

ALTERNATIVE METHODS OF SERVICE DELIVERY: INSOURCING OR OUTSOURCING

Traditionally, governments have provided public infrastructure and services. This role was supported by the view that the private sector's supply of these services may lead to some form of market failure, which could cause higher costs, or the required level of service would be impractical for the private sector to provide.

As governments' experience and capacity to regulate private sector providers have improved and the private sector is becoming more willing to supply public infrastructure and services, governments have become increasingly prepared to contemplate the various forms of non-government service provision and privatisation.

Governments have generally pursued alternative forms of service delivery to identify the least cost method. Technology improvements have also facilitated the disaggregation of the costs of providing government services and this has facilitated the packaging of particular services for delivery by alternative means.

This chapter provides a summary of the options available for alternative forms of service delivery, including outsourcing and privatisation, and the processes to be undertaken to achieve an effective outcome when alternative means of service delivery are adopted. Rather than being a definitive guide, a general approach is presented for consideration.

Case studies are presented on outsourcing in the Northern Territory. An example of privatisation of a market-related service is also provided.

DEVELOPMENTS IN GOVERNMENT OWNERSHIP

Moves towards privatisation and outsourcing by governments were discussed in an earlier edition of *Issues in Public Finance (Budget Paper No 3, Chapter 8, 1998-99)*. It was explained that government provision had previously been the preferred model of service delivery, due to the belief that private provision would result in the goods and services being under-provided or too highly priced.

Such market failure is particularly apparent with infrastructure, and may have the following characteristics:

- natural monopolies which could give rise to monopoly pricing, if privately owned;
- building facilities to minimum feasible sizes as they are indivisible;
- existence of high external benefits and costs, such that those who benefit may not pay and those who suffer the costs may not be compensated; and
- public goods where it is not feasible to identify and charge all users.

Government ownership or service provision in the past has generally been preferred to regulating a private monopoly or to subsidising, or arranging supply by, a private provider. It has also been considered

that government businesses are more likely to act in the public interest by restraining prices and ensuring sufficient supply.

However, previously held notions that government ownership of certain businesses or activities is an appropriate or effective intervention in the marketplace, is being overturned by a growing acceptance that the community's interests can be better handled by government being the business regulator and/or through contracted community service provision.

There is a wide range of processes through which activities, assets or functions can, in effect, be transferred from government to the private sector. These include:

- privatising management (rather than ownership) of government businesses and activities, either via 'corporatisation' or the tendering-out of management itself for a fixed period, and allowing the government business to operate like a private firm for the duration of such an arrangement. However, the assets and liabilities remain with government;
- privatising ownership of businesses as a whole, or of individual assets, usually termed 'privatisation' or asset sales; and
- privatising the provision of certain goods or services to, or on behalf of, government via various outsourcing or contracting-out arrangements.

This chapter concentrates on the comparative practices of insourcing or outsourcing in a more commercial environment.

SERVICE DELIVERY OPTIONS

Traditionally, government services were provided through the provision of funds to an agency to supply either a single or a

range of services. In the past, governments have only budgeted and reported on the allocation and disbursements of these funds. This form of reporting generally focused on compliance with appropriations.

Concurrent with increased emphasis on 'value for money' and greater efficiency and productivity principles governments have shifted their focus to costing services, either as a specified unit or over a particular period of time, for example, the financial year. One example of this trend is the development of output budgeting which involves the full costing to achieve a specified outcome. The adoption of output budgeting and the drive to quantify unit costs have assisted governments' general move to funding of outputs.

In practice, however, there are many services that are indivisible given their nature or where unit costs cannot be derived due to the accounting system adopted. Where services are indivisible or cannot be broken down into discrete components, the service can only be funded as a 'block'. By its nature alone, block funding tends to limit government to the traditional 'fund and supply' approach.

Improved ability to quantify unit costs has provided a wide range of non-traditional service delivery options. These include:

- in-house charging where inputs are purchased;
- funder-purchaser-provider models which generally rely on specification of inputs and outputs;
- outsourcing which generally specifies unit pricing for a standard of service; and
- privatisation where the government's responsibility for service provision is transferred to the private sector.

The reason for adopting a 'non-traditional' form of service delivery involving one or more of these modes is generally to increase accountability by specifying:

- what is to be provided; and
- at what standard and, in some cases, what prices.

