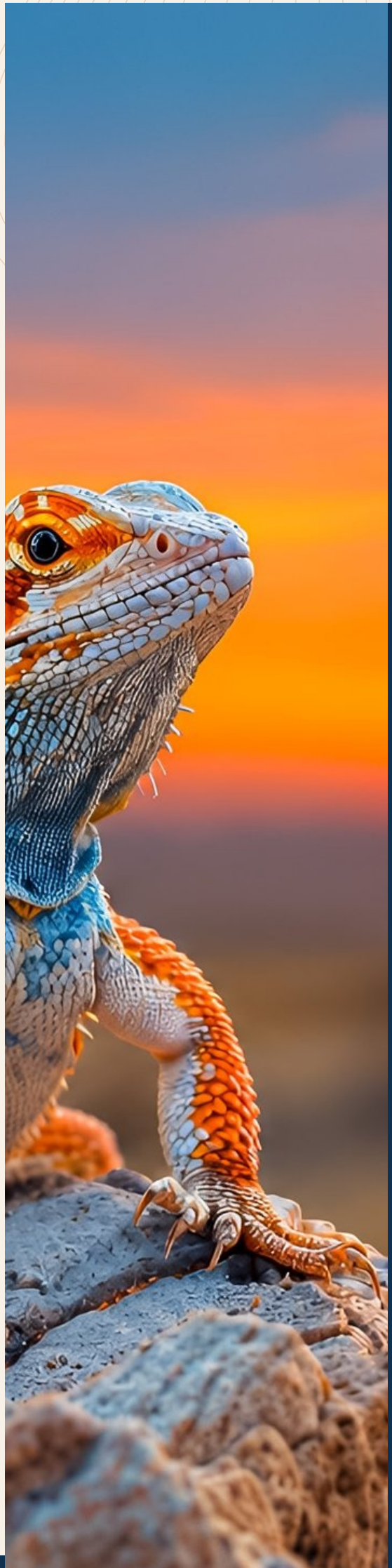
Australia's Digital Outlook 26/27:

DIGITAL ENTERPRISE & AI MATURITY

Australia is betting big on AI. Are we ready?



EXECUTIVE REPORT



AI has moved from possibility to practice.

Across Australia, organisations are investing more in AI, putting it to work and beginning to see returns. But as adoption accelerates, an important question emerges: are our people, systems, infrastructure and governance ready to keep pace?

That's why this research matters now.

Australia's Digital Outlook 26/27 brings together the perspectives of technology decision-makers and AIIA members, supported by in-depth interviews with senior leaders across government, industry and the technology sector.

Together, they provide a clear picture of where Australian organisations are today: what's working, where capability is lagging and what could prevent investment from translating into sustained productivity and growth.

Importantly, this report is not simply a measure of AI adoption. It examines the conditions required to scale it successfully – leadership, skills, modern systems, security, governance, infrastructure and sovereign capability.

The next 12–24 months will be critical.

This research gives the government and industry an evidence base for deciding where attention, investment and action are needed most.

Elizabeth Whitelock
Chief Executive Officer
Australian Information Industry Association

Executive summary.

Australia has moved beyond talking about AI.

Organisations are investing in it, putting it to work and beginning to see results.

96%
of technology decision-makers have increased their AI budgets

68%
have AI in production or scaled across the business

66%
say their AI investments are meeting or exceeding expectations

That's a strong starting point. But this research also reveals the challenge underneath those numbers.

Australia is moving quickly on AI. The systems, skills and safeguards around it need to keep up.

Across this research, the same message appears again and again: AI success will not come from buying more technology alone.

It will depend on whether organisations have the people who know how to use it, modern systems underneath it, infrastructure that can support it, clear rules for how it's used and a government and procurement system that allows innovation to move.

Australia has built momentum. The next challenge is turning that momentum into lasting value.

Five findings define what happens next

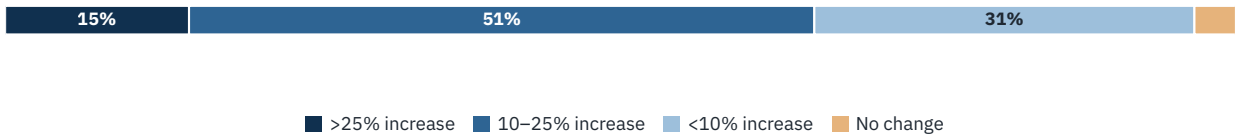
1 Australia is no longer experimenting with AI. It is putting it to work.

The first finding is encouraging. AI investment has moved decisively into execution.

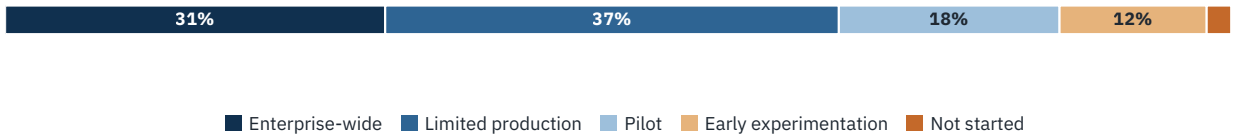
AI has moved decisively into execution

Share of technology decision-makers

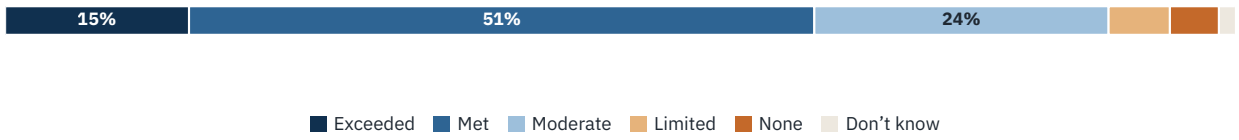
96% increased their AI budget in the past year



68% have AI in production or scaled across the business



66% say AI returns met or exceeded expectations



Segments are rounded, so they may not add exactly to the total shown.

This tells us Australia doesn't have an AI interest problem. Organisations are willing to invest, they're deploying the technology and many are already seeing returns.

The question is no longer whether Australia will adopt AI. It is whether we can turn that adoption into lasting productivity and growth.

2 Organisations are confident about AI. But that confidence needs to be tested.

Technology buyers are positive about their AI governance.

67%

describe it as advanced or optimised

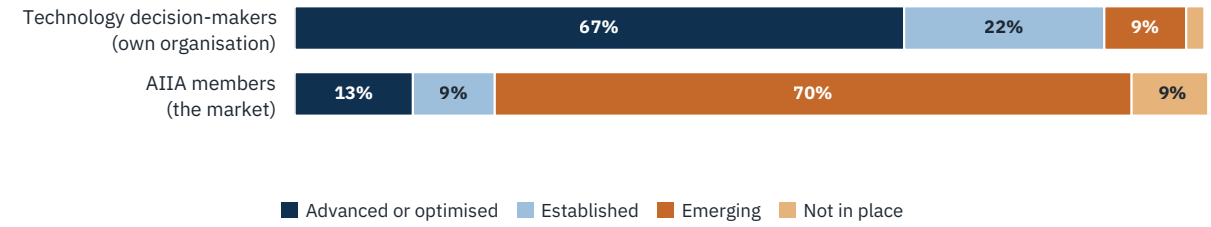
Technology providers see the wider market differently, with **70% assessing AI governance as still emerging.**

These are different groups looking at the market from different perspectives, so the figures shouldn't be treated as a direct comparison. But they raise an important question:

Are organisations as ready as they think they are?

Buyers are confident about AI governance. Providers aren't.

How mature is AI governance? Buyers rated their own organisation; AIIA members rated the market.



Australia already has government assurance frameworks and announced AI standards to build on. The next step is making the rules clear, consistent and practical – and making sure organisations can prove their safeguards work, rather than simply believing they do.

Confidence matters. Evidence matters more.

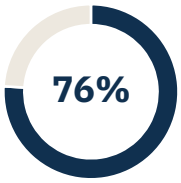
3 We need more AI skills. But training is being cut.

One of the clearest contradictions in the research is about people. Organisations know they need more technology skills.

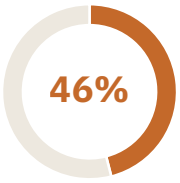
Yet **46% say training is the budget area most likely to be squeezed as they find money for AI.**

We need more skills, yet we're cutting training

Share of technology decision-makers



say ICT skills and capability gaps are a highly or majorly significant challenge



are cutting training to help fund AI

This creates a simple problem: buying AI does not mean people automatically know how to use it.

Employees need to know how to work with AI, check its answers and understand when it should, and should not, be trusted. Leaders also need enough understanding to make good decisions about where AI belongs and how its success should be measured.

Training is not separate from AI investment. It's part of it.

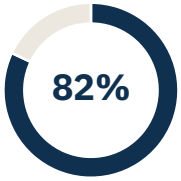
Australia already has national and public sector AI plans to build on. The next step is stronger participation from employers, shared investment in skills and better measurement of whether those programs are actually building the capability Australia needs.

4 While keeping data in Australia is important, it doesn't guarantee control.

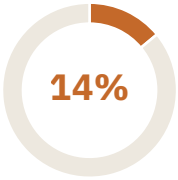
Australian organisations care deeply about where their data lives.

Most want their data kept here. Few use sovereign AI.

Share of technology decision-makers



require Australian data residency



primarily use sovereign or in-country AI cloud services

As this report shows, residency and sovereignty are not the same thing.

Where data is stored matters. Organisations also need to understand who can access it, who controls the infrastructure around it and what happens when something goes wrong.

We should not shut ourselves off from global technology. But we do need enough infrastructure, trusted assurance and local capability to give organisations genuine choice and control.

Sovereignty shouldn't mean isolation. It should mean knowing where control sits.

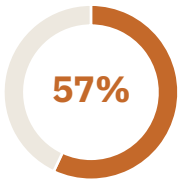
5 Government buying power could help Australia scale. But procurement is still getting in the way.

The government has enormous buying power. Used well, it can help Australian technology companies win their first major customers, prove their ideas and grow.

But **57% of technology providers say procurement processes slow technology adoption.**

Procurement is slowing technology adoption

Share of AIIA members



say procurement processes slowing technology adoption is widespread

Important reforms are already underway. The test now is whether they make a measurable difference: more suppliers getting a genuine opportunity to compete, faster buying processes and better results from technology the government buys.

The government does not need to lower its standards. It needs to make it easier for good technology to get through the door.

The next 12 to 24 months will matter.

Taken together, these findings tell a clear story.

Australia has momentum.

We're investing in AI. We are moving it into real operations. And organisations are beginning to see returns.

The next stage is harder.

Now, we need to make sure our people can use it, our systems can support it, our infrastructure can power it, our safeguards can control it and our policy settings can help good ideas move.

The next wave of AI adoption is already approaching. The opportunity is to become better at turning AI into productivity, stronger businesses, better services and new Australian capability.

The measure of success can no longer simply be how much AI Australia uses. It has to be what Australia gets from it.

