

QUEENSLAND HEALTH PAYROLL SYSTEM
COMMISSION OF INQUIRY

Statement of Witness

<i>Name of Witness</i>	Paul Thomas Lucas
<i>Date of Birth</i>	
<i>Address and contact details</i>	Care of Maurice Blackburn Lawyers, Level 8, 179 North Quay, Brisbane, Queensland, 4000
<i>Occupation</i>	Company Director
<i>Officer taking statement</i>	-
<i>Date taken</i>	23 May 2013

I, Paul Thomas Lucas, care of Maurice Blackburn Lawyers, Level 8, 179 North Quay, Brisbane in the State of Queensland state:

Formal matters

1. I make this statement voluntarily, in response to a request from Mr Peter Flanagan SC, Senior Counsel assisting the Queensland Health Payroll System Commission of Inquiry (**"the Commission"**).
2. On 18 April 2013, I attended an interview with Mr Flanagan SC at the office of the Commission at 154 Melbourne Street, South Brisbane. Mr Flanagan SC made the request for this statement in the course of the interview. I have dealt with the topics that were raised by Mr Flanagan SC at the interview, on the assumption that they are the topics of interest for the Commission.
3. This statement is based on my recollection. Where I have had reference to documents, I have indicated the reference on the statement. I have not had access or reference to all the documents to which I might have had access or reference during my term as Minister for Health.

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Background

4. From 5 October 1996 until 24 March 2012, I was a member of the Legislative Assembly for the Electorate of Lytton.
5. Between 22 February 2001 and 2012, I held a number of ministerial positions in the Queensland Government, including from 26 March 2009 until 21 February 2011, I was Minister for Health.
6. At all material times and until September 2011, I was a member of the Cabinet Budget Review Committee ("CBRC"). The CBRC is a sub-committee of the Cabinet. Its primary role is to consider matters with financial or budgetary implications for the government.

Minister for Health

7. In March 2009, when I was appointed as Minister for Health, Queensland Health ("QH") had an annual budget of approximately \$9 billion and more than approximately 80,000 employees. It was a very large and complex portfolio, much larger and more complex than the other portfolio in which I had served as a minister.
8. At that time, and subsequently, the major issues for QH included:
 - (a) managing extremely complex and far-reaching national hospitals and health reform agenda launched by then Prime Minister Rudd;
 - (b) \$6 billion capital works program, which was the largest public capital works program in Australia, including Sunshine Coast and Gold Coast University Hospitals;
 - (c) keeping elective surgery waiting lists the lowest in Australia;
 - (d) reducing waiting times for hospital accident and emergency services;
 - (e) reducing the incidence of "ramping" of ambulances waiting to deliver patients at public hospitals;
 - (a) rollout of telehealth;

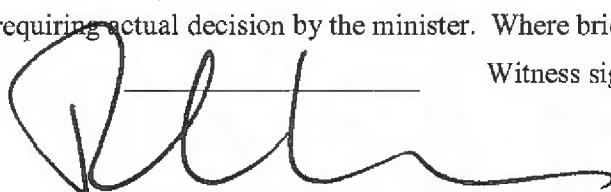
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(I) the public health concerns about swine flu and Hendra virus,

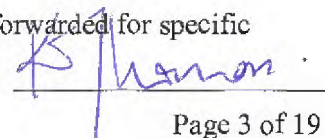
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- (g) continued health workforce issues with respect to training;
 - (h) ensuring quality in the health workforce; as well as
 - (i) mental health, the Queensland Children's Hospital, future health demand, rural and regional hospital services (including oncology, maternity and radiography), hospital bed numbers
9. Until April 2010, the above topics were the subject of questions without notice asked of me in Parliament. I was asked 84 questions without notice, and they covered broadly, the topics raised above. I was not asked any questions about the QH payroll implementation.
10. In my office as Minister for Health, Cameron Crowther was my chief of staff.
11. During my period as Minister for Health, the Director-General of QH was Michael Reid.
12. From the time I commenced as Minister for Health until about 28 June 2010, Michael Kalimnios was Deputy Director-General Corporate Services for QH.
13. I would have contact, for varying lengths of time, with Mr Reid, most working days in the week and my chief of staff would ordinarily have daily contact with Mr Reid and daily contact with me. Exceptions to this would include when one of us was on leave or travelling and the like. It is appropriate practice within governments that the significant business of departments is managed via a formal briefing process in order that records of advice given, historical matters of relevance, and decisions noted or made are appropriately recorded. In the vast majority of cases, briefs to ministerial offices are addressed to a minister regardless of whether they are for the particular attention of the minister or ministerial staff. Health is known throughout government as having the highest budget, greatest number of staff, greatest complexity of task, and some 40,000 interactions with health consumers every day. As such, QH operated on a district basis and with decision-making devolved to appropriate levels. Briefs to ministers' offices are coordinated through the Director-General's office, and are signed by or on behalf of, the Director-General as the point of interface with the minister and his office.
14. The number of briefs received by the minister's office each week, I understand, were in the hundreds. For example, it would range from briefs supporting correspondence to members of the public, to briefs advising of major issues, etc, for noting, to briefs requiring actual decision by the minister. Where briefs are forwarded for specific

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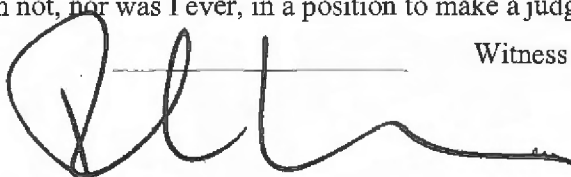


ministerial signature, they are officially prepared and signed off to the minister finally, usually by senior or principal advisor, such as the chief of staff. The Director-General also from time to time would raise matters informally without a brief but it would be exceptional to meet the Director-General without a senior ministerial staff member being present and no matter requiring ministerial decision would be determined without an official present and a signed brief.

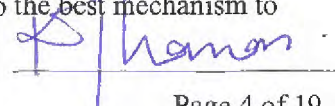
Shared Services Initiative

15. On my appointment, I do not recall being given or seeking any specific briefing on a contract between the State of Queensland (through the Department of Public Works) and IBM Australia Ltd ("**IBM**") for the provision of a new payroll system for QH entered into in about December 2007.
16. During my period as Minister for Health, QH paid approximately 80,000 staff each fortnight. The average fortnightly pay cycle for QH involved about \$210 – 250 million. The employment entitlements of these staff were regulated by about 13 awards and 13 agreements. Some staff were permanent full-time, some permanent part-time, some temporary and some casual. Many of the staff were shift-workers.
17. The contract for the replacement of the existing QH payroll system was not one of the major projects of QH. It was being managed by another agency, it involved relatively small amounts of money, compared to, for example, the \$6 billion capital works program.
18. In 2009, I recall having a general understanding that the contract for the replacement of the existing QH payroll system was negotiated by and being managed by the CorpTech unit of the Department of Public Works ("**DPW**"), as part of a Shared Services Initiative.
19. I had a general understanding that there had been delays in the implementation of the new payroll system for QH. I understood that the implementation was continuing.
20. In my experience as a minister it is not unusual for information technology ("**IT**") projects to experience delays or variations. I did not understand there to be anything unusual or particularly problematic about the payroll system replacement.
21. In my interview with Mr Flanagan SC on 18 April 2013, I was asked whether I had any personal concerns over the contractual arrangement between QH, CorpTech and IBM. I am not, nor was I ever, in a position to make a judgment as to the best mechanism to

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proceed for contracting for the IT. I regard that question as a matter for professional or technical advice. I understand CorpTech to be an agency with detailed and expert knowledge in IT across Government. I did not believe that QH to have that level of expertise. If not, there would have been little point in CorpTech's involvement or existence. I did not regard the arrangement in which CorpTech engaged IBM to supply an IT service to QH as unusual. I was aware of comparable Prime Contracting arrangements in relation to building works, where an agency within DPW would engage the relevant contractor(s) to perform work for QH.

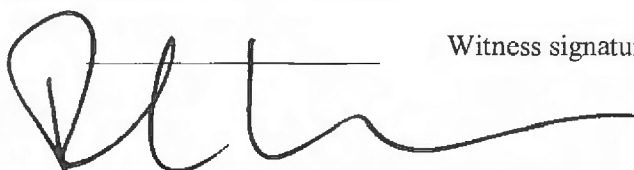
Brief for Decision – 23 June 2009

22. I have been shown a QH brief for decision dated 23 June 2009. A copy of this document is attached at *PTL-1*.
23. I do not recall seeing this document in or about June 2009. The first recollection I have of seeing this document was when a copy was shown to me by my solicitors on or about 17 April 2013. I understand this copy was provided to my solicitors by the Commission.
24. The document appears to be an unfinished draft, as it contains text that does not relate to the subject, has no identified author or clearing officer and is not signed by the Director-General of QH. The document appears to be a very early draft of the variety that was in the course of preparation at a very low level.

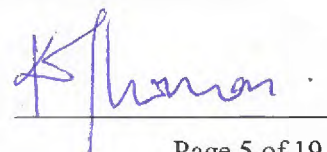
Briefing Note – 6 July 2009

25. I have been shown a QH brief for noting dated 6 July 2009. A copy of this document is in Tender Bundle 9, document 258.
26. I do not recall receiving this document in or about July 2009.
27. I note, from the evidence I have seen before the Commission that Mr Kalimnios (on 29 April 2013, transcript 21-86, lines 42-53) made the decision not to pass the brief to my office.
28. In early April 2010, I caused enquiries to be made about the document in the course of preparing to make a ministerial statement. I do not now recall the details of those enquiries. However, I recall that following those enquiries I was informed that the document was not sent to my office.