This increased knowledge about the specific costs of producing a given level of output promotes efficiencies by lowering unit costs, and/or through the more effective use of capital, and enables comparisons of performance to be made. This can be within the particular function itself over time or, more importantly, with like institutions, both public and private.

Specification of the service and its standard are crucial in all cases whether management is provided internally or externally.

The choice of internal or external provider generally depends on the market's capability to provide the services in question more efficiently and effectively than the government. If a profit element is involved, then the efficiencies or related benefits need to be greater than the profit element included in the price for an equivalent level of service delivery.

The following are four standard forms of more commercially-oriented government service provision.

In-house Pricing is an arrangement where an agency within government provides a service to another government agency and charges for that service. The price generally only relates to an input purchased. The government provider may be a monopoly provider or may operate in a competitive market. Internal charging allows an agency with specialist skills to establish a pricing structure that reflects its costs and allows for a comparison with other similar providers.

Charging generally ensures that specialist skills are valued appropriately by users. The lack of an appropriate charge can lead to inefficient use of specialist skills. It may also be possible to bring together specialist skills enabling the capture of economies of scale by reducing duplication across government.

The difficulties associated with identifying and quantifying costs in in-house pricing may result in ineffectual recoupment of direct and indirect costs. In addition, the absence of market pressure can also complicate the establishment of appropriate standards.

In-house pricing may not achieve the efficiencies that a private sector provider is able to achieve, as the private provider adopts policies and strategies to maximise profit and, ultimately, owner's dividends. However, government can only mimic these principles as:

- profit motives are generally accorded a low priority in the public sector as the profit cannot be maximised for personal or corporate gain;
- the existence of government entities are not directly linked to profitability so cost minimisation is not a strong driver; and
- government entities are not exposed to full market pressures.

Therefore, while pseudo-competitive policies, for example, in-house pricing may reduce prices, they generally do not achieve the efficiencies of their private sector counterparts. However, if the private sector does not have the relevant specialist skills that in some cases reside predominantly in government, then in-house pricing is a good method to assist in better resource management, at least until the private sector can obtain the skills needed.

Funder-purchaser-provider models require the separation of policy and service delivery responsibilities. The implementation of these models involves effective benchmarking of the cost of services. Where the provider is a public sector entity, this arrangement resembles in-house pricing. Where the provider is a private sector entity, this arrangement can be considered a form of outsourcing. The funder-purchaser-provider models can involve the specification of inputs and outputs and may provide an opportunity for competition with government business units.

Outsourcing involves the government switching focus from being a producer or a provider to being a purchaser. Often outsourcing involves transferring a function previously performed in-house to an outside provider. The benefits of outsourcing may include:

- achieving a least cost position;
- in some cases, promoting economic development by fostering the private sector; and
- clarifying whether current government activities are effective in meeting underlying policy goals.

Such initial benefits can be lost if ongoing contract monitoring is not effective or efficient, or if contracts are poorly specified.

Privatisation involves government switching focus from being an owner of a service to being a regulator and purchaser when needed. Privatisation is most evident in situations where the goods and services being produced are essentially private goods, and substantially paid for by end-users. This process often involves either the full or partial sale of a government business. The benefits from privatisation

arise from the fact that private sector entities operate under a profit maximisation principle which results in:

- conscious minimisation of costs;
- increased pressure to recognise customer needs; and
- salary-incentive-based human resource management.

Further analysis of outsourcing and privatisation indicates that costs and constraints arising from these arrangements may include:

- increased transaction and compliance costs in the establishment and monitoring of the contract or regulations;
- loss of in-house expertise; and
- risk of the service not being delivered if relations with the private sector entity deteriorate, for example, a payment dispute. If the financial penalties are insufficient, a private sector entity may stop supply where it is not feasible to continue the arrangement.

Efficiencies gained by government procuring services from the private sector are generally greater than what is achievable within the public sector. This is due to the private sector having the key goal of profit maximisation, whereas government is characterised by multiple objectives, of which profit maximisation may be less important. Objectives such as job creation in dispersed regions may, at times, conflict with the most efficient delivery of service. A key task is to ensure that inefficiencies are not produced through service standards that are reduced below those required.

