

IT OUTSOURCING INITIATIVE

1999–2000 INDUSTRY DEVELOPMENT PROGRESS REPORT

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The Secretary
Department of Communications, Information Technology and the Arts
GPO Box 2154
Canberra ACT 2601
Australia

Telephone: 02 6271 1000
Facsimile: 02 6271 1800
Email: dcita.mail@dcita.gov.au
Website: <http://www.dcita.gov.au>

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OUTSOURCING INITIATIVE

1999–2000 INDUSTRY DEVELOPMENT PROGRESS REPORT

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FOREWORD

The Government's Information Technology Infrastructure Outsourcing Initiative, which started in 1997, has had as one of its primary objectives the development of the Australian information technology industry.

Under the approach that applied until January 2001, companies that have secured IT outsourcing contracts are required to report annually on the industry development outcomes arising from these contracts. This is the first summary report, which presents information on those industry development outcomes during the year.

The Initiative has delivered a substantial dividend to the wider Australian community in the form of new industry development activity. Of particular note are the opportunities for Australia's small-to-medium sized enterprises (SMEs) to deliver services under the contracts, and establish new relationships with the multinational IT corporations which can lead to additional work both in Australia and overseas.

The Initiative is a plank in the Government's overall IT industry development policy agenda which has as its foundation the Partnerships for Development Program, Telecommunications Carrier Industry Development Plans, Building on IT Strengths (BITS), Information Technology On-Line (ITOL) and Test-IT. These IT specific support measures sit alongside generic industry assistance programs to encourage R&D and venture capital, and recent tax reform initiatives. Together they create an economic environment in which IT companies can prosper.

The Government's announcement that it will adopt most of the recommendations from the Humphry Review in January 2001 will lead to changes in the industry development framework for future Government IT contracts. The new framework is being developed in consultation with the IT industry and agencies, and the Government will ensure that substantial industry development benefits continue to accrue.

I congratulate the prime contractors on their efforts in carrying out their industry development commitments and delivering new investment, SME development, regional employment, exports and training opportunities which will further enhance Australia's IT capability. The Government will continue to work with companies under existing contracts to maximise industry development outcomes.

A handwritten signature in black ink that reads "Richard Alston". The signature is written in a cursive, slightly slanted style.

Richard Alston
Minister for Communications,
Information Technology and the Arts

REPORT COVERAGE

During 1999–2000 Ipex (an Australian SME based in Melbourne) and IBM GSA were awarded the Group 8 and Health Group contracts respectively. Press releases announcing these contracts are at Appendices A and B. Their first reports are not yet due and hence are not the subject of this report. The three other contracts awarded previously went to CSC, EDS and Advantra (a Telstra subsidiary) and are the subjects of this report.

1999–2000 INDUSTRY DEVELOPMENT HIGHLIGHTS

With the signing of the Group 8 and Health contracts total industry development commitments made by the five prime contractors over 5 years under the Initiative are:

- Australian Value Add (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 over 30 per cent of total service charges; and
- additional investment of \$92 million and exports of \$277 million.

For the year 1999–2000 the achievements and highlights for the Cluster 3, Group 5 and Australian Taxation Office (ATO) contracts were:

1. SMEs received \$91 million of business related to the contract. AVA recorded was \$159 million representing 83 per cent of total services charges.
2. Total investment of \$33 million and total exports of \$23 million were achieved across a range of out-of-scope initiatives.
3. Out of 378 new IT and support jobs created out-of-scope, 149 are located in regional Australia.
4. A total of 11 out-of-scope initiatives are now in place specifically aimed at developing the businesses of SMEs.
5. Apart from the major IT centres of Sydney and Melbourne, out-of-scope initiatives are being delivered in Brisbane, Adelaide, Canberra, Newcastle, Ballarat and Darwin.
6. A project register has been implemented which will allow companies tendering in the IT Outsourcing Initiative to make investments with the confidence that they can be included in future industry development proposals.

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*.

INTRODUCTION—OVERVIEW OF THE IT OUTSOURCING INITIATIVE

In the 1997–98 Commonwealth Budget, the Commonwealth Government announced the whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative.

The Government’s vision for future information and communication technology (ICT) service delivery is expressed in the draft *Blueprint Framework and Strategies for Information Technology* prepared by the then Office of Government Information Technology (OGIT) in 1995, which stated that:

- the Government is to be a world-leader in government administration and in the cost-effective promotion of affordable, equitable and accessible Australian Government information and services; and
- Australians are to have seamless access—through common interfaces—to a range of Government information and services appropriate to their needs, whenever it is cost-effective to do so.

The whole-of-Government strategy of consolidation and outsourcing of IT Infrastructure was designed to achieve the following objectives:

- effective ICT support of agency business needs and service delivery requirements;
- substantial economies of scale resulting in improved efficiency, cost effectiveness and significant savings to the budget and to agencies;
- improved effectiveness by moving to more standardised operating environments;
- more efficient use of processing capacity;
- improved service levels at lower costs;
- leveraging access to private sector technology and know how;
- improved technology solutions; and
- improved potential for staff career development in an environment where ICT is the core business.

In addition, the Government desired to achieve significant industry development objectives through the whole-of-Government IT Infrastructure Initiative:

- support growth in the Australian ICT industries;
- promote the international competitiveness of the Australian ICT industries; and
- support employment growth and development in Regional Australia.

