**QUEENSLAND HEALTH PAYROLL SYSTEM
COMMISSION OF INQUIRY**

Name of witness	Ms Anna Maria Bligh
Date of birth	▮▮▮▮▮▮
Address and contact details	Level 8, 179 North Quay, Brisbane Queensland 4000 (07) 3016 0345
Occupation	Former Premier; non-executive director
Date taken	15 May 2013

I, Anna Maria Bligh of c/- level 8, 179 North Quay, Brisbane in the State of Queensland, say as follows:

Background

1. Relevantly, I have held the following roles and offices:

    (a) from 1995 to 2012, I was the Member for the electorate of South Brisbane in the Legislative Assembly of the Queensland Parliament;

    (b) from July 2005 to September 2007 I was, among other roles, the Deputy Premier of Queensland;

    (c) from February 2006 until September 2007, I was the Treasurer of Queensland;

    (d) from September 2007 to March 2012 I was the Premier of Queensland;

    (e) throughout my period as Premier, Deputy Premier and Treasurer I was a member of:

        (i) Cabinet; and

        (ii) the Cabinet Budget Review Committee (of which I had been a member since becoming the Leader of the House in 2001).

2. The Cabinet Budget Review Committee is a committee comprising four members, typically, the Premier, the Deputy Premier, the Treasurer (if the Deputy Premier is not also the Treasurer), and an additional minister (or ministers on a rotating basis).

Witness signature: _/Anna Bligh._   Officer signature: _____

Additional documents

3.   The Department of Premier and Cabinet ("Department of the Premier and Cabinet") has undertaken a search for documents. I annexe hereto and mark as follows:

(a)   diary extract dated 27 January 2009, marked "**AMB1.**";

(b)   "Premier's Briefing Note: Policy" dated 3 July 2009, with the subject "Meeting with IBM on 7 July 2009", and attachments thereto, collectively marked "**AMB2.**";

(c)   diary extract dated 7 July 2009, marked "**AMB3.**";

(d)   a diary appointment for the Director-General of the Department of the Premier and Cabinet dated 7 July 2009, marked "**AMB4.**";

(e)   the two attachments to the diary appointment for the Director-General of the Department of the Premier and Cabinet dated 7 July 2009, one of which is the document referred to above and marked AMB2, and the other of which is a further briefing note dated 6 July 2009, marked "**AMB5.**";

(f)   "Premier's Briefing Note: Policy" dated 25 July 2010, with the subject "Government Response to the Auditor-General's Report into the Queensland Health Continuity Project implementation and related ICT governance matters", and attachments thereto, collectively marked "**AMB6.**";

(g)   "Premier's Briefing Note: Policy" dated 4 October 2010, with the subject "Auditor-General (AG) Report (the AG Report) on Queensland Health (QG) Payroll – progress on Queensland Government response" and attachments thereto, collectively marked "**AMB7.**";

(h)   "Premier's Briefing Note: Policy" dated 15 July 2011, with the subject "Meeting Brief for meeting with IBM on 19 July 2011 and attachments thereto, collectively marked "**AMB8.**";

(i)   diary extract dated 24 March 2010, marked "**AMB9.**"

January 2009 CorpTech executive steering committee minutes

4.   The Commission of Inquiry has provided:

(a)   minutes of Executive Steering Committee (Government Members) dated 29 January 2009[1] ("the steering committee minutes") and

(b)   a handwritten note.[2]

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[1] item number 187, pages 98 and following, Contract Management Bundle
[2] item number 187, page 101, Contract Management Bundle

Witness signature: _____   ,   Officer signature: _____

5.   The Executive Steering Committee was a committee of senior executive departmental officers. I was not a member and did not attend meetings of that committee. It would have been highly unusual for a minister or the Premier to have been a member of such a committee.

6.   The first paragraph of item 2 on the first page of the steering committee minutes[3] records that it had been reported that I had met with Minister Robert Schwarten, Minister for Public Works, and Mr Mal Grierson, Director-General, Public Works.

7.   At 5 pm on 27 January 2009, my diary records, I met with Minister Schwarten: see annexure AMB1.

8.   I met with Minister Schwarten and Mr Grierson and discussed the strategic direction of information technology across government.

9.   Directors-General had limited meeting time with the Premier, so generally they came to such meetings with a list of at least three or four issues, about which they were seeking strategic direction. My discussions with Directors-General generally did not descend into operational matters.

10.   At around this time, the strategic information technology issues under discussion included:

     (a)   Minister Schwarten and his Director-General were considering how to get the best out of the shared services arrangement for the government and for government services (in July 2008, the government had transferred responsibility for information technology and back-of-house services through Shared Services from Treasury into the Department of Public Works); and

     (b)   debate as to:

         (i)   whether we should have a Queensland government Chief Information Officer; and

         (ii)   if so, to which Department that person should be attached.

11.   While the steering committee minutes record that there had been some discussion about IBM at my meeting with Minister Schwarten and Mr Grierson, I do not remember talking about IBM. I do not have any reason to doubt that IBM was discussed.

12.   In late January 2009:

     (a)   I was three to four weeks away from calling the 2009 election, which was ultimately held on 21 March 2009.

     (b)   there was a global financial crisis;

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[3] item number 187, page 98, Contract Management Bundle

Witness signature: _____   Officer signature: _____

(c)   Queensland was about three weeks away from losing our AAA rating (which occurred on 21 February 2009);

(d)   there were newspaper front page headlines about mines closing and large scale job losses;

(e)   the government had just established an employment taskforce to respond to the consequences of the global financial crisis, including the job losses;

(f)   the executive government had a mid-year budget statement in early December 2008 in which we had lifted vehicle registration costs because our revenue had collapsed as a result of the global financial crisis.

13.   In these circumstances, departmental requests for additional funds were likely to be refused.

14.   The steering committee minutes[4] record that at the 27 January 2009 meeting:

(a)   Mr Grierson attended as well as Minister Schwarten;

(b)   the issue of IBM proceeding with delivery of the QH LATTICE interim solution only, as opposed to the whole of government program was discussed.

If so, it is likely that Mr Grierson discussed the course of action he wished to adopt. Mr Grierson is unlikely to have presented the arrangement with IBM to me as a problem, without also proposing a solution and seeking direction in that regard.

15.   The Commission of Inquiry has provided an internal Department of Public Works briefing note from Ms Barbara Perrott, Executive Director, CorpTech, to Mr Grierson of 21 January 2009. Ms Perrott recommended that IBM complete the Health Payroll implementation but not the whole-of-government program.[6] If the IBM arrangements were discussed at our meeting, the discussion would have involved Mr Grierson and/or the Minister informing me of the Department's proposed solution.

16.   No final decision, about the whole-of-government arrangements with IBM, could have been made in January 2009 because:

(a)   the decision had to be made by Cabinet Budget Review Committee;

(b)   the briefing note of 3 July 2009, referred to below (and attached and marked AMB2), indicates that by July 2009 government was still considering its approach in relation to the arrangement with IBM;

(c)   the Cabinet Budget Review Committee submission for the meeting of 21 September 2009 records that a discussion paper about the proposed alteration of the arrangement with IBM was created in June 2009 and circulated to relevant agencies; and

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[4] item number 187, pages 98 and following, Contract Management Bundle
[6] Last paragraph on page 62, Contract Management Bundle

Witness signature: _____ , Officer signature: _____

(d)   the Cabinet Budget Review Committee did not make its decision until 21 September 2009.

February 2009 documents

17.   The Commission of Inquiry has provided:

(a)   a copy of a document, "parliamentary briefing note", from the Department of Public Works, ref DPW00190/09, dated 2 February 2009;[7] and

(b)   a copy of a document, "parliamentary briefing note", from the Department of Public Works, ref DPW00331/09, dated 16 February 2009.[8]

18.   I do not remember previously seeing either of those briefing notes. It is unlikely that I received those briefing notes, because departmental briefing notes for parliamentary purposes usually went to the responsible minister for the department, which, in that case, was Minister Schwarten.

19.   If the Department of Public Works had an issue in respect of which it wished to provide a briefing note to the Premier, it would usually do so by way of a briefing note to the Department of the Premier and Cabinet, not directly to the Office of the Premier or to the Premier personally.

July 2009 proposed IBM meeting

20.   On 22 April 2013, Mr Jonathon Horton, counsel assisting the Commission of Inquiry, submitted:

> "After that executive steering committee meeting in January 2009, a brief was sent to the then premier, Ms Bligh. A meeting occurred with Ms Bligh in about July 2009, and it would appear that the premier then made or confirmed the decision that IBM should not be engaged to undertake new work under the contract through any new statements of work."

21.   I do not know which document is referred to by the submission "a brief was sent to the then premier, Ms Bligh". I am not aware of having received such a brief. If that submission refers to any of the Department of Public Works briefing notes of February or June 2009 then it is unlikely that I ever received any of them.

22.   The Commission of Inquiry has provided:

(a)   an email of 15 June 2009[9] from Mr Graham Marshall, Economic Policy, Department of Premier and Cabinet, to Ms Sue Wright, stating that I had accepted an invitation to meet with Bob Morton, General Manager – Qld, IBM, and seeking a brief;[10] and

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[7] Item 190, page 115-116, volume 8, Contract Management bundle
[8] Item 194, page 130-131, volume 8, Contract Management bundle
[9] Item 246, page 105 and following, Contract Management bundle
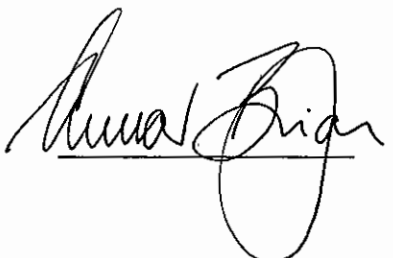
Witness signature: _____ . Officer signature: _____

(b)   a document dated 17 June 2009 that appears to be a Department of Public Works briefing note, numbered DPW01495/09, entitled "Premier's meeting with IBM," and attachments thereto, namely short biographical information for each of Mr Morton and another IBM executive, a schedule of meetings between IBM and minister Schwarten and others in the US in 2008, and a single page list of the Annual Queensland Government spend with IBM for the financial year 2007/08.[11]

23.   I do not believe:

(a)   that I saw the email of 15 June 2009, requesting a brief, or the Department of Public Works briefing note of 17 June 2009, previously – this is not unusual as these are communications between departments at an officer to officer level; or

(b)   that I attended the meeting, referred to in those documents, with Mr Morton or any other representative of IBM.

24.   My practice was to review the diary for next day's each evening.

25.   Often, throughout the day, scheduled meetings and appointments were altered, to meet changing circumstances or as more pressing issues arose.

26.   My personal assistant was responsible for ensuring that each day's diary was updated to reflect the meetings and events that actually occurred.

27.   For that reason, my diaries are generally an accurate reflection of the actual events of each day.

28.   A copy of the extract from my diary for 7 July 2009 is the document annexed and marked AMB3. The diary does not record that I met with Mr Morton on that date.

29.   Accordingly, the absence of any appointment in my diary of 7 July 2009, with IBM and/or Mr Morton, leads to the conclusion that I did not attend the meeting.

30.   The Director-General of Department of the Premier and Cabinet also reviewed my diary for the day, on a daily basis. His practice was to identify any meetings which he could attend in my place, that is, meetings of lesser comparative importance, at which my presence was not necessary.

31.   The Director-General's diary entry for 7 July 2009 shows that he took the meeting with IBM representatives on my behalf, which is annexed as AMB4.

32.   As Premier, it was not unusual for me to meet with external stakeholders including senior business executives.

33.   I kept an open door to business. I would describe such meetings as 'meet and greet'.

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[10] Item 246, page 105, Contract Management bundle
[11] Item 246, page 106 and following, Contract Management bundle

Witness signature: _____ · Officer signature: _____

34.   When I was to meet with an external stakeholder, the Department of the Premier and Cabinet asked the relevant agency or agencies to prepare a brief.

35.   Generally, I did not see the briefs provided by those agencies, because the Department of the Premier and Cabinet's role was to bring all of the briefs together and to summarise and distil them down into a document, preferably of one or two pages, depending on the nature of the meeting.

36.   The briefing note attached to this statement and marked AMB2 appears to have been produced on 3 July 2009 in response to the Department of Public Works briefing note dated 17 June 2008[12] provided in contemplation of the proposed "meet and greet" with Mr Morton.

37.   I do not believe I received any of the DPW note of 17 June 2008, the 3 July 2009 note (AMB2), or the 6 July 2009 note (AMB5).

July 2009 documents

38.   The Commission of Inquiry has provided:

   (a)   a copy of a document entitled "IBM as the Prime Contractor for the update of the Finance & Human Resource systems", apparently parliamentary briefing note for the purposes of the estimates committee hearings, from the Department of Public Works, ref No. 2.3, and dated 9 July 2009;[13] and

   (b)   a copy of a document entitled "parliamentary briefing note", from the Department of Public Works, ref DPW02049/09, and dated 21 July 2009.[14]

39.   These documents were not prepared for the Premier's consideration. I do not believe I have ever previously seen those documents.
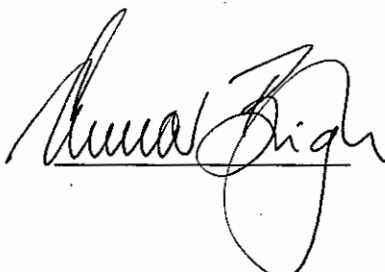
September 2009 Cabinet Budget Review Committee meeting

40.   Senior Counsel assisting the Commission of Inquiry has asked me to state my knowledge as at the date of the Cabinet Budget Review Committee meeting of 21 September 2009. I was aware of the fact there had been an increase in cost compared with the amount initially advised, the fact that there had been delays in implementation, and of the contents of the submission.

41.   The Cabinet Budget Review Committee:

   (a)   dealt with budgetary issues that arose between budgets, where circumstances had changed;

   (b)   met fortnightly, sometimes weekly; and

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[12] Item 246, page 106 and following, Contract Management bundle
[13] Item 263, page 283 and following, volume 8, Contract Management bundle
[14] Item 269, page 312, volume 8, Contract Management bundle

Witness signature: _____ . Officer signature: _____

(c)   had an agenda comprising submissions from government agencies.

42.   In advance of Cabinet Budget Review Committee meetings, I read the agenda and submissions. I generally received further briefings from staff of my department and/or the Treasury. Such further briefings expanded upon or clarified the written submissions, but generally did not go into operational matters.

43.   Any proposed change to the Shared Services Implementation was required to come to the Cabinet Budget Review Committee (as opposed to being a decision for the Director-General and the relevant minister) because it involved a change of approach from previous decisions of the Cabinet Budget Review Committee. It is not for an individual minister or director-general to overrule a previous Cabinet Budget Review Committee decision.

44.   Further, ministers seeking to do things affecting other agencies generally took the issue to Cabinet Budget Review Committee or Cabinet to ensure that all consequences had been considered and there was broad support before implementation.

45.   The submission to the 21 September 2009 Cabinet Budget Review Committee meeting refers to a discussion paper of June 2009, and to its circulation to various agencies. I do not have a copy of that discussion paper.

46.   In September 2009 the government:

(a)   was still responding to the global financial crisis;

(b)   was suffering pressure in the form of reduced revenue compared with forecasts; and

(c)   had recently decided to sell some government assets, including in the areas of rail, forestry and ports;

47.   In those circumstances, requests for substantial additional expenditure remained likely to be declined.

48.   At the Cabinet Budget Review Committee meeting of 21 September 2009, the issues discussed included:

(a)   the necessity to revisit the Shared Services Initiative because:

(i)   at the revised costs the government could not do everything that had originally been planned within the allocated budget; and

(ii)   the economic circumstances prevented the government from continuing with that Shared Services Initiative in its then form at the higher costs;

(b)   IBM had underestimated the scope and the costs, which is not an unusual thing for a very large organisation when it comes to procuring information technology;
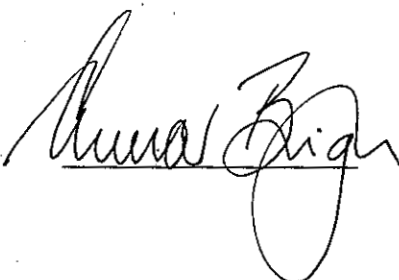
(c)   the health payroll was critical:

Witness signature: _____   Officer signature: _____

(i)   the existing Queensland Health existing payroll system had ceased to be serviced in mid 2008; and

(ii)   that system was at an increasingly high risk of collapsing, according to the technical advice, and needed to be replaced as quickly as it could be;

(d)   the Queensland Health payroll project was critical, and the proposal was to finalise it, and for the other parts of the program, to revisit the plans to make the approach more affordable;

(e)   IBM was a long way down the path of implementing the replacement, and the prospect of being able to quickly and effectively replace IBM, given the complexity of the task, seemed a very slight one, given how long it had taken to get from a decision to replace the system to having made progress in replacing it;

(f)   recruiting a different information technology contractor would not make the payroll replacement cheaper, and was certainly not going to make it faster; and

(g)   to the contrary, in all likelihood, the replacement would take longer, because the complexity would mean any new contractor would have to "climb the knowledge mountain" that IBM had already climbed.

49.   Senior Counsel has asked whether I recall any suggestion, at the meeting, that the government could hold IBM to its original estimates. I do not. The Committee was considering the revised estimates at a time that IBM had undertaken almost two years of detailed work, including scoping work, with the relevant departments.

50.   Senior Counsel has also asked whether there was any advice that the revised estimates were inaccurate for the size of the project. I do not believe so.

51.   Further, there was not, so far as I am aware, any suggestion that IBM had lacked the technical expertise or competence to complete the health payroll system. Had such a suggestion been made, I would have been surprised, because IBM is one of the largest and most reputable information technology companies in the world.

52.   The Cabinet Budget Review Committee took a practical decision, in that:

(a)   the government needed a health payroll system replaced urgently, and IBM was best placed to do that, because they already had all of the knowledge and it appeared they were well advanced in implementing the new system; and

(b)   for the whole of government program, we did not have the same pressing urgency in other departments, because they were not in the same situation of having a payroll system at risk of collapse. We needed to prevent any further costs increases, given the economic circumstances. So for work beyond Queensland Health, we decided upon the revised approach recommended in the submission to the Cabinet Budget Review Committee.

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53. Senior Counsel assisting has asked me to state my knowledge about the human resources system implementation insofar as it related to the Education department, which was as follows:

   (a) I knew that the Education department had been involved in the Shared Services Initiative;

   (b) senior executives of the Education department had expressed the view that that department needed a custom payroll system, not a 'one size fits all' system;

   (c) the payroll implementation in the Education department had not been concluded by the time the Cabinet Budget Review Committee decided to reduce IBM's role from the whole-of-government program to implementing the Queensland Health payroll system only at that stage.

