**ICT Industry Workgroup**
A Queensland ICT Industry Initiative

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# Summary of the Queensland Government ICT Contractors and Consultants Market Review

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## BACKGROUND

- In April 2007 the Service Delivery and Performance Commission's (SDPC) *Review of Purchasing and Logistics in Queensland Government* report identified the reliance on consultants and contractors by the Queensland Government to be a major issue.
- The Queensland Government Chief Procurement Office (QGCPO) has been reviewing and the procurement process for these services across all Queensland Government agencies with the following objectives (as defined by the SDPC):
    - **Centralisation of Procurement:** That the demand for ICT contractors and consultants be aggregated across Government and that sourcing strategies and resulting procurement arrangements be established and managed centrally;
    - **Generation Efficiency Savings:** That savings in the range 5 – 10% of current spend are realised accordingly;
    - **Balancing Industry Support & Economies of Scale:** That in putting in place such arrangements, the need to apply the Government's purchasing power to support local industry where appropriate is considered, but balanced with achieving best value for money; and
    - **Maintain Participation of Small and Medium Enterprises (SME):** That implementation of the ICT SME Participation Scheme continues across all agencies.
- The QGCPO expressed a desire for consultation with the Queensland ICT Industry through the ICT Industry Working Group (IWG) to jointly determine how these objectives could be best achieved.
- Longhaus was engaged by the IWG to undertake an independent review of the business models and associated value proposition for contractor's agents and consultants within the Queensland Government market.
- The review was intended to establish the basis for informed decision on the solution that best balances the Queensland Government's objectives and maintaining a strong and viable ICT industry sector in skilled resources.
- Longhaus' final report entitled *Queensland Government ICT Contractors and Consultants Market Review* was presented to members of the IWG on the 17th December 2008.
- In preparation for formal consultation on the report's findings the IWG requested this separate briefing note be provided summarising the results specifically addressing the SDPC objectives and highlighting other major findings.

## OBSERVATIONS

### Contractors and consultants are a major element of the ICT industry

- There are in excess of 105,000 ICT contractors in Australia with a market value of over AUD$18 billion which accounts for close to 20% of the ICT sector activity
- Large recruitment brands account for approximately 6% of the market with specialist firms and independent contractors accounting for 94% of the market.
- The Queensland Government currently spends between AUD$150-450 million per year on local ICT contractors and consultants when labour-hire and full time equivalent replacements are incorporated.

### Industry supports three business models, but the government uses only two engagement processes

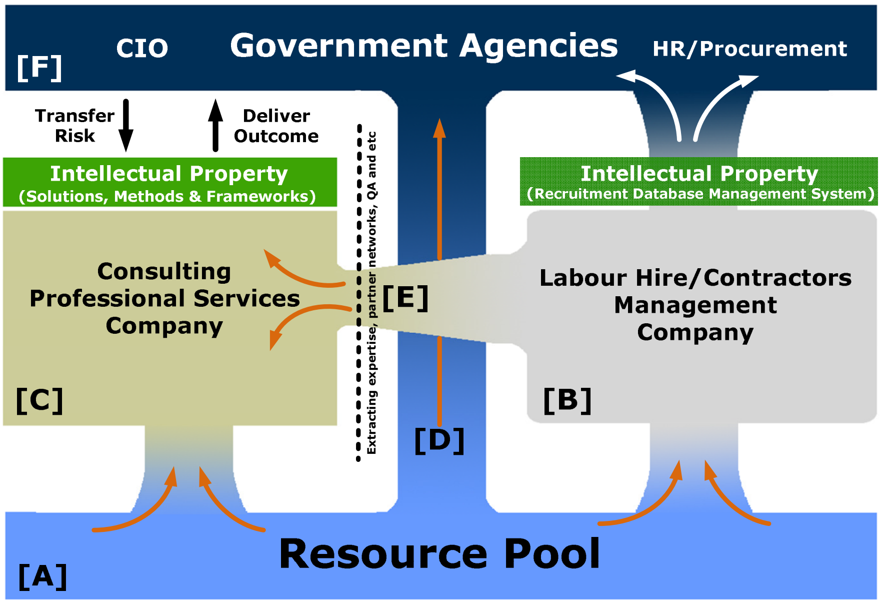
- Despite the absence of a formal taxonomy, both industry and government recognise the existence of three (3) distinct business models operating in Queensland: Consulting, Professional Services and Contracting.
- While not the preferred business model, firms who operate under a consulting or professional services model often run hybrid businesses due to the buying of contractors being a dominant feature of the local market.
- The three (3) business models are represented by two (2) core engagement processes with Government: i) Labour-Hire and Recruitment, and ii) Consulting and Professional Services.
- The Labour-Hire engagement process delivers a low-cost, no warranty, transactional-based, no-responsibility model that provides resource-level skills for business-as-usual roles within government.
- The Consulting and Professional Services engagement process delivers a risk-transferred value proposition, relationship-based, outcomes-oriented model that provides tailored solutions to specific government problems based on extensive intellectual property of the firm.
- The two models can be contrasted as shown in the table below:

