

Workplace Support Services

Project Summary

December, 2004

Table of Contents

1.	EXECUTIVE SUMMARY	3
	<i>Benefits to Government</i>	3
2.	PROJECT BACKGROUND, RATIONALE AND SCOPE	4
	<i>Background</i>	4
	<i>Business Rationale and Project Objectives.....</i>	4
	<i>Business Case</i>	5
	<i>Scope of Services</i>	5
3.	COMPETITIVE SELECTION PROCESS.....	6
	<i>Joint Solution Procurement Process</i>	6
4.	THE FINAL AGREEMENT.....	9
	<i>Profile of the Selected Partner</i>	9
	<i>Key Terms of the Agreement</i>	9
	<i>Privacy & Security.....</i>	11
	<i>Financial Summary</i>	12
	<i>Risk Allocation Summary</i>	12
5.	TRANSITION, TRANSFORMATION, ONGOING CONTRACT MANAGEMENT	13
	<i>Initial Transition</i>	13
	<i>Governance</i>	14
	<i>Ongoing Management.....</i>	14
	APPENDIX 1 – PRIVACY PROTECTION	15
	APPENDIX 2 – RISK ALLOCATION.....	16
	<i>A: Material Risks Transferred to the Private Sector</i>	16
	<i>B: Shared Material Risks.....</i>	17
	<i>C: Material Risks Retained by the Province</i>	18

1. Executive Summary

The purpose of this report is to provide the public and interested stakeholders with a summary of final outcomes and benefits to be achieved from the Workplace Support Services alternative service delivery initiative. Workplace Support Services refers to the provision of workstations (desktop and laptop personal computers) and support services (purchasing, delivery, installation, help desk and on-site support) required by employees of and contractors to government.

The Workplace Support Services project transfers the responsibility for service delivery, hardware supply and support for almost 29,000 workstations across the province of British Columbia to the private sector. On December 3, 2004 the government entered into a long-term relationship with IBM Canada to deliver these services. In providing these services, IBM Canada is supported by its subsidiary ISM Information Systems Management Canada Corporation (ISM Canada), and its British Columbia-based subcontractors, Tecnet Canada Inc. (Tecnet) and Microserve Business Services Inc. (Microserve).

Benefits to Government

Overall, this deal delivers value to government by:

- Improving service levels to government end-users;
- Establishing and sustaining enforceable service levels;
- Enhancing the security of government workstations;
- Transferring service delivery risk to the private sector;
- Updating and maintaining the technical currency of the government's fleet of workstations to a standardized design;
- Ongoing reductions in the annual cost of workplace support services to government; and
- Creating an opportunity to extend these services to the broader public sector, resulting in future cost savings.

The ten-year service contract with IBM Canada, worth approximately \$300M, is to deliver a complete end-to-end service for workplace support for all workstation users within government. IBM Canada will deliver the services on a 'cost-per-seat' (per user) basis that declines year-over-year for the life of the contract. Government will continue to own the workstations, certain software licences, and some third-party contracts. A small core team of specialized staff will remain behind to manage the contract and drive continuing value from the business relationship with IBM Canada for the term of the contract. In the transition of services to IBM Canada, all affected government staff were offered employment and government will transfer the majority of staff currently providing these services to ISM Canada – the unionised subsidiary of IBM Canada.

When comparing the cost of this alternative service delivery contract with the cost of government continuing to do business-as-usual, the 10-year agreement is estimated to deliver over \$80M in financial benefits to government.

2. Project Background, Rationale and Scope

Background

Through its New Era Commitments, the Government of British Columbia committed to transforming the way services are delivered to British Columbians.

Alternative Service Delivery (ASD) is a key mechanism for realizing government's vision. Its primary focus is to provide cost effective and efficient delivery of services to taxpayers by:

- Increasing private sector involvement in the delivery of services; thereby allowing government to focus on core business;
- Reducing costs, increasing revenue, or maximizing cost avoidance;
- Maintaining or enhancing service levels; and
- Supporting general economic development and growth.

