

**Submission
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**PROCUREMENT AND MANAGEMENT OF ICT
SERVICES IN THE NSW PUBLIC SECTOR**

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Public Accounts Enquiry into Procurement and Management of ICT services in the NSW public sector.

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This is a topic of animated discussion amongst colleagues in the ICT profession who have become alarmed at how the public sector is paying far too much for IT systems and delivering far too little functionality for that spend, compared to what is being achieved in the private sector. Whilst compared to bureaucratic multinationals the gap is alarming enough, compared to SME who are the most efficient, the gap is criminal. Of even greater concern is the scale of failure and non-delivery that is occurring without accountability or recourse.

Government ICT projects were more successful 20 years ago than they are now, bringing into question the flawed direction government ICT procurement policy has taken over the last twenty years. Over that same time that the SME sector has seen technology cost dropping, government has been paying more. Whilst the SME sector does far more with significantly less investment, the Government sector is doing less after paying far more.

The NSW Government have become immune to the excessive costs in ICT projects. There is little reaction to a \$100M cost overrun of the department of education's ERP system. If you consider it cost \$100M to build and launch Australia's first satellite, then it is a ludicrous sum of money to be spending on a project extension of a computer system in a department. Members of parliament and senior public servants do not have real world measures to compare government ICT projects to and hence are unaware of far costs have gone out of control.

What has occurred in Queensland Health department's payroll system fiasco and in Victoria's IT shared service provider CenITex where serious improper conduct and conflicts of interest occurred are not one offs but just the tip of the iceberg of endemic problems occurring in ICT across state and federal government departments. The QLD Health department's payroll system was initially costed at \$6.19M, it had reached \$21M by the time it went live. \$110.4M has been lost due to overpayments of staff that will have to be written off and auditors expect it will cost QLD \$1.25B to rectify over the next 7 years. It would be wrong for this committee to regard these as one offs, these issues have occurred due to the flawed policies in ICT procurement. They are occurring in all government departments, whilst possibly not to the extent of the QLD Health payroll fiasco, but to a significant cost the NSW taxpayers that could be avoided.

With the declining tax revenues, Governments can no longer allow excessive spending of ICT. A case in point is that the education department is struggling to find funds to build school buildings to house the rapid growth of school populations, yet the education department has to fund a project overrun of a computer system by over a \$100M that is years behind schedule. That \$100M could have built 10 classroom blocks, but instead the education department is going to see little return from ICT investment that has many ICT professionals shaking their heads at the choice of technology that the department has gone with. ICT expenditure in the public sector is an area where significant savings can be made without impacting innovation or service to the public. Many ICT professionals believe that the public sector could deliver the same level of service for at least half the current

budget and could cut spending up to 90% in some cases. The NSW government needs to consider a radical overhaul of the processes and not just fiddling around the edges.

There is a further hidden cost from the ICT procurement costs. Not only is there a purchase cost, but there is the flow on costs that have as equally large impact to this state.

- **Lost Productivity:**

Departments have to divert resources to manage inefficient processes. For instance schools have to provide additional support as staff are having to run systems in parallel, where they are not getting additional funding for that process. I am unaware of any investigation onto the true cost of lost productivity in Government departments from flawed ICT projects, but it would be a significant cost.

- **Loss of monies:**

Government departments are losing money to fraud or as in the case of QLD Health over payments of staff, or in other cases over payments to suppliers.

- **Exposure to litigation:**

Problems such as to health systems or emergency services systems can lead to incidents that expose the government to litigation.

- **Impact on business and GDP:**

Consider the impact of the failure of computer systems to the road network in Melbourne where major arteries were closed and the city lost hours of work from delayed workers. The issue in NSW courts where lawyers refuse to use the electronic lodgement system.

The discussions amongst ICT colleagues have revolved around the following areas

1. The public sector has developed a culture of over estimating the size and complexity of projects and falsely perceives the cost of the solutions with the expectation that only large and costly vendors can provide a solution.
2. The tender system fails to protect the government from excessive costs and delivery fails whilst denying a range of vendors who provide competitive quotes and have a better track record. Vendors and repeatedly avoid penalties for failure and non-delivery.
3. The tender process does not fit with modern practices of agility development.
4. There is a culture to confound and confuse those responsible with oversight with technical jargon to avoid standard scrutiny that would apply to any other business project.
5. There is a culture of justifying rather than validating spending. It is easy to justify why we need to spend more, but that does not mean that it is the right option.
6. That there is a significant lack of transparency and accountability. Those in the ICT sector are far more aware of the significant failures in the public sector than the general public due to the level of spin and cover up.
7. That the public sector has a culture that discriminates against Australian and small business, that is at significant cost to the state government's tax revenue and GDP. It denies the government sector access to some of the best software in the world based on irrational views and undermines NSW's ability to develop a prosperous ICT industry in the state.

