



QUEENSLAND HEALTH PAYROLL SYSTEM
COMMISSION OF INQUIRY

Further Statement of Witness

<i>Name of Witness</i>	Michael Reid
<i>Date of Birth</i>	[REDACTED]
<i>Address and contact details</i>	c/o Corrs Chambers Westgarth Lawyers Level 35, 1 Eagle Street, Brisbane Qld 4000
<i>Occupation</i>	Consultant
<i>Date taken</i>	23 May 2013

I, Michael Reid, state:

1. I previously provided two statements to the Commission dated 24 April 2013 (Exhibit 90) and 16 May 2013 in relation to the contract management phase of this Inquiry. I also attended the Commission to provide oral evidence on 30 April 2013 and 1 May 2013 (See Transcript of 30/4/13 P22-49 to P22-118 and Transcript of 1/5/13 P23-2 to P23-62).
2. On 10 May 2013, the Commission requested that I provide a further statement in relation to my knowledge of the following two issues regarding the settlement phase of this Inquiry:
 - a. The factors which informed the State's decision to settle a dispute with IBM concerning the Queensland Health Payroll System in July 2010; and
 - b. Cabinet's endorsement of that decision,This statement addresses these two issues.

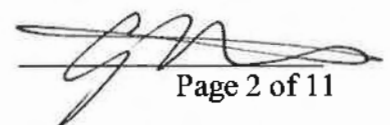
Factors informing State's decision to settle a dispute with IBM

3. As described in paragraph 56 of my statement dated 24 April 2013 (Exhibit 90), a number of problems and errors were identified after Queensland Health's replacement payroll system was implemented by IBM in March 2010.
4. My immediate priority was to stabilise Queensland Health's replacement payroll system to ensure that such problems and errors did not continue to occur and Queensland Health employees were appropriately paid. I took steps to ensure Queensland Health therefore focussed its attention on identifying the problems and errors, informing staff and unions and then rectifying the problems. The actions I personally took are described in paragraph 44 of my statement dated 24 April 2013 (Exhibit 90).

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5. During the early stages of this process, I discussed with Ms Natalic MacDonald (then Acting Director-General of the Department of Public Works) the problems and errors with the replacement payroll system that I had been made aware of. As noted in paragraph 46 of my statement dated 24 April 2013 (Exhibit 90), Ms MacDonald and I then wrote to IBM on 23 April 2010 to express our dissatisfaction with the replacement payroll system (Tender Bundle Settlement phase 'TBS' Vol. 1, page 87). To my recollection, this letter was drafted by the Department of Public Works in consultation with Mr Michael Walsh of Queensland Health, and then I signed off on it after being briefed by Mr Walsh.
6. I have been made aware that following our letter to IBM of 23 April 2010 (TBS Vol. 1, page 87), the State issued IBM with a Notice to Remedy (TBS Vol. 1, pages 108-115) and a Notice to Show Cause (TBS Vol. 1, page 234). To my knowledge, I was not consulted in relation to issuing these Notices at the time, nor was I involved in any correspondence with IBM in relation to them.
7. Several months after our letter to IBM of 23 April 2010 (TBS Vol. 1, page 87), I was advised that the Department of Public Works was considering the State's options in relation to its contract with IBM. I cannot recall who it was that told me this, though I expect it would likely have been Ms MacDonald or Mr Mal Grierson (then Director-General of the Department of Public Works).
8. I have been shown an email I received from Mr Grierson on 23 June 2010 which attached an advice from Crown Law in relation to the options available to the State in respect of its contract with IBM. A copy of this email is attached and marked "MR-1". This email appears to have been sent to me at around the time I was told the Department of Public Works was considering the State's options in relation to its contract with IBM as described in paragraph 7 above. However, I do not recall discussing this matter with Mr Grierson either before or after receipt of this email, nor do I recall reading the advice from Crown Law.
9. I have also been shown an email dated 23 June 2010 in which I forwarded Mr Grierson's email of 23 June 2010 to Mr Cameron Crowther, Chief of Staff to Minister Paul Lucas (then Deputy Premier and Minister for Health and the Minister responsible for Queensland Health). A copy of this email is attached and marked "MR-2". While I do not recall discussing this advice with Mr Crowther or Minister Lucas at any time, I forwarded this advice to Mr Crowther so it could be brought to Minister Lucas' attention.
10. With reference to the first of the two issues upon which the Commission asked me to comment in this statement, to my knowledge I was not advised of any factors which informed the State's decision to settle a dispute with IBM concerning the Queensland



Health Payroll System in July 2010. Given that all of Queensland Health's efforts were focussed on identifying and rectifying the problems and errors with the replacement payroll system at that time, and also because the contract with IBM was not with Queensland Health, I was not asked to nor did I seek to become involved in any further discussions regarding possible courses of action in respect of the State's contract with IBM.