October 2009 briefing note

54. The Department of the Premier and Cabinet has sought, and I have given, my approval for the release of a parliamentary briefing note of 26 October 2009.

55. I have provided a copy of the briefing note to the Commission. I now annexe a copy, marked "**AMB10.**"

56. I cannot specifically remember seeing this briefing note and I do not know whether it came to me at the time.

March 2010

57. On 24 March 2010 I met with an IBM technical consultant, Leslie Breaknell, and IBM account manager Mark Osbourne. IBM sought to promote the use of the IBM software called "IBM Jam".

58. IBM Jam is a platform for online brainstorming. Leslie Breaknell provided me with a demonstration of its capabilities. The government did not purchase the software.

59. The health payroll implementation was not discussed at the meeting of 24 March 2010.

June 2010

60. The Auditor-General decided to review the health payroll system implementation. The Auditor-General's report arising from that review was entitled "Auditor-General Report no 7 of 2010 Queensland Health Payroll and Rostering Systems Implementation."

61. I have reviewed the document annexed hereto and marked AMB6, the briefing note dated 25 July 2010. In that regard, I say:

   (a) That date appears to be erroneous. It seems more likely that it was drafted on 25 June 2010, because the Auditor-General tabled his report on 29 June 2010, and I issued a

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joint media release with the Deputy Premier and Minister for Health responding to the Auditor-General's report on 29 June 2010.

(b)   Attachment 4(a) to that note is entitled "Risks of moving to terminate IBM immediately". That attachment 4(a) is consistent with my recollection of the practical and commercial considerations under discussion at the time.

62.   On 29 June 2010:

(a)   the Auditor-General's report was tabled in the parliament;

(b)   as had been recommended in the briefing note of 25 June 2010, a "notice to show cause" was issued to IBM; and

(c)   Deputy Premier Paul Lucas, Deputy Premier and Minister for Health, and I issued a joint statement committing to implementing the Auditor-General's recommendations.

63.   The decision of the date of the release of tabling the report was a matter for the Auditor-General, which office is independent of government.

64.   Senior Counsel assisting the Commission of Inquiry has asked me to address whether I recall any suggestion that the Auditor-General be prevented from issuing the report. I do not, and:

(a)   such a suggestion would have been highly inappropriate because it would have involved political intervention in an independent statutory office; and

(b)   the Auditor-General Act 2009 provides that the auditor-general is not subject to direction by any person about the way in which the auditor-general's powers in relation to audits are to be exercised or the priority to be given to audit matters.

July 2010 Cabinet Budget Review Committee meeting

65.   On 6 July 2010, IBM provided its response to the show cause notice.

66.   On 22 July 2010, the Cabinet Budget Review Committee considered a submission as to how to finalise the contractual relationship with IBM.

67.   The submission had attachments including legal advice from an Assistant Crown Solicitor and from a leading law firm, as well as other materials.

68.   The following matters informed my approach to the decision to be made at the meeting of 22 July 2010:

(a)   the legal advice indicated that we had a less than certain chance of succeeding in any action to sue IBM, and some legal advice indicated that IBM may have had grounds on which to counterclaim;
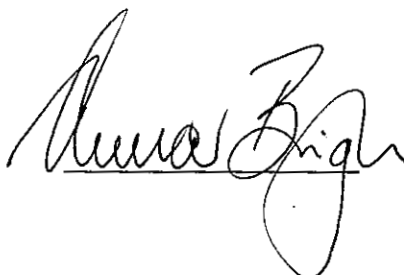
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(b)   I had also seen other relevant documents, including the Auditor-General's report tabled 29 June 2010, and the IBM response of 6 July 2010, to the notice to show cause, which supported the proposition that IBM may have grounds for a counterclaim;

(c)   if the only advice we had had was legal advice, and our only consideration a legal one, the Cabinet Budget Review Committee may have decided to commence legal proceedings notwithstanding concerns as to prospects of success, because I thought the public, and the affected Queensland Health employees, wanted there to be legal redress;

(d)   but it would not have been responsible for the Cabinet Budget Review Committee to take legal action without also considering the practical consequences of taking that legal action. The relevant advice included:

　　　　(i)   the risk assessment from KPMG, which is in the papers attached to the submission made to the Cabinet Budget Review Committee meeting; and

　　　　(ii)   the advice contained in the submission itself, from the agency managing the project and dealing with IBM, the Department of Public Works.

(e)   Mallesons' discussion papers attached to the submission had advised government to consider whether or not the potential benefits of litigating outweighed the potential costs.

(f)   I considered that the practical advice indicated, among other things, that:

　　　　(i)   IBM had a number of staff, key senior staff in some cases, that were deeply embedded in the design and construction of the payroll system and, therefore, in fixing the system; and

　　　　(ii)   the most likely consequence of the government deciding to take IBM to court was that whatever cooperation there was from IBM in performing the work to rectify the payroll system would be severely damaged, or even, potentially, evaporate.

(g)   my highest priority in relation to the payroll system was to get it fixed as soon as possible.

(h)   by then, the payroll system was starting to stabilise, but it was still a fragile system and was still causing a great deal of grief and pain.

(i)   I had been out and visited some payroll hubs and sat down with payroll staff, and with some nurse unit managers in hospitals, and said,

　　　　"Tell me where you think the system is breaking down. I'm trying to understand it."

Witness signature: _____ 'Officer signature: _____

(j)   that did not make me an IT expert, but it gave me a layperson's understanding of the deep complexity of the payroll system;

(k)   I considered that damaging the working relationship between the key IBM technical people, working with departmental staff, to fix the system, or taking action that could see the IBM people leave the system, would delay the rectification process, potentially by months; and

(l)   I felt it was unthinkable to knowingly take an action that would put rectification at risk or at least cause further delay, and further pain for Queensland Health employees.

Subsequent events

69.   On 26 August 2010, the Cabinet Budget Review Committee received a further submission[15] and further advice in relation to the finalisation of the arrangements with IBM.

70.   I have received a copy of a briefing note dated 4 October 2010, which is annexure AMB7 to this statement. I had asked for and received verbal and written updates as to the implementation of the Auditor-General's recommendations.

71.   On 2 June 2011 the Cabinet Budget Review Committee reviewed[16] the government's response to the Health Payroll implementation.

72.   On 19 July 2011 I met with Mr Andrew Stevens, Managing Director, IBM. The subject of the meeting was as is set out in the briefing note that refers to this meeting, annexure AMB8.

Declaration

This written statement by me dated   May 2013 and contained in the pages numbered 1 to 13 is true and correct to the best of my knowledge and belief.

Signed at   (place) this   th day of May, 2013.

Witnessed (sign):

Print Name of witness: Date:

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[15] http://www.parliament.qld.gov.au/documents/tableOffice/TabledPapers/2012/5412T1426B.pdf
[16] http://www.parliament.qld.gov.au/documents/tableOffice/TabledPapers/2012/5412T1426A.pdf

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Annexures to Statement of Witness

Items to be annexed to the statement of the Hon Anna Maria Bligh taken 15 May 2013:

Annexure	Document	Page
AMB1	Extract from Premier's diary, 27 January 2009	16
AMB2	"Premier's Briefing Note: Policy" of 3 July 2009, with the subject "Meeting with IBM on 7 July 2009", and attachments thereto:	17
	Attachment 1: document regarding Minister Schwarten's visit to the IBM Green Data centre	18
	TRIM	19
AMB3	Extract from Premier's diary, 7 July 2009	20
AMB4	A diary appointment for the Director-General of the Department of the Premier and Cabinet of 7 July 2009	21
AMB5	A briefing note of 6 July 2009	22
AMB6	"Premier's Briefing Note: Policy" dated 25 July 2010, with the subject "Government Response to the Auditor-General's Report into the Queensland Health Continuity Project implementation and related ICT governance matters", and attachments thereto	23-25
	Attachment 1: Letter to Director-General, Department of Public Works	26
	Attachment 1a: Letter to Director-General, Queensland Health	27
	Attachment 2: chronology of events	28
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	Attachment 4: Crown Law advice	34-47
	Attachment 4(a): advice from Department of Public Works entitled "Risks of moving to terminate IBM immediately"	48
	Attachment 5: Terms of Reference for external review	49-50
	Attachment 6: Summary of findings from Auditor-General's report	51-54

Annexure	Document	Page
	Attachment 7: Joint response to the Auditor-General, accepting recommendations, from Directors-General of Queensland Health and Department of Public Works	55-60
AMB7	"Premier's Briefing Note: Policy" dated 4 October 2010, with the subject "Auditor-General (AG) Report (the AG Report) on Queensland Health (QG) Payroll – progress on Queensland Government response" and attachments thereto	61-62
	Attachment 1: 29 June 2010 joint media statement from Premier and Deputy Premier & Minister for Health, responding to Auditor-General's report	63-66
	Attachment 2: Key proposed changes from PwC	67
	Attachment 3: Summary of Ernst and Young report findings	68
	Attachment 4: Recommendations of Auditor-General Report No. 7 of 2010 Queensland Health Payroll and Rostering Systems Implementation	69
AMB8	A document entitled "Premier's Briefing Note: Policy" of 15 July 2011, with the subject "Meeting Brief for meeting with IBM on 19 July 2011 and attachments thereto	70
	Attachment 1: draft briefing note	71-74
AMB9	Extract from Premier's diary, 24 March 2010	75
AMB10	Briefing note of 26 October 2010 and covering sheet	76-79

27 January 2009
Tuesday

January 2009							February 2009						
S	M	T	W	T	F	S	S	M	T	W	T	F	S
				1	2	3	1	2	3	4	5	6	7
4	5	6	7	8	9	10	8	9	10	11	12	13	14
11	12	13	14	15	16	17	15	16	17	18	19	20	21
18	19	20	21	22	23	24	22	23	24	25	26	27	28
25	26	27	28	29	30	31							

27	Tuesday

From 18 Jan — Hon Stephen Robertson on leave 18 January – 1 February 2009; Hon Rod Welford acting Minister Health — To 1 Feb

From 26 Jan — Belinda Taylor on Leave; 26 – 30 Jan 2008 — To 30 Jan

FIRST DAY OF SCHOOL

NOTE ONLY - EXPENDITURE REVIEW OF CABINET COMMITTEE (ERCC) MEETING ; 2.30pm - 4.00pm

7 am

8 00
TRAVEL TIME

Copy: CALL JAMIE DUNN 4BC RADIO FOR BACK TO SCHOOL INTERVIEW
Producer Danita 3908 8265 or ███ ███ [In Att: Eddie Burke]; Anna Bligh

Copy: 2009 FIRST DAY OF SCHOOL
Greenslopes State School, 559 Logan Road, Greenslopes [In Att: Don Wilson and Eddie Burke]
Anna Bligh

9 00
TRAVEL

10 00
Copy: MEDIA OVERLAY OF CABINET (5 Minutes)
[In Att: Steve Keating and Chris Taylor]; Anna Bligh

11 00

12 PM

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INTERVIEW WITH JOHN TAYLOR 7.30 REPORT
███ - DGs SMALL BOARDROOM

Copy: MEETING WITH TERRI IRWIN AND AUSTRALIA ZOO MANAGEMENT TEAM
Premier's Office [In Att: Damien McGreevy and Ken Smith]; Anna Bligh

3 00
Copy: JOBS TASKFORCE MEETING
Queensland Room [In Att: Nicole Scurrah]
Anna Bligh

Copy: MEDIA OVERLAY OF JOBS SQUAD (5 Minutes)
Anna Bligh

4 00

5 00
Copy: MEETING WITH MINISTER SCHWARTEN
Premier's Office
Anna Bligh

6 00
TRAVEL TO

7 00
Copy: GOV. JET TO TRAVEL TO CANBERRA
Jet Pax: Mike Kaiser, Chris Taylor, David Stewart, Ken Smith and Dwight Steinhardt (2 hour flight)
Anna Bligh

8 00

9 00

10 00
Copy: HYATT HOTEL CANBERRA - PARK HYATT
Commonwealth Avenue, 02 6270 1234; Anna Bligh

PREMIER'S BRIEFING NOTE
Policy

To: THE PREMIER
Date: 3 July 2009
Subject: Meeting with IBM on 7 July 2009

Approved / Not Approved / Noted
Premier ....
Date ...../..../.....
Date Action Required by: ...../..../.....
Requested by: ....
(if appropriate)

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MENDATION

It is recommended that you:

- **note** this brief for your meeting with Mr Bob Morton, General Manager – Queensland, IBM Australia Ltd on 7 July 2009.

● KEY ISSUES

- IBM employs over 1500 staff in Queensland, including at their global call centre in Brisbane and their Tivoli Laboratory, a global e-security centre on the Gold Coast.

- The Queensland Government invests approximately $1.2 billion annually in ICT goods and services, of which $36.4 million was spent with IBM during 2007–08.

- IBM supplies 12 per cent of low to mid-range computing equipment (including Windows and Unix platforms) within the State Government and around 20 per cent of data storage capacity.

- The Queensland Government Chief Information Office (QGCIO) is currently negotiating a whole-of-Government (WoG) volume discount for IBM software, hardware, and services.

- IBM Australia has been selected as one of the vendors providing services for the WoG Identity, Directory and Email Service Program of work. The company has been notified of its success. Contracts are in the final drafting stage.

- IBM has recently tendered to provide equipment and services supporting ICT consolidation in the WoG Technology Transformation Program.

- CorpTech contracted IBM to complete implementation of the State's SAP finance systems and implement new SAP human resource (HR) systems in four agencies. The contract cost has blown-out from $6.2 million to $19.1 million, with implementation only taking place in one agency (Queensland Health). A revised approach to implementing the balance of departmental finance and HR systems is to be considered by CBRC.

- Invest Queensland provided financial assistance to IBM to expand its Gold Coast Tivoli E-Security Lab ($0.296 million) and establish its Brisbane call centre ($3 million). In 2005, the State also approved $9.183 million in assistance to IBM to establish Business Transformation Outsourcing Centres in Brisbane and the Gold Coast (currently employing over 230 employees).

- **Attachment 1** details Minister Schwarten's visit to the IBM Green Data Centre in Texas.

- You may wish to enquire if IBM has any initiatives that would assist the Government in establishing its data centre at Springfield or help meet Q2 green targets. You could also enquire whether IBM has any plans to increase its investment in Queensland.

● CONSULTATION

- Departments of Public Works and Employment, Economic Development and Innovation.

Comments *(Premier or DG)*

Ken Smith
Director-General

Action Officer: Graham Marshall Area: Economic Policy Telephone: 32247228	Approvals by Director / ED / DDG documented in *notes* in TRIM

2.3   IBM Corporation Green Data Centre: 19 September 2008

IBM Distinguished Engineer, Scott Winters is the Chief Information Officer of the Green Data Centre. IBM hosts numerous data centres in major locations around the world. Realising that consolidation of data centres is cost effective, the Austin IBM facility was established with an emphasis on innovative practices focussed on energy efficiencies.

The data centre facility is located in an existing building that was not specifically designed for this purpose. This raises numerous design issues and challenges, many of which have been addressed by innovative ideas and solutions. Approximately three years ago, the data centre provided access to over 100,000 e-demonstrations to sales staff and their customers right around the world. The figure grew to 600,000 with more emphasis on e-demonstrations and that again increased to 1.4 million e-demonstrations last year.

As more hardware was installed, the power consumption grew from 30kw to 60kw to 150kw which reached the maximum power consumption possible for the facility. Due to innovative techniques adopted and Green energy saving initiatives, this has been reduced to 110kw

Re-use of air-conditioning cooling water, under floor ventilation, door mounted cooling systems and redesign of various areas within the data centre will continue to see improvements to the facility's carbon footprint. For anyone involved in design and operation of data centres, a visit to this facility in Austin, Texas is recommended.

IBM products and services throughout the Queensland Government include mainframes in CITEC and services across the State. IBM has implemented several large storage systems in CITEC, Department of Emergency Services, Department of the Premier and Cabinet, etc. IBM Software utilised by the Government is widespread. One of the largest IBM services contracts is with CorpTech for the implementation of the Shared Services SAP standard offering across Government agencies.

IBM's current contracts equate to approximately 4% of the whole-of-Government QP707 contract. Current and upcoming IBM interests with the Queensland Government include:
* Server and storage equipment for the CITEC Technology Transformation Program Stage 2, and
* CITEC IDES Program Tender which closed on 3 September 2008 (Software and Implementation Services).

Left   Minister Schwarten at the IBM Green Data Centre in Austin, Texas

"Friday, 20 August 2010 at 3:42:08 PM (GMT+10:00) Young, Sam:"
as per note below - NO HARDCOPIES - PREMIER'S OFFICE TO RETAIN

"Tuesday, 17 August 2010 at 4:22:37 PM (GMT+10:00) Young, Sam:"
Moved to Sam Young to classify - electronic documents

"Tuesday, 17 August 2010 at 1:31:50 PM (GMT+10:00) Eggleton, Jessica:"
Closed and finalised — see notes below. Moved for classification. Hardcopy record retained in ODG/PO. Electronic record only.

"Thursday, 12 August 2010 at 3:37:47 PM (GMT+10:00) Weaver, Mary:"
Meeting/event held. Close and finalise. No hard copy.

"Friday, 3 July 2009 at 3:42:11 PM (GMT+10:00) King, Sheila:"
PBN meeting brief recd in ODG - to Premier Advisor for meeting - copy retained in ODG with EA DG

"Friday, 3 July 2009 at 2:56:16 PM (GMT+10:00) Edmeades, Bronwyn:"
Brief and attachment printed and moved to ODG for approval

"Thursday, 2 July 2009 at 4:54:42 PM (GMT+10:00) Carlos, Herve:"
Noted by ADG and fwd to ECU.

"Thursday, 2 July 2009 at 2:21:01 PM (GMT+10:00) Edmeades, Bronwyn:"
Overdue reminder sent ODDGP

"Tuesday, 30 June 2009 at 10:55:36 AM (GMT+10:00) Carlos, Herve:"
Fwd to ADG for approval.

"Tuesday, 30 June 2009 at 10:43:32 AM (GMT+10:00) Lucas, Susan:"
Approved by A/ED Paul Sariban to ADG

"Tuesday, 30 June 2009 at 9:40:55 AM (GMT+10:00) Sariban, Paul:"
To DDG for approval

"Monday, 29 June 2009 at 12:26:25 PM (GMT+10:00) Edmeades, Bronwyn:"
OVERDUE reminder sent Economic Policy

"Friday, 26 June 2009 at 11:51:51 AM (GMT+10:00) Marshall, Graham:"
Forwarded to Paul Sariban for approval.

"Monday, 15 June 2009 at 3:02:48 PM (GMT+10:00) Webb, Julia:"
Forwarded to Graham Marshall for action as advised by Paul Sariban.

"Friday, 12 June 2009 at 4:16:47 PM (GMT+10:00) Szeles, Antoinette:"
To Economic Policy for action.