In June 2001, government, under the leadership of Premier Gordon Campbell, created the Ministry of Management Services (MSER). Its mandate was to create a Shared Services organization that would coordinate the delivery of services internal to government. In December 2002, government consolidated all information technology infrastructures for government operations in MSER. As part of creating a Shared Services organization, workplace support services were consolidated from 18 separate ministry organizations into one central function within the Common IT Services (CITS) function of Shared Services.

Business Rationale and Project Objectives

In developing the business case for this initiative, the Ministry of Management Services (MSER) made a strategic decision to outsource its Workplace Support Services based on the following business rationale:

- Increasing pressures on workplace support operating costs, which exceed some ministry budget allocations;
- Lack of predictability around operating costs;
- A general decline in service quality and responsiveness of the current desktop services;
- Little enforcement of standardization in workstations and service levels, which had resulted in wide service variations across government; and
- Service instability as a result of the above factors.

Business Case

The business case considered two options – an in-house option and an outsourced option. A third ‘do-nothing’ option was discounted because of the growing concern within government around service decline and increasing costs. Transforming the service delivery model for workplace support was considered to be the only way in which the challenges for the service could be addressed.

The business case demonstrated that the use of an external service provider was the best way for government to achieve the service quality, business process improvement, and improved cost management objectives of the project. This view was reinforced through market research undertaken by the MSER, which looked at industry best practice in the workplace support services market place. This research clearly indicated that the desktop support market was well established, highly competitive and would be able to deliver the service quality and cost of service improvements sought by government.

Scope of Services

The scope of the base services in the final contract with IBM Canada is comprised of the following core services:

1. Order & Acquisition Services:
 - Procurement of machines (desktops and laptops);
 - Order management; and
 - Stock management.
2. Deployment Services:
 - Desktop software image management and software distribution;
 - Configuration and pre-delivery preparation; and
 - Installation on site.
3. Asset Services:
 - Asset tracking; and
 - Asset inventory management.
4. Support Services:
 - Helpdesk (24/7);
 - Desk-side support;
 - Field support (installs, moves and changes);
 - Security services and
 - Technical engineering.

5. Disposal Services:

- Secure data cleansing services;
- Device disposal assistance and
- Device redeployment (to other public sector clients such as schools).

IBM Canada will also be expected to undertake supplemental work as 'project services' related to the support of the government's desktop environment, as required. For example, relocation of the workstations for a complete office move, which is outside the costing of the base services in the contract. Such work will be identified on an 'as needed' basis and priced based on the discounted rate structure specified in the contract.

3. Competitive Selection Process

In traditional procurement processes government decides on a solution to a problem and then provides vendors with detailed specifications. Vendors must bid and build within those pre-determined parameters. This approach does not allow vendors to propose alternative solutions that would achieve the desired outcomes in different and potentially more effective ways. Nor does it allow vendors to make use of the experience and ideas of government staff that currently deliver the services in order to develop or tailor creative alternatives.