Cabinet's endorsement of the State's decision

11. Some time in late July 2010, I was briefed on a Cabinet Budget Review Committee (CBRC) decision dated 22 July 2010 (TBS Vol. 2, pages 226-361) (CBRC Decision 1). CBRC Decision 1 was made in response to submissions made by Minister Robert Swarten (then Minister for Public Works and Information and Communication Technology) on behalf of the Department of Public Works, and related to negotiations between the State and IBM in respect of their ongoing contractual relationship. I was not involved in or consulted during the preparation of the submissions made to CBRC on this issue, nor was I required to be as this was within the capabilities of the Queensland Health officer who was said to have been consulted on those submissions (Mr Michael Walsh).
12. At the time I received this briefing, I was generally aware that the Department of Public Works was considering its options in respect of the State's contract with IBM as described in paragraph 7 above. I do not recall whether I received this briefing verbally or in writing, though I do recall being advised that CBRC Decision 1 authorised Mr Grierson to act on the State's behalf in respect of progressing this matter.
13. Some time in late August or early September 2010, I was briefed on a CBRC decision dated 26 August 2010 (TBS Vol. 3, pages 178-238) (CBRC Decision 2). CBRC Decision 2 was made in response to submissions made by Minister Swarten on behalf of the Department of Public Works, and again related to negotiations between the State and IBM in respect of their ongoing contractual relationship. I was not involved in or consulted during the preparation of the submissions made to CBRC on this issue, nor was I required to be as this was within the capabilities of the Queensland Health officers who were said to have been consulted on these submissions (Mr Walsh and Mr Terry Mehan).
14. I do not recall whether I received the briefing on CBRC Decision 2 verbally or in writing, though I recall being advised that it authorised Minister Lucas and Minister Swarten as the two Ministers who could approve the terms of any settlement with IBM.
15. On or about 7 or 8 September 2010, I received a document which purported to be a submission from Mr Grierson and me to Minister Swarten and Minister Lucas in relation to the approval of terms of settlement with IBM (Submission). I assume this

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document was prepared within the Department of Public Works because it was on Department of Public Works' letterhead and that Department had been responsible for negotiating the terms of settlement with IBM.

16. Because CBRC Decision 2 required Queensland Health's responsible Minister to also agree to the final terms of any settlement agreement with IBM, it was necessary for me to formally endorse a recommendation to Minister Lucas in respect of that course of action. Normally, I would receive advice on the substance of any submissions prior to approving them, though I do not recall whether I received verbal or written advice on this occasion. I do not believe I acted contrary to any advice provided to me in respect of the Submission and the information it contained. Assuming I acted upon positive advice therefore I believe I considered it appropriate to support the Department of Public Works' recommendation and therefore signed the Submission on 8 September 2010 (see TBS Vol. 3, pages 299-319).
17. To my recollection, this was the extent of my involvement in relation to the settlement of the State's contract with IBM.
18. To my recollection, I did not discuss the issue of settling the State's contract with IBM with Minister Lucas at any time.

Documents and issues referred to me by the Commission

19. On 14 May 2013, the Commission provided my legal representatives with 18 documents to assist with my memory of the events relating to the settlement reached with IBM, as well as a list of eight issues that it intends to consider during the settlement phase of this Inquiry.
20. In respect of the documents provided by the Commission, I state as follows:
 - a. **Document 1** is a "Briefing Note for Approval" from Mr Michael Kalimnios (then Deputy Director-General of Queensland Health) to me dated 29 August 2008 (TBS Vol. 1, pages 35-37). I addressed my recollection of Document 1 in paragraphs 14 to 19 of my statement dated 24 April 2013 (Exhibit 90). I was also asked about Document 1 in my oral evidence on 30 April 2013 (See Transcript of 30/4/2013 P22-51 L50 to P22-54 L40) and 1 May 2013 (See Transcript of 1/5/2013 P23-3 L30 to P23-4 L1, P23-7 L50 to P23-12 L50, P23-18 L1-40, P23-40 L30-50 and P23-59 L30 to P23-60 L20).
 - b. **Document 2** is a CBRC decision dated 21 September 2009 (TBS Vol. 1, pages 67-82). This decision was made in response to submissions made by Minister Schwarten on behalf of the Department of Public Works. It concerned a revised implementation approach for IBM's contract with the State in respect of whole-of-government shared services to the effect that IBM would direct its entire focus