| | Professional Services | Consultant | Contractor |
|---|---|---|---|
| Outcome Driven versus Agency Managed | Outcome | Outcome | Managed |
| Public Servant Equivalent Role | No | No | Yes |
| Licensed / Trained / Certified / Recognised | Yes | Yes | N/A |
| Term or Period of Engagement | Various | Short | Various |
| Vendor Independent | No | Yes | Yes |
| Fulfils Role as an Individual | No | Yes | Yes |
| Agent or Labour-hire Representation | No | No | Yes |
| Brand Loyalty | Yes | Yes | No |
| Professional Development | Yes | Yes | No |
| Onsite Delivery | Externally | Mixed | Yes |
| Number of served internal clients | 1 to 1 | 1 to Many | 1 to Many |

| | | | |
|---|---|---|---|
| Existing IP and Copyright Considerations | Yes | Yes | No |

## The ICT contracting and consulting market is an interdependent ecosystem in Queensland

- Longhaus found that the Contracting and Consulting ecosystem in Queensland is comprised of six (6) inter-dependent key factors as illustrated and described below:




A. All resources are essentially drawn from the same unclassified pool of ICT professionals. While undefined at the individual layer these resources are passively recognised as Contractor, Professional Service Professional or Consultant. The individuals within this pool then engage with Queensland Government agencies through one of three channels.

B. Channel 1: The Labour-hire or Contractor Management Company Channel. The reality of this channel is that many contractors are multi-listed with up to an estimated 7 different agencies.

C. Channel 2: The Consulting or Professional Services Company Channel is differentiated on the basis of risk and knowledge transfer in the form of outcome-based solutions and intellectual property ownership.

D. Channel 3: The Government-Direct Channel is in wide use throughout Queensland Government and often drives both costly and problematic behaviours in both the industry and government.

E. It is also recognised by all parties in the industry that ICT Professionals also flow from B to C and on to Government Agencies (below). For their part the agencies recognise the support networks that surround a labour-hire resource delivered to them through a consultative model when for example a company such as IBM or Fujitsu must augment local teams with sub-contracted delivery labour.

F. Queensland Government agencies procurement processes are well understood by industry at a policy level. However it is also recognised that much of the current work performed by ICT contractors and consultants in the market is invariably engaged through a non-predictable variation of sanctioned panels, non-standard GITC contracts, and agency-direct through undeclared channels of interest.

### There are few process efficiency savings or economies of scale to be gained through consolidation of purchasing

- Longhaus undertook an analysis of the net profit margins of the three (3) business models to determine what if any economies of scale may be available. The analysis served to further highlight the core differences in the underlying approach of each model in relation to the value proposition for engagements tied to risk and outcomes.
- The presence and value of Labour-hire and Recruitment firms in the market is misunderstood, with Longhaus finding that the oncost to government for recruitment services in the form of 20-40% margins represent the true cost of business.
- However, the current government engagement process is not exposed to the full value-add of recruitment and labour-hire companies. These value-add services include requirements for pre-interviewing, skills testing, police checks, medical checks, ex-pat health and medical insurance, and repatriation of Australian taxes which are unable to be automated.
- Longhaus' concluded the net profit margins achieved by firms supplying contractors indicate there is little advantage to be gained from centralised procurement or aggregated demand.
- Longhaus would suggest on the basis of the interviews with industry and agencies that an aggregated model operated by Government would have little of the characteristics of the Consulting or Professional Services Channel. Instead it resembles an internally operated recruitment or labour-hire model.
- While aggregating the demand of consultants or professional service providers would prevent them effectively matching requirements to solutions. This client relationship is critical when the firm involved is accepting the risk associated with outcomes-based delivery.

