Overview

The ICT Procurement Taskforce is a part of the Australian Government’s digital transformation agenda. The Taskforce has two objectives: to make it easier and cheaper for ICT businesses to contract with the Australian Government and to deliver better government services at a lower cost.

The Taskforce wants your feedback on how to improve innovation in government through ICT procurement. It seeks input on your experience of government ICT procurement and your ideas on how to improve it.

The digital transformation agenda

Innovations in digital technology are transforming the way Australians live and work, including how we buy goods and access services, how we collaborate in the workplace and how we engage socially. As strong adopters of digital technology, Australians expect the benefits of technology and innovation to be available across all areas of their lives, including in their engagement with government.

Australians are strong adopters of digital technology and are more connected than ever

The Australian Government understands the opportunities presented by technology to dramatically improve government services. It is committed to the digital transformation of government. This is exemplified by the newly-created Digital Transformation Agency, the National Innovation and Science Agenda including the Digital Marketplace and the Business Research and Innovation Initiative, the Cloud Computing Policy, the Cyber Security Strategy and the Government’s commitment to open data.

The ICT Procurement Taskforce is a part of this digital transformation.

The Taskforce has two objectives: to make it easier and cheaper for ICT businesses to contract with the Australian Government and to deliver better government services at a lower cost.

Procurement is the focus as it is the key gateway for the digital technology sector to provide innovative solutions to government. This gateway needs to be as open and simple as possible so that new technologies can be deployed quickly to improve government service delivery.

Despite work to improve and simplify procurement rules and processes, the Government’s approach to ICT procurement can lag behind the private sector. One example of this is cloud services, which are generally purchased on a consumption basis instead of owning the ICT assets. Despite the rapid
uptake of cloud services in the private sector and a Government commitment to increasing their use, this transformational technology has seen limited uptake across government. As such, an important area of focus for the Taskforce is identifying barriers to the Government’s adoption of innovative technologies.

There are a number of areas where Government ICT procurement could be improved. Currently, collaboration between government and industry to develop ICT solutions is limited, unsolicited proposals may not be given full consideration and agency decisions focus on agency-specific solutions rather than whole-of-government solutions, increasing the risk of duplication. Into the future, the Government’s ICT procurement decisions must consider whether the best quality service can be provided by: owning the solution, partnering for the solution, or providing the solution via high-quality interfaces.

The Taskforce has written this consultation paper to get a better understanding of the challenges industry faces in getting through the Government’s procurement gateway, and to work with industry to develop improvements to the Government’s ICT procurement processes and outcomes.

This consultation is focused on three key areas:

1. **Rules:** this section looks at the rules and policies in place that direct how procurement occurs in government. It asks how rules and policies (such as security requirements or panel arrangements) affect government procurement of technologies, especially emerging or innovative technologies.

2. **Capability:** this section looks at the capability, knowledge and skills of the public sector and how this capability may affect ICT procurement outcomes. It asks questions to explore whether government has the right capabilities to get the best technologies into government.

3. **Culture:** this section looks at the cultural factors in government that might affect ICT procurement. The questions focus on industry or external experience of government culture, and explore where this could be improved.

This consultation paper also provides a snapshot of government ICT procurement and questions to prompt thinking.

The Taskforce wants your feedback on how to improve innovation in government through ICT procurement. It seeks input on your experience of government ICT procurement and your ideas on how to improve it.

To provide input, please make a submission on the website. The formal submission period will close on 31 January 2017.

The ICT Procurement Taskforce will provide a report to the Government in early 2017. Progress updates for the Taskforce will be provided at: [www.dpmc.gov.au/ictprocurementtaskforce](http://www.dpmc.gov.au/ictprocurementtaskforce).

**Questions to prompt your thinking:**

1. **How can the Australian Government make better use of ICT procurement to increase innovation in government services?** What are the incremental and more transformational changes that could be made?