1. The public sector has a culture of overestimating the size and complexity of ICT projects

There is a misnomer that size introduces complexity. Business complexity remains the same between large and small organisations; it is only the volume that changes. For example the regulation and rules around paying employers do not change due to the size of the company. A small factory faces the same union awards as a large factory. The only difference is around the number of employees that they have to pay.

Where management are deceived in investing in ICT is that there is little difference in functionality between systems for a small company and a large company. The price tag between the two systems is less to do with functionality and more to do with paying for brand name. The only real requirement is to buy more hardware, nothing else. This should be linear, ie that if the factory pays twice as many employees as another factory then the hardware costs should double and the number of licences may increase but essentially the cost of payroll software should be the same.

In the QLD Health department scenario, the blame for cost was put to the complexity of the payroll process, but how is their payroll process any different to the payroll process in a private small hospital that has to pay cleaners, nurses and doctors in just the same way. The claim was a farce. Even if QLD Health had such a convoluted payroll process, then it would have been cheaper to fix the business process than pay \$21M to adapt a computer system to it.

When the public sector rejects small vendors because they claim that they do not have systems sophisticated enough for a large organisation that is untrue and just plain discrimination. The discussion should be around volume of transactions, not functionality.

2. The Tender process is failing to protect government against excess costs and failed deliveries.

ICT Professionals and the public are asking the following questions:

- Why the public sector continues to use the same vendors who have a track record of non-deliverance in the past. We are all aware of the disaster of the Queensland Health department's payroll system. Yet the participants involved in that disaster are still winning public sector tenders. It is not that these are one off cases there is a track record of cost over runs, project delays and failures to deliver by these same vendors. Why?
- Despite failures to meet the requirements of tenders again and again and again, no vendor is ever sued for failure to deliver. Why?
- If a high priced consultant specs the project and writes the tender and a high priced solution wins the tender. Then where a project fails to meet targets, it is either the failure of the consultant or a failure of the vendor, or both. Either the consultant or the vendor should face penalties or litigation, not the tax payer, yet the tax payer continues to bail out these projects.
- Despite projects going well over budget and timelines, the public sector continues to throw more money at the project beyond the tender arrangement and despite deliveries not

being achieved. Why, it should be the vendor that carries the expense of failing to meet tender requirements not the taxpayer?

Reasons for the failure of the tender process:

- Tenders are purposely being written where only a preferred solution could win. Tenders should be identifying with the business problem, not being matched to a vendor's solution.
- Consultants evaluating business needs and developing tender documents have a limited knowledge of solutions. A consultant, who only has SAP experience, has a culture and thinking that is for an SAP solution and designs a tender that only SAP would win.
- Consultants have a conflict of interest in that they are associated with vendors. Many major consulting firms used by governments are subsidiaries of vendors or have some tie to vendors.
- Vendors have become proficient at manipulating the tender process. Government sector vendors have got the tender process down to an art form where failure to deliver is deemed to be a failure of scoping in the tender document rather than a failure of the vendor to deliver what they claimed.
- To avoid embarrassment or a black mark against their career, public servants are more prepared to take the path that requirements were omitted from the tender document and that issues are under the variance provisions than to challenge the vendors on failures to meet deliveries.

3. The tender process does not fit with modern practices of agility development.

By the time an organisation has gone through a consulting process, made recommendations, defined a tender through to a vendor winning the tender, the requirements have changed due the pace of change. If a project takes longer than 2 years, it is virtually guaranteed to failure. Tenders are structured for revolutionary change, not evolutionary change and take too long. Greater success at a lower cost can come from evolutionary change that is more adaptive and reactive and involves more frequent smaller tenders.

