The Department of Finance and Administration (Finance) through the Australian Government Information Management Office (AGIMO), is working to make Australia a leader in the productive application of information and communications technologies to government administration, information and services.

AGIMO fosters the efficient and effective use of information and communications technology (ICT) by Australian Government departments and agencies. It provides strategic advice, activities and representation relating to the application of ICT to government administration, information and services.

Finance developed this guide in response to demand from Australian Government agencies for clear and objective advice about ICT sourcing issues. The Guide sets out effective practices to help agencies manage ICT sourcing processes. The Guide was developed under the auspices of the former Information Management Strategy Committee (IMSC) and the Chief Information Officers’ Committee (CIOC).

This second edition of the Guide reflects recent legislation, frameworks, publications and initiatives released by the Australian Government since the original guide was published in May 2004.

This is not a policy document or a rulebook. It is a guide that provides options and strategies for decision making about ICT sourcing. It describes how agencies might manage ICT sourcing based on a four-phase lifecycle, which starts with a decision about whether to change the current sourcing strategy and concludes with an approach for transitioning to, and managing, a new sourcing solution.

Instead of detailing step-by-step instructions for every sourcing scenario an agency might encounter, the Guide provides practical frameworks to help agencies resolve the key challenges and questions they are likely to confront. The Guide emphasises Phases I and II of the lifecycle – establishing the case for change and developing a sourcing strategy – because these have been identified as a priority for agencies, and because there are several Australian Government publications that address the other phases.

The appendices provide supporting tools and information to help agencies work through this lifecycle. In particular, Appendix A describes a tool that was developed to help agencies determine the economic value of an existing or proposed sourcing arrangement; an essential requirement during the first two phases.

Foreword
Before agencies begin any ICT sourcing process, including the one presented in this guide, it is important that they are aware of the principles and policies that underpin Australian Government procurement. The Commonwealth Procurement Guidelines articulate these requirements and are available, along with other supporting material, on the Finance website at http://www.finance.gov.au/procurement/australian_government_agencies.html.

Agencies can also refer to the Australian Government Information Management Office (AGIMO) ICT Sourcing website at http://www.sourceIT.gov.au for up-to-date information about ICT sourcing, ICT Model Contracts, user guides, tools and checklists.

This guide will be reviewed periodically to ensure it continues to address agencies’ needs and expectations and reflect developments in the marketplace.

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# Contents

## Foreword

1

## Introduction

1

   - What is ICT?
   - What is ICT Sourcing?

2

## Overview of ICT Sourcing

3

   - Evolution of Sourcing Strategies
   - Growth of ICT Outsourcing
   - ICT Outsourcing Policy
   - Why Organisations Outsource
   - Understanding Costs and Complexities is the Key to Success
   - Environmental Strategies for ICT Procurement

4

## Managing ICT Sourcing as a Lifecycle

9

   - A Four-phase ICT Sourcing Lifecycle
   - Where does your Agency Sit in the Lifecycle?
   - Timing for Agencies that have External Sourcing Agreements

10

## Phase I: Case for Change

17

   - Business Alignment
   - Heed the Lessons of Experience
   - Understand the Costs
   - Assess Current Satisfaction
   - Articulate the Trigger Point for Change
   - Understand the Effort to Change

18

## Phase II: Decide Sourcing Strategy

33

   - Assess Sourcing Options
   - Assess Options Strategically and Economically
   - Renegotiate Existing Contract
   - Develop Procurement Plan

34

## Phase III: Undertake Procurement

59

   - Implement Procurement Plan
   - Select Vendor(s)
   - Develop Contract(s)

60

## Phase IV: Transition and Manage

75

   - Set Up Contract Governance
   - Transition

76
Contents

Manage Relationship 78
Manage Contract 79
Manage Operations 80
Review Periodically 81

Conclusion 83

Appendix A: Economic Diagnosis Tool 85
Appendix B: Relevant Legislation, Policies and Resources 99
Appendix C: Market Approaches 109
Glossary 112

Figures and Tables
Figure 1: Evolution of sourcing strategies 4
Figure 2: Growth of worldwide IT outsourcing spend, A$ b 5
Figure 3: Growth of Australian IT outsourcing spend, A$ b 6
Figure 4: The four-phase ICT sourcing lifecycle 11
Figure 5: Transition timeline for large agencies 15
Figure 6: Perceived value of your existing sourcing strategy 21
Figure 7: Calculate the real cost of transition, management and termination 23
Figure 8: Comparing the value of an external option with an existing self-managed approach 24
Figure 9: Checklist for assessing the qualitative value of your ICT sourcing contracts 25
Figure 10: Trigger point for change for self-managed agencies 28
Figure 11: Trigger point for change for externally managed agencies 29
Figure 12: Understand the effort to change 30
Figure 13: Disaggregate ICT and build broad options 35
Figure 14: Determine the type of vendor relationship needed 37
Figure 15: Map the priority of each sourcing option 46
Figure 16: Matrix for selecting vendors to continue in the RFT process 52
Figure 17: Decide level of collaboration with vendors 54
Figure 18: Define selection criteria 55
Figure 19: What tenderers expect during pre-proposal due diligence 63
Figure 20: Key areas of vendor due diligence 65
Figure 21: The vendor risk equation 67
Figure 22: Spread the termination costs 69
Figure 23: Vendor risks and business demand 72
Table 1: Comparison of alliance options

Table 2: Options for agencies that self-manage ICT

Table 3: Options for agencies that outsource their ICT to a single vendor

Table 4: Options for agencies that outsource their ICT to multiple vendors

Table 5: Example of outsourced cost assessment in a bottom-up approach
Introduction

What is ICT?

Information and communications technology (ICT) refers to the technologies and services that enable information to be assessed, stored, processed, transformed, manipulated and disseminated, including the transmission or communication of voice, image and/or data over a variety of transmission media.¹

What is ICT Sourcing?

ICT sourcing determines where an agency’s ICT components are obtained, managed and run. The basic objective of ICT sourcing is to deliver the best level of support for the agency’s business requirements in the most cost-effective way. This is encapsulated in the Australian Government’s policy objective of achieving value for money.

For some agencies, the ‘best level of support’ may mean access to skills and expertise not available internally, or greater flexibility to allow ICT to meet changing business needs. Others may use ICT sourcing as a way to release resources and allow for a greater focus on strategic objectives.

This guide defines three broad types of ICT sourcing, based on the degree to which ICT is managed externally and the number of vendors involved:

- **Self-managed** ICT is predominantly managed and run by internal resources, possibly including contractors or consultants, with little or no Service Level Agreements (SLAs) with external vendors.
- **Single sourcing** ICT is predominantly run by a single external party under an SLA.
- **Multi-sourcing** ICT is predominantly run by multiple external parties under one or several SLAs.

Single sourcing and multi-sourcing are often grouped together and called ‘outsourcing’, while self-managed is also referred to as ‘in-house’. In a self-managed arrangement, agencies would purchase goods from suppliers, and procurement would largely be transactional. In an external arrangement – either single or multiple – agencies would generally need to manage a more complex relationship with a vendor. Most agencies would typically use a mix of all three sourcing methods for different aspects of their ICT infrastructure and services.

There are other sourcing models such as Business Process Outsourcing (BPO), shared services, co-sourcing, offshore, and contracting out. These can be considered variations within the three basic models described above.

Evolution of Sourcing Strategies

In recent years, many organisations have become more sophisticated in the way they run their ICT, disaggregating it into components instead of managing it as one large block of requirements. This allows them to better understand their specific strengths and shortcomings, and to move from the familiar single sourcing approach to one based on multi-sourcing (Figure 1).

**Figure 1: Evolution of sourcing strategies**

<table>
<thead>
<tr>
<th>70s</th>
<th>80s</th>
<th>90s</th>
<th>00s</th>
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<tbody>
<tr>
<td>Self-managed with proprietary applications</td>
<td>Buy the hardware</td>
<td>Self-managed with package applications</td>
<td>Multi-sourcing</td>
</tr>
<tr>
<td>Buy the licence of the software code</td>
<td>Buy the licence of the software code</td>
<td>Homogenise applications used across functions</td>
<td>Disaggregation of ICT into sourcing components</td>
</tr>
<tr>
<td>Develop and maintain your own applications</td>
<td>External support necessary for software customisation</td>
<td>Focus on infrastructure sourcing</td>
<td>Investigate new and mature sourcing options</td>
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<tr>
<td></td>
<td></td>
<td>Sourcing of project-based application development</td>
<td>• Offshore</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• e.g. Y2K</td>
<td>• Business Process Outsourcing (BPO)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Utility computing</td>
</tr>
</tbody>
</table>

Source: AGIMO
One of the main benefits of multi-sourcing is that it allows agencies to engage different specialists for particular ICT components. However, compared to single sourcing, it involves greater effort and complexity in selecting and managing vendors.

Consistent with Gartner’s 2006 research, Australian Government agencies are including multi-sourcing as an ICT outsourcing option, recognising that there is no single method that suits all requirements.

**Growth of ICT Outsourcing**

ICT outsourcing (both single and multi-sourcing) has emerged as a growth industry over the last decade, with worldwide spending growing from $9 billion in 1990 to over $287 billion in 2006. This is predicted to grow to over $370 billion worldwide by 2010 (Figure 2).²

While Australia’s total spending on ICT outsourcing is only a fraction of this total – it is expected to reach over $7 billion in 2010 (Figure 3).³

![Figure 2: Growth of worldwide IT outsourcing spend, A$B](image)

Source: Gartner Research

ICT Outsourcing Policy

The Australian Government’s ICT outsourcing policy devolves responsibility for implementing ICT outsourcing to agency chief executives and boards. In this environment, agencies can determine the most appropriate model(s) to meet their ICT and business needs while achieving value for money.

The outcomes of the chosen ICT model are included in the overall performance assessments of agency chief executives and boards, while agency progress is monitored and reported publicly in the State of the Service Report. For more information about the policy, and in particular, the Commonwealth Procurement Guidelines (CPGs) see http://www.finance.gov.au/procurement/procurement_guidelines.html

Why Organisations Outsource

Organisations typically pursue external sourcing arrangements for two reasons. From an economic perspective, they use outsourcing to control or lower their ICT costs. From a strategic perspective, they use it to allow them to focus their energies and
Overview of ICT Sourcing

attention on core business processes and objectives, gain improved access to better skills or expertise, and provide services not available internally.

At the same time, many organisations have clear reasons for not outsourcing ICT services. These can include:

• The market price for outsourcing may be higher than internal costs – some organisations find they can fulfill their ICT needs more affordably by using their own resources.
• The risk associated with relinquishing control is too great – for some organisations, ICT is essential for business continuity, or is an integral part of what they do, and they want to keep it close to ensure it is always capable of supporting their needs.
• The risk of losing organisational knowledge is too high – this is of particular concern for organisations that have complex, customised technology.

Understanding Costs and Complexities is the Key to Success

Selecting and managing a sourcing arrangement can be far more complex than expected. Agencies should exercise care to arrive at the right ICT sourcing choice with the benefit of appropriate legal and contract management team assistance.

In addition, global experience suggests that many organisations have misjudged the true value of sourcing arrangements. This is in part because they did not analyse a sufficient range of options or were not careful enough when structuring exit provisions, which can trigger termination costs that make changing ICT sourcing arrangements prohibitively expensive.

The message from this collective experience is clear: ICT sourcing can provide both strategic and economic benefits for certain organisations but because of the high levels of risk and complexity, the process needs to be handled with timely and careful deliberation.

Environmental Strategies for ICT Procurement

The rapid growth of ICT in Australia has prompted further consideration of how to better manage and reduce the environmental impacts of ICT, including energy consumption.

The government and the ICT industry are seeking to improve environmental outcomes through product stewardship, recycling and conservation strategies, and provision of guidance. The Australian Government’s Department of the Environment and Water Resources (DEW) is working closely with the ICT industry and other stakeholders to develop strategies for appropriate packaging, effective recycling, reuse, and disposal of ICT products at the end of their life. In parallel with government, the ICT industry is also
Overview of ICT Sourcing

addressing environmental considerations for manufacturing, product use, design and disposal.

The Australian Government has established and is continuing to develop strategies and initiatives for environmentally friendly purchase and disposal of ICT products. These strategies and initiatives can be found at the websites listed below.

**Environmental strategies**


Finance, through AGIMO, is also developing a Better Practice Checklist on Environmental Strategies for Information and Communications Technology (ICT) for agencies.

**Procurement resources**


**Operation resources**


**Recycling resources**


**Disposal resources**

Managing ICT Sourcing as a Lifecycle
Managing ICT Sourcing as a Lifecycle

Given the complexities and risks of ICT sourcing, agencies need to be methodical and analytical about the way they assess, select and manage their sourcing requirements – this requires much more than a series of one-off purchasing decisions.

**A Four-phase ICT Sourcing Lifecycle**

Sourcing is a continuous process – a lifecycle that starts by understanding the case for change, then choosing the best sourcing option, assessing vendor offers, and transitioning to and managing the chosen sourcing solution. The lifecycle begins again when a renewal decision must be made, or when changes have occurred that could affect an agency’s self-managed strategy.

We have developed a four-phase approach to guide agencies through this lifecycle (Figure 4).
Managing ICT Sourcing as a Lifecycle

Figure 4: The four-phase ICT sourcing lifecycle

Phase I
Case for change
- Business alignment
- Heed lessons of experience
- Understand the costs
- Assess current satisfaction

Phase II
Decide sourcing strategy
- Understand current situation
- Articulate trigger for change
- Understand effort to change
- Case for change or not

Understand the value of the current sourcing strategy, then ‘make or break’ the case for change.

Phase III
Undertake procurement
- Implement plan
- Select vendors
- Develop contract(s)
- Contract signed

Select vendor(s), negotiate and sign contract(s)

Phase IV
Transition and manage
- Set-up contract governance
- Transition
  - Cut-over
- Ongoing ICT management
- Periodic review
  - Sourcing arrangement regularly reviewed

Transition to the new model and establish roles and processes for steady-state

Source: AGIMO
Managing ICT Sourcing as a Lifecycle

By following the lifecycle, agencies will be able to develop ICT strategies that are defensible and accurate, and are grounded in an unbiased assessment of their ICT sourcing options. This, in turn, will ensure that top management can easily understand and make well-informed decisions about the agency’s ICT strategy. It should also help build executive commitment to the outcomes, and ensure alignment with overall business objectives.

At any given time, different agencies will be at different phases of the lifecycle, and some may well be across multiple phases for different components of their ICT. Large and complex agencies may have ICT activities with both shorter terms (such as telecommunications contracts) and longer terms (such as a five-year hardware contract). This may result in ICT activities that are ‘out of phase’. In these cases, it may be more difficult to understand the costs or the effort needed to change, as there is likely to be a more complex interaction between the various elements.

Officials should refer to their Chief Executive’s Instructions, or other operational guidance, for specific directions that may apply to their agency’s activities at all stages of the procurement cycle. In addition, at all stages of the process agencies should maintain appropriate documentation of all decisions and actions, to provide a record and facilitate scrutiny of their procurement activities in the future.

The objectives of each phase are described below.

**Phase I: Case for change**

The objective of this phase is to consider changing sourcing arrangements to meet the agency’s strategic ICT objectives. Agencies that self-manage their ICT could consider switching to external sourcing, while agencies that already have external sourcing arrangements need to determine whether they should renew or consider other options.

Phase I includes four modules for understanding the current sourcing strategy, one of which involves understanding the costs and the real value of the existing sourcing strategy. To perform this cost and real value analysis, agencies could use the economic diagnosis tool described in Appendix A. This phase concludes with modules for building the case for change and determining whether change is feasible.

**Phase II: Decide sourcing strategy**

Agencies that establish a case for change should use strategic, qualitative and quantitative analysis to arrive at the most appropriate sourcing strategy for their needs. Agencies may also wish to investigate the market for ICT goods and services in order to obtain a real picture of potential costs and the benefits of alternative solutions.
Managing ICT Sourcing as a Lifecycle

Phase II includes three modules, beginning with determination of the best sourcing strategy. This is a complex module that again involves detailed cost and real value analysis – this time, of potential sourcing arrangements. If the most appropriate strategy is external sourcing, agencies should develop a ‘target’ contract along with a detailed procurement plan. These activities make up the other two modules in this phase – renegotiating the contract and developing a procurement plan. Agencies considering self-managing their ICT should begin working out a transition plan (if applicable), and should proceed to Phase IV after this phase.

