

Senate Finance and Public Administration Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Finance and Administration Portfolio

Department of Finance and Administration

Supplementary Estimates Hearings 2002-2003 – 20 November 2002

Question: F48

Programme 10 (former Office of Asset Sales and IT Outsourcing), Outcome 2

Topic: Health Group IT Outsourcing

Hansard Page: F&PA 62

Senator Ray asked:

I wonder whether, with the transparency of government, there was any mention in the press release when this contract was awarded of some of the problems that were associated with it. Just for transparency's sake. Was there? You cannot answer that; maybe your advisers can.

Answer:

The Press Release (attached) announced the selection of the preferred tenderer and the outcomes of the tender process. It did not refer to elements of the tender process.



Minister for Finance and Administration

THE HON JOHN FAHEY MP

**Minister for Communications, Information
Technology and the Arts**

SENATOR THE HON RICHARD ALSTON

JOINT MEDIA RELEASE

58/99

IT&T BOOST FOR HEALTH AGENCIES

The Government is pleased to announce that it has selected majority Australian-owned IBM Global Services Australia (IBM GSA) as the preferred tenderer for the provision of IT&T infrastructure services to the Department of Health and Aged Care (Health) and the Health Insurance Commission (HIC).

With a contract value in excess of \$350 million over five years, this represents one of the largest IT outsourcing contracts to be awarded under the Commonwealth's IT Infrastructure Outsourcing Initiative.

The contract will allow the Health group agencies to gain faster access to technological advances, provide improved service to clients and save taxpayers money.

Over a five year term, this outsourcing contract will deliver savings in the order of \$54 million. Once again, the IT Outsourcing Initiative has produced excellent financial results for Australian taxpayers and the Australian IT industry.

The HIC currently provides IT services to Medibank Private Limited (MPL) from shared data processing facilities. To finalise the implementation of the Government's decision to separate the business and operations of Medibank Private from the HIC, Medibank Private has also elected to negotiate a separate outsourcing contract with IBM GSA for the mainframe data processing services currently provided by the HIC.

The agreement will contain strict privacy, security and confidentiality arrangements, including the application of the *Privacy Act*.

IBM GSA has been selected as preferred tenderer following a highly competitive and rigorous tendering process. To win this tender, IBM GSA not only had to provide immediate benefits to taxpayers and deliver improved technical service delivery to the Health Group agencies; it had to also commit to deliver significant long term benefits to the Australian IT&T industry.

IBM GSA's industry development commitments include:

- **Some \$70 million of work will flow to Australian small and medium enterprises**

IBM GSA has entered into a strategic alliance with Hallis Pty Ltd of Melbourne who will provide call centre services to the Health Group Agencies. IBM GSA has also entered into teaming arrangements with Exceed of Canberra, TSG of Canberra, and Mail Management of Sydney. ASI Solutions will provide Australian PC equipment and support to Health and HIC.

- **\$260 million of products and services will be sourced and developed within Australia.**
- **New business initiatives which will generate over \$100 million of export revenue (including over \$24 million of exports by SMEs), Strategic Investment of \$9.47 million and the creation of 282 new jobs, of which 160 will be located in regional Australia.**

A summary of these new business initiatives is provided in the Annexure to this media release.

Regional Australia is a particular beneficiary of the Health Group Outsourcing:

- Canberra will benefit from the Health Group outsourcing as 256 jobs (93% of the jobs needed to deliver IT services to the Health Group) will be retained in Canberra.
- 105 new jobs will be created in Brisbane as a result of the enhancement of the Technical Assistance Centre previously established by IBM; and
- 50 new jobs in regional Australia will result from work associated with the Telstra Core Network Design project.

These industry development commitments are subject to a financial sanction regime administered and monitored by the Department of Communications Information Technology and the Arts (DOCITA).

The achievement of substantial benefits for the Commonwealth and industry through the outsourcing of the Health Group's IT infrastructure once again validates the Government's strategy to outsource. Health Group agencies will achieve improved technical service delivery enabling them to focus on their own policy and client service imperatives.

The Government is determined to use outsourcing to promote the growth and development of the Australian IT&T industries, particularly through the involvement of local companies and the identification of opportunities for regional development.

Full handover of operations to IBM GSA is expected in March 2000.

Canberra
Thursday, 23 September 1999

Annexure to Media Release**IBM GSA NEW BUSINESS INITIATIVES**

- IBM GSA will enter into a world wide marketing and development agreement with Wizard Information Services Pty Ltd. This arrangement is anticipated to accelerate the take up of the WizDom software product internationally by capitalising on IBM's international distribution channels. In demonstration of their commitment to Wizard, IBM GSA is committing not only to initial investment to assist in the establishment of the arrangements with Wizard, IBM GSA is also committing to deliver \$1 million in export revenue to be generated from the sale of the WizDom product in the first 2 years of the relationship.
- Similarly, IBM GSA will enter into a marketing arrangement with Approved Systems, although this will have an initial focus on the Australian market.
- IBM GSA is also committing to the establishment of an Asia Pacific IT Services Export Centre (APITSEC) which will be based in Sydney. The Centre will provide a discrete set of export services support activities and applications development throughout the Asia Pacific region. A key factor in relation to this Centre, is that IBM GSA commits to using a range of Australian SME subcontractors to deliver a minimum of 30 percent of the IT services work generated by APITSEC. As a consequence, over \$24 million of export revenue generated by the Centre will be earned by Australian SMEs.
- IBM GSA also commits to further develop the Australian IT Technical Assistance Centre which was established in Brisbane earlier this year. Over the next five years, this enhancement will result in the creation of an average of 112 new jobs of which 105 will be in Brisbane. This centre will deliver net exports of more than \$39 million primarily servicing clients based in the Philippines and Singapore.
- Lexmark, one of IBM GSA's partners in the Health Group bid, has committed to relocate its corporate accounting division from Asia to Sydney, and to manufacture high-end laser printers in Sydney. This is a direct replacement of imported technology with an expansion of manufacturing facilities in Australia.
- IBM GSA will also collaborate with the University of Ballarat to develop an electronic script pilot, which may lead to a complete re-engineering of the traditional prescriber-dispenser relationship between Doctors and Pharmacists. The pilot will initially commence with electronic prescriptions being delivered from a number of medical practices in Ballarat representing some 60 GPs and 18 Pharmacies. Using secure transfer mechanisms over the internet, the Doctors and Pharmacies would have access to medication history and drug management data in relation to patients. Patients would also be provided with Smartcards to hold all their relevant drug related data. In addition to making a cash contribution to the University's project of \$400,000, IBMGSA will also provide \$200,000 worth of computing equipment and services to the project.
- IBM GSA will provide a strategic piece of software costing over \$500,000 to ASI solutions for the establishment of ASI's manufacturing operations in the Northern Territory.
- Finally, Telstra, as a partner with IBMGSA, will contractually commit to ensure that as part of its core network design and construction works (a program valued at

\$1.5 billion) \$35 million of the labour component of this program will be awarded to Australian SMEs. Again this is a substantial amount of business which will be awarded to SME's because of the Health Group Outsourcing tender.