However, the private sector may not be the best supplier of services where the:

- overall size of the economy is small and the lack of potential suppliers is likely to result in limited competition; or
- smaller size of the public sector may result in the loss or absence of necessary contract management skills within government, for example, negotiation, administration and monitoring, that may be available in larger jurisdictions.

Government procuring services from the private sector can produce economic benefits from the fostering of local industry. Government is a large employer and this means it is possible for reasonably sized functions to be outsourced. This can facilitate the service provider competing for more services both locally and in other locations, such as Asia. For those services that are locally provided to both public and private sectors, the larger market size may enable lower unit costs which may also be passed onto local industries in the form of lower prices.

These gains may be short term and may not translate into long term benefits. Benefits may not be sustainable where a local industry supplier is either a branch of, or a joint venture partner with, a larger multinational or national entity. If the local industry remains totally reliant on the involvement of the larger entity, the larger entity's withdrawal may leave a market incapable of satisfying government's and other parties' needs.

Moreover, where the continued viability of a local industry supplier is dependent on the existence of a particular government contract, there can be a problem in switching suppliers or ceasing an outsourced function.

Either of these government actions may lead to the failure of a local business.

Ultimately, selection of the service delivery option should be dependent upon both the nature of the service and the existing market.

A fundamental conclusion is that with the public sector provision of a service, any mistakes or improvements can be readily accommodated over time. However, with the private sector provision, far more preliminary research needs to be done to understand all the details about the services being purchased and at what price. Even then, there is likely to be a loss of flexibility for government, or increased cost if flexibility is still demanded.

The risk to government generally increases the further down the spectrum to privatisation the service delivery proceeds. With government providing the service, any mistakes can be repaired more easily as it is the same overall legal entity. However, correction of mistakes in the way the contract is specified with the private sector is far less likely to be accepted if it reduces the expected profit. This risk is greatest with a full asset sale because the purchase of the asset needs to obtain a return on the capital value of the unit as well as a return for effort. However, while the risks increase with the degree of privatisation, so too can the returns.

By substantially changing the way in which services are provided, a major effort is required to ensure that outcomes are not compromised. Regardless of whether government decides to privatise or outsource, it is essential that the rigour of the process reflects the complexity of the task.

APPROACH TO PROCURING GOVERNMENT SERVICES

As outlined, the procurement of services in an effective and efficient manner has become a significant issue for both public and private sector entities. This has been influenced to a large degree by the increased competition in a global market and by the concentration on core business resulting in the divestment of non-core functions to specialist providers.

Accompanying this trend is a wide range of literature from various sources which shifts the focus from the theoretical justification for seeking external providers to the development of best practice in doing so. An example is the Productivity Commission report on Competitive Tendering and Contracting. This report prescribed a best practice approach rather than providing an economic justification for private sector provision of these services. A general approach for procuring services is clear from these publications.

An analysis has been done of the most recent Australian publications. Although the terminology used in the various publications may differ, the process described can be separated into five distinct stages. Each of these stages involves a series of identifiable tasks which are generally self-contained. The

completion of each task should produce an outcome on which a decision to progress further can be based. The amount of effort or time allocated to particular tasks will vary between projects but the literature indicates that each is a necessary component of an effective and transparent process.

Before embarking on this process, a project team with appropriate skills and experience should be established. Ideally, such a team would have significant representation from outside the agency whose functions or services will be affected by changing the delivery mechanism (or at least outside the service area). Representatives from outside of government could also be invited to participate, where appropriate. This suggested composition allows an appropriate mix of experience and objectivity.

Figure 8.1 sets out a comprehensive approach to the procurement of government services from a non-government provider. Many of these steps are also followed for in-house provision (insourcing) by a government service provider, particularly where a funder-purchaser-provider model is in place.

Each of the steps is discussed in detail in the following sections.

