

CLOUD

DATA CENTRE

MANAGED SERVICES

MANAGED PRINT

PROFESSIONAL SERVICES

EDUCATION

PROCUREMENT

LICENSING

SECURITY

BUSINESS SOLUTIONS

APPLICATION DEVELOPMENT

WORKFORCE MANAGEMENT

**Public Accounts Committee**

# **Inquiry into Information and Communications Technology (ICT) Procurement and Contract Management**

**Submission**

**DATACOM**

Level 2, 184 Adelaide Terrace, East Perth, WA 6004 Australia  
[www.datacom.com.au](http://www.datacom.com.au)

## Document Control

Item	Information
<b>Document Type</b>	Submission
<b>File Name</b>	Datacom – PAC Inquiry Submission.docx
<b>Version</b>	1.0
<b>Customer Name</b>	Public Accounts Committee
<b>Prepared for</b>	The Chairman
<b>Prepared by</b>	David Cox
<b>Project Name</b>	Inquiry into Information and Communications Technology (ICT) Procurement and Contract Management

## Document Revision History

Version	Date	Changed by	Amendments
0.1	11/08/15	David Cox	Created
1.0	11/09/15	David Cox	Released

## Contributors & Reviewers

Name	Title	Company
David Cox	Services Specialist	Datacom WA
David Povey	Director, WA	Datacom WA

## Signatories

\_\_\_\_\_  
David Povey – Director, WA

\_\_\_\_\_  
David Cox – Services Specialist

## Contents

1. Introduction.....	3
2. ICT Trends & Impact on Government Procurement .....	4
3. New Zealand Government Case Study.....	7
3.1 The Key Drivers .....	7
3.2 The Solution .....	8
3.3 The Timeline .....	9
3.4 The Benefits .....	9
3.5 The Critical Success Factors .....	10
4. Conclusion .....	11

# 1. Introduction

Datacom is a major provider of IT services and solutions across the Australasian region. Our company was founded 50 years ago and now has more than 4,000 staff operating in 23 offices throughout Australia, New Zealand, Malaysia and The Philippines. We are a privately owned company with annual revenues approaching \$1 Billion. While we serve clients across a diverse range of industry sectors, public sector customers account for more than half of our revenues. We provide a broad range of ICT solutions and services to local, state and federal/central government agencies.

The geographical nature of our business has provided us with the opportunity to experience the different approaches that governments across our region have adopted with regards the procurement of ICT products and services. Of the regions in which we operate, the New Zealand Government has, in our opinion, been the most innovative in terms of transforming the way in which they procure ICT products and services. The NZ model is in its third year of operation providing a proven approach for evaluation.

We believe that the achievements that have been realised within New Zealand provide a model that is worthy of evaluation by WA Government. Our submission provides a high level summary of the objectives, approach and achievements of the NZ Government's procurement transformation.

## 2. ICT Trends & Impact on Government Procurement

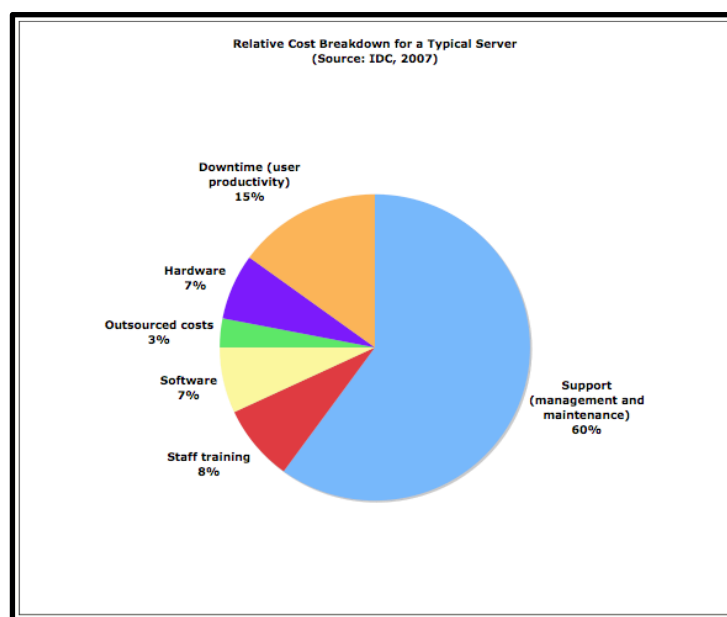
Over the past 10 years, ICT infrastructure has become increasingly commoditised. As a result, the majority of applications that government departments depend upon can be operated on hardware and software platforms that incorporate the same fundamental technology components that can be procured from a range of manufacturers. This has resulted in substantial competition within the industry that in turn has led to a number of key benefits:

- Substantial cost reductions in the initial acquisition of core ICT hardware
- Technological advancements that has delivered dramatic increases in performance verse relative cost
- Standardisations of skill sets required to support and manage ICT infrastructure platforms.