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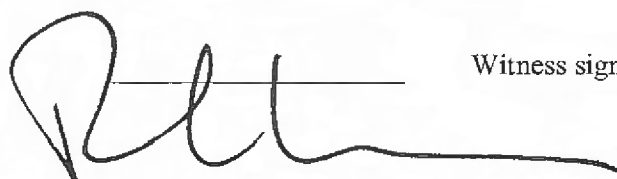


29. I cannot recall when this document first came to my attention, but I am sure that it was not before 14 March 2010. It may have come to my attention as a result of my enquiries mentioned above.

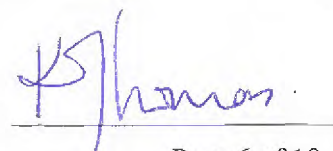
CorpTech/IBM contractual arrangement

30. I do not recall being made aware of any desire by officers of QH for QH to be excluded from the Shared Services Initiative, for CorpTech to no longer act as the contract manager for the new payroll system or for QH to deal directly with IBM.
31. I do not recall any officer of QH asking me to raise any complaint about the project with the Minister for Public Works, the Hon Robert Swarten MP.
32. I do not recall Mr Reid (or anyone else from QH) suggesting to me that they or QH wanted to extricate QH from the contract, or deal directly with IBM. To do so would have required a further CBRC decision about the provision of the services. To bring about that result, it would have been necessary firstly for Mr Reid (or his delegate) to discuss the matter with the Directors-General of DPW and Department of Premier and Cabinet ("DPC"). I would expect a briefing note for such a discussion would have been prepared.
33. I am aware from reading the transcript of the Commission's public hearings that at one time Mr Reid suggested that he had a conversation with me, in mid-2009, to the effect that I was going to speak to Mr Swarten about IBM and concerns around IBM's performance with respect to delays, and concerns generally about the contractual arrangement. I have no recollection of this conversation with Mr Reid. Nor do I recall any discussion with Mr Swarten about those matters prior to the "go-live" date in March 2010. I accept that Mr Swarten and I may have discussed the IBM contract generally in relation to the CBRC meetings in August/September 2009. I certainly did not offer to talk to Mr Swarten on behalf of QH in relation to the contract. The proper practice to do so would have been for a briefing note to be prepared and sent through my office in the typical manner in order that there would be detailed matters to discuss and resolve with some degree of specificity. The minister on the other side of the discussion would typically have a similarly prepared brief from his/her department. The brief would also include matters of agreement and disagreement between the agencies thus far and why Departmental level resolution had failed.

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34. In my interview with Mr Flanagan, I was asked whether I had a conversation with Mr Schwarten or any Directors-General about delaying the go-live date until after Christmas 2009. I do not recall any such conversation. I believe my recollection is correct because:
- (a) I was on leave from 28 November 2009 until 25 December 2009;
 - (b) any such decision would be a matter for the department, and not the minister;
 - (c) if I had such a conversation, it would be highly unlikely that it occurred without a briefing note, and I have not been shown any such document; and
 - (d) there is no corresponding entry in my diary.
35. It is possible Mr Reid mentioned to me, informally, in early 2010 that the new payroll system was going to go-live shortly or about that time. However, I do not recall such a discussion.
36. I was not aware, at any time before the decision to "go-live" and the initial operation of the new payroll system that there had been a reclassification of defects in relation to the system.

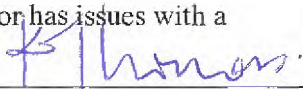
Change to the Shared Service Initiative

September CBRC

37. In September 2009, as a member of CBRC, I received an information submission from Mr Schwarten about Shared Service Implementation, dated 27 August 2009. A copy of this document is in Volume 1 of the Settlement Bundle, document 9. An "information submission" advises CBRC of decisions made by a competent authority rather than seeks a decision by CBRC itself.
38. I note that submission stated a revised approach had been adopted for the implementation of human resource and finance systems across the Queensland Government and that, as part of the revised approach, IBM was to complete the implementation of the QH payroll system.
39. I note that the submission indicates that Messrs Kalimnios and Shea from QH were consulted in its preparation. Whilst it is a DPW submission (it being its responsibility), it is standard practice if an affected agency does not agree with or has issues with a

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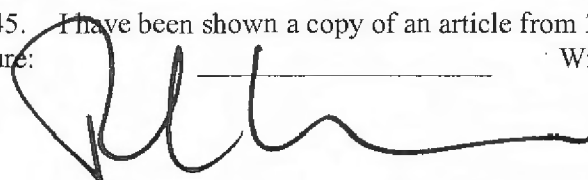

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submission that their objections or comments are specifically recorded in the body of the submission for the advice of CBRC to ensure it considers all perspectives. No such comments are included in this submission.

40. I note the submission stated the decision was taken in order to make the most effective use of available funds in the then prevailing fiscal climate. It did not state the decision had been taken due to any technical failure on the part of IBM to implement a human resource and payroll system for DEAT.
41. The submission was noted by the CBRC on 21 September 2009. A copy of this document is in Volume 1 of the Settlement Bundle, document 9.
42. I cannot recall my state of mind at that time with respect to the State continuing a relationship with IBM and whether the State should or should not have continued it. The submission was for noting, rather than decision. Had anyone suggested at that time that the State should not continue, then there would have been specific advice sought, and included in a CBRC decision, with full input from QH and CorpTech, to contract with IBM to provide the new payroll system for QH, I would have sought advice, via Mr Reid, about:
- (a) the relationship with IBM;
 - (b) the legal consequences of ending that relationship and exiting the contract; and
 - (c) an alternative supplier of the services, and the time it would take to scope the project, go to tender, engage the alternative supplier and have the services completed.
43. Due to its significance and multi-agency involvement, it would have been necessary for such decision to go to CBRC by formal submission, most likely signed by DPW, QH and Treasury. At no stage was it suggested to me prior to go-live this was necessary or indeed even contemplated.

Media

44. I recall that in the latter part of 2009 there was some media interest in the problems with the existing Lattice payroll system being used by QH.
45. I have been shown a copy of an article from *The Sunday Mail* dated 13 September 2009.
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46. I do not recall commenting on this matter. I do not recall being briefed at that time by Mr Reid about or discussing the article with Mr Reid or any other officer of QH or any staff in my Ministerial office. I do not recall being briefed on the issues mentioned in the article, that is, costs blow-outs, variations to the scope of the contract or the detail of the delays.

QH Brief for Noting – 26 October 2009

47. I have been shown a QH Brief for Noting dated 26 October 2009 with subject "Status of Interim Payroll Replacement – QHIC". A copy of this document is attached in Tender Bundle 11, document 406.
48. It is from the Director, QHEST and was signed on 26 October 2009 by Mr Price and cleared by Mr Shea on 28 October 2009. It does not appear to be endorsed by Mr Reid.
49. I do not recall seeing this document at that time.
50. The copy I have been shown has handwritten notes. I do not know whose handwriting it is, however, in its context, I think it might be my policy adviser, Mr Aaron Broughton.
51. The handwritten notes state "Pls- update", which I take to mean that the person requested further detail on the matters the subject of the handwritten notes. It is not uncommon that he sought further clarification and information of briefing notes. When that occurred, the briefing note would not be passed to me, but would be returned to QH to provide the further information requested.

QH Brief for noting – 17 November 2009

52. I have been shown a QH Brief for Noting dated 17 November 2009 with subject "Status of Interim Payroll Replacement – QHIC". A copy of this document is attached at PTL-2.
53. I do not recall seeing this document at the time. The brief requests that I note a decision made by the QHIC Project Board to delay implementation of the new payroll system. It does not call for me to make any decision on the subject.
54. This document appears to be an update from the 26 October 2009 Brief for Noting, but with very little updated. It is from the Director, QHEST and was signed by Mr Roger Petersen who was acting in that role on 30 November 2009, cleared by Mr Price, who

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was then cleared by Mr Kalimnios on 1 December 2009. It was not signed off by Mr Reid which would have normally been the case before it would go to my office.

55. I note that I was on leave from 28 November 2009 until 25 December 2009.
56. In early April 2010, I made enquiries about the state and progress of the new payroll system and a copy of this document was brought to my attention at that time. I tabled a copy of this briefing note in Parliament on 15 April 2010.

Parliamentary scrutiny – Estimates and questions without notice

57. In 2009, briefing notes were prepared by QH in preparation for Estimates, on every topic that questions might be asked about. As Health Minister, I would receive 3-4 volumes of briefing notes. It is intended to cover any topics that might potentially be raised. The briefing notes were prepared by the department, and would be delivered to me after a review process within the department. The purpose of the briefing notes is to assist the minister and the departmental officers.
58. I caused a search of my Estimates briefing notes. In Estimates, a Minister might answer a question him/herself or refer it to a senior Departmental Official either the Director-General or the person described on the brief as “witness”. It was prepared by Mr Price. A copy of this briefing note is attached as *PTL-3*.
59. I do not recall this document, although it is my handwritten marks on the document.
60. To the best of my recollection, I was not asked any questions about the new payroll system for QH at the Parliamentary budget estimates hearings in 2009.
61. I have also reviewed the Questions without notice put to me as Minister for Health prior to go-live date. I can confirm that of the 84 questions I was asked, none were about the new payroll system.

Pressure in relation to go-live date

62. Although QH was the “customer” that would use the new payroll system, the contract was being managed by the CorpTech unit of DPW.
63. The new payroll system was an departmental matter. It had not been an election or campaign promise on the part of the government. This can be contrasted with a promise

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made as part of a political process, such as a promise to build a particular road. Further, it was not part of a major decision of a politically controversial nature such that would need to be made by ministers and government (as distinct from public servants) such as privatisation or local government amalgamation. There was no political or public imperative or pressure on the government at a political level to choose a particular vendor or IT system as compared to any other.

64. I did not seek to put any pressure on Mr Reid or any other QH officer to implement the new pay-roll system more quickly or by any particular date or indeed by March 2010.
65. I do not recall making any complaint to Mr Reid or any other officer of QH or DPW about delays with implementation of the new payroll system.