Phase III: Undertake procurement

If agencies have decided on an external sourcing arrangement, they should proceed with the procurement plan defined in the previous phase, which may include launching a tender process, screening and selecting vendors, performing due diligence, and negotiating a contract with their chosen vendor. Some agencies may choose to undertake several procurement processes in parallel to select multiple vendors. An agency that has decided to self-manage ICT will still need to have a procurement plan – for example, for software, hardware and other components of ICT. This type of procurement, which generally does not involve vendor relationships that are as complex as those undertaken in single or multi-sourcing, may not require the strategies detailed in this guide.

Phase III includes three modules: implement the plan, select vendors, and develop contracts. Procurement must be conducted in accordance with the Commonwealth Procurement Guidelines.

Phase IV: Transition and manage

This phase describes the steps needed for transitioning to and managing ongoing ICT sourcing arrangements. Here, agencies should focus on ensuring the expected value from their chosen sourcing strategy is delivered.

Transition can be a significant process and requires both skill and extensive agency resources to implement. The difficulty of managing the relationship between an outgoing provider and a new provider should not be underestimated. Agencies should be fully aware of the costs, disruption and complexity of transition.

Phase IV includes four modules. The Guide provides less detail on this phase, primarily because there are already Australian Government publications that address these issues, particularly management of contracts. A comprehensive list of relevant publications can be found in Appendix B. It is also assumed that agencies are already familiar with many of these issues, such as change management, internal communications, and risk management, as these would apply to a host of activities, not just ICT sourcing.
Where does your Agency Sit in the Lifecycle?

The lifecycle, on its own, cannot ensure the success of an agency’s approach to ICT sourcing. It needs to be supported by several prerequisites.

For example, it is assumed that agencies entering Phase I of the lifecycle already have a project team for ICT sourcing. The size of the team will, of course, vary according to each agency’s needs – some agencies will have more complex ICT needs than others, and will therefore need larger teams and greater expertise.

At a minimum, a project team should have a good understanding of an agency’s ICT needs. It should also be familiar with the basics of successfully managing a relationship with an external vendor, such as contract negotiation and management, and risk management (the Australian Standard for Risk Management – AS/NZS 4360:2004 is referenced in Appendix B). Agencies that have little or no experience in managing external vendors should consult other agencies about the best way to build these skills, and should also refer to other government publications that address these issues. Knowledge of Australian Government procurement policies and good practice is also essential within the project team.

Timing for Agencies that have External Sourcing Agreements

Phase I should begin long enough before the end of existing sourcing arrangements to allow sufficient time to analyse these arrangements, develop a new sourcing strategy, assess a range of vendor offers, select the most appropriate vendor, and transition to this new vendor while maintaining services from the incumbent and minimising disruption to agency business.

Figure 5 provides an indicative timeline that would typically apply to large agencies that have one major arrangement in place and are switching to one or several other vendors.
Figure 5: Transition timeline for large agencies

Typical transition to a new external provider (18 - 24 months)

<table>
<thead>
<tr>
<th>EXISTING CONTRACT</th>
<th>TRANSITION PHASE</th>
<th>NEW CONTRACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incumbent ICT vendor(s)</td>
<td>New ICT vendor(s) ramp up</td>
<td>ICT managed by new vendor(s)</td>
</tr>
</tbody>
</table>

Phase I: Case for change 1-3 months

Phase II: Decide sourcing strategy 2-4 months

Phase III: Undertake procurement 6-10 months

Phase IV: Transition and manage 9-10 months

Cut-over minus 18-24

Source: AGIMO

Please note that Phase I and Phase II can sometimes overlap.

Agencies establishing their own timeline will need to consider numerous factors including:

- *Commonwealth Procurement Guidelines* and Chief Executive Instructions
- external influences and contextual circumstances, such as next foreseeable change in Machinery of Government, contract end date, etc.
- scope of the exercise and whether it applies to vital business functions
- level of internal expertise – first-generation agencies, that is, those that are outsourcing for the first time, might take longer than second-generation agencies on some aspects (such as thinking and preparing termination), and less time on others (such as transferring knowledge)
- availability of resources and information (especially for costing analysis)
- potential to run tasks in parallel
- internal decision-making processes
Managing ICT Sourcing as a Lifecycle

- level of risk (including security) the agency is willing to take
- if the market approach is to go straight to AusTender with a Request for Tender (RFT), or will be in two phases, beginning with a Request for an Expression of Interest (REOI), or if direct sourcing is being used and if it includes a prime contractor, one contract or multiple contracts
- whether it involves alliances with other agencies.
Phase I: Case for Change

The purpose of Phase I is to develop a clear understanding of the agency’s current ICT sourcing situation. This perspective can be used to build a case for either changing or keeping the existing sourcing arrangements. It is based on four modules:

- **Business Alignment**: What are the most critical ICT activities?
- **Heed the lessons of experience**: What can be leveraged from our own and other organisations’ experiences?
- **Understand the costs**: How do the agency’s costs compare to alternatives?
- **Assess current satisfaction**: How satisfied is the agency with its current ICT sourcing?

At the end of these modules, agencies should perform a trigger point analysis to determine whether alternatives need to be considered. If this confirms the case for change, agencies then need to understand the effort to change – are they in a position to transition from their existing sourcing solution?

**Business Alignment – Understand Business Priorities and Corresponding ICT Requirements**

Business priorities will drive ICT requirements. Throughout the ICT lifecycle, agencies must never lose sight of this link; a sourcing strategy will only be successful if it provides ICT that can fulfill the agency’s business priorities.

To understand this link, agencies should identify and categorise their business activities against the following categories:

- **Vital**: These activities are the reason the agency exists. They are generally unique to the agency. If the agency cannot perform a vital activity, the impact will be immediate and profound. For example, managing the Federal Budget is a vital activity for the Department of Finance and Administration (Finance).

- **Duty-bound**: These activities are part of the agency’s mission. They are important, but other agencies could potentially perform them. For example, managing Ministerial and Parliamentary support services is part of Finance’s mission, but another agency could potentially take responsibility.

- **Discretionary and support**: These activities are neither strategic nor core. Nevertheless, faults or disruptions to these activities can still affect an agency’s ability to fulfill its mission. They represent all activities that do not fall in the previous two categories. These are usually common across several agencies, such as accounting and personnel services.

Once business activities are identified and categorised, agencies should determine the corresponding ICT needs for each category. The relative priorities can differ by agency. For example, storage and easy retrieval of documentation may be vital to the National Library, whereas other agencies may consider it a support function.
Phase I: Case for Change

At the end of this assessment, agencies should have a clear understanding of the key success factors for the agency (defined as business priorities) and the corresponding key success factors for ICT. This understanding should provide the context – a sense of purpose for ICT sourcing, in general – for the rest of the ICT lifecycle.

This assessment should be performed after any government-driven events that reallocate business activities among agencies or that create, merge, or split agencies, as these actions could modify an agency’s business priorities.

This assessment also has a risk management application. Agencies should recognise that relying on external vendors to manage components of ICT involves certain risks, primarily from relinquishing control over those components. Although vendors may be contracted to share some of the operational risks, the agency will ultimately be accountable for the functions it is meant to provide. The link between business priorities and ICT needs will, therefore, be an important factor in developing a sourcing strategy and in informing potential vendors about the agency’s expectations.

Heed the Lessons of Experience

When building a case for change, agencies should share sourcing lessons, particularly with agencies that have similar business or ICT characteristics. This should reveal whether other agencies have been able to achieve stronger economic or strategic benefits through their sourcing arrangements, and could provide an initial indication about the ‘competitiveness’ of an existing sourcing strategy.

Establishment of the IT Sourcing Inter-Agency Forum (ITSIAF) by the Chief Information Officers’ Committee (CIOC) Sourcing Working Group has provided an arena for the exchange of ideas and lessons learnt on ICT sourcing in an Australian Government agency environment. The purpose of the ITSIAF is to enable agencies to develop a broad understanding of the issues integral to IT sourcing – both technical and administrative. This is achieved by:

• exchanging lessons learned
• sharing sourcing strategies
• collecting data and exchanging materials
• receiving input from industry forums, such as the Australian Information Industry Association (AIIA)
• conducting roundtable discussions on topics of interest.

Sharing these lessons among agencies has been difficult in the absence of standard frameworks and terminology. This guide should help establish a common language to facilitate information sharing.
Phase I: Case for Change

Agencies should also look for lessons outside government and outside Australia. Much can be learned from the way businesses, both here and overseas, have dealt with the challenges of executing a successful ICT sourcing strategy.

A 2007 International Association for Commercial and Contract Management (IACCM) survey found that experienced practitioners believe outsourcing deals and relationships are more likely to be successful if there is a cross-functional ‘centre of excellence’ supporting them. This view was especially strong in multi-vendor environments and survey respondents suggested that organisations could drive significant improvements in performance if they revised their approach to the organisation and management of their outsourced relationships.

The survey also revealed that one of the major problems when outsourcing was that in many cases executives failed to consider the skill sets needed to lead the outsourcing process. Instead, they allowed the business unit whose work was being outsourced to continue to lead either the bid phase (38%) or the post-award management phase (59%). The survey noted that in most cases the necessary skill set did not reside in the business unit, with only 9 per cent of experienced practitioners in agreement that the business unit should lead in the post-award phase and 23 per cent in pre-award phase.

While knowledge of the subject-area is a key factor, successful deals are driven by strong leadership, supported by good negotiators, thorough understanding of requirements and proactive performance management. Project management, communication and business case experience are also highly valued capabilities.

The survey highlights that 21st century organisations need a much more coherent approach to the way they structure and manage their portfolio of strategic relationships. This means they should pool critical skills within a cross-functional ‘centre of excellence’ that can offer not only deal-based leadership, but can also ensure coherency across relationships, consistency of treatment and cross-organisational learning.

Leadership is identified in the survey as the most important skill and also highlighted as the skill most frequently lacking. Requirements analysis and negotiation were also considered to be areas of weakness. Leadership skills continue to be the most important for the transition and post-award phases, with communications and project management being the next most important skills.

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5 The survey was completed in March 2007 and attracted input from more than 80 major corporations around the world.
Understand the Costs

Experience has shown that many organisations base their sourcing strategies on the perceived, rather than the real, value of an arrangement. For this reason, this guide places a strong focus on helping agencies understand the costs associated with sourcing. In particular, we have developed an economic diagnosis tool, which is described in Appendix A. Agencies can use the tool at various points in the first two phases of the lifecycle, including this module.

**ICT sourcing decisions are traditionally based on perceived value**

To begin, agencies should develop a view of the perceived value of their existing sourcing strategy. To do this, they need to understand the economic drivers that explain the cost difference between self-managing an ICT component and sourcing it externally. This difference is called the perceived value (Figure 6).

**Figure 6: Perceived value of your existing sourcing strategy**

Source: AGIMO
As Figure 5 shows, several factors contribute to explaining the difference in cost-to-serve (that is, the total cost necessary to run and maintain the IT operations that serve business activities). These are offset by a vendor’s margin, which then makes both cost bases comparable from the agency’s point of view. Broadly, the types of economic benefit are:

- **Scale and cost position**, which involves the benefits associated with higher volumes and advantages, such as lower cost of technology or labour.
- **Quality and efficiency**, which involves advantages such as more efficient, simplified processes, and improved access to better skills and expertise.
- **Risk exposure**, which involves advantages such as lower costs to cover the same risks, or lower costs to repair damages if and when they occur.

The economic diagnosis tool describes three steps for calculating perceived value. First, agencies should understand their current ICT costs. Second, they should understand, in broad terms, how these costs compare with hypothetical alternatives. Third, they should disaggregate perceived value into its major components – in other words, how does perceived value break down along the four drivers shown in Figure 6?

The tool describes three approaches agencies can take to perform the second step. In each of these approaches, the actual process of analysis will vary according to an agency’s current strategy. An agency that self-manages ICT will begin on the left-hand side of Figure 6, with the initial annual cost base for ICT, and will use one of these approaches to derive the value on the right-hand side. An agency that has a single or multi-sourcing strategy will begin on the right-hand side of Figure 6, with the annual face price of each existing arrangement, and will use one of these approaches to derive the value on the left-hand side. In both cases, an agency should be able to compare the costs of its current sourcing strategy with the estimated cost of an alternative.

To perform the third step, agencies need to disaggregate perceived value, regardless of how it was calculated, into its four drivers: scale and cost position, quality and efficiency, risk exposure, and vendor margin. The specific elements that typically make up these drivers are described in the economic diagnosis tool.

This step is primarily to explain the difference between the self-managed option and an external arrangement – to highlight the most significant factors that account for this difference. It is therefore more important for agencies to understand these drivers, broadly, than it is to get an exact value for each one.

With this calculation complete, agencies should have a clear view of the overall magnitude of perceived value, along with its key sources. However, this is only the first step towards understanding the costs and value of a proposed ICT sourcing strategy.
ICT sourcing decisions must consider the real value of an arrangement

Agencies need to recognise that perceived value excludes other costs that are incurred solely because of the sourcing arrangement – these costs need to be assessed in order to understand the real value of a sourcing arrangement. For instance, substantial transition costs will be incurred when moving the ICT activity from one model to another. These include significant project management, communication and change management costs for governance and contract management, and termination costs, which entail the cost to maintain access to work in progress, or to ICT staff and resources, once the contract expires.

Factoring these costs into the perceived value produces a picture of the real value of either an existing or hypothesised sourcing arrangement (Figure 7).

**Figure 7: Calculate the real cost of transition, management and termination**

External arrangement: Annual face price of arrangement

- Transition costs
  - Project costs to transition
  - Asset write-down
  - Staff severance
  - Business outages

- Management costs
  - Innovation and evolution
  - Governance costs and relationship management
  - Contract renegotiation and management
  - Retained key staff capabilities

- Termination costs
  - Cost to maintain access to work in progress
  - Cost to access staff and resources
  - Cost to stop relationship

Real value

Source: AGIMO
Agencies that self-manage ICT will work their way towards a real value calculation by using benchmarks to estimate the three components that sit between perceived value and real value: transition, management and termination costs. The tool provides checklists of the various costs for which agencies should plan. These costs will be compiled on top of the annual face price of an optimal single or multi-sourcing strategy (as derived during the perceived value calculation).

Agencies that have single or multi-sourcing strategies will, on the other hand, estimate these costs based on historical information for transition costs, current data for management costs, and estimates based on clauses in the contract for the termination costs. The tool provides checklists for where to look for this information. When, as often happens, detailed historical information for transition costs is not available, an estimate must be made. Agencies could, for instance, assume the costs are no more than the increase of the ICT budget that was experienced during the last transition.

At this point in the analysis, it is not necessary for agencies to run a complex exercise. The intent is not to perform an analysis that results in a fully certified number. Instead, agencies should focus on performing analysis that will give them enough confidence in the numbers to allow them to take one of three positions; that is, from an economic perspective:

- I would certainly be better off changing
- I would certainly not be better off changing, or
- both scenarios show similar costs, and it would be difficult to justify a case for change.

Figure 8 illustrates how real value analysis could steer an agency toward these conclusions.

Figure 8: Comparing the value of an external option with an existing self-managed approach

“I would certainly be better off changing”

“I would certainly not be better off changing”

Source: AGIMO
The analysis should also be rigorous enough to allow an agency to understand the cost drivers of the current solution and to compare these drivers with other scenarios.

**Assess Current Satisfaction**

The fourth and final step in building the case for change is to assess the satisfaction with the current sourcing arrangements. Figure 9 provides a checklist for assessing sourcing satisfaction for externally managed arrangements.