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Section 1

AI readiness

1.1 The next AI bottleneck is leadership capacity.

1.2 AI investment is growing. But are we investing in the right things?

1.3 Australia is moving forward. Old systems are holding it back.

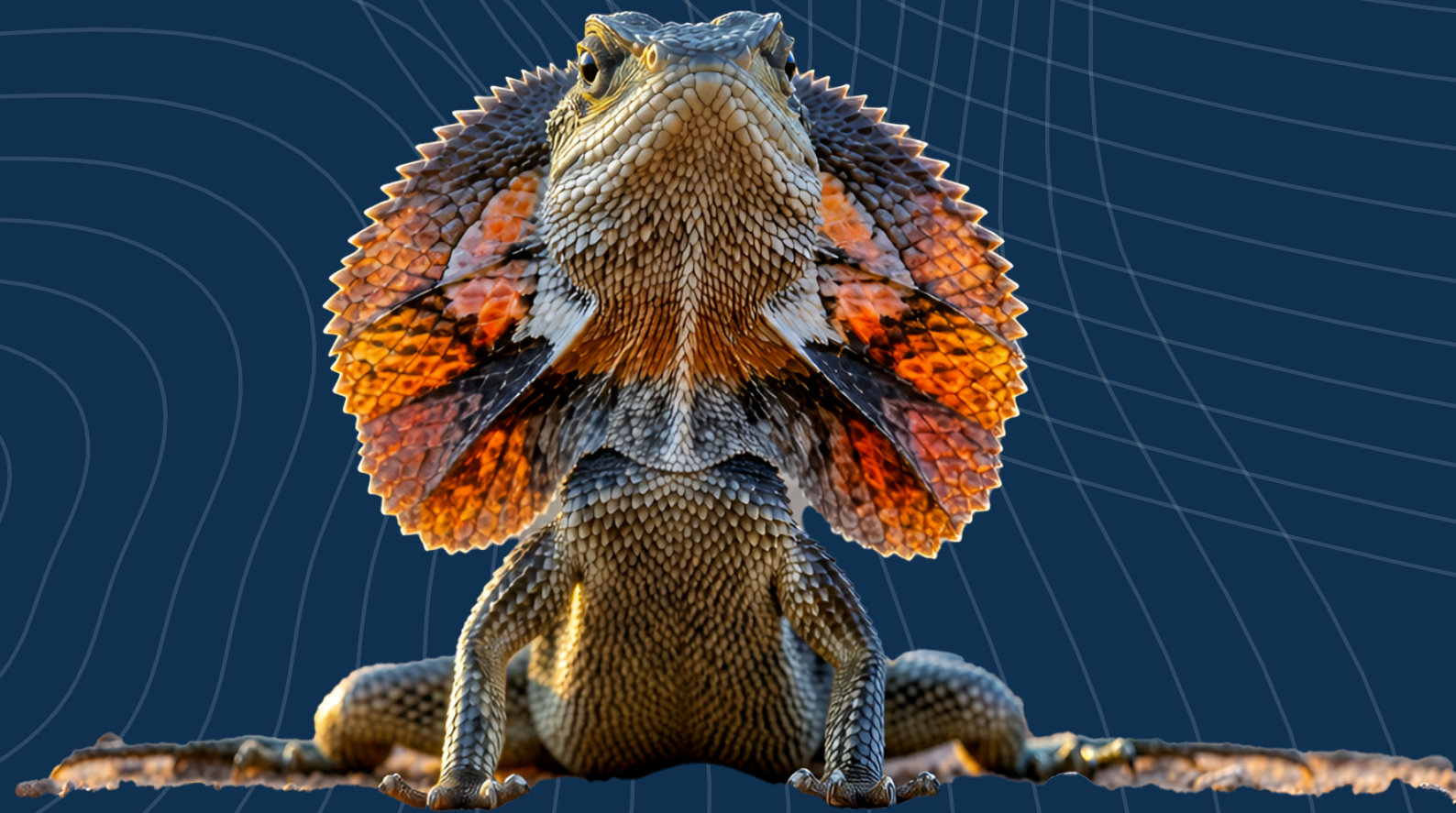
1.4 AI confidence is high. But is it justified?

1.5 AI is growing fast. Can our infrastructure keep up?

1.6 Keeping data in Australia doesn't mean we control it.

1.7 We learned how to manage cyber risk. Now we need to do the same for AI.

1.8 What happens when AI starts making decisions on its own?



1.1 The next AI bottleneck is leadership capacity.

Technology leaders are being asked to do a lot at once.

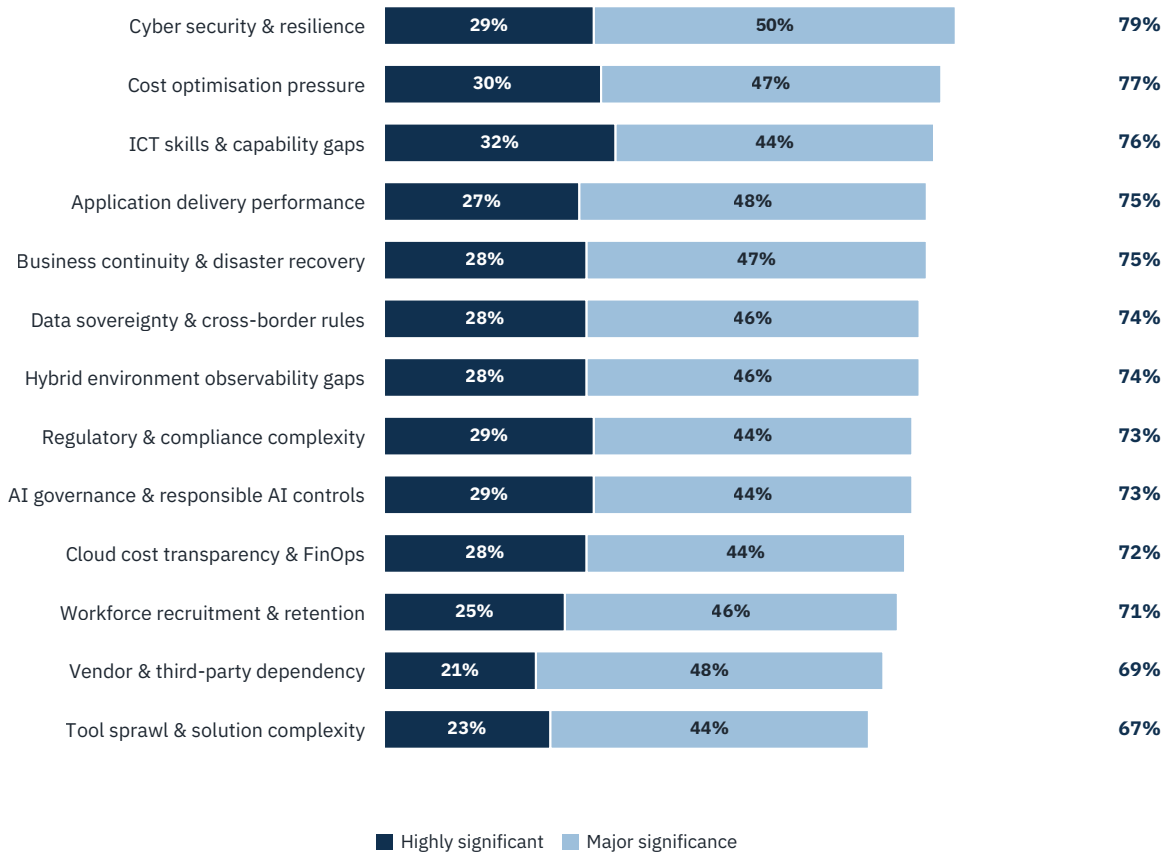
They need to grow the business. Cut costs. Keep systems secure. Meet new rules. Find people with the right skills. Manage AI responsibly. And keep everything else running while they do it.

The problem is not a lack of ambition: it's that the same people are being asked to solve too many big problems at the same time.

That's putting pressure on leaders and their teams, and could become one of the biggest barriers to progress.

ICT strategic challenges

Share of technology decision-makers rating each challenge as highly significant or of major significance. Totals shown at the end of each bar.



79% rate cyber security and resilience as highly or majorly significant, the top challenge of the 13. The top five are separated by just four points.

There isn't one big problem

The graph above tells an important story: no single technology challenge stands far above the others.

The top five challenges are very close. Each is rated highly or majorly significant by 75% to 79% of technology decision-makers:

- Cyber security and resilience: **79%**
- Cost optimisation pressure: **77%**
- ICT skills and capability gaps: **76%**
- Application delivery performance: **75%**
- Business continuity and disaster recovery: **75%**

The difference between first and fifth place is just four percentage points.

Organisations aren't facing one big problem they can solve and move on from. They're facing several big problems at the same time.

Technology providers are seeing this pressure first-hand.

The same teams are being asked to improve data, manage cyber risk, redesign how work gets done, build workforce skills, establish AI governance and prove that technology investment is delivering a return.

And they're trying to do all of this while the technology itself keeps changing.

The result is priority overload.

When everything feels urgent, organisations can end up doing a little bit of everything – without doing enough of anything to make real progress.

Buying AI is not the same as being ready for it

Organisations can buy AI tools quickly but changing the organisation around those tools takes much longer.

Leaders need to decide where AI can create real value. They need to choose what comes first. They may need to change jobs, processes and the way decisions are made.



"Leadership fluency and workforce upskilling are the two most important adoption barriers."

Lisa Andrews, Chief Executive Officer, WAVIA; AIIA Board Member

Governance matters too. But that's not simply about stopping things from going wrong. Good governance should make it safer to move forward – not make organisations too afraid to move at all.

The goal is to protect organisations and the public while still allowing AI and data to improve services, lift productivity and help Australian organisations compete.

Technology providers can see where the next problems may appear

Technology providers put more weight on regulatory compliance and AI governance readiness than technology buyers do. That doesn't necessarily mean one group is right and the other is wrong.

Providers are often close to the practical work of putting new technology into organisations. They can see where poor preparation, unclear rules or weak governance may stop an AI project from growing beyond its early stages.

And AI is not operating without rules.

Australia already has laws covering areas like privacy, consumer protection, competition, employment, credit, cyber security and critical infrastructure. Government agencies also have extra rules and checks they must follow when using AI.

The answer is not more rules. It's making the rules we already have work together.

Existing guidance, government requirements, new Australian Standards for AI and industry-specific rules need to form a system people can understand and use.

The organisations that choose what comes first will move fastest

Organisations can't make everything their number one priority: they have to choose what comes first.

For one organisation, that might mean getting its data and governance right before using more AI. For another, it might mean replacing old systems or making it clearer who has the power to make important decisions.

There's no single order that will work for everyone. But there is one lesson that applies to everyone:

Trying to do everything at once is not a strategy.

What needs to happen now

GOVERNMENT

1. Make the different parts of Australia's digital agenda work together. The National AI Plan, cyber security, workforce and migration policy, education, privacy, infrastructure and procurement reform all need a clear implementation plan with measurable milestones. The goal should be to connect and speed up work already underway – not create another strategy.
2. The new Australian Standards for AI should be practical, focused on outcomes and designed to work with rules that already exist.

TECHNOLOGY BUYERS

1. Decide what comes first. Trying to fix every problem at once will stretch already busy teams and make it harder to get results. Start with the investment that will make the next problem easier to solve.

TECHNOLOGY PROVIDERS

1. Help customers get ready, not just buy technology. That means helping them understand where they are now, what needs to happen first and what they need inside the organisation to make the technology work.

The providers that help customers make better decisions will become more valuable than those that simply sell them more technology.



"Australia is strategically aware, but execution constrained."

Rob Hillard, Chief Executive Officer, Asia Pacific, Deloitte

1.2 AI investment is growing. But are we investing in the right things?

Australian organisations are spending big on AI.

