



Australian Government
Information Management Office

Mr Nick Champion MP
Chair
House of Representatives Standing Committee on Infrastructure and Communications
PO Box 6021
Parliament House
CANBERRA ACT 2600

Dear Mr Champion

Inquiry into IT pricing

Please find attached the submission from Department of Finance and Deregulation, through the Australian Government Information Management Office, on the inquiry into IT pricing.

My point of contact for this matter is Mr John Sheridan, First Assistant Secretary Agency Services; he can be contacted on 6215 1501 or by email at john.sheridan@finance.gov.au.

Please contact Mr Sheridan if you require any further information.

Yours sincerely

Ann Steward
Australian Government Chief Information Officer / Deputy Secretary

20 July 2012

**DEPARTMENT OF FINANCE AND DEREGULATION SUBMISSION
TO THE
HOUSE OF REPRESENTATIVES STANDING COMMITTEE
ON
INFRASTRUCTURE AND COMMUNICATIONS
INQUIRY INTO IT PRICING
JULY 2012**

Overview

The Department of Finance and Deregulation (Finance), welcomes the opportunity to make a submission to the Inquiry into IT pricing (July 2012) by the House of Representatives Standing Committee on Infrastructure and Communications (the Committee).

This submission focuses on the Australian Government's arrangements for the coordinated procurement of desktop hardware and Microsoft software; noting the comment made by Minister Conroy, in his letter to the Chair of the Committee on 18 May 2012, regarding the:

"....public interest in determining that the Government is securing taxpayer value for money in this area to the greatest extent possible, without being impacted by any price discrimination."

Whole-of-Government Coordinated Procurement

The whole-of-government coordinated procurement contracting arrangements were established for the procurement of goods or services that are in common use, with the aim of maximising market benefits and delivering efficiencies and savings. Expenditure on procurement by departments and agencies is optimised by aggregating the volumes of goods and services purchased to attract better prices and value for money from suppliers.

While continuing to meet the business needs of agencies, the broad aims of whole-of-government coordinated procurement are to:

- reduce the price of supply to agencies;
- contribute to a competitive and viable industry;
- establish fair, equitable and transparent processes; and
- optimise government savings through price reductions, improved efficiencies and promotion of behavioural change.

Coordinated procurement arrangements are developed following the conduct of scoping studies to examine agencies' needs, impacts on industry and the market, the supply chain, administrative and governance arrangements; and consultation with peak industry bodies.

Finance has established whole of government coordinated procurement arrangements across various information and communications technology (ICT) categories, including:

- desktop hardware;
- Microsoft software;
- telecommunications services; and
- data centre services.

These coordinated procurement arrangements can generally be accessed by various agencies across different levels of government, including:

- Federal government agencies subject to the *Financial Management and Accountability Act 1997* (FMA Agencies);
- Federal government bodies subject to the *Commonwealth Authorities and Companies Act 1997* (CAC Agencies);
- any other bodies governed by the Governor-General or State Governor or by a Minister of State of the Commonwealth or a State or Territory including departments in State or Territory Governments; and
- Incorporated companies over which the Commonwealth or a State or Territory exercises control.

Relevant Coordinated Procurement Arrangements

Of the ICT coordinated procurement arrangements, two are relevant to this enquiry:

- **Microsoft Volume Sourcing Arrangement (VSA):** Finance entered into the four year VSA with Microsoft in 2009. It provides favourable pricing and licensing conditions for the supply of Microsoft products to Australian Government agencies and bodies. The pricing is based on a volume discount off the Microsoft government retail price in Australia and includes special pricing for purchases of specific products. There are currently over 250,000 users and 290,000 devices covered by the VSA.
- **Desktop Hardware:** A whole-of-government Desktop Hardware and Associated Services Panel (DHP) was established in October 2010, through an open approach to the market. Products and services available under the panel include desktop hardware, mobile IT equipment (laptop and tablets), monitors, and services associated with the delivery and installation of the equipment. The Australian Government has purchased an average of 7,000 computers per quarter over the life of the panel

VALUE FOR MONEY

The implementation of ICT coordinated procurement has achieved cost savings and considerably improved the value for money being achieved in the procurement of ICT goods and services across the Australian Government. Other benefits include enhanced contract terms and savings in procurement costs from avoiding overheads associated with tendering and negotiation.

Microsoft VSA

At the time of signature, the Microsoft VSA was expected to achieve cost reductions of around \$60 million over its four-year life. As at 30 June 2012, the VSA is being utilised by over 100 FMA and CAC agencies and has achieved cost reductions of over \$82 million. It is now projected to achieve costs savings in excess of \$90 million over its life. Other benefits achieved include flexibility to reallocate licences across agencies resulting from changes in Ministerial and agency administrative arrangements. This condition has contributed over \$2 million to the savings.