For the purposes of the IT Infrastructure Initiative ‘Regional Australia’ means any part of Australia outside metropolitan areas of state capital cities. However, if for reasons such as access to skills or sustainability, the metropolitan area of a capital city other than Melbourne or Sydney is proposed by the tenderer the Government may, at its discretion, apply regional principles.

The approach taken by the Government, from 1997–2000, focussed on clustering agencies in order to introduce discipline in the use of technology, access wider technical skills and technologies and to achieve economies of scale to reduce overall costs. As a result of the Humphry Review,

responsibility for implementing IT outsourcing will be devolved to Commonwealth agencies in accordance with the culture of performance and accountability incorporated in the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*.

IT OUTSOURCING INITIATIVE INDUSTRY DEVELOPMENT FRAMEWORK

The industry development framework that applied from 1997 to 2000 was aimed at ensuring the IT Infrastructure Initiative provided tangible opportunities for the Australian IT industry (especially SMEs), and substantial growth in regional development and employment.

One of the Government's key objectives under the IT Outsourcing Initiative's competitive tendering processes was to secure additional industry development from prime contractors (i.e. additional to commitments made under other programs), in view of the large size and long-term nature of the contracts.

The Commonwealth's key priorities were:

(a) To contribute to:

- i. the establishment of a sustainable, diverse platform for the cost-effective delivery of ICT services in Australia; and
- ii. the preservation and development of technical skills and increased technical innovation in the Australian private sector (this contribution will be achieved by a combination of the prime contractor subcontracting to SMEs, purchasing local products and services, encouraging high value-added activities in Australia, and contributing to Australian research and development (R&D)); and

(b) To act as a catalyst to:

- i. attract international activities and operations to Australia;
- ii. develop enduring relationships that encourage SMEs to develop an international focus and assist them to access international markets; and
- iii. build internationally competitive capabilities within Australian companies.

The Commonwealth's desired outcomes from these key priorities were to:

- (a) maximise involvement of SMEs in delivering products and services under ICT outsourcing contracts;
- (b) achieve substantial net growth in employment in the Australian ICT industries;
- (c) contribute to the development of technical skills in Australian ICT industries;
- (d) achieve a substantial net increase in employment in Regional Australia;
- (e) attract R&D, and other investment, in the Australian ICT industries;
- (f) achieve a substantial increase in the net exports by the Australian ICT industries;
- (g) not increase the Service Charges charged by the prime contractor for the Services as a result of complying with the Industry Development Agreement.

Following the release of the Humphry Review, consultation is underway with industry and Government agencies to develop a framework to take into account the industry development objectives of the Government—a press release announcing the consultation period is at Appendix C.

INDUSTRY DEVELOPMENT PROJECT REGISTER

During 2000, a project register system was adopted to allow companies to flag large-scale industry development projects that they want to bid into one or more future outsourcing tenders. The press release announcing the project register is at Appendix D.

Companies will be able to register industry development projects with the Government, allowing them to commence irrespective of the timing of the tender process. Companies intending to include a large-scale project in industry development proposals, for one or more future outsourcing tenders, can apply to have the project registered. The industry development aspects of the project will remain confidential, and any public announcements will require prior approval by the Government. Relevant projects will need to be notified to the Government at the earliest possible stage.

This approach has been adopted in response to industry concerns that the process for handling large-scale projects under the industry development framework was not clear, and key decision makers within companies were looking for a more transparent system.

An expanded view of regional industry development outcomes was also announced. In all future tender processes recognition will be given to business flowing to regional enterprises and additional regional investment, as well as to regional employment growth.

AGGREGATED ACHIEVEMENTS FOR 1999–2000

During 2000, Computer Sciences Corporation (CSC) provided its second annual report for the Cluster 3 contract, and EDS and Advantra have provided year one reports for the ATO and Group 5 contracts respectively.

In-scope vs out-of-scope

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 where the main objective was to maximise Australian Value Add and SME participation.
- **Out-of-scope** means other activities offered by the contractor not directly related to the delivery of the services. It is where the Commonwealth has sought to maximise activities such as strategic investment, exports and employment, especially regional employment.

In-scope achievements 1999–2000

	Achievement	Target#	% of target# achieved
Australian Value Add	83%	74%	112
Payments to SMEs	47%	28%	167
Total net employment—FTE*	705	587	120
Total regional employment—FTE**	505	390	129

*FTE—full-time employment equivalent of employment.

**Regional employment is a subset of the total employment number.

Target is the summation of the individual targets by the prime contractors.

The aggregated in-scope achievement by the prime contractors shows a strong performance in the key areas of Australian Value Add, SME involvement and employment. The SME achievement is particularly impressive with twice the scheduled amount of work going to SMEs. This reflects a strong commitment by the prime contractors to achieve the Commonwealth's objective of enhancing local skills by involving Australian industry in contract delivery.

Out-of-scope achievements 1999–2000

	Achievement	Target#	% of target# achieved
Strategic Investment (\$'000s)	\$33 425	\$13 210	253
Exports (\$'000s)	\$23 528	\$11 140	211
Total employment—FTE	378	157	240
Total regional employment—FTE*	149	104	143

*Regional employment is a subset of the total employment number.

Target is the summation of the individual targets by the prime contractors.

The aggregated results show strong achievement against the new business initiatives contractually undertaken by the prime contractors. This includes activities such as technical assistance centres, IT training initiatives, SME development programs, technology transfer and export creation—of which many are in regional areas of Australia. These activities are further described under each of the prime contractor's annual progress reports. Again, contractors have performed strongly. Investment, exports and total employment were more than twice the level agreed in the contracts.