96%
increased their AI budgets in the past year

66%
reported moderate or significant increases

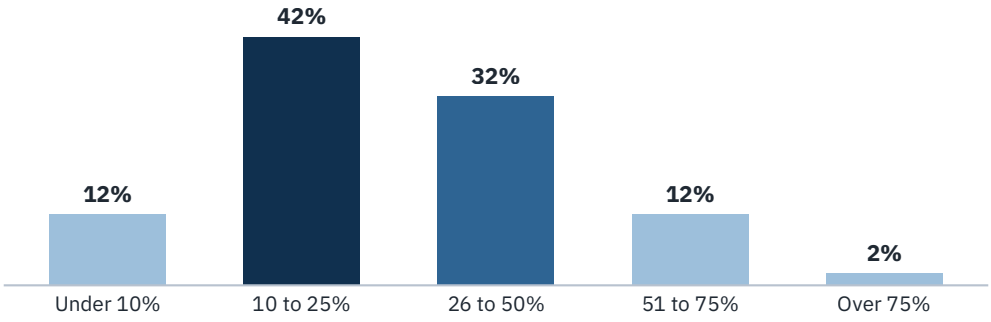
Zero
organisations surveyed said they had reduced AI spending

AI is also taking up a significant share of technology budgets. It commonly accounts for **10–25% of total ICT spending**, with many organisations spending even more.

This tells us something important: AI is no longer an experiment. It's becoming a major investment.

AI now takes a significant share of technology budgets

Share of total ICT budget allocated to AI. Most commonly 10 to 25%, and 26 to 50% for a third of organisations.



While AI funding is rising and taking a growing share of ICT expenditure, there's a catch. It's not just how much organisations spend on AI that matters: it's what they spend it on.

The training paradox

To find money for AI, organisations are cutting other parts of their technology budgets.

And the area being cut most often is **training**.

Almost half – 46% – say training budgets are being squeezed to help fund AI. Spending on software licences, infrastructure, consulting, outsourcing, devices and staff is also under pressure.

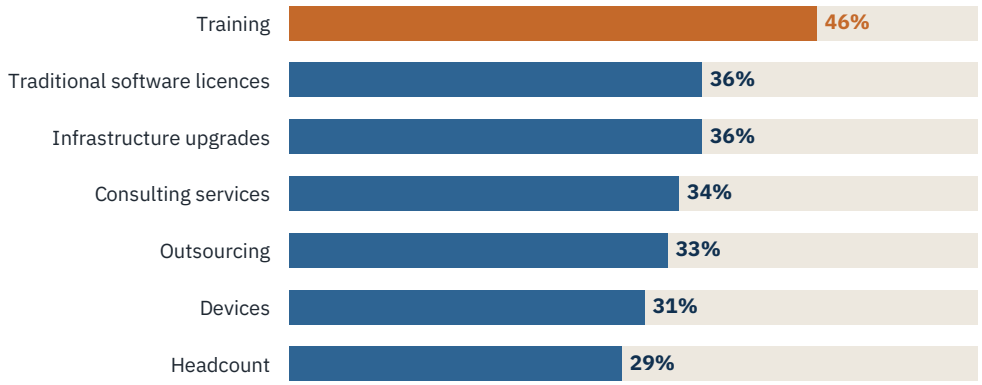


"AI spending is real but uneven, with infrastructure and licensing often ahead of capability uplift."

Nicole McMahon, Chief of Impact and Innovation, Diabetes Australia; Deputy Chair, AIIA

Training is the budget most often cut to fund AI

Budget areas being reduced to fund AI (share of technology decision-makers)



This creates a problem. Organisations need people with the right skills to get value from AI. Yet training those people is the first thing many are cutting.

We're investing in technology while squeezing the investment in the people who need to use it.

Executive interviews point to the same issue. Spending on AI licences and infrastructure is often moving faster than spending on training, managing change and redesigning how work gets done. That matters because simply giving someone an AI tool does not make them better at their job.

People need to understand how to use it. Organisations need to decide where it fits. Jobs and processes may need to change. Leaders need to help people work differently.

Without that work, organisations risk buying powerful technology they never learn to use properly.

Training is part of AI infrastructure

We normally think of AI infrastructure as technology: systems, software and computing power. But people are part of the infrastructure too.

Training shouldn't be treated as an optional cost that can be cut to pay for AI. If you invest in AI, you also need to invest in the people who will use it.

Organisations that protect training and help people adapt will be better placed to use AI well, show a return on their investment and eventually use it at a larger scale.

Australia is not starting from scratch.

The National AI Plan, APS AI Plan and existing education and skills programs already provide a foundation. The next step is to connect these programs and make it easier for employers to take part.

What needs to happen now

GOVERNMENT

1. Bring existing AI skills and training programs together. Give employers practical reasons to take part, create recognised training pathways and measure whether those programs are actually improving Australia's AI capability.

TECHNOLOGY BUYERS

1. Protect training and change management budgets. Don't pay for AI by cutting the investment needed to make it work.

TECHNOLOGY PROVIDERS

1. Make AI training more affordable and accessible, particularly for mid-sized organisations where skills gaps can be large and training budgets tight. Help customers build the skills to use the technology, not simply buy it.



"AI adoption is accelerating, but many organisations still lack a clear strategy and measurable business outcomes."

Angela Fox, Senior VP and MD, ANZ, Dell Technologies; Chair, AIIA

1.3 Australia is moving forward. Old systems are holding it back.

Australian organisations are making real digital progress. Cloud technology is widely used. Investment in data continues. AI is moving into everyday business operations.

74%

of technology decision-makers describe their organisations as early adopters of technology

Their spending and use of AI support that confidence. Australia isn't standing still. But many organisations are trying to build the future on systems designed for the past.

Old systems are becoming a bigger problem

Old technology can be expensive and difficult to replace, and it can also be difficult to connect to newer systems. Data can become trapped in different places. Changing one part of a system can affect another.

That's why modernising old systems is now the leading cloud and data-centre challenge, cited by **35% of respondents**.

And yet: many organisations continue to work with the systems they already have. **32% say "retain" is their main approach to modernising applications.**

Avoiding the problem doesn't make it disappear.

The longer old systems stay in place, the harder it can become to get the full value from new technology.

Adding AI to an old process doesn't fix the process

There's another risk: digital transformation can't be something an organisation does once and then declares finished. Technology, businesses, customers, even the way people work, change.



"Continuous transformation is more useful than one-off transformation programmes."

Gerard Florian, Strategic Advisor, UNSW Technology Committee Chair

Organisations need to keep changing too. Our interviews with senior leaders point to the need for ongoing improvement: not a series of technology projects with a beginning and an end. This becomes even more important with AI.

If an organisation adds AI to a slow, complicated or outdated process, the process itself may still be the problem.

AI can make a good process faster. It can also make a bad process faster.

Modernising systems is part of the AI investment

While it can be tempting to separate AI investment from the work of replacing or improving older technology, the two are connected.

But that doesn't mean every old system needs to go. The more useful question is:

Which old systems are actually stopping us from moving forward?

If an old application is making it harder to access data, connect systems, stay secure or get value from AI, modernising it becomes part of the AI investment. Getting the foundations right is part of getting AI right.

What needs to happen now

GOVERNMENT

1. Look at practical ways to help organisations modernise old systems where those systems are holding back productivity.
2. Government should also keep modernising its own technology, reuse systems and solutions where it makes sense, and make sure technology investment is delivering clear benefits.

TECHNOLOGY BUYERS

1. Don't treat modernising old applications as separate from AI. If the systems underneath AI are not ready, getting a return from AI will be much harder.

TECHNOLOGY PROVIDERS

1. Give organisations ways to modernise in smaller, manageable stages. Not every organisation can afford – or needs – to replace everything at once. Help customers move forward step by step.



"The constraints are significant: legacy systems, affordability pressures, legislative structures, fragmented agency accountability and limited positional authority all make modernisation harder at the pace now required."

Chris Fechner, Chief Executive Officer, Digital Transformation Agency

1.4 AI confidence is high. But is it justified?

AI is moving quickly from testing into everyday business.

68%

of organisations surveyed now have AI in production or deployed across the business

66%

say their AI investments are meeting or beating expectations

This is real progress. Organisations are no longer just asking what AI might be able to do – they're putting it to work.

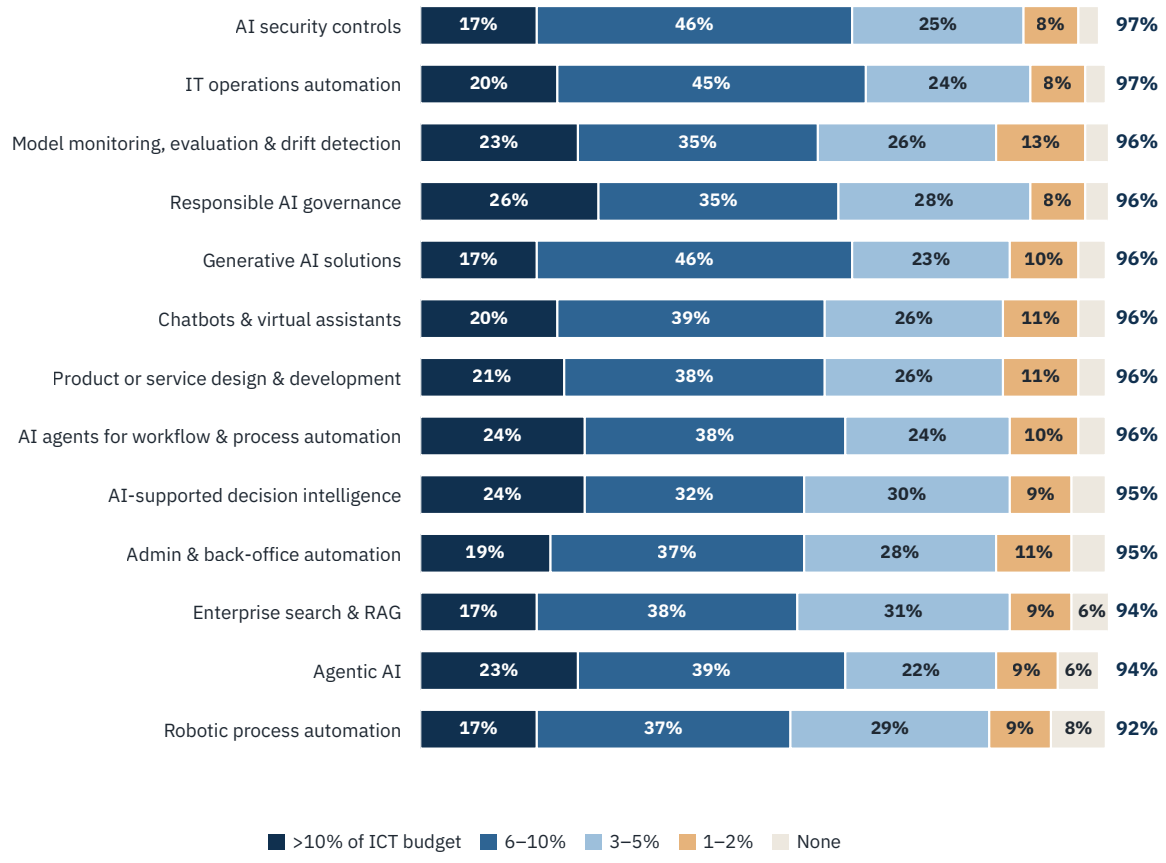
The next wave of AI is about doing real work

Organisations are planning to spend money on AI that can solve practical problems. That includes AI that can automate workflows, help people make decisions, create content, improve security and support everyday business tasks.

The focus is shifting from experimenting with AI to finding places where it can deliver real, measurable value.

AI investment is focused on practical, operational uses

Planned investment in each area as a share of ICT budget. End labels show any planned investment.



But as AI becomes more powerful – and takes on more work – the risks become more important too. Organisations need to know what their AI is doing, what data it's using, who is responsible for it and what happens when something goes wrong.

And this is where the research raises an important question: are organisations as ready as they think they are?

Technology buyers are confident about their progress.

66%

of technology decision-makers say AI is meeting or exceeding expectations

67%

describe their AI governance as advanced or optimised

But technology providers see a different picture.