Desktop Hardware

Since implementation of the DHP, desktop pricing offered to the Australian Government has steadily declined. The Australian Government is now paying more than 50% less than the Australian market average for standard desktops and more than 25% less for standard laptops. Benchmarking, using average pricing data provided by Gartner, demonstrates that savings in excess of \$20 million have been achieved as at 30 June 2012.

Agencies are able to purchase a range of desktop, laptops, tablets and monitors from the panel, as well as services associated with the delivery and installation of the equipment. Competition is maintained by conducting a quarterly 'best and final offer' (BaFO) process. Agencies are canvassed for their intentions to purchase these products quarterly. Based on this whole-of-government aggregated demand, suppliers on the DHP are requested to provide BaFOs for assessment to gain preferred supplier status for each of the product categories. The assessment considers the statement of requirement, independent benchmark performance testing, and total cost of ownership.

The DHP is available for, and has been utilised by, state governments and non-FMA Act agencies. Purchases by such entities total some \$1.2 million, less than 1% of total panel procurement.

OVERSEAS COMPARISONS

Our benchmarking and comparison efforts indicate that differing results have been achieved by the VSA and the DHP.

Desktop Hardware

The DHP experience demonstrates that government, under the right circumstances, can achieve competitive pricing. The Gartner data shows that the price for standard desktop computers paid by the Australian Government is considerably better than that paid by the US professional market, once our contract inclusions are taken into account. Even without valuing these inclusions, the most recent data indicates a price differential in the Australian Government's favour of more than 15%. A search of prices paid by the Singapore Government, as detailed on their procurement website, yields similar results.

Microsoft Software

Microsoft does not sell directly to the Australian Government but uses a 'large account reseller' (LAR). The Government negotiates the discount percentage and contract

arrangements with Microsoft and these are applied to the price the LAR charges the Government. This arrangement does not apply to all other governments and specifically not to the US Government. Microsoft has been reluctant to amend this model.

Consequently, the Australian Government conducted a competitive tender for LAR services in 2008 and again in 2011. Data#3 Pty Ltd was the successful tenderer in both procurements. While the details are not released publicly, in order to protect the Government's ongoing commercial advantage, the LAR margins experienced have been very significantly reduced because of this competition. Data#3's performance of the contract has been very satisfactory. Nevertheless, this procurement structure appears to provide little additional value to the Australian Government and introduces additional complexity and some extra cost.

The discounts agreed as part of the VSA negotiation apply for the life of the contract. At the time of signature, the exchange rate from the Australian dollar to the US dollar was \$0.64. Over the negotiation period, more than six months, it had varied quite substantially. At that time, the base Microsoft Australian Government prices were calculated as being about 13% higher than equivalent US prices. Given variations between the US and Australian situations, this appeared reasonable.

Following the improvement in the exchange rate over the last three years, Gartner advice indicates that the difference in the base government price means that the US Government is paying some 50% less than the base government price in Australia. The Singapore Government prices also appear to be some 50% below those charged to the Australian Government. It is, of course, very difficult to predict future exchange rate variations at the time of contract signature, particularly over a four-year contract period. Contracts agreed in Australian dollars, the normal practice, will always be subject to such variations.

BROADER APPLICABILITY OF THESE ARRANGEMENTS

The coordinated procurement arrangements that support the competitive pricing achieved by the Australian Government for desktop hardware and Microsoft software have several unique features that limit their applicability to the wider Australian community:

- **Economies of Scale:** The scale of these procurements is significant and, in any circumstances, could be expected to generate discounted pricing.
- **Mandated Use:** FMA Act agencies must use these arrangements. Consequently, the vendors know there is no alternative and are thus motivated to participate effectively.
- **Tight Coordination:** Central coordination of the procurements ensures the benefits are achieved and compliance is maintained. Skilled procurement staff, dedicated to these functions, develop considerable experience over time, further reinforcing the success.
- **Standardisation:** These procurements consolidate the requirements of agencies and then seek standard solutions. Such standards facilitate the delivery of bulk purchases and contribute to reduced prices.

CONCLUSION

The coordinated procurement arrangements used by the Australian Government for desktop hardware and Microsoft software ensure that value for money is achieved in these procurements.

The Microsoft VSA arrangements are, necessarily, subject to variations in the exchange rate and thus the costs relative to those experienced by other governments will vary proportionally. Contract negotiations will continue to take such variations into account in an appropriate manner.