Figure 8.1

APPROACH TO PROCUREMENT OF GOVERNMENT SERVICES

| STAGE | TASK |
|------------------------------------|---|
| 1. Service Identification | Define the required service |
| | Determine the most appropriate entity type to deliver the service |
| | Select a service delivery strategy |
| 2. Planning | Determine overall objectives for the service |
| | Establish objectives that are consistent with the agency's overall strategy |
| | Gain whole of government or core agency support |
| | Gain an understanding of the market and its capabilities |
| | Establish accountability arrangements |
| 3. Invitation Process | Develop market documentation |
| | Consult external parties where appropriate |
| | Establish industry communication and consultation strategies |
| 4. Evaluation, selection and award | Maintain industry communication and consultation strategies |
| | Analyse risks and returns and quantify costs |
| 5. Administration of Arrangement | Appoint a contract administrator |
| | Review process undertaken and apply the lessons learnt |
| | Establish end of contract processes |

SERVICE IDENTIFICATION

The tasks involved in service identification are:

- define the required service;
- determine the most appropriate entity type to deliver the service (that is, government, not-for-profit, for profit); and
- select a service delivery strategy.

A crucial element in the purchase of a good or service is identifying exactly what is required. An ill-defined purchase is almost certainly going to result in the procurement of an unsatisfactory good or service or an unsatisfactory cost versus benefit. Where government has provided a service for a relatively long period of time, the service may not be properly or comprehensively defined, as many services may have expanded over time to meet varying demands, some of which may no longer be required.

Understanding the extent of current service provision is necessary before the service can be properly defined. If this is not done, then increased costs for all stakeholders will result over time or contracted service levels may be unsatisfactory.

Defining the service involves identifying both the existing service's purpose and delivery method. The existing service ought to be critically reviewed to determine:

- the extent and standard of the current service;
- if its current form would be appropriate in the future; and
- the current demand and cost pressures that it faces now and in the future.

Moreover, this review may reveal areas where the service provision is no longer needed to be provided at all.

Another important task is determining the appropriate service provider. The three categories of service providers are generally:

- within government;
- other public sector entities, including other jurisdictions; and
- private sector entities.

In some cases, particularly those where concern of monopoly power or a high element of public good exists, there may be a stronger preference for government provision or for government controlled entities to deliver the service. However, it is important to identify the core reasons for preferring one type of service provider over another and to balance the potential gains from a private provider through increased efficiency from market pressure against loss of control.

PLANNING

The tasks involved in the Planning stage are:

- determine overall objectives;
- establish objectives that are consistent with the agency's strategy;
- gain whole of government or core agency support;
- gain an understanding of the market and its capabilities; and
- establish accountability arrangements.

The planning stage builds on service identification and sets the groundwork for the project. These tasks provide the building blocks and direction for the remaining stages.

The agency currently providing the services which are being considered for a different service delivery model often retains responsibility for the service in its revised form. Given this, the overall objectives established for the new mode of service delivery must be consistent with the agency's strategy and future directions.

Canvassing the support and, where appropriate, the assistance of affected and core agencies should minimise future problems. Opening the communication channels throughout government will uncover other agencies' concerns (especially those with specialised skills) early in the process. Addressing and integrating these concerns, where appropriate, into the process at an early stage may assist in approaching the market and implementing the proposal. In addition, this may aid in the circulation of more comprehensive and factual information.

An understanding of the market should be developed before entering into the 'invitation process'. Determining the market's sophistication at this stage will help identify whether it is capable of providing the service and assist in developing invitation/tender documentation.

Establishing accountability arrangements early in the process may assist in transparency. Clear and concise documentation will reflect work undertaken, conflict of interests arising and decision making processes. These arrangements form the basis of approaching the market, satisfying probity requirements and decision making in general.

GOING TO THE MARKET – INVITATION, EVALUATION, SELECTION AND AWARD

The tasks in going to the market include:

- develop market documentation;
- consult external parties where appropriate;
- establish and maintain industry communication and consultation strategies; and
- analyse risks and returns and quantify costs.

When it is decided that in-house service delivery methods are not appropriate or should be tested against the market, documentation needs to be properly prepared. The market document should largely be a result of work completed in the earlier stages and should provide direction for bidding, evaluation and selection.

The invitation or tendering document is the first direct contact with the market. Apart from the legal requirements, it is essential

that the document clearly and concisely informs the market of:

- what service is required;
- what response format is required; and
- how offers will be evaluated.

Private sector parties incur costs in the development of the responses. Each amendment or request for clarification that government makes increases costs for these parties. Given this, it is important to prepare accurate and concise initial documentation so that the cost of preparing responses is not so prohibitive as to exclude smaller but capable firms from the process.

