



STATE OF THE SERVICE REPORT 2002-03

STATE OF THE SERVICE SERIES 2002-03



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Outsourcing refers to an arrangement whereby an APS agency has a function or service, which was previously undertaken in-house, performed by a private sector provider. Outsourcing usually involves market testing through a competitive tendering and contracting process. Under these outsourced arrangements the APS agency retains overall responsibility and accountability for the function or service.

In its response in 2001 to the report by Richard Humphry AO *Review of whole of government information technology outsourcing initiative*, the Government decided that progress with the implementation of information and communication technology (ICT) outsourcing would be monitored and reported annually by the Public Service Commissioner in the State of the Service report. In accordance with the Government's decision, the APS Commission continues to ask questions of agencies about the implementation of ICT outsourcing and to report on those results.

DEVELOPMENTS IN THE POLICY AND OPERATING FRAMEWORK

Outsourcing in the APS continues to receive considerable attention. Since June 2002, several reports on aspects of outsourcing in the APS have been released. The Government responded to the Senate report of August 2001 on information technology in the APS. The MAC released its report on the Australian Government use of ICT in October 2002. The ANAO looked at outsourcing as part of its annual reporting of financial statements of major Commonwealth entities. These developments are briefly discussed below. The ANAO also tabled two performance audits of ICT management, including in relation to outsourcing in the departments of Defence and Health and other agencies.¹

The JCPAA is currently conducting an inquiry into the potential risks concerning the management and integrity of the Commonwealth's electronic information. As part of the inquiry, the Committee is examining IT security, including in relation to external providers. At the time of preparation of the State of the Service report, the Committee had not yet reported to Parliament.

GOVERNMENT RESPONSE TO THE 2001 SENATE COMMITTEE REPORT—*RE-BOOTING THE IT AGENDA IN THE AUSTRALIAN PUBLIC SERVICE*

In August 2001, the Senate Finance and Public Administration References Committee recommended improvements to contract management and probity, data security, savings and intellectual property management. Accountability and transparency issues were also considered.

In June 2003, the Government responded, supporting most of the recommendations made by the Committee. The Government emphasised that the devolved management framework requires that each agency is responsible for managing its own procurement functions. The Government response highlighted the potential for unnecessary duplication of functions that would result from some of the (unendorsed) recommendations of the Committee. The response reiterated the role of the Public Service Commissioner in reporting on ICT outsourcing in the State of the Service report.

¹ ANAO, *Management of specialist information system skills*, Report No.56, 2002–03. ANAO, *Health group IT outsourcing tender process*, Report No.14, 2002–03.

MANAGEMENT ADVISORY COMMITTEE REPORT

The main objective of the MAC report, *Australian Government use of information and communications technology* (October 2002), was to provide an appropriate framework to guide agencies during the process of transformation to a devolved ICT investment and governance environment.

As a result of the report, a new ‘federal’ governance model was adopted. This model involves a senior advisory group known as the Information Management Strategy Committee (IMSC), supported by a Chief Information Officer (CIO) Committee. The IMSC will provide leadership and advice to the APS on ICT strategic and governance issues, including standards to promote interoperability. The CIO Committee will take a lead role in facilitating learning and information exchange among agencies. Agency heads retain responsibility for their ICT resources in line with their responsibilities for business objectives.

The report noted the need to identify key lessons of the early ICT outsourcing contracts, as they approach the end of their first cycle, to assist agencies entering into new and ‘second-generation’ ICT sourcing agreements. This was viewed as an initial priority that requires immediate investigation. The IMSC established a working group to investigate the issue of second-generation ICT outsourcing and develop templates to assist agencies involved in the process.

The report noted that contract management skills still needed to be improved in the APS, and recommended drawing on APS-wide experience in this area, complemented by work undertaken by the ANAO. A working group may be formed in the future by the IMSC for consideration of this.

AUDIT OF FINANCIAL STATEMENTS OF MAJOR COMMONWEALTH ENTITIES

The ANAO (June 2003) conducted an audit of the internal environment of agencies to determine whether reliance can be placed on current control structures to produce complete, accurate and valid information for financial reporting purposes. The audit also sought to assess the impact IT outsourcing arrangements had on the maturity of ICT governance arrangements. It concluded that the cluster contract arrangements have generally had a positive impact on IT security practices in agencies. However, the audit found that some contracts do not adequately specify security requirements. The importance of disaster recovery planning to IT infrastructure outsourcing was also raised, both in terms of the need to be clear who is responsible for it, and as a matter to be specified in contracts.