KJ Ross report

66. I have been shown a QHIC User Acceptance Test Completion Report by K. J. Ross & Associates Pty Ltd ("**Ross**") dated 27 January 2010. A copy of the report is in Tender Bundle-13, document 507.
67. To the best of my recollection, I do not believe that I saw this report until I was shown a copy provided by the Commission staff to my solicitors on about 19 April 2013. I do not recall being briefed about the report by or discussing the report with Mr Reid or any other officer of QH or any staff in my Ministerial office. I do not recall being aware that the report or any report had been prepared on the implementation of the new pay-roll system by Ross in January 2010.
68. The decision on whether or not to go-live with the new payroll system was not a matter to be decided by me in my role as Minister for Health. That decision, I know from reading the relevant documents, was made by relevant departmental officers, with the sign off of very senior public servants, who had the authority to make such a decision.

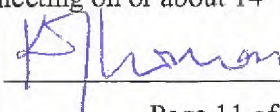
The "Go-Live" decision and its aftermath

Decision by QHIC Project Board

69. In or about April 2010, I caused enquiries to be made about the decision to "go-live". From those enquiries I believe that the decision was made by the Queensland Health Implementation of Continuity ("**QHIC**") Project Board at a meeting on or about 14

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March 2010. The document at Tender Bundle-15, 609 is a copy of the record of that decision. I do not recall seeing this document before it was produced in response to my enquiries. I note that the document is an internal record of decision, and not seeking approval from the Director-General or the Minister.

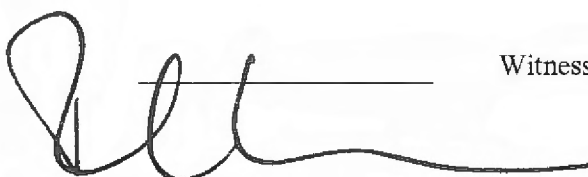
Brief for noting dated 17 March 2010

70. I have been shown a brief for noting addressed to me (and its apparent draft, dated 10 March 2010), as Deputy Premier and Minister for Health, from Mr Price, as Director of QHEST Corporate Services, dated 17 March 2010.
71. I do not recall seeing this document or the draft in or about March 2010. Typically, a "for noting" brief, would not be presented to me as minister to read, but would be managed by my chief of staff.
72. I recognise the handwriting on page 4 of the document as that of Mr Crowther, including the initials written next to my name and the accompanying word "per".
73. It appears from the handwritten annotations that Mr Crowther "closed the brief" on or about 22 September 2010, that is, the date it was returned to the department.

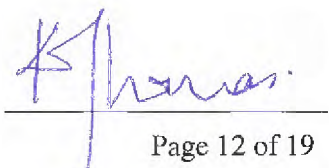
Involvement post-go-live

74. On or about 24 March 2010, my diary also records that I attended a meeting with IBM representatives regarding "IBM JAM". I recall that this was a meeting with respect to the community input and conferencing program. I believe it was a marketing meeting to sell the JAM system and not relating to the new payroll system or health at all. A copy of my diary entry for 24 March 2010 is attached as *PTL-4*. I attended as Deputy Premier, in lieu of the Premier. No QH officers attended.
75. My first recollection of the payroll issue is when I was asked by a journalist about payroll issues concerning, I recall, QH employees located on the Gold Coast. I responded in accordance with information provided to me to answer the question. My recollection is that I was advised that the issues were relatively minor; and this certainly added to my very significant annoyance as matters transpired when it became evident that this was clearly not the case.

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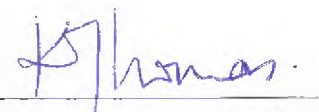
76. Shortly after 7 April 2010, when the second payroll was run using the new payroll system, I was advised of the substantial underpayments or failures to pay affecting about 380 QH employees. I do not recall whether I had been given a specific note on this occasion. I made a ministerial statement to Parliament about these matters. A copy of my Ministerial Statement of 13 April 2010 is attached as *PTL-5*.
77. On or about 8 April 2010, I visited the Royal Brisbane and Women's Hospital ("RBWH") for a tour of the health facilities and to meet the payroll staff.
78. I recall the staff telling me that they felt they were not listened to about the new payroll system. A copy of my diary entry for 8 April 2010 is attached as *PTL-6*.
79. I cannot recall when, but I supported the creation of the Payroll Stabilisation Project, led by Mr Michael Walsh. I was confident in Mr Walsh's ability to lead this project.
80. In April 2010, given its multi-agency involvement and given the significance of the problems, resolution of the matter became a concern of the DPC. Shortly afterwards, I was advised that DPC had engaged KPMG to review and report on the new payroll system.
81. On or about 14 April 2010, I made a further statement to Parliament. A copy of my Ministerial Statement of 14 April 2010 is attached as *PTL-7*.
82. On or about 15 April 2010, I made a further statement to Parliament. A copy of my Ministerial Statement of 15 April 2010 is attached as *PTL-8*.
83. My diary records that I was involved in many meetings in relation to payroll in the period to until 30 April 2010, including with staff, unions, senior staff of QH, media, and the payroll project team meeting.

Meeting with IBM

84. I recall meeting on one occasion with very senior representatives of IBM after the problems with the new payroll system emerged on a without prejudice basis. I recall that the meeting was in Parliament House. I do not recall the names of the persons who attended on behalf of IBM. I cannot recall the date, however, there is an entry in my diary of 14 April 2010 of a meeting with IBM, which I think was the same meeting, but

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the issues as planned to be discussed were not. A copy of my diary for 14 April 2010 is attached as *PTL-9*.

85. I recall that the IBM representatives told me they merely wanted to assure me that IBM was doing its best to fix the problems that had emerged.
86. I understood the meeting to be a courtesy call, letting me know that the problems had been brought to the attention of senior IBM officers.
87. My recollection is that they wanted to assure the government they were working collaboratively with the government. I also wished to take the opportunity to express the government's displeasure at the matter. No negotiations or matters of detail were discussed, as it would not have been appropriate to do so.

Mr Kalimnios, Mr Shea and Mr Price

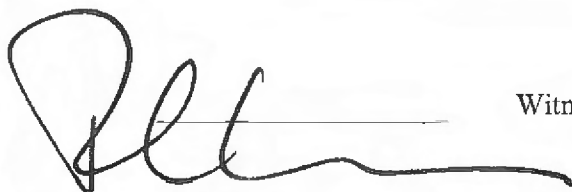
88. In or about late June or early July 2010, Mr Reid informed me that he had decided to terminate the contract of Mr Kalimnios in accordance with its terms, terminate the contract of Mr Shea in accordance with its terms, and remove Mr Price as Director of QHEST.
89. I understood these to be decisions within the scope of Mr Reid's authority as Director-General of QH and that he was informing me as a courtesy. I did not involve myself in matters of departmental staffing, as is appropriate. The only staff member in a department a minister is involved in appointing is the Director-General.

CBRC matters

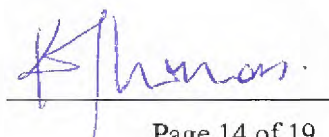
July 2010

90. In July 2010, as a member of the CBRC, I received a submission from the then Minister for Public Works and Information and Communication Technology, Mr Swarten, about the contract between the State and IBM. The submission was dated 21 July 2010. A copy of this document in the Settlement Bundle, Volume 2, Document 77.
91. That submission states there had been consultation with Mr Walsh of QH about the submission, as well as with officers of DPC and Treasury.

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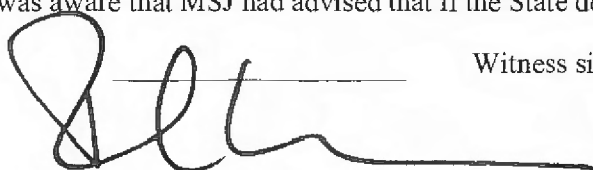


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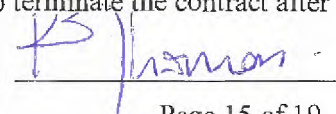


92. Further, the State had two options it could realistically pursue: a negotiated settlement with IBM or a formal termination of the contract, followed by no further action, negotiation and/or litigation.
93. I note the legal advice attached to the submission. The legal advice from Crown Law was that if the State chose to terminate the contract a difficult and protracted dispute with IBM was likely, that IBM would almost certainly invest considerable resources in resisting any damages claim by the State, in an endeavour to protect its financial position and its reputation.
94. The submission recommended that the State pursue a negotiated settlement with IBM, within parameters presented in the submission, to be undertaken by the Director-General of DPW as the delegate of the State, with an update to be provided within six weeks, including additional recommendations about finalising the contract with IBM.
95. On 22 July 2010, I concurred in the decision of the CBRC to adopt the recommendation in the submission. A copy of this document in the Settlement Bundle, Volume 2, Document 77.
96. At this time, I was very strongly motivated towards a view that the State should sue IBM for the problems with the new payroll system to the extent that such an action was available. However, I took the overall view that decisions about litigation (indeed all legal decisions) should be made coolly, calmly and with a view to the consequences and on the basis of professional advice.
97. I was made aware that, if the State did not negotiate with IBM, there was a risk that IBM might "walk away" from the project, that the new payroll system might cease to operate and that the State would not have access to the persons (including IBM sub-contractors) who would be best placed to fix the problems with the new payroll system and keep it running. This consideration was, in my mind, critical as I believed it was completely unacceptable to put QH staff to further pain or inconvenience. The weight I gave to this was aided by the fact that the KPMG Report had identified it as a real risk and that KPMG were independent of those parties who had been so far involved in the implementation, mainly QH, CorpTech and IBM.
98. I recall reading the legal advice from Mallesons Stephen Jaques ("MSJ"). From doing so, I was aware that MSJ had advised that if the State decided to terminate the contract after

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Witness signature:



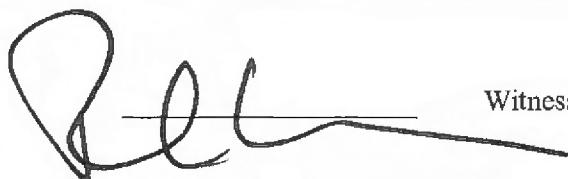
20 August 2010, it should do so immediately and there was a risk that the State had already waived its right to terminate the contract on the basis of the Show Cause Notice dated 29 June 2010.

