WHOLE OF GOVERNMENT

TELECOMMUNICATIONS

SERVICES

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File

QUESTNET

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INTRODUCTION

The deregulation of the telecommunications industry has provided an opportunity for the Queensland Government to review telecommunications activity across a broad range of Government Departments and other Public Sector Agencies with the aim of:

- *lowering telecommunications service costs;*
- *improving services to users; and*
- *stimulating industry development.*

To help achieve these aims the Government has appointed Pacific Star Communications (Queensland) Pty Ltd as its Telecommunications Facilities Manager.

This paper outlines the events leading to the appointment of the Facilities Manager and the rationale behind the decisions taken.

BACKGROUND

In September 1990 the Final Report of the Information Technology Review was released which recommended the establishment of the Information Policy Board (IPB). The IPB is responsible for information technology policy, planning and standards Government-wide. To assist the IPB in its task a committee called the Telecommunications Strategic Coordination Committee (TSCC) was formed.

The TSCC is responsible for developing and recommending Government telecommunications policy in the following areas:

- *strategy;*
- *industry development;*
- *community service;*
- *human resources and skills transfer;*
- *State-Owned Telecommunications Infrastructure; and*
- *pricing;*

The TSCC is also responsible for ensuring that telecommunications is coordinated across the whole of Government, and that telecommunications Information Standards from the IPB are implemented.

As a result of an initiative which originated from the Premier's adviser on telecommunications (Mr David Barbagallo, Principal Private Secretary), the TSCC appointed an interdepartmental sub-committee to investigate the options available to Government for the management of its telecommunications. The committee consisted of representatives from the Premier's Department, Administrative Services Department, Queensland Electricity Commission and Queensland Rail.

3) ## THE GOALS

The goals set by the TSCC to be achieved through improved telecommunications management were to:

- *reduce the costs of telecommunications services to Queensland Government Departments and other Public Sector Agencies;*
- *obtain the best commercial advantage from State-owned telecommunications infrastructure and facilities;*
- *obtain the optimum commercial arrangements from carriers and service providers;*
- *identify the costs of telecommunications services utilized by the Queensland Public Sector by cost centre;*
- *deliver efficient and innovative public sector services to the people of Queensland;*
- *operate and maintain the various network services efficiently and economically;*
- *ensure the provision of quality telecommunications services to the Queensland Public Sector;*
- *rationalize the telecommunications networks of Queensland Government Departments and other Public Sector Agencies; and*
- *encourage the development of the information technology and telecommunications industries within Queensland.*

4) ## ASSESSING THE ALTERNATIVES

To assist the TSCC sub-committee in assessing the alternative management methods an external consultant was engaged (Mr Ross Abbott of Lane Telecommunications Pty Ltd).

A detailed assessment of the approaches being adopted by each State was analysed as well as overseas trends. Two officers from the sub-committee visited the USA, Canada and the UK and contact was established with the New South Wales, Victorian, South Australian and Northern Territory Governments' telecommunications organisations as they were all breaking new ground in the area of telecommunications management, although each was taking an individual approach.

OPTIONS CRITERIA

In evaluating the options available the following issues were considered:

- *Involvement of the Second Carrier in Queensland*
- *Involvement of Local Industry*
- *R & D Impetus for Queensland*
- *Potential for Bulk-Buying Discounts*
- *Use of Technology Relevant to the 1990s*
- *Export Generation Potential*

- *Telecommunications Regulations*
- *Ownership and Control*
- *Service Range and Quality*
- *Cost Savings*
- *Risks Involved*
- *Capital and Operating Funds Required*
- *Sustainable Development*
- *Network Boundary*

THE OPTIONS

The four options which were finally put forward for further consideration after lengthy debate within the TSCC, and taking into consideration the consultant's report were:

Option 1 *Establish a common Virtual Private Network for all Voice, Data and Mobile Communications by competitive tendering between the two Carriers for the provision and management of the network.*

Option 2 *Enter a Joint Venture with the Non-Dominant Carrier to provide the carrier's backbone transmission requirements throughout the state at the same time allowing the Non-dominant Carrier to provide and manage all State Government Network requirements.*

