



WHOLE OF GOVERNMENT
ICT SERVICES PANEL
DISCUSSION PAPER

AIIA Response

21 January 2011

INTRODUCTION

AIIA welcomes this opportunity to provide member input to the discussion paper on a proposed Whole of Government ICT Services Panel (WISP). The paper seeks to canvass feedback on the proposals to change procurement processes and the drivers for those changes. AIIA notes the statement on the AGIMO blog that this paper does not represent draft policy; accordingly, industry input is provided to AGIMO on the basis that it will be reviewed in that context, namely as suggestions to improve the proposals for change posted in the discussion paper.

THE OBJECTIVES OF WISP

AIIA is highly supportive of the main objectives of the proposal:

- To improve efficiencies by reducing the number of panels from 87 to approximately 4;
- To encourage competition by improving the procurement processes to the benefit of all, especially SMEs.

AIIA thanks AGIMO for the opportunity to respond through this consultation process and would welcome further engagement and dialogue as the Federal Government further develops its response.

AIIA believes that the overall direction presented in the discussion paper is essentially a good move for both Government and industry and has the potential to significantly improve outcomes for both parties over current arrangements.

However, the general consensus of responses from over 400 AIIA members, who have been widely canvassed as part of this response, is that there are still continued major potential areas for review and improvement and these are discussed in this document.

As a precursor to the more detailed feedback on the discussion paper, and in the broadest sense, AIIA believes that there is a fundamental concern of industry which is that the main objectives of the proposal are at risk of being compromised for the following reasons.

In short, the most fundamental way to improve competition and assist ICT industry SMEs in doing business with Government is to ensure as much consistency as possible across all jurisdictions in which they, and other organisations, do business. Our members tell us that rather than having to address individual markets by an 'exception process', suppliers (especially SMEs) will benefit substantially if there is some guarantee that terms of access and bidding do not markedly differ. The benefit arises from NOT having to spend time and money addressing the exceptions to the practice in other jurisdictions. So in this vein, the WISP proposal departs in crucial areas from the core principles of an already successful panel environment established by the Victorian government and currently being considered by the Queensland government (a consultative process into which AIIA's Queensland Branch has had considerable input).

The proposal for reverse auctions and fees for participation introduces an additional aspect to the federal platform that is not present in Victoria or potentially Queensland. If the federal procurement and access environment differs from already established procurement environments where suppliers do business, *it is an added cost to all suppliers, with an additional burden for SMEs*. Further, it is not trivial that this proposal in itself partially departs from and compromises the **Government and Industry Principles of Engagement on ICT** at http://www.finance.gov.au/procurement/ict-procurement/docs/RG_2716_DOFD_B_DL_Pamphlet_FA.pdf in which it is acknowledged that a key aim is to enable “*equitable participation by all small, medium and large enterprises*”, and to recognise “*that the cost of engagement should be proportional to the value of the activity*”. These are principles that both government and (some) industry have signed up to; it is disappointing to see them potentially compromised by these proposals. We note that there is no case made out in the discussion paper as to why the Federal environment needs to differ markedly from state jurisdictions that have already met with industry approval; it ‘re-invents the wheel’ for no proven business or commercial outcome.

Furthermore, and before addressing the proposals in more detail AIIA suggests that the Intellect UK SME accreditation scheme, which AIIA intends to shortly introduce as a mechanism for all industry suppliers (including non AIIA members), has the potential to dovetail with the objectives of WISP and could become a constituent part of it by adding a measure of pre-validation of potential bidders under WISP, thus removing at least that aspect of the evaluation process from agencies. Further details of the SME accreditation scheme managed by Intellect UK are available from AIIA.

AIIA MEMBERSHIP INPUT - PROCESS

In establishing member responses to the proposed whole of government ICT services panel, AIIA canvassed all CEO’s and specialised interest groups such as CollabIT and the AIIA’s ACT, Queensland and Victorian Branches. Input from AIIA Branches was especially sought in Victoria and Queensland because of those states’ current or planned panel environments. This process has resulted in more than 50 detailed pieces of feedback from industry providers which have been summarized into this response.

AIIA and CollabIT members also participated in a consultative briefing with AGIMO officials during which issues were further clarified and explained.

By way of guiding principles, members believe that the following should be paramount when developing the proposed panel arrangements.