In most jurisdictions, proformas have been developed which prescribe required clauses and their wording for invitation or tendering documents.

Throughout the whole process, experts in either both the market or service delivery ought to be consulted where appropriate. Information gathered from consultants will be beneficial in this stage as this will aid in interpreting the market's response.

Traditionally, the market has been kept at an arms-length until negotiations begin. Where the service is substantial, it is an expensive and risk-laden exercise for both government and the market. Establishing communication and consultation strategies with the market will clarify uncertainty arising from the documentation or the process in general. In addition, the market should be kept informed of progress to minimise both cost and complaints.

A thorough technical and financial analysis of the market's responses ought to be undertaken. Risks and returns to both parties should be identified and their respective positions compared. In addition

to this, the cost to government over time can be quantified.

It is critical to the evaluation process that comprehensive internal benchmark pricing be established and also comparisons made, where possible, with comparable industry standards. This is particularly important in the Territory where the cost structure and demand can vary considerably from other jurisdictions, mainly on account of small population size, its scattered distribution and the vast geographical extent of the Territory.

A Net Present Value financial model is usually the most appropriate tool to compare the cost to government where timing varies between proposals. Ideally, the costs at both the time of tender evaluation and contract completion should be compared with the cost of internal provision. However, it can be difficult for agencies to ascertain and disclose all costs.

The results from the technical and financial analysis should then be compared across the bids. It is important to compare 'apples with apples'. Clearly, specifying the basis of costs in the tender documentation may circumvent the need to return to the market for clarification. However, the requirement for such disclosure might lead to fewer bids being made.

WHAT HAPPENS AFTER IMPLEMENTATION?

The tasks after implementation include:

- appoint a contract administrator;
- review process undertaken and apply the lessons learnt; and
- establish end of contract processes.

If privatisation is adopted, then an appropriate regulatory model is normally required. In the case of outsourcing, while regulation may be important, the critical issue is usually effective on-going contract management.

It is the task of the administrator to maintain working relations with the successful party. Ideally, the administrator would have intimate knowledge of the service and the process undertaken as well as the ability to maintain a successful relationship with the supplier.

In addition to this, the Contract Administrator should also possess contract management skills. This involves adopting reporting and analytical skills to ensure that pricing and quality standards are maintained to contract and, in some cases, market standard.

A debriefing session at the end of the process should critically review the actions undertaken and what improvements may be made. By implementing these improvements, a best practice approach could be developed that will aid in outsourcing further services, procuring new services or renewing existing service provision arrangements.

The End of Contract processes should be established early in the contract so that the market is aware of likely future directions. As a part of this, clarification as to whether the contract will be renewed via competitive tendering, which would maintain competitive tension throughout the contract, could be made.

FUTURE DIRECTIONS – ROLE OF OUTPUT-BASED BUDGETING

Output-based budgeting and management involves the identification of services and associated costs. This budgeting and management tool links the full costs of outputs, for example, services with the outcome.

The adoption of output-based budgeting will push governments towards disaggregating the cost of, and functions involved in, a range of services. This disaggregation is likely to be coupled with a move towards activity-based and unitary costing.

Disaggregation of functions and costs aids government's strategic management of its resources. The identification of the least-cost option is a part of government's resource management.

Non-traditional forms of government service provision will become more applicable as government's ability to individually identify and cost services increases.

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APPENDIX – Case Studies

PAWA REFORM

In 1998, the Northern Territory Government conducted a comprehensive review of PAWA. As part of the review, consultants Merrill Lynch and Fay Richwhite (MLFR) were contracted to identify and evaluate the potential options for improving Power and Water Authority's (PAWA) performance.

In October 1998, MLFR reported that the Government would best achieve its objectives by privatising PAWA, mainly through the outsourcing of other functions. However, MLFR also identified significant improvements that could be achieved under continuing Government ownership.

MLFR considered that the most effective competition model for PAWA was a regulated core business with a competitive periphery. The competitive periphery was proposed to involve the establishment of arrangements to provide competing electricity generators with access to customers and competitive tendering for inputs and system augmentation.

Given the small size of the Territory market, MLFR found no compelling commercial or economic argument for PAWA to relinquish its ability to benefit from economies of scale or scope. In particular, MLFR considered there was merit in PAWA's electricity, water and sewerage network and retailing businesses remaining integrated. The consultants also found that it would be inappropriate to disaggregate PAWA along geographical lines.