AGENCIES' OUTSOURCING DURING 2002–03

Last year’s State of the Service report reviewed agency progress with outsourcing for the period 1 January 2001 to 30 June 2002. This period extended beyond the standard financial year reporting period and was adopted to correspond with the period following the Humphry Review.

This year the reporting period reflects the standard period of 1 July 2002 to 30 June 2003. This means that it is not always possible to compare this year’s data to last year’s. In addition, this year’s agency survey questions on outsourcing in agencies were generally limited to ‘new’ outsourcing arrangements finalised during 2002–03 so as to avoid overlap between reporting periods.² The results of this year’s agency survey,

² In the agency survey, agencies were asked to report on outsourcing contracts and contract extensions *signed* in 2002–03, whether effective in 2002–03 or after 30 June 2003.

therefore, provide a snapshot of agencies' experience with outsourcing during 2002–03. At this stage it is not always possible to identify trends. The development of a longitudinal data set should, however, redress this situation in future reports. It is also worth noting that the agency survey was not limited to the outsourcing of ICT functions but also included questions on the outsourcing of human resource/workplace relations (HR/WR) functions as well as other corporate functions or services.

This year, for the first time, the report includes information on 'insourcing'. Insourcing occurs when an agency brings a function or service that was previously contracted out back into the agency. While the extent of insourcing to date is limited, it has been identified as a possible emerging issue, particularly given the difficulties agencies reported concerning contractor performance.

Overall, 48 of the 89 agencies (or 54%) reported finalising new outsourcing contracts or contract extensions in regard to at least one aspect of a service or function during 2002–03, including in relation to ICT services, HR/WR services and other corporate services. Forty agencies reported that they did not finalise new outsourcing contracts or contract extensions during this period and one agency did not respond to the question.

In responding to the agency survey, agencies were asked to report only on outsourced and insourced services or functions worth more than \$100,000 (departmental funds) or \$5 million (administered funds). Agency responses identifying services or functions worth less than these amounts were disregarded for the sake of consistency. In addition, any agency response that did not provide basic data requested in the survey was disregarded.³

OUTSOURCING OF ICT SERVICES

Twenty-six of the 89 agencies (five large, 12 medium and nine small) reported outsourcing at least one aspect of ICT services (other than strategic planning for ICT) during 2002–03. It should be noted that even though a large number of agencies did not report engaging in outsourcing of ICT services during the year, this should not be interpreted as a lack of action regarding the implementation of the ICT initiative. For example, 73 agencies reported the amount they spent on the management of ICT contracts during 2002–03⁴, demonstrating that the vast majority of agencies (82%) had some aspect of ICT services outsourced during 2002–03. This data indicates that mature outsourcing arrangements, whereby no new ICT outsourced contracts were finalised in 2002–03, are in place in over half of all agencies.

Of those agencies that reported finalising new contracts for outsourced ICT services during 2002–03, 11 indicated that they *wholly* outsourced ICT. The majority (15), however, indicated that they *partially* outsourced ICT services. The average length of ICT contracts finalised during 2002–03 was 3.3 years, although the range varied between one and 12 years.⁵ The annualised average dollar value per ICT contract for large agencies was \$14.8 million. Medium agencies averaged \$515,000 and small agencies averaged \$378,000.

³ This occurred, for example, when an agency answered 'yes' to the question 'Did your agency outsource any ICT services during 2002–03?' but did not provide related data on the number of contracts, contract duration, dollar value, etc.

⁴ Small agencies were less likely to report against this question compared with medium and large agencies (73% of small agencies compared with 92% of medium and 86% of large).

⁵ Please note that some agencies appear to have reported 'bundles' of contracts rather than every individual contract. This means that the number of contracts reported and the related contract duration and dollar value is indicative only.

