

PROCUREMENT AND MANAGEMENT OF ICT SERVICES IN THE NSW PUBLIC SECTOR

Organisation: Healthshare NSW
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HealthShare

HED12/108

Ms P Painter
The Committee Manager
Public Accounts Committee
Parliament of New South Wales
Macquarie Street
SYDNEY NSW 2000

Dear Ms Painter

I write in response to your request for information from **HealthShare** NSW on our Vendor Management Framework for the Inquiry into the procurement and management of ICT service within the NSW public sector.

Please find enclosed a written submission providing this **advice**.

Should your office require any further information or **clarification**, please do not hesitate to contact James Brown, Director Strategic Procurement, on 8907 1448.

Yours sincerely

Mike Rillstone
Chief Executive

HEALTHSHARE NSW RESPONSE TO THE PUBLIC ACCOUNTS COMMITTEE

TACTICAL VENDOR MANAGEMENT FRAMEWORK

BACKGROUND

In 2011 ICT contract management was audited by the Audit Office of NSW. Based on the comments received from the Audit Office it was apparent that ICT goods and services were unique and required a different management approach. This led to the development of a Tactical Vendor Management framework.

The nature of ICT goods and services is complex; and consists of software, hardware, services and telecommunications. Traditionally, procurement functions have not taken into account the extent to which ICT goods and services impact across the entire business. Contract management has tended to be undertaken in isolation and has been rightly focussed on demonstrating value for money and in ensuring deliverables and services are provided. However, this contract-centric silo approach for managing contracts had the potential to not recognise the importance of interrelationships with multiple vendors, systems and stakeholders.

The Tactical Vendor Management framework which HealthShare NSW is implementing recognises that strategic vendors are integral to the business. By taking a vendor-centric view of the delivery of ICT goods and services consideration can be given to the entire relationship, not simply the contract.

In the May 2011 to April 2012 period, 60% of HealthShare's ICT expenditure was with 10 vendors. The framework aims to develop a non-adversarial relationship which recognises that the performance of a single contract will impact on other contracts and that the leveraging of multiple contracts with vendors provides both parties with opportunities of scale.

TACTICAL VENDOR MANAGEMENT

HealthShare NSW takes the lead role in the procurement of ICT goods and services on behalf of NSW Health. Its key functions are to oversee tender preparation, vendor selection, contract negotiation, contract management and review.

In an effort to refine its role and improve contract service delivery outcomes, HealthShare NSW undertook a review of best practice in contract management, including a review of papers from Gartner Research¹. This research found that there is a trend in the ICT industry towards Vendor Management as a complementary role to Contract Management.

While Contract Management is focused on the delivery of goods and services to the required standard for individual contracts, it does this in a siloed way, only considering matters that fall within the scope of one contract.

Vendors on the other hand, take a whole of business view of their customers, and often make decisions based on the total contribution to their business of all goods and services sold to a customer, particularly one as large as NSW Health. For example, a Vendor may be willing to take a minimal profit on one contract if it places them in a better position to realise a larger profit or achieve a more strategic outcome on another contract.

HEALTHSHARE NSW OBJECTIVES

Tactical Vendor Management takes a broader approach to managing contractors, by seeking to:

- Monitor groups of key contracts for compliance issues and resolving conflicts with the Vendor at the organisational level;

¹ Gartner is an information technology research and advisory firm that provides technology related insight targeted at CIOs and senior IT leaders.

- Improve key vendor relationships by addressing performance issues in a consistent and transparent way across groups of contracts, responding quickly to vendor questions, and ultimately looking to achieve higher quality at a lower cost from vendors, perhaps through synergies across the range of contracts and services being provided;
- Promote a positive relationship between vendor and key stakeholders, which will ultimately lead to a higher standard of cooperation and service provision;
- Provide an escalation point for the resolution of matters that could not be resolved at the Contract Management level;
- Consider priorities and options for the allocation of specialists should there be resource contention;
- Bring to the table vendor concessions that have been offered for some contracts for possible realisation in other areas/contracts;
- Identify and deal with any issues or risks that may be apparent at a higher level and not at the siloed individual contract level;
- Monitor the total value of contracts awarded to a vendor which may, for example, provide negotiation and/or leverage points for future contracts; and
- Maintain an overall view of the vendor's value to the organisation and therefore dependence on it, impacting such matters as switching cost, reliance and legacy exposure.

HealthShare NSW is implementing a 4-tier structure for management of contracts and vendors along the following lines:

- 1) The Technical Project Manager is the equivalent of the vendor's Contract Coordinator. This tier involves the Contractor having frequent informal interaction with the Technical Project Manager who manages day to day service provision at an operational level. This is where the quality and timeliness of service provision is often most accurately assessed. There should be no involvement from the Vendor's Sales Manager at this level as this is simply for day-to-day operational oversight.
- 2) The Program Director is responsible for Contract Management. The Program Director and key Stakeholders meet with the Vendor on a regular basis (e.g. monthly) in a formal context where reports are presented and minutes taken. These meetings provide oversight of operational and financial matters, review service compliance and performance, manage risks and issues, and are an escalation point for matters that could not be resolved at the operational level. These meetings also consider opportunities for service improvement within the scope of the contract and monitor realisation of benefits.
- 3) The Commercial team within HealthShare NSW coordinates Tactical Vendor Management which has oversight of all product and service provision from a Vendor, in line with the Vendor Management objectives described above. This is the third tier. It is the escalation point for risks and issues that cannot be resolved at the individual contract level. Meetings will generally be held quarterly and review report summaries from the monthly meetings rather than look at all monthly reports for each contract. Quarterly reports on service performance will be written into Service Level Agreements going forward to facilitate this.
- 4) HealthShare NSW will be responsible for promoting best practice Contract Management by providing processes and templates, and ensuring that work programs/contract managers implement and follow the processes.

- 5) On the fourth tier, senior management within HealthShare NSW will be responsible for strategic vendor management. The focus is on strategic partnerships and also provides a final escalation point for unresolved issues.

In order to effectively implement the Tactical Vendor Management Framework, HealthShare NSW will be required to implement a number of critical steps including:

- Developing a performance management framework to measure and report on the value of Vendor Management, such as:
 - Efficiencies;
 - Performance improvements; and
 - Relationship quality
- Using various tools including the Gartner Vendor Scorecard and the Supply Positioning matrix to categorise Vendors according to their risk and value to the business;
- Up-skilling internal staff in the principles and tools associated with Tactical Vendor Management and how this relates to their particular roles; and
- Holding quarterly meetings supported by a Relationship Charter which sets out the objectives of Vendor meetings. The Charter is intended to elevate the importance of these meetings and assist vendors to identify the correct level of HealthShare NSW representation, as well as being an informal term of reference.

IMPLEMENTATION

The implementation of Tactical Vendor Management by HealthShare has been welcomed by key vendors. HealthShare NSW sees vendor participation in the development of the framework as being key to its success.

Initial meetings have commenced with key vendors and the program for implementation is expected to be completed by mid 2013.