"Friday, 12 June 2009 at 4:01:07 PM (GMT+10:00) Edmeades, Bronwyn:"
Can you please organise a briefing note for the Premier as requested. DUE TO ECU 26/06/09

Add Notes

OK Cancel Help

7 July 2009
Tuesday

July 2009								August 2009						
S	M	T	W	T	F	S		S	M	T	W	T	F	S
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								30	31					

7   Tuesday

From 6 Jul — JESS COLLINS ON LEAVE — To 17 Jul
From 2 Jul — MINISTER BOYLE ON LEAVE 2 - 12 JULY INCLUSIVE — To 12 Jul
CEO FORUM 10.30 - 12

6 am

7 00

8 00

9 00 — DESK / SIGNING TIME

10 00

11 00

12 pm

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3 00

Copy: TRAVEL TIME
Anna Bligh

5 00

6 00

7 00

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Subject: Copy: Updated: MEETING WITH BOB MORTON, GM, IBM AUSTRALIA AND ROB PAGURA, HEAD OF PUBLIC SECTOR TEAM
Location: Boardroom . [In att: Ken Smith, Lachlan McKenzie, David Shankey]

Start: Tue 7/7/2009 1:30 PM
End: Tue 7/7/2009 2:00 PM

Recurrence: (none)

Meeting Status: Not yet responded

Organizer: Mike Kaiser

Categories: MEETINGS

<<img-7060921-0001.pdf>> <<Meeting with Bob Morton 070709.doc>>

Cath Downes - 3013 4108
12/6: Brief requested by 1/7.
BRIEF RECEIVED

img-7060921-000 Meeting with Bob
1.pdf   Morton 070709...

Rob Pagura, Head of Public Sector Team

MEMORANDUM

TO: PREMIER

DATE: 6 JULY 2009

RE: **MEETING WITH IBM GM BOB MORTON - 7 JULY 2009**

BACKGROUND

- IBM employs 1200 staff in Queensland, including sites in the Brisbane CBD, Varsity Lakes and their Tivoli Laboratory in Southport.
- The Qld Government invests approximately $1.2 billion annually in ICT, $36.4 million with IBM during 2007–08.
- IBM supplies 12 per cent of computer equipment (including software) and approx 20 per cent of data storage capacity to the Qld Government.
- The Queensland Government Chief Information Office (QGCIO) is currently negotiating a whole-of-Government (WoG) volume discount for IBM software, hardware, and services.

ISSUES

1. Morton may raise that IBM are interested in establishing a hot-desk office on the Sunshine Coast or in Rockhampton to assist employees who job share from these areas – working towards decentralisation.
2. IBM's new *SmartPlanet* initiative focuses on three key areas
   - Smarter Transport – IBM has formulated algorithms to help predict traffic congestion, they want to meet with Nolan about this.
   - Smarter Energy – Morton may propose a joint venture with Qld Govt for a SmartGrid Technology Centre of Excellence. It would be an R&D best practice centre which would promote innovation to GOCs.
   - **Shankey has advised** that although the Qld Govt is heading towards the SmartGrid concept, **we are not yet in a position to put money towards a project of this scale**.
   - Smarter Health – Electronic Medical Records (EMR), as opposed to clipboards.
3. Morton may propose a Sale and Lease back of Govt IT assets.
   - This would produce savings and potentially minimise CO2 emissions.
   - IBM would establish an asset centre in Brisbane with jobs.
   - We wouldn't actively consider the option in the short term.
   - DPW is aware and will consult when appropriate, if at all.
4. CorpTech contracted IBM to complete implementation of a cross-agency SAP finance and human resource systems in four agencies.
   - The contract cost has **blown-out from $6.2 million to $19.1 million**, with implementation only in Queensland Health.
   - A revised approach to implementing the balance of departmental finance and HR systems is to be considered by CBRC by end of 2009.

RECOMMENDATION

That you:

1. Note the information, in particular the four issues which may be raised.

Lachlan McKenzie

PREMIER'S BRIEFING NOTE
Policy

Tracking Folder No. TF/10/15493
Document No.

To: THE PREMIER

Date: 25 July 2010

Subject: Government Response to the Auditor-General's Report into the Queensland Health Continuity Project implementation and related ICT governance matters

Approved / Not Approved / Noted
Premier ....
Date   ...../...../.....
Date Action Required by: ...../...../.....
Requested by: .... *(if appropriate)*

• RECOMMENDATION

It is recommended that you:

– **Note** the contents of this briefing note including the recommendations of the Auditor-General's Report into the Queensland Health Continuity Project implementation and related ICT governance matters scheduled to be tabled on 29 July 2010;

– **Note** my letters to the Directors-General of Queensland Health and the Department of Public Works requesting advice on actions they propose to take in relation to the senior executives specifically involved with the sign off the systems to go live (**Attachments 1 and 1 (a)**).

– **Note** the chronology of events as detailed at **Attachment 2**; and

– **Approve** the implementation of a Government Reponse Plan (detailed at **Attachment 3**) as the Government's overarching response to the A-G's Report, including:

    o Negotiating a finalisation of contractual arrangements with IBM in relation to the Queensland Health payroll system contract following a 'Notice to Show Cause' process (Crown Law advice is provided at **Attachment 4**);

    o implementing an external review of the Shared Services Initiative (including CorpTech) as detailed in the Terms of Reference at **Attachment 5**).

• KEY ISSUES

<u>Key findings and recommendations of the A-G's Report</u>

– The report contains a total of seven recommendations including two in relation to the Queensland Health rollout, one with respect to Shared services and four regarding the broader issues of information technology governance and security.

– Key findings of the review are detailed on page 9 of the Report and recommendation are detailed at page 13. A summary is provided at **Attachment 6**.

– Separately, the report also provides an update on *Auditor-General Report No 4 for 2009 Results of audits at 31 May 2009*, noting that only 34 per cent of the recommendations relating to ICT security issues have been implemented (page 10). The report comments that *it is disappointing that more urgent action has not been taken by individual agencies to address the issues*.

– These findings and recommendations will be referred to the Information Security Sub-Committee of Chief Information Officers for their review and immediate action.

<u>Proposed Government response</u>

– A joint response to the A-G accepting all recommendations has been prepared by the Directors-General of Queensland Health and the Department of Public Works (as detailed at **Attachment 7**).

– A Government Reponse Plan has been developed for your consideration to address the issues and recommendations raised by the Auditor-General. The 8 Point Plan includes:

    1. Review the Shared Services Initiative and roll-out of other payroll systems across government (will commence on your approval).

Action Officer: Justin Murphy Area: Economic Policy Telephone: 3234 1384	Approvals by Director / ED / DDG documented in *notes* in TRIM

2. Issue 'Notice to Show Cause' served on IBM and negotiate a finalisation of IBM involvement in the Health Payroll Implementation - negotiations will commence following your approval;

3. Queensland Health payroll system to be solely for Queensland Health (has commenced);

4. Implement a new decentralised payroll operating model within Queensland Health within three months (project has commenced);

5. Strengthened Queensland Health human resource organisational structure - new structure to be implemented immediately with new positions filled within three months (project has commenced);

6. Discuss health award simplification with health unions (has commenced);

7. Improve and simplify the rostering application (project has commenced); and

8. Establish a reporting framework to oversee the implementation of the Government's response (will commence following your approval).

Proposed strategy for finalising contractual arrangements with IBM

− IBM was responsible for the design, development and technical implementation of the system. The Government has been dissatisfied with the quality of services provided to date and the Government has conveyed this to IBM formally through the issue of a 'Notice to Remedy'. This process is still ongoing.

− Crown Law advice has been sought in relation to options for terminating the payroll contract with IBM.

− Options include:

1. Negotiating a settlement with IBM;

2. Suspension of the Payroll Contract; or

3. Termination of the Contract.

− The advantages and disadvantages of each option are detailed in the Crown Law advice at attachment 4.

− Crown Law recommends the State undertaking a 'Notice to Show Cause' process with IBM prior to proceeding to suspend of terminate the contract. DPW has sought further advice from Crown Law on the drafting of the Notice to Show Cause. No action will be taken in relation to this matter without direction from Ministers.

− DPW recommend that the Government attempt to reach a negotiated settlement in response to issuing a "Notice to Show Cause" to IBM for the reasons outlined below. Further advice from DPW is at Attachment 4(a).

− It should also be noted that up to 60 IBM staff are involved in providing critical IT support to government, both in relation to the Queensland Health program and elsewhere. A rapid termination of the contract will have implications for the Government's ability to maintain existing systems.

− IBM could also take lengthy and detailed legal action against the State which may involve counter claims in relation to the Government's role in the Queensland Health payroll implementation.

Related ICT issues

− In a separate Report to be tabled in Parliament on 29 July this year, the A-G makes findings in relation to the risk to government from existing legacy systems including two

Action Officer: Justin Murphy	Approvals by Director / ED / DDG
Area: Economic Policy	documented in *notes* in TRIM
Telephone: 3234 1384	

Lattice payroll systems (in Emergency Services and Corrective Services). The CEO's of DPW and DCS have commenced work on a response to risk manage the Government's most immediate exposure in this regard.

– The A-G advises that consolidation of the remaining legacy environments will be critical given that vendor support agreements in some cases have ended (ie Lattice) or are scheduled to end in 2013.

– These issues will be dealt with through the review of the Shared Services Initiative (recommendation 1 of the Government Response Plan).

Budget Implications

To date Queensland Health has expended approximately $4 million in 2009-10 to address the Health Payroll stabilisation program of work. This will be met from Queensland Health's existing budget. Queensland Health estimate that it will cost in the order of $35 million in 2010-11 to respond to the A-G's recommendations. Queensland Health will be unable to meet this level of expenditure from their existing budget.

• CONSULTATION

– Queensland Health, Department of Public Works

• BACKGROUND

– The Auditor-General has advised the Government he intends tabling in the Parliament on Tuesday 29 July this year a Report on the implementation of the Queensland Health Continuity Project and a separate report on a range of matters including Shared Services.

Ken Smith
Director-General

| Comments *(Premier or DG)* |
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Action Officer: Justin Murphy	Approvals by Director / ED / DDG
Area: Economic Policy	documented in *notes* in TRIM
Telephone: 3234 1384	

-25-

For reply please quote: *ODDGG/PJV – TF/10/15519 – DOC/10/80844*

2 5 JUN 2010

Mr Mal Grierson
Director-General
Department of Public Works
GPO Box 2457
BRISBANE QLD 4001

Dear Mal,

As you are aware, the Government is now in receipt of independent reports relating to the new Queensland Health payroll and rostering systems. The Auditor-General, in his report to be released on 29 June 2010, and the findings of KPMG, clearly indicate significant deficiencies with the governance and approvals of implementing the new Queensland Health payroll and rostering systems. This includes the formal sign off by senior executives on the Project Board for the new systems to go live.

Accordingly, I seek your response on actions you propose to take in relation to the senior executives in your agency specifically involved with the sign off for the systems to go live. Additionally, I would appreciate any advice you have in relation to enhancements to your corporate reporting structure which would eliminate similar deficiencies in the future.

I would appreciate your response by midday Monday 28 June 2010.

Yours sincerely

Ken Smith
Director-General

For reply please quote: *ODDGG/PJV – TF/10/15519 – DOC/10/80849*

2 5 JUN 2010

Mr Mick Reid
Director-General
Queensland Health
GPO Box 48
BRISBANE QLD 4001

Dear Mick.

As you are aware, the Government is now in receipt of independent reports relating to the new Queensland Health payroll and rostering systems. The Auditor-General, in his report to be released on 29 June 2010, and the findings of KPMG, clearly indicate significant deficiencies with the governance and approvals of implementing the new Queensland Health payroll and rostering systems. This includes the formal sign off by senior executives on the Project Board for the new systems to go live.

Accordingly, I seek your response on actions you propose to take in relation to the senior executives in your agency specifically involved with the sign off for the systems to go live. Additionally, I would appreciate any advice you have in relation to enhancements to your corporate reporting structure which would eliminate similar deficiencies in the future.

I would appreciate your response by midday Monday 28 June 2010.

Yours sincerely

Ken Smith
Director-General

Owner Department	Year	Month	Milestone	Responsible Minister
Queensland Treasury	2002	December	Shared Services initiative commencement	Minister Mackenroth (Minister for CorpTech until July 2005)
	2003	June	CorpTech created within Queensland Treasury.	
		December	Tender for WoG HR Solution system begins.	
	2005	January	Tender process ends. SAP chosen as WoG HR and finance system	
		November	Negotiations with SAP finalised. Business Solutions Program begins. Business Solutions Program intended to target an optimal number of solutions based on the standardisation and consolidation of systems to the largest extent possible at the WoG level.	Minister Beattie (Minister for CorpTech from July 2005 to Feb 2006)
	2006	July	Pilot implementation of finance solution in DJAG.	Minister Bligh (Minister for CorpTech from Feb 2006 to Sept 2007)
	2007	March	Pilot implementation of HR solution in Dept of Housing.	
		August	Independent review identifies overall costs (capital revised to $249M) and timeline concerns with the Business Solutions Program and recommends external oversight.	
	2007	September	Shared Services initiative transitions from Treasury to DPW, excluding CorpTech which remained in Treasury	Minister Fraser (Minister for CorpTech from Sept 2007 to July 2008)
		October	Following competitive tender process, Treasurer and Minister for DPW jointly approve negotiations with IBM for undertaking remaining roll out of WoG solution. IBM originally proposes a two phase roll out to be completed in 2011 with $78.5M tender price for phase 1 costs. CorpTech phase 1 costs are estimated to be $74.5M. Total phase 1 costs are $153M. IBM costs approved by ECM.	
		November	Under Treasurer (on behalf of State of Queensland) signs contract with IBM for Prime Contractor.	
	2008	January	Lattice replacement interim solution approved. IBM officially commences the implementation of the payroll system for Queensland Health.	
Department of Public Works	2008	July	CorpTech transitions from Queensland Treasury to the Department of Public Works. Six Go-Live dates for Queensland Health HR system are missed between July 2008 and August 2009.	Minister Schwarten (Minister for CorpTech since July 2008)
		October	Following extensive planning, IBM reveals it has underestimated the size and scope of Phase 1. IBM now estimates an alternative Phase 1 approach to cost $111.6M for IBM costs ($33M increase) and $92.3M for CorpTech (17.9M increase). Revised Total Phase 1 costs estimated to be $207.9M ($55M increase).	
	2009	September	Business Solutions Program becomes Corporate Solutions Program following submission to CBRC outlining a revised implementation model moving from a single HR and Finance solution roll out to maintenance of existing system with more staggered transition to new system. The scope of the IBM contract is revised to Queensland Health HR solution only.	
	2010	March	Queensland Health payroll and rostering systems went live.	
		June	Submission to CBRC seeking endorsement of model for fee for service charging, including the internally funded levy component.	

Queensland Government Plan in response to the A-G Report

Introduction

The Queensland Government accepts all of the recommendations of the Queensland Auditor-General in his report, *Auditor-General Report to Parliament No 7 for 2010*, and has welcomed its release today.

The report includes recommendations on the implementation of the Health Payroll, accountability for the shared services initiative and broader information technology governance and security issues. Of the 7 recommendations in the report, 2 relate to the Health Payroll issue, 1 to the shared service initiative and 4 to Information Technology governance and security.

The Report outlines a series of key failures of corporate governance in relation to the implementation of the Health Payroll System. These issues affect a number of Queensland Government agencies. The Government is committed to taking action to address the significant Governance issues associated with the implementation of this project along with the broader systemic issues highlighted in the Report .

Whilst significant corrective action has been underway for the last several months, additional work will commence immediately on the following key actions designed to address the findings and recommendations of the Auditor-General's findings and recommendations .

For both the work undertaken to date and that will now need to be implemented, I would like to take this opportunity to commend Queensland Health, payroll and support staff from other agencies who have been involved in working through the significant problems associated with this new payroll system. All these staff have acted with great professionalism and patience in the face of what has been a very disappointing outcome from this project.

The Government is absolutely committed to learning from the experiences of this project and will work with all stakeholders, to make sure we get these systems right in the future.

To achieve this, the Government has developed a comprehensive plan to address the findings and recommendations of the Auditor-General's report and ensure the foundation that underpins the delivery of corporate services, most notably payroll, is well-understood, governed , delivers fit for purpose outcomes and value for money.

There are eight key actions that will be taken to address the significant findings of the Auditor-General's report.

1. Establish a review of the Shared Services Initiative

Following the release of the Auditor-General's Report on the implementation of the Health Payroll, the Government will establish an independent review into the Shared Services Business model and corporate governance arrangements. The review is tasked with providing advice to Government regarding future roles of Shared Service

1

Providers, CorpTech and the agencies in delivering the major corporate functions of government, namely, finance and payroll.

Mr Roger McComiskie, a senior partner of Price Waterhouse Cooper will be engaged to conduct a review reporting directly to the Premier's Department. A full Terms of Reference for the review are attached along with a short biography of the Mr McComiskie. Mr McComiskie will commence immediately; will report directly to the Director General of Department of the Premier and Cabinet; and will be serviced by a small secretariat in DPC. His final report is to be provided within six weeks and will be released publicly after government consideration.

In the interim, urgent work will occur with those agencies that are on outmoded Payroll systems. The findings and recommendations of the Auditor General will help shape this response to ensure appropriate contingency planning, risk minimisation, staff engagement and clear corporate monitoring and accountability apply to future projects.

Full and rigorous acceptance testing will apply to any new system and current systems will be fully supported until the replacement system has demonstrated that it is fully operational and fit for purpose.

An urgent priority will be the Department of Community Safety which is currently serviced by the LATTICE system. The Queensland Government Chief Information Officer and the Director-General of the Department of Community Safety will both take a personal role in the governance of that system development and implementation. Consultation will take place with relevant unions to ensure the transition risks are minimised.

2.   Finalise the Payroll Contract with IBM

IBM was responsible for the design, development and technical implementation of the system. The Government has been dissatisfied with the quality of services provided to date and the Government has conveyed this to IBM formally through the issue of a Notice to Remedy.

The State will issue a Notice to Show Cause to IBM seeking a response as to why their contract should not be terminated.

3.   Queensland Health payroll system to be solely for Queensland Health

The payroll system for Queensland Health will be separated from the whole of government payroll system and maintained as a discrete system to specifically meet the complex needs of the Health system. This will recognise the complex and unique nature of the Queensland Health Payroll customers – people who work in a range of professional occupations on a 24/7 basis. The sheer size of the Health payroll task means that there will be natural economies that Government could realise by running a separate Health payroll system that is engineered to respond to the workforce needs.

Keeping the Queensland Health payroll system solely for Queensland Health will ensure that improvements and enhancements to the system can be developed and

2

implemented quickly without being affected by or affecting other departments.