Option 3 *Expand and integrate the existing government networks under the management of a single internal organisation.*

Option 4 *Appoint an external Facilities Manager to manage and coordinate the provision of all State Government networks.*

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THE PREFERRED OPTION

After detailed analysis applying the above options criteria, the TSCC decided on Option 4. The reasons for this were:

- *It was considered important that a single organization should be responsible for Whole-of-Government telecommunications so that bulk discounts could be negotiated with carriers and service providers.*

- *The manager should not be a carrier or service provider, as conflict of interest might reduce potential savings.*

- *Attempts at internal coordination and rationalization of networks had not been successful in the past because of self interest and inter Department and Agency rivalry.*

- *It was considered that perhaps the expertise and experience did not exist within Government to fully exploit the benefits that deregulation would bring.*

- *The opportunities for industry development were considered greater by creating a new private organization to manage telecommunications.*

- *The marketing of State Owned Telecommunications Infrastructure needed to be centrally coordinated and managed by an organization which fully appreciated the market value and leverage potential of the infrastructure.*

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DETERMINING THE ROLE OF THE FACILITIES MANAGER

Initially the role of the Facilities Manager was regarded as a traditional manager and builder of private or virtual private networks. However, this did not sit well with the Utilities representatives on the TSCC sub-committee. They argued that the creation of a single government network, operated as a monopoly by the Facilities Manager, would simply replace the Telecom monopoly that they had been subjected to prior to deregulation.

Consequently, it was determined that what was really required was an organization that could deliver the full potential savings of deregulation without either monopolizing service provision itself or committing the Government to long term contracts with a single carrier or service provider. Debate on the best method of achieving this led to the suggestion that what was needed was a 'broker'.

However, the term 'Facilities Manager' was already being widely used and was well ingrained within the committee; and in any case, there was the requirement to 'manage' those 'facilities' which were already in place or which would be acquired on behalf of the Government in the future.

The term 'outsourcing', although popular in the industry press, was never adopted as it was considered to conjure up unacceptable images of the Government relinquishing its responsibilities to the private sector, with resultant widespread public sector redundancies. Similarly, the term privatization was actively avoided.

Having settled on a basic philosophy, the primary role of the Facilities Manager as detailed in the RFP is to act as a broker between users on one hand and carriers and service providers on the other for the purpose of aggregating demand to achieve maximum purchasing leverage. This activity covers carriage, voice, data and mobile communications services. The Facilities Manager is also expect to negotiate the sale of *excess telecommunications capacity and infrastructure subject to the legal requirements of the Act.*

Other functions which the Facilities Manager will be expected to perform include:

- *forward planning,*
- *network maintenance and reporting,*
- *customer billing,*
- *aggregation of services,*
- *marketing,*
- *preparation of business plans for new initiatives,*
- *surveying customer satisfaction,*
- *provision and management of an Operational Support System (OSS),*
- *fault rectification and monitoring,*
- *management of moves and changes,*
- *co-ordination of telephonist services and directories, and*
- *training of users.*

The final output of the TSCC sub-committee was a 'Request for Proposals to manage Telecommunications Services for the Queensland Government'. Cabinet approved the release of this RFP which was issued on 20 January 1992, with a closing date for submission of proposals of 2 March 1992. Fifteen proposals in all were received from a wide range of Australian and overseas consortia and individual organizations.

After an intensive three stage evaluation process, Pacific Star was announced as the 'preferred proponent' on the 4th June 1992. In all 15 individual officers from 10 Government organizations had input into the final selection. The Deed of Agreement for Telecommunicaitons Facility Management Services between the State of Queensland and Pacific Star Communications (Qld) Pty Ltd was signed on 25 August 1992.

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THE ADMINISTRATIVE INTERFACES

Figure 1 shows the relationship of the various organizations which must interface with the Facilities Manager.

Central to this activity has been the establishment of a Telecommunications Group within the Administrative Services Department which will be known as Queensland Telecommunications (Q-TEL). Q-TEL will act as the Contract Manager and provide a link between Users and the Facilities Manager.