AIIA member respondents estimate that only **21% of their clients achieve comparable returns** and assess **70% of the market as having emerging AI governance capability**.

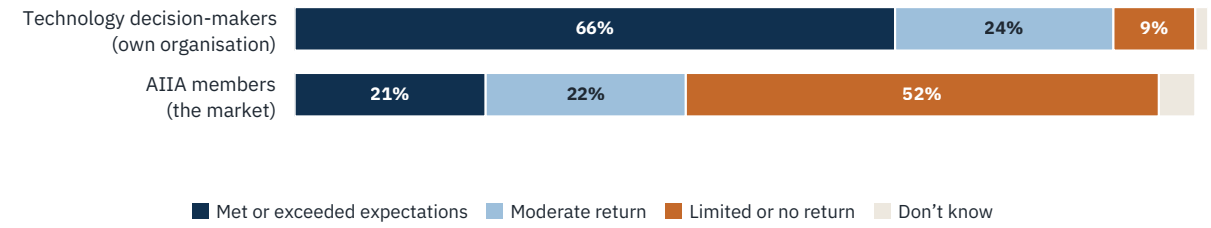
These are different groups looking at the market from different perspectives, so the results should not be treated as a direct comparison.

But the difference is worth paying attention to.

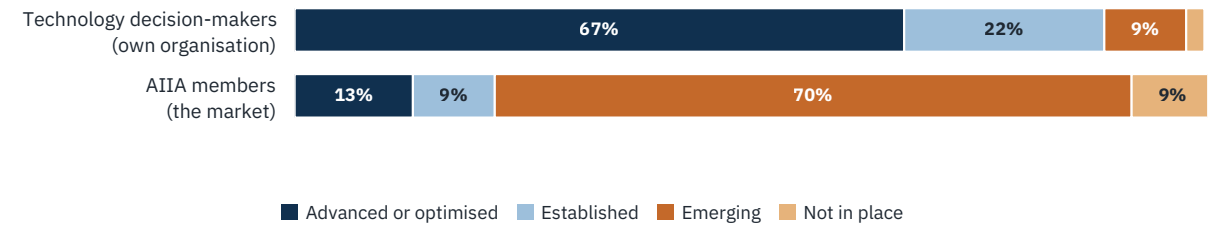
Buyers are confident. Providers see the market differently.

Different groups answering from different vantage points, so read as a signal, not a direct comparison.

Returns from AI investment



AI governance maturity



There may be several reasons for the difference. Providers might work with different organisations. Or see problems that are harder to spot from inside an organisation.

The important question isn't: who is right?

It is: are organisations checking that their confidence matches what's really happening?

Our interviews with senior leaders add to this picture. Some organisations are already building AI into the way they work. Others are still running trials or adding AI to old processes.

What separates them is not simply access to better technology. Leadership, good data, clear rules and the ability to measure results all matter.



"The outlook is constructive but cautious. AI maturity remains early, value realisation is not yet fully proven, and the policy environment needs greater fluency."

David Thodey, Chair, Xero and Ramsay Health Care; Chancellor, University of Sydney

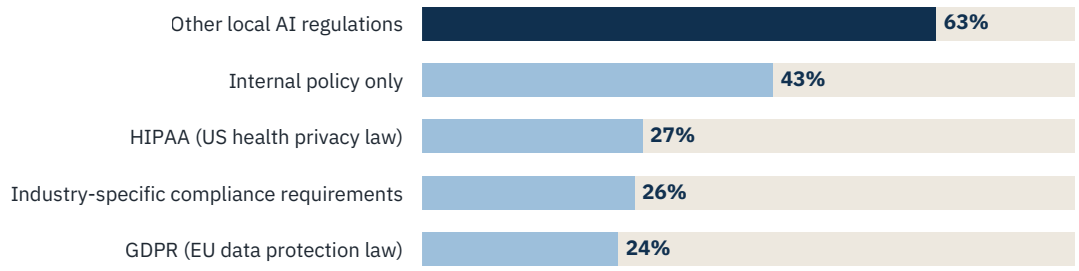
Good AI needs clear rules

AI governance sounds complicated. At its simplest, it means having clear rules for how AI is used and knowing who is responsible for it.

Australian organisations currently use a mix of their own internal policies and outside laws and regulations to manage AI.

AI governance relies on a mix of internal and external rules

Regulatory frameworks affecting AI deployment (share of technology decision-makers)



Australia doesn't currently have a single law that covers every use of AI. But that doesn't mean AI has no rules.

Existing laws already cover areas such as privacy, consumer protection and different industries. Government agencies also have extra AI rules and checks they must follow. New requirements to be more open about automated government decisions will begin in December 2026.

The challenge is making all of these rules work together.

If different rules are understood or applied in different ways, organisations can find it harder to know exactly what's expected of them.

Clear rules make it easier to use AI with confidence.

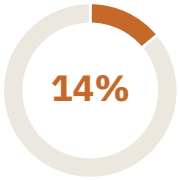
Having AI rules is one thing. Putting them into practice is another.

Organisations may have AI policies and rules in place. But good governance also means making sure those rules work in everyday use.

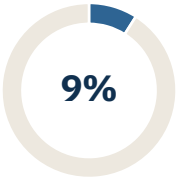
Providers report that human oversight is widespread in only **14%** of organisations. Dedicated AI risk, ethics or assurance roles are widespread in **9%**, while the ability to explain how AI reaches its decisions is widespread in just **4%**.

Few organisations have AI safeguards working at scale

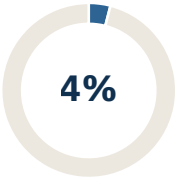
Share of client organisations where AIIA members say each practice is widespread



human oversight of AI (human in the loop)



dedicated AI risk, ethics or assurance roles



focus on explaining how AI reaches decisions

What needs to happen now

GOVERNMENT

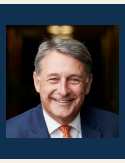
1. Put the announced Australian Standards for AI into practice quickly and make it clear where they apply.
2. Show organisations how the different rules fit together – including privacy, consumer protection, government requirements and industry-specific rules.

TECHNOLOGY BUYERS

1. Do not rely only on your own confidence that your AI governance is strong. Get an independent assessment before expanding higher-risk uses of AI, particularly AI that can take actions or complete tasks with less human involvement.

TECHNOLOGY PROVIDERS

1. Do more than point out weaknesses. Help customers understand what needs fixing and give them practical steps to improve their governance so they can use AI safely at a larger scale.



"AI adoption remains immature, with many large organisations still cautious about agentic models."

Andrew Stevens, Non-Executive Director, Zip

1.5 AI is growing fast. Can our infrastructure keep up?

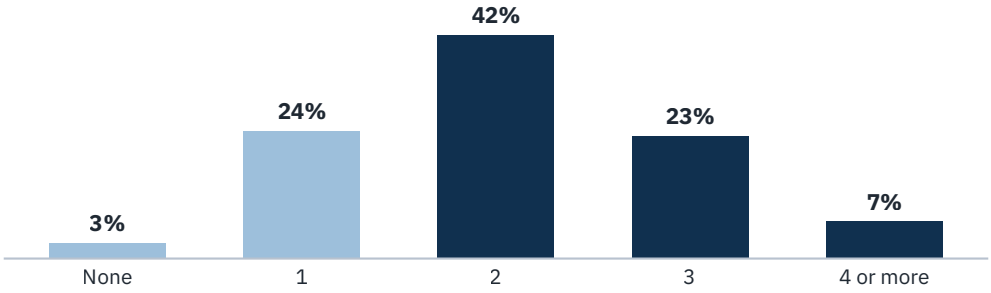
Australia's organisations are becoming smarter about how they run their technology.

Most now use more than one cloud or infrastructure provider, rather than relying on a single supplier. For AI, many are using a mix of public cloud, private cloud and their own infrastructure.

This gives organisations more choice and can make their technology more resilient.

Most organisations use more than one provider

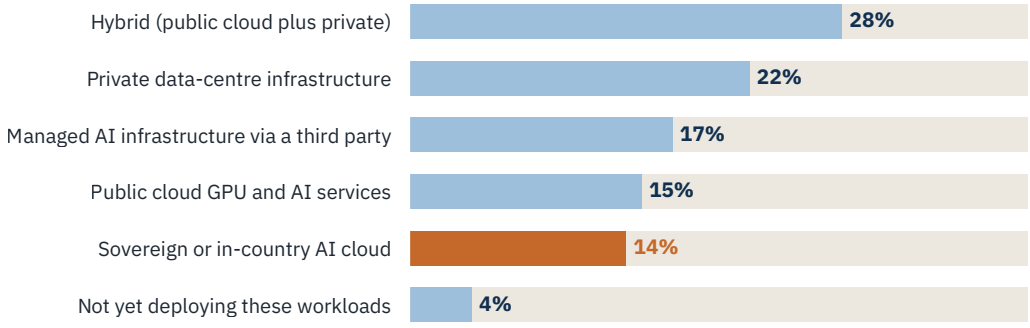
Number of cloud and infrastructure providers used. 72% use two or more.



PRIMARY AI INFRASTRUCTURE PROVIDERS

Hybrid is the most common approach. Only 14% rely mainly on sovereign AI.

Primary infrastructure for AI workloads (share of technology decision-makers)





"Private, secure and locally controlled AI is a growing concern, especially in sensitive industries."

Vito Rinaldi, Managing Director, Blue Crystal Solutions

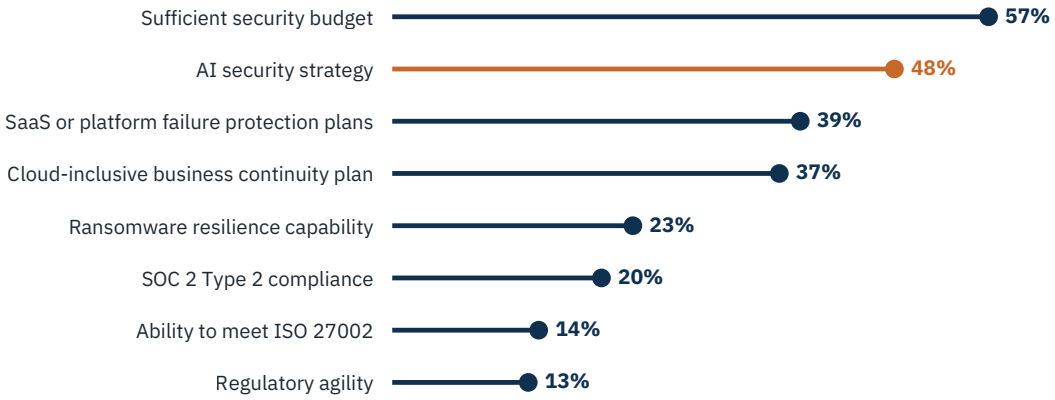
Security is improving too.

More organisations are putting plans in place to keep their cloud systems running when something goes wrong. They're also investing in AI security, protection against system failures and other security controls.

CLOUD SECURITY AND RESILIENCE CAPABILITIES

Security capabilities are improving, but many are still low

Capabilities in place (share of technology decision-makers)



These are good signs. But underneath them is a much bigger challenge.

AI needs enormous computing power

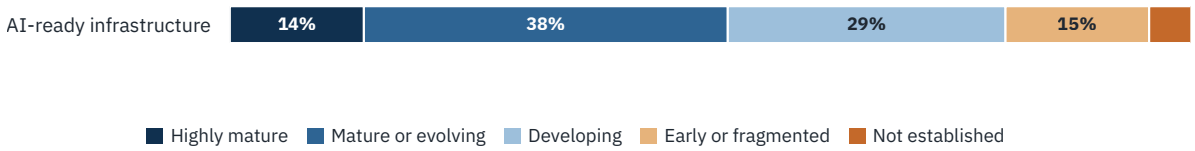
AI does not run on software alone. It needs powerful computer chips, servers, data centres, cloud systems and huge amounts of computing power.