99. I did not seek or receive any personal legal advice. It would not have been appropriate.
100. In my interview, I was asked by Mr Flanagan SC why the government did not seek the Solicitor-General's advice or Counsel's advice in relation to the matters in Mr Schwarten's submission. I cannot recall my state of mind at the time, however, I can say that:
- (a) had the submission recommended that the Government seek such advice, I would have agreed, but it was not recommended;
 - (b) within DPW, CorpTech had retained MSJ and Crown Law. The contractual relationship was between CorpTech and IBM and the advice was commissioned through DPW not QH; and
 - (c) the appropriate manner for which legal advice to be considered is via relevant departments and Crown Law securing that advice and then to provide their advice for consideration by CBRC. Whilst legally qualified, it was not appropriate for me to assume a role of expert IT/Commercial lawyer where that is not my role nor expertise nor was I briefed with the detailed information (or history of involvement) that legal advisors necessarily would be.

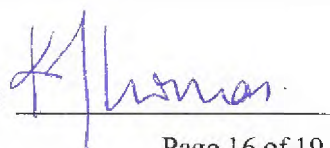
August 2010

101. In August 2010, as a member of the CBRC, I received a further submission from Mr Schwarten about the contract between the State and IBM. The submission was dated 23 August 2010. A copy of this document in Settlement Bundle, Volume 3, document 137.
102. I was aware that high-level discussions between IBM and the Director-General of DPW had taken place in accordance with the decision of the CBRC of 11 July 2010.
103. The submission recommended that the CBRC approve the execution of a supplemental agreement with IBM to formalise transactional arrangements between the State and IBM, with the effect that the State would withdraw the Show Cause Notice (previously given to

Signature:



Witness signature:



IBM) and that payment of all or part of the remaining contract monies would be tied to IBM's performance.

104. On 26 August 2010, I concurred in the decision of the CBRC to adopt the recommendation in the submission and also to authorise me, as Deputy Premier and Minister for Health, and Mr Schwarten, as the Minister for Public Works and Information and Communication Technology, to agree on the terms of the supplemental agreement, and to note that Mr Schwarten would discuss with the Premier and Minister for the Arts and to authorise the Director-General, Department of Public Works to act as the State's delegate in progressing the preferred option. A copy of this document in Settlement Bundle, Volume 3, document 137.

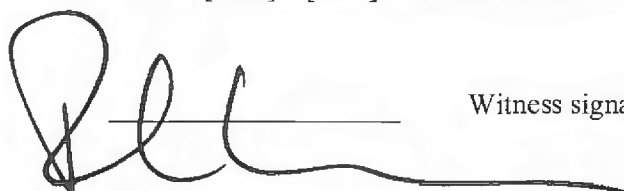
Submission to the Ministers, September 2010

105. In or about September 2010, I received a document addressed to me, as Deputy Premier and Minister for Health, and to Mr Schwarten, as Minister for Public Works and Information and Communication Technology. The submission was from the Director-General of DPC, Mal Grierson, and the Director-General of QH, Mr Reid. It was dated 7 and 8 September 2010. It is attachment 1 to the June 2011 CBRC submission, identified in paragraph 110.
106. I was particular in wanting such a document signed by Messrs Grierson and Reid to come to me and Minister Schwarten as it made clear what actions had taken place in terms of negotiation, and what was recommended to ministers and CBRC.
107. On about 19 September 2010, I signed the document, as a means of noting my approval of the recommendations for forwarding to CBRC for consideration. The underlining marks and the text added below my signature on the submission are in my handwriting. The text reads:

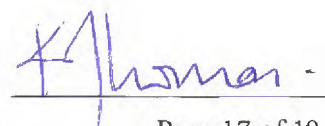
PLEASE INCLUDE IN THE CBRC SUBMISSION:

- A. STATISTICS ON CURENT SYSTEM ADJUSTMENTS #S etc
- B. WHAT DEFECTS HAVE BEEN FIXED
- C. [ditto] [ditto] IBM WILL STILL FIX

Signature:



Witness signature:



D. WHAT IS OUTSTANDING FOR QH/CORPTECH ...
[unidentifiable]*June 2011*

108. In about May or June 2011, as a member of the CBRC, I received a submission from the Minister for Government Services, Building Industry and Information and Communication Technology, the Hon Simon Finn MP, about the contract between the State and IBM.
109. I was not Health minister at this time.
110. The submission was dated 18 April 2011. A copy of this document in Settlement Bundle, Volume 4, document 148.
111. On 2 June 2011, I concurred in the decision of the CBRC to note the matters set out in the submission. A copy of this document in Settlement Bundle, Volume 4, document 148.

Declaration

This written statement by me dated 23 May 2013 and contained in the pages numbered 1 to 19 is true and correct to the best of my knowledge and belief.

Signed at Brisbane Signature this 23rd day of May 20 13

Witnessed:

Name Kelly Marie Thomas Signature Solicitor 23/5/13

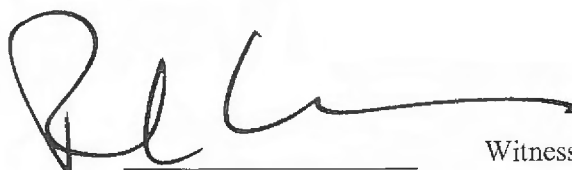
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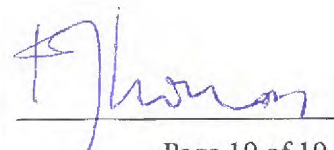
Index to Annexures to Statement of Mr Paul Thomas Lucas

Annexure	Description
PTL-1	Draft Queensland Health Brief for Decision dated 23 June 2009
PTL-2	Queensland Health Brief for Noting dated 17 November 2009
PTL-3	Estimates briefing note dated 30 June 2009
PTL-4	Diary entry for Paul Lucas dated 24 March 2010
PTL-5	Ministerial Statement of Paul Lucas dated 13 April 2010
PTL-6	Diary entry for Paul Lucas dated 8 April 2010
PTL-7	Ministerial Statement of Paul Lucas dated 14 April 2010
PTL-8	Ministerial Statement of Paul Lucas dated 15 April 2010
PTL-9	Diary entry for Paul Lucas dated 14 April 2010

Signature:



Witness signature:



QUEENSLAND HEALTH BRIEF FOR DECISION

Our Ref: Dept ref no. (BR, MI) File ref no. (if known)
 Date: 23 June 2009
 TO Deputy Premier and Minister for Health
 FROM QST
 SUBJECT Interim Payroll Replacement - QHIC
 Requested by Director QEST
 Anthony Price
 Decision required by Deadline for decision (explanation must be provided under "issues")

RECOMMENDATION(S)

- That you approve
 1. Queensland Health take control of the QHIC Project immediately and remove current project vendor;
 2. Queensland Health take control of all other CorpTech driven projects that are underway or currently being planned on behalf of Queensland Health;
 3. Review Queensland Health Application Support arrangements with CorpTech Service Delivery with the intention of understanding whether better return to Government could be derived from returning this in house.

BACKGROUND SUMMARY

- Include only salient points related to the purpose; no more than half a page. Detailed information can be provided in attachments. Remember the reader is interested in the key relevant issues, not events that have passed and are no longer relevant.
- Queensland Health Interim Payroll Replacement Project - QHIC is significantly over time and budget.
- Queensland Health have lost confidence in the ability of both CorpTech and the project vendor, IBM to deliver a solution scalable for an organisation of the size and complexity of Queensland Health.
- Should this project continue under the current leadership and project methodology Queensland Health are faced with the prospect of investing a further \$6.5M (this figure is vendor forecast of additional cost and does not include any additional costs to Queensland Health or Government) to achieve a go-Live date of November 2009. Queensland Health have little confidence in IBM's ability to achieve this deliverable given their performance to date.

- c Termination of the current arrangement with IBM and CorpTech will require extensive replanning and reassessment of payroll replacement options. This could mean that Queensland Health remains on its current HR/payroll solution for a further 18 months to two years.
- c At this stage of the QHIC Project and regardless of any decision regarding the continuation of the current arrangements, Queensland Health must execute contingencies for Lattice and ESP applications to ensure continuation of QH payroll at an additional cost of \$XX.
- c All woG corporate projects, including QHIC, are managed by CorpTech following the introduction of the Shared Service Initiative in July 2003. CorpTech have failed to deliver SSI performance targets and have further failed in relation to the identified program of work, most notably the upgrade of current Queensland Health corporate solutions to new and enhanced functionality.
- c Queensland Health has increasing concern over the continued escalation in application support costs and the quality of the services received from CorpTech which now cost \$23.7M per annum. These costs are likely to increase significantly in 2010/11 with the introduction of a full fee for service pricing model as the impact of depreciation from the failed SSS program starts to take effect.

ISSUES

- c Focus information; use headings to structure material; be strategic and analytical; check that all questions asked in any request have been covered; attach maps and visual aids where appropriate.
- c Analysis/discussion of issues - present a logical argument, including appropriate research/data; avoid jargon, flag problems/risks/opposition; where appropriate present options, including analysis and arguments for and against each option. Issues and the analysis of each issue can follow on from each other.

IBM ENGAGEMENT AS PRIME CONTRACTOR FOR QHIC AND PROJECT CHRONOLOGY

- c During late 2007 IBM was engaged as Prime Contractor under a GITC Customer Contract to deliver the Queensland Government's Shared Services program. IBM proposed it would develop and implement an interim replacement solution for Queensland Health of the Lattice HR application which, at 30 September 2008, became a vendor un-supported application.