- Need for approaches to be designed to reduce costs for both Govt and industry
- Need for approaches across states/territories/federal to be coordinated and consistent
- Need for consistent terms & conditions in all business run under the panel(s)
- Mandatory versus non-mandatory agency participation
- Simplicity of getting on and staying on the panel
- Handling of conflict – removing people from the panel

- Better disclosure of contracts that have been let
- IP ownership
- Limits of business covered – capped or uncapped
- Term of panel arrangements/refresh
- Involvement of industry for review processes

To some extent the draft consultation paper attempts to meet these principles, but its proposals do not necessarily reduce the cost and effort to industry in responding to requests for business. Unless such costs *are* reduced, competition will be reduced and *agencies will pay more* to cover built-in costs industry has to bear because of the sub-optimal environment.

DISCUSSION PAPER PROPOSALS

For ease of review, this response will focus on the three key issues which have caused the most concern among AIIA members. They are:

- the proposed fee;
- the proposed reverse auction approach, and
- the threshold.

Other issues will also be covered as subsidiary issues in the paper.

Fee arrangement

Responses to this query varied, but on the whole most members believe the panel participation fee is a disincentive to SME participation in the market, and thus *runs counter to one of the government's key policy objectives*. That said, some alternative suggestions were offered, including setting it so that it applies dependent upon the size of the SME and/or the SME's success on the panel. If one of the objectives of the WISP is to foster opportunities for SMEs to participate then the fee arrangement should take in account the annual revenue of companies. In this way, for SMEs that have annual revenue of (say) less than \$500,000 their fee could be waived for the first year to enable them to win some business without the pressure of an annual subscription fee.

It was also suggested that the fee could be based on a sliding scale. A recommendation for it to be linked to revenue and more importantly cash-flow, as opposed to an upfront fee, is a popular approach. However, some members also believed that if there is to be a fee, SME's would expect something in return, such as training in how to complete the tenders and being provided with assistance from AGIMO in understanding the requirements. Particularly in their infancy, many SMEs are often run by personnel with little understanding of

how to complete tenders and therefore this task is more often than not outsourced, at quite a high cost. If this advice and assistance were forthcoming, allowing SMEs to save on outsourcing their tendering, the joining fee might be acceptable to the SME sector.

Conversely, some members expressed very strong responses that there should be no fee at all, because an SME in general has enough work to do just to get on the panel and shouldn't be penalised financially any further. Indeed it is widely believed that the process of tendering for the panel itself is a primary and non-trivial method for ensuring that only serious companies tender. A fee will simply attract those companies that can buy their way in, and as it costs more to collect, administer and account for than it raises, firms will add on all the overheads which end up as a costs to the agencies.

A small number of members believe that agencies should pay for the right of having access to pre-vetted suppliers. The presales investment for SMEs alone supports the need for "serious suppliers" i.e. if an SME is prepared to put in significant pre-sales investment to respond to the Panel RFT, then they shouldn't be penalised by having a random fee tied to their successful inclusion on the panel. In fact, service providers of all sizes already pay a huge cost to respond to service related bids. Even the simplest RFQ for an ICT service requires significantly more work in a competitive environment. This is an invisible cost to the agencies.

Evaluation and Approval

There is a widespread concern among members with the reverse auction model, particularly with the proposal that the lowest, highest, median and average prices of submitted quoted would be viewable (but not supplier identity). It would drive prices down without any relevance to "value for money" or actual deliverables, to the detriment of suppliers. Despite any couching by Govt that it may not be the case, it is inevitable that the auction idea sends the message to suppliers that price will be the highest priority. As a result, we believe it might result in a reduction of innovation, as vendors attempt to keep their prices low and not offer the full range of their services or capabilities. *ICT services are not fungible goods and the quality of outcomes is closely related to the skills, expertise and experience of the personnel being offered for any assignment and selecting between alternative teams on offer is difficult to do well using an e-auction.* E-auctions could devalue the IP and perhaps a budget range indicator might assist in limiting the number of potential bidders (and also not waste the time of those whose costs would make them uncompetitive).

Further, reverse auctions may well attract many bidders from international jurisdictions (along the lines of open web sites like www.freelancer.com) and these bidders will offer unsustainable low prices to win business; if they either wholly or principally reside in jurisdictions over which the Australian government has no control, there arise serious public policy concerns and risks associated with vetting, evaluation and management of those bidders.

RFQ processes via electronic tendering systems are usually best for commodity products and services. Labour hire is a good example of this. Otherwise, the RFQ process tends to be overly focussed on price rather than value for money. eProcurement systems can be used for more complex services, but it does require a higher degree of maturity by the buying organisation to do this well, and at this time we are not aware of any Commonwealth agency that has such experience in buying complex services through such procurement channels.