In addition it will:

- *conduct policy analysis and development;*
- *develop and implement strategic plans;*
- *review and monitor business plans;*
- *assist client groups in negotiating service agreements with the Facilities Manager;*
- *monitor and report on service agreement performance with Client Groups;*
- *monitor and report on service quality;*
- *monitor and report on network performance;*
- *verify price determinations of the Facilities Manager;*
- *recommend network architecture;*
- *review and monitor client groups;*
- *monitor and report on customer satisfaction; and*
- *monitor the databases of telecommunications assets, services and clients.*

User Sub-Committees are being established for voice/carriage, data, mobiles and State Owned Telecommunications Infrastructure. These sub-committees will be administered by Q-TEL and will have the following responsibilities:

- *monitoring the performance of the Facilities Manager;*
- *ensuring that the Facilities Manager obtains the best possible arrangements for the supply of telecommunications services;*
- *assisting the TSCC with the development of telecommunications policy;*
- *monitoring the aggregation of telecommunications demand from Users; and*
- *monitoring the supply of excess telecommunications capacity from Users to carriers and others as arranged through the Facilities Manager;*

8 THE CREATION OF SunNET

A major requirement of the Government was the need to ensure the continuity of services should the Facilities Management contract be terminated.

To ensure this, it was considered essential that the State should retain ownership of all existing telecommunications infrastructure assets. In addition, any new assets which were purchased or contracts entered into with carriers and service providers should automatically be vested in the State at contract termination.

It was also suggested that the overall facilities management activity should have an independent, easily recognized identity, which would continue regardless of the current contract holder.

To achieve this the agreement with Pacific Star provides for the creation of a company called SunNET which will be owned by Pacific Star but which will automatically revert to Government ownership at the termination of the contract.

All assets procured and service contracts entered into on behalf of the Government will be in the name of SunNET and all services provided by the Facilities Manager will be marketed in the name of SunNET.

To further provide for contingencies, SunNET staff will be made up from Pacific Star and Queensland Government personnel. This will ensure that the Government has a practical working knowledge of the SunNET operation and at the same time provide skills transfer from Pacific Star to the local industry.

9 **REMUNERATION FORMULA**

The Facilities Manager will only receive payment by being able to retain a percentage of the fees charged to Users for services. There will be no direct payments made to the Facilities Manager from any special budget allocation. Consequently, there is an incentive for the Facilities Manager to grow the volume of services provided to Users.

While the Government did not specify an exact formula in the original RFP the following criteria were to be used by respondents in developing their proposed remuneration arrangements:

- *there should be an incentive to give good service (quality);*
- *there should be an incentive to give the best prices;*
- *the method should be easy to apply (practical);*
- *the method should be seen to be fair to all concerned;*
- *the method should discourage hidden cross-subsidies ("community benefits" should be identified as such);*
- *the method should promote economically rational decisions by all parties to the agreement, including Users;*
- *the method should be auditable by the Principal and visible; and*
- *the method should encourage local industry development initiatives.*

None of the formulae proposed by respondents was considered suitable and there was a noticeable reluctance by many to commit to actual percentages without further negotiation. The main reason stated for this was that the information provided in the RFP on the volume and dispersion of Government telecommunication traffic was insufficient to develop an accurate business case.

To assist short listed respondents with their "Best and Final Offers' the Proposal Evaluation Team developed a remuneration formula which was used as a common bench mark to assess responses. As it has turned out this formula has remained unmodified in the final Agreement.