The Customer Contract obliges IBM to perform work set out in the contract and three Statements of Work (SoW) for the Lattice Interim solution (called the "QHIC" project):

- o SoW 7 "Lattice Interim Solution Scoping and Planning"
- o SoW 8A "Lattice replacement Design, Implement and Deploy – from 2 January 2008 to 18 January 2008"
- o SoW 8 "Lattice replacement Design, Implement and Deploy"

IBM proposed it would implement the Lattice Interim solution by the end of July 2008. At contract this was varied in SoW 8 with "go-live" planned on 30 August 2008 and Project Closure on 15 September 2008.

Total price for the complete Lattice Interim solution described in SoW 7, 8A and 8 was \$7,105,288.

- Following protracted discussions between Queensland Health and IBM, relating principally to integration between QHIC and the existing financial systems, a Change Request CR 0060 and CR 0061 was approved on 27 June 2008 to revise the implementation schedule with "go live" scheduled about 18 November 2008 and Project Closure on 15 December 2008.
- The cost of \$1,887,940 for this delay was agreed to be borne by Queensland Health.
- On 8 August 2008 IBM wrote to CorpTech advising that they were seeking a delay to the "go-Live" setting out four reasons for this delay. CorpTech replied in a letter dated 2 September 2008 rebutting IBM claims for a delay and drawing its attention to CR0060. Subsequently meetings between CorpTech, IBM and Queensland Health resulted in a revised "go-Live" of June 2009.
 - This agreement was based on IBM meeting two objective tests demonstrating their ability to deliver an appropriate solution. These were set out in Change Request 129 without variation to costs. CR 129 also included a condition precedent requiring IBM to demonstrate by 30 November its achievement of the Test Criteria. IBM failed to meet the condition precedent in CR129 and sought three separate extensions, the last expiring on 23 December 2008.
 - The QHIC Steering Committee of 23 December 2008 resolved that IBM had failed to meet the Test Criteria and, as further extension was impractical, that CorpTech initiate further negotiations with IBM. CorpTech wrote on 24 December 2008 notifying IBM it had failed to demonstrate achievement of the Test Criteria, that consequently the revised schedule was not incorporated into the contract and inviting IBM to meet on or about 7 January 2009 to consider the most practical way for it to complete its obligations under SoW B. IBM failed to respond to this invitation.
 - A large number of items have been subsequently de-scoped from the agreed initial offering by IBM as covered in SOW's 7, 8 and 8a. In addition due to defects with the design and build process of the solution proposed by IBM, Queensland Health have been forced to accept a large number of "workarounds". These "workarounds" and de-scoped items will have negative impacts on the HR/Payroll for Queensland Health until they are resolved. It is anticipated that this resolution will take further substantial effort by Queensland Health to ensure that a suitable product is delivered to the business users.
 - XXXX Next delay details with additional costs and CR
 - New revised total cost and delay is covered in graph

QHIC INTERIM HR/PAYROLL SOLUTION

- The project completion date has been revised six times with a resultant cost impact of almost 2.5 times the original fixed price. In addition there are still a number of areas where inherent failure with the project methodology employed, governance arrangements and stakeholder engagement has led to a product whose shortcomings are being exposed during the current phase of User Acceptance Testing. The engagement with IBM is now 1 ½ years old. The initial project was forecast to complete within 9 months. At this point in time a further delay to go-Live is expected with the first payroll delivered via SAP/WorkBrain to be November 2009.

- Queensland Health would contend that there have been a number of points of failure within the project that have impacted the successful delivery of a fit for purpose product.

- **Business Requirements**

- The collection of business requirements for HR/Payroll and Finance followed two very different methodologies. The HR/Payroll Team within QHIC used the agreed whole-of-Government design as the basis for the payroll replacement. On gaining the contract IBM agreed to supply an interim solution based on this woG solution, and in addition develop what was expected to become the woG rostering solution (WorkBrain), and correct the defects that existed within the recently implemented Queensland Housing solution. From this woG basis, the Queensland Health HR/Payroll Team developed the Business Attributes Document (BAD V5.0) as the agreed template.
- A number of two other iterations of this document have been developed (BAD V6.0 and BAD V7.0) plus CTD. For the Finance integration, IBM failed to engage the stakeholders within the business initially denying that integration to FAMMIS was part of the requirements of SOW7. Finally a number of workshops (as a result of RFC00060) resulted in a high level business requirements document. The failings of both approaches is evident in the extraordinary number of defects in the design that have been detected via the user acceptance testing phases.

- **Scope/De-scope**

- The scope of the Interim HR/Payroll replacement was heavily debated by IBM from December 2007 until January 2008. This debate continued with CorpTech and Queensland Health despite the evidence of SOW 7, 8 and 8a and various RFC. In addition Queensland Health have agreed to de-scope a large number of items from the solution. These items include woG deliverables such as ESS, MSS and line manager training. In an effort to meet various go-Live dates during the project, Queensland Health have also accepted a large number of workarounds. At the moment these total 62. The estimated cost for maintaining these workarounds for an additional eight months post go-Live (in anticipation of an eventual fix) is \$2M.

- **Design --**

- **Build --**

- **Test -**

- *IBM also failed to bring best practice tools and templates to the project. This has resulted in debate over the deliverable content. For example, IBM now recommends reverse engineering requirements traceability matrix from the UAT tests cases and acknowledges that it should have been part of the embedded practices within the project.*
- *IBM promised and agreed as part of SOW 8 that they would use the Ascendant methodology to manage the project.*

QUEENSLAND HEALTH PROGRAM OF WORK

- Queensland Health has lost confidence in the ability of CorpTech to manage the identified program of work. Queensland Health have identified a number of projects that capitalise on the whole-of-Government initiative to leverage forecast savings in implementing a range of corporate solutions obtained via CorpTech SSS. These projects include the upgrade of SAP Financials (FAMMIS), implementation of SABA (e-learning and development) and RecruitASP.
- Prior to engaging in the woG shared services initiative Queensland Health had successfully managed and maintained its in house HR/Payroll and Finance and Materials Management corporate solutions. Since moving to CorpTech the support of these corporate applications has suffered. In addition expected upgrades and usual system maintenance has not been delivered by CorpTech.
- A particular example which highlights both the lost actual and potential opportunities for Queensland Health is FAMMIS. In 1998, Queensland Health successfully implemented SAP R/3 3.0f. The FAMMIS Team upgraded this solution with minimal input from outside contractors to 4.6b. In addition this team was able to introduce new and improved functionality. At the time of transition to CorpTech the team had planned an upgrade to the latest version of SAP R/3, a data archiving project and the potential introduction of e-procurement. These projects were put on hold in anticipation of participation in the then woG schedule which saw Queensland Health move to the latest SAP offering for Financials in July 2007. The e-procurement project would have realised tangible cost benefits for Queensland Health (estimated in 2007 as \$2.5M per annum) and have enabled Queensland Health to meet its obligations under the National eHealth T Authority (NeHTA). At this point in time CorpTech are unable to confirm a go-live date for a FAMMIS upgrade.
- Queensland Health representatives were members of the CorpTech OSF Steering Committee. As such they participated in the development and design of the woG offering for Other SAP functionality. Queensland Health were vitally interested in the development of the Project Systems Module as this would have facilitated the management of the multi-billion dollar capital works program. All up Queensland Health invested substantial staff resources and almost \$4M as their contribution to this development in 2007. CorpTech have not yet delivered this functionality to Queensland Health and therefore no value has been realised from this investment. At this point in time Queensland Health are developing a business case to independently implement this functionality.

QUEENSLAND HEALTH APPLICATION SUPPORT ARRANGEMENTS

CORPTECH AS A SERVICE PROVIDER TO QUEENSLAND HEALTH

- Under the shared service arrangements, Queensland Health pay approximately \$23.7M (including GST) to CorpTech annually for Applications Support and Hosting for Corporate Services Applications, ie the Finance and HR/Payroll systems on SAP, Lattice and ESP.
- In addition, since the transition there has been significant grow back, ie functions that were transferred to CorpTech and that were expected to be provided by CorpTech have gradually shifted back to QH, without funding or resources. For example, Service Calls for barcoding and Other SAP Functionality are predominantly being managed in-house even though this is meant to be provided by CorpTech.

- c CorpTech have totally failed to provide QH with current ERP functionality and most importantly failed to deliver functionality which could drive very significant improvements in productivity in clinical areas, eg advances in e-procurement, materials management and plant maintenance have not been available. This is despite this functionality being licensed by Queensland government and the cost of upgrades and software maintenance being billed to QH on a monthly basis.
- c The major reason for this is that CorpTech had allowed itself to become distracted with the now abandoned Shared Services Solutions (SSS) program which proved to be unsuccessful which delivered limited functionality to a number of smaller agencies at a very expensive cost. The Standard Offering which has been built on ECC5 does not meet the functional requirements of the other more advanced remaining agencies.
- c Since the introduction of the SSI in 2003, opportunities for the QH SSP and the agency to deliver productivity savings through the introduction of new and enhanced functionality have been severely limited with CorpTech having largely directed resources to the SSS program.
- c This has also meant that the software applications used by QH have become outdated and are now either out of support or have entered extended support arrangements.