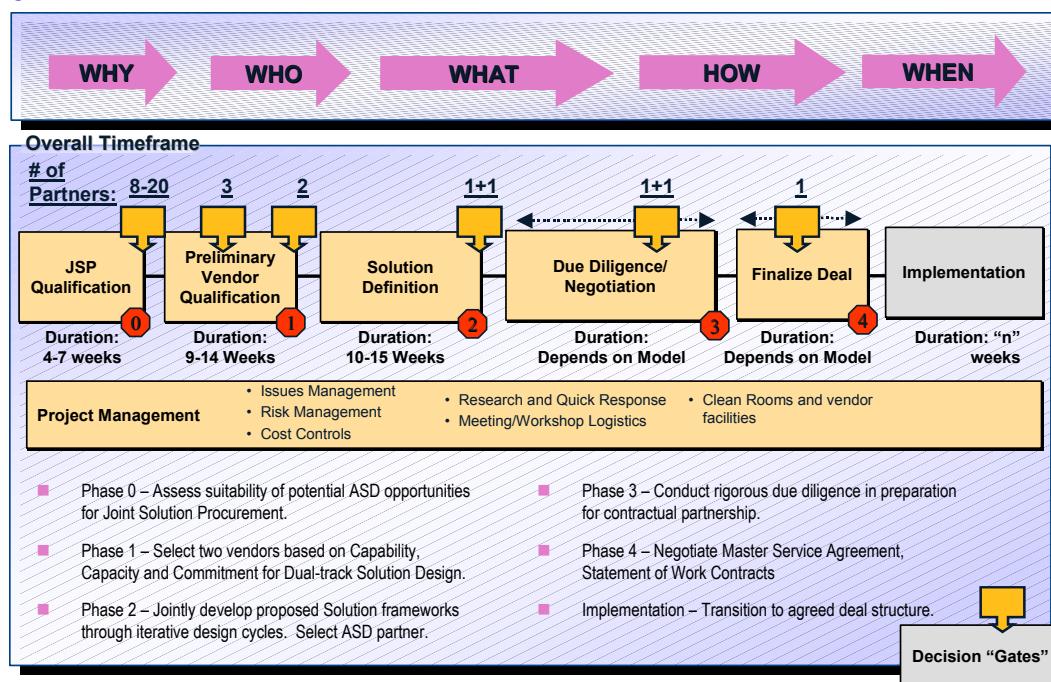
In approaching the Workplace Support Services project, the Ministry decided to try a different procurement approach. Rather than defining the solution, the Ministry defined the problem and desired outcomes, and asked the vendors to propose solutions. The Ministry's intention was to select an ASD "partner" through a process that would result in an innovative and tailored solution, sustainable over a contract term of at least seven to 10 years.

Joint Solution Procurement Process

The Joint Solution Procurement (JSP) process was selected as the preferred alternative to the traditional procurement approach. The JSP process allows both the private sector and government staff the opportunity to apply their collective knowledge and expertise to evaluate and design a wider range of solutions.

In the first stage of the process, vendors qualified to participate by demonstrating their capability (experience and track record in delivering similar services), capacity (financial and human capital available to sustain an operation of the size and scope of the project) and commitment (to the process and the achievement of the objectives of the project). The JSP process is illustrated below:

Figure 1: The Joint Solution Procurement Process



Phase 0 – Joint Solution Procurement Qualification

The Joint Solution Request for Proposals (JSRFP) was released on December 12, 2003. Five companies responded. Three vendors were short listed on the basis of their initial written proposals.

Table 1: Respondents to the JSRFP reference SATP-042

Submitted Proposal	Short Listed	JSD Phase Participant
Island Key Computers	No	No
EDS Canada	Yes	Yes
IBM Canada	Yes	Yes
General Electric	No	No
Hewlett Packard Canada	Yes	No

Phase 1 – Preliminary Vendor Qualification

These vendors were provided with summary information about the current business processes and technology. They then prepared high level, conceptual presentations demonstrating their proposed solution to address the problems and achieve the desired outcomes. On the basis of those conceptual solutions, government evaluators selected two preferred proponents (EDS Canada and IBM Canada) to work through the Joint Solutions Development (JSD) phase.

Phase 2: Joint Solution Definition

During this phase the proponents had access to more detailed information about the current business, and refined and elaborated on their initial solutions in close collaboration with government staff. All participants in this process were bound by confidentiality agreements, and were not provided access to any sensitive personal information.

A panel that included senior staff of the Ministry of Management Services, as well as external consultants with expertise in privacy, technology, economics and finance, evaluated proposals. Initial evaluation criteria measured the capacity, capability and commitment of the proponent. Proponents' final solutions were evaluated on the quality and comprehensiveness of:

- Business process and transformation approach;
- Economic model and deal structure;
- Technology solution and migration strategy;
- Relationship and flexibility;
- Labour strategy;
- Governance; and
- Policy and Compliance (including privacy).

