra under Advantra) has committed to establish a leading edge IT technical assistance and support centre in southern Queensland, which will service both IBM Australia's internal and external clients.

The Centre will provide service support for consumers in Japan using IBM's Aptiva line of personal computers and Aptiva support for consumers, business partners and retailers in Australia and New Zealand.

This is the first stage of the initiative which was subsequently built upon by IBM under the Health Group contract (see separate entry).

Status: As noted above, information about the performance of this Initiative is reported under the Health Group contract.

2. Sponsorship of IT Students at the ANU

Objective: TES has committed to spending \$8 000 a year in sponsoring two Honours Degree students in the Computer Science and Information Technology faculties at the Australian National University in Canberra. An additional \$5 000 will be provided by TES to sponsor prizes for tertiary students from these faculties.

Status: Scholarships worth \$12 000 were awarded to two Honours Degree students during the year, valued at \$6 000 each. TES also sponsored prizes valued at \$5 000 for other students from the ANU, for a total strategic investment of \$17 000.

HEALTH GROUP—IBM AUSTRALIA LIMITED

The Health Group comprises the Department of Health and Ageing (DHA) and the Health Insurance Commission (HIC). Its prime contractor is IBM Australia (formerly IBMGSA).

This is IBM's third annual report. In 2002-03 IBM overall exceeded all of the ID targets set out in the contract, although two out-of-scope initiatives had no reportable achievements against revenue and employment targets during the period. IBM continues to be in breach with regard to one of these initiatives, involving Wizard Information Services.

IBM's final audited industry development report was submitted two months later than the timeframe agreed in the contract schedule, although an unaudited draft report was submitted on time. 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 2002–03

	Target	Achievement
Australian Value Add (AVA)	77.5%	91.1%
Payments to SMEs	\$19m	\$19.1m
Total net employment—FTE	254	296
Total regional employment—FTE	235	283

IBM achieved a continuing high level of AVA in its third year and payments to SMEs met the goal set, including a shortfall from the previous year of \$1.59m being added to this year's target.

Out-of-scope achievements, 2002–03

	Combined Target	Achievement
Strategic investment	\$1.59m	\$2.36m
Exports	\$20m	\$55m
Total employment—FTE	351	535
Total regional employment—FTE	163	444

IBM originally proposed a total of ten out-of-scope Initiatives (as detailed below), many of them focussed on developing local SME companies. Two projects have now been completed. One company, Approved Systems, went into receivership prompting the termination of its project and the transfer of its targets to another Initiative. Two other projects have experienced difficulties and the Department has requested IBM take corrective action, most notably with Initiative 1, involving Canberra SME Wizard Information Services. Nevertheless, in total the out-of-scope initiatives have exceeded the targets set by a considerable margin, particularly in terms of export earnings and regional employment.

1. Wizard Information Services Marketing Agreement

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

Status: IBM was issued with a formal breach notice in September 2002 due to non-performance of the ID commitment. IBM reports that it has been actively attempting to negotiate an agreement with Wizard to close the Initiative. Recent advice indicates that IBM and Wizard may be close to resolving the issue. The Department is encouraging IBM to pursue a positive outcome.

2. Approved Systems marketing agreement

Objective: IBM committed to work with Approved Systems to assist in the local market development of its services. Given Approved Systems' restricted ability to effectively market its services as an SME, the objective of this initiative is to accelerate the uptake of Approved Systems' advanced methods of Internet applications development and its systems integration and consulting services.

Status: Although some initial investment in this project was completed, IBM was unable to continue with the project when Approved Systems entered external administration. This Initiative has therefore been terminated and its ID targets have been incorporated into the targets for Initiative 3.

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

Objective: IBM has 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.

Status: APITSEC has continued to leverage significant investments into Australia. The establishment of enterprises such as the Linux Development Centre in Canberra, an e-business innovation centre in Sydney and the expansion of the Australian Programming Centre in Perth have generated significant results for IBM and associated SMEs. All employment and export targets were exceeded in Year 3, in some cases by 100%.

4. Australian IT Technical Assistance Centre (AITTAC)

Objective: IBM has committed to enhance the Technical Assistance Centre established in Brisbane as a result of Telstra Enterprise Services' (TES – formerly Advantra) successful tender for the Group 5 services agreement primarily servicing clients based in the Philippines and Singapore.

This is the second stage of the initiative which was first developed under the Group 5 contract (see separate entry).

Status: The AITTAC has performed very strongly against all indicators, particularly export earnings. As noted in the Group 5 report, following the dissolution of the Advantra partnership IBM is now incorporating all the achievements of this Initiative into its results, instead of reserving a base amount for Group 5 as in previous years.

5 Lexmark printer manufacture and Asia–Pacific corporate accounting relocation

Objective: Lexmark has committed to establishing 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 current locations in Asia to the centralised Asia–Pacific headquarters in Sydney.