**Figure 9: Checklist for assessing the qualitative value of your ICT sourcing contracts**

<table>
<thead>
<tr>
<th>Relationship</th>
<th>Is your overall relationship with the vendor open and constructive?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Is the relationship flexible and cost-effective in meeting changing volumes?</td>
</tr>
<tr>
<td></td>
<td>Is the relationship flexible and cost-effective in rapidly responding to agency needs for new technology?</td>
</tr>
<tr>
<td></td>
<td>Is the relationship flexible and cost-effective in rapidly responding to new Ministerial and legislative requirements?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Staffing</th>
<th>Has the productivity of agency staff been negatively affected during the life of the contract?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Are you happy with the vendor team’s understanding of the agency’s business?</td>
</tr>
<tr>
<td></td>
<td>Has the vendor’s team been of a consistently high quality?</td>
</tr>
<tr>
<td></td>
<td>Has the vendor maintained a consistent team throughout the life of the contract?</td>
</tr>
<tr>
<td></td>
<td>Has the vendor transferred knowledge to your team effectively?</td>
</tr>
<tr>
<td></td>
<td>Is the agency happy with the influence it has over vendor staffing?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Contract</th>
<th>Has there been transparency in pricing, volumes, SLAs and invoicing throughout the life of the contract?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Has the contract stayed intact throughout the relationship?</td>
</tr>
<tr>
<td></td>
<td>Were there any issues not resolved by the direct relationship management team?</td>
</tr>
<tr>
<td></td>
<td>Are there any looming issues if you decide to change to a new vendor?</td>
</tr>
</tbody>
</table>
Phase I: Case for Change

<table>
<thead>
<tr>
<th>Innovation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Are you comfortable that you have benefitted from natural technology evolution (such as lower technology unit prices, technological innovation) over the period of the contract?</td>
<td></td>
</tr>
<tr>
<td>• Do you believe the vendor has sufficiently innovated your ICT functions?</td>
<td></td>
</tr>
</tbody>
</table>

Source: AGIMO

At this point, an agency should have a clear picture of its overall ICT sourcing situation – in particular, its business priorities and corresponding ICT requirements, the key opportunities that can be leveraged from other agencies, the real value of existing and alternative sourcing arrangements, and the current satisfaction with sourcing. It should therefore be prepared to ‘make or break’ the case for change.

Previous assessments could also lead the agency to identify re-engineering needs. For example, one agency’s pricing model for outsourcing did not encourage the vendor to reduce the number of servers, as the contract specified a price per server, independent of whether it was actually used. After several years of Machinery of Government and business needs variations, the agency was paying too much for what it was getting from ICT. But the numbers and functions of servers were not questioned, because the contract did not stipulate any re-engineering of ICT operations.

**Articulate the Trigger Point for Change**

To test the case for change, agencies should perform a trigger point analysis. As with previous analyses, this will vary according to whether an agency currently self-manages ICT or has a single or multiple solution in place.

The trigger point frameworks described in Figures 9 and 10 provide agencies with examples of the kinds of questions they should ask when exploring the feasibility of changing their current sourcing strategy. Specific issues will vary from agency to agency, but the broad questions posed in these Figures should be relevant to most.

Assessing these trigger points for change will encompass the business priorities, satisfaction with current sourcing arrangement, and the real value analysis described earlier.
Building the case for change for agencies that self-manage ICT

Figure 10 describes the conditions an agency should meet before deciding to move to an external sourcing strategy. These are described below:

- **Is the agency getting the best value from its ICT?** The impetus for change is when an agency realises it is not getting value for money from its ICT. Agencies should investigate sourcing strategies that will fulfill business needs and achieve value for money. The satisfaction and real value analysis, described above, should help agencies make this determination.

- **Are there more efficient alternatives?** Based on the potential to improve the ICT operations, an outsourcer might be in a much better position than the agency to deliver the best value from ICT. For instance, an outsourcer might be able to run a data centre operation with a unit cost much below that of the agency, or run an application development team that yields far greater innovations.

- **Is the agency able to delegate this task to an external party without too much risk?** The relationship needs to be set up so that at least some of the value the outsourcer provides is transferred to the agency without unreasonable risks to the agency. In addition, the agency must be comfortable with managing a complex business relationship.
Phase I: Case for Change

Figure 10: Trigger point for change for self-managed agencies

Is my ICT aligned with my business priorities and is it agile enough?
Is my ICT competitive when compared with experiences of similar agencies?
Do I show competitive value for money service levels?
Are agency management, customers and users satisfied with ICT service?

Am I getting the best value out of my ICT?

No

Do I have access to the required capabilities?
Can I access the required people?
Do I have enough time?
Do I have sufficient funds?

Can I solve this problem myself?

Yes/No

Can the outsourcer provide a better service for my business?
Can the outsourcer provide more skilled people?
Are my unit costs higher than the outsourcer’s?
Does the outsourcer have more efficient processes?
If I give my volume to the outsourcer, does it reduce their costs?
Can the vendor incorporate my volatility at a lower cost than myself?

Could a vendor do it better?

Yes

Would the outsourcer pass on benefits and savings to me for the life of the contract?
• Skilled people
• Cost savings
Can I mitigate the risks of sourcing?
• Strategic
• Financial
• Operational
Can the outsourcer provide the flexibility that I need at a reasonable cost?
• Changing volumes
• Rapid response to Ministerial direction
• Innovation
• Changes to Machinery of Government

Would a sourcing relationship work?

Yes

Will I be able to migrate away from an engaged relationship at a reasonable cost?

Pursue single or multi-sourcing strategy

Source: AGIMO
Building the case for change for agencies that have a single or multi-sourcing arrangement

Agencies that already have a single or multi-sourcing strategy in place also need to make or break the case for change. To do this, they should go through a series of questions, decisions and analyses such as those presented in Figure 11.

Figure 11: Trigger point for change for externally managed agencies

Understand the Effort to Change

If it is clear that the current situation should be changed, the agency must ask one more question before proceeding to the next phase: Is it in a position to change?

For agencies that self-manage ICT, this will involve a change management program to help address potential cultural, legal and social issues. The cost, timing and strategic impact of such issues need to be part of the case for change, as they may offset the benefit of an option.
Phase I: Case for Change

This question is more critical for agencies that already have major external arrangements in place. From experience, some organisations do not allow sufficient time or do not plan their termination strategy well enough to allow them to change when they need to (Figure 12). These organisations are then trapped in a contract and often have no choice but to exercise the extension option contained in most contracts.

If an agency is indeed restricted to its current arrangement, it should define a termination or disengagement strategy that will put it in a more workable position in the near term. The impetus for change will most likely still exist.

**Figure 12: Understand the effort to change**

A strategy for avoiding this trap mostly relies on negotiation with the incumbent vendor, and might include such contract-related actions as:
- negotiating a contract extension (in itself a value for money decision)
- getting help from the outsourcer for transition to a third party
- progressively removing key projects and applications maintenance from the incumbent vendor
- standardising IT within the outsourcer
- getting the outsourcer to place staff closer to your teams
- hiring key outsourcer staff members.

Source: AGIMO
Phase I: Case for Change

Agencies could also take contract-independent actions such as:
• accelerating internal decision lead-time
• redesigning governance to best practice
• getting external support or building additional resources
• mixing internal staff within the outsourcer’s teams
• extending and/or developing relationships with other vendors.
Phase II: Decide Sourcing Strategy
Phase II: Decide Sourcing Strategy

Agencies begin Phase II knowing that they need to consider a change to their current sourcing strategy, be it self-managed, single or multi-sourced. The aim of this phase is to decide precisely the type of sourcing solution agencies should aim to establish. To do this, agencies need to do three things:

• All agencies, regardless of their current sourcing arrangement, need to assess their sourcing options, both strategically and economically, then select the best one.
• Agencies that have outsourcing arrangements in place may need to renegotiate their existing contracts to provide the benefits associated with the ideal sourcing option.
• Based on the new sourcing option and the outcome of the renegotiation, further procurement may need to be undertaken. If so, agencies must develop a procurement plan. At this point, agencies should have authority to implement the new sourcing strategy and have due regard to all relevant procurement policies. Agency budget constraints should also be considered during this phase; for example, are ICT purchasing ambitions consistent with available resources, and has approval been given for the proposed spending of public money?

Assess Sourcing Options

In this module, agencies will disaggregate their ICT and identify components that would be suitable for self-managed or external sourcing. For components suitable for external sourcing, they will look for opportunities to bundle, factoring in the comparative risks and benefits associated with doing so. They will also decide which type of vendor relationship they need, and will consider opportunities to form sourcing alliances with other agencies.

Agencies will conclude this module by performing strategic and economic assessments of their various sourcing options, and selecting the best one.

Disaggregate ICT and build broad options

In order to map out all possible sourcing options, ICT should be disaggregated along two dimensions – business categories, as described earlier under Business Alignment in Phase I (vital, duty-bound, and discretionary and support), and ICT functions. These functions are often broken down along the following lines:

• **ICT Strategy and administration**: ICT strategy, planning and control, ICT architecture, ICT security, vendor management and procurement, contract management, and training.
• **Applications development**: Project management, operational applications development (CRM, ERP, SCM, etc.), and functional applications development (finance and accounting, HR, etc.).
• **Operations and infrastructure**: Mainframe applications, mainframe infrastructure and storage, mid-range applications and infrastructure (including web infrastructure),
Phase II: Decide Sourcing Strategy

distributed infrastructure and LAN servers (desktop, laptops, printers, software licences, local servers), operations management (operations administration, database management, firewall, disaster recovery, etc.), and helpdesk support.

- **Communications**: Communications infrastructure (PABX, videoconferencing, etc.), voice (fixed and mobile), and data/ISP.

The resulting matrix should help agencies narrow down their broad sourcing options (Figure 13). Figure 13 is only indicative. Each agency should have its own understanding of what a ‘vital’ business activity is, and whether it could tolerate an external vendor providing a service associated with it.

**Figure 13: Disaggregate ICT and build broad options**

![Figure 13: Disaggregate ICT and build broad options](image)

Source: AGIMO

Figure 13 provides a framework for thinking about the link between business categories and ICT needs, and how that will affect development of agencies’ sourcing strategies.
Phase II: Decide Sourcing Strategy

It is a starting point for determining which activities could be outsourced; it is not the final answer.

Agencies are more likely to consider external solutions when the business risk for a particular ICT activity is less than vital, and when:

• activities are standard and common to a large class of agencies, allowing the outsourcer to reach economies of scale and absorb risks, or are too small to justify an internal capability
• activities have predictable business requirements and likely volumes (within parameters) over the life of the contract; involve stable technologies where knowledge about how to specify, measure and manage them is well-codified; or are stand-alone, with few impacts on other systems and processes in the agency
• alternative vendors are available for the service, forcing more quality deliveries, and the service involves little customisation (which would empower the outsourcer)
• there is a potential to generate better value for money.

Identify opportunities to bundle ICT components

Agencies that have determined that some of their ICT functions should be managed externally need to assess whether there are opportunities to bundle some functions. This will determine whether the agency should pursue single or multi-sourcing – if all the elements suitable for external sourcing can be bundled into one group, single sourcing is the appropriate strategy; multiple bundles lead to a multi-sourcing strategy.

In general, single sourcing is better suited to agencies in which ICT is not highly strategic or customised, or to small agencies, because it is easier to manage. These arrangements only require a single vendor negotiation. The vendor assumes risks, even for ICT functions where it is not a specialist, and it may subcontract some functions to other vendors (for which the agency potentially pays a management margin). This is likely to be more cost-effective for small agencies than managing multiple vendors.

In general, multi-sourcing is better suited to larger agencies or agencies where some ICT functions are highly specific or strategic. It provides greater control and delivers higher performance than single sourcing. However, it also requires multiple vendor negotiations and, although risks can be shared across multiple vendors, the agency bears the coordination risk. To mitigate integration and management costs, an agency may choose to designate one vendor as the prime contractor. The prime contractor would assume responsibility for coordinating and managing other vendors.

The major benefit of multi-sourcing over single sourcing is clear: it allows agencies to access best-of-breed services across their ICT components. But this model also poses challenges. In particular, it results in significantly increased complexity – as agencies
must be able to manage several vendors at once – and demands greater expertise in governing stakeholders with different motivations. The cost of coordination/governance should be a major criterion for deciding whether to separate functions or to bundle them (this factor, along with other criteria, will be measured later in this module, when agencies assess the economic and strategic benefits of potential sourcing strategies).

**Determine the type of vendor relationship needed**

The type of sourcing relationship varies according to the degree of access and influence given to a vendor to improve business performance (Figure 14).

**Figure 14: Determine the type of vendor relationship needed**

<table>
<thead>
<tr>
<th>Access and influence given to outsourcer on business</th>
<th>Commodity relationship</th>
<th>Strategic planning</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expectations</strong></td>
<td>• ICT process efficiency</td>
<td>• Business value</td>
</tr>
<tr>
<td></td>
<td>– low costs</td>
<td>– high quality/efficiency</td>
</tr>
<tr>
<td></td>
<td>– no innovation</td>
<td>– innovation</td>
</tr>
<tr>
<td></td>
<td>– no shared risks</td>
<td>– equity risk shared</td>
</tr>
<tr>
<td></td>
<td>– full control</td>
<td></td>
</tr>
<tr>
<td><strong>Suitable activity</strong></td>
<td>• Process intensive</td>
<td>• Highly ICT dependent</td>
</tr>
<tr>
<td></td>
<td>• High volumes</td>
<td>• High strategic value</td>
</tr>
<tr>
<td></td>
<td>• High fluctuations</td>
<td>• Customised ICT</td>
</tr>
<tr>
<td></td>
<td>• Low strategic value</td>
<td>• Large customers</td>
</tr>
</tbody>
</table>

Source: AGIMO

On one end of the spectrum are commodity relationships, which are generally used when the priority is to control or reduce costs, rather than develop innovative ways for technology to improve performance. On the other end are partner relationships that are based on in-depth collaboration. This suits ICT components that are strategic, particularly where the technology needs to be customised and can play a key role in improving business performance. For these components, receiving the highest quality ICT service takes precedence over cost savings. Between these model relationships are varying degrees of engagement, all of which involve different trade-offs between the elements that determine the real value of the arrangement.
Partnerships with other agencies

Consider undertaking alliances with other agencies

Small and medium sized agencies wishing to adopt a single or multi-sourcing model may want to form partnerships with similar agencies for some or all aspects of the lifecycle (such as negotiation, contract development, etc.). The two main benefits of such alliances are **shared costs** and **heightened negotiating power** during development of the sourcing strategy, implementation of the vendor selection process, or even during management of the contract. This does not necessarily mean agencies share the same contract; they can have their own.

Alliances between agencies have evolved into Panel and Multi-Use List arrangements. These are described in Finance’s *Guidance on Mandatory Procurement Procedures (MPPs)* document in Appendices A and B. Please note that the Endorsed Supplier Arrangement (ESA) referred to in the MPPs is no longer active; see http://www.finance.gov.au/procurement/mandatory_procurement_procedures.html

We have defined two types of alliance that agencies may want to consider:

- **Big Brother**: Align with a larger agency that has similar needs, or has sourcing arrangements that appear to be suitable.
- **Swarm**: Two or more agencies group together to reach critical mass. They need to have similar needs in terms of business and ICT functions, Machinery of Government and business cycles. They could have a joint contract with the vendor, or individual contracts. Table 1 outlines the pros and cons of each option.
## Table 1: Comparison of alliance options

<table>
<thead>
<tr>
<th></th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
</table>
| **Big Brother**  | - Ability to share cost of procurement, contract negotiation and potentially disengagement  
                   | - Ability to leverage strong expertise in ICT management             | - Most compromises will benefit the large agency                       |
|                  | - Ability to potentially obtain better service levels (disaster recovery sites, etc.) | - Priority usually given to large agency                              |
|                  |                                                                      | - Less responsiveness from vendor                                    |
|                  |                                                                      | - Risk of incurring costs generated by large agency                   |
|                  |                                                                      | - High risk of Machinery of Government impact                         |
| **Swarm**        | - Ability to share costs of procurement, contract negotiation and potentially disengagement | - Risk of slow decision-making process                                 |
|                  | - Increased power and ability to procure large and skilled vendors  | - Difficulty of aligning needs increases with number of agencies      |
|                  | - Ability to be more innovative and efficient through sharing transferable best practices | - Higher negotiation or change request costs in business as usual       |
|                  |                                                                      | - High risk of Machinery of Government impact                         |

Source: AGIMO

## Assess Options Strategically and Economically

At this stage, agencies should have an understanding of the sourcing options. To choose the most suitable one, they need to conduct a strategic and economic assessment of each. Assessing risk is an important part of this process. Effective risk management can help agencies determine which risks to reduce, transfer or avoid, as well as which risks to accept, potentially opening up significant opportunities.