And this is where Australia may not be as ready as it needs to be. Of the infrastructure areas assessed, AI-ready infrastructure is the least mature.

Only **14% of technology decision-makers** say their access to the powerful computing resources needed for AI is highly mature.

Just 14% say their AI-ready infrastructure is highly mature

Maturity of access to the computing power AI needs (share of technology decision-makers)



This is not just an Australian problem.

There are global limits on the supply of some of the powerful computer chips needed for AI. At the same time, demand for AI is growing faster than new infrastructure can be built.

As AI grows, the challenge gets bigger.

AI will increasingly run across data centres, cloud platforms and devices. All of that technology needs somewhere to live: it needs equipment and energy. Data centres also need water for some cooling systems.

The more AI we use, the more infrastructure we need behind it.

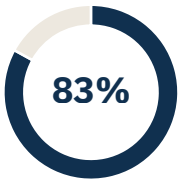
Technology providers see a warning sign

Technology providers are particularly concerned about what comes next.

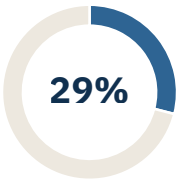
83% of AIIA member respondents identify AI readiness as a major future infrastructure challenge. Among technology decision-makers, the figure is **29%**.

Providers are far more worried about AI infrastructure

Share identifying AI readiness as a major future infrastructure challenge



AIIA members (technology providers)



Technology decision-makers

These groups see the market from different perspectives. But the providers' result raises an important warning.

Could we be investing in AI faster than we are building the infrastructure needed to run it?

If AI use keeps growing, organisations will need reliable access to the computing power behind it. Without that capacity, having the best AI strategy in the world will not be enough.

This is bigger than an IT problem

Building AI infrastructure is not something individual organisations can solve on their own.

Data centres need land, electricity, water and connections to the power grid. They depend on global supply chains for equipment. They need planning approvals. And building them requires large amounts of money.



"Data centre demand is a strategic opportunity for Australia, especially if energy can become a differentiator."

Angela Fox, Senior VP and MD, ANZ, Dell Technologies; Chair, AIIA

That makes AI infrastructure a national issue.

Australia needs to think not only about how organisations will use AI, but also about what will physically power it.

Government has already announced expectations for data centres and AI infrastructure, with more standards planned.

The next challenge is turning those plans into clear rules that give businesses enough certainty to invest.

What needs to happen now

GOVERNMENT

1. Move quickly on clear standards for data centres and AI infrastructure. Energy, water, the electricity grid and planning all need to be considered together.
2. Government should also look at where it may need to invest alongside industry or use government purchasing to help build the infrastructure Australia needs.

TECHNOLOGY BUYERS

1. Before expanding AI, make sure the infrastructure underneath it can cope. Organisations need to understand whether they have reliable access to the computing power they will need – not just today, but as their use of AI grows.

TECHNOLOGY PROVIDERS

1. Develop Australian-controlled infrastructure options that organisations can realistically afford.
2. Look at new ways for industry and government to invest together where building this infrastructure is too large or expensive for one organisation to do alone.

1.6 Keeping data in Australia doesn't mean we control it.

Australian organisations care deeply about where their data is kept.

82%

require their data to be stored in Australia

65%

are very or extremely concerned about data moving across national borders

That tells us something important.

Australian organisations want to know where their data is, and who can get to it.

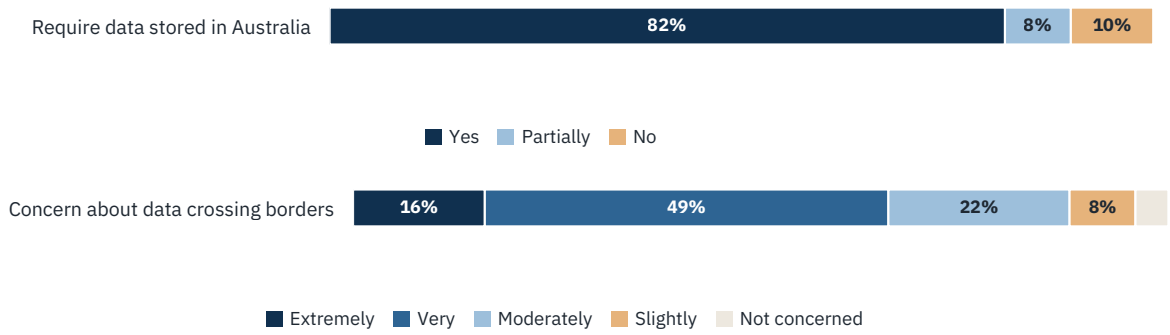


"National interest and sovereignty must sit at the centre of Australia's digital future, not as an afterthought."

Mark Hile, Acting MD Australia and MD Infrastructure Products, Datacom

Data residency matters, and so does where data flows

Share of technology decision-makers



Australia already has important rules and systems that help protect data and set expectations for how it is stored, shared and managed. As AI becomes more important, however, simply knowing *where* data is stored is not enough.

Organisations also need to know *who controls it*.

Residency and sovereignty are not the same

The difference sounds technical, but it's actually quite simple.



"Sovereignty should mean governability and control, not simple data localisation."

Rob Hillard, Chief Executive Officer, Asia Pacific, Deloitte

Data residency is about where your data is stored.

Data sovereignty is about the control you have over that data and the infrastructure around it.

A business might keep its data in an Australian data centre, for example, while relying on technology or services that involve global providers.

That's why storing data in Australia does not, by itself, answer every question about control. And the research shows a clear difference between what organisations require and the infrastructure they primarily use.

Only around **14% of respondents identify sovereign AI infrastructure as their primary approach.**

This doesn't mean Australia's existing policies have failed. Standards, certifications and infrastructure requirements already exist or are being developed.

The next challenge is making sure organisations have enough practical options to meet those requirements.

Sovereignty does not mean shutting out the world

Australia doesn't need to build everything itself – and sovereignty doesn't mean Australian organisations should stop working with global technology companies.

Our executive interviews point to a more practical approach: Australian-hosted infrastructure, clear local accountability and strong Australian capability can work alongside trusted global partners where those partnerships make systems stronger or allow them to operate at greater scale.

The goal is not isolation: it's control, choice and accountability.

Organisations need to understand where their data sits, who is responsible for it and what protections are in place.

Where data lives is only half the story

There's another problem that keeping data in Australia cannot solve. The data itself needs to be good.

Senior executives interviewed for this research say data that is scattered or poorly managed is directly limiting what organisations can get from AI. AI needs data it can actually use. That means data needs to be well managed, protected and clearly controlled.

Technology providers also report that organisations do not always meet their own data-residency requirements.

There may be several reasons for this, including what infrastructure is available, how contracts are written, what type of data is involved and different understandings of what sovereign control actually means. That makes transparency critical.

Organisations need to be able to see clearly where their data is, who can access it and who ultimately has control.

What needs to happen now

GOVERNMENT

1. Make Australia's rules around data hosting, privacy, critical infrastructure, procurement and AI work together.
2. Australia also needs a clear plan for building enough infrastructure to meet future demand, with targeted support where it is needed.

TECHNOLOGY BUYERS

1. Don't stop at asking whether your data is "hosted in Australia". Check the technology behind it, which other companies are involved, how support is provided, who controls the encryption keys and what evidence your provider can give you.

TECHNOLOGY PROVIDERS

1. Make it easy for customers to see how their data is stored and controlled. Give them clear evidence that their requirements are being met in practice.

1.7 We learned how to manage cyber risk. Now we need to do the same for AI.

Cyber security is a major challenge for Australian organisations, and also an area where we've learned a lot.

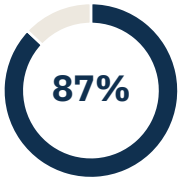
79%

of technology decision-makers rate cyber security and resilience as highly or majorly significant. And cyber security leads planned spending increases

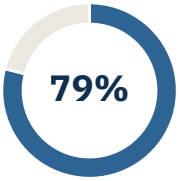
Organisations know cyber risk is real: they spend money on it, have people responsible for it, and they have systems in place to manage it.

Cyber security is both a major challenge and a spending priority

Share of technology decision-makers



expect their cyber security budget to increase



rate cyber security and resilience as highly or majorly significant

That work is paying off.

Organisations have built stronger systems to control who can access information, spot threats and protect their cloud technology. Australia also has established laws, strategies and recognised security controls.

Cyber shows what can happen when we turn concern into action.



"Risk maturity should evolve continuously rather than being reviewed annually."

Gerard Florian, Strategic Advisor, UNSW Technology Committee Chair

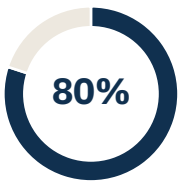
But AI security has not caught up.

We know AI creates new risks. We are less ready to deal with them.

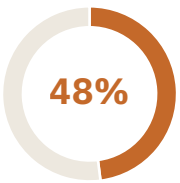
The research reveals a striking result.

Most see the AI security risk. Fewer than half have a strategy.

Share of technology decision-makers



agree AI is creating new data-security risks they aren't prepared for



have an AI security strategy

This isn't an awareness problem – organisations already know there's a risk. The challenge is turning that awareness into action. Which means deciding who's responsible for AI security, putting the right safeguards in place and making sure there's enough investment to support them.

Senior leaders interviewed for this research support clear rules, human oversight and clear responsibility. But they also make an important point:

Security should help organisations use AI safely, not make them too afraid or too slow to use it at all.

The goal is not to remove every possible risk; rather, it is to understand the risks, manage them properly and know who is responsible when something goes wrong.

Confidence needs to be tested

There may be another reason organisations are not investing enough in AI security. They often rate their own AI governance more highly than technology providers rate the wider market.

This means confidence should be tested, not assumed.

Independent checks can help organisations see whether the safeguards they think they have are actually working – particularly as AI moves into more important parts of the business.

Cyber gives us a roadmap

We don't have to invent an entirely new way to manage AI security: we can build on what we already do for cyber security.

Boards already oversee cyber risk. Organisations already assign people to be responsible for it. They use recognised security controls, bring in outside experts to test them and continue investing as threats change.

The research argues that the same approach can be extended to AI, without making cyber security and AI security the same thing.

We already know how to turn a technology risk into something organisations can manage.

Now we need to do it again.

What needs to happen now

GOVERNMENT

1. Make it clear how Australia's existing cyber security, critical-infrastructure and industry rules apply when AI is built into systems or allowed to take actions more independently.
2. Where there are proven gaps, address them with clear guidance, standards or targeted changes to the rules.

TECHNOLOGY BUYERS

1. Make one senior leader clearly responsible for AI security.
2. Connect AI security with the organisation's existing cyber security, privacy and risk systems. And use independent checks to make sure those protections are working.

TECHNOLOGY PROVIDERS

1. Help customers understand where their AI security is strong and where it needs work. Give them practical steps for turning awareness of AI risk into real protection.



"Sovereign capability should be framed around resilience and the ability to absorb shocks."

William Scheer, Founder and CEO, Reason Group

1.8 What happens when AI starts making decisions on its own?

AI is starting to do more than answer questions and create content. New AI systems can complete tasks, manage workflows and respond to problems with much less help from people.

For organisations struggling to find skilled workers or add more staff, that creates a big opportunity.

AI could allow organisations to do more without needing their workforce to grow at the same rate. And organisations are preparing to invest.