CORPTECH AND THE SSI PERFORMANCE TARGETS

- c In foundational documents for the SSI, CorpTech had been referred to as the Corporate Applications Systems Unit (CASU). One of these documents, the CASU Operating Framework noted in Section 4.2 Performance Targets that:
 - c *"An objective of the SSI is to reduce the cost to Queensland Government of owning and managing corporate services applications. Savings have been anticipated from the consolidation and minimisation of systems. The CASU will be required to operate in a manner which delivers these savings."*
- c This was reinforced by comments in the Treasury Annual Report 2003-2004 that:
 - c *"CorpTech has been funded based on the cost of delivering core services to government agencies (the quarantined revenue). The business case for the shared services initiative shows the cost of delivering these core services by CorpTech should be less than the costs to departments prior to the initiative due to economies of scale and streamlining of operations."*
- c Unfortunately after six years of operations, CorpTech have not been able to deliver on these expectations nor is this foreseeable in the future. It is understood that performance targets for CorpTech have since been revised and have now been abandoned.
- c As outlined above, the Queensland Government investment in Corporate Services Applications has increased considerably as evidenced in the value of the intangible asset reported in CorpTech's Financial Statements increasing from \$48M to \$157M between 2004 and 2008 with little or no impact on SSP's ability to deliver savings or improved services to agencies. (Most recently this has escalated to \$188M as reported in the CorpTech Service Delivery Statement for 2009-2010).
- c Similarly staffing levels in CorpTech have nearly doubled without consequent improvements in service delivery.
- c In the recent letter from CorpTech regarding Fee for Service for 2009-2010, they have warned agencies of further cost increases which are unofficially estimated to increase by

up to 50 percent with the introduction of full fee for service as the impact of depreciation for the SSS program starts to take effect. For QH, this would equate to an additional \$10 - 12M per annum.

- Given the inability to meet its performance targets and current economic conditions, it is timely to consider whether there are more cost effective options available to Queensland Health.

CONSULTATION WITH STAKEHOLDERS

- Present positions that key internal/external stakeholders may/will take on this issue. Only report significant material.

FINANCIAL IMPLICATIONS

- The financial implications of the matters must be identified, including current and any but year impact and source of funding.

ATTACHMENTS

- List any attachments.

NOTED or APPROVED / NOT APPROVED		
Deputy Premier and Minister for Health		
Comments		
Paul Lucas Deputy Premier and Minister for Health	Principal/Senior Policy Advisor	Policy Advisor
/ /	/ /	/ /

Political Representatives

Local Government

- List political representatives that may be impacted by the issues raised in this brief.

State Government

- List political representatives that may be impacted by the issues raised in this brief.

Federal Government

- c List political representatives that may be impacted by the issues raised in this brief.

Excess hold area

- c At the QHIC Steering Committee of 7 January 2009, IBM advised of an issue with their HR-finance integration solution and announced that this would result in a further 3 month delay to the "go-Live". At this time Queensland Health also expressed that IBM were still expected to complete the HR-Finance integration as anticipated in the scope and again detailed in CR0060.

Author: <Name> <Position> <Unit/HSD> <Tel number> Signed on: <date>	Cleared by: (DM/SD/Dir) <Name> <Position> <Unit/HSD> <Tel number> Signed on: <date>
Cleared by: (CEO/DDG/DivHead) <Name> <Position> <Tel number> Signed on: <date>	Endorsed: Michael Reid Director-General _____ / /

☐ Election Commitment

☐ CBRC / Cabinet related

☐ ECM related

QUEENSLAND HEALTH BRIEF FOR NOTING

Our Ref: BR043193 (EDCS_B_000_09)
Date: 17 November 2009
TO Deputy Premier and Minister for Health
FROM Director, QHEST
SUBJECT Status of Interim Payroll Replacement - QHIC
Requested by Deputy Director-General, Corporate Services

RECOMMENDATION

- c That you note the critical decision that has been made by the Queensland Health Implementation of Continuity (QHIC) Project Board on 19 October and the consequential delay to the delivery of a new payroll system for Queensland Health.

BACKGROUND SUMMARY

- c The QHIC Project aims to deliver a new Payroll System for Queensland Health. The Project Board is comprised of Corp Tech; QH; and IBM. The original project deadline was in 2008. There have been significant delays and the User Acceptance Testing (UAT) stage has been subject to extension on a number of occasions. The current deadline for User Acceptance Testing (UAT) was 19 October 2009.
- c The QHIC Project Board met on the 19 October 2009, to assess the progress of User Acceptance Testing. The Board agreed that the criteria defined to allow for exit from UAT had not been met. It was determined that the exit criteria had failed to be met for the following reasons.
 - o Only 5 of the 15 exit criteria was considered to be complete.
 - o There were 62 Severity 2, Priority 1 defects open. These defects are defined as impacting net pay.
 - o There were a large number of test scripts that were impossible to complete successfully due to defects that were identified. It is unknown what defects may still be discovered when the test script is fully executed to the end.
 - o QH agreed to investigate additional workarounds for a further 35 defects which had not been resolved in order to reduce the number of defect fixes required for end of UAT. These 35 potential workarounds had not been analysed and would have had to be added to the 35 other workarounds which have been identified, but not already tested.
- c The Board has extended UAT so that the criteria can be met. The consequence of this decision is that a system Go Live is not possible in 2009. The new Go Live date is yet to be determined and will be available once planning is complete.

ISSUES

- The current payroll system (LATTICE) is unsupported. It is this risk that the QHIC project was initiated to mitigate. The failure of our current payroll system remains a significant risk for the organisation.
- The existing rostering solution, ESP is running at full capacity and has already failed at a number of sites. ESP will be replaced by a Workbrain solution as part of QHIC.
- Contract arrangements will require review and reconfirmation. The current contract has already incorporated a number of revisions with associated additional costs. Any extension of the project is likely to attract further demands for additional funding from IBM.
- Delay into the next calendar year may introduce staffing, support and maintenance issues as project momentum, current knowledge and skilled resource are lost to QHIC due to other supplier and Agency priorities/projects.
- Any delays increase the risks of the current system requiring configuration changes: for example, changes to award arrangements as a result of enterprise bargaining may require re-configuration of the current functionality.

CONSULTATION WITH STAKEHOLDERS

- Key stakeholders are represented or are members of the QHIC Board. The CIO and the Senior Director Assurance and Risk Advisory Services attended the Board meeting on 19 October 2009 and support the decision made. The unions have been advised and their views sought.

FINANCIAL IMPLICATIONS

- The cost of a delay will consist of:
 - possible further contract variation;
 - cost of Queensland Health staff;
 - CorpTech costs; and
 - costs arising from the implementation of business continuity contingencies (that is ESP and Lattice).

ATTACHMENTS

- Nil.

NOTED or APPROVED / NOT APPROVED		
Deputy Premier and Minister for Health		
Comments		
Paul Lucas Deputy Premier and Minister for Health / /	Principal/Senior Policy Advisor / /	Policy Advisor / /

Political Representatives

Local Government

- Statewide application.

State Government

- Statewide application.

Federal Government

- Statewide application.

Author: Roger Petersen Acting Director QHEST 07 3234 1813	Signed on: 30 November 2009	Cleared by: Anthony Price Acting Executive Director Corporate Services 07 3234 1355	Signed on: 30 November 2009
Cleared by: Michael Kalinnics Deputy Director-General Corporate Services 07 3234 1685	Signed on: 1 December 2009	Endorsed: Michael Reid Director-General	_____

☐ Election Commitment

☐ CBRC / Cabinet related

☐ ECM related

- CorpTech contracted IBM to deliver a payroll solution for QH.
- IBM have failed to deliver the solution within time and budget.
- CorpTech discussing options for a go-live system in November 09.

What has caused the delay in the implementation of Queensland Health's interim payroll solution and what additional costs have resulted from this delay?

Talking Points

- Under the Shared Services Initiative, CorpTech has responsibility to deliver business solutions for finance and human resources. This includes payroll.
- In November 2007, CorpTech engaged IBM Australia to deliver an interim payroll solution which was scheduled to go-live in July 2008. The project has experienced six changes to the go-live date and is currently scheduled to go-live in November 2009.
- Queensland Health are working collaboratively with CorpTech and IBM in order to achieve the outcome of a working payroll solution.
- It is believed that IBM underestimated the size and complexity of the solution required for Queensland Health.
- Queensland Health internal project costs were estimated at \$6.9M.
- Delays to the project cost Queensland Health \$14.7M in 2008-09 with additional costs estimated at \$9.2M in 2009-10.
- CorpTech are engaged in commercial discussions with IBM to agree a final price for a go-live in November 2009. Any further questions in relation to the contract and costs should be directed to the Minister for Public Works.

BACKGROUND

History

- Under the Shared Services Initiative, CorpTech a business unit of Public Works (formerly Queensland Treasury) provide application support and hosting for Queensland Health's Payroll which is based on Lattice software.
- Lattice is an ageing system and support for the software was due to be withdrawn by the solution vendor in June 2008. In addition, it was considered that Lattice might not be able to handle the complexities of the expected EB negotiations.
- In late 2007, CorpTech engaged IBM Australia as a Prime Contractor to deliver an interim payroll solution for Queensland Health which was scheduled to go-live in July 2008.
- The interim payroll solution was to be based on SAP integrated with the WorkBrain rostering system.
- The original contract with IBM Australia was a fixed price engagement at a cost of \$6.2M. Queensland Health internal project costs would have been \$6.9M.
- The project commenced in December 2007 and has been besieged with delays.
- In August 2008 IBM lodged a formal delay notification to CorpTech seeking a delay until November 2008. The notification attributed the reasons for the delay to Queensland Health which was vigorously defended in a letter to CorpTech. CorpTech similarly rejected the reasons stated in a letter to IBM.
- Following negotiations a revised schedule was agreed to with an extension of time to meet contract conditions.
- The Queensland Health position on the reasons for the delay(s) has not changed since August 2008.
 1. IBM has failed to follow a recognised project management methodology. According to the contract IBM's Ascendant Methodology was to be used.
 2. IBM has failed to provide sufficient numbers of appropriately skilled resources to the project of this size and complexity.
- CorpTech are engaged in commercial discussions with IBM to agree a final price for a go-live in November 2009.