DISCLOSURE OF INDIVIDUAL COMPANY RESULTS

The contractors have worked closely with the Department of Communications, Information Technology and the Arts (DOCITA) throughout the year reporting their performance against their respective contracts. However, Schedule 10 of the Services Agreement allows the Commonwealth to use information marked 'commercial-in-confidence' in a public statement only when it has the prior written approval of the individual prime contractors. The prime contractors have declined to give approval for the publication of specific targets as these are particularly sensitive, and industry development metric assumptions could easily be deduced by competitors. Therefore, with the approval of the individual companies, the Commonwealth has published the extent of their achievement in percentage terms only.

Cluster 3—Computer Sciences Corporation (CSC) Limited

Cluster 3 comprises the Department of Immigration and Multicultural Affairs, Department of Finance and Administration (Electorate Office Services), Australian Electoral Commission, IP Australia, Australian Government Analytical Laboratories, Australian Surveying and Land Information Group, Ionospheric Prediction Service. Its prime contractor is Computer Sciences Corporation (CSC) Limited.

This is CSC's second annual report. A copy of the press release announcing CSC's year one industry development achievements is at Appendix E.

The 1999–2000 annual report submitted by CSC showed that it exceeded all of its in-scope and out-of-scope commitments, except for a shortfall with the annual SME participation percentage.

Following consultation with DOCITA, CSC has agreed to make up this annual shortfall in later years in accordance with the industry development contract variation provisions. These allow the Commonwealth to agree to a proposal which substantiates the need for change, and demonstrates that the variation is at least as likely to promote the Commonwealth's desired outcomes and delivers at least equivalent industry development outcomes.

An independent review of this annual report was conducted in accordance with Australian Auditing Standards applicable to review engagements, AUS902 *Review of Financial Reports*.

Submission of CSC's industry development report was made within the time frame agreed in the contract schedule.

In-scope achievements 1999–2000

	% of target achieved
Australian Value Add—%	108
Australian Value Add (\$'000s)	178
Payments to SMEs—%	84
Payments to SMEs (\$'000s)	133
Total net employment—FTE	128
Total regional employment—FTE	144

CSC achieved a strong result in most in-scope areas. The AVA was comfortably over the target while employment was significantly higher than their target. The lower than expected SME percentage figure related to a significant rise in the value of contract services during the year. However, actual dollar payments to SMEs were ahead of target. On a two-year cumulative basis, all targets were significantly over target, including work going to SMEs which was 15 per cent ahead of the required level.

CSC's major SME partner, Ipex, gained considerable expertise from the CSC relationship, which enabled Ipex to subsequently tender and win a major Federal Government outsourcing contract in its own right.

Allied Technologies gaining business strength through Cluster 3 deal

CSC Australia selected Allied, as part of their Government outsourcing team, to provide network cabling services for the Australian Electoral Commission and Department of Immigration and Multicultural Affairs. Allied have identified this to be a strategic growth area of their business and have found this relationship to be mutually beneficial.

‘Our experience of CSC’s approach to partnering with SMEs is that we are treated fairly and encouraged to participate in progressively more ambitious projects such as the outsourcing contract for Centrelink. A project of this magnitude and duration will assist us to grow our skill base in a number of other regions.’

Ray Doak—Managing Director of the Allied Technologies Group

Dunecure growing its business with CSC

‘Dunecure commenced business about two-and-a-half years ago as a sub-contractor to CSC under the Cluster 3 outsourcing project. This activity has consistently expanded, and now extends to CSC projects that are outside Cluster 3. Revenues have grown correspondingly, and projected annual revenue from CSC is approaching the half-million-dollar mark. With seven full time and 30 part time employees, Dunecure is now an established Australian Capital Territory-based business in IT, well placed to provide CSC with operational support for its growing customer base throughout Australia. Dunecure has found its continuing association with CSC to be an exciting and rewarding exercise.’

Bruce Skea—Operations Manager, Dunecure

Out-of-scope achievements 1999–2000

	% of target achieved
Strategic investment	289
Exports	158
Total employment—FTE	284
Total regional employment—FTE	346

CSC’s out-of-scope achievements were significantly higher than their targets, particularly in strategic investment, where the Huntertech Technology Centre in Newcastle and the Asia Pacific Outsourcing Centre attracted significantly higher investment and employment than was forecast in their business plan. The export achievement was mainly attributed to the better than expected result from the activities of the Global Management Centre.

1. Hunter Technology Centre

Objective: CSC has committed to establish a technology centre in the Hunter 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 SME IT companies and was instrumental in formalising the Hunter Technology Consortium (HunterTech). The Consortium's objectives are to foster close collaboration between the local SMEs and to enable them to take on larger projects by partnering with other consortium members. The Consortium now has 46 member companies with over 120 jobs created. CSC also located a team in Newcastle to undertake Y2K projects, and are now undertaking the upgrade and implementation of CSC supported systems to be GST compliant, amongst other maintenance and development projects.

2. Canberra Software Centre

Objective: CSC has committed to establish a centre with a particular focus on application software. Establishment of the centre will involve skills transfer from experienced personnel from CSC's European and United States operations. Graduates of the centre will be employed by CSC throughout Australia, though there is scope to enlarge the initiative to export skilled staff to CSC's international activities.

Status: CSC has established a Security Consulting Group (SCG) in Canberra, a core competency centre focussing on all aspects of system and network security. The group consolidates all CSC security expertise throughout Australia, and serves a cross section of clients from Government, Defence, large and small commercial companies, and the financial sector. The SCG provides global security product advice to CSC.