So if AI is allowed to act on its own, who is responsible when something goes wrong?



"AI's impact is deeper than previous technology shifts because it changes societal, ethical and workforce questions."

David Thodey, Chair, Xero and Ramsay Health Care; Chancellor, University of Sydney

The more AI can do, the more oversight matters

Autonomous AI systems can already spot technology problems, respond to them and sometimes fix them with limited human involvement.

That can be incredibly useful. A system doesn't have to wait for someone to notice a problem, work out what happened and then fix it. AI may be able to respond much faster.

We need to remember, however, that giving technology more independence also raises the stakes.

Technology providers report that human-in-the-loop controls are widespread in **only 14% of organisations.**

In simple terms, that means human oversight may not be keeping pace with what the technology can do.

That becomes much more important when AI is working inside systems that organisations depend on. If an AI system makes a bad decision, organisations need to know what happened.

They need to know who is responsible.

And, importantly, a person needs to be able to step in when necessary.

We need to be able to stop, check and understand AI

Until now, much of AI governance has focused on policies, reviews and rules. Autonomous AI creates a different challenge.

The safeguards may need to work at the same speed as the AI.

If a system can make decisions and take action in seconds, checking what happened weeks later is not enough.

Organisations need systems that allow them to:

- see what the AI has done
- understand why an action was taken
- send important decisions to a person when needed
- stop or override the AI if something is going wrong.

The more responsibility we give AI, the clearer human responsibility needs to become.

IT could be the first big test

Technology operations may be one of the first places where autonomous AI is used at a large scale and where its decisions have real consequences.

That makes it an important testing ground.

If organisations build strong controls now – including human override, clear records of what the AI has done and clear responsibility for decisions – they can learn what works before autonomous AI spreads into other parts of the business.

The lessons learned here could eventually help organisations manage AI in areas far beyond IT. So this is not just about keeping computer systems running: it could help establish the rules for how we work alongside AI.

What needs to happen now

GOVERNMENT

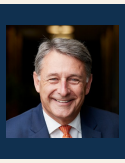
1. Make sure autonomous AI systems are clearly covered by Australia's existing AI rules, policies and standards.
2. Stronger safeguards may be needed when these systems are used in critical infrastructure or other areas where a wrong decision could have serious consequences.

TECHNOLOGY BUYERS

1. Put the safeguards in place **before** autonomous AI becomes part of critical day-to-day operations.
2. Make sure people can step in, important problems are escalated and there is a clear record of what the AI has done.

TECHNOLOGY PROVIDERS

1. Build those protections into the technology from the beginning. Customers should be able to see what autonomous systems have done, override them when necessary and know where responsibility sits.



"Australia's risk is over-emphasising risk and under-emphasising opportunity."

Andrew Stevens, Non-Executive Director, Zip

Section 2

Policy implications

2.1 AI cannot become a big-business advantage.

2.2 Australia's AI barriers are feeding each other.

2.3 Australia has great ideas. Many never make it to market.

2.4 Australia cannot scale AI without the people to do it.

2.5 Government wants to move faster. Its buying process is slowing it down.

2.6 The next wave of AI is coming. Are we ready?



2.1 AI cannot become a big-business advantage.

We already have programs designed to help smaller businesses innovate. The National AI Plan, government procurement preferences, the SME exemption pathway, the R&D Tax Incentive and Australia's Economic Accelerator are good examples.

The building blocks are there.

The question now is whether smaller businesses can actually use them, and whether they're helping more SMEs adopt AI.

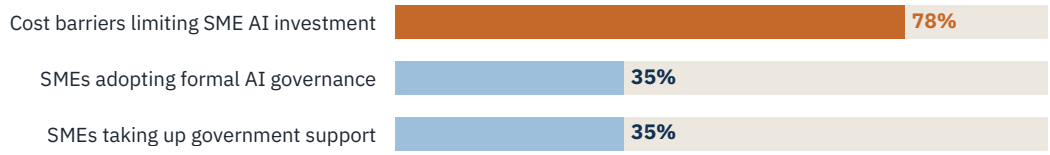
Smaller businesses face a very different AI challenge

Large organisations can often afford specialist teams, outside advisers and major technology projects. Smaller businesses usually cannot.

AIIA members identify three recurring problems for SMEs: the cost of enterprise technology, limited AI governance capability and difficulty accessing government support.

Cost is the biggest barrier, and few SMEs are adopting AI governance or government support

Share of AIIA members who say each is widespread or common among SMEs



Many smaller businesses are interested in what AI can do for them. They just have less money, less time and fewer people to work out how to use it safely and well.

SMEs do not need smaller versions of big-business solutions

This is where policy and industry need to think differently. A smaller organisation may not need a huge AI transformation program; it might need AI to solve one useful problem.

That could mean automating an everyday task, helping staff respond to customers faster or making information easier to find.

For an SME, useful AI may be more valuable than ambitious AI.

Taking technology designed for a large enterprise, making it a little cheaper and calling it an 'SME solution' misses the point.

Smaller organisations need products, support and rules designed around the reality of running a smaller business: limited time, limited budgets and limited administrative capacity.

If SMEs fall behind, Australia falls behind

This matters well beyond individual businesses. SMEs are a central part of Australia's digital economy.

If AI capability becomes concentrated among organisations with the biggest budgets and largest technology teams, the benefits will be concentrated too.

The research warns that without intervention, large enterprises could keep building their AI capability while smaller businesses fall further behind.

That makes this a productivity issue. If Australia wants AI to lift productivity across the economy, the opportunity needs to reach businesses of different sizes.



"SME adoption is essential to productivity, not a secondary market issue."

Rob Hillard, Chief Executive Officer, Asia Pacific, Deloitte

AI adoption at the top end of town is not the same as AI adoption across Australia.

The support already exists. It needs to be easier to use.

Government doesn't necessarily need to create another collection of AI programs.

The first job is making existing innovation, digital and procurement support easier for SMEs to find, understand and access, and measuring whether it is actually working.

New AI programs should also be designed for smaller organisations from the beginning.

What needs to happen now

GOVERNMENT

1. Make existing innovation, digital and procurement programs easier for SMEs to access.
2. Apply SME procurement pathways consistently and publish clear information showing who is using these programs and what they are achieving.
3. Any new AI programs should be designed around the needs of smaller organisations from day one.

TECHNOLOGY BUYERS

1. Help smaller businesses in your supply chain build the AI skills and governance they will need to meet new requirements. Bringing smaller partners with you will strengthen the whole supply chain.

TECHNOLOGY PROVIDERS

1. Build affordable AI and governance products specifically for smaller organisations. Don't simply offer cut-down versions of products designed for large enterprises.



"For smaller organisations, AI can help leapfrog capability gaps and solve business problems that previously required specialist knowledge or larger teams. The SME opportunity needs action, not more strategy documents. Government should move faster, provide more proof-of-concept opportunities, create clearer AI procurement pathways and give smaller Australian providers a more meaningful role in solving public and private sector problems."

Vito Rinaldi, Managing Director, Blue Crystal Solutions

2.2 Australia's AI barriers are feeding each other.

The research points to four big barriers stopping AI from growing.

01 **Skills**

02 **Budget pressure**

03 **Uncertainty around rules**

04 **Old technology**

Each can be fixed. The problem is that they can also make each other worse.



"Data readiness, skills, process redesign, change management and workforce role redesign are major barriers."

Mark Hile, Acting MD Australia and MD Infrastructure Products, Datacom

One problem can quickly become another

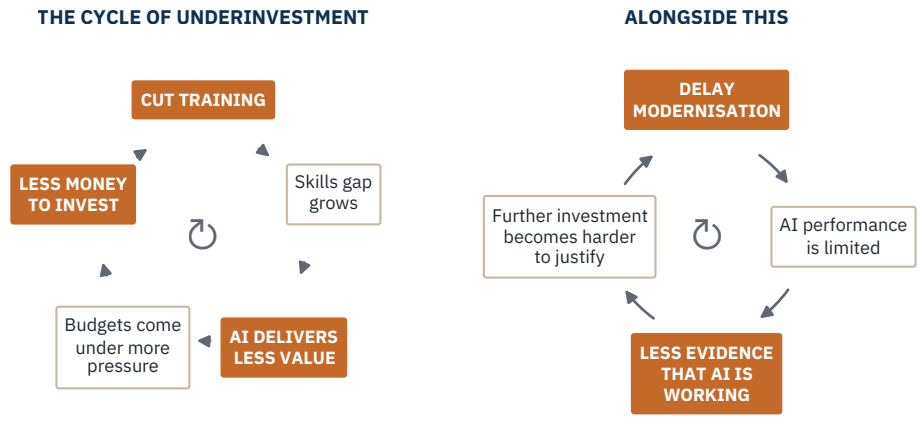
A hypothetical: an organisation needs more money to invest in AI. It cuts training to free up the budget and now its people have fewer of the skills they need to use AI well.

That leads to weaker results from AI. And weaker results make it harder to justify spending more money on it.

The organisation has solved one problem – but created another.

The same thing can happen with old technology. An organisation puts off replacing an old system because modernising it is expensive, but that old system limits what AI can do.

The AI delivers less value. And now spending money on modernisation becomes even harder to justify.



Poor data and unclear responsibility can add to the problem too. If data is difficult to use, AI becomes more expensive and less effective.

If people are not supported through change, they may not use the technology. And if nobody is clearly responsible for important AI decisions, promising trials can struggle to become part of everyday operations.

The good news: the cycle can also work in reverse

This is where the opportunity lies.

If one problem can make another problem worse, **fixing one can make another easier to solve.**

Better training can help people get more value from AI. Better results can make further investment easier to justify. Modernising an important old system can improve AI performance. Clearer rules and responsibility can help a successful AI trial move into everyday use.

The important thing is that organisations **do not have to fix everything at once.**

They need to work out which problem is holding them back the most. And start there.

There is no single starting point

For one organisation, the biggest problem might be skills. For another, it might be an old system. For another, it could be poor data or uncertainty about who is responsible for AI.

The answer cannot simply be another technology purchase.

The smartest investment is the one that removes the biggest barrier to everything else.

Government has a role to play, but it cannot solve every part of this problem.

Business decisions, market conditions, the supply of technology and skills, and an organisation's own ability to make change happen will all affect the result.

What needs to happen now

GOVERNMENT

1. Measure how these barriers work together and how they affect productivity.
2. Track progress against the National AI Plan and Data and Digital Government Strategy so Australia can see whether the barriers are actually getting smaller.

TECHNOLOGY BUYERS

1. Work out which barrier is holding your organisation back the most. Fix the problem that will make the other problems easier to solve.

TECHNOLOGY PROVIDERS

1. Help customers understand how their problems are connected. Rather than selling one piece of technology at a time, help organisations work out what needs to happen first, what comes next and why.



"AI should redesign services and operating models, not merely accelerate existing processes."

Chris Fechner, Chief Executive Officer, Digital Transformation Agency

2.3 Australia has great ideas. Many never make it to market.

Australia has many of the things needed to build successful technology companies: we have respected research institutions, talented people and strong ideas. But we're not consistently turning those ideas into successful products and businesses.

The problem is not necessarily coming up with the idea. It's what happens next.



"Australia could do more to build innovative software and technology companies."

David Thodey, Chair, Xero and Ramsay Health Care; Chancellor, University of Sydney

The hardest customer to find can be the first one

For a new technology company, having a good product is only the beginning.

It needs funding to keep growing. It needs to understand the rules it must follow. And, crucially, it needs someone willing to be its first serious customer.

The research shows several barriers are getting in the way.