Five of the 89 agencies reported partially outsourcing some aspect of strategic planning for ICT during 2002–03. Contracts for ICT-related strategic planning ranged from six months to two years and averaged \$260,000 (per annum).⁶

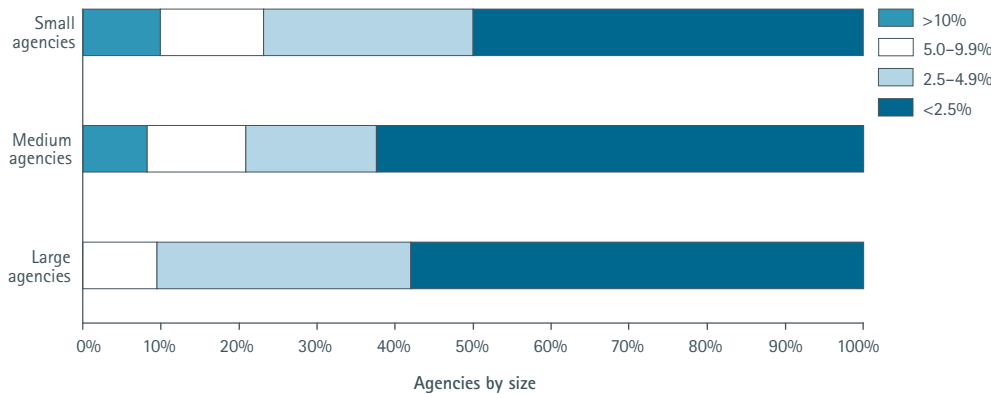
This year agencies were also asked to report on insourcing that occurred during the year. Four agencies indicated that they had insourced some aspect of ICT, with one indicating that it had insourced the *whole* of its ICT function. The main reasons for insourcing appeared to be contractor performance and contractor insolvency (see ‘Contract management’ below for further details). One agency also indicated that it insourced strategic planning for ICT.

Resources

The agency survey asked agencies to estimate the proportion of annual resources dedicated to ICT contract management in 2002–03 as a percentage of the total cost of all outsourced ICT contracts.⁷ Overall, the majority (56%) of the 73 responding agencies reported spending less than 2.5% of the total value of ICT outsourced services on managing related contracts. However, the amounts reported varied considerably. For example, five agencies reported dedicating more than 10%. This may relate in part to the cycle of agency contracts.

Consistent with findings in previous reports, small agencies tended to dedicate a larger proportion of resources on contract management compared with medium and large agencies. This reflects the lack of economies of scale present in contract management in small agencies. Figure 10.1 shows that small agencies were more likely than large agencies to have dedicated more than five per cent and less likely than medium and large agencies to have dedicated less than 2.5% to contract management.

Figure 10.1: Amount dedicated to contract management



Source: Agency survey

⁶ The mean average takes into account one contract valued at \$1.4 million (annualised). The median average is around \$67,000 per annum.

⁷ Agencies were asked to include human resource costs and other administrative costs.

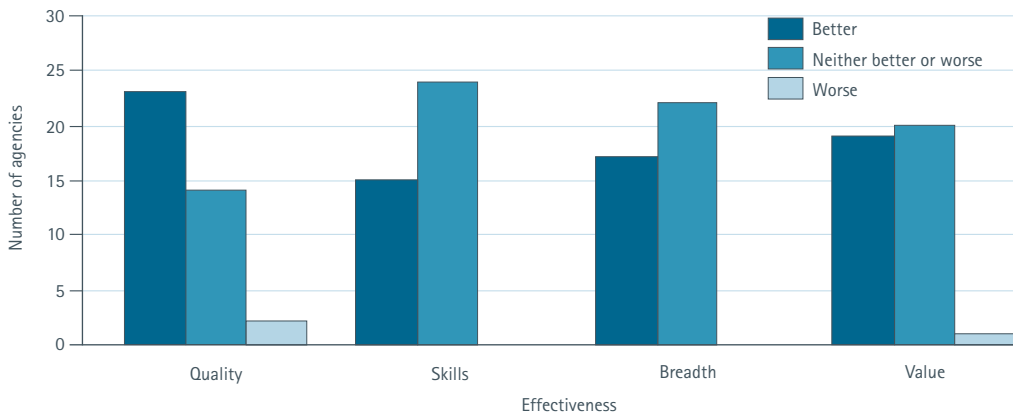
Agencies' evaluation of outsourced ICT services

The extent of the effectiveness of outsourcing can be difficult to determine. The APS Commission recognises that there are many benchmarks against which effectiveness can be measured. However, for simplicity's sake agencies were asked to report the effectiveness of outsourced services or functions against four key outcomes: overall service quality, the breadth of services available, access to skills, and value for money. Agencies were also asked to report on the mechanisms they used to evaluate outsourced services during 2002–03.