Tables 2, 3 and 4 provide some areas for agencies to consider when assessing strategic fit and economic benefits. Each table provides a set of options faced by agencies that currently have a self-managed, single, or multiple ICT sourcing strategy.
### Phase II: Decide Sourcing Strategy

#### Table 2: Options for agencies that self-manage ICT

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Potential benefits</th>
<th>Potential constraints, drawbacks and risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>No change</td>
<td>• Maintain level of control and responsiveness to business needs</td>
<td>• Purchasing power limited to agency’s size</td>
</tr>
<tr>
<td></td>
<td>• No business disruption and potentially better fit and innovation for business</td>
<td>• Innovation limited to current capability and learning processes</td>
</tr>
<tr>
<td></td>
<td>• No procurement process needed</td>
<td>• Lack of incentive to control consumption of common IT resources</td>
</tr>
<tr>
<td></td>
<td>• Maintains current capabilities</td>
<td>• Difficult to recruit or retain staff</td>
</tr>
<tr>
<td>Change to single vendor</td>
<td>• Economies of scale</td>
<td>• Needs careful assessment of termination costs (i.e. existing staff, assets)</td>
</tr>
<tr>
<td></td>
<td>• Greater availability and range of skills, better expertise</td>
<td>• Need to identify risks and establish a risk mitigation strategy</td>
</tr>
<tr>
<td></td>
<td>• Better focus on core business</td>
<td>• Procurement costs</td>
</tr>
<tr>
<td></td>
<td>• Better match of resources to demand</td>
<td>• New vendor does not know agency business</td>
</tr>
<tr>
<td></td>
<td>• Access to skilled personnel</td>
<td>• Need to build new relationships</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Need for contract management skills</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Loss of control</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Transition costs and duration might be significant</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Flexibility in change requests subject to contract arrangements</td>
</tr>
</tbody>
</table>
## Phase II: Decide Sourcing Strategy

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Potential benefits</th>
<th>Potential constraints, drawbacks and risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change to multi-sourcing</td>
<td>• Best-of-breed benefits: better service levels, specialist skills, low costs to operate</td>
<td>• Needs careful transition sequencing to avoid service disruption</td>
</tr>
<tr>
<td></td>
<td>• Provide services not available internally</td>
<td>• High procurement costs</td>
</tr>
<tr>
<td></td>
<td>• Better focus on core business</td>
<td>• New vendors do not know agency business</td>
</tr>
<tr>
<td></td>
<td>• Maintains a certain level of cost transparency</td>
<td>• Need to build new relationships</td>
</tr>
<tr>
<td></td>
<td>• Ability to select from more vendors</td>
<td>• Need for contract management skills</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Agency keeps most delivery risks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Complex contract governance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Need to address cross-vendor disputes</td>
</tr>
</tbody>
</table>

Source: AGIMO
## Phase II: Decide Sourcing Strategy

Table 3: Options for agencies that outsource their ICT to a single vendor

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Potential benefits</th>
<th>Potential constraints, drawbacks and risks</th>
</tr>
</thead>
</table>
| No change                 | • Contract variation or renegotiation may lead to better outcome, given the difference between current needs and those that existed when original contracts were signed  
|                           | • No procurement costs                                                              | • May indicate a restrictive situation, however, renewal may only be deferring high termination costs  
|                           | • No business disruption                                                            | • Increased costs may result from renewed contract                                                        |
|                           | • Established relationship                                                          |                                                                                                             |
|                           | • Known performance history                                                         |                                                                                                             |
| Change to another single vendor | • Better business outcomes as a result of a better arrangement with new vendor | • Needs careful assessment of transition and termination costs  
|                           |                                                                                     | • Procurement costs                                                                                         |
|                           |                                                                                     | • Complex handover                                                                                        |
|                           |                                                                                     | • May discourage other bidders because of incumbent vendor                                                |
|                           |                                                                                     | • New vendor does not know agency business                                                                   |
|                           |                                                                                     | • Need to build new relationships                                                                            |
|                           |                                                                                     | • Need to identify risks and establish a risk mitigation strategy                                           |
### Phase II: Decide Sourcing Strategy

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Potential benefits</th>
<th>Potential constraints, drawbacks and risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change to multi-sourcing</td>
<td>• Best-of-breed benefits: better service levels, specialist skills, low costs to operate&lt;br&gt;• Low risk approach&lt;br&gt;• Provides a better level of cost transparency&lt;br&gt;• Ability to select from more vendors&lt;br&gt;• Competitive tension</td>
<td>• Needs careful transition sequencing to avoid service disruption&lt;br&gt;• Careful assessment of transition and termination costs&lt;br&gt;• High procurement costs&lt;br&gt;• May discourage other bidders because of incumbent vendor&lt;br&gt;• New vendors do not know agency business&lt;br&gt;• Need to build new relationships&lt;br&gt;• Immature integration skills</td>
</tr>
<tr>
<td>Change to self-managed</td>
<td>• Increased level of control and responsiveness to business needs&lt;br&gt;• Increased transparency in ICT costs&lt;br&gt;• No RFT process costs</td>
<td>• Needs strong business case to justify move (contestability)&lt;br&gt;• Reduced focus on core business&lt;br&gt;• High transition costs to rebuild internal resources and recover asset base&lt;br&gt;• May have high termination costs&lt;br&gt;Investment in innovation limited to available budget for resources and training</td>
</tr>
</tbody>
</table>

Source: AGIMO
## Phase II: Decide Sourcing Strategy

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Potential benefits</th>
<th>Potential constraints, drawbacks and risks</th>
</tr>
</thead>
</table>
| **No change** | • Known performance history for each vendor  
• Competition across vendors maintains pressure on each one  
• Known contract management needs for multiple contracts  
• No business disruption | • Increased costs may result from renewed contract  
• High coordination costs |
| **Continue multi-sourcing but with some new vendors** | • Better best-of-breed benefits  
• Low risk approach  
• Medium transition costs | • Needs careful transition sequencing to avoid service disruption  
• New vendors need to be effectively integrated into operational arrangements  
• May discourage other bidders because of incumbent vendors  
• New vendors do not know agency business  
• Need to build new relationships |
| **Change to single vendor** | • Reduces coordination and management costs  
• Better integrated business  
• Clearer responsibilities | • Careful assessment of transition and termination costs for each vendor  
• New vendor does not know agency business  
• Need to build new relationship  
• Need to establish a risk mitigation strategy  
• Less transparency of costs  
• May increase overall costs |
## Phase II: Decide Sourcing Strategy

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Potential benefits</th>
<th>Potential constraints, drawbacks and risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change to self-managed</td>
<td>• Increases level of control and responsiveness to business needs</td>
<td>• Needs strong business case to justify move (contestability)</td>
</tr>
<tr>
<td></td>
<td>• Increases transparency in ICT costs</td>
<td>• Reduces focus on core business</td>
</tr>
<tr>
<td></td>
<td>• No RFT process costs</td>
<td>• High transition costs to rebuild internal resources and recover asset base</td>
</tr>
<tr>
<td></td>
<td>• Eliminates multiple contract management complexity</td>
<td>• May have high termination costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Investment in innovation limited to available budget for resources and training</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Complex transition back in-house because of multiple vendors</td>
</tr>
</tbody>
</table>

Source: AGIMO

These tables should provide broad guidance to agencies as they assess their options. In addition, the economic assessment will use the real value analysis described earlier (see also Appendix A), and the strategic assessment should score options against preferred strategic and satisfaction criteria, such as expected service levels, tolerance of risk, constraints, etc. The elements of strategic assessment will vary by agency, as will their weightings.

Based on this analysis, the agency should be able to map each sourcing option on a matrix (Figure 15), in order to identify the relative priority of each option. One of the options could include re-engineering ICT operations, as mentioned earlier.

This portfolio view of sourcing options, along with the analysis justifying their position on the matrix, will help management rationally decide the most suitable sourcing strategy. This module should result in selection of the best sourcing strategy for the agency.
Phase II: Decide Sourcing Strategy

**Figure 15: Map the priority of each sourcing option**

- **Strategic but expensive options**
  - Self managed

- **Attractive options**
  - Multi-sourcing 1
  - Decided strategy

- **Non-attractive options**
  - Self-managed except comms.
  - Situation today

- **Cost effective but risky options**
  - Multi-sourcing 2
  - Renew

Options assessed (illustration only)

Source: AGIMO

**Renegotiate Existing Contract**

This section applies only to agencies that have external arrangements in place.

If the current contract was signed several years ago, it may not fulfill your current needs as efficiently as it should; indeed, there may be significant room for improvement.
Phase II: Decide Sourcing Strategy

It may, therefore, be appropriate to investigate the alternatives in today’s marketplace. Agencies should first, however, review existing contracts to identify any provisions and requirements for extending these contracts.

If a contract is expiring and outsourcing is considered the best option, the market will need to be approached. If, after an analysis of the market, the current arrangements represent value for money, agencies should negotiate with the incumbent service provider to renew the contract. The new contract can then be drafted and signed. It should be noted that a contract extension is in itself a procurement, which necessitates its own value for money decision. If the negotiation is unsuccessful, a procurement plan must be developed. In either case, the outcome of the renegotiation may alter the strategy that was selected in the previous module.

The timing for renegotiation should consider the extension option deadline, the proximity to the contract end-date, and potential reactions from other vendors and from the incumbent.

Develop Procurement Plan

As they begin to develop a procurement plan, agencies must be aware of the context in which Australian Government agencies conduct duties in relation to procurement, and of the relevant processes and regulations with which they need to comply. These are briefly described below.

See Appendix B for details on relevant legislation, policies and resources

- **Financial Management and Accountability Act 1997 (FMA Act):** The FMA Act and associated Regulations provide the legislative framework governing financial management in all FMA agencies, including proposals for spending public money. The Act requires agency chief executives to promote efficient, effective and ethical use of the resources for which they are responsible.
- **Commonwealth Procurement Guidelines – 2005 (CPGs):** The CPGs establish the core procurement policy framework and articulate the Australian Government’s expectations of all departments and agencies subject to the FMA Act and their officials, when performing duties in relation to procurement. The CPGs also apply to listed **Commonwealth Authorities and Companies Act 1997 (CAC Act) bodies.**
- **Agency Chief Executive’s Instructions (CEIs):** An agency’s CEIs provide an agency-specific codification of the financial management framework, including provisions
related to procurement. They are the primary source of information on operational guidance for agency officials conducting procurement.

- **Guidance on the Mandatory Procurement Procedures**: This operational guide is to help Australian Government agencies implement the requirements of the CPGs and, specifically, the Mandatory Procurement Procedures. This operational guide promotes achievement of value for money by providing practical information on managing procurement processes that lead to agencies entering into a purchasing agreement with a supplier or suppliers. This information meets the requirements of the Government’s procurement framework while facilitating delivery of good business outcomes. This guide is an adjunct to the CPGs and will best serve the reader if they are familiar with the CPGs.

- **Guidance Complying with Legislation and Government Policy in Procurement**: This guidance has been prepared to help agencies subject to the FMA Act comply with legislation, core procurement policy as contained in the CPGs, and other relevant general Government policies when performing duties related to procurement of property and services. In particular, the guidance reminds agencies and their officials that they are obliged, under Regulation 9 of the Financial Management and Accountability Regulations 1997 (FMA Regulations), to comply with all relevant Australian Government general policies, whether based on legislation or not, when performing duties related to procurement.

- **Statement of Intellectual Property Principles for Australian Government agencies**: This statement sets out the Australian Government’s policy on FMA Act departments and agencies managing intellectual property (IP). The Statement requires agencies to take a flexible approach to ownership of IP in procurement activities. Agencies should not rely on a default position for IP ownership, but should consider appropriate IP ownership arrangements on a case-by-case basis.

- **Information and Communications Technology Multi Use List (ICT MUL)**: The ICT MUL is a list of ICT suppliers that wish to sell to the Australian Government. Australian Government departments and agencies can use the list to source suppliers of ICT goods and services and to select tender. Suppliers of ICT products and services can register to be included on the ICT MUL.

- **SourceIT model contracts**: Finance, through AGIMO has developed a suite of model contracts for ICT procurement, which are designed to cater for simple procurement of hardware acquisition and support, license and support of commercial off-the-shelf software and ICT consultancy services. The SourceIT model contracts provide templates for Australian Government agencies to develop sound commercial agreements efficiently and effectively. It is expected that this will encourage good business practice and minimise the risk of conflict and disagreement between agencies and suppliers.

- **Government Information Technology and Communications contracting framework (GITC)**: GITC 4 is a legal framework developed as a cooperative effort between
Australian industry representatives and the Australian Government. Although able to be used for simple procurement, GITC 4, with its clause-by-clause ‘build a contract’ functionality can also be used for more complex procurement scenarios, including IT services and provision of related products, business consultancy, systems integration and facilities management.

Neither SourceIT nor GITC is intended for strategic procurement, such as IT outsourcing, as this type of procurement is outside the scope of these frameworks

- Whole-of-Government Telecommunications Arrangements (WOGTA): Under the WOGTA contracting framework, carriers and carriage service providers licensed under the Telecommunications Act 1997, are required to sign a WOGTA Head Agreement before they are able to provide services to the government. Under this arrangement, the Australian Government is treated as a single customer and uses competitive processes wherever practical to seek access to new and innovative telecommunications services. AGIMO manages this framework and it is currently under review.

- Gateway Review Process (Gateway): Gateway is a project assurance methodology. It involves a series of brief, independent reviews at critical stages in the development and implementation of a project. The Gateway process is applied to new IT projects over $10 million and $20 million for other procurement and infrastructure projects. These thresholds will be reviewed at regular intervals.

**Determine business and ICT service needs**

Agencies should begin development of the procurement plan by determining its in-scope needs. There are two types of service level requirements to consider. Each should be derived from the agency’s strategic objectives and should support the business priorities defined earlier. They are:

- business service levels
- ICT service levels, or
- a mix of both.

The type of relationship expected from the vendor – as defined earlier in this phase – will help determine these requirements. A commodity-type contract will mostly use service level requirements around ICT metrics, whereas a partner-type contract should include more business metrics.
Both types of service requirement should be captured in the form of draft Service Level Agreements (SLAs). An SLA sets out the service provision arrangement between an agency and a vendor, outlining each party’s obligations concerning service provision and identifying how they will work together to achieve the agreed objectives. It is included in tender documentation and refined during clarification/negotiation processes to form a schedule in the Services Contract.

For each service, an SLA should specify at least:
- name of service
- criticality for the business
- business continuity importance
- performance metrics
- minimum service level required
- business impact and risks incurred if minimum service is not met
- consequences of non-performance
- terms for default
- customer obligations
- pricing metrics and unit prices
- likelihood of evolution on client side
- likelihood of evolution on vendor side
- exercisable options and pricing
- conditions and responsibilities in case of unexpected change

Agencies should include, as part of the SLA, a requirement for each tenderer to submit a transition plan as part of its proposal. The SLA should also consider the ways in which an agency’s mission – and therefore its requirements – may evolve during the contract.

**Decide between open tender and select tender**

Agencies need to decide whether to pursue an open or select tender. The default choice is for an open tender, which provides the widest range of competition and therefore of potential solutions. The costs and complexity of an open tender should be balanced by the improved value for money that can be achieved through competition.

Agencies can opt for a select tender, which involves inviting potential suppliers to submit a tender. Potential suppliers should be selected in accordance with the procedures outlined in the *Commonwealth Procurement Guidelines* (CPGs). When using a select tender, agencies are still required to ensure the process is non-discriminatory.
Three methods are permitted for conducting a select tender. In the first two, an initial open approach to the market must be undertaken to identify potential suppliers eligible and interested in participating in the select tender.

Agencies may conduct a select tender from:
- a multi-use list
- a list of potential suppliers that have responded to a request for expressions of interest, or
- a list of all potential suppliers that have been granted a specific license or that comply with a legal requirement, where the license or compliance with the legal requirement is essential to the conduct of the procurement.