39%

of AIIA members point to difficulty finding funding after the early stages

35%

identify complicated rules and compliance requirements

30%

say Australia has strong research but weak pathways for turning it into commercial success

This creates a difficult cycle. A company may need customers to prove its technology works, customers may want proof that it works before they are willing to buy it.

Someone has to be willing to go first.

Government can be more than a source of grants

This is where government buying power can make a real difference.

Executive interviews repeatedly point to procurement as a possible bridge between a promising idea and a successful business.

Government already spends large amounts of money buying technology and services. That means its role does not have to end with giving innovative businesses grants.

Government can also become a customer.

A first government customer can give an Australian technology company something extremely valuable: a chance to prove its product works in the real world and a credible customer it can point to when trying to win the next one.

In other words, government can help create a market, not just help fund an idea.

But buying from government can be hard

The research also identifies a problem with this opportunity. Technology buyers report that complicated procurement processes, changing rules and reductions in government ICT spending can discourage innovation.

For a large global company with specialist tender teams, navigating those processes may be manageable. For a smaller Australian technology company, it can be much harder.

A brilliant product isn't much use if the business cannot get through the front door.

That doesn't mean government should lower standards or buy technology simply because it's Australian. It means good Australian companies need a fair and practical opportunity to compete.

We already have some of the pieces

We're not starting from scratch. Commonwealth procurement rules, pathways for SMEs, Australia's Economic Accelerator and the R&D Tax Incentive already aim to support Australian businesses and technology development.

The question is whether they're doing what we need them to do. Their success should not simply be measured by how many programs exist or how much money is available.

The real test is whether good Australian ideas are becoming real Australian businesses with real customers.

That means looking at whether companies can move from research, to a trial, to a first customer. And then grow from there.

What needs to happen now

GOVERNMENT

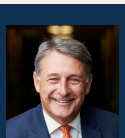
1. Use existing pathways for SMEs and Australian businesses consistently.
2. Where appropriate, allow companies to compete on the outcome they can deliver rather than making the buying process unnecessarily complicated.
3. Publish information showing which businesses are winning government work, and reduce unnecessary differences between procurement processes across different parts of government.

TECHNOLOGY BUYERS

1. Give smaller Australian technology companies practical ways to compete for work, particularly when they have built solutions for Australian needs. Give good local ideas a genuine chance to prove themselves.

TECHNOLOGY PROVIDERS

1. Help smaller Australian companies get better at tenders, compliance and navigating procurement. Large global companies often have entire teams doing this work. Smaller businesses need ways to build that capability too.



"The country does not lack access to technology; it lacks enough creativity, competitive ambition and strong use cases."

Andrew Stevens, Non-Executive Director, Zip

2.4 Australia cannot scale AI without the people to do it.

Australia is investing heavily in AI. But technology alone will not determine how much value we get from it.

People will.

ICT skills and capability gaps rank among the top three challenges in the research, rated highly or majorly significant by **76% of technology decision-makers**.

Skills shortages also appear strongly when respondents are asked, in their own words, about the challenges they face.

The problem is not simply finding more AI experts. Australia needs AI capability at every level of an organisation.

AI skills are not just for AI specialists

Yes, Australia needs people who can build and manage AI systems. But it also needs leaders who understand AI well enough to make good decisions about it.

Managers need to know where AI could improve the way their teams work. Employees across the workforce need the skills to use AI tools properly and adapt as their jobs change.

AI cannot remain something understood by the technology team while everyone else simply uses it.

If AI is going to change how organisations operate, understanding it needs to spread much further.



"The digital economy is not just a technology problem. It is a workforce and operating model challenge."

Nicole McMahon, Chief of Impact and Innovation, Diabetes Australia; Deputy Chair, AIIA

We're cutting the investment that could close the gap

There's a difficult contradiction in the research. Skills and capability gaps rank among the top three challenges.

Yet **46% of respondents say training is the budget category most likely to be cut as organisations find money for AI.**

We explored this problem earlier in the report, but here it has a bigger policy implication.

If organisations keep cutting training while AI adoption grows, the skills gap becomes harder to close at a national level.

Australia risks having more AI technology without enough people who know how to get the best from it.

This is bigger than workplace training

We already have important pieces of the puzzle. The National AI Plan, APS AI Plan, education guidance and official information about occupation shortages all provide a foundation.

The challenge is connecting the pieces.

Schools, vocational education, universities, employers and Australia's migration system all affect the skills available in the economy.

They cannot solve the AI skills challenge separately.

Australia needs to understand which skills are missing, where they are missing and how quickly demand is changing.

Questions about migration, education and global competition need to be tested against official data from the ABS and Jobs and Skills Australia.



"Australia needs policy settings that attract talent, founders and capital rather than pushing them offshore."

Gerard Florian, Strategic Advisor, UNSW Technology Committee Chair

That distinction matters. Good policy needs evidence about the cause of a problem, not just evidence that the problem exists.

Skills need to grow as fast as AI does

If AI knowledge remains concentrated among a small number of technical specialists, Australia will struggle to turn widespread AI adoption into widespread productivity gains.

Technology deployment, workforce training and changes to people's jobs need to happen together. That means thinking about AI capability as more than a training course.

We cannot scale AI faster than we scale the people who know how to use it.

What needs to happen now

GOVERNMENT

1. Connect AI workforce planning with schools, vocational education, universities and migration settings.
2. Where existing programs are not reaching enough employers or workers, consider sharing the cost of additional training with industry.
3. Publish clear information showing who is participating, where they are and whether the programs are actually improving capability.

TECHNOLOGY BUYERS

1. Protect workforce training when AI budgets increase. Training is part of the cost of introducing AI, not an optional extra.

TECHNOLOGY PROVIDERS

1. Create affordable AI skills programs designed specifically for mid-sized and smaller organisations, which may not have the budgets or specialist teams available to large enterprises.

2.5 Government wants to move faster. Its buying process is slowing it down.

Government buys a lot of technology. That gives it enormous power to help new technology grow, give Australian companies a chance to compete and improve the services Australians use every day.

And important changes have already been made.

Recent reforms give greater consideration to Australian businesses and SMEs, create more ways to engage suppliers directly, improve information about supplier performance and strengthen oversight of digital investment.

The problem is not a lack of reform. It's making sure those reforms actually change what happens in practice.



"Government risks moving too slowly while technologies and models change rapidly. That creates a mismatch between innovation cycles and the pace of governance, procurement and funding."

William Scheer, Founder and CEO, Reason Group

Buying technology is still taking too long

AIIA members report significant problems with the way technology is bought.

57%
say procurement processes widely slow technology adoption

48%
say differences between Commonwealth and state systems are a widespread problem

35%
say the way contracts are structured widely discourages SMEs from taking part

Technology buyers also point to red tape and limits on ICT spending as barriers to change. That matters because technology does not stand still while an organisation decides whether to buy it.

When buying takes too long, adoption takes too long.

And when the process becomes too difficult or expensive, some smaller companies may decide it is simply not worth competing.

Bigger does not always mean better

Technology providers point to long buying cycles, different requirements, contracts that push too much risk onto suppliers and assessment processes that can favour the size of a company over what it can actually deliver.

This can give large global companies a natural advantage.

They have bigger tender teams, more people to deal with compliance and greater capacity to take on complicated contracts.

Smaller Australian providers may not.

That does not mean smaller companies should get an easier test.

They still need to prove that their technology is secure, reliable, good value and capable of doing the job. But they should have a fair chance to compete on what they can deliver – not simply how big they are.

Government also needs to buy with the bigger picture in mind

Public sector leaders identify another problem: technology is often funded one project at a time.

That can make sense when looking at each project separately. But it can make it harder for government agencies to build technology that can be reused or shared across different services.

In simple terms, government can end up solving the same kind of problem more than once.

A more connected approach could allow agencies to build platforms and solutions that can be used again rather than starting from scratch each time.

That could make government technology faster to build, easier to improve and better value over time.

Buyers and providers are telling us the same thing

One of the strongest signals in this chapter is that the concern is not coming from only one side of the market.

Both the organisations buying technology and the companies selling it say procurement is getting in the way of change.

That makes this difficult to dismiss as suppliers simply wanting government contracts to be easier to win.

There is a wider problem to solve. And Australia does not need to start again.

Existing reforms already provide many of the tools needed: SME pathways, better supplier information, procurement based more strongly on outcomes and closer cooperation between different governments.

The next test is whether those reforms actually make buying technology faster, fairer and more effective.

What needs to happen now

GOVERNMENT

1. Measure whether procurement reform is actually working.
2. Publish information showing who is winning work, how long buying takes, how suppliers perform and whether procurement is helping innovation.
3. Use outcome-based or challenge-based procurement where it makes sense, and work with states and territories to reduce unnecessary differences between systems.

TECHNOLOGY BUYERS

1. Look widely at the market and judge Australian suppliers on what they can actually deliver, including capability, security, integration, support and total value.
2. Australian businesses should have a fair opportunity to compete, while government continues to protect competition, integrity and value for money.

TECHNOLOGY PROVIDERS

1. Help smaller providers build the skills needed to compete for government work, including tender writing, compliance and understanding procurement requirements.



"Australia needs to hurry up: get proof-of-concepts running, solve real business problems, and give SMEs a meaningful role."

Vito Rinaldi, Managing Director, Blue Crystal Solutions

2.6 The next wave of AI is coming. Are we ready?

Australia may be approaching another big jump in AI adoption.

87%

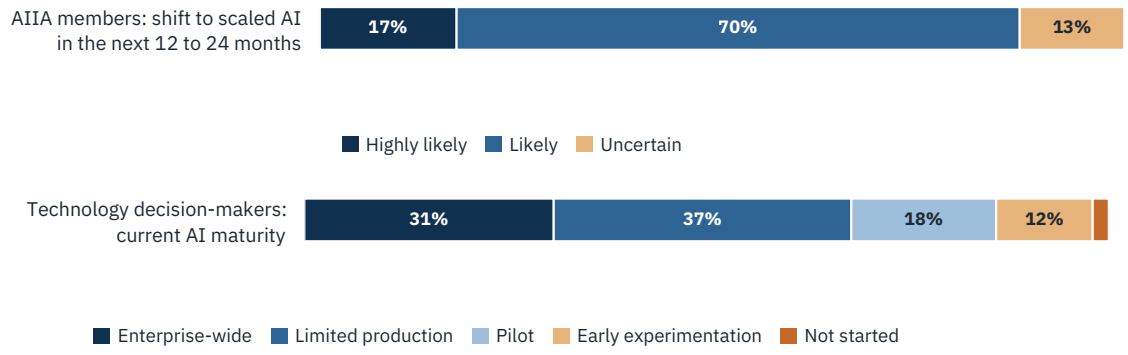
of AIIA members say a shift from experimenting with AI to using it at scale is likely or highly likely within the next 12 to 24 months

And many organisations are already well on their way.

68%

of technology decision-makers have AI in production or scaled across the business

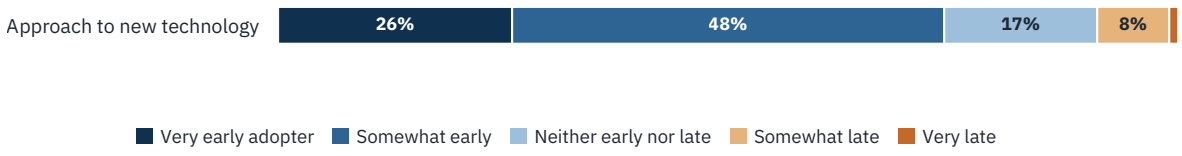
Providers expect the next wave. Buyers are already moving.



Australia also has a large group of organisations that are comfortable adopting new technology early. That gives us a strong starting point.