Phase 3: Due Diligence & Contract Negotiation

The JSD Phase ended in June 2004, and IBM Canada was selected as the successful proponent to proceed to the final Due Diligence and Contract Development Phase. The due diligence performed on IBM Canada included site visits and customer reference checks along with detailed validation of the planning assumptions which were used to build the final solution presentation to government.

Phase 4: Finalise Deal

The contract with IBM Canada was signed in December 2004. This innovative Joint Solutions Procurement process was used to select a long-term, strategic business partner to work with the Ministry of Management Services, to transform, operate and maintain government's workplace support systems and processes.

The procurement process was designed to be collaborative in nature, to harness the creativity of both the government and the private sector. The process encourages open and honest dialogue in order to facilitate the best overall value proposition for both parties. The objective was to arrive at a business solution that delivers the optimal, efficient and most cost-effective service solution for government. The Ministry of Management Services wanted to take the working relationship between public and private sectors in British Columbia to a new level.

4. The Final Agreement

Profile of the Selected Partner

IBM Canada Ltd. is a wholly owned subsidiary of International Business Machines Corporation (IBM), a publicly traded company founded in 1911. IBM Canada is one of Canada's leading providers of advanced information technology products and services. The first IBM office opened in British Columbia in 1914. IBM Global Services was established in 1991 to help companies manage their IT operations and resources and ensure that their technology investments contribute to profitable growth.

IBM Global Services is the world's largest information technology services and consulting provider. Some 180,000 professionals in more than 160 countries help clients integrate information technology with business value - from the business transformation and industry expertise of IBM Business Consulting Services to hosting, infrastructure, technology design and training services. Leveraging IBM's unequalled scope and scale, IBM Global Services delivers integrated, flexible and resilient processes - across companies and through business partners, that enable clients to save money and transform their businesses to be more competitive. For more information, visit www.ibm.com/services.

IBM Canada was selected because of the overall strength of the final solution proposed to government. This emphasized a low-risk service transformation based on the company's existing knowledge of workplace support services within British Columbia and across government, combined with a very robust approach to staff transition using its unionized subsidiary ISM Canada. ISM Information Systems Management Canada Corporation (ISM Canada) is a wholly owned subsidiary of IBM Canada.

Key Terms of the Agreement

Legal and Commercial Structure	<ul style="list-style-type: none">▪ IBM Canada is a wholly owned subsidiary of IBM and is registered to conduct business in British Columbia.▪ IBM Canada has been contracted to deliver these services.▪ IBM Canada will base the operation centre for workplace support services in Victoria.▪ ISM Canada is a wholly owned subsidiary of IBM Canada that will provide some of the services, under contract to IBM Canada, using a workforce that is covered by a collective agreement.▪ Additional subcontractors, Tecnet Canada Inc. (Tecnet) and Microserve Business Services Inc. (Microserve), which are BC-based companies, will also provide some of the services.
Term	<ul style="list-style-type: none">▪ Term of 10 years with the option for renewal for a further two years.