4. **Implement a new Queensland Health decentralised payroll operating model based on a local partnership between districts and payroll hubs**

In separating out the Health Payroll system from the broader government solution, an opportunity is created to strengthen the links with local health services. The current payroll operating model is highly centralised and not based on strong links between payroll hubs and districts, with some districts being serviced by multiple payroll hubs. This is far from ideal.

A new decentralised payroll operating model, based on a local partnership between health service districts and payroll hubs will be implemented in the next three months across the state. Local payroll hubs will be configured to serve the needs of Health Districts and each district will be serviced by a single payroll hub.

This move is in keeping with the recently agreed COAG Health reforms to establish Local Hospital Networks to strengthen local community ownership and input to health services. The Government is committed to ensuring that Queensland Health services are configured in a way that returns ownership and decision-making to the local communities and this new approach to payroll hubs will lay an important stepping stone to local control.

While each payroll hub will be using a standardised system, there will be a greater ability at the local level to streamline the interface between the staffing and rostering decisions and the payroll system.

The new payroll operating model will have the following key characteristics:
- Full end to end (hire to retire) service in each payroll hub – this means that the local hub will be more responsive to the staffing needs of local hospitals and simpler for staff to deal with.

- Local workflow between each district/division and their payroll hub. The current fax server will be phased out and replaced by specialised client management software to manage work flow. This will ensure that line managers and staff are able to track the progress of payroll forms and enquiries and receive feedback as the work is completed.

- Two new payroll hubs are being established and will be operating by September - one in the Mackay Health Service District and one in the Gold Coast Health Service District. This will increase the number of hubs to eleven.

Efficiencies of a centralised processing will be retained as all districts and hubs will use a common payroll system which cuts the cost of procurement and training. It also aids staff mobility by ensuring common transfer requirements and the ability of all staff to use the system.

An implementation strategy to commence the roll-out of the model, including the establishment of the two new payroll hubs at Mackay and Gold Coast, has been

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finalised and will commence from the beginning of July 2010 and be fully operational by September.

During this process, Queensland Health will continue to stabilise the Queensland Health Payroll system. Since this work began, there has been a marked improvement in the numbers of people receiving no pay. The number of outstanding adjustments from the cut-over to the new system has decreased from more than 60,000 to approximately 30,000. Processing outstanding adjustments will continue with current projections seeing a reduction to normal levels by the end of July 2010. All of the outstanding adjustments from the old payroll system were completed in early June.

5. **Strengthened Queensland Health corporate services organisational structure that emphasises the importance of human resource management, financial management and best practice ICT governance**

There has been a significant impact on the staff of Queensland Health due to the introduction of the new payroll system. There has been pressure on everyone in the organisation including most importantly, individual staff who have lost confidence in the organisation's ability to pay them correctly, line managers trying to deal with roster and staff pay issues, and payroll staff responding to the backlog and inquiries.

Clearly, the decision to go live with the new system has resulted in an enormous level of distress to the staff of Queensland Health and their families.

Queensland Health must be committed to fostering an open and transparent culture which seeks to learn from its mistakes and constantly improve its performance. It is important in this environment that accountability is taken seriously and that people in positions of authority who make significant decisions that affect the organisation need to be responsible for these decisions.

A new organisational structure will be implemented within Queensland Health to establish a stronger focus on human resource policy and services. Clear responsibilities will be confirmed for the end to end governance for human resource services and a senior executive with sole responsibility will be put in charge of this area. Executives will be recruited on the basis of their expertise in the area of Human Resource Management with key accountabilities and responsibilities backed up by a clear Performance Agreement and accountability for deliverables.

The Queensland Health Information Division will become responsible for ensuring information technology governance standards are used for all information technology projects within the department. Project governance for the ongoing payroll system improvement work will managed by the Information Division. In line with best practice ICT governance, a senior executive will chair the project steering committee with regular reporting to the Director-General and Executive Management Team.

4

6. Discuss health award simplification with health unions

Queensland Health has commenced discussions with health unions regarding the simplification of awards to reduce the complexity of the payroll system. As the Auditor-General has noted in his report, the multitude and detail of the awards governing the employment of Health staff adds significant complexity to the design and implementation of these large systems.

7. Improve and simplify the rostering application

The health payroll system consists of two applications that are linked. The two applications are the rostering and award interpretation application (Workbrain) and the payroll application (SAP HR). The two applications should work together efficiently and effectively to deliver staff an accurate pay each fortnight.

Ernst & Young have been engaged by Queensland Health to provide a health specific review of the most commonly deployed payroll and rostering solutions in the national and international healthcare sector.

Over the next 3 months Queensland Health will work with Ernst & Young to confirm the most appropriate roster and award interpreter configuration. This may result in reconfiguring the current application or considering alternate solutions.

8. Reporting Framework

The Government commits to full and transparent reporting on the implementation of these recommendations.

The Deputy Premier and Minister for Health will table quarterly reports in the Parliament on the implementation of each of these strategies until they are complete. The first report will be tabled on or before 30 September 2010.

Our ref: CP6/ADM001/2210/BM1
Contact: Michael Boughey
Direct ph: 07 3239 6107
Direct fax: 07 3239 6386

23 June 2010

Mr James Brown
Executive Director
CorpTech
GPO Box 5078
BRISBANE QLD 4001

By email only

Dear Mr Brown

The State of Queensland and IBM Australia Ltd – Contractual Issues

I refer to our recent discussions concerning the GITC Customer Contract between the State of Queensland ("**the State**") and IBM Australia Ltd ("**IBM**") for the appointment of a prime contractor for the Shared Service Solutions Program for the Queensland Government ("**the Payroll Contract**") and related issues.

I understand that you have requested Crown Law to advise on the situation presently existing between the State and IBM and the courses of action open to the State to bring the matter to a satisfactory conclusion.

You have provided me with a copy of an Options Paper prepared by Mallesons Stephen Jaques ("**Mallesons**"), dated 17 June 2010, to consider in the course of providing my advice.

I generally agree with Mallesons' advice. My advice therefore concentrates on considering alternative possibilities, exploring some issues in more detail or raising issues and concerns not covered in the Options Paper.

My advice adopts largely adopts the structure, numbering and terminology used in Mallesons' Options Paper. Other capitalized words correspond to their definitions in the Payroll Contract.

My involvement with this matter commenced on 17 June 2010, so the time available to me to investigate the circumstances and prepare this advice has been limited. If you would like me to expand on any of the issues raised in this advice or to address any additional issues, please let me know.

Document No: 2474452

Briefing materials

Mallesons supplied a brief of documents to me on 18 June 2010 and additional documents on 21 June 2010. Christopher Bird and John Beeston from CorpTech also provided documents or correspondence. **Attached** to this advice is a complete list of the documents relied on in preparing this advice.

Summary

- The advices provided by Mallesons and Crown Law consider a range of advantages, disadvantages, risks and implications arising from termination, suspension, negotiation or continuation of the Payroll Contract.

- The State will ultimately need to decide whether or not to terminate the contract based on an assessment of these issues against the State's operational needs.

- If the State chooses to terminate the Payroll Contract, a difficult and protracted dispute with IBM is likely, even more so if the State chooses to pursue damages or other remedies. Regardless of the merits or otherwise of IBM's case, IBM will almost certainly invest considerable resources in resisting such action in an endeavour to protect its financial position and, possibly, its reputation. This may include counterclaims against the State.

- If for operational reasons and lack of confidence in IBM the State decides that it is preferable to terminate arrangements with IBM and seek a third party to complete the project, despite the delays, additional expenses and risk of litigation this will involve, then the present circumstances provide an opportunity for the State to do so with a reasonable level of confidence.

- Alternatively, it remains open to the State to continue with the Payroll Contract and negotiate necessary variations to the contract. This will inevitably involve extension of timeframes for completion of work by IBM and possibly increased costs.

- Issuing a Notice to Show Cause to IBM is a necessary step towards termination of the Payroll Contract, but it does not oblige the State to issue a Notice of Termination. The State, of course, is obliged properly to consider any response submitted by IBM to the Notice to Show Cause. As discussed in section 2.4(a) of the advice below, the State can use the Notice to Show Cause process and period as an opportunity to increase pressure on IBM, require that IBM give details of its alleged counterclaims, and carry out any further investigations necessary prior to making a final decision to terminate.

1. Overview and background

1.1 Background

As my involvement with the Payroll Contract commenced relatively recently, I have set out a more detailed account of the background to the matter here, to provide an opportunity for the State to provide clarification if my understanding is incorrect in any way.

(a) In November 2005, the State (acting through CorpTech) entered into a GITC contract with IBM (the "**HRBS Contract**"), for Licensed Software (GITC Module 3), Maintenance Services (Module 5) and ICT Contracting Services (Module Order 8).

(b) In December 2007, the State entered into the Payroll Contract with IBM for ICT Contracting Services (Module 8).

(c) The Payroll Contract provided for a number of Statements of Work ("**SOW**") to be agreed and performed by IBM. The SOW of most concern at present is SOW 8 – Lattice Replacement Design, Implement, and Deploy, version 1.2. The scope of SOW 8 is to "design, configure and build, test and implement the interim Lattice Replacement solution for Queensland Health", to "provide an interim HR/Payroll solution to [Queensland Health]" ("**the Payroll Solution**") until a whole-of-Government solution is deployed to Queensland Health. SOW 8 followed SOW 7, under which IBM performed services for interim solution scoping and planning.

(d) Under the original version of SOW 8, the go-live date for the Payroll Solution was to be 30 August 2008. Pursuant to a series of Notices of Delay and Change Requests, the price for the Payroll Solution increased substantially and the Payroll Solution did not go-live until earlier this year. The date for acceptance of the Payroll Solution (Deliverable 47 in 4.1 of the "Deliverables subject to Acceptance including Acceptance Criteria & Process") was ultimately varied to 30 April 2010 (by Change Request no. CR208).

(e) The Acceptance Criteria for Deliverable 47 are:

- Acceptance that Queensland Health's payroll has been completed for three final payruns;

- No Severity 1 or Severity 2 Defects; and

- Management Plan for Severity 3 and Severity 4 Defects.

None of these criteria have been met to the State's satisfaction and the State has not agreed to provide any extension of time for completion of Deliverable 47.

(f) On the afternoon of 30 April 2010, IBM submitted a Notice of Delay to the State under Schedule 24 of the Payroll Contract. I agree with Mallesons' conclusions in its letter dated 5 May 2010 that the notice was ineffective due to failure to meet the requirements of Schedule 24.

(g) The State has therefore not made the following remaining payments to IBM:

- Acceptance of Lattice Replacement Solution: $1,850,000.00

- Retention (to be paid 90 days after Acceptance): $1,437,722.00

(h) The State has also suspended reimbursement of travel expenses pursuant to its general rights to suspend payments under the Payroll Contract where IBM has missed a milestone or is in breach (GITC Part 2, clauses 13.6 and 16.4.1).

(i) On 11 May 2010, the State issued a Notice to Remedy to IBM identifying several breaches, including:

- Failure to achieve Acceptance by 30 April 2010, time being of the essence of the Payroll Contract;

- Failure to meet the date for delivery of Deliverable 47;

- Failure to provide other Deliverables on time, including certain reports and certificates; and

- Failure to resolve Defects within the Target Problem Resolutions Timeframes, including a large number of Severity 2 defects within the required two-day period (the severity level for these defects being expressly acknowledged by both parties).

The Notice to Remedy required rectification of these breaches within seven days of the date of the notice. IBM did not rectify any of the breaches within this period.

(j) On 19 May 2010, IBM responded to the Notice to Remedy with two letters:

- An "open" letter denying that IBM is in breach of the Contract and asserting that the parties have already reached agreement on the matters raised, the majority of issues are due to the State's systems, there are omissions and inaccuracies in the Notice, the State has waived its rights under the contract, and the State has made representations on which IBM has relied in relation to the time for delivery; and

- A "without prejudice" letter proposing alteration of the date for delivery to 30 September 2010, and resolution of all existing Severity 2 defects by the same date.

(k) The State denies the assertions in IBM's open letter and is not willing to accept the proposal in the "without prejudice" letter.

(l) On 27 May 2010, the State sent a letter to IBM denying the assertions made in IBM's correspondence and advising that IBM's response to the Notice to Remedy "did not meet the State's expectations". The letter requested that IBM provide, within 10 Business Days of the date of the letter, "a detailed work schedule that sets out when each Severity 2, Severity 3 and Severity 4 defects will be actioned, worked on and fixed". The letter also included a Statement of Work and a Change Request to cover the SAP Support Stack Implementation services currently being undertaken by IBM without an agreed contract.

(m) On 1 June 2010, IBM responded by letter to the State's letter dated 27 May 2010. The proposals made by IBM in its 1 June letter (including a Change Request CR 218 providing for, among other things, extension of the time for delivery of Deliverable

47 to 20 October 2010) did not satisfy the State's request for a "detailed work schedule". IBM also rejected the proposed Statement of Work and Change Request concerning the SAP Support Stack Implementation services.

1.2 Instructions

As stated above, I understand that you have requested Crown Law to advise on the situation presently existing between the State and IBM and the courses of action open to the State to bring the matter to a satisfactory conclusion, and in doing so to consider an Options Paper prepared by Mallesons, dated 17 June 2010.

1.3 Options for dealing with the Payroll Contract

Mallesons considered the following options for dealing with the Payroll Contract:

1. Termination of the Payroll Contract;

2. Suspension of the Payroll Contract;

3. Negotiation of a settlement with IBM; and

4. Continuing with the Payroll Contract.

1.4 Interrelation with SAP Notes and HRBS

You requested Mallesons to advise on the implications of pursuing the above options for the HRBS Contract and the SAP Support Stack Implementation services. I generally agree with Mallesons' conclusions in relation to these issues and in the interests of avoiding duplication and saving time in preparation of this advice, I have not addressed these issues further.

2. Option 1: Notice to Show Cause and terminate the Payroll Contract

2.1 Description

Based on IBM's failure to comply with the State's Notice to Remedy, the State may issue a Notice to Show Cause to IBM, providing at least seven days for IBM to show cause, in writing, why the State should not terminate the Payroll Contract (GITC Part 2, clause 16.6.1).

If IBM fails to show reasonable cause within the time specified, the State may terminate the contract by providing a Notice of Termination. Termination will be effective immediately upon the date specified in the Notice of Termination (clause 16.7).

2.2 Rights on Termination

As noted in Mallesons' Options Paper, the rights accruing to the State in the event of termination include:

(a)   obtaining from another source a reasonably similar alternative to the Deliverable, with IBM being liable for any extra expense incurred (clause 16.7.3(a));

(b)   recovering from IBM the amount of any loss or damage suffered by the State as a result of the termination (clause 16.7.3(c)); and

(c)   setting off any loss or damage arising from or in connection with the termination from any money due, or which may become due to the Contractor, under any other contract between the Customer and the Contractor.

In addition, the State has rights under Schedule 43 (Disengagement). Schedule 43 anticipates the drafting of a Disengagement Plan by IBM within six months of the commencement date of the Payroll Contract, unless agreed otherwise by the parties (clause 5), and updating of the plan throughout the term of the contract. I am instructed that no Disengagement Plan was created in relation to the Payroll Contract. However, the State still has certain rights under Schedule 43 upon termination of the contract, including:

(d)   IBM must provide reasonable termination or expiration assistance requested by the Customer (clause 3);

(e)   IBM must, if requested by the Customer (including until the Disengagement Plan is agreed), provide the services provided by IBM to the State under the contract immediately prior to the date of termination, at the same service levels that applied before the date of termination of the contract, for up to six months (clauses 8 and 9); and

(f)   IBM must endeavour to assign subcontracts or otherwise enable the State to have access to services being provided by subcontractors or other third parties (clauses 13-16).

Although the interpretation and application of some of the clauses in Schedule 43 in the absence of an agreed Disengagement Plan would require care, the fact that clause 8 refers to the provision of post-termination services "until the Disengagement Plan is agreed" indicates that the State could still require the services and even that a Disengagement Plan could be agreed after termination.

I understand from our discussion on 22 June that the State is, for practical reasons, likely to require some form of disengagement services from IBM if the Payroll Contract is terminated, rather than requiring it to immediately "down tools". In this case, the State should consider either utilising Schedule 43 or reaching an agreement with IBM that expressly replaces and excludes the operation of Schedule 43 to avoid inconsistency.

An essential aspect of the State's choice whether or not to avail itself of Schedule 43 (or acquire disengagement services on another basis) will be the additional amounts that may be charged by IBM for these services. Clauses 14 and 15 provide mechanisms for determining these charges, and clause 16 obliges IBM to provide an estimate of charges for disengagement services to the State, within seven days of a request from the Customer prior to termination. If the State is able to determine the scope of the disengagement services required, it should consider providing IBM with a notice seeking such an estimate prior to terminating the Payroll Contract.

Importantly, Schedule 43 explicitly provides for IBM to use all reasonable commercial endeavours to make available to the State any third party services being utilised by IBM in the performance of the services (clause 16). The Schedule also requires IBM to endeavour to assign to the State relevant contracts with "assignable key subcontractors" or to ensure that the State can obtain contracts with these subcontractors "on the same terms and conditions in all material respects" (clause 15). The Payroll Contract does not provide any additional assistance in interpreting the term "assignable key subcontractors".

Clauses 15 and 16 do not apply to subsidiaries of IBM (clause 13).

2.3   Benefits

As noted in Mallesons' Options Paper, the benefits of terminating the Payroll Contract include:

(a)   the ability of the State to reserve its rights in relation to current breaches of the Payroll Contract by IBM;

(b)   providing a clear "break" from IBM, enabling the State to pursue other alternatives for remediation of the Payroll Solution;

(c)   notification to IBM that the State is serious about enforcing its rights; and

(d)   accrual of certain rights under the Payroll Contract and at law following termination.

Mallesons also notes that the State is not obliged to terminate the Payroll Contract following the issue of a Notice to Show Cause. The State will have the opportunity to consider additional facts that come to light and any persuasive evidence presented by IBM in response to the Notice to Show Cause, and may decide not to terminate in favour of another option such as negotiation of a settlement. This is considered further in 2.4 (Risks and disadvantages) below.

2.4   Risks and disadvantages

As noted in Mallesons' Options Paper, the risks and disadvantages arising from termination include:

(a)   The possibility of a claim for wrongful termination;

(b)   The need to find a third party to rectify the defects in the payroll system, with consequential delays and difficulties; and

(c)   The fact that while IBM does not have a right to stop work on issue of a Notice to Show Cause, the State should be prepared for IBM to cease co-operating with the State where IBM has no contractual obligation to do so.

I consider each of these issues further below, as well as the following additional issues:

(d)   The State itself should be able to show that it is "ready, willing and able" to perform the Payroll Contract;

(e)   There is a risk that IBM will challenge the Notice to Remedy on the basis that the State forfeited its right to terminate under the Notice to Remedy in its letter dated 27 May 2010; and

(f)   There is a risk that IBM will challenge the Notice to Remedy on the basis that the seven day notice period was inadequate.