Of the 41 agencies that did report having undertaken some performance evaluation of outsourced ICT services during 2002–03, the majority reported conducting a review of the service by management (68%). Other measures reported include feedback mechanisms (56%), inspection and monitoring (54%), key performance indicators (51%), audits (41%), client surveys (39%), contract clauses (39%) and complaint records (32%).

Of the 41 agencies that reported undertaking some performance evaluation of outsourced ICT services during 2002–03, the majority of agencies (23 agencies or 56%) reported that the overall quality of ICT services to end users had changed for the better, and only two agencies (or 5%) reported a change for the worse. The response against other criteria (such as value for money, access to skills, and end users' access to a broader range of services) was not quite as positive, nor was it negative. Figure 10.2 shows that, in terms of access to skills, the breadth of services available and value for money, the vast majority of agencies reported a better outcome or no overall change for the better or worse.

Figure 10.2: Effectiveness of ICT outsourcing



Source: Agency survey

ICT OUTSOURCING BEYOND 2002–03

Agencies were asked to indicate the outsourcing approaches they were considering adopting during 2003–04. The approach most commonly reported was 'complete new tender process', with 26% of all agencies indicating that they were considering this approach. Other approaches included 'renew contract with variations' (24%), 'conclude multiple smaller contracts' (21%), 'piggyback on other agency contracts' (13%), 'renew contract as is' (10%) and 'partner in tender process with another agency' (10%).

THE END OF GROUP 5

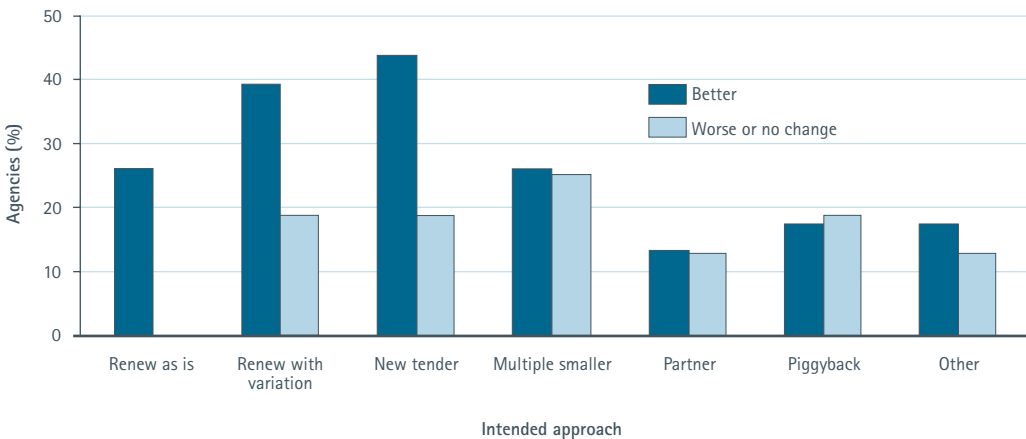
Group 5 (comprising DOTARS, DCITA, PM&C, DITR, ACCC and NOIE) has a \$90 million contract with Telstra Enterprise Services encompassing around 4000 desktops, midrange and data communication services. By July 2004 it will no longer exist with all the agencies involved going their own way.

The main reason for the end of Group 5 is that the agencies did not see any advantage (including an opportunity for savings) in staying together. Agencies believe they will gain greater strategic control of their ICT through direct contractual and partnering relationships with provider(s). Some Group 5 agencies, NOIE for example, are planning to select a single supplier for their ICT. Other agencies, such as DOTARS and PM&C, are planning to select suppliers to provide specific services, such as desktop. This may also include bringing some ICT functions back in-house.

Regardless of sourcing methods, all Group 5 agencies are seeking better ICT outcomes by drawing on the experience gained during the first round of sourcing across the Australian Government. Specifically, agencies are aiming for improved contracts, more beneficial relationships with providers and better quality ICT services.

Interestingly, there appears to be no correlation between agency views on present value for money and the proposed approaches to ICT outsourcing that agencies are considering adopting in 2003–04. This appears also to be the case in relation to agency views on access to skills. However, there does appear to be a relationship between service quality and agency intentions for 2003–04. Figure 10.3 shows that agencies that reported better quality ICT services were much more likely to report an intention to renew the contract as is, renew the contract with variations and/or complete a new tender process. For example, of the agencies that indicated an intention to renew their ICT contract as is, all of them reported improvements in the quality of ICT services to end users.