3. Access to world-class know-how

Objective: CSC has committed to the development of a program of support for SMEs in the IT industry which leverages the capabilities, knowledge and resources of CSC's management consulting arm, CSC Index. Domain 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 provided its domain expertise to SMEs in areas such as business re-engineering, global technology trends and strategies. Specific activities included sponsorship and support for a range of activities including seminars, conferences, and direct SME access to the CSC Research program.

4. Facilitation of access to investment capital and market opportunities

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

Status: CSC has initiated the referral of numerous SMEs to a venture capital firm of which several are progressing through the various stages of a transaction process. A number of presentations specifically geared at SMEs in the ICT industry on the various stages for access to expansion capital were held in Adelaide, Melbourne, Newcastle and Canberra, and included follow up on potential venture capital leads.

5. Global Management Centre

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

Status: CSC has decided to create its Global Management Centre (GMC) in Sydney in preference over Singapore. This is a major project for CSC which will enable the management of all CSC's networks, and those of its clients for 12 hours of the 24-hour global day, on a 'follow the sun' strategy between GMC USA and GMC Australia.

6. On-shore relocation

Objective: CSC has committed to bringing more of the services originally proposed off-shore to Australia. Candidate areas were Consultancy resources, Software Support Customisation and Disaster Recovery Services.

Status: CSC has implemented this initiative with significant new employment and exports that are running ahead of target.

7. Asia-Pacific Outsourcing Centre

Objective: CSC has committed to increasing the scope of the functions of its centre in Chatswood, so that its status is elevated to one with Asia-Pacific support responsibilities. Key functions at the centre will be technical and call centre support, which will have state of the art facilities and services to enable it to meet regional requirements.

Status: The implementation of the Sydney helpdesk, started in 1998, is well underway and high employment numbers have been reached. The Centre focuses on standardising the processes so that economies of scale can be achieved and a global CSC operation provided. Help Desk support has also been expanded to Perth, Melbourne and Canberra.

Trilogy Business Systems benefiting from partnering with CSC

'When Trilogy Business Systems began working with CSC almost three years ago, it had experience in dispersed desktop support but little else. Since working with CSC, Trilogy has taken on large rollout projects as well as large desktop and server support contracts with between 2 000 and 5 000 desktops. Trilogy has also branched out into WAN and Server support services as well as outsourcing for small enterprises. Staffing has grown from 75 to 110 people in this period.

Whilst all the above may not directly be attributable to our involvement with CSC, the experience we have gained from working with them and the encouragement, assistance and training received has certainly helped Trilogy to grow our business and expand our service offerings.'

Stephen Cable—Quality Services Director, Trilogy Business Systems Pty Ltd.

Australian Taxation Office (ATO)—EDS Australia Ltd

This is EDS's first annual report. The 1999–2000 annual report submitted by EDS showed that it exceeded all of its in-scope and out-of-scope commitments except for minor shortfalls with out-of-scope regional employment and exports. In consultation with DOCITA, EDS has agreed to make up these shortfalls in later years in accordance with the industry development contract variation provisions. These allow the Commonwealth to agree to a proposal which substantiates the need for change and demonstrates that the variation is at least as likely to promote the Commonwealth's desired outcomes and delivers at least equivalent industry development outcomes.

An independent review of this annual report was conducted in accordance with Australian Auditing Standards applicable to review engagements, AUS902 *Review of Financial Reports*.

Submission of EDS' industry development report was made within the timeframe agreed in the contract schedule.

In-scope achievements 1999–2000

	% of target achieved
Australian Value Add—%	102
Australian Value Add (\$'000s)	127
Payments to SMEs—%	174
Payments to SMEs (\$'000s)	218
Total net employment—FTE	120
Total regional employment—FTE	140

EDS performed strongly in its first year on industry development and provided local IT companies with significant opportunities to participate in the contract. There were 120 SMEs around Australia working with EDS in supplying goods and services to the ATO. Payment to SMEs was significantly higher than forecast in percentage terms, and double the amount forecast in actual dollar terms. This was largely due to the extra work required to implement the infrastructure for the Government's tax reform initiatives. The Australian Value Add was slightly ahead of the contract requirement while employment was significantly higher.

SME Protech developing its business with EDS

Protech is a South Australian-based National systems integrator with a turnover of \$55 million and 170+ employees. It provides a range of products and services in the desktop environment including procurement, supply chain management, hardware, integration services and consulting services.

Protech began working with EDS in 1995, in South Australia, which expanded to the ATO and the Australian Customs Service under the Federal Government's IT Outsourcing Initiative. EDS has been one of a number of factors contributing to Protech's substantial growth over the past five years. (Protech has achieved growth in revenue from \$8 million to \$50 million during the past five years—*Business Review Weekly's* 100 Fastest Growing Private Companies).

'While the direct revenue derived from EDS is of course valuable, the greatest value has come from the development of our all round capability and therefore our ability to successfully compete and

win future business. Through our business with EDS we have had the incentive and necessity (to retain the business) to put in place world class systems, processes and personnel. This greater capability and confidence has enabled Protech to compete successfully in new markets. A further benefit has been the process of skills transfer from EDS in areas such as configuration management, gold disk and procurement management.

Protech is pursuing opportunities with EDS in other areas, both government and corporate. A strong mentoring process is underway building the capability to pursue and win outsourcing business in other markets. Protech has also begun to secure smaller outsourcing contracts in our own right and diversified our business interests. Our EDS relationship has been a catalyst for this.’