ICT infrastructure platforms are comprised of multiple elements. When calculating the cost of operating these platforms over their productive life, the cost of each of the following elements needs to be considered:

- Initial capital cost of the hardware
- Software licensing
- Data Centre hosting
- Electricity
- Support and management.

Many studies have been conducted to determine the true cost of operating and managing ICT infrastructure platforms over a three-year period. These studies have identified that the initial capital cost of acquiring the hardware represents only 7% of the total cost.



Despite this fact, government procurement departments devote significant resources developing and managing Common Use Arrangements (CUA's) that aim to drive cost reductions on the purchase of commodity hardware products. This represents an inefficient allocation of resources for the following reasons:

1. Cost savings initiatives that target the smallest cost element provide the lowest return on investment. For example, a 20% price saving on an element that represents 7% of the total cost, will only deliver an overall saving of 1.4%. Efforts that drive price reductions on higher cost components, or multiple components will provide a significantly better return for government
2. Global industry competition is driving continual price reductions on hardware. This trend will continue irrespective of the efforts of individual government procurement departments.

Another recent trend in the ICT industry has been the advent of cloud computing. This concept provides an outcomes based, consumption model for the delivery of ICT services in which users are charged only for the services that they consume. A commonly adopted model of cloud computing is Infrastructure as a Service (IaaS). This incorporates all of the elements that comprise ICT infrastructure listed previously, and provides them to clients under a simplified pricing model.

Cloud computing also offers the following benefits:

- Cost reductions that can be achieved on the price of IaaS apply across all of the ICT infrastructure elements, representing a better return on effort for procurement departments
- Reduces the need for large capital acquisition of ICT hardware and software technologies
- Provides organisations with a more transparent view of the total cost of providing ICT services
- Reduces the complexity of delivering ICT services.

The adoption of cloud computing has been rapidly increasing across the Asia Pacific region. Governments in other jurisdictions have realised that significant cost savings can be achieved through the adoption of cloud computing.

# 3. New Zealand

## Government Case Study

In 2010 the New Zealand Government announced a strategic ICT plan with the following vision: “By 2017, New Zealand’s public services will be radically transformed for the benefit of all New Zealanders – and ICT is a key underpinning and enabling tool that will make this possible.”

### 3.1 The Key Drivers

In formulating what was to become known as the, “All-of-Government” ICT initiative in New Zealand, a Government Directions and Priorities Strategy was created specifically that highlighted the following key drivers for change:

- Strengthen cross-Government business capability
- Rationalise investment, procurement and delivery of ICT infrastructure and software
- Improve operational ICT management by:
  - Improving ICT cost structures by leveraging operational scale across government
  - Engaging with the ICT industry to improve innovation and reduce costs
- Eliminate capital investment in commodity ICT assets
- Provide a reliable and consistent ICT platform to support the electronic delivery of services to the community
- Reduce risk by:
  - Centralising Government data into fewer, highly resilient data centres
  - Provide all Departments with access to Disaster Recovery facilities
- Reduce duplication of ICT resources across departments including:
  - Data Centres
  - ICT infrastructure
  - Software licensing
  - ICT Operational staff
- Reduce the number of government employees associated with the operational management of ICT infrastructure to enable greater investment in staff focussed on enhancing the electronic delivery of government services.
- Realise anticipated savings of \$100m per annum.



## 3.2 The Solution

To meet these key drivers the government identified that significant change was needed in the way in which ICT products and services were procured. One of the key initiatives of the strategy was the development and implementation of a whole of government cloud policy, which required a government Infrastructure as a Service (IaaS) platform to be established that would be used by all agencies. To achieve this the New Zealand Government defined the requirements and standards for the IaaS platform. A tender process was then undertaken to select three companies to build the platform and deliver the service. The government believed that this approach provided sufficient market competition, while also providing the opportunity to all three companies to secure sufficient volume of business over the term of the 10-year contract to achieve an adequate return on investment.

This approach provided all government departments with a standard and consistent ICT platform on which they could deploy and operate the majority of their applications. The services were to be delivered under a pricing model that complied with the following requirements:

- Uniform cost model across all three providers to enable transparent comparison of prices.
- Departments were free to choose which of the three providers they would work with.
- Aggregated volume price discounts that ensured price reductions for all agencies once defined volume milestones were achieved.
- Contracted annual price reductions to reflect efficiencies and cost reductions in hardware.
- Fixed price transition-in services to move application workloads to the IaaS platform.