Figure 10.3: Agencies' intentions for 2003–04 by quality outcomes



Source: Agency survey

One possible explanation of these results is that agencies' experience with ICT outsourcing has increased and they are now better able to assess quality of service delivery within a value for money context. This is consistent with the survey results, which appear to indicate that quality outcomes currently play a significant role in agency decision-making on future ICT outsourcing.

In terms of the estimated costs of ICT services in 2003–04, the vast majority of agencies (64 or 72% of all 89 agencies) reported an expected increase of less than 10% in comparison with costs for 2002–03. Ten agencies reported an expected increase of between 11% and 20% and eight agencies anticipate an increase of more than 20% (with three agencies anticipating an increase of greater than 40%). Two of the agencies anticipating an increase of more than 40% reported that the size of the increase reflected a significant change in direction concerning the delivery of ICT services. A further three agencies anticipate that the cost of ICT services will fall in 2003–04. There appeared to be no correlation between the size of the agency and the anticipated change in costs.

OUTSOURCING OF HUMAN RESOURCE/WORKPLACE RELATIONS SERVICES

This year 17 of the 89 agencies reported that they had outsourced some aspect of HR/WR services during 2002–03 other than strategic planning for HR/WR (four large, six medium and seven small).

Of those agencies that reported finalising contracts for HR/WR services during 2002–03, only two reported *wholly* outsourcing HR/WR. The vast majority (14 agencies) indicated that they *partially* outsourced HR/WR services. One agency did not respond to the question.

Twenty-three HR/WR contracts finalised in 2002–03 were reported by agencies.⁸ Only three large agencies reported finalising two or more new HR/WR contracts during 2002–03. The remaining 14 agencies reported finalising one contract during this period. The average length of HR/WR contracts finalised during 2002–03 was 2.5 years. Large agencies were more likely to have slightly shorter contracts in place.

Agencies were asked to report the dollar value of HR/WR contracts finalised during 2002–03. The average annualised dollar value was around \$540,000, although the range was between \$23,000 and \$4.5 million. The annualised average for large agencies was around \$1 million. Medium agencies averaged around \$290,000 and small agencies averaged around \$70,000. This difference reflects the size of the services involved and, therefore, the scope of the contracts.

Two agencies reported partially outsourcing HR/WR strategic planning during 2002–03. Related contracts were generally short (around one year) and contract values varied.

Two agencies indicated that they had insourced some aspect of HR/WR, with one indicating it had insourced the *whole* of the HR/WR function. The main reasons for insourcing appeared to be contractor performance and contractor insolvency (see 'Contract management' below for further details).

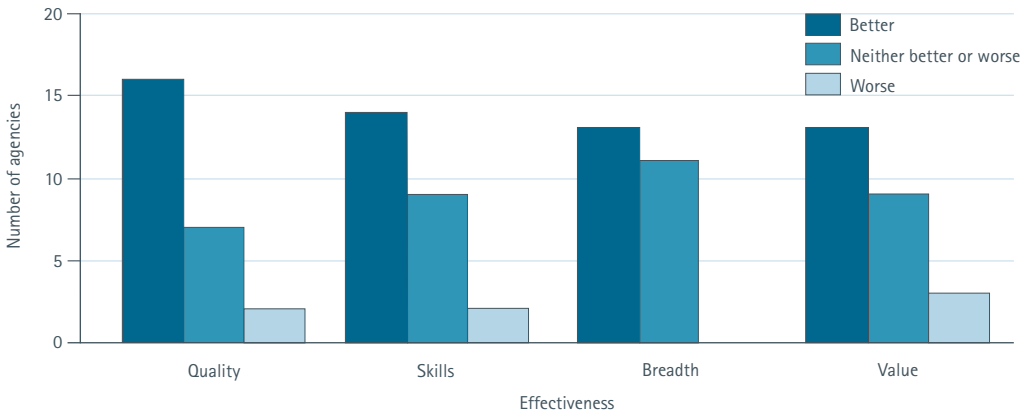
⁸ Please note that some agencies appear to have reported 'bundles' of contracts rather than every individual contract. This means that the number of contracts reported and the related contract duration and dollar value is indicative only.

Agencies' evaluation of outsourced HR/WR services

Twenty-seven of the 89 agencies reported conducting some performance evaluation of outsourced HR/WR services during the reporting period. A further 33 agencies stated that they have not evaluated outsourced HR/WR services.