Nick Cuthbertson—Chief Executive Officer, Protech

Hardcat—a global solutions partner

Under EDS’ Global Partner Solutions Program, Melbourne software company, Hardcat is working with EDS on bidding for business on a lucrative contract with the British Ministry of Defence. Hardcat has developed a barcode-based asset tracking system that could be deployed by the British Army to pinpoint where its various equipment such as vehicles and weapons are located. The technology has already been trialed by the British Army during the Balkans Crisis to remedy a growing problem of asset losses and is currently in use by the Australian Defence Force stationed in East Timor.

Hardcat is positioning itself to be a strong contender for this large contract and hoping to build on its solid overseas reputation where it has won contracts with other British and United States government-based organisations.

Out-of-scope achievements 1999–2000

	% of target achieved
Strategic investment	101
Exports	89
Total employment—FTE	200
Total regional employment—FTE	58

EDS performed creditably in its first year of out-of-scope achievements. While exports and regional employment were below forecast, strategic investment was on target while total employment was significantly higher.

1. E-Business Centre

Objective: EDS has committed to establish an E-Business centre in Sydney, under a regional mandate to serve the Asia-Pacific region, supported by offices in Melbourne, Canberra and Adelaide. It will formulate technical and business strategies for the conduct of e-commerce applications in the region.

Status: The Centre was established in the second half of 1999, in North Sydney, with supporting offices in Melbourne, Canberra and Adelaide. E-solution consultants have been appointed and

projects are under way at client sites in the banking, government and transport industries. This initiative also presents opportunities for SME involvement in local activities and exports. Strategic analysis to determine fit of local products and services to Australian and overseas markets is being undertaken. Already, opportunities for new business with existing and potential clients using local products and services are currently being pursued with local SMEs.

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

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

Status: Stakeholder networks have been established with State and Territory IT industry development officials to identify suitable SME candidates for the Program. The EDS network in Asia and the United States have been briefed on the objectives of the program. A number of meetings and discussions have been held with high potential SME companies identified for participation in the Program. Strategic teaming arrangements have been established with seven SMEs while another twelve are under consideration. Specific opportunities are being pursued in the United States, China, South Korea, Hong Kong and the United Kingdom.

3. Lucent Network Operations Support Centre

Objective: Lucent has committed to establish a network operations support centre in Sydney as the primary support function for their customers in the Asia-Pacific region.

Status: Lucent's network operations support centre, called NetCare, was opened in North Ryde during August 1999. Exports to the Asia-Pacific have commenced and employment targets are being met.

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: The re-manufacture facility at Zetland, Sydney has been established. The operation is fully staffed and exports to Japan have commenced.

5. SME scholarships to EDS executive course

Objective: EDS has committed to fund five scholarships 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: Commencement of this initiative has been deferred to year two of the contract, with year one commitments distributed over years 2–5 inclusive. This will allow extensive discussions with the Australian National University (ANU) on course content and material, appropriate national marketing, a rigorous selection process of SME employee candidates and engagement by EDS'

Asia-Pacific Education Centre (Executive Development Specialist) in collaborating with ANU on development of content.

Group 5—Advantra

Group 5 is comprised of the Australian Competition and Consumer Commission; Department of Communications, Information Technology and the Arts; Department of Industry, Science and Resources; Department of the Prime Minister and Cabinet; and Department of Transport and Regional Services. Its prime contractor is Advantra.

This is Advantra's first annual report. The 1999–2000 annual report submitted by Advantra showed that it exceeded all of its in-scope and out-of-scope commitments except for a shortfall with the AVA percentage.

An independent review of this annual report was conducted in accordance with Australian Auditing Standards applicable to review engagements, AUS902 *Review of Financial Reports*. The report was qualified to the extent that the employment level could not be verified for three SMEs (representing 11 per cent of FTEs) that were engaged to perform services under the agreement. These employment figures have since been verified by the SMEs concerned.

Submission of Advantra's industry development report was not made within the time agreed in the contract schedule. Advantra has been advised that the Commonwealth expects that future industry development reports be submitted in the timeframe agreed in the contract schedule. It should be noted that the Annual Service Charges for year one were significantly below those projected at contract signature stage. In light of the failure to meet the AVA target, a breach notice was sent to Advantra on 12 December 2000 requiring it to provide a corrective action plan. Advantra responded to the Department on 12 December 2000 and further exploration of the circumstances of the apparent shortfall is underway.

In-scope achievements 1999–2000

	% of target achieved
Australian Value Add—%	94
Australian Value Add (\$'000s)	94
Payments to SMEs—%	400
Payments to SMEs (\$'000s)	237
Total net employment—FTE	98
Total regional employment—FTE	106

While Australian Value Add and total employment were below forecast, payments to SMEs were significantly higher than forecast while regional employment was on target.

SME Heyday Group wins industry excellence award

At the National Electrical and Communications Association (NECA) awards, the winner of the voice and communications division for a contract greater than \$500 000 was the Heyday Group, an SME from the Australian Capital Territory. These awards are the ultimate showcase for the electrical and communication industry in Australia. They celebrate excellence in both technological innovation and managerial expertise. The awards show that electrical contractors are not only installers they are the designers, specifiers and project managers.

The project that Heyday Group undertook incorporated the design, installation, testing, commissioning, documentation and maintenance of a three separate voice and data communication cabling infrastructure at the Department of Prime Minister and Cabinet. The judges recognise the difficulties in providing distribution systems for various levels of defence security. The project was undertaken as part of an overall building refurbishment. The cabling fit out requirement was to provide a baseline for migration of the Department to a corporate managed environment that would give the end user greater utility of its voice and data communications and include complex security arrangements. The network installation was carried out while the end user was still connected to and using the network.