**Define the list of vendors in case of a select tender**

If the agency chooses a select tender, it should develop a prioritised list of vendors, based on two dimensions:
- An assessment of the **service delivery capability** should consider aspects such as customer references; clarity of services, roles, and responsibilities; SLAs, metrics, and performance measurement programs; and service innovation.
- **Management capability** should be assessed according to each vendor’s management practices, methodologies and processes; financial performance and stability; market position (analyst ratings); and process expertise.

Agencies should then map all potential vendors onto a matrix that includes both of these dimensions (Figure 16). Assuming the assessments remain fact-based, this will allow agencies to rationally determine the restricted list of vendors who will be approached.
Figure 16: Matrix for selecting vendors to continue in the RFT process

Phase II: Decide Sourcing Strategy

Agencies now need to decide the level of collaboration with which they are comfortable during the tender process. They can begin by considering two extreme scenarios:

- The ‘black box’ approach involves a formal tender process, usually based on criteria that emphasise service levels and price differentiation. There are no close interactions with vendors. To optimise their chance of winning the contract, vendors often cut their prices by reducing service levels, rather than improving the underlying business.

Decide level of collaboration with vendors in the tender process

Source: AGiMO
Phase II: Decide Sourcing Strategy

solutions. This approach is usually fair and quick, because the level of interaction is limited, but is also higher risk because the mutual understanding of each other’s business is limited.

- The **collaborative approach** involves open discussions to clarify both the agency’s needs and the vendors’ offers. The selection criteria aim to arrive at a mutually beneficial intersection of vendor capabilities and client needs. As a result, to optimise their chance of winning the contract, vendors tend to upgrade or customise their solutions rather than cut service levels. This usually results in a less risky outcome but may be more expensive and time consuming. This approach could also entail frank discussions about each party’s costs.

The agency will eventually have to adjust each of the main collaboration parameters (Figure 17) in order to both comply with the Australian Government policies and to maximise their value for money solution. Agencies may wish to use the services of a probity adviser, in order to ensure all processes are proper and ethical and tenderers are treated consistently and equitably in accordance with set procedures.
Phase II: Decide Sourcing Strategy

Figure 17: Decide level of collaboration with vendors

<table>
<thead>
<tr>
<th>Parameter</th>
<th>'Black box' approach</th>
<th>Collaborative approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formal</td>
<td>Flexible</td>
<td></td>
</tr>
<tr>
<td>Incl in RFT</td>
<td>Contextual</td>
<td></td>
</tr>
<tr>
<td>Focus of criteria</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price</td>
<td>Business fit</td>
<td></td>
</tr>
<tr>
<td>Vendor interaction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arm’s length</td>
<td>Transparent</td>
<td></td>
</tr>
</tbody>
</table>

The consequences will be:

- Satisfaction level of both parties during process: Low to High
- Duration and efforts for the tender process: Short and fixed to Long and extendable
- Risk on arrangement outcome: High to Low
- Value for money: Highly uncertain to Measurable

Source: AGIMO

Define selection criteria

At this point, agencies should develop a list of qualitative and quantitative criteria for assessing and scoring vendors. These criteria, along with any relevant weighting, will be included in the RFT. An example of selection criteria is shown in Figure 18.
## Phase II: Decide Sourcing Strategy

### Define selection criteria

<table>
<thead>
<tr>
<th>Ability to deliver service</th>
<th>Compliance with bidding process</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Quality of infrastructure and operations services, suitability of locations, Australian Government ICT security needs</td>
<td></td>
</tr>
<tr>
<td>• Strengths and weaknesses</td>
<td></td>
</tr>
<tr>
<td>• Schedule compliance, provision of required information</td>
<td></td>
</tr>
<tr>
<td>• Pricing, service level and service rebate approaches/structures with which vendors are comfortable</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Service levels, metrics, processes</th>
<th>Potential for ease of contract negotiations</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Approach to delivery of service levels, commitment to service levels</td>
<td></td>
</tr>
<tr>
<td>• Changes proposed to requirements and terms and conditions</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transition plan</th>
<th>Quality of vendor performance during bidding process</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Quality of transition plan, risk management approach, quality of staff proposed</td>
<td></td>
</tr>
<tr>
<td>• Professionalism, expertise, content and structure of meetings, quality of proposal</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Nature of proposed agreement</th>
<th>Potential for ease of contract negotiations</th>
</tr>
</thead>
<tbody>
<tr>
<td>• For commercial management interface, service management interface and delivery</td>
<td></td>
</tr>
<tr>
<td>• Changes proposed to requirements and terms and conditions</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost proposal</th>
<th>Quality of vendor performance during bidding process</th>
</tr>
</thead>
<tbody>
<tr>
<td>• One-time and recurring costs of each service package</td>
<td></td>
</tr>
<tr>
<td>• One-time transition costs</td>
<td></td>
</tr>
<tr>
<td>• Real value analysis</td>
<td></td>
</tr>
<tr>
<td>• Professionalism, expertise, content and structure of meetings, quality of proposal</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Service management capability</th>
<th>Quality of proposed staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Internal service management frameworks, compliance with Australian Government service management requirements</td>
<td></td>
</tr>
<tr>
<td>• Management transition team, service delivery managers and staff</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Secure information management capability</th>
<th>Supplier profile</th>
</tr>
</thead>
<tbody>
<tr>
<td>• As appropriate, can securely process classified information in accordance with the PSM and ASCI 33</td>
<td></td>
</tr>
<tr>
<td>• Focus on sourcing, company financial stability, personnel and facilities</td>
<td></td>
</tr>
</tbody>
</table>
Phase II: Decide Sourcing Strategy

<table>
<thead>
<tr>
<th>Capability to support the Australian Government’s sourcing environment</th>
<th>Added value proposed</th>
</tr>
</thead>
</table>
| • Experience working flexibly and cooperatively in a multi-vendor environment, working in environments of similar size and complexity to that identified in the RFT
• Ability to service out-of-scope needs as requested by the Australian Government | • Evidence of demonstrable added value in the technical/operational solution |

Agencies may want to give an overall weighted score on value for money as it has been stressed as a major criterion by Australian Government policies

Source: AGiMO

Since many scores will be based on subjective assessments, often by different individuals, an effort should be made to make the scores consistent and equitable. This can be done by discussing and clarifying, as a group, the nature of the criteria, and arriving at an agreed interpretation for each one. Likewise, a common understanding should be reached on rating scales.

**Prepare for both-way due diligence**

Due diligence is an important process that enables agencies to better understand legal and strategic risks and allows tenderers to better understand an agency’s requirements. A well managed due diligence process leads to improved solutions and fewer qualifications. The more information agencies provide to tenderers, the more likely they are to submit competitively priced tenders (they will not need to build contingencies into their pricing to cover risk) and the more likely they are to fulfill agency needs. Before this process, agencies should refer to their probity plan concerning managing provision of information to potential providers. Agencies should also have in place proper procedures for identifying and treating confidential information during their tendering and contracting activities.

Agencies should begin compiling material and data that is relevant and appropriate for release during due diligence. The information will need to be comprehensive enough to allow tenderers to develop clear pricing bases and technical proposals. It is likely, however, that tenderers will seek further information on an agency’s ICT environment. To the extent this information is held in a recorded format (electronic or otherwise), it should be collected in a central repository or data room that tenderers can visit.
Tenderers may seek interviews with agency staff to understand specific circumstances of an agency’s operations. Agencies need to prepare for those interviews by anticipating likely subjects of discussion and ensuring the necessary resources are available to conduct the interviews (agencies can ask tenderers to provide a list of subjects they want to discuss in advance to assist preparation and ensure interviews are relevant).

**Develop a transition/termination strategy**

Excessive termination costs are generally due to unexpected issues concerning intellectual property rights, residual value of equipment, transfer of assets or remaining lease payments, assistance from the incumbent vendor to transition to a third party, and any potential damage costs. These costs need to be identified when agencies are drafting the contract and factored into calculation of the real value of the arrangement (this is discussed in more detail in the next phase). However, at this point in the lifecycle, agencies should begin to develop a view of the key elements that will need to be managed in order to keep these costs under control.

**Develop a draft contract**

Agencies may wish to draft a ‘target’ contract, which captures the key elements that will ultimately be included in a contract. Such key elements can include SLAs, selection criteria, and termination clauses; more specific aspects of the contract will be written once the agency has begun negotiating with its chosen vendor. These elements may include:

- **Overall business and legal agreement**
  - Master agreement, including key business success factors and expected benefits from the relationship
  - Country agreements
  - Complete executable contract document
  - Contract governance arrangements and staffing

- **Technical agreement**
  - Statement of work – scope of services
  - Service levels
  - Facilities
  - Third party contracts to be transferred
  - List of transferred equipment and software
  - Transition/termination arrangements
  - Reports and meetings
  - Security and regulatory compliance
Phase II: Decide Sourcing Strategy

- Finance benchmarking and pricing
- Transition plan (IT assets and people)
  - Key stages, phases, activities, and milestones
  - Resources
  - Financial penalties
  - Credits
- HR agreement
  - Key supplier positions
  - Transferred employee offer letters
  - Communications approach.

At the end of this module, agencies should have developed all the elements they need to secure the authority to proceed with the new sourcing strategy.
Phase III: Undertake Procurement
Phase III: Undertake Procurement

Agencies should enter this phase with a clear understanding of the value of their current arrangement, the scope of their needs clearly identified, and the nature of the sourcing solution for which they are aiming.

If the best sourcing strategy is to self-manage, agencies do not need all the details provided in this phase, but they may need to prepare for a transition process as described in Phase IV.

Where agencies are aiming for an external solution, they will need to follow three modules during this phase:

- Implement procurement plan
- Select vendor(s)
- Develop contract(s).

For large agencies, this phase could take between six and 12 months; for small agencies, it could only take two or three months. This phase should be performed for each tender the agency wishes to pursue.

**Implement Procurement Plan**

The outcome of the first module of Phase III is to initiate the market approach, as defined in Phase II, to a number of vendors and to receive their proposals. It involves notifying the industry, writing and issuing market approach documentation, conducting kick-off sessions or an industry briefing, getting confidentiality agreements signed, and conducting pre-proposal due diligence.

**Notification to industry**

It is mandatory for all Australian Government agencies under the FMA Act to advertise their publicly available business opportunities on AusTender. Those agencies under the CAC Act are encouraged to participate (see also Appendix B).

An agency may choose to publish these notices elsewhere, in addition to AusTender, where, for example, the potential suppliers do not usually supply to government. If the notice is published in, for example, national or local newspapers, the details must be identical to those published in AusTender (see ‘What to include in an Open Approach to the Market’). Take care to ensure suppliers becoming aware of the opportunity through other media are not advantaged or disadvantaged compared to suppliers that are becoming aware of the opportunity through AusTender. See http://www.finance.gov.au/procurement/ppo_notification_of_approaches.html
Phase III: Undertake Procurement

Write and issue market approach documentation

Agencies need to write market approach documentation based on the needs that were determined in Phase II, and issue it according to the chosen tender process – restricted or open. The alternative market approaches are listed below (see also Appendix C):

- Request for Expressions of Interest (REOI)
- Request for Information (RFI)
- Request for Quotation (RFQ)
- Request for Proposal (RFP)
- Request for Tender (RFT).

Agencies should consider their needs and the existing market conditions, and select a procurement method on its merits. They should also consider ways the process can identify value for money solutions and contribute to agency efficiency and effectiveness, while recognising the resource impost of unsuccessful tenders on industry.

In some circumstances it may be appropriate to undertake a staged short-listing through a Request for Expressions of Interest (REOI), to narrow the field of tenderers or to clarify market preferences for bundling of services. Agencies will need to establish clear criteria for short-listing and invite expressions of interest or statements of capability from potential tenderers, from which a short-list can be established. The broad criteria for short-listing should be disclosed to potential tenderers and then applied consistently in the short-listing process.

In circumstances where requirements are clearly identified and time is a critical factor, agencies may choose to proceed directly with a Request for Tender (RFT).

Conduct kick-off sessions or an industry briefing

Agencies may wish to conduct kick-off sessions that provide a detailed, interactive review of the technical and operational environment and SLAs, and of the objectives of and expectations for sourcing. These sessions will be informed by the qualitative and quantitative criteria in the RFT, and will better align agency needs and expectations with vendor capabilities and solutions. Agencies should ensure that personnel with enough knowledge of the technical environment and operations to answer detailed questions attend each session.

When the tender process is open, agencies should conduct an industry briefing for all interested vendors.
Phase III: Undertake Procurement

Get confidentiality agreements signed

No confidential information should be provided to interested tenderers until they have signed an appropriate confidentiality deed or undertaking. It is essential that all third party documents – software licences, contracts, reports or other records – are checked for confidentiality restrictions and cleared with the relevant third parties before being made available to tenderers.

Conduct pre-proposal due diligence

The market approach should stipulate that tenderers must perform all due diligence before they submit their tenders, and that tendered prices must not be conditional on further investigation or due diligence after the evaluation process is complete. This requirement ensures the tender process is not prolonged or compromised by ‘indicative’ pricing, which is subject to further review.

Sufficient time should be allocated to this phase to ensure tenderers have the opportunity to develop carefully considered offerings. Depending on the size, breadth and complexity of the project, tenderers could need between four and eight weeks from the date of issue of the RFT to conduct due diligence and prepare their proposals. Figure 19 provides an overview of what tenderers usually expect from agencies during due diligence.
Figure 19: What tenderers expect during pre-proposal due diligence

<table>
<thead>
<tr>
<th>Data room</th>
<th>Site visits</th>
<th>Interviews and work sessions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contains agency data required for vendors to ratify proposals:</td>
<td>Vendors tour in-scope agency facilities:</td>
<td>Vendor meetings with agency representatives to cover various issues, such as:</td>
</tr>
<tr>
<td>• Asset inventories and book values</td>
<td>• Technical review and validation</td>
<td>• Analyse third party contracts</td>
</tr>
<tr>
<td>• Copies of third-party supplier agreements (1)</td>
<td>• Confirm condition of in-scope hardware</td>
<td>• Value assets and determine transition approach</td>
</tr>
<tr>
<td>• Technical documentation, such as configurations and technical performance reporting</td>
<td>• Confirm environmental surrounding for in-scope hardware</td>
<td>• Validate technical and operational proposals</td>
</tr>
<tr>
<td>• Organisation structures</td>
<td></td>
<td>• Collaborate on technical and operational solutions</td>
</tr>
<tr>
<td>• Headcount of in-scope employees and contractors by service area and location</td>
<td></td>
<td>• Define interfaces between organisations</td>
</tr>
<tr>
<td>• Labour agreements, benefit plans, pension plans</td>
<td></td>
<td>• Collaborate on employee transition approach</td>
</tr>
<tr>
<td>• Labour and benefits costs</td>
<td></td>
<td>Strict agendas used for all meetings</td>
</tr>
</tbody>
</table>

Note: (1) Sharing third party contracts requires permission from contract signatories
Source: AGIMO

Select Vendor(s)

The outcome of this second module of Phase III is to select vendor(s) for the ICT components that will be managed externally. Agencies will need to review proposals for completeness, screen proposals, conduct vendor due diligence, and negotiate with finalists.

Review proposals for completeness

Upon receiving proposals from tenderers, the first step is to review them for completeness and conformity with the market approach documentation (for example,
Phase III: Undertake Procurement

an RFT) requirements. Incomplete proposals should be sent back to the vendor for revision, or be disqualified.

**Screen proposals**

The evaluation process generally involves two basic tasks:

- An assessment of the strengths and weaknesses of each tender.
- A question and answer process to clarify ambiguities and address technical and financial questions raised by the evaluators, before they draw conclusions on the merits of each tender. Unless an agency’s ICT requirements are very straightforward, agencies should expect that the question and answer process would take at least a week and possibly several weeks.

It is essential that the evaluation is carried out in accordance with the evaluation plan, and is consistent with the criteria published in the market approach documentation (for example, the RFT). Upon completion of the evaluation process, an evaluation report should be prepared which assesses each tender against the specific published criteria.