2. **Has there been a time that you tried to provide innovative ICT solutions to the Australian Government and failed?** Please provide examples about what happened, why, and what you think the impact was.
Questions to prompt your thinking:

3. In what areas of the Australian Government’s ICT procurement are the biggest opportunities for innovative technologies?

4. What are the key barriers to getting innovative technologies, such as cloud services, into the Australian Government?

5. What are the key barriers for SMEs and startups in the Australian Government’s ICT procurement process?

The Australian Government’s ICT spend is significant. In 2014-15, total expenditure was around $5.6 billion on ICT labour costs and procurement. This is made up of about $4.3 billion of operational expenditure and $1.3 billion of capital expenditure. Procurement is the key gateway that governments use to access ICT, and in particular, to bring innovative technologies into government.

Breakdown of expenditure

Expenditure on applications and infrastructure accounts for the majority of government ICT spending. In 2014-15, expenditure on applications accounted for $2.1 billion of total expenditure (37 per cent), followed by end-user infrastructure (about $0.8 billion or 13 per cent) and ICT management services (just over $0.6 billion or 11 per cent).
Contract size

Most Government ICT contracts are small and relatively short in duration. According to AusTender data on Government ICT contract commitments, between 2009-10 and 2014-15, the median contract value was about $55,000, with a median contract length of about five and a half months. Across this period, 99 per cent of all contracts reported were under $5 million, and 96 per cent of contracts were under $1 million.8

Size and duration of Australian Government ICT contracts, 2009-10 and 2014-159

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<td>MEDIAN CONTRACT VALUE</td>
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Despite the relatively small contract size, the Government’s ICT contracting is relatively concentrated with a small number of large vendors. Between 2009-10 and 2014-15, around 50 per cent of the total value of government ICT contracts went to 20 vendors, with almost half of this going to just five large vendors (HP, IBM, Telstra, Lockheed Martin Australia and Optus Networks).10

SME involvement

Small and Medium Enterprises (SMEs) provide a substantial amount of ICT products and services to the Australian Government. SMEs are defined as having less than 200 full-time equivalent staff, with ‘small enterprises’ defined as having less than 20 full-time equivalent staff. In 2014-15, contracts with SMEs accounted for almost 60 per cent of the number of ICT contracts with government, but only about 30 per cent of the total value.11

Current level of SME involvement in Australian Government ICT procurement, 2014-1512

Increasing SME involvement is one way to drive greater innovation in government service delivery. Removing barriers, lowering costs and streamlining procurement processes will allow more SMEs to compete for government work. Past reviews have suggested the following barriers to SME involvement in government ICT procurement:
• The use of panels as the major procurement mechanism in government, and the time and cost required from SMEs to participate in panel processes
• Expensive and duplicated market testing exercises – which can limit SME involvement because they are too expensive or time consuming for them
• Unrealistic terms and conditions, particularly in relation to liability risk regimes and intellectual property
• Onerous security requirements – such as system certification documentation and personnel security clearances, which can be resource-intensive and difficult for SMEs to meet.

Case Study: International comparison of SME involvement in government procurement

Like other advanced economies, the Australian economy is dominated by SMEs, with over 99 per cent of all businesses employing less than 200 people. However, compared to other nations, Australia’s SMEs are generally smaller with lower turnover and fewer staff. This is reflected in the definitions of SMEs used by different national statistics agencies: in Australia, SMEs are businesses with up to 200 employees; in the UK and EU, SMEs have up to 250 employees; and in Canada and the US SMEs have up to 500 employees.

Australia compares favourably with both the US and UK for overall level of SME involvement in procurement. The Commonwealth Procurement Rules require officials to apply procurement practices that do not unfairly discriminate against SMEs and appropriate opportunities for them to compete, and include a commitment to sourcing at least 10 per cent of procurement by value from SMEs.