Labour	<ul style="list-style-type: none"> ▪ All 188in-scope staff were given job offers. ▪ 173 Workplace Support Services staff will be transferred to ISM Canada representing an acceptance rate of 92%. ▪ ISM Canada has a signed Collective Agreement with the British Columbia Government and Service Employees' Union (BCGEU).
Pricing	<ul style="list-style-type: none"> ▪ Pricing based on a 'cost-per-seat' with guaranteed reductions in seat price year-over-year for the term of the contract. ▪ Total contract value of \$300M over ten years.
Additional Cost-Reduction Opportunities	<ul style="list-style-type: none"> ▪ Hardware prices are indexed each year against an industry-recognized benchmark. ▪ Seat price adjustments downwards as seat count under contract increases with expansion to the Broader Public Sector.
Protection of Service Levels	<ul style="list-style-type: none"> ▪ Service level performance will be reported on a regular basis and remedies are defined for under-achievement and service credits for overachievement. ▪ Service level and price benchmarking using an independent, third party.
Termination	<p>Termination provision includes:</p> <ul style="list-style-type: none"> ▪ Termination at Expiry; ▪ Termination for Cause; ▪ Termination for Convenience; ▪ No Fault Termination ▪ IBM Canada will provide termination assistance where requested by the Province.
Governance	<ul style="list-style-type: none"> ▪ Joint Executive Steering Committee (JESC) comprising members of IBM Canada and Solutions BC guide the implementation of the transition project, ongoing service strategy and joint communications strategy. ▪ Joint Program Management Office to oversee implementation rollout, monitor service levels and administer the contract. ▪ Dedicated Alliance Executive responsible for the ongoing health of the relationship with the Government.
Financial Controls	<ul style="list-style-type: none"> ▪ Protection against excessive profit. ▪ Liability and indemnity provisions are in place, including remedies for privacy breach. ▪ IBM Canada agrees to permit the Province to have access for operational audit and inspection purposes.
Audit	<ul style="list-style-type: none"> ▪ Transparency of financials including reasonable audit and investigation rights. ▪ Security audit of IBM Canada's privacy and security processes. ▪ Adequacy of Business Continuity for workplace support services.
Intellectual Property	<ul style="list-style-type: none"> ▪ Any Intellectual Property developed by the Province remains with the Province. IBM Canada will have unrestricted rights to use any such Intellectual Property for the term of the contract. ▪ Any Intellectual Property developed by IBM Canada as part of the Services will be available to government on an 'unrestricted right to use' basis at end of contract term for use in continuing services.

Privacy & Security

The protection of personal information of all individuals, whether it be in their role as citizen or employee, is of critical importance to government. IBM Canada has in place, and will maintain, policies and procedures specific to both privacy and security.

This contract does not deal with personal information (as defined by the Freedom of Information and Protection of Privacy Act). There is no authorized access to personal information with the exception of 'business contact information' which covers:

- home contact information (for employees using services in connection with home-based government workstations) where a signed consent is required from the employee to provide these services; and
- IT incident history (to support problem diagnosis and correction).

The contract with IBM Canada protects privacy and security by:

- Ensuring that IBM Canada complies with the requirements of the Freedom of Information and Protection of Privacy Act including the new amendments to the Act;
- Incorporating recommendations from the Privacy Commissioner into the contract language;
- Ensuring that all personal and operational data remains in Canada (prime data location in Victoria with disaster recovery from a Canadian-based centre);
- Substantial financial remedies and the right to terminate the contract for unauthorized disclosure of personal information under the *USA Patriot Act*;
- Requiring that IBM Canada notifies the Province immediately in any situation where it receives an order to disclose personal information, whether that request is made by an organization inside or outside of Canada;
- Requiring that IBM Canada notifies the Province immediately in any situation where there has been an unauthorized disclosure of personal information;
- Contracting provisions that prevent IBM Canada from adding or changing key subcontractors without the Province's approval;
- Any subcontractor is subject to all the contractual provisions for privacy protection of province data as IBM Canada;
- Explicit education and training for staff on privacy and security will be provided by IBM Canada and will be renewed on an annual basis; and
- Conducting Privacy Impact Assessments prior to contract and with any material changes involving personal information for the life of the contract - and implementing recommendations.

Financial Summary

IBM Canada will deliver the services to the Province based on a ‘cost-per-seat’ model that guarantees a year-on-year reduction over the 10-year life of the contract. This represents a 45% reduction in the contracted cost-per-seat to government over the term of the contract.

When compared to the estimated cost of government undertaking this work in-house, the anticipated financial benefit to government over a ten year term would be \$82 Million.

Option	Costs over 10 Years (\$M)
(a) In-House Development	\$436
(b) Outsourcing Deal	\$354 ¹
Financial Benefit to Government (a-b)	\$82

Payment Mechanism

IBM Canada will invoice the Province for services on a monthly basis.