As stated in the Commonwealth Procurement Guidelines, no conflict of interest should exist in respect of anyone involved in evaluating tenders. In-scope staff should not be included in the evaluation team, or be in a position to influence selection recommendations.

Agencies should also perform an economic evaluation of each proposal, based on the model of real value discussed earlier. Depending on the flexibility of the process, and ensuring proper probity is maintained, agencies may want to reconsider ICT bundles based on this real value analysis – asking several vendors to build a bundled proposal may deliver a better overall outcome.

**Conduct vendor due diligence**

Once an initial evaluation is complete, it may be appropriate to shortlist finalists to conduct vendor due diligence and engage in a process of parallel negotiations.

When performing due diligence on short-listed vendors, agencies should focus on the three key areas of financial and business, technology and operations, and customer interviews (Figure 20). The financial and business analysis concerns the financial strength and stability of the vendor, its risk management and accounting practices, and the financial details of the proposal. It is equally important that agencies understand each vendor’s technology capabilities, and that they survey the vendor’s customers to understand, among other things, the vendor’s ability to meet SLAs.
### Phase III: Undertake Procurement

#### Figure 20: Key areas of vendor due diligence

<table>
<thead>
<tr>
<th>Financial and business</th>
<th>Technology and operations</th>
<th>Customer interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk management</td>
<td>General capability overview</td>
<td>Commercial management</td>
</tr>
<tr>
<td>- Evaluation of internal controls</td>
<td>- Systems management</td>
<td>- Overall vendor review</td>
</tr>
<tr>
<td>- Review of business continuity plan</td>
<td>- Computer operations</td>
<td>- Achievement of related IT goals</td>
</tr>
<tr>
<td>- Analysis of third-party and other exposure</td>
<td>- Help desk</td>
<td>- Contract negotiation</td>
</tr>
<tr>
<td>- Review of client prioritisation</td>
<td>- Desktop services</td>
<td>- Transition planning and effectiveness</td>
</tr>
<tr>
<td>Accounting policies and practices</td>
<td>- LAN/Network</td>
<td>- Pricing transparency</td>
</tr>
<tr>
<td>Financial proposal</td>
<td>- Voice/PBX</td>
<td>Service management</td>
</tr>
<tr>
<td>- Asset proposal and treatment</td>
<td>- Security</td>
<td>- Efficiency of knowledge, skills, personnel transfer</td>
</tr>
<tr>
<td>- Human resource proposal and cost</td>
<td>Project capability overview</td>
<td>- Reporting timeliness and efficiency</td>
</tr>
<tr>
<td></td>
<td>- Capacity expansion/allocation requirements (present and future)</td>
<td>- Frequency of employee turnover</td>
</tr>
<tr>
<td></td>
<td>- Proposed expansion actions by platform</td>
<td>- Existence and frequency of non-compliance rebates</td>
</tr>
<tr>
<td></td>
<td>- Detailed review of transition planning (infrastructure, human resources)</td>
<td>Service delivery</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Overall ability to meet SLAs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Results of customer satisfaction surveys</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- SLA achievement during transition</td>
</tr>
</tbody>
</table>

Source: AGIMO
Negotiate with finalists

The goal of negotiations with finalists is to resolve all major financial, technical and legal issues before selecting the successful tender. If an agency elects to engage in parallel negotiations, they may wish to use a ‘term sheet’ containing the following elements to guide the process:

- the agency’s position or statement of each material issue (with RFT item reference or other source citation if appropriate)
- the tenderer’s proposal or response, in summary form (with RFT item reference or other source citation)
- a comments block, which includes the status of each issue (for example, ‘open’, ‘resolved’ or ‘vendor to clarify position by [date]’).

Basic negotiation rules suggest that agencies will need to go to the negotiation table with in-depth knowledge of their target outcomes and their walk-away limits, based on the next best alternative solution if negotiations are not successful.

In addition, before negotiations begin, agencies should understand the cost and revenue risks that vendors are trying to manage through the contracting process (Figure 21).
Phase III: Undertake Procurement

**Figure 21: The vendor risk equation**

<table>
<thead>
<tr>
<th>Cost risks</th>
<th>Revenue risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Being locked into above-market prices</td>
<td>Contract/price renegotiation risks</td>
</tr>
<tr>
<td>Uncertainty in demand forecasts</td>
<td>Uncertainty in demand evolution</td>
</tr>
<tr>
<td>Ensuring efficiency in capital deployments (make-versus-buy tradeoff)</td>
<td>Uncertainty in price evolution</td>
</tr>
<tr>
<td>Capital risks from vendor contracts</td>
<td>Credit risks</td>
</tr>
</tbody>
</table>

Vendors try to use contract to manage both sides of the risk equation

Source: AGIMO

It is also important to carefully assess all conditions when agency bargaining power is greatest. In particular, agencies should assess issues that may lead to high termination costs (described below).

**Develop Contract(s)**

The focus of the third module of Phase III is to refine the termination strategy and write a contract that captures the benefits that were forecast during the sourcing strategy phase and ensures the vendor will be in a position to deliver without being put at risk. There are also certain issues that should be addressed in all Australian Government contracts.

Agencies should consult the CPGs and their agency CEIs before drafting any contract, and seek legal advice as appropriate.
Refine the termination strategy

When developing a contract, agencies should refine their termination strategy to reduce the risk of incurring excessive costs at the end of a contract. Agencies that overlook the significance of termination costs can find themselves faced with no real alternative to renewing with their current vendor, because the costs of switching – materialising as one large cost at the end of the contract – may be too high.

A conservative estimate is that termination costs can easily reach between 15 and 60 per cent of the annual invoice price. This is generally due to unexpected issues with intellectual property rights, residual value of equipment, transfer of assets or remaining lease payments, assistance from the incumbent vendor to transition to a third party, and any potential damage costs. These costs need to be identified at the outset of a contract.

A good termination strategy will spread these costs across the duration of a contract while also reducing their total impact (Figure 22). In other words, an agency that manages these costs should find itself on the right-hand side of Figure 22, with ‘no surprises’ at the end of the arrangement. An agency that neglects to plan for this could end up on the left-hand side, facing prohibitively high termination costs.
Phase III: Undertake Procurement

Figure 22: Spread the termination costs

<table>
<thead>
<tr>
<th>Unmanaged termination</th>
<th>Ideal termination strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Termination cost outflow</td>
<td>Termination cost outflow</td>
</tr>
<tr>
<td>Contract exit date (expiry or breach)</td>
<td>Contract exit date (expiry or breach)</td>
</tr>
</tbody>
</table>

Termination costs can easily offset intended original benefits of sourcing
Most termination costs are incurred at exit date
Agency may have no alternative but to renew due to excessive switching costs
Viable exit at expiry or abnormal termination
Easy transition to any alternative sourcing model
Real costs of sourcing include ‘reasonable’ and budgeted termination costs
Termination costs incurred along contract duration, but still less than ‘unmanaged costs’

Source: AGIMO

Write the contract

When writing the contract, agencies should bear in mind that both sides ultimately need to benefit from the arrangement. There is no point writing a contract that puts a vendor in an unsustainable position, as it will eventually be reflected in the level of service the vendor provides, and will be reflected in the agency’s performance.

Finance, through AGIMO, manages three frameworks to help agencies build suitable contracts for sourcing ICT services and ICT procurement. They are:
- SourceIT model contracts
- GITC contracting framework
- WOGTA

(See Appendix B for details.)

Agencies should also refer to recent developments in intellectual property principles and the capping of limited liability legislation; namely:
Phase III: Undertake Procurement

- **Intellectual property principles** — The *Statement of IP Principles* provides a framework for effective management of IP by Australian Government agencies. It covers the full range of issues relevant to effective management of IP, including procurement, record keeping, industry development and broader innovation policy, and public access. See also http://www.ag.gov.au/cca.

- **Limited liability** in ICT contracts — see Finance circular 2006/03.

(See Appendix B for details.)

As well as incorporating arrangements for contract governance, agencies need to address three specific contract elements. They are:

- **Transition of in-scope operations to the successful tenderer**: The market approach should require each tenderer to submit a transition plan as part of their proposal. The successful tenderer’s transition plan, when agreed, then becomes part of the services agreement. The successful tenderer needs to conduct a final asset inventory at this time.

- **Options to manage volatility in risks and business demand**: Agencies need to be aware that vendors use a number of strategies and tools (known as contract hedges) to minimise exposure, manage risks and maneuver contracts to be more in their favour. These tools are similar to financial instruments fund managers use when hedging their risks (Figure 23). For example, if a vendor believes there is a risk that agency volumes covered by the contract may exceed base platform capacity, they may want to negotiate for a volume cap to be included in the contract. Such a cap could trigger a renegotiation if volumes surpass a certain threshold. This clause passes the risk of excess volume from the vendor to the agency. An agency that is counting on a fixed price contract may be exposing itself to unacceptable levels of risk by agreeing to such a condition.

  Agencies can, however, also benefit from using such strategies and tools. For example, Figure 24 provides a comparison of two contract clauses covering requirements of mainframe processing power. With a fixed volume clause, the agency risks paying for the cost of peak demand. On the other hand, a clause that gives the agency the option to exercise incremental volume is included, it will only pay for what it uses.

- **Incentives and penalties**: Often penalties are used to make sure the vendor has an abiding interest in fulfilling the agency’s needs and respecting the contract. However, it is relatively easy for the vendor to recoup penalties from different projects, and as a result, penalties are effectively ‘free’ for the vendor. Incentives offer a more sophisticated way of aligning interests, but must be considered carefully. In one instance, it proved useful for a government agency to change the incentives for the vendor’s project manager to also include a quantified level of customer satisfaction. The change was significant: the number of customer ‘issues’ dropped from 40 per month to just one.
Phase III: Undertake Procurement

It is difficult to describe precisely how to define the right incentive scheme for every agency, but the main principle is clear: all stakeholders should be motivated for the benefit of the relationship. A typical incentive system includes a set of measures (such as, profit, customer satisfaction, success rates, cost savings) and a set of financial compensation rules (such as, bonus, shared gains or shared savings, reduced prices) for the different stakeholders (that is, the agency side, the vendor side, key individuals, groups, companies). Agencies must find the mix of these components that will work best for them and their vendors.
### Phase III: Undertake Procurement

**Figure 23: Vendor risks and business demand**

<table>
<thead>
<tr>
<th>Vendor risk</th>
<th>Contract hedge</th>
<th>Example</th>
<th>Agency risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency metric volumes exceed base platform capacity or alter platform economics</td>
<td>Volume cap</td>
<td>Forced renegotiation if metric volumes surpass maximum contract allowance</td>
<td>Price risk: Changes in business needs cause metrics to exceed cap, destroying fixed price contract</td>
</tr>
<tr>
<td>Agency metric volumes fail to cover base platform expense</td>
<td>Volume floor</td>
<td>Forced renegotiation if metric volumes fail to reach minimum contract allowance</td>
<td>Price risk: Changes in business needs cause metrics to fail to meet volume floor, destroying fixed price contract</td>
</tr>
<tr>
<td>Ageing technologies fail to perform efficiently</td>
<td>Technology put option</td>
<td>Vendor guaranteed right to sell upgraded hardware and/or software to agency within prescribed windows</td>
<td>Price risk: Vendor elects to execute hardware upgrade right before agency would otherwise pay to refresh</td>
</tr>
<tr>
<td>Insufficient scope to provide sufficient return on fixed price contract</td>
<td>Scope call option</td>
<td>Vendor granted scope expansion rights (geographic or platform) base at prescribed performance targets</td>
<td>Business risk: Vendor elects to exercise right to expand scope under sub-optimal business conditions</td>
</tr>
</tbody>
</table>

Source: AGIMO

Agencies that have chosen an external sourcing strategy conclude this module, and this phase, with a signed contract.
Phase III: Undertake Procurement

Figure 24: Call options in agency business models

Current condition: agency buys fixed volume of mainframe capacity equal to peak demand

- Demand
- Peak capacity
- Excess capacity

Agency commits to fixed amount of capacity or IT product volume over a certain time period. Seasonal variation in business requires small amount of capacity in Q1 and high volume of capacity in Q4. Large volume of capacity unused during year.

Solution: embed call options in contract stipulating right to buy units of incremental volume

- Demand
- Original supply
- Contract options

Agency increases volume as necessary
- Incremental volume and timing of increase agreed upon at outset of contract
- No purchase obligation if demand does not increase
- Original, underlying contract stands regardless of decision to increase volume.

Source: AGIMO
Phase IV: Transition and Manage
Phase IV: Transition and Manage

The purpose of this phase is to transition to, and set up management of, the new sourcing strategy. While these activities are relevant to agencies that are changing to a self-managed or external strategy, the vendor management elements in this phase are only relevant to external vendor strategies.

The first step is to set up contract governance after which agencies can begin the transition. This is never as simple as turning off the old solution and initiating the new one. Transfer of knowledge, assets and staff, and migration of work-in-progress could take between three and ten months. One of the key objectives for the agency will be to make the transition as transparent as possible to the vital business functions.

Agencies then need to focus on managing ICT, which entails managing the relationship, managing the contract, and managing ICT operations. Finally, agencies need to establish processes to periodically review performance.

This guide has been prepared based on the assumption that agencies already have knowledge across many of these elements, as well as access to existing Australian Government publications that provide guidance on these issues. As a result, Phase IV is less detailed than the other phases.

**Set up Contract Governance**

All agencies that manage a vendor need to set up contract governance for their arrangements. As it affects the overall pricing, contract governance should be encapsulated within the agency's overall ICT governance and have been outlined in the tender documents and specified in the contract.

Defining the contract governance structure consists of identifying the ICT roles and responsibilities, the management organisation, the decision-making process, a process for escalating disputes, and the rules and incentives for all parties involved with the arrangement, including:

- the agency's top management and ICT managers
- the incumbent and newly contracted vendors
- other agencies, in cases of alliances between agencies.

The agency needs to establish three important management roles, each of which is discussed later in this phase. They are:

- **Managing relationships between all parties to the contract**: This role involves building trust and working for win–win outcomes. Senior people within each organisation are usually responsible for this role.
Managing the contract: The objective of this role is to make sure the services are delivered according to the contract, that the terms and conditions are followed, and that legal requirements are maintained at all times.

Managing ICT operations: The ICT manager should manage this role; it covers all day-to-day service delivery.

Agencies should establish a team to oversee these roles. Large and complex sourcing arrangements may warrant a dedicated program office.

The team/program office should have overall accountability for the success of sourcing, including budget responsibility. It should report directly to senior management and provide easily understood, reliable, and robust information for informed decision making. This will enable senior management to take ownership of the overall ICT sourcing strategy, ensuring sourcing receives the attention it deserves and that issues raised are quickly resolved.

Transition

This step is a one-time effort that occurs each time a new element of the sourcing strategy is put in place. Transitions occur concurrently with other significant business and/or IT initiatives and are typically high-impact time-bound business activities. This can create difficulties in maintaining momentum and focus when other significant change is occurring.

A variety of factors can drive the need for transition arrangements, including changes to:

- global setting
- government initiatives
- business processes
- procurement regulations and requirements
- supplier performance
- service delivery requirements
- technology/availability of new solutions
- scope for financial savings.

Transition should be managed as a project. Milestones, deliverables, and roles and responsibilities, together with a management and communications process must be clearly articulated. Suggested milestones include:

- team established and ‘ready, willing and able’
- detailed migration plan agreed, possibly including ICT re-engineering
- new equipment ordered, if needed
- people resources sourced, if needed
Phase IV: Transition and Manage

- all resources (equipment, software and staff) transferred and operational
- modifications frozen, except for critical changes (such as bug fixes)
- work-in-progress transferred
- new environment tested
- official cut-over
- integration validated (after the cut-over, agencies may need help from the incumbent).

Three of these milestones deserve particular attention:

- **Defining the best timing for official cut-over**: It is critical to choose this date carefully. Ideally, it should take place during a period of low business activity of the vital business functions, usually during the last three months of the incumbent contract.