The government appointed the Department of Internal Affairs (DIA) to act as the lead agency to manage and oversee the contract. DIA established a head agreement with each of the three providers that included:

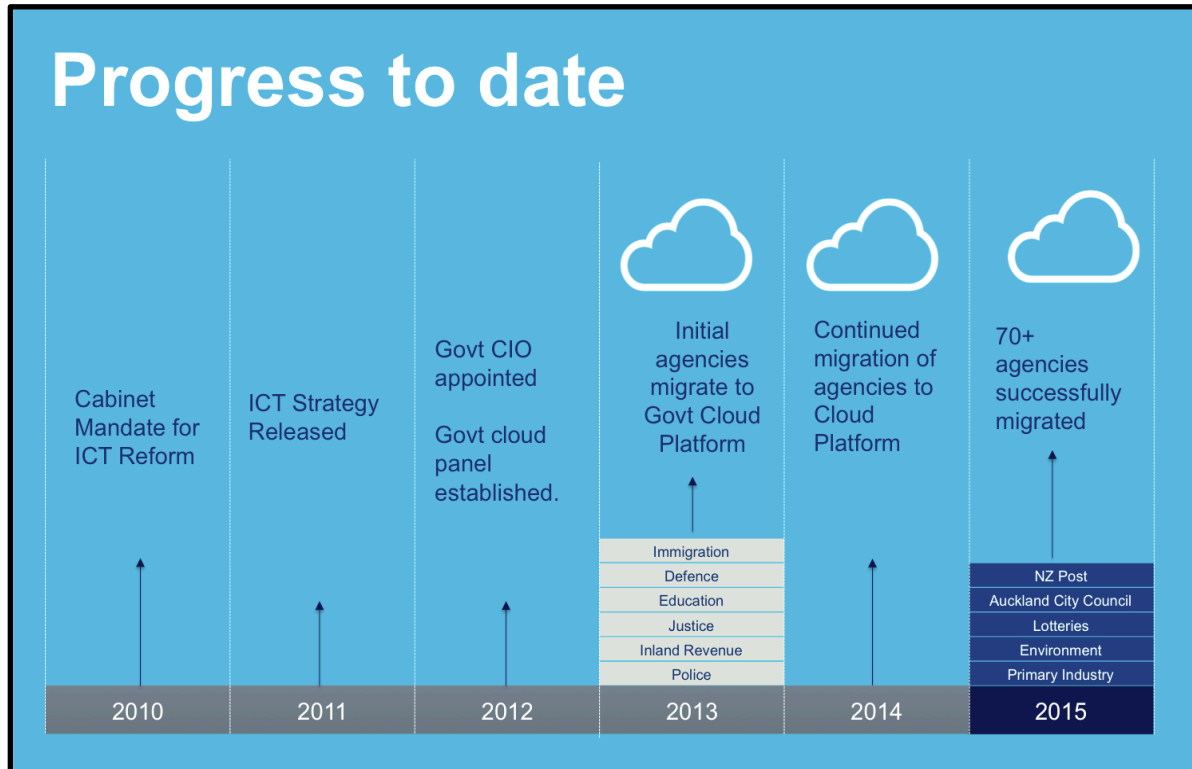
- Service Catalogue that defined the services to be provided
- Pricing
- Service Levels
- Commercial terms and conditions.

Once an agency selected a service provider they were required to sign a Participating Agency Agreement (Subscription Agreement) that defined:

- Specific definition of service components to be supplied.
- Assignment of weighting to service level rebates.
- Definition of Transition plan and costs.

### 3.3 The Timeline

The diagram below illustrates the timeframe under which the policy was formulated and implemented.



### 3.4 The Benefits

The whole of government cloud strategy has delivered the following benefits:

- The transfer of capital investment from the public to private sector. Industry invested approximately \$150M in establishing the cloud platforms.
- Reductions in the number of government employees and contractors associated with the operational management of ICT infrastructure.
- Consistent pricing model that ensures smaller agencies benefit from aggregated volume discounts.
- Reduced risk by:
  - Consolidating data into fewer, resilient data centres
  - Ensure data is protected through consistent backup and retention policies
  - Provision of disaster recovery capability to all agencies
- Reduced costs. The government has reported that they are on track to achieve their \$100M pa cost savings.

## 3.5 The Critical Success Factors

The following factors have been considered critical to the success of the New Zealand Government cloud initiative:

- The strategy had the support of cabinet
- An appointment of a Government CIO with high level government support to oversee the implementation of the strategy
- The policy was mandated with agencies requiring Ministerial approval to opt out. This ensured economies of scale was achieved and volume price discounts achieved
- A manageable number of service providers. A panel of three providers ensured market competition, while providing industry with sufficient opportunity to underpin the required investment.

# 4. Conclusion

Datacom believes that the New Zealand cloud strategy is worthy of further evaluation by WA Government for the following reasons:

- The strategy was formulated to achieve many of the same outcomes that are desired by WA
- The policy has been operational for a number of years providing an adequate timeframe to assess its success
- The size, scale and structure of NZ Government are similar to that of WA, and consequently the model could be easily replicated.

Should the Committee decide to conduct an evaluation of the NZ model Datacom would be able to provide appropriate contacts within New Zealand Government for Committee members to initiate contact.