REMUNERATION FORMULA COMPONENTS

The remuneration formula consists of the following elements:

- *a percentage of savings on Standard Services;*
- *a percentage of the first year charges for customized services;*
- *a percentage of the total billed revenue adjusted according to the results of User satisfaction surveys and the audited accuracy of the Users accounts;*
- *a percentage of discounts negotiated for capital equipment, plus a percentage of the purchase value for ongoing support of capital equipment;*
- *the full cost of providing the Operational Support System; and*
- *a percentage of the first year's gross revenue from the sale of State Owned Telecommunications Infrastructure.*

INDUSTRY DEVELOPMENT

The Facilities Manager is bound by the Queensland Government's 'Code of Practice on Enhancing the Capabilities of Local Business and Industry'. This code is one of five fundamental principles of State Purchasing Policy along with:

- *fostering open and effective competition;*
- *securing value for money for Government outlay;*
- *protecting the environment; and*
- *ensuring ethical behaviour and fair dealing.*

The objective of the Code is:

- *to enhance the opportunity for Queensland and Australian suppliers of goods and services on the basis of merit and value for money.*
- *to encourage and assist Queensland and Australian suppliers to enter wider Australian and Overseas markets.*

With the appointment of Pacific Star the Queensland Government considers that the intent of the Code has been observed. The specific industry development aspects of the Pacific Star proposal are that they:

- *have made a commitment to use 'almost entirely' Queensland based firms;*
- *have entered into an agreement with a Queensland consortium called QSI to support the Operational Support System software;*
- *will use BHP-IT for management services;*
- *have committed a percentage of revenue to the creation of a Research and Development fund to be jointly administered by Pacific Star and the Government;*

- *will commit a percentage of private business revenue to a fund to stimulate local industry initiatives;*
- *plan to develop specialized software interfaces between the OSS and NEC 2400 PABXs using the services of NEC's Queensland based Software Development Centre;*
- *will use the expertise of the University of Queensland's Centre for Information Technology Research to provide cost effective value added services;*
- *will offer services to tertiary institutions to assist with the design of useful telecommunications courses;*
- *will include a Queensland university student in the Pacific Star 'Summer Intern Program';*

MAXIMISING COST SAVINGS TO TAKE ADVANTAGE OF DEREGULATION

Cost savings will generally result from competition, aggregation of demand (brokerage), and rationalisation of bandwidth and facilities. These savings all relate to micro-economic reform and the elimination of waste (or productivity improvement).

The deregulation strategy that the Federal Government has adopted has the stated aim of fostering healthy competition in the supply of telecommunications services in Australia by the turn of the century. Competitive forces should reduce waste in the supply of telecommunications and a carrier or service provider which can provide better value for money will have a strong competitive advantage. The creation of a Facilities Manager with its resulting buying power will improve the competitive situation, and in fact the Queensland Government has had price reduction proposals from AOTC even before the Facilities Manager was appointed.

Rationalization is the process of reducing waste in the consumption of telecommunications services. This may entail the sharing of bandwidth and/or facilities between departments and agencies. An external body with extensive expertise in all facets of telecommunications such as Pacific Star is expected to maximize rationalization savings.

Aggregation of demand allows the Government to obtain the maximum volume discounts which the tariffs provide. Aggregation is particularly important since the 1991 Telecommunications Act prohibits AOTC from discounting its Basic Carriage Services below the tariffs filed with AUSTEL. However, these tariffs may contain discounts related to volume or other terms and conditions of supply in accordance with Section 185 of the Telecommunications Act. That is, Telecom may be willing to give back savings that a customer helps it to achieve.

Aggregation should also help with rationalization of services, since it is difficult to rationalize services controlled by different organizations without a central coordinator. Thus, there are natural synergies between aggregation and rationalization.

Pacific Star has experience in the deregulated New Zealand market, and is familiar with the highly competitive long distance market in the United States. They have experience with rationalization and aggregation in their own networks and in networks operated by a number of US Government agencies. The remuneration formula applied to the Facilities Management agreement rewards the Facilities Manager for achieving cost savings. In effect, all of the Facilities Manager's remuneration is to come out of achieved savings.

CONCLUSION

The Queensland Government has investigated the options to successfully take advantage of telecommunications deregulation and as a result has appointed Pacific Star as its Telecommunications Facilities Manager for a five year term. To administer the overall activity it has created the Telecommunications Strategic Coordination Committee, various User Sub-Committees and Queensland Telecommunications to manage the contract. Predicted savings are in the order of $90 million over five years.