- **Transfer of knowledge from incumbent vendor**: It is critical that incumbent vendors transfer their knowledge to the new vendors and (potentially) to the agency. However, their incentives are not usually aligned with this task. They may need to write, or at least gather, a large amount of documentation such as reports, billing information, procedures manuals, source and object codes, job listings, work volumes, etc. Given the amount of work needed and the importance to the overall outcome, agencies must ensure they closely control this process. Agencies should start assembling this knowledge well before the end of the contract.

- **Lead-time to source the project and get the final IT staff**: Internal skills must be resourced. They will either be taken from other functions or external sources. Agencies should plan ahead where recruitment is going to be necessary.

The most important factors to understand before a transition are business risks, especially when the transition involves moving away from an incumbent vendor, which often takes more than six months from hand-over to take-over. This represents one of the biggest changes the agency will face, and it must be done carefully. This change should be transparent to the business, and there should be no business deterioration during the transition.

Any agency facing such a change should minimise business risks and define this as a first priority. In some instances, it could be so important that an agency is willing to opt for a less appealing alternative in the long term if it provides a safer transition.

**Manage Relationship**

This guide does not address this topic, as it has a strong link to each agency’s individual culture and management style.
It is worth noting, however, that managing the relationship is a key element of the sourcing lifecycle to which agencies and vendors must pay careful attention. All agencies, whether coming from a transition exercise or not, should make sure they optimise control over their current relationships.

It is important to distinguish the relationship from the contract. Managing the relationship is about maximising the overall business outcomes of the arrangements. Keeping the relationship separate from the contract will ensure agencies maintain a business perspective over all arrangements, and will help mitigate legal difficulties that often occur during the life of a contract.

Effective communication is critical in smooth transition arrangements and in sustaining working relationships between all stakeholders. The following issues merit consideration:

- **For management**
  - offer sufficient detail to support informed decision making
  - tailor messages to meet receiver’s needs and interests
  - engage in frank and early disclosure – avoid surprises

- **For affected staff**
  - avoid information overload and deliver messages at appropriate times
  - use simple, consistent, jargon-free language to convey messages
  - work closely with local staff to communicate with stakeholders.

### Manage Contract

This guide does not address this topic; it is an area that requires specific legal expertise. However, it is important to provide some business context.

From a business perspective, agencies should recognise that the aim of managing the contract is to ensure:

- all parties included in the contract perform to minimum requirement levels
- the contract continuously reflects the best possible outcome for the agency.

A service gap exists if all parties are not performing according to their minimum requirement levels. If this is the case, steps should be taken to close the gap by reviewing existing service levels against the Service Level Agreements (SLAs), or by using the flexibility that should be built into the contract to make a variation.

A contract gap exists if the contract does not reflect the best possible expected outcome for the agency. In order to close this gap, agencies need to consider whether to renegotiate the contract to establish updated arrangements, recognising that opportunities and constraints may have occurred since the previous contract was signed.
Phase IV: Transition and Manage

However, signaling a renegotiation is a serious step for which agencies need to first clearly establish the benefits and risks.

Figure 25 shows both a service gap and a contract gap.

**Figure 25: Service and a contract gaps**

Manage Operations

This guide does not address this topic. But, it is worth making some observations.

Day-to-day management of ICT operations is the agency’s role; it must ensure the ICT services always support the agency’s business needs. The team accountable for this
role should be knowledgeable about relationship and contract management. However, keeping contract, relationship and operations management roles separate will allow each team to focus on the highest quality service delivery.

Experience has shown that contracts are most successful when there is close integration between vendor and agency, regardless of whether the vendor is providing commodity processing or highly specialised services. Among other things, this will help ensure a certain degree of flexibility for adjusting the level of ICT service if and when agency needs change. For more information on this topic, refer to the SourceIT website at http://www.sourceit.gov.au

**Review Periodically**

The most carefully considered ICT sourcing arrangements could fall short of delivering expected benefits. Moreover, even arrangements that are performing to plan need to be periodically reassessed to determine whether more value could be delivered.

It is important to set up ongoing reporting processes for measuring the performance of a sourcing arrangement. Agencies should establish scorecards against which to track performance, to plan and to track current market circumstances. It is also important to track any changes made to the contract itself.

The critical success factors for any transition arrangement relate primarily to effective planning, clear communication and right-people-right-place dynamics. Examples of success factors should include:

- having the ability to trace to pre-transition information
- establishing defined success and acceptance criteria
- having a viable and constantly maintained plan
- securing experienced and capable staff in key roles
- making appropriate use of methods and control structures (accountability and transparency)
- ensuring diligence in progress monitoring, reporting and decision making
- maintaining inclusive and effective governance structures (including ensuring all contributors behave appropriately)
- maintaining effective relationship management that supports adaptability and goodwill between parties
Conclusion

Agencies should approach ICT sourcing with an understanding of the significant role it plays in fulfilling key business priorities. An agency’s senior management must recognise that, at a minimum, an ICT sourcing strategy needs to support these priorities in the most cost-effective manner.

Agencies must also understand the risks and challenges of ICT sourcing – the experiences of many public and private sector organisations have shown that ICT sourcing is risky. Given this, how can an agency ensure it selects the best ICT sourcing strategy and executes it well? How can it be certain that it has done all the right analysis and asked all the right questions about ICT sourcing? How can it get value for money from these arrangements?

This guide, with its four-phase lifecycle, should provide agencies with the strategic support they need to meet these challenges. It details a number of frameworks that should prompt agencies to ask the right questions and perform the right analysis. In particular, the economic diagnosis tool – the key to understanding the real value of existing and potential ICT sourcing arrangements – will help them assess the value created by an outsourcing arrangement.

In addition to using this guide, agencies should also use the SourceIT website http://www.sourceit.gov.au, other government publications on ICT sourcing, and to each other to learn more about developing and executing effective sourcing strategies.
Appendix A: Economic Diagnosis Tool
To complement this guide, this economic diagnosis tool will help agencies understand the real value of an arrangement with an outsourcer. The logic of the tool is described below to show how it works and also to underscore the value of taking this type of analytical approach.

The tool is described from the perspective of an agency whose current ICT sourcing strategy is external. This means that:

- agencies that have an external sourcing strategy can apply the tool directly
- agencies that self-manage ICT can apply the logic of the tool to understand their arrangement and to compare it to the alternatives, but they may need to reverse the order of some steps in the model.

The economic diagnosis tool is an essential aid to Phase I of the sourcing lifecycle. The purpose of the tool is threefold. First, it will help agencies understand the real value of their current sourcing contract, including the discrete sources of value. Second, it will provide a reference point for assessing alternatives. Third, it will help define the expectations of the next sourcing strategy and focus it on the most relevant options.

The tool is structured around six important questions relating to the real value of a sourcing contract (Figure 26). The assessment uses a yearly snapshot of the economic costs for the past year.
Appendix A: Economic Diagnosis Tool

Figure 26: The real value of a sourcing contract

Understand the costs
To understand the real value of the arrangement, six key questions must be answered:

Q1 What is the invoice cost of the arrangement?
Q2 What would be the equivalent cost in a fully self-managed scenario?
Q3 What explains the difference in cost to serve?
Q4 What termination costs do I have to take into account?
Q5 What is the real cost of outsourcing overall?
Q6 Would I be better off self-managed?

Source: AGIMO
Appendix A: Economic Diagnosis Tool

Figure 27 shows how these questions relate to the perceived value and real value calculations described earlier in this guide.

**Figure 27: Perceived value and the real value calculations**

1. What is the real cost of outsourcing overall?
2. What would be the equivalent cost in a fully self-managed scenario?
3. What explains the difference in cost-to-serve?
4. Equivalent annual cost of IT self-managed

- Difference in cost-to-serve (1)
  - Scale
  - Cost position
  - Quality
  - Efficiency
  - Risk exposure

5. Real value
   - Total annualised cost of outsourcing
   - Total yearly invoice
   - Management costs
   - Transition costs

6. Would I be better off self-managed?

---

(1) Cost-to-serve: total cost necessary to run and maintain the IT operations that serve business activities
(2) Distributed over the contract duration

Source: AGIMO
Appendix A: Economic Diagnosis Tool

Question 1: What is the invoice cost of the arrangement?

The invoice price from the vendor will provide the basis for calculating the perceived value of an arrangement (Figure 28).

Figure 28: Calculate the real value of the arrangement

<table>
<thead>
<tr>
<th>Framework</th>
<th>Main cost components</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. What is the invoice cost of the arrangement?</td>
<td></td>
</tr>
<tr>
<td>- Invoice price from the vendor limited to the scope of the contract. Including costs overrun</td>
<td></td>
</tr>
<tr>
<td>2. What would be the equivalent cost on a fully self managed scenario?</td>
<td></td>
</tr>
<tr>
<td>- Result of top-down, bottom-up or mixed approach</td>
<td></td>
</tr>
<tr>
<td>3. What explains the difference in cost-to-serve?</td>
<td></td>
</tr>
<tr>
<td>- Net profit margin before tax of revenues, applied to the invoice price of the contract</td>
<td></td>
</tr>
</tbody>
</table>

Scale and unit cost position
- Cost differences for the same volume to infrastructure and operations
  - Mainframe processing power (MIPS) and storage (DASD, tapes)
  - Midrange servers (number of servers)
  - Distributed infrastructure (number of desktops and laptops) and printers
  - Help desk (number of calls)
  - Voice/video infrastructure (number of ports)
  - Data infrastructure (number of ports)
  - Data communication (bandwidth in kbs per second)
  - Voice/video communications (long distance, local) (number of seconds)
- Cost differences for the same output in developments
- Labour
- Development platforms if not included above

Quality and efficiency
- Cost difference in FTEs required to deliver the same output
- Cost of internal free-up resource
- Cost to maintain same level of service or cost impact of a lower service level

Shared risks
- Additional self-manage costs to cover peak demand
- Additional disaster recovery, security and confidentiality cost
  - includes compensatory costs or cost of additional damages
- Cost to provide same geographical business coverage

Source: AGIMO
Question 2: What would be the equivalent cost in a fully self-managed scenario?

Agencies can use three approaches to answer this question:

- **A top-down approach using benchmarks**: Consider a simple example of an agency whose primary ICT requirement is the operation of PCs. If the agency’s overall ICT cost for self-managing PCs is $7000 per PC, and if benchmarks or best practices from other agencies indicate a comparative cost of $5000, the agency could assume the alternative scenarios offer a perceived value of 28 per cent ($2000 of $7000).

- **A bottom-up approach that rebuilds the existing ICT infrastructure**: In this approach, agencies would rely on new market prices and current knowledge about practices and costs. Using the example above, the agency would disaggregate all the cost components involved in operating PCs, and then seek current market prices on each component. Based on the potential cost of these components, the agency would build up an overall cost of operating PCs, multiply by the number of PCs, and compare this with the current cost. The difference represents a broad estimate of perceived value of an alternative. For this approach, agencies should reference cost data. An example is shown in Table 5.

- **A mixed approach that combines top-down and bottom-up analyses**: Here, agencies would go beyond the basic top-down approach, but not as far as a detailed bottom-up approach, by looking at the major elements of ICT and comparing them to benchmarks. Agencies would understand perceived value and how that relates to some of the main categories of ICT spending, but the analysis would not have the same level of granularity as a more time intensive bottom-up assessment.
Table 5: Example of outsourced cost assessment in a bottom-up approach

<table>
<thead>
<tr>
<th>Item description</th>
<th>Quantity per year</th>
<th>Unit price ($)</th>
<th>Cost per year ($)</th>
<th>Already owned or paid for directly by agency</th>
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<tbody>
<tr>
<td><strong>Capital expenditure</strong></td>
<td></td>
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<tr>
<td><strong>Hardware</strong></td>
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<td>Desktops</td>
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<td>Total hardware</td>
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<td><strong>Software and licences</strong></td>
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<td>Desktop software</td>
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<td>Total software</td>
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<tr>
<td><strong>Total capital expenditure</strong></td>
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<td>434,420</td>
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<tr>
<td><strong>Recurrent expenditure</strong></td>
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<tr>
<td><strong>Support</strong></td>
<td></td>
<td></td>
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<tr>
<td>EL2</td>
<td>1</td>
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<td>160,000</td>
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<td>Support</td>
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<td>Total support</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>580,000</td>
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<tr>
<td><strong>Communications</strong></td>
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<td></td>
<td></td>
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<tr>
<td>Internet environment</td>
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### Appendix A: Economic Diagnosis Tool

<table>
<thead>
<tr>
<th>ICON Data subscriber fee</th>
<th>1</th>
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<th>1</th>
<th>10,000</th>
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#### Consumables

<table>
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<th>Toner</th>
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<th>80</th>
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<table>
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<tr>
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<th>618,800</th>
<th>618,800</th>
<th>618,800</th>
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<thead>
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<th>618,800</th>
<th>618,800</th>
<th>275,400</th>
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#### Summary of bottom-up approach

<table>
<thead>
<tr>
<th>Cost per year</th>
<th>Year 1 ($)</th>
<th>Year 2 ($)</th>
<th>Year 3 ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total capital expenditure</td>
<td>Hardware and software</td>
<td>434,420</td>
<td>–</td>
</tr>
<tr>
<td>Recurrent expenditure</td>
<td>Support (staff costs)</td>
<td>580,000</td>
<td>580,000</td>
</tr>
<tr>
<td>Communications (ICON &amp; WAN)</td>
<td></td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Consumables</td>
<td></td>
<td>28,800</td>
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<tr>
<td>Total recurrent expenditure</td>
<td></td>
<td>618,800</td>
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</tr>
<tr>
<td>Total expenditure</td>
<td></td>
<td>1,053,220</td>
<td>618,800</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Less equipment and services already owned or paid for directly by agency</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital expenditure</td>
<td>Total capital expenditure</td>
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<tr>
<td></td>
<td>Less previous capital expenditure</td>
</tr>
<tr>
<td>New capital expenditure</td>
<td></td>
</tr>
<tr>
<td>Recurrent expenditure</td>
<td>Total recurrent expenditure</td>
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<tr>
<td></td>
<td>Less existing recurrent expenditure</td>
</tr>
<tr>
<td>New recurrent expenditure</td>
<td></td>
</tr>
<tr>
<td>New total expenditure</td>
<td></td>
</tr>
</tbody>
</table>

Source: AGIMO
Question 3: What explains the difference in cost-to-serve?

The value of the arrangement comes from the difference in the cost-to-serve between the vendor’s offer and the self-managed option. As discussed earlier, four major components account for this difference – three types of benefit are partially offset by the vendor’s margin to yield the perceived value of the arrangement.

Agencies need to disaggregate perceived value, regardless of how it was calculated, into its four drivers of scale and cost position, quality and efficiency, risk exposure, and vendor margin. The specific cost elements that typically make up these drivers are described in Figure 27. With this breakdown complete, agencies should have a clear picture of the magnitude of perceived value, along with its key sources.

Question 4: What termination costs do I have to take into account?

Termination costs represent the cash outlay an agency would incur before moving to another sourcing option; they do not include the costs that would be associated with transition to the alternative.

A conservative estimate is that termination costs are typically between 15 and 60 per cent of the annual invoice price. This is generally due to unexpected issues with intellectual property rights, residual value of equipment, transfer of assets, or remaining lease payments, assistance from the incumbent vendor to transition to a third party, and any potential damage costs. The top figures of the range generally occur during a difficult transition to the next sourcing arrangement, early termination (before end of contract), or when equipment has recently been refreshed.

If termination costs have been managed during the contract there should be no surprises in the lead up to renewal. For instance, if an agency is relying on the vendor to develop and customise a specific application that runs the vital functions of the business, termination costs – if left unmanaged – could be significant. A termination strategy should ensure the vendor’s control over this application progressively diminishes long before the end of the contract.

Question 5: What is the real cost of outsourcing overall?

This calculation describes the difference between the face price (and perceived value) and the real cost (and thus the real value). It should capture all the costs that would not be incurred if there were no contract; for example, the cost of ongoing contract management, and the expected termination costs spread across the duration of the contract. The components of this analysis are shown in Figure 28.
Appendix A: Economic Diagnosis Tool

The calculation is made on an annual basis using the current-year information. It assumes that the current year is representative of the average year for the contract.

The sources of information are the historical data for the transition costs, the current accounting information for the management costs, and an estimate, based on the contract, for the termination costs. Agencies can use the checklist in Figure 29 to look for the information.