Of the 27 agencies that reported undertaking some performance evaluation of outsourced HR/WR services during 2002–03, the majority of agencies (16 agencies or 59%) reported that the overall quality of HR/WR services to end users had changed for the better. The response against other criteria was similar, although three agencies reported that value for money had changed for the worse. Overall, as Figure 10.4 shows, it appears that agencies' experience with HR/WR outsourcing is generally more positive compared with ICT outsourcing.

Figure 10.4: Effectiveness of HR/WR outsourcing



Source: Agency survey

OUTSOURCING OF OTHER CORPORATE SERVICES DURING 2002–03

This year 32 of the 89 agencies reported that they had outsourced some aspect of other corporate services during 2002–03.⁹ The most frequently reported other corporate functions or services were property management (13 agencies), internal audit (13 agencies), financial management services (six agencies), legal services (five agencies) and office services (five agencies). Other functions or services reported included cleaning services, security (both vetting and guarding), records management and mail/freight services.

One agency reported that it had wholly insourced its financial management function during 2002–03. Another agency reported partially insourcing records management.

⁹ In the agency survey, the term 'other corporate' was defined as including records management, property management, office services, legal services, library services, printing/publishing services, ministerial services, financial processing, budget management, and internal audit.

CONTRACT MANAGEMENT

Contract management is an integral part of agency outsourcing activity. The agency survey asked agencies questions about difficulties they experienced implementing outsourced contracts during 2002–03. The questions on difficulties with implementation were general in nature and not limited to any type of service or function.

Overall, 38 agencies reported experiencing difficulties when managing outsourced contracts during the year, which was almost half of all 80 agencies that responded to the question. There appeared to be no correlation between agency size and the likelihood of reporting a difficulty.

The difficulties reported by agencies this year appear to be very similar to those reported in previous years, with contractor performance and the scope of the contract being reported as concerns by many agencies. In addition, a number of agencies reported that contract management capability (discussed separately below) had also posed problems.

Contractor performance was the most commonly reported difficulty (28 agencies). It also tended to be regarded as one of the most serious problems affecting outsourcing. One-third of agencies that experienced this problem rated it as a ‘major’ difficulty, although medium agencies were more likely to rate it this way. Agencies reported a variety of strategies to address the issue of contractor performance including managing the relationship through negotiations with the contractor, varying the contract, engaging a new contractor, terminating the contract and insourcing the function.

Another difficulty, which was reported by 19 agencies, was the scope of the contract (i.e. what the contract covers and does not cover). Unlike contractor performance, however, this problem tended to be viewed by agencies as a minor problem. Not surprisingly, the most common strategy to address this issue was through a contract variation. Negotiation and discussion with the contractor was also a common strategy used by agencies, as was reviewing the contract.

Only five agencies reported internal staff resistance to outsourcing as a problem this year. One agency rated it as a major problem. It would appear that this particular difficulty is becoming less of an issue for most agencies.

While contractor insolvency was a problem for only a handful of agencies, its impact on agency operations can be considerable. Both Finance and DEWR reported contractor insolvency as a major difficulty during the year, although they dealt with the problem in different ways. Finance engaged a new contractor, whereas DEWR chose to insource the function.

CONTRACT MANAGEMENT CAPABILITY

The need for contract management skills in the APS has increased significantly during the last decade, reflecting the expansion of contracting out in the APS (including in relation to the provision of services to the public). Contract management skills have become an important capability for the APS.

Contract management capability was reported as a difficulty by 14 agencies, although only two agencies rated it as a major problem.

Small agencies were more likely to report contract management capability as a difficulty compared with medium and large agencies. This probably reflects the fact that employees in small agencies generally have a wider range of responsibilities. Strategies to address agency contract management capability included training staff, recruiting staff and increasing resources.

The agency survey did not ask agencies about the extent of contract management training they provide to their staff. In a devolved environment, it is difficult to estimate the extent to which agencies are addressing this issue. It is noteworthy, however, that the IMSC is considering establishing a working group to help agencies draw on APS-wide experience in contract management.