Heyday Group was also awarded the ‘Vision In Technology’ Award at the NECA ACT State Awards for the design, installation and commissioning of the new PABX system at the Department of Transport and Regional Services. This major contract was awarded to Heyday Group by Advantra Pty Ltd. The project encompassed a complete replacement of the Departments out dated existing PABX system and also the installation of two new automated call centre applications residing on the new installed PABX system.

Out-of-scope achievements 1999–2000

	% of target achieved
Strategic investment	130
Exports	106
Total employment—FTE	105
Total regional employment—FTE	105

Advantra’s two out-of-scope initiatives performed well in their first year with achievements slightly ahead of their targets.

1. Australian IT Technical Assistance Centre

Objective: IBM 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.

Status: The Centre is fully staffed and generating export revenue through provision of assistance services to customers offshore.

2. Sponsorship of IT students at the ANU

Objective: Advantra has committed to spending \$8 000 p.a. in sponsoring two honours degree students in the Computer Science and Information Technology faculties at the ANU. An additional \$5 000 will be provided by Advantra to sponsor prizes for tertiary students from these facilities.

Status: Scholarships worth \$12 000 have been awarded to two students. Valued at \$6 000 each, the Advantra Honours Scholarships were awarded to two ANU students, Michael Compton and Derek Foster. Advantra is also sponsoring two other undergraduate prizes totalling \$6 000.

APPENDIX A

Media Release

6 December 1999

Minister For Finance and Administration
The Hon John Fahey MP

80/99

I.T. OUTSOURCING BOOSTS SMALL AND MEDIUM BUSINESS

Small and medium enterprises stand to win around \$70 million in new business following the Federal Government's outsourcing of information technology services to the Department of Health and Aged Care and the Health Insurance Commission.

The new business will result from contracts signed today between the Federal Government and winning bidder, IBM Global Services Australia (IBM GSA).

The contracts, which provide for the delivery of mainframe, server, desktop, network and related infrastructure services by IBM GSA to the Health group agencies over for a five-year period, have a combined value in excess of \$350 million.

The contracts will allow the Health group agencies to improve service to their clients while saving at least \$54 million of taxpayers' money over the five year term of the contract.

The outsourcing contracts contain strict privacy, security and confidentiality arrangements, including the application of the *Privacy Act*.

To win this tender, IBM GSA not only had to provide immediate benefits to taxpayers and deliver improved technical service delivery to the Health Group agencies; it had to also commit to deliver significant long term benefits to the Australian ICT industry.

IBM GSA's industry development commitments include:

- **Some \$70 million of work will flow to Australian small and medium enterprises;**

IBM GSA has entered into a strategic alliance with Hallis Pty Ltd of Melbourne, which will provide call centre services to the Health Group Agencies. IBM GSA has also entered into teaming arrangements with Exceed of Canberra, TSG of Canberra, and Mail Management of Sydney. ASI Solutions will provide Australian PC equipment and support to Health and HIC.

- **\$260 million of products and services will be sourced and developed within Australia.**
- **New business initiatives which will generate over \$100 million of export revenue (including over \$24 million of exports by SMEs), Strategic Investment of \$9.47 million and the creation of 282 new jobs, of which 160 will be located in regional Australia.**

Regional Australia is a particular beneficiary of the Health Group outsourcing:

- Canberra will benefit, as 256 jobs (93% of the jobs needed to deliver IT services to the Health Group) will be retained in Canberra.
- 105 new jobs will be created in Brisbane as a result of the enhancement of the Technical Assistance Centre previously established by IBM; and
- 50 new jobs in regional Australia will result from work associated with the Telstra Core Network Design project.

The achievement of substantial benefits for the Commonwealth and industry through the outsourcing of the Health Group's IT infrastructure once again validates the Government's strategy to outsource. Health Group agencies will achieve improved technical service delivery enabling them to focus on their own policy and client service imperatives.

The Government is determined to use outsourcing to promote the growth and development of the Australian ICT industries, particularly through the involvement of local companies and the identification of opportunities for regional development.

Full handover of operations to IBM GSA is expected in the second quarter of 2000.