Funding

- The contracted total payment to IBM for the interim payroll solution is \$19,148,123 (excluding GST).
- Delays to the project have cost Queensland Health \$14.7M in 2008/2009.
- Delays are projected to cost \$9.2M in 2009/2010.
- CorpTech are seeking an additional contribution of \$6-9M from Queensland Health to complete the project.

Stakeholder views

- There is substantial agreement with CorpTech on the reasons for the delays.

Status

- The interim payroll solution is currently in the stage of User Acceptance Testing and a very high number of defects are being identified. Deadlines for completion of testing and rectification of defects are not likely to be met which will require a re-examination of the go-live date.
- Before agreeing to go-live, Queensland Health need to have total confidence that its employees will be paid correctly and paid on time. This can only be demonstrated through complete and satisfactory testing of the solution.
- CorpTech and IBM current projections for go-live are November 2009; however Queensland Health have limited confidence in this projection as the fundamental resourcing issues have not been addressed by IBM.
- Queensland Health are working collaboratively with CorpTech and IBM in order to achieve the outcome of a working payroll solution.

Confidential issues

- Technically, IBM are in breach of their contract and have been since December 2008.
- CorpTech and DPW are reluctant to pursue legal remedies and have been very flexible in accommodating IBM requests in an effort to assist them meeting their obligations.

PTL-4

24 March 2010 Continued
Wednesday

3:30 PM - 4:00 PM

Updated: MEET with Leslie Breaknell, IBM Consultant and Mark Osbourne, Govt IBM Account Manager re: IBM JAM. [In att: Ken Smith, Mal Grierson, Nicole Scurrah, Owen Wareham] -- Minister's Room, Parliament House



IBM+Jam+Events.p
pt

PTL-5



Speech by

Hon. Paul Lucas

MEMBER FOR LYTTON

Hansard Tuesday, 13 April 2010

MINISTERIAL STATEMENT

Queensland Health, Payroll System

Hon. PT LUCAS (Lytton—ALP) (Deputy Premier and Minister for Health) (9.54 am): I would like to update the House on the serious issues that have arisen from the transition of Queensland Health to a new payroll system. I will go through the details shortly, but can I start by reiterating my public comments and my previous discussions with Queensland Health employees and their representatives. This simply was not good enough. It should not have happened and I take the issue very seriously. Again, I reiterate my apology and I know it has caused inconvenience and hardship for a number of our hardworking employees. This is not Queensland Health's pay; it is our workers' pay and that is why we need it sorted out now. The fact that the vast majority of people received their pay without problems means little to those very many individuals and families who have been seriously affected by these mistakes.

Queensland Health has complicated payroll arrangements. In any average fortnightly pay cycle, Queensland Health pays 74,000 staff across 13 different awards and 13 agreements covering permanent full-time, permanent part-time, temporary and casual staff, including a large component of shiftworkers. In any average fortnightly pay cycle, Queensland Health processes \$210 million in funds. Each day, Queensland Health undertakes 3,000 to 4,000 adjustments that reflect the 24-hour services that a health system provides. For example, in any normal pay period there will be adjustments when rosters change arising from the urgent call-in of medical staff to cover additional shifts, the swapping of a shift or a rostered shift not being performed, allowances for meal breaks, changes to acting arrangements and so on. Without prejudging the independent review of this rollout, it is abundantly clear that there are serious business practices that did not anticipate or make appropriate allowances for the change in data entry and the impact that that would have of staff receiving little or no pay.

After the first pay run with the new system on 24 March, approximately 18,000 individuals were affected in some way, with 1,800 people identified as having received no or minimal pay. I am advised that all of these 1,800 staff have now had their pay processed. In total, this represented \$14.5 million of funds that were affected in the first pay run. That represents approximately seven per cent of Queensland Health's total pay run. With the approach of Easter, a hotline was set up to ensure that cases could be dealt with over the Easter break and payroll staff continued processing work over the long weekend. I would like to thank the administrative and payroll staff at the coalface and publicly acknowledge the contribution they have made.

The second pay run was processed on 7 April 2010, and it was identified that some staff were not paid or received significantly less than they should have. On 8 April, 300 staff were identified as receiving no or minimal pay. Queensland Health committed that those employees identified by Queensland Health or through the unions would have their pay processed by the end of the following day. All 300 had their pay processed to the bank by close of business on 9 April 2010. Of those 300 staff, 296 have been personally contacted by Queensland Health payroll staff to ensure that they have been paid. As at 9 am on 11 April, there are four remaining staff who have not been able to be contacted, but attempts continue. In total, this

represents \$3.6 million of funds that were affected in the second pay run. This represents approximately 1.7 per cent of Queensland Health's total pay run.

Between 9 April and 9 am on 11 April, a further 82 staff have been identified as having received no or minimal pay, either by new people coming forward, follow-up contact with the hotline, or contact with payroll hubs. Between 11 April and 9 pm Monday, 12 April, a further 225 staff have been identified as receiving no or minimal pay or being in hardship. All of these staff have been personally contacted to arrange cash or confirm advice about electronic processing, depending on the preferences of the individuals and the urgency with which they require payment. These numbers will necessarily change as we are contacted or we identify other staff members who are unpaid or who are substantially unpaid.

A number of preventive strategies are being used to reduce risk for the next pay cycle. Queensland Health has identified those casual staff who work regular patterns of work and have pre-emptively entered their rosters in the system. The core problem of rosters not being entered on time has also been addressed, with district CEOs and line managers proactively chasing the data needed and increasing the speed of the turnaround process to get it to our clerks. Queensland Health is also working with CorpTech to utilise a dummy payroll as a manual check of data to identify the anomaly of people receiving pay slips with nil pay.

A key priority remains the support provided to individual staff who have been affected. Those who received little or no pay or who are experiencing hardship because of errors are being case managed to provide support and swift remedy. Once an error is identified, a payroll staff member discusses options with modes of payment including cheques, stored value cash-cards where the authorised officer accesses cash for a bank and then provides that cash for the person suffering hardship, and petty cash advances. More than one payment mode can be used, depending on the circumstances where more than \$200 is required. I just note in passing that I saw it reported in the media that someone said they had to sign for something. It is for audit reasons that we require a signature against a payment.

Each case identified as no or minimal pay or people affected by hardship is being individually case managed, including follow-up calls to confirm that payments are made. That provides important support and allows individual preferences for the staff affected. The hotline 36360737 continues to operate to provide easy contact for staff who are affected. Between Saturday, 10 April 2010 and 9 pm on 11 April, there were 199 registered calls to the dedicated payroll hotline.

As incorrect pays are remedied and back pays are received, Queensland Health will also provide support to staff to explain upcoming pay slips. As back pays are reconciled Queensland Health is preparing help desks at hospitals for individual staff members who may seek further information or clarification of their particular pay slip. Throughout the payroll and adjustment process, if there are overpayments to staff they will be reconciled and handled appropriately—that is, any reconciliation and future adjustment will be handled in a fair and compassionate way.

The Department of Premier and Cabinet has commissioned an independent external review to be undertaken by experts in these processes: KPMG. To be frank, we all know that the development of this system was a drawn-out process with a range of issues to confront. Queensland Health needed to replace its old payroll system which was on its last legs. As has been reported in the media, for example the *Courier-Mail* on 21 December last year, the old payroll system, Lattice, was failing. In the previous five years overpayments to staff of \$27 million had occurred, clearly indicating the new system was needed.

The development and implementation of new software on such a massive scale is always difficult. It is a matter of public record that the development and rollout of the new software system faced challenges including several delays. The project board identified and responded to issues throughout the term of the rollout of the payroll system, including software glitches, program delays and software quality issues, but frankly we want KPMG to have a look at that as well.

Unfortunately, there was insufficient focus on the business practices on which the system would be operated. With hindsight Queensland Health acknowledges it has let its staff down by underestimating the challenges of commencing operation of the new system after the development work was complete. This is one of the key areas KPMG can investigate and Queensland Health is providing its full cooperation.

Moving to a new system will see significant improvements for everybody in the longer term—individual employees and across government. As I said, the failure in this transition is simply unacceptable and I remain focused on supporting staff affected and improving the process in the future.

8 April 2010 Continued
Thursday

PTL - 6

9:00 AM - 11:30 AM

VISIT TO RBWH, TOUR OF HEALTH FACILITIES AND MET WITH PAYROLL STAFF
Note: Grace Grace will also attend - will be met at front entrance

Note: Also visited Shared Services Unit, Block 7 - & Met with Payroll staff

Heien O'Mara



Final schedule DP
visit 8April...

We have arranged for the DP's car to be parked at the Main Entrance and our security officers will make sure a space is available at the time indicated for the DP's arrival. Prof Keith McNeil, CEO, Metro North Health Service District and Dr David Alcorn, Executive Director, Royal Brisbane and Women's Hospital will meet the DP. The skills development Centre will arrange a practice procedure to be performed if none are planned for that time.