THE APS VALUES AND CODE AND PRIVATE SECTOR PROVIDERS

It is the responsibility of agency heads to ensure that non-public servants delivering services on behalf of government, providing in-house services to agencies or working as consultants on particular projects are aware of the expected standards of conduct in the APS.¹⁰ Agency heads must also determine whether the standards set out in the APS Values and Code of Conduct should apply in full or in part and how best to communicate and enforce the standards that apply to non-public servants. While this is particularly relevant where contractors are providing services to the public on behalf of the APS, it is also relevant where contractors are providing services to agencies, such as ICT services.

Against this background, it is worth noting that almost one-third of the 80 agencies that responded to the question reported that they currently do not have arrangements in place to define and communicate expectations to contractors of ICT services about compliance with relevant Values and elements of the Code of Conduct. Small agencies were much more likely to report not having arrangements in place compared with medium and large agencies (46% of responding small agencies compared with 17% of responding medium agencies and 24% of responding large agencies).

Given that contracting with private sector companies is unlikely to decline in the foreseeable future, such arrangements represent an important means of managing the risks and complexities associated with the provision of outsourced services. Agencies need to consider carefully how to manage contractual arrangements with a view to reducing the risk of unfair and unethical practices.

Of the 53 agencies that do define and communicate expectations of this kind to ICT contractors, the most commonly reported measures were the inclusion of related information in tender documentation (45 agencies) and the use of a general contract clause referring to the APS Values and the Code of Conduct (43 agencies). Other measures include:

- the use of a specific contract clause on only relevant aspects of the APS Values and the Code of Conduct (21 agencies)
- the use of key performance indicators (17 agencies)
- the use of non-contractual arrangements (12 agencies).

Non-contractual arrangements include providing information to contractor staff on commencement of services (AGD) and holding discussions with the contractor to ensure they behave in a way that is consistent

¹⁰ A range of other obligations also apply to non-public servants, including in relation to privacy, official information and recordkeeping.

with the Values and the Code of Conduct (AIR). The ANMM also reported providing contractors with APS Commission information on the Values and the Code.

Although defining and communicating expectations to contractors is important, it is also necessary to ensure that those expectations are met. This is an area that will be addressed in future reports.

Conflict of interest

A related issue for managing outsourcing is the degree to which conflicts of interest are identified and managed. Overall, 57 of the 89 agencies reported that they had some form of measure in place to manage conflict of interest in outsourcing processes, and another six agencies reported that they were currently developing such measures.

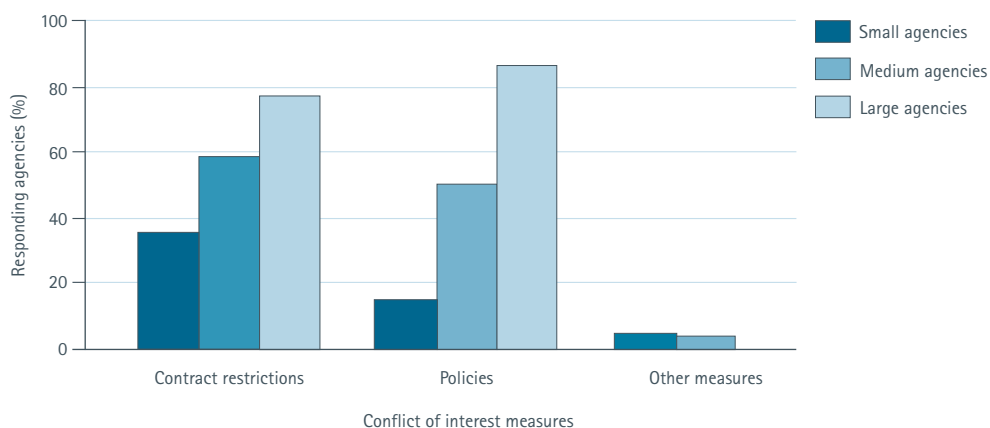
Large agencies were much more likely to report having one or more measures in place compared with medium and small agencies (95% of large agencies, 69% of medium agencies and 44% of small agencies).

Agencies were asked whether they used contractual provisions to restrict the employment of key decision-makers in the tender process by successful tenderers. This approach is encouraged in the Commissioner’s recent guidelines on official conduct. Forty-six agencies reported that they had such provisions in place. Small agencies were less likely to have adopted this practice (35% of responding small agencies compared with 58% of responding medium agencies and 77% of responding large agencies).

