1. Executive summary of status report on central-government outsourced IT operations

This status report concerns central-government efforts to professionalise management of outsourced IT operations. The report covers the first half of 2014 and is the second report of its kind.

> The Agency Of Digitisation's consultancy secretariat for IT operations was established in 2012 as a response to an anlysis of the central government's outsourced IT operations. The purpose of the secretariat is to contribute to the professionalisation of government authorities' management of outsourced IT operations.

The Agency of Digitisation monitors the status of work by government authorities to professionalise their management of outsourced IT operations. Monitoring takes place through an IT operations contract portfolio to which all government authorities are obliged to report data about contracts which involve IT operations services costing more than DKK 5 million annually. On the basis of the reported data, the Agency of Digitisation publishes a half-year status report. This report for the first half of 2014 includes a total of 36 contracts, of which 33 are ongoing and comprise a total contract sum of DKK 484.4 million, while three contracts have ended since the previous data reporting at which time they totalled DKK 27.3 million (DKK 511.7 million in total). The Danish Ministry of Taxation did not submit data about its contracts within the deadline stipulated and is therefore not included in this report.

The previous status report from 2013 concluded that the authorities had an increased focus on their efforts to professionalise outsourced IT operations. Considerable savings totalling DKK 81.9 million annually had been realised through contract optimisation and through re-tendering contracts in an contract portfolio with a total contract sum of DKK 558.5 million, corresponding to 14.7% of the total portfolio contract sum, and corresponding to 28.2% of the contract sum for the contracts for which contract optimisation or re-tendering had been carried out.

This status report shows a quite different picture which reflects considerably weaker focus on optimisation and on reducing the costs of outsourced IT operations. However, a significant effect can be observed for those contracts that have focussed on optimisation.

The total savings realised in the first half of 2014 amount to DKK 6.6 million annually. This is on the basis of a total contract sum of DKK 511.7 million, corresponding to 1.3% of the total contract sum or 14.2% of the contract sum for contracts for which optimisation or re-tendering has been carried out.

	2013	First half of 2014
Summary of realised savings		
Number of contracts	33	36
Total contract sum	DKK 558.5 mill.	DKK 511.7 mill.
Savings	DKK 81.9 mill.	DKK 6.6 mill.

Percentage of total contract sum	14.7%	1.3%
Percentage of contract sum for optimised contracts	28.2%	14.2%

At the same time, the reported data reveals a number of trends in how central government manages its outsourced IT operations, and these trends call for greater focus in this area:

- *Poor conditions for exploiting falling prices in the market:* Central-government IT operations contracts have long duration periods and are consistently extended rather than re-tendered where this is an option. Because many contracts do not include the possibility to adjust prices downward during the duration of the contract, while at the same time there is poor transparency with regard to costs, there are not the right conditions for exploiting a general drop in prices of 33.3% in the market over the past four years.
- *Insufficient focus on optimisation:* The authorities focus primarily on stabilisation of operations and on other operational elements, whereas there is less focus on exploiting the current market situation.
- *A lack of standards:* Different standards are used for the individual IT operations contracts and this makes follow-up inefficient and means that important terms are missing from the contracts.
- *Poor correlation between business needs and service level:* There is poor correlation between business needs and service levels in the contracts, and this may lead to excessively high costs or to unnecessarily poor services.
- *A lack of risk management:* In many situations, risk logs and exit plans have not been prepared and this gives rise to poor risk management and increases the risk of a competitive stalemate.

Some of these challenges are in line with the challenges identified by McKinsey and Co. in their analysis of IT operations in 2012. The Agency of Digitisation assesses that there is a need for greater attention to ensuring good follow-up on contracts and good procurement of IT operations services. To some extent, this can be achieved through:

- Placing focus on the establishment of good follow-up on the terms of the individual contract, good management of risks and active decision-taking with regard to the financial and commercial aspects of contract management.
- Preparing a common central-government standard contract for IT operations, which the authorities can use as the basis for their IT operations contracts to ensure the right conditions for good management of both commercial aspects and delivery aspects of the contract.
- Creating focus on the commercial elements of contract management and on the potentials for exploiting the market situation.
- Providing guidance on assessing criticality and choosing service levels.
- Providing guidance on risk management, including how to prepare risk logs and exit plans.

In addition to the IT operations contract portfolio, the Agency of Digitisation's consultancy secretariat for IT operations currently provides advice to government authorities by communicating knowledge and experience about general challenges relating to the procurement and management of outsourced IT operations across central-government bodies. This consultancy takes place through network activities and non-binding guidance documents. Government authorities can make use of this advice to the extent that they find necessary. The initiatives mentioned above can be implemented as a part of these communication efforts, as there will still be a natural division of tasks between, on the one hand, the

tasks of the centrally placed secretariat to follow up and to communicate knowledge and experience across central government, and, on the other hand, the responsibilities of the individual authorities for their own procurement and management of outsourced IT operations.

However, in step with McKinsey and Co.'s 2012 analysis, the Agency of Digitisation believes that if challenges are to be met, it would be appropriate to instigate further measures in the form of common policies and guidelines, as well as mandatory guidance activities to underpin authorities' procurement and management of outsourced IT operations. The establishment of further measures is best achieved through close collaboration with the authorities with a view to ensuring relevance and ownership across central government. In 2012, McKinsey and Co. assessed that if the full improvement potential is to be realised, the measures need to be implemented through binding and common efforts and through a centrally organised team with clear mandates and sufficient resources and competences.

Further measures could include:

- Common policies and guidelines for procurement and management of outsourced IT operations, including a common central-government contract management model.
- Mandatory guidance activities in connection with the procurement and management of large IT operations contracts with recommendations for how to minimise risk, as well as for how to avoid elements that may push up costs.

However, this will require extending the Agency of Digitisation's mandate as well as allocating resources. The Agency of Digitisation will look into the possibilities for this.