IBM GSA NEW BUSINESS INITIATIVES

- IBM GSA will enter into a worldwide marketing and development agreement with Wizard Information Services Pty Ltd. This arrangement is anticipated to accelerate the take up of the WizDom software product internationally by capitalising on IBM's international distribution channels. In demonstration of their commitment to Wizard, IBM GSA is committing not only to initial investment to assist in the establishment of the arrangements with Wizard, IBM GSA is also committing to deliver \$1 million in export revenue to be generated from the sale of the WizDom product in the first 2 years of the relationship.
- Similarly, IBM GSA will enter into a marketing arrangement with Approved Systems, although this will have an initial focus on the Australian market.
- IBM GSA is also committing to the establishment of an Asia Pacific IT Services Export Centre (APITSEC) which will be based in Sydney. The Centre will provide a discrete set of export services support activities and applications development throughout the Asia Pacific region. A key factor in relation to this Centre, is that IBM GSA commits to using a range of Australian SME subcontractors to deliver a minimum of 30 percent of the IT services work generated by APITSEC. As a consequence, over \$24 million of export revenue generated by the Centre will be earned by Australian SMEs.
- IBM GSA also commits to further develop the Australian IT Technical Assistance Centre which was established in Brisbane earlier this year. Over the next five years, this enhancement will result in the creation of an average of 112 new jobs of which 105 will be in Brisbane. This centre will deliver net exports of more than \$39 million primarily servicing clients based in the Philippines and Singapore.
- Lexmark, one of IBM GSA's partners in the Health Group bid, has committed to relocate its corporate accounting division from Asia to Sydney, and to manufacture high-end laser printers in Sydney. This is a direct replacement of imported technology with an expansion of manufacturing facilities in Australia.
- IBM GSA will also collaborate with the University of Ballarat to develop an electronic script pilot, which may lead to a complete re-engineering of the traditional prescriber- dispenser relationship between Doctors and Pharmacists. The pilot will initially commence with electronic prescriptions being delivered from a number of medical practices in Ballarat representing some 60 GPs and 18 Pharmacies. Using secure transfer mechanisms over the Internet, the Doctors and Pharmacies would have access to medication history and drug management data in relation to patients. Patients would also be provided with Smartcards to hold all their relevant drug related data. In addition to making a cash contribution to the University's project of \$400,000, IBMGSA will also provide \$200,000 worth of computing equipment and services to the project.
- IBM GSA will provide a strategic piece of software costing over \$500,000 to ASI solutions for the establishment of ASI's manufacturing operations in the Northern Territory.
- Finally, Telstra, as a partner with IBMGSA, will contractually commit to ensure that as part of its core network design and construction works (a program valued at \$1.5 billion) \$35 million of the labour component of this program will be awarded to Australian SMEs. Again this is a

substantial amount of business which will be awarded to SME's because of the Health Group Outsourcing tender.

APPENDIX B

Media Release

23 December 1999

**The Hon John Fahey MP
Minister for Finance and
Administration**

**Senator the Hon Richard Alston
Minister for Communications, the
Information Economy and the Arts**

Australian S.M.E. preferred tenderer for large I.T. outsourcing contract

The Government is pleased to announce that the Australian small to medium enterprise (SME), IPEX ITG (Ipex) has been selected as the preferred tenderer to provide IT services to several Commonwealth agencies following a highly competitive tendering process.

This contract will boost Australian exports by about \$40 million and see in excess of \$100 million worth of work flow to Australian SMEs, while delivering savings in the order of \$40 million over a five year term.

With a value of some \$130 million over five years, the contract will cover around 7,500 desktops across seven Commonwealth agencies, known together as Group 8. The group comprises the Australian Broadcasting Authority; Aboriginal and Torres Strait Island Commission; Australian Communications Authority; Civil Aviation Safety Authority; Agriculture, Fisheries and Forestry Australia; Public Service and Merit Protection Commission; and Environment Australia.

In order to be selected preferred tenderer, Ipex had to offer a world class technical solution to meet the Group 8 agencies' current IT requirements, and provide agencies with the opportunity to meet future IT requirements on a flexible and innovative basis.

Ipex, an Australian SME, and their selection as preferred tenderer for Group 8 is yet another demonstration that the IT outsourcing initiative is providing excellent opportunities for the Australian IT industry.

Ipex is prepared to contract to deliver an additional \$40 million of net exports of products and services.

In addition, Ipex is prepared to contract to ensure that training and employment opportunities for Aboriginal and Torres Strait Islander people are maximised where possible.

In line with the Government's continued objective to use outsourcing as a vehicle to promote the growth and development of the Australian IT&T industry, the tender offer of Ipex contains the following agreements:

- more than \$100 million in work flowing to Australian SMEs Ipex, Daedalus Pty Ltd and Millpost Technologies Pty Ltd.
- around \$96 million worth of products will be sourced and developed within Australia; and
- the creation of 117 jobs, with 107 of these located in regional Australia.

In addition to these benefits, Ipex is prepared to contract to deliver the following outside the delivery of contracted services for the Group 8 agencies:

- \$40 million of net export revenue over five years;
- \$2.85 million of strategic investment over five years; and
- the creation of an average of 18 new jobs per year, with 14 of these to be located in regional Australia.

The Department of Communications Information Technology and the Arts (DCITA) will monitor IPEX's compliance with agreed commitments throughout the life of the contract.

The selection of Ipex as the preferred tenderer for the Group 8 contract is potentially an excellent result for the IT Outsourcing Initiative and for the development of a strong Australian IT &T industry.

The awarding of the contract to Ipex is subject to the satisfactory completion of contract documentation and the execution of final agreements with the Group Agencies.

Canberra

Thursday, 23 December 1999

Media contacts:

Andrew Maiden (Minister Fahey's office: 02 6277 7400)

Terry O'Connor (Minister Alston's office: 02 6277 7480)

APPENDIX C

Media Release

12 January 2001

**Minister for Communications, Information Technology and the Arts
Senator the Hon. Richard Alston**

Government to consult on industry development framework for I.T. outsourcing

The Minister for Communications, Information Technology and the Arts, Senator Richard Alston, today announced that the Government would consult industry and a cross section of Commonwealth departments and agencies on the industry development framework applying to IT outsourcing, in the light of the announcement today of changes to the IT Outsourcing Initiative.

"The Government remains committed to using IT outsourcing to promote the development of the local IT industry. It will continue to seek to provide opportunities for Australian SMEs, and to enhance the prospects for long-term strategic investments," Senator Alston said.

Since its inception in 1997, the IT Outsourcing Initiative has achieved significant industry development outcomes for the Australian IT industry. Around 75 percent of the goods and services are being produced in Australia, and 30 percent of the work is going to Australian SMEs. In addition, contractors have committed to \$90m in strategic investment, nearly 400 jobs in regional Australia and exports or import replacement programs valued at \$280m.