### Recognising the Institutionalised Contractor lies at the heart of government problem

- The immediate challenge for both government and industry in the absence of a mandated risk mitigation or decision framework is the current practice of merging the two engagement models.
- The current procurement arrangements for government agencies, specifically requirements for Ministerial approval of consultants, encourages staffing arrangements that offer a mix of permanent and temporary staff on a project versus the transferral of risk to another company.
- In the Queensland Government this has manifested itself in the form of the institutionalised contractor
- Within the definition of Institutional Contractor Longhaus found there exist two roles: The Contracting Public Servant and The Contracting Solution Provider as outline below:

| The Institutionalised Contractor in Queensland Government | |
|---|---|
| **Type A Role – Acceptable**<br>**The Contracting Public Servant** | **Type B Role - Problematic**<br>**The Contracting Services Provider** |
| Defined by maintenance and legacy work | Defined by new and often undefined, or self-defined programs of work |
| Rates and turnover comparatively lower than the contracting services provider | Rates and turnover comparatively higher than the contracting public servant |
| Represents a low risk to the government | Represents a ***high and retained*** risk for the government |
| Remuneration higher than public servant but reasonable by industry equivalency | Remuneration often higher than executive public servant management (therefore highly visible) |
| Characterised by renewal of role-based function. | Characterised by extensions to project requirements. |
| Easily classifiable as a contractor role that should be filled by contractors | Easily classifiable as a consulting or professional services role that are filled by contractors |
| Additional hiring often facilitated and managed by public sector equivalent headcount requirements | Additional project team hiring often facilitated by a contracting systems developer with undeclared interests |
| Favours reuse to buy activities | Favours buy to build activities |
| No incentive to leave or use an agent | May have undeclared conflicts of interest and operate as both project lead and hiring manager with own Pty Ltd |
| No suggestion of value-add or deliverables beyond the presented skills of the contractor | Potential for intellectual property disputes arising from un-scoped deliverables |
| Accountability clearly with government | Ambiguous accountability and tenuous insurance position |
| High-risk if replaced with public servants due to volume, market dynamics, and backlog of work | Public servant liaison with outcome and risk based operative or provider |
| Business-standard practice | Is one of the unintended consequences of the mandate for ministerial approval for all consultants |

- Longhaus concluded a focus on the features of the Contracting Systems Developer will potentially deliver the greatest savings to government and provide mutual benefit - both direct and residual - to industry.

## RECOMMENDATIONS

- During the review Longhaus identified a number of implications for change in the current arrangement between the Queensland Government and the local ICT industry in the areas of consulting, professional service and contractor-hire as follows:

1. A focus on the development of a defined and agreed taxonomy including acknowledgement and agreement surrounding:
    - Business Model Definitions for Contracting, Consulting and Professional Services;
    - Recognition of the existence of the Institutionalised Contractor and subsequent definitions for the core roles of the Contracting Public Servant and the Contracting Solution Provider.
    - Development or enforcement of a risk mitigation framework for agency engagement with industry through the most appropriate and defined procurement model. This framework should include elements of The Guideline for Sourcing ICT System Development (Natural Resources and Water, QGCPO and Queensland Government Chief Information Office), and QGCPO's Supply Positioning and Risk Evaluation Matrix (SUPREM)

2. Any cost savings review by government in the context of the SDPC report should be in and around the Institutionalised Contractor. Opportunities to achieve the desired savings identified by the SDPC report in the context of the Contracting Public Servant and the Contracting Solution Provider include:
    - Improve the process for generation, quality and re-use of position descriptions for the Contracting Public Servant role;
    - Implement performance management processes for Contracting Pubic Servants to allow for an optimisation o0f the existing process during renewal of these roles;
    - Improve the scoping and business requirement definition practices within government to allow outcome needs or risk-based activity to be more easily identified and professional services and consulting organisations engaged instead of the Contracting Solutions Provider.
    - Reconsider the requirement for high-level or ministerial sign-off of professional services or consultants where an agreed and third party verified process has been followed to avoid unnecessary use of Contracting Service Providers; and
    - Prevent any Independent Contractors (both the Contracting Public Servant and the Contracting Solutions Provider) from being involved in the hiring process to avoid undeclared conflicts of interest.

3. Enforce the mandate regarding use of GITC, including when to apply Module 9 – ICT Consulting Services, to provide the necessary platform for change within agencies. Consideration should also be given to investigation of improved certification of GITC registered companies to correctly classify firms as Contracting, Consulting and Professional Services.