Three in four see themselves as early adopters

How technology decision-makers describe their organisation's approach to new technology



But being early is not enough. The real test is what happens when AI becomes part of how organisations work every day.

AI is becoming part of the machinery

Until recently, many organisations treated AI as a project: they tested it, trialled different tools, looked for useful applications.

That's changing.

AI is starting to become something organisations operate with every day: much like cloud technology, data systems or cyber security.

Investment is growing and more AI is moving into production.

That changes what organisations need to think about. When AI is a small trial, a problem can often be contained. When AI is built into important parts of an organisation, the consequences of getting it wrong become much bigger.

That's why the work we have discussed throughout this report – skills, security, governance, infrastructure and accountability – becomes more important as AI grows.

The rules now need to work in the real world

Australia has already done much of the thinking about how AI should be governed.

Government assurance frameworks exist. Commonwealth AI policy is in place. New transparency requirements for automated government decisions are approaching. And Australian Standards for AI are proposed.

The next job is making all of those pieces work together.

Organisations need to understand what is expected of them without having to navigate a maze of overlapping rules.

As AI moves faster, policy needs to move from planning to implementation.

Australian control could become an advantage

There is also an economic opportunity. As we saw earlier in the report, Australian organisations care strongly about where their data is kept and who controls it.

That demand could create opportunities for Australian infrastructure and technology providers, particularly in industries where information is highly sensitive or tightly regulated.

But demand alone won't create that opportunity. Australia needs enough infrastructure, trusted ways to prove requirements are being met and services organisations can actually afford and use.

If we can build that capability, sovereignty can become more than protection. It can become an advantage.

The biggest risk is that AI moves faster than we do

This is the central warning from this chapter. AI adoption is accelerating. But some of the systems needed to support it are still catching up.

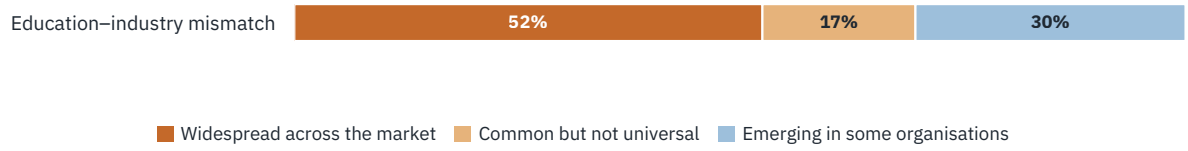
One example is the connection between education and the skills employers actually need.

52%

of AIIA member respondents say the gap between education and industry needs is widespread

Most providers see a widespread gap between education and industry needs

How common is a mismatch between education outputs and industry's AI needs? (share of AIIA members)



This matters because the next wave of AI adoption may arrive *before* Australia has solved all of its workforce, governance and infrastructure challenges.

And that creates the biggest risk identified here:

AI could grow faster than our ability to manage it, secure it and get real value from it.

The answer is not to slow AI down. It's to make everything around it move faster.

The next 12 to 24 months matter

Australia has already shown that it is willing to adopt AI. Now comes the harder part.

We need to turn experimentation into useful, secure and well-managed AI that delivers real results.

That means the next phase should not be measured simply by how much AI we use.

It should be measured by whether AI makes organisations more productive, improves services, creates new opportunities and can be trusted as it takes on more responsibility.

Scaling AI is not the finish line. Scaling it well is.

What needs to happen now

GOVERNMENT

1. Turn the National AI Plan and Australian Standards for AI into clear action.
2. Set milestones for skills, infrastructure, privacy, cyber security, procurement and assurance. And keep reviewing them as the technology changes.

TECHNOLOGY BUYERS

1. Put governance and ways to measure AI performance in place now. Use the privacy, cyber security and industry rules that already exist while preparing for new standards.

TECHNOLOGY PROVIDERS

1. Treat the ability to check, explain and measure AI as part of the technology itself – not an optional service added later.



"Australia is not short of capability. It is short of conviction to design the future deliberately."

Lisa Andrews, Chief Executive Officer, WAVIA; AIIA Board Member



"We must move from adoption to execution while ensuring Australia remains an open, competitive and attractive place to build and invest in technology."

Rob Hillard, Chief Executive Officer, Asia Pacific, Deloitte

Conclusion: AI capability is organisational capability

Australia's AI ambition landed a while back and has continued to grow. Our research shows that investment is rising, adoption is moving from pilots to application, and some organisations are starting to see returns on their investments. What our research also shows, however, is that the next stage will be harder than the first.

Deployment is becoming easier, but the leadership, workforce development, governance and operating models needed to use AI effectively are not.

We think it is important to note that distinction. We have argued for some time that the countries that benefit most from AI will not be those that adopt it fastest, but those that use it to deliver better services, lift productivity, strengthen businesses and improve outcomes for their citizens.

> **This means that the next phase must be executed with intention, and with a goal in mind.**

Government: turn policy foundations into delivery

Australia already has many of the building blocks we need. Now we need to work out how to make them all fit together.

Government has an important role to play in creating the conditions for investment and adoption. This environment is built with coherent standards, sufficient infrastructure, a workforce equipped for change, and procurement settings that help good ideas reach market. Success should increasingly be judged by implementation and outcomes, and that means ensuring businesses can navigate new systems, that services are delivered more effectively, that capability is growing and that reform is producing measurable outcomes.

The opportunity is to provide greater certainty without slowing innovation through clear rules, coordinated implementation and fewer gaps between policy intent and what happens in practice.

Technology buyers: build capability, not just technology

For organisations investing in AI, the biggest risk may be adopting faster than the organisation can absorb.

AI cannot overcome weak data, ageing systems, poorly designed processes, unclear accountability or a workforce that has not been equipped to use it. Buying more technology isn't the fix to resolving competing priorities either.

The organisations that lead the next phase will make deliberate choices about where AI creates value, modernise the foundations beneath it and invest in the people expected to use it. They will measure outcomes, test assumptions and use governance to enable confident deployment of effective solutions.

> **AI capability is organisational capability. Technology is just a part of it.**

Technology providers: sell outcomes, not just capability

The role of technology providers is also changing. As AI becomes embedded in core operations, customers will need more than access to platforms and tools.

They will need help understanding readiness, navigating risk, building capability and sequencing investment. They will expect stronger evidence around security, sovereignty, assurance and performance. And SMEs will need solutions designed around their realities, rather than smaller versions of enterprise offerings.

Providers that can help design solutions and take ownership of outcomes will be better positioned than those that simply help customers deploy the next technology.

The next phase is shared

None of these challenges can be solved by government, technology buyers or providers alone.

Government can create the right environment, but businesses must build the capability to act within it. Buyers can invest, but they depend on a workforce, infrastructure and supplier market capable of supporting them. Providers can innovate, but they need customers and procurement systems willing to turn good ideas into real-world adoption.

That interdependence is one of the clearest messages from this research.

Australia enters the next phase with genuine strengths, but momentum by itself is not an outcome.

Now we need to focus on securing an advantage for the country and its citizens.

> **Australia has made the decision to invest in AI. What happens next will determine whether that investment delivers.**

Recommendations for action

Australia knows what is holding AI back. Now we need to act.

We do not need to start again. Many of the policies, programs and investments needed to support AI are already in place.

The next job is making them work together, and turning them into results.

Our research points to clear actions for government, technology buyers and technology providers.

GOVERNMENT

1 Make the rules work together

Australia already has laws, policies and safeguards that apply to AI.

Now government needs to make it easy for organisations to understand how they fit together.

Put the Australian Standards for AI into practice and align them with existing rules around privacy, automated decisions, consumer protection and individual industries.

Organisations should be able to understand what is expected of them.

2 Build what AI needs to grow

AI needs real infrastructure behind it.

Finalise standards for data centres and AI infrastructure, then create a clear national plan covering capacity, energy, water, planning and investment.

Where there is clear evidence that the market cannot build what Australia needs on its own, government should consider investing alongside industry or using its buying power to help make projects viable.

3 Prove procurement reform is working

Government has already started changing the way it buys technology. Now measure whether those changes are actually making a difference.

Track who is winning work, how long procurement takes and whether projects deliver what they promised.

Make it easier to buy based on the problem that needs solving, and reduce unnecessary differences between procurement systems across governments.

4 Build AI skills across the workforce

Connect AI skills programs with schools, vocational education, universities and migration.

Where existing programs are not reaching enough employers and workers, look at ways government and industry can share the cost of training.

Measure whether those programs are actually building the skills Australia needs.

5 Put someone in charge of joining the pieces

Australia's AI policies touch many different areas of government.

The Office of AI should coordinate how they work together and publish a clear roadmap covering AI standards, privacy, automated decisions, consumer safety, cyber security and requirements across different governments.

The goal is simple: organisations should not have to work out for themselves how all the pieces fit together.

TECHNOLOGY BUYERS

1 Test your AI governance before you scale

Do not assume your safeguards are working. Have them independently tested before AI starts making more decisions or taking more actions on its own.

2 Protect training

Do not pay for AI by cutting the very training people need to use it. Training is part of the AI investment.

3 Check where your data really is, and who controls it

Don't rely only on a promise that data is "hosted in Australia". Check the technology, access arrangements and controls behind that promise.

4 Fix the old systems that are holding AI back

If an old system is stopping AI from delivering value, modernising it is part of the AI investment.

5 Decide what matters most

Organisations cannot fix every technology problem at once. Work out which barriers are stopping progress and tackle them in the right order, rather than stretching already busy teams across everything.

TECHNOLOGY PROVIDERS

1 Do not just identify governance problems. Help fix them.

Give customers practical assessments and clear steps they can follow to improve their AI governance.

2 Prove where data sits and who controls it

Give customers clear evidence about data residency and sovereign control. A contract saying it is compliant should not be the only proof.

3 Build AI for smaller businesses too

Create AI products designed around the budgets, skills and governance needs of SMEs. Do not simply take an enterprise product and make it smaller.

4 Build trust into the product

Governance, assurance and the ability to check what AI has done should be core parts of AI products. Not expensive extras added later.

5 Help customers work out what comes first

Do more than help organisations choose technology. Help them understand what they need to fix first, what should come next and where their investment will make the biggest difference.

Many of the policies, programs and investments needed to support AI are already in place. The next job is making them work together, and turning them into results.

The opportunity is already here

We do not need another decade of discussion about whether AI matters.

The investment is happening. The adoption is happening. The opportunity is here.

The challenge now is to make sure the people, systems, infrastructure, rules and markets around AI are ready to support it.

Australia has backed AI. Now we have to make that investment count.

About this research

This report brings together four complementary sources of evidence to build a well-rounded picture of Australia's digital and AI maturity. It combines quantitative research with Australian technology decision-makers, a parallel survey of AIIA member organisations to capture the technology-provider perspective, in-depth interviews with senior leaders across government, industry and the technology sector, and supporting desk research.

The findings were analysed, compared and cross-checked across these different sources to identify areas of alignment, tension and emerging risk. The desk research also places the results in the broader Australian policy, regulatory, economic and jurisdictional context, recognising that this is a fast-moving environment and that some settings may change after publication.

This document is based on an extensive research exercise. The full document can be accessed online at aiia.com.au.

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About the authors

The Australian Information Industry Association (AIIA) is the nation's peak body for those in the digital ecosystem, leading strategic policy and advocacy to shape a thriving digital sector. Through strong engagement with government, industry, and the broader community, the AIIA ensures the voice of its members informs decision-making on technology, innovation, and digital capability.

DataDriven is a global research and advisory services firm specialising in the areas of ICT strategy for technology users and providers, research-based thought leadership, market and competitive intelligence, and marketing and technology strategy consulting projects.

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