Expected Accounting Treatment / Financial Reporting

All accounting, record keeping and book keeping of IBM Canada will be performed and carried out consistent with Canadian Generally Accepted Accounting Principles (GAAP).

Risk Allocation Summary

The types of risks transferred to IBM Canada include:

- Operational delivery of workplace support services;
- Business continuation;
- Financial uncertainty on the cost of services over time;
- Service quality and service level performance;
- Security of desktop devices
- Technical obsolescence – keeping government desktops up-to-date; and
- Business process transformation.

The types of risks retained by the Province include:

- Business relationship with Solution BC clients;
- Management of stakeholder group relationships;
- Organizational change; and
- Contract/alliance management.

¹ This figure includes payment to IBM Canada for services and hardware as well as the costs retained by government (e.g. software licences, some third-party contracts and a small contract management organization).

The types of risks shared by the Province and IBM Canada include:

- Change in Ministry support for this opportunity/deal;
- Organizational change and transition plan failure;
- Client satisfaction;
- Contractual working relationship.

5. Transition, Transformation, Ongoing Contract Management

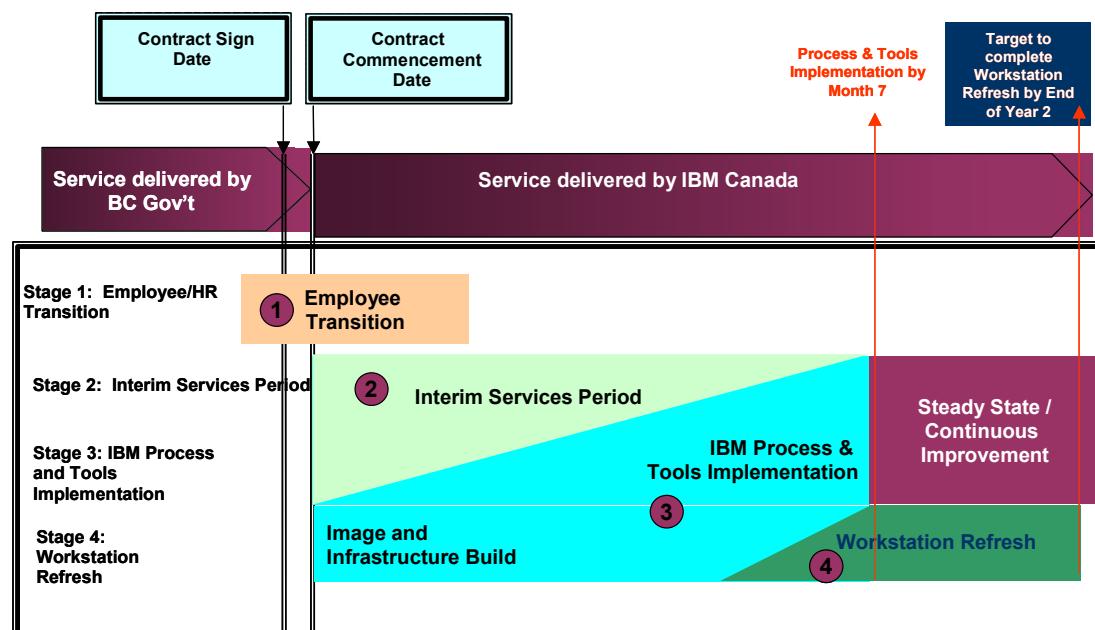
Initial Transition

The initial transition from the Government of British Columbia to IBM Canada will be based on a "business as usual" model, meaning transition will not be concurrent with transformational changes. The transformation project has four distinct stages, which comprise:

- Stage 1: Employee Transition;
- Stage 2: Interim Services (6-9 months)
- Stage 3: IBM Tools and Process Implementation (concurrent with Stage 2); and
- Stage 4: Workstation Refresh (roll out of new desktop computers).