When detailed historical information for transition costs is not available, which often happens, an estimate needs to be made.
## Appendix A: Economic Diagnosis Tool

### Figure 29: Components of outsourced cost analysis

<table>
<thead>
<tr>
<th>Framework</th>
<th>Main cost components</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual cost of arrangement invoiced</strong></td>
<td><strong>Annual cost of arrangement invoiced</strong></td>
</tr>
<tr>
<td><strong>Termination costs</strong>&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>- Invoice price from the vendor limited to the scope of the contract, including costs overrun</td>
</tr>
<tr>
<td><strong>Management costs</strong></td>
<td><strong>Transition costs (added and divided by contract duration)</strong></td>
</tr>
<tr>
<td><strong>Transition costs</strong>&lt;sup&gt;(2)&lt;/sup&gt;</td>
<td>- Internal project cost and transition expenses (includes lease/maintenance payments on hardware and software awaiting transition)</td>
</tr>
<tr>
<td><strong>Annual real cost of arrangement</strong></td>
<td>- One time costs from vendor (usually includes initial hardware/software refresh, hardware re-location, transition labor)</td>
</tr>
<tr>
<td></td>
<td>- Staff severance costs (salary, retention and severance packages for retained and released employees)</td>
</tr>
<tr>
<td></td>
<td>- Losses for business outages and/or drop in service level and other compensatory costs</td>
</tr>
</tbody>
</table>

1. Distributed over the contract duration

### Management costs

- FTE costs for governance and monitoring dedicated to contract
- Losses and compensatory costs due to unmet SLAs
- Additional costs to retain internal IT staff

### Termination costs (added and divided by contract duration)

- Costs to recover work in progress (internal knowledge management systems, intellectual property on code, data and documentation, vendor due diligence cost)
- Cost to recover asset ownership
- Cost of acquiring support to transition out of vendor (varies depending on whether it is contractual or not)
- Cost to prepare internal staff and new IT staff, whether self-manage or within new vendor (set-up, training, etc.)
- Increased workload and drop in IT process efficiencies between notice served to vendor and end of contract
- Termination fees, if any
- Damage cost, if any

### Annual real cost of arrangement = sum of items

Source: AGIMO
Appendix A: Economic Diagnosis Tool

**Question 6: Would I be better off self-managed?**

If the self-managed estimate is close to the current real cost of the proposed arrangement, this option should be considered as an alternative (Figure 30).

At the end of the data gathering, when adding all the elements, a sensitivity analysis is useful to stabilise the overall results. It allows agencies to identify the cost drivers that would have the biggest impact on the total value and therefore refine them if the estimated range is too wide.
Appendix A: Economic Diagnosis Tool

Figure 30: Components of a self-managed cost analysis

Source: AGIMO

At this stage, the estimate excludes the transition costs to move towards a self-managed solution.

This alternative should be considered if the estimated self-managed cost-to-serve is lower than the real cost of the arrangement.

Annual real cost of the arrangement
- From previous analysis
- Estimated self-managed cost
  + invoice
  - margin
  + unit cost impact
  + efficiencies
  + risk
  = Total

Real value of the arrangement over the self-managed alternative.
Appendix B: Relevant Legislation, Policies and Resources
Appendix B: Relevant Legislation, Policies and Resources

Financial Management and Accountability Act 1997


The Financial Management and Accountability Act 1997 (FMA Act) and associated Regulations provide the legislative framework governing financial management in all FMA agencies, including proposals for spending public money.

The framework comprises legislation, regulations, orders and guidelines that set out the financial management, accountability and audit obligations on agencies, including Departments, which form part of the Government sector. It covers:

- the efficient and effective management of public resources
- the maintenance of proper accounts and records of expenditure of Australian Government monies.

Under the FMA framework, an example of a Department (of State) is the Department of Communications, Information Technology and the Arts (DCITA), an example of an agency is the Australian Customs Service. All FMA Act departments and agencies must have regard to the CPGs when carrying out activities relating to procurement of property and services.

Commonwealth Procurement Guidelines


The Commonwealth Procurement Guidelines (CPGs) set out value for money as the core principle underpinning procurement under the FMA Act, and articulate the policy framework to which officials should have regard when performing duties associated with procurement. Agencies may determine their own specific procurement practices within this framework of general principles and policies. Where an official takes an action that is inconsistent with the CPGs, he or she is required to make a written record of their reasons for doing so.

Officials undertaking procurement-related activity are expected to:

- act in accordance with the CPGs
- ensure their procurement reflects the policies and principles contained in the CPGs
- ensure their actions meet any additional requirements addressed in their CEIs
- recognise that they are accountable, within the framework of ministerial responsibility, to the government, parliament and the public.
The CPGs address issues such as:

- value for money
- efficient, effective and ethical use of resources
- accountability and transparency
- other policies that interact with procurement.

**Agency Chief Executive’s Instructions**

An agency’s Chief Executive’s Instructions (CEIs) provide agency-specific codification of the financial management framework, including provisions relating to procurement. They are the primary source of information on operational guidance for agency officials conducting procurement.

**Limited Liability in Information and Communications Technology Contracts – Finance Circular 2006/03**


This Finance Circular articulates and provides guidance on the Australian Government’s policy on the capping of liability when entering into ICT contracts.

This Circular applies to all agencies subject to the FMA Act.

Australian Government policy is that the liability of ICT suppliers contracting with agencies should, in most cases, be capped at appropriate levels. There must be a compelling defensible reason to include unlimited liability clauses.

The policy governing limited liability for ICT contracts is to be an Australian Government policy for the purposes of Regulation 9 of the Financial Management and Accountability Regulations 1997 (FMA regulations) and the CPGs.
Appendix B: Relevant Legislation, Policies and Resources

Information and Communications Technology Multi Use List


The Information and Communications Technology Multi Use List (ICT MUL) is a list of ICT suppliers that wish to sell to the Australian Government. Australian Government departments and agencies can use the list to source suppliers of ICT goods and services and to conduct a select tender. Suppliers of ICT products and services can register to be included on the ICT MUL.

Inclusion of an ICT supplier on the ICT MUL does not imply that the Australian Government endorses use of that supplier’s product or services.

Australian Government agencies are not required to use the ICT MUL for procurement.

Guidance on the Mandatory Procurement Procedures


The purpose of the Guidance on the Mandatory Procurement Procedures is to help Australian Government agencies implement the CPGs and specifically the Mandatory Procurement Procedures.

Value for money is the core principle underpinning Australian Government procurement. This means that Australian Government officials need to be satisfied that the best possible outcome has been achieved taking into account all relevant costs and benefits over the whole of the procurement cycle. Depending on the property or service being procured, agencies may also include environmental, social and other costs in their calculations of the whole-of-procurement cycle. See also Guidance on Complying with Legislation and Government Policy in Procurement, below.

This operational guide promotes achievement of value for money by providing practical information on managing procurement processes that lead to agencies entering into a purchasing agreement with a supplier or suppliers. This information meets the requirements of the Government’s procurement framework requirements while facilitating delivery of good business outcomes. Therefore, this guide is an adjunct to the CPGs and will best serve the reader if they are familiar with the CPGs.
Appendix B: Relevant Legislation, Policies and Resources

Guidance Complying with Legislation and Government Policy in Procurement


This guidance has been prepared to assist agencies subject to the FMA Act to comply with legislation, core procurement policy as contained in the CPGs and other relevant general Government policies when performing duties related to procurement of property and services.

In particular, the guidance:

- reminds agencies and their officials that they are obliged, under Regulation 9 of the FMA Regulations, to comply with all relevant Australian Government general policies, whether based on legislation or not, when performing duties related to procurement
- provides additional advice to help agencies develop CEIs and other procedural documentation that support agencies and their officials in meeting their responsibilities with regard to procurement.

AusTender

http://www.tenders.gov.au

AusTender offers Australian Government agencies streamlined and cost-effective management and tracking of their open and restricted tender processes. It also provides an efficient way to distribute tender documentation to suppliers.

AusTender is a web-based secure application that will enable suppliers to:

- access Australian Government business opportunities online
- download tender documentation
- submit tender responses electronically
- access information about contracts and standing offers with a value of $10,000 or more arranged by Australian Government agencies.

AusTender allows Australian Government agencies to make tender documentation available from a central website. Suppliers can search, browse and download all relevant information online rather than requesting information to be sent to them. Suppliers can also ask to be automatically notified about tenders of interest to their business.
Suppliers must register to download tender documentation. Registration allows suppliers to be notified immediately of any change to the information relating to the tender.

Once suppliers have developed their tender response they can submit it via AusTender if the tendering agency has elected to use this facility. All responses are stored in a secure electronic tender box until the closing time for the tender has passed. AusTender uses encryption software to secure tender responses during transmission to AusTender and for storage in the electronic tender box.

The electronic tender box is opened in the same way as a physical tender box. A duly authorised committee must be present to open the electronic tender box.

AusTender aims to provide suppliers to government with:
- increased time for bid development
- reduced cost of responding to tenders – no printing, binding or delivery costs
- a secure 24 hour x 7 day geographically independent lodgment service for responses
- automatic notification of tenders of interest.

**SourceIT Model Contracts**

http://www.sourceit.gov.au

Finance, through AGIMO, has developed a suite of model contracts for ICT procurement (called SourceIT model contracts), which are designed to cater for simple procurement of hardware acquisition and support, license and support of commercial off-the-shelf software and ICT consultancy services.

The model contracts provide templates for Australian Government agencies to develop sound commercial agreements efficiently and effectively. It is expected that this will encourage good business practice and minimise the risk of conflict and disagreement between agencies and suppliers.
Appendix B: Relevant Legislation, Policies and Resources

Government Information Technology and Communications Contracting Framework

http://www.gitc.finance.gov.au

Government Information Technology and Communications (GITC4) is a legal framework that was developed as a cooperative effort between Australian industry representatives and the Australian Government. Although able to be used for simple procurement, GITC 4, with its clause-by-clause ‘build a contract’ functionality can also be used for more complex procurement scenarios, including IT services and provision of related products, business consultancy, systems integration and facilities management.

Statement of Intellectual Property Principles

The Statement of Intellectual Property Principles sets out the Australian Government’s policy for managing intellectual property (IP) by departments and agencies subject to the FMA Act. The statement covers 15 principles relevant to IP management, including procurement, record keeping, industry development and broader innovation policy, and public access. With respect to procurement activities, Principle 8 requires agencies to take a flexible approach to ownership of intellectual property in procurement activities. This means agencies should not rely on a default position for IP ownership, but should consider appropriate IP ownership arrangements on a case-by-case basis.

Agencies are required to comply with the requirements of the statement by 1 July 2008. Guidance on implementation will be available in the form of an IP Manual, which is expected to be published in 2007. Further information can be found at http://www.ag.gov.au/cca.

Management of Security Accountability


Managing security accountability is a key consideration in the lifecycle of ICT sourcing. For example, paragraph A2.7 of the Australian Government Protective Security Manual 2005 (PSM) states, in part, that ‘when outsourcing a function, agencies remain accountable for the efficient and secure performance of that function’. Further, Part F provides policy and guidance on the security framework for competitive tendering and contracting. In general, the outsourcer should be expected to meet the same security requirements for protecting classified information and ICT systems, as would the Australian Government agency, should the function remain in-house.
Appendix B: Relevant Legislation, Policies and Resources

International Obligations


Australia is a signatory to a range of bilateral free trade arrangements.

After January 2005, those arrangements, which include specific Australian Government procurement commitments, include:

- The Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA)
- The Australian and New Zealand Government Procurement Agreement (ANZGPA)
- The Singapore–Australia Free Trade Agreement (SAFTA)
- The Australia–United States Free Trade Agreement (AUSFTA)
- The Thailand–Australia Free Trade Agreement (TAFTA).

These arrangements are implemented domestically as Australian Government policy and/or legislation, and hence policies and procedures to implement obligations under international agreements must be complied with in order to approve proposed procurement under FMA Regulation 9. All relevant international obligations are incorporated into the procurement policy framework as expressed in the CPGs.

Whole-of-Government Telecommunications Arrangements


The Whole-of-Government Telecommunications Arrangement (WOGTA) is a contracting framework managed by Finance’s AGIMO. Under the WOGTA framework, carriers and carriage service providers licensed under the Telecommunications Act 1997 are required to sign a WOGTA Head Agreement before they are able to provide services to the Government. Under this arrangement, the Australian Government is treated as a single customer and uses competitive processes wherever practical to seek access to new and innovative telecommunications services.
Appendix B: Relevant Legislation, Policies and Resources

Risk Management Standard AS/NZS 4360:2004

http://www.standards.org.au

According to Standards Australia, the risk management standard ‘provides a generic guide for the establishment and implementation of the risk management process involving the identification, analysis, evaluation, treatment and ongoing monitoring of risks’. It also notes that this standard ‘may be applied at all stages in the life of an activity, function, project or asset. The maximum benefit is usually obtained by applying the risk management process from the beginning.’
Appendix C: Market Approaches

This appendix describes the various market approaches agencies can use to execute the procurement plan in Phase III of the sourcing lifecycle. All market approaches should have regard to the AusTender requirements (see Appendix B).

Request for Expression of Interest

Agencies generally use Requests for Expression of Interest (REOIs) to set up panels of vendors to meet a specific need over a set timeframe. Sometimes it can be used to gauge the level of interest in the market regarding a particular ICT requirement. If the level of interest is low, the agency may determine that it is not worth trying to obtain the ICT goods and services using the tendering method, or at all. As this process is fairly detailed, most agencies will expect an outcome from their efforts.

After setting out some background on the requirement and the broad evaluation criteria, the REOI will generally seek basic information from vendors, such as:

- organisational details
- product and service lines/personnel to be dedicated to the project
- any conflicts of interest they may have (if relevant)
- financial information/viability
- relevant reference sites.

The REOI may include draft Terms and Conditions of the contract (or at least the conditions under which the agency will enter into a legal relationship with a vendor), which reflect the agency’s preferred method of contracting.

Request for Information

A Request for Information (RFI) would be used to obtain basic information about the types of vendors in the marketplace, and how many vendors may supply solutions in specific product/service areas. It may form the basis of an information database inside the agency, which allows the agency to ‘map’ the state of the market and the breadth and depth of the supply chain.

Request for Quotation

A Request for Quotation (RFQ) is similar to an RFI, with the additional requirement that vendors quote a price for the stipulated good or service. An agency will probably obtain quotes from several vendors and it will expect quotes to be vendors’ best and final prices.

Agencies are not obliged to accept any quotes as a result of this process.
RFQs generally set out quote conditions such as evaluation criteria (the key criteria should be value for money), confidentiality requirements, ownership of quotes and the minimum time quotes must stay open (usually three months). Sometimes a draft contract is also included.

**Request for Proposal**

A Request for Proposal (RFP) is usually used when an agency is seeking proposals from suitably qualified vendors with specialised skills, such as the operation of community health facilities and similar activities. Generally, proposals may be linked to Government grants available to the eventual vendor to operate the required service. RFPs are not often used in the acquisition of ICT goods and services.

**Request for Tender**

A Request for Tender (RFT) is the most common method used by Australian Government departments and agencies to acquire ICT (and other) goods and services from vendors. RFTs can be used for small panels of vendors, consultancy or audit services, provision of basic ICT goods such as desktops or large requirements covering (perhaps) the entire range of an agency’s ICT needs. The information provided above about REOs is equally relevant to RFTs.

RFTs are rarely restricted to a select number of vendors because of the need to ensure effective competition and to obviate any possibility of attracting criticism of bias. Agencies must not include evaluation criteria in their RFTs that discriminate against small or medium enterprises.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>AGIMO</td>
<td>Australian Government Information Management Office</td>
</tr>
<tr>
<td>AIIA</td>
<td>Australian Information Industry Association</td>
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<tr>
<td>ANZCERTA</td>
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<td>Australian and New Zealand Government Procurement Agreement</td>
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<td>Australian Government Information Technology Security Manual</td>
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<td><em>Financial Management and Accountability Act 1997</em></td>
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<td>International Association for Commercial and Contract Management</td>
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<td>WOGTA</td>
<td>Whole-of-Government Telecommunications Arrangement</td>
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