4. Culture to use techno-speak to confuse and confound to avoid scrutiny

ICT is prone to using buzz words to confound and mystify the project. ICT can use the inexperience of others to justify excessive costs of projects and to justify blowouts and delays. Where normal management processes would apply scrutiny to a project, challenging spending and outcomes. In ICT projects, those management processes are undermined by a lack of ICT knowledge. Even ICT people can be helpless to this process due to the depth and breadth of technology where no one knows it all.

Security and the fear of hacking, allows vendors to inflate price points without any guarantees. For any executive, if the vendor says, you need to spend this money to avoid the embarrassment of a security breach, then who would say no. The fact is that the extra spend rarely does anything to reduce the exposure.

When projects fail, vendors and consulting firms are hiding behind buzz words to confound legal advice and avoid litigation despite definite failures to meet contract. The issue is in Queensland Health that litigation has not occurred, yet in the USA a similar issue with the same vendors ended up with a successful law suit.

5. There is a culture of justifying rather than validating spending

Justifying the cost on ICT does not make it a valid cost. Anything can be justified; however it does not mean that this is the best and most affordable solution. There is a lack of challenging and validating justifications. The most common justification is to use the expensive large players because they are most likely to achieve success, despite the track record to suggest the opposite.

6. That there is a significant lack of transparency and accountability.

Unfortunately there is a significant level of cover up of ICT project failures in the public service at all levels of the Government. There are a number of serious consequences of the cover up.

- Throwing more money at a project hoping to get it over the line. There are a number of ICT projects that have blown out to 7 years and the departments are still pursuing them rather than saying that was a stuff up and starting again.
- The government does not pursue litigation to recover lost tax payers funds as this would expose the failure to the public.
- If other government departments are not aware of the failure, then how can they structure tenders too avoid the same problems.
- Poor performing vendors are never black listed and never fear being black listed which would give them additional motivation to make the project successful.

7. Culture that discriminates against Australian and small business

Countries around the world build their ICT industry through giving business to their internal vendors and internal innovation. Whilst the Australian ICT industry is not expecting favouritism, they are concerned at the level of discrimination against local vendors and Small Medium Enterprises. There is an unjustified attitude that Australian innovation and expertise is inferior to overseas companies. Australia leads the world on innovation and Australia/NSW has some world leading products.

Not only is Government paying significantly more for overseas products, it can often be with less functionality than the local vendor can supply. There is also significant opportunity cost for the state in not developing NSW industry that provides employment and tax revenue.

Recommendations:

1. Oversight committee of ICT professionals who are outside of the vendor/tender process that can give advice to the minister on areas to question and challenge and scrutinise tender processes and contract negotiations. The consulting firms who write the tenders need to be scrutinised, they cannot act as the scrutineer.
2. In the USA the Federal Government has tried to bring IT spend under control by making the process transparent. They have created a Dashboard of project performance and spend that is available to public. <http://www.itdashboard.gov/portfolios> This highlights projects falling behind schedule.

To avoid the restrictions of commercial confidence, make public the cost of systems on average by criteria such as Payroll, ERP, CRM public so that it is open to comparison to private spend on similar projects in the private sector.

Parties involved with projects need to be made public. If certain firms are associated with expensive projects or delayed projects, then reputation exposure would be added incentive for vendors to ensure projects are successful. At the moment companies often gain financial reward for project overruns, now they would face reputational risk if their projects overrun.

3. Create a black list of vendors who repeatedly go over budget and project timelines.
4. Explain and justify ICT projects in plain English. Many private sector CIO's will refuse to deal with any report, quote or process that is not put in plain English.
5. Allow public servants to take risk without fear of repercussion. Ironically public servants take the expensive option with large suppliers to avoid risk of failure and its impact to their career. It would be cheaper in the long run, to allow public servants to gamble on an SME delivering a far cheaper solution where one or two may fail to deliver and not have that reflected on their career. At the end of the day the big vendors are failing to deliver anyway but with significantly more dollars at stake.
6. Change the attitude and culture of the public service towards Australian and SME business. At the end of the day Australian businesses pay the tax dollars that pay public servant salaries. Retrenchments are occurring in the public service, because Australian companies are not making the revenue that generates the tax revenue to pay public servant salaries. Multinationals are not paying the level of tax that Australian companies pay. A successful SME sector builds export revenues, grows GDP, grows employments and grows tax revenue. It is in the interest of NSW government to engage more with the SME sector and Australian businesses.