(a)   The possibility of a claim for wrongful termination

Mallesons recommend that the State ensure that the breaches listed in the Notice to Remedy are accurate and are in fact breaches. They note that the State could issue a Notice to Show Cause, and in parallel, undertake a more detailed analysis of the breaches.

As discussed on 22 June 2010, at this point in time the State is reasonably confident that the issues raised in IBM's response to the Notice to Remedy are not sustainable, and that IBM remains in breach of the Payroll Contract. I am instructed that the State has no reason to doubt any of the grounds set out in the Notice to Remedy, despite any assertions made by IBM, and the State's position in relation to some of the grounds relied on in the Notice to Remedy appears particularly sound – such as IBM's failure to resolve various outstanding defects within the Target Problem Resolution Timeframes, where the defects have been clearly identified in daily issues logs and IBM has confirmed their Severity Level (including, on a "without prejudice" basis, in Change Request CR218 proposed by IBM in its letter dated 1 June 2010).

However, it is prudent to take any opportunity available to further test IBM's case. To this end, I recommend that the State make an attempt, most likely in conjunction with issuing of the Notice to Show Cause, to elicit more detail from IBM in relation to the claims made in its open letter of 19 May 2010. Those claims included the following:

> "Generally, IBM notes that in relation to every aspect of the project, IBM and the Customer have conducted detailed discussions and resolved issues on an ongoing basis through authorised representatives of the parties. Each of the matters raised has already been resolved by agreement between the parties, or was in the process of resolution before the letter and Notice were sent.
>
> Further, as a general point, IBM's position is that the majority of the issues experienced in relation to the system are due to problems with the Customer's data and/or payroll processing."

Other parts of the letter allege that the State has "waived its contractual rights" or made representations "on which IBM has relied in relation to the time for delivery".

As you are aware, these types of allegations are typically raised defensively in disputes over information technology contracts and have been used successfully in cases such as *GEC Marconi Systems Pty Limited v BHP Information Technology Pty Limited* [2003] FCA 50. IBM has chosen to limit its response to these types of generic allegations rather than addressing the specific issues raised in the Notice to Remedy in any usefully detailed way.

The lack of detail makes it difficult for the State to investigate and assess the allegations, although John Beeston has conducted a review as set out in his email to me dated 22 June 2010.

Obtaining further information from IBM as to its reasons for denying that it has breached the contract will assist the State in ensuring that it is comfortable with its decision to terminate. It may also enable identification of any grounds of termination over which doubt exists and that should therefore be omitted from the Notice of Termination. A failure by IBM to provide information might also be used to support the conclusion that IBM has failed to show reasonable cause.

(b)   The need to find a third party to rectify the defects in the payroll system, with consequential delays and difficulties.

Mallesons note that there is nothing in the Payroll Contract that expressly provides the State with a right to have the agreement between IBM and an Approved Party assigned to it in the event of termination. It is possible, however, that the rights of the State under clauses 15 and 16 of Schedule 43 (Disengagement) discussed in section 2.2 (Rights on Termination) of this letter above go some way to providing such rights, with the proviso that care must be taken in interpreting those provisions and controlling costs that may be charged by IBM.

(c)   While IBM does not have a right to stop work on issue of a Notice to Show Cause, the State should be prepared for IBM to cease co-operating with the State where IBM has no contractual obligation to do so.

As discussed in section 2.2 (Rights on Termination) of this letter above, the State does have certain rights under Schedule 43 (Disengagement) to require IBM to continue to provide services even after termination. Exercising these rights, however, needs to be handled carefully and if such services are required the exercise of defining those services should commence now if termination is likely.

(d)   The State itself should be able to show that it is "ready, willing and able" to perform the Payroll Contract.

When terminating a contract, the terminating party should be able to demonstrate that it is ready, willing and able to perform its own obligations under the contract. I am instructed that the State is able to make this claim and that there are no outstanding requests from IBM for performance of the State's obligations. The State should continue to take care to maintain this position, even after delivery of a Notice to Show Cause.

We have recently discussed issues in relation to payments to IBM for travel, and that the State is exercising its rights to withhold payments under the Payroll Contract, ie. when the Contractor has failed to perform a Milestone (clause 13.6) or if the Contractor is in breach (clause 16.4.1). If the State has not already done so, I recommend that it formally notify IBM that the State is exercising those rights. The Payroll Contract does not require notice to be given, but the notice could reduce the possibility of IBM alleging that the State is in breach of the contract. If it is clear that IBM already understands the contractual basis for the State withholding the payments, then this issue may be discounted.

(e)   *Risk that IBM will challenge the Notice to Remedy on the basis that the State forfeited its right to terminate under the Notice to Remedy in its letter dated 27 May 2010.*

The State followed the Notice to Remedy with a letter dated 27 May 2010 stating that:

> "In order to move this matter forward the State intends to set a further Acceptance Test Period for Contract Deliverables 47, 48 and 49. It also requires that IBM provide, within 10 Business Days of the date of this letter, a detailed work schedule that sets out when each Severity 2, Severity 3 and Severity 4 defect will be actioned, worked on and fixed; the resourcing to be provided by IBM; and IBM's commitment to meet that timetable."

The letter also stated that "the State has not waived any of its rights ... and requires IBM to perform the Contract in accordance with its terms." Nevertheless, in order to minimize any opportunity for IBM to claim that the letter waived or superseded the Notice to Remedy, I recommend that the State consider sending a further letter to IBM (or incorporating in other correspondence to IBM) statements to the following effect:

> (i)   noting IBM's failure to provide the work schedule as requested; and

> (ii)   expressly confirming that the Notice to Remedy continues to apply.

The letter should not suggest that (ii) is in any way a consequence of (i).

The issue should be considered further if IBM alleges in its response to the Notice to Show Cause that the State forfeited its right to terminate in its letter dated 27 May 2010.

(f)   *Risk that IBM will challenge the Notice to Remedy on the basis that the seven day notice period was inadequate.*

It is possible that IBM will claim that the Notice to Remedy is invalid because the period specified in the Notice to Remedy was inadequate. In doing so, it may endeavour to rely on provisions such as clause 2.2(c) of the General Terms of the Payroll Contract:

> "The Parties will at all times act reasonably, fairly and in good faith in exercising rights and performing obligations, including but not limited to providing approvals and consents"

Although clause 16.3.1(b) of GITC Part 2 indicates that the notice period must be "at least seven (7) days", it does not exclude the possibility that a good faith obligation such as clause 2.2(c) might require a longer notice period.

In the State's favour are the limitations on the application of clause 2.2 in clause 2.1, and the fact that time is of the essence in relation to IBM's obligations.

However, as with (e) above, the issue should at least be considered further if IBM alleges in its response to the Notice to Show Cause that the State breached a duty of good faith or reasonableness in setting the notice period.

2.5 Impact on SAP and HRBS

As noted above, I generally agree with Mallesons' conclusions in relation to these issues and for the most part I have not addressed these issues further.

In relation to the HRBS Contract, I note that termination of the Payroll Contract technically entitles the State to set off any loss or damage against any money due to IBM under any other contract with IBM (clause 16.7.3(d)).

3. Option 2: Suspension

3.1 Description

Based on IBM's material breach or failure to comply with the State's Notice to Remedy, the State may issue a Notice of Suspension to IBM, suspending the Payroll Contract in whole or in part from the date specified in the Notice for a nominated period (GITC Part 2, clause 16.5.1).

During the suspension period, IBM must comply with any reasonable directions given by the State in relation to the performance of the Customer Contract (clause 16.5.2).

3.2 Benefits

As noted in Mallesons' Options Paper, the benefits of suspension include:

(a)   The right to withhold payments; and

(b)   The fact that the contract remains on foot and the suspension can be lifted.

As recently discussed in relation to payments to IBM for travel and noted by Mallesons, a right to withhold payments can also be exercised by a Customer when the Contractor has failed to perform a Milestone (clause 13.6) or if the Contractor is in breach (clause 16.4.1).

Additional advantages include:

(c)   The parties can engage in negotiations during the suspension period without immediate day-to-day issues having the same impact as if the contract was continuing;

(d)   The State would not continue to incur ongoing expenses that IBM may claim (again, such as reimbursement for travel); and

(e)   The State could choose to suspend the Customer Contract "in part".

The final issue may be particularly relevant. While the GITC documents do not provide any guidance as to the meaning of "in part", the option could potentially permit the State to keep certain obligations, such as support services, active. Care would need to be taken in drafting the Notice of Suspension to properly define the scope of the parts of the contract being suspended and the parts being maintained.

3.3 Risks and disadvantages

I do not propose to add anything in relation to the risks and disadvantages noted in Mallesons' Options Paper, other than that in relation to difficulties in engaging third parties:

- During a suspension period, the State would not have the benefit of the rights in relation to engaging subcontractors and third parties under clauses 15 and 16 of Schedule 43 (Disengagement) discussed in section 2.2 (Rights on Termination) of this letter above); and

- Care would need to be taken in engaging external parties to provide services during the period of suspension to avoid conflict with aspects of the Payroll Contract, such as obligations to protect IBM's Confidential Information.

4. Option 3: Negotiate a settlement with IBM

Mallesons have comprehensively dealt with this option and I do not propose revisiting the advice provided in the Options Paper.

However, I note that there are mechanisms in the Customer Contract that may be relevant to negotiation of a settlement, as well as to Option 4 – Continue with the Payroll Contract:

(a) Schedule 42 – Dispute Resolution

Schedule 42 of the Payroll Contract includes a set of dispute resolution clauses replacing the standard provisions in clause 14 of GITC Part 2. Schedule 42 is considerably more complex than clause 14 and includes processes for expert determination by a single expert (clause 1.9), mediation (clause 1.11, including a provision that enables the mediator to refer the dispute to expert determination – clause 1.11(c)), and expert determination by a panel of three experts.

The State could refer issues in dispute with IBM to dispute resolution in accordance with these processes. The time that the processes are likely to take probably make this option unattractive.

I do not believe that Schedule 42 has the effect of obliging the State to utilize the dispute resolution clauses (if activated by IBM or otherwise), rather than terminating the Payroll Contract or instituting legal proceedings, despite some indications to the contrary. As a general principle, dispute resolution clauses need to be explicitly worded to take away rights that the parties would otherwise have and Schedule 42 seems unlikely to preclude termination[1]. Neither Schedule 42 or clause 14 of GITC Part 2 survive termination of the contract. The State could therefore terminate the Payroll Contract and institute legal proceedings without being required to follow the processes in Schedule 42.

However, in some cases dispute resolution clauses may be used as a delaying tactic. There is a risk that IBM could endeavour to refer one or more of the issues between the parties to dispute resolution under Schedule 42 if the Payroll Contract is not terminated. The State

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[1] Eg. *Ericsson AB v EADS Defence & Security Systems Ltd* [2009] EWHC 2598 (TCC)

would then need to consider its rights to terminate based on the circumstances current at that point in time if it wished to be sure of avoiding the dispute resolution process.

(b)   Audit and Technical Verification

Two other mechanisms are available to the Customer under the Payroll Contract that would conceivably assist in conducting negotiations, but their suitability to the present circumstances may be limited and, as with the dispute resolution process, the time they are likely to take may preclude their usefulness. They may be more likely worth considering, if at all, if the State chooses to continue with the Payroll Contract:

- General Terms, Clause 8 – Audit

The Customer may request an audit of "the Contractor and any subcontractors in respect of any obligations they have under this Customer Contract". The clause does not suggest that the audit is limited to financial issues. Following an audit, the Customer may require the Contractor to remedy non-compliance.

- Schedule 39 – Technical Verification

The Customer "may nominate an Independent Assessor to conduct a service and performance review of the operation of the Deliverables against the Project, Implementation and Payment Plan, the applicable SOW or against any Service Levels."

5.   Option 4: Continue with Payroll Contract

Mallesons have comprehensively dealt with this option and I do not propose revisiting their advice, other than to note the availability of the mechanisms considered in relation to Option 3 above:

- Dispute resolution (Schedule 42) – including the possibility that IBM could inconvenience the State by initiating dispute resolution processes;

- Audit (General Terms, Clause 8); and

- Technical Verification (Schedule 39).

6.   SAP Notes work

I do not have anything to add to the advice provided by Mallesons in relation to this issue.

7.   HRBS

I do not have anything to add to the advice provided by Mallesons in relation to this issue, other than that termination of the Payroll Contract technically entitles the State to set off any loss or damage against any money due to IBM under any other contract with IBM (clause 16.7.3(d)).

Please let me know if you would like to discuss any aspect of this advice further.

Yours faithfully

Michael Boughey
Assistant Crown Solicitor
for **Crown Solicitor**

encl

cc. Boyd Backhouse

RISKS OF MOVING TO TERMINATE IBM IMMEDIATELY

1. IBM have some 30 staff currently employed on the Health Project. Some 7-8 of these have critical knowledge of the system design and configuration (skills that Corptech does not readily possess). A handover process between IBM and Corptech was always envisaged to take many months after system acceptance and it was during this period that transfer of technical knowledge was to occur. Terminating IBM immediately without negotiating knowledge and skills transfer would put the core operation of the health payroll system in jeopardy.

2. Key Corptech resources which are currently supporting both the change requests from Health and the core operations of the system will be stretched immediately should IBM withdraw. This will put at risk Health's systems enhancement program and slow down any changes they want implemented.

3. IBM have other SAP projects in train in SEQ (e.g. Gold Coast Council SAP HR/Payroll)and could ensure that they are able to offer the resources working on the QLD Government project immediate and continued employment as they move them away from the Health project.

4. It would take some time for Corptech to be able to source additional SAP and Workbrain resources and establish direct contractual relationships with Infor, the owner of Workbrain. These skills are expensive and not easily identified.

5. Terminating the contract will mean forfeiting our rights to defects rectification and warranties and add approx. an additional $4m to the costs of supporting the system in the next 12 months. The only remedy to address the defects after termination would be to pursue IBM in the courts for the costs of rectification which would be problematic.

6. Not negotiating a settlement with IBM will leave IBM free to comment on the project implementation as they see fit. Legal advice suggest that IBM could counter claim which would start a potentially lengthy difficult legal process.

7. IBM are delivering other significant technology projects for the Government including the Identify, Directory and Email Services projects. IBM's reaction to a protracted legal situation and their ongoing relationship with the Government on current and future projects is unknown.

Terms of Reference for a Review of the Shared Services Model

Following the release of the Auditor-General's Report on the implementation of the Queensland Health payroll system, the Government has determined that an independent review of the Shared Services and Corptech business model and corporate governance including the Corporate Solutions Program should be undertaken.

This review is tasked with providing advice to Government on the future of shared service provision and Corptech including whether the current structure and responsibilities for whole of government shared systems remains the best model for the future.

The Government has appointed Roger McComiskie, PriceWaterhouseCoopers, to lead a review reporting directly to the Director-General of the Department of Premier and Cabinet into the Government's shared service program.

Context and background

While Queensland Government agencies have separate and distinct service delivery responsibilities, they are part of the one organisation – the Queensland Government. To be effective, the Queensland Government needs to operate a range of services on a whole of government basis to allow for efficient service delivery and governance. In fact the Queensland community demands that the Queensland Government offers a seamless service across its agencies.

There are a range of core information services which can be delivered at a whole of Government level such as email and finance systems to ensure the Government can manage its resources effectively.

It also makes sense for a further range of information services to be integrated or consolidated for groups of agencies. For smaller agencies, it would not make economic sense to replicate services which can be provided effectively from a whole of Government base. The Government also encourages officers to move across agencies and aims to make it as easy as possible for officers to do this by standardising systems and processes where it makes sense to do so.

These were the drivers for the Government's decision in 2002 to move to the shared service arrangements for corporate services – to organise government in a more efficient and effective manner. This approach has been adopted by many Governments around the world as well as large private sector organisations.

However, some agencies may have business requirements which are so distinct that it may make sense for them to take responsibility for their own systems, whilst still retaining a whole of Government focus. As we have seen with the complexity of the Health payroll system, we need to ensure fit for purpose systems to support service delivery at an agency level, as well as achieving whole of Government consistency in approach.

Objectives

The objectives of the review are:

1. To review the organisation of corporate services under the shared services model, including finance and human resources management across Government to determine the most appropriate arrangements for the Queensland Government into the future.
2. To investigate and make recommendations on the appropriate governance model for shared services within the Queensland Government.
3. In light of the above, review the future roll out of the Corporate Solutions Program and make recommendations for the most effective way to deliver the Program.

Scope

The Scope of the Review includes consideration of:

1. the strategy and direction of shared services at the processing and systems level
2. the development of role clarity for all those entities involved in the delivery of shared services including the agencies, the shared service providers and Corptech;
3. the appropriateness of current organisational delivery arrangements and governance arrangements for shared services delivery including performance management and monitoring, compliance management, risk management, financial management and audit arrangements;
4. an assessment of the benefits and risks to Government from moving to more standardised processes and systems; and
5. an assessment of the benefits and risks of maintaining a multi-system environment.

Secretariat support will be provided by the Department of Premier and Cabinet.

Key findings and recommendations of the Auditor-General Report

On the 29 June 2010 the Auditor–General will release a report on a number of ICT programs, the most significant being the Queensland Health Implementation of Continuity Project (the Queensland Health payroll system audit).

The key findings from the Queensland Health Implementation of Continuity Project related to:

Project governance

The Auditor-General indicates a number of project governance issues that were considered inadequate, including:

- the governance structures of the system implementation as it related to CorpTech, the prime contractor and Queensland Health. These structures were not clear, causing confusion over the roles and responsibilities of the various parties;

- prime contract management , stakeholder engagement, specification of business requirements, management of scope control and cost control and accountability;

- time for data preparation (cleansing) and data migration;

- system and process testing . This testing had not identified a number of significant implementation risks therefore the extent of the potential impact on the effective operation of the system had not been fully understood and quantified;

- system useability testing and validation of the new processes in the business environment. This was not performed and as a result Queensland Health had not determined whether systems, processes, infrastructure were in place for the effective operation of the system;

- risk quantification of criteria used to determine technical cut over (system go- live decision); and

- contingency planning for business cutover(business go-live decision).

The response to the Auditor-General acknowledges that the governance arrangement for this project could have been improved and clarified. However it was noted that the transition from a whole-of-government implementation governance arrangement to a project governance arrangement in June 2009 did provide for a clearer focus for oversight of the project related work programs of IBM, Queensland Health and CorpTech and the associated decisions by the Project Board members.

In addition, CorpTech has reviewed the governance arrangements for the delivery of the Corporate Solutions Program which will see the establishment of revised formats for program and project boards. In addition all relevant stakeholders will formally sign-off deliverables and contract variations as this will reinforce the understanding of roles, responsibilities and accountabilities.