Agencies were also asked whether policies (other than contract restrictions) had been implemented to help raise employees’ awareness of obligations in relation to conflict of interest. Thirty-eight agencies had these policies in place, and a further eight reported that they were currently being developed. Once again, small agencies were much less likely to have adopted this practice (15% of responding small agencies compared with 50% of responding medium agencies and 86% of responding large agencies). Figure 10.5 shows the differences between small, medium and large agencies in relation to measures in place to deal with conflict of interest in outsourcing.

Other measures to manage potential conflict of interest in outsourcing processes cited by agencies included the use of a probity service for large tenders (AGO), and the inclusion of information in a personnel guide or CEIs on avoiding conflict of interest in relation to contracting (PM&C and ITSA).

Figure 10.5: Conflict of interest measures by agency size



Source: Agency survey

EMPLOYEES' PERCEPTIONS OF OUTSOURCED SERVICES

The employee survey contained one question on the quality of ICT and HR services. Overall, 71% of respondents rated the quality of ICT services (whether outsourced or not) in their agency as 'medium' or 'high'. Nineteen per cent rated the quality as 'low'. Respondents were much more likely to rate the quality as 'low' if they thought that the ICT services in their agency were wholly outsourced. For example, of those employees who rated the quality of ICT services as 'low', 63% thought that ICT services in their agency were wholly outsourced, 23% thought they were partially outsourced and six per cent thought they were not outsourced (the remaining eight per cent were not sure).

It is extremely difficult to verify the accuracy of respondents' views on the extent of ICT outsourcing in their agency.¹¹ It is possible that employees' perceptions of ICT outsourcing are a result of difficulties experienced during the implementation of the first round of ICT outsourcing. If so, employee perceptions may improve as the APS becomes more adept at ICT outsourcing.

A more positive picture has emerged regarding the provision of HR services. Eighty per cent of respondents rated the quality of HR services in their agency as 'medium' or 'high', with 13% rating the quality as 'low'. In contrast to responses on ICT services, respondents were more likely to rate the quality as 'low' if they thought that the HR services in their agency were not outsourced. For example, of those employees who rated the quality of HR services as 'low', 14% thought that HR services in their agency were wholly outsourced, 31% thought they were partially outsourced and 40% thought they were not outsourced (the remaining 15% were not sure).

Again, it is extremely difficult to verify the accuracy of respondents' views on the extent of outsourcing of HR services within their agency. However, it is evident that employees are generally positive about outsourced HR services. This accords generally with agency responses on the quality of outsourced HR services, which indicate that outsourcing HR services has resulted in quality improvements.

CONCLUSIONS

Agencies in the APS are continuing to outsource services and functions and, in doing so, they are becoming more experienced in the tendering and contracting process.

Results of the agency survey on agency intentions in relation to ICT outsourcing appear to indicate that agencies are placing more emphasis on quality outcomes when entering into decisions on future contracting. As agencies become more experienced and are able to better gauge value for money in relation to ICT services, other considerations, such as the quality of ICT services, appear to play an increasingly significant role in the contracting process.

A particularly positive story is emerging in relation to the outsourcing of HR services, with agencies reporting a significant improvement in quality of services resulting from outsourcing. This is supported by results from the employee survey, which show that employees are generally positive about the quality of outsourced HR services.

¹¹ The agency survey questions were generally limited to reporting on outsourcing within 2002–03, whereas the employee survey did not distinguish between outsourcing that occurred during or prior to 2002–03, making comparisons between the two surveys problematic.

Other indications that agencies are benefiting from their experiences with outsourcing include the changes reported in relation to difficulties experienced by agencies in this area. While some issues continue to pose challenges for many agencies (such as contractor performance and contract management capability), internal resistance to outsourcing has become less prevalent in the APS and is having less impact in the majority of agencies that still experience it. This would appear to be a direct result of agencies' experience in outsourcing and the effort that has been spent in managing the transition to outsourcing.

However it is evident that in some agencies there is still insufficient capability to manage outsourcing effectively. Contract management is central to successful outsourcing and indications are that many agencies are facing difficulties maintaining the required level of skilled contract managers they need to support and drive their outsourcing arrangements.

There is also room for improvement by a number of agencies in clarifying and managing ethical aspects of outsourcing arrangements.

Small agencies continue to face challenges posed by the lack of economies of scale and their capacity to develop specialist skills to deal with the multitude of issues that outsourcing throws up. As a result, small agencies are more likely to include contracting issues within a range of tasks. In contrast, medium and large agencies are more able to develop a level of expertise in regard to contracting.