Price ranking leading to a shortlist, using a transparent eBay model can be a dangerous practice and would not lead to an appropriate or fair result. In many cases panellists will start to bid only on price and lose their focus on generating strong customer service, innovative and value add proposals. Ultimately government will begin to lose out by receiving sub-optimal service delivery. Furthermore, if an objective of the panel is to foster SME participation then these are the companies that will lose out from the reverse auction or eBay model. These are the companies that can least afford to compete on price but can instead offer better holistic value for money solutions, containing many value-adds for government.

This is a strong and genuine concern which AIIA will continue to advocate on behalf of members. The proposal is unacceptable to SMEs as it means that SMEs will have to adopt commercially unrealistic margins in order to win business. With robust competition from overseas entities, particularly at the 'under \$80,000' level, reverse auction and price visibility would strengthen the position of such vendors, disadvantaging local ones.

Because of current and future skills shortages, there is already pressure on margins as resources drive up costs without associated pricing increases. The e-auction approach is also not acceptable to those who provide sophisticated service solutions; reverse auctions should be largely kept to the supply of commodity products rather than proprietary ones.

Clearly, this strong concern points to the need to find some way of quantifying value, so that alternate/additional indicators could be included in the e-auction, and not simply lowest and highest, average and median price. AIIA would be pleased to facilitate industry-led development of a model for value quantification, through which greater emphasis would be placed on technology and not just price.

Threshold

There are unanimous comments from AIIA industry members that a higher threshold such as \$500,000 to \$1 million is considered as more appropriate for this panel and this is line with other relevant jurisdictions.

Tendering and Contract Terms

The government body responsible for managing the panel must ensure that quotation requirements are adhered to, that all panelists are given reasonable opportunities to respond to RFQs and that agencies do not alter RFQ's every time they approach the market, because this simply adds to the burden of responding and thus will add costs back to the agencies. It should be monitored through a quality assurance review of each RFQ before it is released. The quality assurance review does not need to be cumbersome, merely to ensure that key procurement requirements of the WISP are met.

To avoid confusion among government users and panellists, and to ensure consistent use of the RFQ template, the standard RFQ documentation should still be used for higher-risk or more complex procurements, with fields built in to the template to cater for the more complex procurements. Ultimately, higher risk and more complex procurements should have more tightly defined specifications and stronger terms and conditions around service acceptance, delivery etc, all of which can be accommodated under a standard RFQ form.

Simplifying contract conditions and introducing some default limits around insurance and liability will reduce the administrative and cost burden to industry and government. With respect to default insurance amounts these should be at a value that doesn't introduce too high a cost for SMEs to do business with the government.

Furthermore, and similar to the Victorian government's ICT Procurement Policies, AGIMO should consider mandating agencies to conduct risk assessments to determine the most appropriate insurance levels and liability caps.

In relation to contracting terms, AIIA has successfully negotiated more commercial and equitable terms of contract under Procure IT with the NSW government. Details are available on request. Industry urges the government to review the NSW approach and adopt the amendments into this and future contracting environments.

Refresh

To be fair to new market entrants (and to existing companies whose situations change), the panel needs to be either 'opened' periodically or managed in such a way that companies can be appointed to the panel (providing they fulfil the necessary requirements), at any time during the contract period, or at least by annual review. Limiting the window of opportunity for companies to be admitted to the panel only once every 3 or 4 years clearly disadvantages new players in the market.

When the 2006 eServices Panel RFT was released the Victorian Government conducted an initial evaluation against General Company Capability criteria. These criteria included resources, experience, company

expertise, customer service, quality systems, innovation, R&D, insurances and financial viability. This is where the future AIIA SME accreditation system may be able to play a valuable role. Companies that were successful after this general assessment went on to be assessed against the service categories they tendered for.

The benefit of evaluating companies against the general company capability criteria meant that they were generally qualified to supply ICT services to the Victorian Government even if they weren't successful following the evaluation of the specific service capabilities against service categories.

In refreshing the eServices panel in 2007 and 2009 the Victorian government was able to issue tenders to those companies that were generally qualified therefore opening the panel to new companies and fostering competition, while reducing the administrative overheads to it and industry in responding to a full RFT.

Transition to the new Arrangements

AGIMO will need to carefully manage the transition arrangements to the new approach – companies have gone to a lot of effort over the years to get themselves registered on various agency panels. To prevent disruption to companies and possibly also agencies, the new panel will need to be introduced in a way that does not disadvantage companies on existing panels – at least for the duration of their existing panel period.

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