SCHEDULE

TIME	Activity	LOCATION	Host
9.00am	Arrive at Royal Brisbane and Women's Hospital (RBWH), Butterfield Street, Herston	Main entrance, RBWH	DP met by Prof. Keith McNeil, CEO, Metro North Health Service District and Dr David Alcorn, Executive Director, Royal Brisbane and Women's Hospital who will meet the DP during his visit. Mobile contact RBWH [REDACTED] Bruce Cobb contact at DP office Jacqui.cobb@ministry.gov.au
9.15am	Tour of the facility	QH Clinical Skills Development Centre, Block 6, level 4, RBWH	DP escorted to meet A/Professor Marcus Watson, Director, QH Clinical Skills Development Centre
9.55am	Tour of the end of trip facility	RBWH Cycle Centre, Bowen Bridge Road, Herston	DP escorted to RBWH to be met by Amanda Keane
10.15am	Overview	Hyperbaric Medicine Unit, Ground Floor, Ned Hanlon Building, RBWH	DP escorted to meet Dr David Vonau, Executive Director, Care and Clinical Support
10.35am	Presentation with morning tea	Epilepsy program, Neurology Department	DP escorted to level 7, with Dr Alice-ann Sullivan
11.35am			DP escorted to main entrance car for departure. (parking made available at the rear area of RBWH)

IMPORTANT INFORMATION

- Mobile telephones must be turned off in the hospital.
- Patients' privacy is a priority and confidentiality must be maintained.
- Photography is only allowed when advised, staff / patients / wards and equipment are not to be photographed without prior consent or permission



Speech by

Hon. Paul Lucas

MEMBER FOR LYTTON

Hansard Wednesday, 14 April 2010

MINISTERIAL STATEMENT

Queensland Health, Payroll System

Hon. PT LUCAS (Lytton—ALP) (Deputy Premier and Minister for Health) (9.47 am): I rise to update the House on the ongoing efforts to resolve the Queensland Health payroll system difficulties and determine what went wrong. As I set out in parliament yesterday, there is a range of steps in place to provide support to staff who are facing hardship from the payroll transition.

From payroll 1, 1,800 people, I am advised, have been identified as receiving no or little pay. All 1,800 have been subsequently processed. From payroll 2, as at 5 pm yesterday 745 staff have been identified and all 745 have been case managed. Yesterday an additional 118 staff were identified as experiencing hardship and all 118 are being individually case managed and offered support to meet their particular circumstances. Yesterday also saw 243 people who were previously identified having their pay processed. Of course, as people come forward, if there are any further people, we will deal with them expeditiously as well.

Looking forward to improve the outcome in the future, we need to be clear about where the shortfalls are. I am advised that the problems we have faced since going live are unrelated to the technical hurdles that delayed the project prior to the 'go live' sign-off. Queensland Health appears to have badly underestimated the clerical task of inputting data into the system. For that, Queensland Health and I, as minister, have offered apologies to staff who have been affected.

It has been a matter of public record for more than a year that the development and rollout of the new Queensland Health payroll software faced challenges, including several delays. Equally, it is a matter of public record that the old IT system, Lattice, was too old, was unsupported and had become unreliable. Indeed, I think the *Courier-Mail* wrote about it.

The project was delivered by a project board, including a representative of IBM, which was responsible for tailoring the software, the chief information officer of Queensland Health and CorpTech. The difficulties this project faced from an IT perspective have been well documented. The go live date was pushed back several times between July 2008 through to March 2010 because the project board had not been satisfied that the software tailoring was free of defects. Sample trial runs were conducted, and defects were identified and fixed over a period of more than a year. The project board met regularly in July, September and November 2008 and in May, June and October 2009, and the board determined that the project was not yet ready for go live and more work needed to be done. Months more work was done on the system to eliminate glitches and reduce the risk of problems. Earlier this year, I am advised, two trial runs were conducted and returned clear results.

Ultimately, on 14 March 2010, the project board—made up of the four most senior IT officers involved in the project—certified that the project was ready to go live. The board includes a senior representative of IBM, the chief information officer of Queensland Health, the general manager of CorpTech and Queensland Health's executive director of corporate services. Specifically, they certified that cutover tasks had been executed as planned, cutover data migration results were satisfactory, cutover

SSP manual data results were satisfactory, cutover finance data reconciliations were complete, agency and payroll were ready for go live, and support organisations were go live. On 14 March 2010, the project board made the decision to go live with the new payroll system, and I table the note of their certification.

Tabled paper: Queensland Health Implementation of Continuity Program brief for decision, dated 14 March 2010, regarding Lattice Payroll Replacement Project [2059].

Unfortunately, we now know that the broader implementation of the payroll system—particularly the task of inputting staff rosters and processing pay slips—was not ready and that those responsible for delivering this new payroll system had underestimated the task of migrating data across to the new system. KPMG has been engaged to review what went wrong. I want very clear answers about how this happened. It is simply not good enough.

Queensland Health is entitled to rely on IT and payroll executives to get their job done properly. These executives are paid big money to deal with these matters, and we are entitled to rely on their expertise. When senior people certify that the payroll system is approved for go live, we are entitled to expect that to be an accurate assessment. Indeed, 75,000 Queensland Health staff are relying on this payroll system, including the IT software as well as the work practices that use it, to get them paid. That is why I want these matters investigated—all of them—but my immediate priority is to get the problems rectified and get our hardworking staff their money.



Speech by

Hon. Paul Lucas

MEMBER FOR LYTTON

Hansard Thursday, 15 April 2010

MINISTERIAL STATEMENT

Queensland Health, Payroll System

Hon. PT LUCAS (Lytton—ALP) (Deputy Premier and Minister for Health) (9.43 am): I rise to update the House again on the ongoing efforts to resolve the Queensland Health payroll system difficulties and determine what went wrong. As I set out in parliament yesterday, there is a range of steps in place to provide support to staff who are facing hardship from the payroll transition. From payroll 1, 1,800 people have been identified as receiving no or little pay. All 1,800, I am advised, have been subsequently processed. From payroll 2, as at 5 pm yesterday I am advised that 879 staff have been identified as experiencing hardship and all 879 are being case managed. Yesterday an additional 134 staff were identified as experiencing hardship, and all 134 are being individually case managed and offered support to meet their particular circumstances. These numbers do not include the numbers of other workers with required variations to their pay.

To fix this problem we need to be clear about what went wrong and why. As I advised the House yesterday, it has long been a matter of public record that the development of Queensland Health's new payroll system faced significant technical hurdles that delayed the project prior to 'go live' sign-off. The project was delivered by a project board, including a representative of IBM, which was responsible for tailoring the software, the chief information officer of Queensland Health and CorpTech. I described in the House yesterday the numerous delays the project faced before delivery. Each one of these delays represents a decision by the expert members of the project board that the system was not ready for use and further work needed to be done on it.

In July, September and November 2008 and in May, June and October 2009, the board determined that the project was not yet ready for go live and more work needed to be done. This is a matter of public record. I table a copy of a document that has been referred to in the media today which was drafted as a brief to me in June last year describing problems in the system as at that time.

Tabled paper: Briefing note, dated 6 July 2009, titled 'Interim Payroll Replacement—QHIC' [2081].

The document is apparent on its face that it was not signed and approved by the relevant executive director or the deputy director-general or the director-general. Nor, as I advised, was it sent to my office at that time. But the fact that the payroll system development had very significant issues at the time was well known. I stated as much in the House yesterday. The fact is that when the document was drafted in June 2009 the payroll system was still in development. That is why the project board decided not to go live at that time or indeed for another nine months. The *Courier-Mail* this morning on its front page included a tear-off of the top of the brief. If it had added the very next part of the brief—that is, the act of recommendation—it would have clearly shown the words—

That you note issues in relation to the IBM contract with CorpTech and that both CorpTech and Queensland Health are working to obtain a solution to the issues.

As a result of the issues identified in that document, the system 'go live' was delayed in June 2009 and again in October 2009. In late 2009 my office was advised—

The ... Project Board met on 18 October 2009, to assess the progress of User Acceptance Testing. The Board agreed that the criteria defined to allow for exit from UAT had not been met.

The Board has extended UAT so that the criteria can be met. The consequence of this decision is that a system Go Live is not possible in 2009.

It also noted the significant issues with the current payroll and rostering systems Lattice and ESP. It was returned by my adviser for further action. I table a copy of that brief.

Tabled paper: Copy of briefing note, dated 17 November 2009, titled 'Status of Interim Payroll Replacement—QHIC' [2082].

So there were issues. A decision was made not to proceed with go live until they were fixed and a commitment was given to fix them. In February of this year, some eight months after the issues were raised in the June document and one more month before go live, the same officer—the same officer—signed off a briefing note to project board managers stating that all outstanding issues were 'manageable risk' and can be completed on time for go live. I table a copy of that.

Tabled paper: Copy of brief for decision, Queensland Health QHIC project board meeting on 1 February 2010, titled 'Recommendation to commence with cutover activities' [2083].

Ultimately, on 14 March 2010, the project board—made up of the four most senior IT officers involved in the project—certified that the project was ready to go live. The board includes a senior representative of IBM, the chief information officer of Queensland Health, the general manager of CorpTech and Queensland Health's executive director of corporate services. I again table the 'go live' decision note from the project board.

Tabled paper: Copy of brief for decision, Queensland Health QHIC project board meeting on 14 March 2010, titled 'Business to go-live for the QHIC Lattice Payroll Replacement Project' [2084].

KPMG has been engaged to review what went wrong. I want very clear answers about how this happened. It is simply not good enough. As I have stated very clearly, Queensland Health staff and indeed the taxpayer are entitled to rely on IT and payroll executives who are well paid to get their job done properly. When senior people certify that the payroll system is approved for go live, we are all entitled to expect that to be an accurate assessment. But my immediate priority is to get the problems rectified and get our hardworking staff their money. Our staff did nothing wrong. We need to fix this.

PTL-9

14 April 2010 Continued
Wednesday

5:00 PM - 5:30 PM

MEETING WITH GLEN BOREHAM, CEO IBM CEO -- Room B.29, Parliament House



Glen Boreham Bio
09.doc

We would like to brief the Deputy Premier on the following items in particular.

1. Brief Deputy Premier on IBM activities under "Smart Planet" - "Smart Government" - "Smart Healthcare" Agenda IBM has - with relevance to State of Queensland
2. Brief Deputy Premier on follow up health items from IBM CEO executive interlock with previous Queensland Health Minister Stephen Robertson Aug 2008
3. Update Deputy Premier - Other key IBM programs with Queensland Government - Shared Services, Water, Bio-informatics Exchange

Glen was also part of the Prime Minister's recent 2020 Summit which he would like to share in his experiences. I have attached Glen's Bio for you.

Cheryl Bennett

Client Executive