Australia’s commitment of 10 per cent involvement has been consistently exceeded since its introduction in 2005. In 2014-15, 28 per cent of all Australian Government procurement contracts (direct contracts, by value) were awarded to SMEs. In addition, SMEs were involved in 31 per cent of all ICT contracts by value. In comparison, the US has a statutory goal of 23 per cent SME involvement (as prime contractor) across all government procurement. In 2015, the US achieved a SME involvement rate of 25 per cent (direct and indirect contracts). The UK has recently increased its target to 33 per cent for SME involvement in all government procurement. In 2015, the UK achieved a SME involvement rate of 27 per cent (direct and indirect contracts), against the previous target of 25 per cent.
Rules

Questions to prompt your thinking:

6. Are the Australian Government’s procurement rules easily accessible, easy to understand and navigate?

7. How could the Australian Government’s procurement rules and processes be improved to make it easier to offer innovative solutions to government?

8. What rules, including any security requirements, limit the Australian Government’s use of cloud services?

There are three tiers of rules that guide the procurement decisions of Australian Government officials. The top two tiers are mandatory and apply to all agencies – they are also universal in nature as they apply to all forms of procurement. These are outlined in the Commonwealth Resource Management Framework and the Commonwealth Procurement Framework. In addition, security requirements are set out in the Protective Security Policy Framework.

Below this, there is a third tier of rules that are created by individual agencies. These rules are agency-specific policies and guidelines that interpret the central rules and provide practical advice to officials on how procurement should be conducted. These rules can apply to ICT procurement specifically or to all forms of procurement.

Outside of specific procurement rules, there is a range of other legislation that guides the actions of government officials. For example, the Public Service Act 1999 and the Crimes Act 1914 require officials to ensure the proper use of resources, act ethically and manage any conflicts of interest.

Overview of rules relating to Australian Government procurement

- Governs how government resources are used
- Specifies how government policies should be applied (e.g., risk management, internal controls and the use of cloud services).
- The CPFs are a flexible, principles-based framework which governs how procurement is undertaken.
- Key principles include value for money, encouraging competition, ethical behavior and transparency.
- Sends effect to international obligations e.g. when open tenders are required, non-discriminatory processes and reporting requirements.
- Governs how procurement is undertaken within agencies
- Provides operational rules and processes e.g. the number of quotes or minimum insurance required
- These rules can differ markedly between agencies.

www.dpmc.gov.au/ictprocurementtaskforce
Key procurement principles: value for money and flexibility

The Commonwealth Procurement Rules, under the Commonwealth Procurement Framework, set out key principles for procurement.

Value for money is a core principle of the Commonwealth Procurement Rules. Achieving value for money requires government officials to consider relevant financial and non-financial costs and benefits such as quality, fitness for purpose, flexibility (including innovation) and whole-of-life costs. Under the rules, officials must also establish risk management processes when conducting a procurement and be satisfied that risks have been properly considered and treated.\(^\text{16}\) This includes the security risks detailed in the Protective Security Policy Framework. The Framework provides policy, guidance and advice for governance, personnel, physical and information security (including for ICT systems).

Australia is a party to a range of free trade arrangements. International obligations arising from these agreements are reflected in the current Commonwealth Procurement Rules and must be considered in the development of any new rules.

The Commonwealth Procurement Rules do not formally prevent agencies from buying innovative technologies and services. Innovation can be taken into account under the ‘flexibility of proposal’ criteria (above). In addition, the Commonwealth Procurement Rules also allow agencies to contract with industry following unsolicited proposals, as long as value for money is achieved. While the Commonwealth Procurement Rules are flexible in-principle, in combination with agency-specific rules, security requirements and contract terms, they may constrain innovative ICT technologies entering into government.

Agency-specific rules

The implementation of the Commonwealth Procurement Rules differs across agencies. The devolved nature of the Procurement Framework means that each agency can establish a third tier of rules in response to their particular business needs and risk appetite.
In practice, this means that each agency can create additional agency-specific rules or internal processes. These rules may not be publicly available and create a wide diversity of requirements across Australian Government agencies. The impact of this is that vendors must learn multiple sets of rules if they wish to contract with more than one agency. Navigating these rules can consume additional time and resources without guarantee of return.