The Government's initial response to the MLFR report was announced in a statement

by the Treasurer to the Legislative Assembly on 1 December 1998.

The Government decided to give PAWA the opportunity to achieve significant efficiency improvements under government ownership. The aim is to achieve a financial improvement amounting to \$30M per annum after three years. However, the Government has indicated that, if the efficiency improvements are not achieved, the issue of privatisation will be revisited. Reform of the Territory's electricity supply industry is considered in more detail in Chapter 9, Electricity Supply Industry Reform.

OUTSOURCING OF GOVERNMENT LEGAL SERVICES

In October 1997, Government decided to contract out to the local private legal profession, provision of most legal services to Government. Previously, these services had been largely provided by the Attorney-General's Department via the Solicitor for the Northern Territory.

Services were put out to tender in packages. Packages consisted of, in the case of smaller clients, all of the work of a particular agency, and for larger clients, all matters of a particular type for that client agency. For example, in relation to a large client such as Territory Health Services, four packages for particular types of matters were put out to tender including Professional Boards, Mental Health Services, Adult Guardianship and Medical Negligence. In addition, there is a general package for the remainder of legal services required by Territory Health Services that were not the subject of a particular package.

Contracts were let either to individual firms or to a number of firms which constituted a panel to be utilised by the client.

In order to safeguard the interests of the Attorney-General in relation to strategic or whole of government issues, the Attorney-General's Department retains the right to represent or advise Government on any matter and may, in its absolute discretion, remove a matter from a local firm. The Department also ensures that billing is conducted in accordance with specified criteria and conducts annual client surveys to monitor satisfaction with the new arrangements.

In addition to considerations regarding cost of legal services and standard of advice provided, the decision to contract out legal services was based on a desire to promote and develop the local private profession, thereby enhancing the Territory's broader economic interest in growth of the local economy. The growth of expertise and specialisation of local legal providers is of considerable benefit to the Territory community, particularly business, as well as to the Territory Government.

Qualitative consultation with the local private profession at the conclusion of the first round of packages in April 2000, indicates that the volume and quality of Government work provided under outsourcing, has enabled the local profession to consolidate its skills and hire additional expertise. Various firms have doubled in size, made substantial investments in computer technology for professional staff, and talk of, for the first time, being able to compete effectively with legal firms outside the Territory. The number of articulated clerks (newly graduated law students) positions in the Territory has increased significantly, thereby encouraging Northern Territory University graduates to

remain in the Territory at the conclusion of their legal studies.

INFORMATION TECHNOLOGY AND TELECOMMUNICATIONS OUTSOURCING

In September 1998, the Government endorsed the progressive outsourcing of all information technology and telecommunications (IT&T) services. Currently, the Government is the 20th largest IT&T service provider in Australia, supporting some 10 000 desktops, mainframe computing services, helpdesk services, electronic messaging services, and voice, data and Internet telecommunications networks.

The objectives of IT&T outsourcing are:

- foster a robust and mature IT&T industry;
- improve local IT&T industry capability and capacity;
- cost efficiencies;
- retention of jobs;
- improve regional services;
- foster industry development; and
- transfer of value added services to the public sector.

The Government will establish six contracts worth in the order of \$500 million for periods of five and three years. Contracts have been entered into for the provision of electronic messaging services and telecommunications services. In April 2000, tenders were released for desktop and helpdesk services, mainframe applications, and non-mainframe applications and project and consultancy. The final tender for the data centre is planned for release in early

2001. This process will result in the outsourcing of all Government IT&T services by 2002.

The Government has and will continue to use established tendering processes for IT&T outsourcing. Appropriate project staff and specialists have been employed to manage each tender. All aspects of the tender process are overseen by a senior committee and probity auditor.

The Government took action to ensure that extensive industry and agency consultation was provided before the release of desktop and helpdesk services, mainframe applications, and non-mainframe applications and project and consultancy, and data centre tenders. This culminated in the public release of an Information Technology Outsourcing Strategy – Information Paper on 20 December 2000.

Although the Government is not the only user of IT&T services in the Territory, its purchasing power is such that any change is likely to have a significant impact on local industry. The initiative will result in the restructuring of the local industry to one that is focussed on service delivery to the whole Territory community rather than one focussed on the provision of resources.