Post Go-Live issues

The Auditor-General identifies a number of serious issues which existed at the time of implementation of the system on 14 March 2010 which have or are in the process

1

of being addressed by Queensland Health and CorpTech. These issues include:

- rostering system performance;
- slow system performance;
- the Queensland Health Shared Service Provider changing some key business processes as part of the Go-Live of the system reducing the ability of Queensland Health regional staff to respond quickly to local pay queries and issues from staff; and
- a backlog of exceptions, new starters, terminations and staff movements to be processed by the Queensland Health Service Provider due to payroll processing issues.

The response to the Auditor-General acknowledges the comments made in relation to the post go-live issues. The Auditor-General's report acknowledges much of the corrective action that Queensland Health has put in place since 14 March 2010 to address issues that arose with the implementation of the system. Queensland Health has put in place the Payroll Stabilisation Project to address business issues with the assistance of KPMG.

Complexity of Queensland Health Award Structures

The Auditor-General acknowledged the complexity of the Queensland Health award structures and notes "…there are 13 awards and multiple industrial agreements which provide for over 200 different allowances and in excess of 24,000 different combinations of calculation groups and rules for Queensland Health employees who on average total around 78,000."

Audit Report Recommendations

The Report made two specific recommendations relating to the Queensland Health Implementation of Continuity Project :

Recommendation1

The current action to stabilise the Queensland Health payroll and rostering systems to be continued to ensure Queensland health employees are correctly paid. Any mismatch between business practices and business rules configured within the system needs to be analysed and appropriate changes made to address defects or to improve accuracy or effectiveness of the payroll output. Technological changes should be performed through strict change management processes and testing regimes to ensure system stability is maintained.

Recommendation 2

Queensland Health should reconsider its current business model to determine the most effective and efficient strategy to deliver payroll services. To mitigate the risk of payroll inaccuracies, simplification of award structures and pay rules need to be considered. A payroll process reengineering should provide for an appropriate blend of local decision making and action, and the efficiencies of centralised processing. System reporting to enable effective performance management for both local and central processing hubs is an essential component of any business process reengineering. It is suggested that a staged approach be used for the implementation of any new business model.

The Report made one specific recommendation in relation to Shared Services:

2

Recommendation 3

The roles and responsibilities of departmental Accountable Officers involved in the Shared Service Initiative be reviewed so that the ultimate responsibility of departmental Accountable Officers for all expenditure by their departments is reinforced The agreed responsibilities should be clarified in either the Financial Accountability Act 2009 or in the Financial and Performance Management Standard 2009.

The Report made four recommendation on broader Government ICT governance and security issues:

Recommendation 4

The Queensland government chief Information Officer program and project management methodologies be rigorously applied for the development and implementation of all new information system programs. Some of the critical success factors include:
- Formal documentation of roles, responsibilities, accountabilities and key performance indicators of all relevant parties which should be signed by all key stakeholders. This document needs to be a living document that is periodically reviewed and updated for relevance.
- Formal documentation of the program being divided into tranches (groups of projects that deliver the final outcome). End of tranche review need to be performed to assess the ongoing viability of programs and to assess the effectiveness of program processes in managing risks, issues, benefits, program management activities and lessons learnt.
- Clear definition of project scope and timeline including key stakeholder sign off. The project scope needs to be tightly managed throughout the life of the project.
- Large projects should be divided into stages with each stage clearly planned, controlled and end stage review performed. The end stage reports should provide an input into the planning processes for the next state(s). Some of the examples of the Queensland Health project stages could include: project scope definition; business requirements definition; system development; user acceptance testing' parallel testing' system useability test and validation of business processes; business process re-definition; Go-Live and post-implementation processes.
- Quality assurance role of the Project Board needs to be clearly documented and implemented. The quality assurance processes need to be implemented at all levels of programs and projects.
- Rigorous budget management processes should be implemented with budgets approved and monitored by the relevant governance boards.

Recommendation 5

Information technology governance frameworks, practices and processes need to be implemented at a whole of government level so that business outcomes and benefits from IT programs are achieved, measured and reported by individual agencies using a consistent approach. These can then be consolidated at the whole of government level through the recently established ICT governance committees for improved transparency of ICT programs and projects.

3

Recommendation 6

For whole of government programs / projects, specific attention needs to be placed on ensuring that end to end governance structures are implemented and ensuring that there is transparency of decisions that are made and the impact of those decisions on government agencies.

Recommendation 7

Information technology security risk assessment, mitigation strategies and control mechanisms need to be documented and implemented at the agency level and co-ordinated at the whole of government level through the recently established information security committee.

Mr Glenn Poole
Auditor-General of Queensland
GPO Box 1139
BRISBANE QLD 4001

Dear Mr Poole

We refer to your letter dated 10 June 2010 regarding your draft report on the audit of a
number of ICT systems. This response is provided jointly by the Director-General of Public
Works and Director-General of Health. Specific comments have been provided in relation to
the separate elements of the audit report. For clarity the audit report numbering has been
used in regard to the responses.

Audit Report 1.1 Auditor-General's overview

It is acknowledged that governance improvements can be made in respect of all programs
audited. As the Chief Information Officer I am committed to the rigorous implementation of
the QGCIO program and project methodologies. My officers will work collaboratively with all
agencies to ensure these methodologies are applied to existing and future system
implementations so that expected benefits are realised from the significant investments
being made by government.

Audit report 1.1.1 Queensland Health Implementation of Continuity Project

The project was complex and faced the challenge of an ageing payroll system that was in
urgent need of replacement with the withdrawal of vendor support. This influenced
deliberations of the Project Board as there was the constant risk of catastrophic payroll
failure and the possibility of all Queensland Health employees not being paid.

As indicated in the report, Queensland Health has established the Payroll Stabilisation
Project to ensure that the issues that have occurred post go-live, particularly pay-related
issues, are addressed as quickly as possible. CorpTech is supporting Queensland Health in
its endeavours to ensure that all Queensland Health employees are paid correctly.

In addition, Queensland Health has engaged KPMG to provide advice regarding the options
for the Payroll Operating Model, and the development of a roadmap that describes the way
the preferred model should be implemented. CorpTech will work closely with Queensland
Health to action any necessary computing system changes required to support the
Queensland Health revised Payroll Operating Model once approved.

Recommendations 1 and 2 – Health Payroll

1. Queensland Health has put the Payroll Stabilisation Project in place to stabilise the current solution, address defects within the system and identify and implement improvements that can be made in current business practices.

2. A payroll process reengineering activity forms part of the Payroll Stabilisation Project. Queensland Health notes the suggestion regarding the simplification of award structures and pay rules. Queensland Health also notes the suggestion regarding a staged approach for the implementation of any future new business models.

Audit Report - Section 2 - Queensland Health Implementation of Continuity Project Management Response to findings

Project Governance

It is acknowledged that the governance arrangement for this project could have been improved and clarified. The transition from a whole-of-Government implementation governance arrangement to a project governance arrangement in June 2009 did provide for a clearer focus for oversight of the project related work programs of IBM, Queensland Health and CorpTech and the associated decisions by the Project Board members.

CorpTech has reviewed the governance arrangements for the delivery of the Corporate Solutions Program which will see the establishment of revised formats for program and project boards. There will be an induction program conducted to ensure members have an understanding and sign off on their roles, responsibilities and accountabilities.

Prime Contract Management and stakeholder engagement

CorpTech agrees that there is a need to ensure that there is appropriate involvement of stakeholders. CorpTech did undertake significant consultation and engagement of stakeholders throughout the project.

Procedural changes will be made to ensure that stakeholders formally sign-off deliverables and contract variations as this will reinforce the understanding of roles, responsibilities and accountabilities.

Business Readiness Activities

The view that the QHIC Project replacement would be implemented with minimal business process change was constantly reinforced during the project through a number of artefacts:

- IBM's original scope statement;
- Deloitte's Change Strategy; and
- IBM's Impact Assessment Completion report.

A range of activities were put in place to ensure business readiness. These included:

- Presentations to Line Managers and senior staff to outline the new and changed processes where held in all Districts;
- Line Managers were sent a "Manager Information Pack" on all new processes and forms;
- A DVD "Information for Managers" was sent to all Line Managers;
- A Payroll and Rostering intranet site was available for all staff explaining the new forms and processes; and
- Line Manager Updates and information sheets were provided and were available on the project's intranet site.

Parallel and user acceptance testing

It needs to be noted that a number of testing activities were carried out including:

- Parallel Payroll Run Test on a sample of 10% of employee population;
- Four iterations of User Acceptance Testing (UAT);
- Five iterations of Payroll Performance Validation (PPV);
- Several iterations of Stress & Volume testing (S&V);
- Two iterations of Pay Cycle Validation (PCV) tests; and
- Penetration testing (security assurance).

Business go-live decision

The members of the QHIC Board were faced with a difficult choice of accepting the new solution with residual risks or deferring the implementation. The go-live decision was based on a number of factors including:

- Advice received from IBM and CorpTech on the technical readiness of the solution;
- Advice from the business that the management plan for the outstanding defects was acceptable;
- Advice from a risk and assurance consultant contracted to provide independent assessment affirming go-live risk was less than continuing the project given the risk of failure of the old system, LATTICE; and
- Significant contractual and commercial challenges if the project was further delayed.

Queensland Health acknowledges that there were performance issues during the processing of the first pay run, and wishes to clarify that there was a contingency plan in place. All key project participants had weekly meetings to monitor the progress of the plan. The cutover plan also included a roll back strategy for the first pay period that allowed for a roll back to the LATTICE system up to the first pay production. Also during the payroll processing cycle a number of simulations occurred to allow error correction. However, the poor system performance especially that of Workbrain, led to a compressed payroll processing window immediately following cut over resulting in an additional backlog of adjustments.

Post go-live issues

Queensland Health acknowledges the comments made in relation to the post go-live issues. The report acknowledges much of the corrective action that Queensland Health has put in place since 14 March 2010 to address issues that arose with the implementation of the system. Queensland Health has put in place the Payroll Stabilisation Project to address business issues with the assistance of KPMG.

Audit Report 1.1.2 Program management and governance

As previously acknowledged, governance improvements can and will be made in respect of the three programs audited.

With respect to both the ICT Consolidation Program (ICTC) and the Identity, Directory and Email Services (IDES) Program, a Benefits Management Framework is being developed in accordance with the QGCIO methodology. This Framework will identify and quantify program benefits to demonstrate significant benefits resulting from the investment being made by government in these programs.

In relation to ICTC, the following action has been taken:

External Board representation –

- A Program Board has been reconstituted with representation from agencies (Queensland Health, Education and Training, Infrastructure and Planning),
- The Board's terms of reference have been revised to reflect the revised role of the Board; and
- The first meeting of the reconstituted Board was held on 13 May 2010.

Formal reviews of program –

- Four End-of-Tranche Reviews were conducted throughout the program prior to its transition to CITEC;
- A decision was made not to conduct a review in October 2009 as the scope and definition of the Program was under review;
- An End -of-Tranche Review was conducted in May 2010 by Deloittes; and
- Internal Audit has recently conducted a review of the procurement process, probity and governance around the Foundation Infrastructure Program tenders.

Formal process to measure and monitor stakeholder engagement -

- The Strategic Programs Board (SPB - internal to CITEC) reviews progress of the Program on a fortnightly/monthly basis;
- To date in excess of 70 workshops have been conducted on establishing a Consolidation Strategy for each agency; and
- Four agencies have completed Consolidation Strategy Documentation and three of these agencies have commenced detailed migration planning.

In relation to IDES, the following action has been taken:

External Board representation –

- The program Board has been reconstituted with representation from external agencies (DEEDI, Queensland Police Service, Department of Community Safety);
- The first meeting of the reconstituted Board was held on 27 May 2009; and
- The terms of reference have been amended to reflect the revised role of the Board.

Formal review of Program effectiveness –

- Reviews of the program performance were conducted in November 2009 relating to program strategy, financial analysis and operational feasibility; and
- The Strategic Programs Board (CITEC internal) are held fortnightly/monthly and monitor program status, milestones, risks and issues.

With respect to the Corporate Solutions Program (CSP), program and project management controls are being enhanced and continue to progressively work towards meeting the Program and Project maturity targets set by the Public Sector ICT Development Office.

Recommendations 3, 4, 5 and 6

Recommendation 3

Agree with the recommendation however with respect to matters impacting either the *Financial Accountability Act 2009* or the *Financial and Performance Management Standard 2009* it is suggested discussions be held between the Auditor-General and the Under Treasurer.

Recommendations 4, 5 and 6

Agree with the recommendations. As previously stated, the Department is committed to the rigorous implementation of the QGCIO program and project methodologies and will work towards ensuring these methodologies are applied to these current system implementations.

Audit Report 1.1.3 Information system security audits

The importance of comprehensive and robust controls in relation to network security is acknowledged. In addition to the establishment of a whole-of-Government security committee in late 2009 to improve such controls across the sector, the Department has also undertaken a review of the assessment of security controls published by the Cyber Security Operations Centre, Defence Signals Directorate, Department of Defence (CSOC) in February 2010. It is proposed to investigate the most effective prevention and detection controls identified by CSOC for application to the systems concerned. In addition, the finalisation of the Foundation Infrastructure Project (FIP) procurement phase, part of the whole-of-Government Consolidation (ICTC) Program, will also establish a supply panel for security incident detection and management tools to address this issue.

Recommendation 7

Agree with recommendation.

Audit Report 4.1 Management and security of patient information

Queensland Health notes that the report also contains information regarding audit findings from the Queensland Audit Office's (QAO's) audit of the security of patient information which was commenced in March 2010.

Queensland Health acknowledges and welcomes the QAO opinion that the department "appears to have established a satisfactory control environment".

Queensland Health is implementing a number of the enhancements proposed and investigating further opportunities for continuous improvement, and has adopted a risk-based approach to the management and security of its patient information. The Department has sought to balance the appropriate and timely access to confidential information, for the best patient healthcare outcomes, with the need to maintain public trust in the systems used to safeguard that same information and meet legislative requirements.

It should also be noted that traditional methods of ensuring patient safety have always relied upon the vigilance of clinical practitioners, and are based on taking a comprehensive medical history and examination of the patient. This continues to be a professional benchmark to which clinicians are measured.

As the report acknowledges, there may be delays in retrieving paper based records at hospitals and this will be more of a risk after normal business hours or on weekends. Hospitals have a system in place for the delivery of records for patient treatment specifically within the Emergency Department with timeframes for delivery ranging from immediate to within 60 minutes. Doctors also have the ability to speak to colleagues at other hospitals to have relevant information provided over the telephone or faxed to them.

Queensland Health is currently investing in a significant eHealth Program, which will result in a stronger reliance on electronic records, rather than paper documents, with the associated benefits of improving access to the "right information to the right person (eg. clinician) at the right time". The Department acknowledges the subsequent need for improved security of systems, including people, processes and technology operating effectively together, to underpin high-quality patient healthcare services. In response, Queensland Health is actively working towards planning and implementing secure information management practices which can be relied upon to meet these requirements.

It is pleasing to see that the audit acknowledges that preventative controls for external network access are in place. Queensland Health will continue to base business decisions for its information system and networks on a cost benefit and risk based approach.

Should your officers require further information, Queensland Health's contact is Mr Michael Kalimnios, Deputy Director-General, Corporate Services Division on telephone 3234 1685. The contact for the Department of Public Works is Ms Robyn Turbit, Assistant Director-General, Corporate and Executive Services on telephone 322 46307.

Yours sincerely

Michael Reid
Director-General
Queensland Health

Mal Grierson
Director-General
Department of Public Works

PREMIER'S BRIEFING NOTE
Policy

Tracking Folder No. TF/10/23564	
Document No.Doc/10/130561	

To: **THE PREMIER**
Date: 4 October 2010
Subject: **Auditor General (AG) Report (the AG Report)**
          on Queensland Health (QH) Payroll – Progress
          on Queensland Government Response

Approved / Not Approved / Noted

Premier ....

Date   ...../...../.....

Date Action Required by: ...../...../.....

Requested by: ....
(if appropriate)

Noted over 1/9/10

● **RECOMMENDATION**

It is recommended that you **note**:

- progress on the Queensland Government response to the AG Report; and
- a fully considered Queensland Government response will be brought to Cabinet by the end of October 2010.

● **KEY ISSUES**

- On 29 June 2010, the Queensland Government released a five point response plan to the AG report (see Attachment 1 for details):
  - ➤ Better (decentralised) payroll model;
  - ➤ Best software (Ernst and Young (E&Y) engaged to undertake review);
  - ➤ Holding IBM accountable (Show Cause notice issued);
  - ➤ Strengthening QH Corporate Services; and
  - ➤ Overhaul CorpTech (abandon the one-size-fits all shared services model – PriceWaterhouseCoopers (PWC) engaged to undertake formal review).
- Solid progress has been made on all aspects of the Government's response, including receipt of final draft reports from E&Y and PWC.
- It is intended that the final E&Y and PWC reports (the Reports) be released at the same time as the Government response to the Reports' recommendations.
- The financial and budget implications of the Reports' recommendations including the costs of fixing QH software will be considered prior to Cabinet's consideration.

PWC Review

- DPC has been leading the PWC review with guidance provided by a high level steering group, including representation from Treasury, DPW and DoC.
- Key proposed changes by PWC include (see Attachment 2 for details):
  - ➤ Enhanced accountabilities, including Directors General of QH and DET being accountable for finance and HR/payroll applications in their departments, and Director-General DPW for shared services to the rest of Government;
  - ➤ Strengthened Queensland Government Chief Information Officer (QGCIO), with a strengthened mandate balanced by clarity of role and reporting responsibilities - including consideration of QGCIO as an 'independent' statutory officer; and
  - ➤ Enhanced governance of shared services, including a new Board to oversight delivery and performance; and the splitting of CorpTech into two new bodies under the QCGIO (a specialist expert body supporting agency delivery and a portfolio management group).
- Two key considerations for DPC are the recommendations that the DG of DPC become accountable for Whole-of-Government shared services. This could range from Chairing the CEO committee responsible for overseeing Shared Services to having the QGCIO located in DPC and reporting to the DG.
- The full PWC report is at Attachment 3.

Action Officer:	Approvals by Director / ED / DDG
Area:	documented in *notes* in TRIM
Telephone:	

E&Y Review

- QH has been leading this review in consultation with relevant agencies.
- E&Y concluded the current payroll (SAP) and rostering (Workbrain) software was appropriate, but that a range of problems needed to be fixed, including recognition of the proposed new decentralised payroll model (see Attachment 4 for key proposals).
- It is estimated the new Program will take around three years to fully implement.
- The full E&Y report is at Attachment 5.