**Role of ICT panels**

Panel arrangements are a key mechanism used by the Australian Government to streamline procurement. In a panel arrangement, an initial approach to market is made and a number of suppliers are selected – after which procurement from selected panel suppliers can be made directly, removing the need to re-approach the market. This can mean a more streamlined and efficient process for procurers. In 2015-16, over 35 per cent of government ICT contracts by number, and almost 30 per cent by value were procured through panel arrangements.

Panels can be established at a whole-of-government level or created by individual agencies. There are currently almost 70 ICT and engineering services panels across government. Agencies that need to purchase certain ICT solutions such as telecommunications, end-user hardware and data centres must purchase them through seven specific whole-of-government panels. It is estimated that the implementation of mandatory whole-of-government ICT panels has resulted in over $1.2 billion of cost reductions and savings since their introduction in 2008.

Despite the cost savings for government, for industry members, getting onto panels can be resource intensive and there is no guarantee of work once a business is on a government panel. Panels may also require certifications or indemnities that some businesses are unable or unwilling to give. In addition, panels are often for fixed terms, which can make it difficult for new businesses to get onto existing panels. As such, panel processes and conditions create barriers to working with government.

The Department of Finance provides model contracts to simplify ICT procurement through the SourceIT contract suite. Model contracts exist for simple ICT procurement (e.g. hardware acquisition) and semi-complex ICT services (e.g. systems integration). In addition, there is ongoing work to simplify government ICT procurement. For example, the Digital Marketplace aims to make it much easier for businesses to connect, transact and collaborate with government buyers. Currently, all sellers listed on the Digital Marketplace are members of the Australian Government’s Digital Service Professionals Panel. In addition to Australian Government buyers, the Marketplace is open to local, state and territory government buyers.

The Department of Finance is also developing standardised templates for new panel arrangements. These templates are designed to be used for all government procurement and include the option to create a refreshable panel where new businesses can be added during the life of the panel. The whole-of-government Cloud Services Panel arrangement is an example of this new approach.
Capability

Questions to prompt your thinking:

9. What capabilities does the Australian Government need to be able to take full advantage of digital technologies, now and in the future?

10. In your experience, what are the biggest capability gaps in Australian Government ICT procurement? How could the Government better develop or access the capability required?

11. In your experience, has the governance approach used by agencies to manage large ICT projects enabled or inhibited the success of those projects?

Digital technology has the potential to empower citizens, better target government services and make government more efficient. However, to fully realise the benefits of digital technology, the government officials (both procurement officers and decision-makers) need to have the capability to understand and deploy new technologies and effectively manage contracts over the longer-term.

Capability refers to the abilities, skills and competencies required to perform a role. Procurement is core business for government agencies. Procurement and contracting is identified as an essential capability by the Australian Public Service Leadership and Core Skills Strategy. Procurement in government is generally undertaken by procurement officers based within individual agencies and requires a range of capabilities.

Overview of key government procurement capabilities

![Overview of key government procurement capabilities diagram](https://example.com/procurement-capabilities-diagram)
Past reviews of government procurement suggest that the public sector may not always have the ICT project management, contract negotiation or business case development capabilities required for effective procurement. Such reviews have recommended the creation of career pathways and development programs in key skill areas.\textsuperscript{23,24}

In response to capability gaps, some agencies (such as Defence) have developed their own in-house procurement capability strategies and training. In addition, some state and territory governments are using partnerships with SMEs to bring key technical capabilities into government.\textsuperscript{25,26} While collaboration is often espoused as an objective of government in ICT procurement it can be difficult to achieve in practice, especially in the context of procurement rules and probity requirements. For this reason, there appears to be few formal avenues for businesses to pitch ideas or offerings to agencies, or to work with agencies to develop innovative solutions to problems.

