

PROCUREMENT AND MANAGEMENT OF ICT SERVICES IN THE NSW PUBLIC SECTOR

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Partially Confidential

NSW Parliament Public Accounts Committee submission for its inquiry into the procurement and management of ICT services in the NSW public sector.

i. Measures to improve ICT project and contract management in the public sector, in particular in relation to contract negotiation and on-going contract management;

The basic premise of the Government contracts is related to price and only price, conditional that the tender response says it complies to the specification. i.e. Initial price seems to me to be considered THE only guide for selection. One has to ask if there is a debriefing at the end of ALL government projects of significance (say >\$50,000) on the financial and technical aspects to these projects and an analysis of what was done well (or not) and how it could have been done better.

If there was an analysis of the ICT projects, there would probably be a significant difference from the winning tendered prices to the final contract values for the majority of projects. Of course this is suggesting that there have been some changes to the project through:

- A poorly written and open original specification where responses could not be truly compared
- significant variations to the original specification due to changed requirements or a poor understanding of expectations in the specification
- misinformation in the original specification
- errors in interpretation of the original specification
- withholding of variation scope of works so that variation orders can be placed post tender award. (this opens up another subject of discussion in itself)

There is a significant spend of Government finances on consulting services (which I wonder if there is a Panel of preferred consultants and if they have to tender for their work) and in many instances their use can be justified as a result of not having specific expertise within the various agencies. What the Government seem not to recognise, is that there are many excellent contractors who also have consulting and industry expertise and there is no provision for these contractors to provide their intellectual property as part of the service and to be able to work collaboratively with an agency to minimise the cost of consulting, the cost of running a tender and the cost of managing a project.

Of course not too many contractors will wish to give away intellectual property for no reward, however I feel there are a number of contractors who would offer the service up for the reward of winning the contract. This would mean awarding some works uncontested. So how would the Government control pricing? Simple I think, and that is to use a Cost Plus model. Contractors work very closely with supplier/distributors and vendors, so a pricing model can be set up that is mutually agreeable for materials and on labour rates. Government save on engaging consultants, have preferred contractors who can truly value add their services and deliver excellent quality of their craft.

Clearly the preferred contractor list would need to be vetted, from references from vendors, suppliers, distributors, customer feedback, site installation references and expertise in the required area for the project.

Not always is the cheapest at the time of tender submission the cheapest at the end of the project, either materially or from a management perspective let alone the end product. The sweetness of a cheap winning

tender response can be quickly overtaken by the bitterness of a poorly executed project. Of course this assumes that the procurement department get to wear the effects of the project execution and in many instances this may not be the case Something else to be considered.

And how are significant variations handled once a project is underway? I am positive that when a project is awarded under the current regime, where variations do occur, it would be a rare occasion that these are put out to tender again.

ii. The efficacy of central agency policies and strategies that guide ICT projects in the public sector;

The levy of the 2.5% to the contract value payable back to the Government is something that makes the money go around. In this era and economic climate, margins on materials and labour are at an all-time low (typically single digit margins) and to have a levy that is significantly large compared to the margins is untenable. So, does the contractor absorb this levy? Or do they simply pass it on? At the end of the day, the government need contractors to be making profit and to employ as this makes the money go around, the payroll tax, the GST, the PAYG taxes, Workers Compensation insurances etc so why not abandon this levy?

iii. The adequacy of risk management and corruption prevention strategies relating to ICT procurement and contract management;

Public servants seem not to be accountable should they be found guilty of any breaches of probity or corruption let alone just making wrong decisions and/or mistakes that cost the agencies money, time and failure to meet services SLA's for the agencies. What is wrong with having some preferred contractor lists (that have currency periods of say 3 years having met defined criteria) and an open review of all projects as and when they happen? Not all Public Servants are open to corruption, not all contractors are crooked. I think it also needs a one strike and you are out policy however, for both the agency employees AND the contractors.

iv. Long-term planning to meet the ICT needs of the public sector and ensure the best value for money in the procurement of government ICT products and services; and

The setting of preferred suppliers can provide contractors/vendors/suppliers/distributors a long term vision of the scale of works and therefore attract the economy of scale in the pricing models used.

Best value for money of course does not necessarily mean the cheapest does it and I refer back to the section in item i above.

Hopefully this is of assistance.

Yours sincerely,