The implementation plan is illustrated below:

Figure 1: High-Level Implementation Plan



Governance

Governance and alliance management responsibilities rest with Solutions BC in the Ministry of Management Services. A Joint Executive Steering Committee has been established which is chaired by the Deputy Minister, Management Services and includes senior executive representation from client ministries and IBM Canada. Operational management of the transformation activities will be managed through a joint Project Management Office staffed by government and IBM personnel that will provide day-to-day management oversight of the project through each of the transformation stages.

A senior member of the Common IT Services (CITS) management team has been appointed to manage the contract relationship with IBM Canada. This person will be responsible for managing and nurturing the long-term relationship with IBM Canada, driving incremental value over the life of the deal, and resolving any issues that may arise. This person is also responsible for ensuring that the contracted value is delivered from the contract.

The transformation project will impact all ministries across government and in order to ensure a smooth channel of communication during the transition, each ministry has nominated a Transition Champion to act as the focal point between the ministry and the implementation teams. This crucial role will be a key enabler of success for the project by ensuring strong two-way communications between the project and each ministry.

Ongoing Management

Ongoing management will focus on demonstrating the value of the service contract to client ministries and reinforcing the strategic business relationship with IBM Canada. There are 11 service levels that have been identified and defined to measure the performance and quality of the services delivered by IBM Canada. These service levels will be implemented and progressively monitored during the first two years of the contract while the new service model, tools and processes are put in place and the entire fleet of government workstations has been refreshed. Service Managers from both partners will report and review these service levels. There are financial consequences associated with the continued achievement of these service levels, which will be tracked, monitored and reported on a regular basis.

Appendix 1 – Privacy Protection

Mitigation Strategy / Contract Provisions (X = not a specific requirement; ✓ = specific requirement; I = implicitly required to comply with other contract provisions)	Current State	IBM Canada Deal
IBM Canada will comply with provincial policies and procedures regarding privacy and security as applicable to the services.	X	✓
Privacy and security obligations flow to IBM Canada sub-contractors as applicable to the services.	X	✓
Strong technology security measures will be implemented, including firewalls, encryption and physical security.	✓	✓
Strict records management and retention policies will be implemented.	✓	✓
Privacy Impact Assessments will be required prior to any systems change.	I	✓
Contract includes termination rights in the event of certain disclosures of personal information or privacy breach.	I	✓
Non-disclosure agreements include the requirement for the signer to notify the Province in the event that he/she becomes aware of any potential disclosure.	X	✓
Data storage and access, including remote access, will be only in Canada, and can only be changed with the Province's express consent.	X	✓
The Province has the right to audit data movement as part of its general audit provisions.	X	✓

Appendix 2 – Risk Allocation

A: Material Risks Transferred to the Private Sector

Risk Category & Description	Mitigation (Contractual Provisions)
Business Risk	
IBM Canada does not achieve service levels in contract	<ul style="list-style-type: none"> • Financial penalties. • Termination for Cause.
Labour Disruption	<ul style="list-style-type: none"> • ISM Canada's Labour Disruption Plan. • Labour Relations Code and designation of "Essential Services".
Privacy or security breach	<ul style="list-style-type: none"> • Commitment to government imposed standards. • Audit provisions. • Breach triggers termination for cause.
Fraud or negligence	<ul style="list-style-type: none"> • Audit provisions. • Breach triggers termination for cause.
Failure of company or sub-contractors	<ul style="list-style-type: none"> • Failure of IBM Canada is considered a material breach of contract leading to termination. • IBM Canada is responsible for all services delivered by sub-contractors.
Business Continuity and Disaster Recovery	<ul style="list-style-type: none"> • IBM Canada's Business Continuity Plan. • Significant performance penalties. • Termination for cause.
Financial Uncertainty	
Seat Price Variability	<ul style="list-style-type: none"> • No guarantee of seats (users) to be provided under contract. • Price adjustments based on broad 'collars' reflecting the number of seats under contract. • Extension to the Broader Public Sector (BPS) seats will leverage lower overall costs to government.
Cost Overruns	<ul style="list-style-type: none"> • Governance structure. • Reporting requirements. • Excessive profit protection.