### Case Study: state and territory governments are using partnerships with SMEs to co-develop solutions

**NSW agencies can directly engage SMEs for proof-of-concept testing or trials**

The NSW government recently implemented a new policy that empowers NSW agencies to trial innovative solutions with local startups and SMEs. The policy recognises the importance of proof-of-concept testing to create evidence about the feasibility of a solution to meet a business need under realistic operating conditions.

From October 2016, NSW agencies can engage SMEs through direct negotiation on short-term contracts valued up to $1,000,000 in order to do proof-of-concept testing or outcomes-based trials. Following a proof-of-concept trial, any subsequent procurement must be undertaken through a competitive procurement process, to give other potential suppliers scope to compete and confidence in the robustness of the procurement.

**Small Business Innovation Partnerships Program (ACT)**

The ACT’s Small Business Innovation Partnerships (SBIP) Program is a staged procurement process that connects ACT Government Directorates with innovative SMEs to co-design solutions to specific problems while supporting local businesses to commercialise their products.

Under the SBIP, a directorate identifies an issue or problem that requires a solution. Rather than moving to procure a particular product, the directorate invites SMEs to propose innovative solutions. SMEs that present a potentially viable solution are engaged to work with the directorate to develop a prototype or pilot their product over a period of up to six months. If the solution is proven to be viable, the directorate can choose to work with the SME to undertake a commercial scale rollout.

By taking a partnership approach, the SBIP provides direct opportunities to participate in government procurement focused innovation, provides a channel through which the public sector can access new, cost-effective and innovative solutions.
Culture

Questions to prompt your thinking:

12. How does culture influence the Australian Government’s approach to ICT procurement? What sort of culture change would better support innovative ICT services and get more SME and startups working with the Government?

13. What experience have you had with ‘partnering’ with the Australian Government and what is required to do it better?

Having the right culture in government is critical. Digital government, and its potential to empower citizens, better target and make government services more efficient, can only be realised if governments have a culture that enables innovation at all levels.

Culture refers to unwritten practices like attitudes, habits, values, biases, and beliefs. It can encourage or inhibit innovation. Culture shapes what we choose to do, the way we do it and our receptiveness to change. This includes our attitudes to risk and uncertainty, our willingness to experiment with new solutions and how we interpret and apply formal rules.

In 2015, the Shergold Review examined government processes for the development and implementation of large programs and projects. The review found that:

- Public servants are often reduced to process monitoring, payment processing and other administrative tasks, rather than focusing on outcomes
- Government agencies can often have a reactive and defensive culture, focused on compliance rather than performance
- Risk management responsibility is often placed away from the people who are best placed to identify risk and act on it.27

In the context of ICT procurement, the characteristics identified above could encourage public servants to prioritise the safe option over the most fit-for-purpose option, favour the status quo over new and innovative solutions and take a controls-based approach to managing security risk. This could include a ‘big procurement’ approach to ICT projects where agencies appoint a large prime contractor to manage projects and engage sub-contractors, or viewing ICT as simply a cost to be contained, rather than as an investment to boost productivity and improve services.

Notably, in situations where large prime contractors are used, the risk may be perceived to be lower as it is held with a large business. However, where sub-contractors are engaged under a prime contractor, the project risk profile can be more similar to those where contracts are made directly with SMEs. In addition, the ‘big procurement’ approach may have unintended consequences such as higher prices where two large agencies procure for the same skills/services at a similar time.
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1 Australian Communications and Media Authority. 2015. 


9 ICT Procurement Taskforce. 2016. Analysis of AusTender data from 2009-10 to 2014-15. The Telecommunications Universal Services Agency contract (CN1004881) was removed from this data, as it was a 20-year contract, covering services related to payphones, emergency call services, etc.


21 Adapted from Department of Finance. 2014. Commonwealth Procurement Rules.


24 Shergold. P. 2015. Learning from Failure: Why large government policy initiatives have gone so badly wrong in the past and how the chances of success in the future can be improved.