Other key elements of Queensland Response

- QH has restructured its payroll model and Corporate Services Division to improve efficiencies, including the rollout of localised payroll and services across Queensland (two new hubs have been established as a trial, at Mackay and the Gold Coast).
- Terms of settlement with IBM have been agreed and IBM is on track to delivering its final agreed schedule of work by the end of October 2010.

Moving forward

- The Deputy Premier has released a media statement that the Government has the reports and will respond to them by end-November (see Attachment 6). Full rollout of localised Health payroll services was expected by end-September. However, Unions were adamant the process not be rushed, that it be a trial only, and have linked job re-classifications to any localised payroll solution.
- A CBRC submission detailing expected costs and a Cabinet submission will be developed and a matter of urgency.
- Development of Submissions and implementation will require a coordinated approach to progress the reports (comprising DPC; Treasury; DPW and relevant line agencies).
- Moving to the new arrangements will need to be staged to ensure costs and implementation risks are well managed.
- In the interim, priority will be given to the most urgent projects, eg transition of DCS from the now unsupported LATTICE payroll system.

• BACKGROUND

- Queensland Health introduced a new payroll system that delivered its first pay on 24 March 2010. Significant problems resulted across the Department with many staff receiving incorrect pay, or in some cases, no pay.

Ken Smith
Director-General

Comments *(Premier or DG)*

Action Officer:	Approvals by Director / ED / DDG
Area:	documented in *notes* in TRIM
Telephone:	

Joint Statement:

Premier and Minister for the Arts
The Honourable Anna Bligh

Deputy Premier and Minister for Health
The Honourable Paul Lucas

Tuesday, June 29, 2010

Government to implement all seven of the Auditor General's recommendations

The State Government will implement all seven of the Auditor General's recommendations contained in his report on the Queensland Health payroll implementation.

The Government has also announced that a number of additional measures will be implemented to provide certainty into the future.

Premier Anna Bligh today said the investigation had concluded there were fundamental failures not only within Queensland Health but more broadly.

Ms Bligh said the Government will take decisive action, including:

- **Move to a local health payroll model and re-examine the use of WorkBrain rostering system over the next three months;**
- **Issue a Show Cause Notice to IBM and reserve its right to withhold final payment and seek damages**
- **Overhaul Corptech and abandon the one-size-fits-all approach to payroll across government departments**

"We are taking decisive action following the delivery of the Auditor General's report today."

"The Government will act on each of the Auditor General's seven recommendations."

"The Auditor General's report is thorough and makes key recommendations but there is a need to go further.

"The Government will take a number of additional steps to provide Queensland Health staff with greater certainty going forward," Ms Bligh said.

"The Auditor General's report, not surprisingly, has found that there has been a fundamental failure in the process of implementation of the new payroll system."

"The Queensland Government takes responsibility for ensuring our employees are treated decently."

"I apologise sincerely to every one of those Queensland Health employees and their families who have been affected by the recent payroll problems."

The Auditor General found failures had occurred at a number of levels and made seven key recommendations - two in relation to Queensland Health, one in relation to Shared Services and four recommendations in relation to broader government ICT governance and security.

The Deputy Premier and Minister for Health Paul Lucas said that health staff are currently dealing with a centralised payroll system that is removed from the day to day operations of our hospitals.

"What people on the ground, working in our hospitals and their unions have told me is that we need local information and local decision making when it comes to payroll – and we have listened to those concerns," Mr Lucas said.

"As a result, Queensland Health will phase in a localised health payroll model over the next three months.

"This will mean a hire-to-retire service in each payroll hub and Queensland Health Corporate Services will be restructured to ensure local payroll systems are adequately supported.

"This will be undertaken after rigorous testing and in close consultation with staff and their unions."

In addition, the Premier said the experience of the Queensland Health payroll implementation had shown a one-size-fits-all approach to payroll across the Queensland Government should

be abandoned and Corptech overhauled.

"Larger agencies with complex payroll requirements should be able to use the payroll system which suits them and smaller agencies should have the ability to cluster with similar agencies and utilise the one payroll system," she said.

"We are today doing the responsible thing – and that is accept the advice of this independent investigation, resolve to implement each of the recommendations and do the right thing by our hard-working staff."

The Auditor General's report clearly identifies failings on the part of contracted provider, IBM.

"We have sought Crown Law advice in relation to options for terminating the payroll contract with IBM and it's only fair that we seek to reserve our legal rights. The Government has issued IBM a Show Cause Notice as to why the contract should not be terminated," said the Premier.

Media: 3224 4500

Better payroll model

Queensland Health will re-introduce a localised payroll model that features direct service between payroll hubs and hospital unit managers within their local health service.

The Queensland Government acknowledges that one of the flaws of the payroll system is the loss of strong links between individual payroll hubs and their client local hospital districts. By the end of September 2010, each hospital in Queensland will be linked to a specified payroll hub. Each payroll hub will be responsible for every aspect of the employment, rostering, and payroll services of each hospital unit in their local district.

This will mean more personal contact between payroll staff and the hospital unit managers they serve. It will also mean that payroll staff will be more familiar with any specific pay-related contract terms and conditions in place in their district. Finally, hospital unit managers will have greater access to the payroll staff processing their roster and pay forms, so they can follow up on any forms that are being processed.

Implementation of the new localised payroll model will begin this week subject to appropriate consultation with unions and will be fully implemented by 30 September 2010. Two new payroll hubs will be created at Mackay and the Gold Coast.

This move is consistent with the local hospital network health reforms agreed by Premier Bligh at CoAG. The Government is committed to ensuring that Queensland Health returns corporate services and decision-making to the local hospitals, and this new approach to payroll hubs lays an important stepping stone to local control.

Best software system

Queensland Health will also re-examine the decision to implement the WorkBrain rostering system in conjunction with SAP.

The health payroll system consists of two applications that are linked. The two applications are the rostering and award interpretation application (WorkBrain) and the payroll application (SAP HR). The two applications should work together efficiently and effectively to deliver staff an accurate pay each fortnight.

Ernst & Young have been engaged by Queensland Health to provide a review of the most commonly deployed payroll and rostering solutions in the national and international healthcare sector.

Over the next 3 months Queensland Health will work with Ernst & Young in consultation with staff and unions to confirm the most suitable roster and award interpreter configuration that delivers staff the payroll outcome they deserve as quickly as possible. This may involve reconfiguring the current application or introducing alternate solutions.

Queensland Health will also discuss with staff and unions whether there are aspects of the Award arrangements which can be simplified in order to reduce the complexity of the payroll system and deliver a better outcome for staff.

Holding IT advisors accountable

The Queensland Government will today issue to IBM a 'Notice to Show Cause' why its contract should not be terminated for breach of duty of care and breach of contract.

IBM was engaged by the Queensland Government to choose appropriate payroll software for Queensland Health, to act as project manager for the payroll implementation, and to design, develop and implement the technology.

However, the system has experienced numerous problems since commencement. System development has not led to a suitable product being delivered at the time of implementation.

The Queensland Government has already issued notices to remedy breaches to IBM on 12 May.

Strengthening QH Corporate Services

Queensland Health will restructure its Corporate Services division to reduce bureaucracy, localise service provision and to ensure there are clearer lines of responsibility at the executive level.

The restructure will be led by Michael Walsh, who will act in the position of DDG Corporate

Services to bed down the restructure and finish the job he has started as head of the Payroll Implementation Stabilisation team. Michael will act in that position for a period of three months.

The new QH Corporate Services will actively identify corporate services (including HR, payroll, finance) that should be delivered within local hospital districts, instead of head office. More and more, Queensland Health will be moving to a localised model of service delivery within local hospital services, in line with the principles outlines in the national health reform agreement.

The future of CorpTech and shared services

The Queensland Government will abandon the one-size-fits all shared services model as the exclusive model for corporate services across the whole of Government.

The whole-of-government IT provider, CorpTech, will be overhauled to better match agency needs – this will include an assessment of which agencies are best served by their own technical services.

While the principles behind the shared service model work for some agencies, the Queensland Government recognises there is a place for larger agencies to remain independent in providing corporate services such as payroll and HR.

A formal review of the shared services business model will be conducted by PWC Partner Mr Roger McComiskie to determine the future of the various shared services and make recommendations about more flexible arrangements that may be utilised by client agencies.

Mr McComiskie will commence immediately, will report directly to the Director General of Department of the Premier and Cabinet and will be serviced by a small secretariat in DPC. His final report will be released publicly.

The review will be completed by the end of September 2010.

Attachment 2:

Summary of PWC findings

Proposed change 1: Accountable Officers		
Proposed changes	• The Director-General, Department of the Premier and Cabinet, is to be accountable for the whole-of-Government shared services initiative, which is to focus on strategy, planning, policy, project delivery and service delivery that supports the *Toward Q2*' vision • The Director-General, Queensland Health (QH), is to be accountable for the management of QH finance and HR/payroll business applications • The Director-General, DET, is to be accountable for the management of DET finance and HR/payroll business applications • The Director-General, Department of Public Works (DPW), is to be accountable for the management of rest of Government (RoG) finance and HR/payroll business applications • The accountability of the QGCIO is to be reinforced, in reference to the strategy, standards, policy and planning for technology and information relating to whole-of-Government shared services	
Actions and timing	• Formalise the current Project Steering group as the Shared Services CEO Sub-Committee. This group will also oversee the proposed transition	End Oct 2010
	• Establish a transition project office	End Oct 2010
	• Complete the current cost/benefit analysis work on preliminary evaluation of report recommendations	End Nov 2010
	• Document the current state for each SSP and develop a full transition plan for the change	End Mar 2011
	• Plan the transition of responsibility for business applications management from CorpTech to SSA, DET and QH	End Jun 2011

Proposed change 2: Governance of shared services projects		
Proposed changes	• The Directors-General of each agency are to be accountable for the delivery of project outcomes for shared services projects in their respective departments • A new central body is to be set up under the QGCIO to provide specialist expertise that supports the delivery of agency projects • A new central body is to be set up under the QGCIO for portfolio management of shared services projects	
Actions and timing	• Report on the progress of key shared services projects at the CEO Leadership Team (CLT) and in periodic Cabinet reporting	Oct 2010 onwards
	• Review the use of QGCIO mandated methodologies and include this in periodic Cabinet reporting	Dec 2010 onwards
	• Relocate specialists from CorpTech and augment in a centre of project capability with the QGCIO	End Jun 2011
	• Relocate specialists from CorpTech and augment capability into a Shared Services Strategy, Planning and Portfolio Management Group under the QGCIO	End Jun 2011

Proposed change 3: Governance of whole-of-Government shared services		
Proposed changes	• A new Shared Services CEO Sub-Committee, chaired by the Director-General, DPC, is to have oversight of the delivery, performance and improvement of core finance and HR/payroll services, of the whole-of-Government strategy for shared services and of the transition to target state for shared services	
Actions and timing	• Develop a detailed implementation plan for the establishment of the new governance model	End Dec 2010
	• Set out performance measures on the whole of-Government shared services initiative and report progress to Cabinet every six months	Starts Dec 2010

Proposed change 4: The role of the QGCIO		
Proposed changes	• Government to formally consider the role of the QGCIO to improve whole-of-Government consistency, accountability and clarity including the option of this role being a statutory officer	
Actions and timing	• Conduct a full review of role and responsibilities of the QGCIO function, including potential change plan	End Nov 2010

Proposed change 5: Corporate Solutions Program		
Proposed changes	• Realistically assess the roadmap for the Corporate Solutions Program (CSP) to confirm the costs and timeframes for rollout of shared services systems to each agency	
Actions and timing	• Formally review business cases and prioritisation of projects to realign the CSP, including MoG changes, to focus firstly on a rolling 2 year planning horizon	End Jun 2011

    d.   Review and implement robust commercial arrangements for system development and support

    e.   Mobilise the project team for the Optimise Project Initiation Phase, which needs to minimise impact on current stabilisation activities and resources (including skilled Workbrain and SAP resources)

    f.   Conduct business requirement collection and confirmation, together with a detailed "fit" gap analysis (this includes formal documentation and progressive sign offs)

    g.   Prioritise investment activities between the Optimise Project Initiation Phase and other related projects to maximise Queensland Health's Return On Investment (ROI)

2.   In line with the new payroll operating model, design the new solution at the "local", or decentralised, level, in particular taking rostering back to the local/district/divisional level to:

    a.   Address the issues that have been experienced through the centralised model, i.e. the loss of localised processing knowledge in relation to local working conditions and challenges

    b.   Allow Queensland Health to support their own eHealth agenda and respond to changes in the Health sector, Federally (as in the case of National Health Reform), and at a State level (in terms of legislative change and industrial changes)

3.   Ernst & Young recognises that substantial work to address current payroll issues (through PIP) has already occurred to date. Queensland Health should continue this work alongside a formalised issue prioritisation strategy

4.   Establish a global Workbrain healthcare working group to share and leverage existing improvements in the solution

Ernst & Young would like to extend its sincere appreciation and thanks to the following stakeholders and organisations, for their time, information and support throughout the review process (listed alphabetically):

- Other professional service organisations

- Peer healthcare sector agencies

- Queensland Health clinical staff

- Queensland Health non-clinical staff

- Queensland Health payroll and administrative staff

- Queensland Health union representatives and their members

- Software vendors

RECOMMENDATIONS OF AUDITOR-GENERAL REPORT NO. 7 OF 2010 QUEENSLAND HEALTH PAYROLL AND ROSTERING SYSTEMS IMPLEMENTATION

Health Payroll

1. The current action to stabilise the Queensland Health payroll and rostering systems be continued to ensure Queensland Health employees are correctly paid. Any mismatch between business practices and business rules configured within the system needs to be analysed and appropriate changes made to address defects or to improve the accuracy or effectiveness of the payroll output. Technological changes should be performed through strict change management processes and testing regimes to ensure that systems stability is maintained.

2. Queensland Health should reconsider its current business model to determine the most effective and efficient strategy to deliver payroll services. To mitigate the risk of payroll inaccuracies, simplification of award structures and pay rules need to be considered. A payroll process reengineering should provide for an appropriate blend of local decision making and action, and the efficiencies of centralised processing. System reporting to enable effective performance management for both local and central processing hubs is an essential component of any reengineering. It is suggested that a staged approach be used for the implementation of any new business model.

Shared Services Initiative

3. The roles and responsibilities of Departmental Accountable Officers involved in the Shared Services Initiative be reviewed so that the ultimate responsibility of Departmental Accountable Officers for all expenditure by their Departments is reinforced. The agreed responsibilities should be clarified in either the *Financial Accountability Act 2009* or in the *Financial and Performance Management Standard 2009*.

Information Technology Governance and Security

4. The Queensland Government Chief Information Office program and project management methodologies be rigorously applied for the development and implementation of all new information system programs. Some of the critical success factors include:
   - formal documentation of roles, responsibilities, accountabilities and key performance indicators of all relevant parties. This document needs to be a living document that is periodically reviewed and updated for relevance. In addition, it should be signed by all key stakeholders.
   - formal documentation of the program being divided into tranches (groups of projects that deliver the final outcome). End of tranche reviews need to be performed to assess the on-going viability of programs and to assess the effectiveness of program processes in managing risks, issues, benefits, program management activities and lessons learnt.
   - clear definitions of project scope and time line including key stakeholder sign off. The project scope needs to be tightly managed throughout the life of the project.
   - large projects should be divided into stages with each stage clearly planned, controlled and end stage reviews performed. The end stage reports should provide an input into the planning processes for the next stage(s). Some of the examples of the Queensland Health project stages could include: project scope definition; business requirements definition; system development; user acceptance testing; parallel testing; system useability test and validation of business processes; business process re-definition; and go-live.
   - quality assurance role of the Project Board needs to be clearly documented and implemented. The quality assurance processes need to be implemented at all levels of programs and projects.
   - rigorous budget management processes should be implemented with budgets approved and monitored by the relevant governance boards.

5. Information technology governance frameworks, practices and processes need to be implemented at a whole of government level so that business outcomes and benefits from IT programs are achieved, measured and reported by individual agencies using a consistent approach. These can then be consolidated up to the whole of government level through the recently established ICT governance committees for improved transparency of ICT programs and projects.

6. For whole of government programs / projects, specific attention needs to be placed on ensuring that end-to-end governance structures are implemented and ensuring that there is transparency of decisions that are made and the impact of those decisions on government agencies.

7. Information technology security risk assessment, mitigation strategies and control mechanisms need to be documented and implemented at the agency level and co-ordinated at the whole of government level through the recently established information security committee.

PREMIER'S BRIEFING NOTE
Policy

To: THE PREMIER
Date: 15 July 2011
Subject: **Meeting Brief for meeting with IBM on 19 July 2011**

- **RECOMMENDATION**

It is recommended that you note:
- the following information in preparation for a meeting with Mr Andrew Stevens, Managing Director of IBM Australia and New Zealand on the 19 July 2011.
- the attached briefing note prepared by the Department of Public Works **(Attachment 1)**.

- **KEY ISSUES**
- This meeting follows the finalisation of the contract between the State and IBM for the delivery of the Queensland Health rostering and payroll system.
- The Standing Offer Arrangement (SOA) for the Provision of IBM Goods and Services was signed on 11 July 2011 with a contract term of thirty six months. The SOA is inclusive of the IBM hardware product range but excludes software components.
- The IBM software group requested major changes to the SOA terms and conditions, including the removal of a two per cent administration fee and a limit to the number of agencies that could access the agreement.
- CITEC has advised that these change requests were unacceptable as the purpose of the SOA is to ensure that all agencies have access to a standard price agreement with vendors. The removal of the administration fee would breach the State Procurement Policy.
- The Queensland Government Chief Technology Office has proposed an Enterprise Licence Agreement be utilised as an alternative arrangement to accommodate the IBM software products. Negotiations on this proposal are currently underway.

- **CONSULTATION**
- The Department of Public Works.
- The Department of Employment, Economic Development and Innovation.

- **BACKGROUND**
- The meeting was requested by the previous IBM Managing Director, Mr Glen Boreham. Mr Boreham left IBM on 5 January 2011.
- IBM employs over 1500 staff in Queensland, including its global call centre in Brisbane and its Tivoli Laboratory and a global e-security centre on the Gold Coast.
- IBM has received three Queensland Investment Incentive Scheme grants since 1999, totalling $4.8 million, creating 579 full time jobs.
- IBM has a number of contracts in place with Queensland Government including the Identity, Directory and Email Services (IDES) program at a cost of $6.5 million and the mainframe infrastructure upgrade at a cost of $5.8 million over three years.
- In 2011, Townsville was successful in receiving US$400 000 IBM Smarter Cities Challenge grants. The Townsville City Council grant will focus on integrating a Smart Energy, Smart Grid, Smart City of the future using fast broadband (NBN fibre/wireless) and social networking.