Status: Lexmark continues to manufacture several models of its high-end range of monochrome laser printers locally, in excess of its original two-year commitment. This additional import-replacement activity more than compensates for the lower than anticipated performance of the relocated corporate accounting division, whose operations have been reduced due to changed circumstances.

6. University of Ballarat e-Health Project

Objective: The contractor has 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 will work 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.

Status: This initiative is now complete with all funds expended during the first two years.

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.

Status: This initiative was completed in the first year of the Service Contract.

8. Telstra core network design

Objective: This industry development initiative consists of Telstra awarding contracts on the basis that they include a provision for one per cent of the labour to be subcontracted to SMEs located in regional Australia. This initiative is to be implemented through Telstra inserting a clause in the awarded contracts ensuring that this requirement is met.

Status: IBM was unable to supply information regarding this Initiative, advising that it had difficulties in obtaining the necessary data from Telstra. IBM has advised the

Department that it intends to submit a corrective action plan to address this deficiency during Year 4 for consideration by the Department.

9. Industry training

Objective: IBM has committed to employ 50 students per year for each of the five years of the Services Agreement. The amounts payable to each of the students will be \$25 000 for the first year, rising by 4% for each year after.

Status: The Cooperative Student Placement Program employed 74 students in 2002-03, most of them from NSW and Victorian Universities. Of these, 24 were placed in IBM's Ballarat facility. Numbers are well above the agreed yearly target.

10. Synergy Plus (formerly Nettrack)

Objective: IBM has committed to providing 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.

Status: 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 revenue targets over the last three years of the service contract. Company revenue in Year 3 has increased in line with the revised target, putting this Initiative back on track to achieve the original \$10m target by the end of the contract.

GROUP 8—IPEX

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, Aboriginal and Torres Strait Islander Commission and Civil Aviation Safety Authority.

This is IpeX's third annual report. IpeX achieved all of its ID commitments for in-scope and out-of-scope activities, other than one very minor shortfall against one target. This is a significant improvement from the contractor's last report, when a lack of achievement in several ID areas led to a breach notice being issued by the Department. IpeX undertook corrective action and the breach has now been lifted.

IpeX's audited industry development report was submitted within the time 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, 2002–03

	Target	Achievement
Australian Value Add (AVA)	58%	58.9%
Payments to SMEs	\$19.7m	\$37.3m
Total net employment—FTE	111.2	149.7
Total regional employment—FTE	101.8	128.3

IpeX exceeded its in-scope AVA, payments to SMEs and employment targets. DCITA and IpeX agreed to adjust the method for calculating AVA to allow IpeX to report its achievement in this area more accurately. IpeX itself falls within the definition of an SME contained in the contract, but in practice it is treated in the same way as the other prime contractors and not credited with 100% SME performance.

Out-of-scope achievements, 2002–03

	Combined Target	Achievement
Strategic investment	\$0.82m	\$1.22m
Exports & Import Replacement	\$20m	\$44.7m
Total employment—FTE	28	32.2
Total regional employment—FTE	12	11.3

IpeX has three out-of-scope initiatives detailed below. IpeX fell short of its target for regional employment by 0.7 FTE; the contractor attributed this to a short-term difficulty in allocating support staff in regional areas and DCITA will look for this to be corrected next year. The Exports category now includes

import replacement activities (eg sales of PCs to the non-Government domestic market) and Ipex has exceeded the new target set for this activity.

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.

Status: Ipex's Group 8 graduate recruitment program has been tailored to provide an opportunity for Australia's best graduates to obtain technical and commercial skills. The program was successfully undertaken during the year with 12 participants, 7 in regional areas. The company advised that it had some difficulty locating support staff in an appropriate regional centre but that this problem would be resolved shortly.

2. Technician education program

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

Status: Ipex continued to operate this program and has successfully educated the full-time equivalent of 9.06 technicians in 2002-03 (4.25 in regional areas).

Ipex's technician education program was originally proposed as a result of an equivalent program conducted for 14 technicians in 1998. Since then, Ipex has remodelled its approach to both cross-skill and up-skill its technical resources to enable them to move into high value-add roles. Ipex did this by providing and fostering individual development according to specific opportunities, preferences and competencies rather than through its traditional blanket approach to training.

3. Increased level of exports and import replacement program

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

Status: Ipex's original commitment of \$40m in export sales over five years was renegotiated during Year 3 due to non-performance in the first two years of the Initiative (which resulted in a breach notice being issued). Ipex attributed this lack of export revenue to the significant downturn in international PC sales. DCITA and Ipex agreed to expand the scope of the Initiative 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 over \$44m in revenue on this initiative in Year 3, putting the company well on track to meet its revised target of \$50m. The breach notice has now been lifted.