In June 1999, Computer Support and Maintenance were awarded the Government Electronic Messaging Contract. The contract, worth \$8M over three years, has resulted in significant skill development and sustained employment opportunities.

In April 1999, the Government undertook a selective tender for the provision of voice, data and Internet services and associated facilities management; 'The Advanced Communications Strategy'. Cable and Wireless Optus (Optus) were awarded preferred tender and contractual arrangements finalised in December 1999.

The contract, worth in excess of \$100M over five years, will generate financial savings of \$5M in the first year and up to \$22M over five years.

The contract requires Optus to upgrade and maintain existing infrastructure to ensure ongoing provision of 'State of the Art' telecommunications services to Government.

The contract provides extensive benefit to Territorians through improved access to a greater choice of telecommunications services and products. In 2000, Optus will install a state of the art telecommunications switch and extensive optic fibre capacity in Darwin, upgrade their mobile network throughout the Territory, and establish Points-of-Presence in regional areas. This infrastructure work is valued at \$20M.

Optus will provide an ongoing commitment to research and development, educational programs, an annual IT Expo, and satellite services.

The electronic messaging and telecommunications contracts are supported by a management structure and processes that ensure the delivery of contracted services including industry development commitments. This includes an annual independent benchmarking of services and costs, technology reviews, and appropriate penalties for any failure to deliver a contractual commitment.

SUPERANNUATION SERVICES

In August 1999 the Government outsourced the provision of compulsory employer superannuation for new employees, by offering new employees unlimited choice of private sector superannuation fund. A component of this outsourcing process was to select a default private sector

superannuation fund for employees who do not nominate a preferred fund.

Outsourcing of superannuation services for new employees is a result of Government questioning the need to establish and manage a service that is offered by the private sector and allow it to focus on core Government functions.

In this case, the market for superannuation funds is large, growing rapidly, and serviced by a considerable range of private sector superannuation fund managers. The market offers new employees the opportunity to benefit from high returns and low charges for their retirement savings.

The selection of a default superannuation fund by Government was achieved by a two stage process. Stage one involved a competitive tendering and review process which compared fifteen lodged submissions by various funds on the basis of scored and non-scored criteria of: administration fees; investment strategy and performance; death and disability insurance; administration capabilities; and service levels. Stage two sought to negotiate with the preferred parties on the final terms of contract, and subsequent selection of the successful party.

The default superannuation fund for new Government employees is the Australian Government Employees Superannuation Trust (AGEST). A contract for a period of three years includes agreed service standards, minimum performance requirements and recourse, based on failure to meet these standards in ongoing performance monitoring and evaluation undertaken by both Northern Territory Treasury and AGEST.

The decision to outsource accumulation type funds for new members has clear benefits to both new members and the Government. While members are able to access the

competitive market of superannuation funds management, Government is able to reallocate longer term administration savings, and its focus, to more core services.

NT TAB

The NT TAB is a Government Business Division. The Territory Government conducted a comprehensive review of the NT TAB in 1998. This review recommended privatisation of the business, and recognised that for the business to grow in the competitive gaming market and to improve the wagering product available to Territory punters, private ownership was more appropriate. Furthermore, operational efficiencies were more likely to be extracted from the business through private ownership and operation.

Macquarie Bank was engaged in February 1999 to recommend on the most appropriate method of sale. A trade sale was recommended and Government embarked on the trade sale process in late 1999. The sale process was undertaken in four key stages.

The first stage involved the release in October 1999 of a sale Information Memorandum to interested parties. Interested parties then submitted indicative offers for the purchase of the business.

The second stage in November 1999 saw the Government invite a short-list of parties who submitted indicative offers to undertake due diligence and submit binding offers.

The third stage in January 2000 involved Government further shortlisting those parties who submitted binding offers and embarking on detailed negotiations on sale contract terms. This process resulted in a preferred purchaser being selected.

The fourth stage involves completing the final sale negotiations with the preferred purchaser. At the time of writing, these negotiations are in their final stages.

The privatisation will see Government receive an up-front return together with an

ongoing income stream in the form of taxation receipts from the privatised business. In addition, the services to Territory punters will be improved.