John Bradley
Director-General

Comments *(Premier or DG)*

Department of Public Works	For noting: ☒
	For approval: ☐

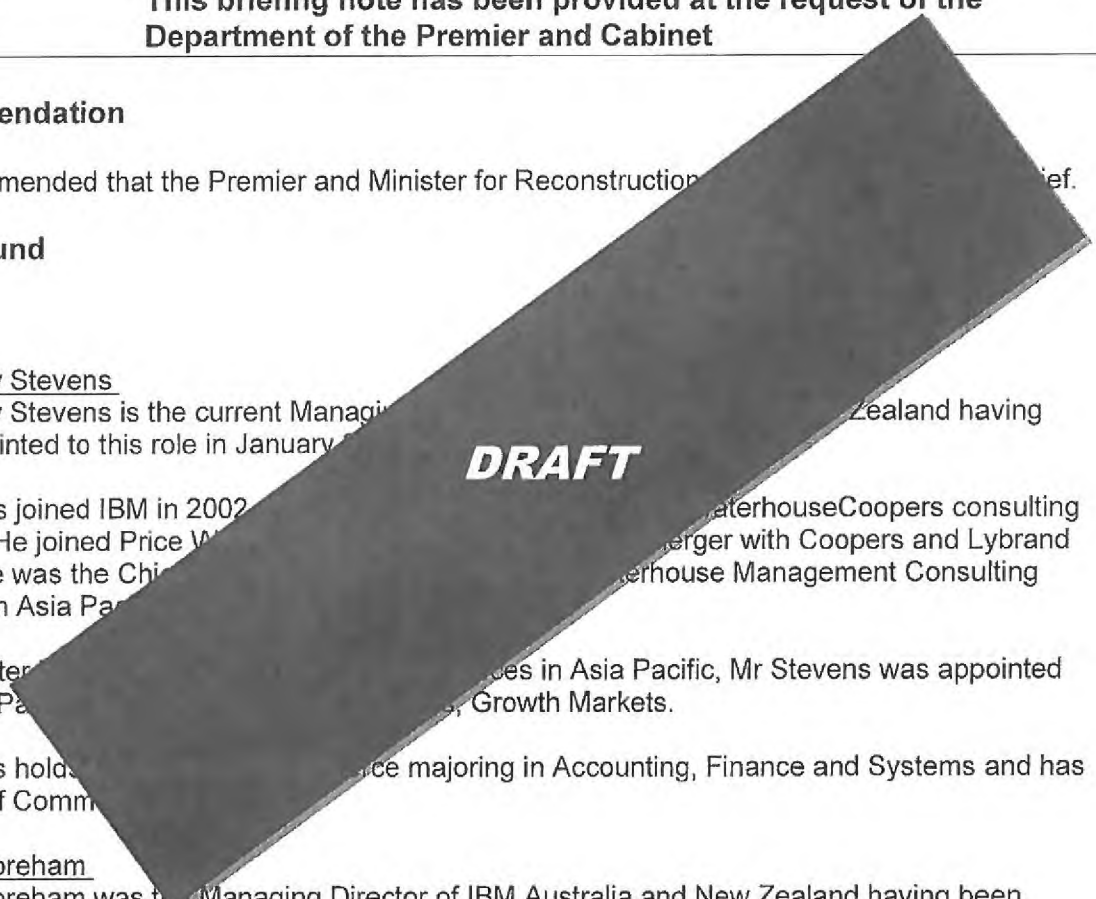## Premier's briefing note

To:	**Premier and Minister for Reconstruction**
Subject:	**Premier's meeting with Glen Boreham or Usha Prasad of IBM**
Decision/action required by:	**N/A**
Reason:	**This briefing note has been provided at the request of the Department of the Premier and Cabinet**

Recommendation

It is recommended that the Premier and Minister for Reconstruction ~~...~~ ief.

Background

IBM

Mr Andrew Stevens
Mr Andrew Stevens is the current Managi~~...~~ Zealand having been appointed to this role in January ~~...~~

DRAFT

Mr Stevens joined IBM in 2002 ~~...~~ aterhouseCoopers consulting business. He joined Price W~~...~~ erger with Coopers and Lybrand in 1998, he was the Chi~~...~~ erhouse Management Consulting Business in Asia Pa~~...~~

In 2009, afte~~...~~es in Asia Pacific, Mr Stevens was appointed Managing Pa~~...~~ Growth Markets.

Mr Stevens hold~~...~~ ce majoring in Accounting, Finance and Systems and has a Master of Comm~~...~~

Mr Glen Boreham
Mr Glen Boreham was t~~he~~ Managing Director of IBM Australia and New Zealand having been appointed to this role in January 2006.

Mr Boreham began his career in 1986 with IBM Australia. In 2009, Mr Boreham was appointed to the Government's Information Technology Industry Innovation Council, and in both 2007 and 2009, he was named by the Australian Financial Review as one of the top five most powerful leaders in information industries.

Mr Boreham holds a Bachelor of Economics from the University of Sydney, and has completed a Managing Director's programme from The Wharton School, University of Pennsylvania.

Mr Boreham left IBM citing personal reasons on 5 January 2011.

IBM
IBM employs over 1500 staff in Queensland, including its global call centre in Brisbane and its Tivoli Laboratory, a global e-security centre on the Gold Coast.

The Queensland Government invests approximately $1.2 billion annually in ICT goods and services, of which $36.4 million was spent with IBM during 2007-08 and $43.3 million in 2008-09.

IBM supplies 12 per cent of low to mid-range computing equipment (including Windows and Unix platforms) within the Queensland Government and around 20 per cent of data storage capacity.

IBM Smart Cities
In 2011, Townsville, as well as being one of Australia's first mainland cities to be connected to the National Broadband Network, joins 23 other cities world-wide to earn IBM Smarter Cities Challenge grants . Other cities in the Asia-Pacific region include: Chengdu, China; Jakarta, Indonesia; Sapporo, Japan; and Chiang Mai, Thailand. The grant from IBM is worth around US$400 000.

IBM has inaugurated Smarter Cities Challenge, a competitive grant program in which IBM awarded $50 million worth of technology and services to help 100 municipalities across the globe. This new program is the single-largest philanthropic investment currently planned by IBM.

During Smarter Cities Challenge engagements, IBM assists its recipients to use a free web site called City Forward (http://www.cityforward.org). The site allows policy makers, citizen-advocates and the public to compare the performance of their city against others in a number of services such as education, safety, health, transportation, land use, utilities, energy, environment, personal income, spending, population growth and employment. Users can then gather, compare, analyse, visualise and discuss statistical trends, giving them real-world insight that can help shape public policy.

When selecting the 2011 grant recipients, key consideration included the preparedness of cities to match IBM's investment with their own commitment of time and resources, and of the identification of pressing urban concerns that could be addressed by implementing 'smarter' technologies and processes.

Major Contracts between the Department of Public Works and IBM

Contracts between CITEC and IBM

CITEC has a number of contracts in place for the provision of hardware maintenance, software support services and software rental from IBM.

This includes the Identity, Directory and Email Services (IDES) program. The contract incorporates a phased delivery of program objectives. Phase 3 (Migration and Support) is the final component of the contract, at this point in time, it is yet to be concluded between the State of Queensland and IBM. The estimated cost of Phase 3 is approximately $6 million (including GST). CITEC delivers mainframe services to the Queensland Government based on IBM Z Series technology. CITEC has entered into a mainframe infrastructure upgrade arrangement conducted over a period of three years, from 31 December 2009 to on 30 June 2013. The total cost of this upgrade to the State of Queensland is approximately $5.8 million over three years.

In December 2009, CITEC entered into the Enterprise Licence Agreement (ELA) contract with IBM for the delivery of consolidated CITEC-specific software support, maintenance and licence (inclusive of IDES program licence requirements). This consolidated ELA provides CITEC and the State of Queensland with cost efficiencies and economies of scale in respect to CITEC's delivery of services to government agencies. The contract value is approximately $17 million over three years completed in equal bi-annual payments.

The basis of the contract for all of the above activities is the approved Queensland Government GITC Contracting Framework.

Prospective Future Major Contracts between CITEC and IBM

The Information Communications Technology (ICT) Standing Offer Arrangement (SOA) for the Provision of IBM Goods and Services inclusive of Infrastructure, Support and Professional Services will be a whole-of-Government arrangement which will facilitate the delivery of IBM services to government agencies on an economy of scale which will provide cost effective solutions. The anticipated date for finalisation for this arrangement was April 2011; however, the IBM software group have not agreed with some of the standard terms of the SOA so it will now be signed with the hardware product range but without the software products. In its place, the Queensland Government Chief Technology Office (QGCTO) is discussing the option of moving to an ELA structure to accommodate the software products. This was not the desired approach for QGCTO.

Other Activities with CITEC
IBM often has technical experts visiting from overseas and arranges briefing sessions for technical staff within CITEC. Also, in conjunction with IBM, CITEC is about to conduct a 90 day proof of concept in cloud computing.

IBM and Queensland Health's Payroll System
In October 2007, IBM was appointed to implement the new SAP finance and human resource systems for the Government's Shared Service Initiative. In October 2008, IBM revealed that it had severely underestimated the size, complexity and scope of the implementation, with the consequence that its revised projected costs of $203.9 million (excluding GST) significantly exceeded its original tendered cost of $115.6 million (excluding GST). Phase 1 - $78.5 million (excluding GST) and Phase 2 - $37.1 million (excluding GST).

IBM's role was subsequently confined to finalising the implementation of the Queensland Health payroll system (CBRC Decision No. 2794 of 21 September 2009), which went live on 14 March 2010. There have been a number of issues in paying staff arising from both the system as delivered by IBM and the change management and data migration activities undertaken during the implementation.

By Decision No. 3019 of 22 July 2010, CBRC approved entering into discussions with IBM with a view to seeking mutually acceptable terms to finalise the contract for the delivery of the Queensland Health rostering and payroll solution.

The contract between the State and IBM for the delivery of Queensland Health's rostering payroll system has been finalised to both parties satisfaction. The terms of the contract finalisation remain confidential. There are no outstanding issues relating to this contract.

Key issues

- In 2009, CITEC sought three specific Invitations to Offer from the marketplace in relation to the Queensland Government approved Foundation Infrastructure Project. IBM responded to all three but failed to progress to the final contract negotiation stage.

Consultation

- CITEC, CorpTech, the ICT Policy and Coordination Office, the Public Sector ICT Development Office, the Telecommunications, Broadband and Digital Economy Coordination Office and Queensland State Archives were consulted in regards to IBM and provided input into this briefing note.

Future steps

- The Queensland Government ICT divisions and IBM have continued to have a mutually beneficial working relationship.

	Divisional approval
Mal Grierson **Director-General** / /	*Approved by: Natalie MacDonald* *Title: Associate Director-General* *Signature:* *Date: / /*

Minister's comments
Approved / Not approved / Noted

Simon Finn MP
Minister for Government Services,
Building Industry and
Information and Communication Technology
   /   /

Ministerial Officer use only
Approved by:
Signature:
Date: / /

Contact officer	Endorsed by	Endorsed by
Justina Austin	Dallas Stower	Tony Skippington
Principal Advisor	Executive Director	General Manager
Telecommunications, Broadband and	Telecommunications, Broadband and	CITEC
Digital Economy Coordination Office	Digital Economy Coordination Office	W: 322 22276
W: 323 79721	W: 322 44919	
M: ▓▓▓▓▓	M: ▓▓▓▓▓	

Date: 30 March 2011

24 March 2010
Wednesday

	March 2010							April 2010					
S	M	T	W	T	F	S	S	M	T	W	T	F	S
	1	2	3	4	5	6					1	2	3
7	8	9	10	11	12	13	4	5	6	7	8	9	10
14	15	16	17	18	19	20	11	12	13	14	15	16	17
21	22	23	24	25	26	27	18	19	20	21	22	23	24
28	29	30	31				25	26	27	28	29	30	

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24 — Wednesday

From 1 Mar — Nicola Hazell on leave 1/3-23/4 — To 23 Apr
Security - Steve Harwin — To 26 Mar
Commercial In Confidence: BG GAS CONTRACT SIGNING; Beijing
Ollie's Birthday
OWEN'S BIRTHDAY
VINJE HOUSE ON LEAVE 12-26 MAR

6 am

7 00

8 00 — PARLIAMENTARY STRATEGY MEETING
Premier's Office, Parliament House

MEET with Rachel Nolan. [In att: DP, Treasurer, Chris Taylor, Nicole Scurrah, Premier's Office, Parliament House

MEET with Nell Roberts
Premier's Office, Parliament House

Copy: MEDIA TEAM MEETING
9 00 — Premier's Office; Anna Bligh

PARLIAMENT SITTING

10 00

11 00

12 pm — PRESS CONFERENCE
Base Goodwill Bridge

Arrive at the Green Room

Copy: People's Question Time - Growth. [In att: Kate Jones and Stirling Hinchcliffe, Thea Phillips] CANNOT BE MOVED
QUT
1 00 — Anna Bligh

Travel time

Pre-records
2 00

Copy: MEET with Desley Boyle. [In att: Nicole Scurrah]
3 00 — Premier's Office, Parliament House; Anna Bligh

Copy: MEET with Phil Reeves, Karen Struthers re: Family Support Alliance subr
Minister's Room, Parliament House; Anna Bligh

Copy: MEET with Leslie Breaknell, IBM Consultant and Mark Osbourne, Govt IBM Account Manager re: IBM JAM. [In att: Ken Smith, Mal Grierson, Nicole Scurra
Minister's Room, Parliament House; Anna Bligh
4 00 — Copy: FM Radio Interviews. [In att: Thea Phillips]
Premier's Office, Parliament House; Anna Bligh

| Copy: DG/ COS MEETING | Copy: DG/ COS MEETING | DG/ COS MEETING | T: Governor ▓ |
| Premier's Office; Anna Bligh | Premier's Office; Anna Bligh | Premier's Office; Anna Bligh | |

5 00 — PRESS CONFERENCE
Parliament

Private Members motion debate
Chamber
6 00 — NO APPOINTMENTS

7 00

8 00

9 00

CorpTech

FROM: Brett Matthews

DATE SUBMITTED: 23/10/09

Subject:
Premier's Parlimentary Brief - QTIC Delay

1. Proofread by ESO\EO:	Name: P Ostiskova	Initial	Date: 23/10/09
2. Sighted by Director:	Name:	Initial	Date:
3. Sighted By Executive Director:	Name: B. Matthews	Initial BM	Date: 23/10/09

Action Required

☑ Signature ☐ Comment ☐ Review ☐ Other (use section below)

3(a) Funding Requests or Invoices for Payment:

Approval is required from the Finance Manager prior to submission to Office of the General Manager

☐ Recommended for payment (If comments required use other information section)   Yes / No

By (print name):   Signature:

☐ Funds Available   Signature

Colleen Orange, Finance Director

3(b) Contracts:

☐ **If this matter involves engagement of contractors/consultants and/or the acquisition of goods and services via Request for Offer/Contract have you consulted with Procurement Services, CSQ?**   **Yes / No**

Contract documents will be returned to the relevant Executive Director following approval by the General Manager. It will be the responsibility of the Executive Director's office to record and forward to CSQ for processing.

Other Information (background) and comments:

Noted
w 23/10/09 ✓ Typos + wrong no in background - please amend.

4. General Manager

Comments by General Manager

OED use only

DPW 3163

☐ Entered on CTC database   CTC Number: 16091

☐ **Approved by GM –** further action required	☐ **Not approved by GM –** see GM's comments	☐ **Returned** for amendments	☐ **Completed** on CTC database

TOPIC   Queensland   Health
                  Implementation of Continuity
                  (QHIC) project

RESPONSE:

- Work on the Queensland Health SAP/Workbrain payroll implementation commenced early in 2008.
- The Queensland Health Implementation of Continuity project implementation is a very large complex project, designed to provide a payroll and rostering solution to over 80,000 employees working under a significant number of different awards.
- The payroll system has been built and testing has commenced with a number of errors being identified.
- On 19 October 2009, at the Queensland Health Project Board meeting, the board determined that the exit criteria for User Acceptance Testing would not be met.
- Delays in finalising User Acceptance Testing have resulted in a delay to the go-live for the solution until early 2010.
- Detailed planning is currently underway to confirm the revised go-live date, resourcing and funding implications to ensure a successful go-live of the new system.
- The implementation of the new payroll solution is a critical priority for the government and all parties will continue to work together to deliver a successful outcome that meets Queensland Health's requirements.

BACKGROUND:

- Work on the Queensland Health SAP/Workbrain payroll implementation commenced early in 2008. This is a joint project between CorpTech and Queensland Health with delivery through a prime contractor, IBM. The total contract price is approximately $20 million (excluding GST).
- The CorpTech, Health and IBM teams had all been working to achieve a go-live in mid December 2009.
- Implementation of the new solution into Queensland Health will provide major benefits compared to the current LATTICE and ESP (rostering) solutions including a modern supported solution and significantly improved functionality.
- On Monday 19 October 2009, the Queensland Health Project Board determined that as there are outstanding issues from the User Acceptance Testing process, it is not possible to exit from this process and that User Acceptance Testing and other activities will need to continue. Resolution of the outstanding systems issues is critical to ensure that a viable payroll solution is delivered for the 80,000 Queensland Health employees.
- To enable the solution to be implemented as early as possible in 2010, it is critical that IBM resolves the outstanding defects and provide a viable payroll system by the end of 2009. This payroll system must be fully tested and deployable into Queensland Health without further development work. In particular both Queensland Health and CorpTech must be satisfied that the solution will perform in accordance with the documented requirements.
- Initial high level indications are that a March 2010 implementation of the solution into Queensland Health may be possible. An earlier date in 2010 would cause significant difficulties for Queensland Health due to a number of factors, including the significant intake of new employees and staff transfers which occur early in the year.
- To achieve a go-live in early 2010, the following actions are required:
  - CorpTech, Queensland Health and IBM to remain committed and resourced accordingly to ensure that the payroll system is built, tested and ready for implementation before the end of calendar year 2009
  - post December 2009 until go-live, Queensland Health are not to introduce any new requirements
  - mandatory changes due to revised Enterprise Bargaining arrangements may need to be applied before go-live

- all costs beyond end 2009 to be met by Queensland Health, as CorpTech cannot sustain the cost being incurred
- finalisation of resultant contractual changes with IBM.
- The Director-General, Department of Public Works and the Director-General, Queensland Health have discussed these matters and are supportive of the actions outlined above. Senior officers from both agencies have met and will work together to ensure that the actions are implemented. A formal letter from the Director-General, Department of Public Works to the Director-General, Queensland Health will confirm the approach.
- Detailed planning is currently underway to determine the revised go-live date, resourcing and funding implications to ensure a successful go-live of the new system.

Contact: Natalie MacDonald, Associate Director-General
Department: Public Works
Telephone: (w): 07 3239 6976
Date: 26 October 2009