"The recommendations in the Humphry report will lead to a more decentralised approach to outsourcing by Commonwealth departments and agencies and the Government is currently considering the most appropriate industry development framework for this new environment.

"The Government understands the importance to industry of consistency and certainty in programs. As recognised in the Humphry report, a number of inter-linked industry development mechanisms currently exist for suppliers of IT goods and services, including the Endorsed Supplier Arrangement and the Partnerships for Development scheme."

In addition to these well-established schemes, an industry development project register was established in September 2000 to help companies take a strategic approach to IT outsourcing opportunities by identifying, registering and commencing large-scale projects intended for use in future tender rounds.

"The Government looks forward to industry and Commonwealth agencies participating and contributing their expertise as the best industry development framework for the IT Outsourcing Initiative is considered.

"In relation to those Group tenders currently underway but not yet finalised, where the current tender proceeds, the industry development requirements set out in the Request for Tender documents will continue to apply," Senator Alston said.

Media Contact: David Quilty, Minister's Office 02 6277 7480 or 0419 421 803

Website: www.richardalston.dcita.gov.au

APPENDIX D

JOINT MEDIA RELEASE 26 September 2000

**The Hon. John Fahey
Minister for Finance & Administration**

**Senator the Hon. Richard Alston
Minister for Communications,
Information Technology and the Arts**

ID Project Register

The Minister for Finance and Administration, the Hon John Fahey, and the Minister for Communications, Information Technology and the Arts, Senator Richard Alston, today announced the establishment of a confidential Project Register for industry development initiatives for the whole-of-Government IT outsourcing (IT Initiative).

The Project Register formalises consultation processes, previously adopted by the Office of Asset Sales and IT Outsourcing (OASITO) and the Department of Communications, Information Technology and the Arts (DOCITA), for the management of industry development, consistent with probity and policy objectives of the IT Initiative.

The enhanced arrangements are included in the request for tender document for the upcoming Group 11 IT outsourcing tender.

"Companies will now be able to confidentially register industry development projects with the Government, allowing them to commence irrespective of the timing of the tender process. This mechanism will assist companies that have large-scale industry development projects which they wish to apply to more than one tender," Senator Alston said.

A company that intends to include a large scale project in its industry development proposal, for one or more future outsourcing tenders, may request OASITO to register that project on a confidential basis.

The industry development aspects of the project will remain confidential, and any public announcements will require prior approval by OASITO. This will protect the probity of subsequent tendering processes in which that project is put forward as an industry development commitment.

Relevant projects will need to be notified to OASITO at the earliest possible stage.

The Ministers also announced an expanded view of regional outcomes under the industry development framework of the IT initiative.

Recognition will be given to business flowing to regional enterprises and additional regional investment, as well as to regional employment growth in all future tender processes.

The Ministers emphasised that the new arrangements will encourage major companies to make maximum use of the leverage offered by IT outsourcing, and build on the significant industry development outcomes achieved by the initiative to date.

"The establishment of the formal Project Register and the expanded view of regional activity in the Industry Development Framework is a major step forward in the development of a vigorous, globally competitive IT industry through outsourcing," Mr Fahey said.

Interested parties should contact OASITO on (02) 6208 9212.

Websites: www.richardalston.dcita.gov.au
www.dofa.gov.au

APPENDIX E

JOINT MEDIA RELEASE 12 July 1999

**The Hon Peter McGauran
Acting Minister for Communications,
Information Technology and the Arts**

**The Hon John Fahey MP
Minister for Finance and Administration**

INDUSTRY DEVELOPMENT PERFORMANCE REPORT

The Government today announces the results of the first year of the Industry Development Plan submitted by Computer Sciences Corporation Limited (CSC) under the Cluster 3 Information Technology (IT) Outsourcing contract.

CSC was selected as the preferred tenderer for the Cluster 3 contract in March 1998. This was the first contract to be awarded under the Whole of Government IT Infrastructure Outsourcing Initiative.

The Annual Report from CSC has been independently audited and has been examined by the Department of Communications, Information Technology and the Arts. CSC has met all the levels of industry development it committed to contractually as part of the delivery of services to Cluster Agencies.

CSC has exceeded its commitment of a minimum of 24% of the contract going to small and medium enterprises. This has resulted in payments this year of \$14.8m to SMEs involved in the delivery of the Cluster 3 services.

An overall Australian Value added content of 80% in the delivery of services has also been achieved. CSC has also invested \$12.7m in the Australian IT sector this year as a result of this industry development plan.

Specific industry development improvements outside the delivery of the Cluster 3 services include:

- The establishment of the Hunter Technology Centre
- A CSC National Software Centre of Excellence which will contribute to CSC's global practice
- The relocation to Australia of a number of activities that were previously delivered from the United States
- The location of the Global Management Centre in Sydney as opposed to Singapore.

In addition, CSC has actively facilitated access to investment capital for a number of SMEs and provided SMEs with access to CSC funded research forums and conferences.

Other outcomes of the first year of the industry plan include:

- An increase in employment not associated with the delivery of Cluster 3 services of 114 with 23 of those jobs in regional areas
- Export or import replacement activity amounting of \$6.2million.

CSC has made a good start in meeting its industry development commitments. It has brought new jobs to Australia and lent support to local companies.

The Government will continue to monitor closely the company's achievements against its industry development commitments, and assist its efforts to achieve high quality industry development outcomes.