Service Quality	
Transition Risk	<ul style="list-style-type: none"> • Third party contracts will be assigned to IBM Canada. • ISM Canada has negotiated a separate Collective Agreement with the BC GEU.
Service Level Performance	<ul style="list-style-type: none"> • Service level performance incentives and remedies. • Reporting requirements. • Chronic failure triggers breach conditions and termination for cause.
Desktop Security	<ul style="list-style-type: none"> • Standardization of desktop devices. • Improved tools and processes. • Governance structure.
Flexibility & Responsiveness	<ul style="list-style-type: none"> • Governance structure. • Service level incentives and penalties. • Reporting requirements.
Technical Obsolescence	<ul style="list-style-type: none"> • Standardization of desktop devices. • Workstation refresh schedule. • Governance structure.

B: Shared Material Risks

Risk Category & Description	Mitigation (Contractual Provisions)
Business Risk	
Force Majeure	<ul style="list-style-type: none"> • IBM Canada's Business Continuity Plan. • Province may obtain services elsewhere. • Full or partial 'no fault' termination of services at Province's option. • Mutual agreement on a proportional payment reduction for service interruption.
Economic Risk	
Inflation / Cost of Living Allowance (COLA)	Both parties are tied to a mutually agreed, independent index.
Termination by Province for convenience	Early termination fees apply.
Sponsorship/Management	
Risk of change in support for project within government or IBM Canada	<ul style="list-style-type: none"> • Governance structure. • Service level incentives and penalties. • Reporting requirements.
Risk that scope changes will increase net cost to ministries.	<ul style="list-style-type: none"> • Governance structure. • Reporting requirements.

Project Complexity	
Risks associated with balancing multiple goals, numerous concurrent activities, new business processes complex technology implementation, coordinating multiple organizational units	<ul style="list-style-type: none"> • Governance structure. • Reporting requirements. • Pricing schedule and refresh schedule will incent ministries to participate in the project. • Simplified model for support services. • Service level performance incentives and remedies.
Organizational Change	
Transformation risk: reorganization of remaining ministry functions; alignment of ministry and Service Provider	Transition plan is based on the Ministry Readiness Assessment, which evaluated technical, process and cultural readiness of each ministry to engage in the implementation program.
Quality Management	
Risk that the ministry will be unable to monitor and measure deliverables.	<ul style="list-style-type: none"> • Governance structure. • Reporting requirements.
Opposition from Union and the general public	<ul style="list-style-type: none"> • BCGEU has signed a new Collective Agreement with ISM Canada.

C: Material Risks Retained by the Province

Risk Category & Description	Mitigation
Business Risk	
Keeping ministries 'in the deal' over the term of the contract	<ul style="list-style-type: none"> • Governance structure; • Service level incentives and remedies; • Reporting requirements.
Major/sustained volume growth or shrinkage driven by government activity or policy change.	<ul style="list-style-type: none"> • Governance structure and annual business planning cycle with joint planning; • Pricing schedule allows for volume changes.
IBM Canada does not achieve service levels in contract	<ul style="list-style-type: none"> • Service level performance incentives and penalties; • Reporting requirements; • Chronic failure triggers breach conditions and termination for cause.
Change in government law or policy requiring changes in scope, systems or business processes	<ul style="list-style-type: none"> • Governance structure and annual business planning cycle with joint planning.

Risk Category & Description	Mitigation
Failure of Company or sub-contractors	<ul style="list-style-type: none">• Failure of IBM Canada is considered a material breach of contract leading to termination.• IBM Canada is responsible for all services delivered by sub-contractors.
Sale or Change in control of company	<ul style="list-style-type: none">• Substantial remedies if the sale is unacceptable to the Province.

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