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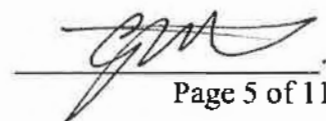
towards the implementation of the replacement payroll system for Queensland Health at that time. I was asked about this CBRC decision during my oral evidence on 30 April 2013 (See Transcript of 30/4/2013 P22-70 L40 to P22-71 L10 and P22-77 L10 to P22-79 L20). I was not involved in or consulted during the preparation of the submissions made to CBRC on this issue, nor was I required to be as this was within the capabilities of the Queensland Health officers who were said to have been consulted on these submissions (Mr Kalimnios and Mr Adrian Shea, then Executive Director, Corporate Services for Queensland Health).

- c. **Document 3** is entitled “Minutes and Actions, QH HR Board Meeting – Extraordinary Meeting” dated 29 March 2010 (TBS Vol. 1, pages 83-86). I did not attend this meeting, nor had I seen Document 3 prior to it being provided by the Commission. I note the attendees at this meeting agreed the implementation of the replacement payroll system had been a success and would be promoted as such. Notwithstanding that view, in the weeks after “go live”, I became dissatisfied with the implementation of the replacement payroll system, particularly due to the fact that extensive numbers of problems and errors with potentially widespread nature came to my attention after it went live.
- d. **Document 4** is a letter from Ms MacDonald and me to IBM dated 23 April 2010 (TBS Vol. 1, page 87). I addressed Document 4 in paragraph 5 above, and also in paragraph 46 of my statement dated 24 April 2013 (Exhibit 90). I was also asked about that letter during my oral evidence on 30 April 2013 (See Transcript of 30/4/2013 P22-91 L40 to P22-93 L30). Document 4 demonstrates that Queensland Health’s dissatisfaction with IBM and the replacement payroll system was known to the Department of Public Works by this time.
- e. **Document 5** is a letter from me to Mr Grierson dated 20 May 2010 (TBS Vol. 1, page 125). Document 5 simply confirmed to Mr Grierson that Queensland Health would meet certain additional funding in respect of the replacement payroll system.
- f. **Document 6** is a submission from Ms Margaret Berenyi (then General Manager of CorpTech) to Mr Grierson dated 8 July 2010 (TBS Vol. 2, pages 44-45). I had not seen Document 6 prior to it being provided by the Commission. As Document 6 is an internal Department of Public Works document which did not seek the approval of other Queensland government agencies, I do not expect it would have been provided to anyone within Queensland Health. However, it was around this time that I was informed the Department of Public Works was considering the State’s options in respect of the contract with IBM as described in paragraph 7 above (though not in the detail contained in Recommendation 2 of Document 6).

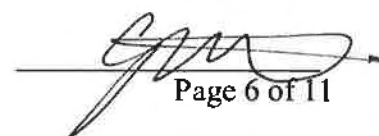
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- g. **Document 7** is a submission from Mr Grierson to Mr Schwarten dated 15 July 2010 (TBS Vol. 2, pages 160-164). I had not seen Document 7 prior to it being provided by the Commission. As Document 7 is an internal Department of Public Works document which did not seek the approval of other Queensland government agencies, I do not expect it would have been provided to anyone within Queensland Health. Again, I believe it was around this time that I was informed the Department of Public Works was considering the State's options in respect of the contract with IBM as described in paragraph 7 above. However, I was not aware of the detail contained in Document 7, such as that one option being considered was the engagement of a professional commercial negotiator to initiate "without prejudice" discussions with IBM aimed at negotiating terms of a final settlement of the contract.
- h. **Document 8** is a submission from Ms Berenyi to Mr Grierson dated 21 July 2010 (TBS Vol. 2, pages 207-221). I had not seen Document 8 prior to it being provided by the Commission. As Document 8 is an internal Department of Public Works document which did not seek the approval of other Queensland government agencies, I do not expect it would have been provided to anyone within Queensland Health. As noted in paragraph 6 above, I had no involvement in corresponding with IBM in relation to the Notices issued by the State in May and June 2010.
- i. **Document 9** is CBRC Decision 1 (TBS Vol. 2, pages 226-361). My recollections in respect of Document 9 are set out in paragraphs 11 and 12 above.
- j. **Document 10** is a submission from Ms Berenyi to Mr Grierson dated 28 July 2010 (TBS Vol. 2, pages 417-430). I had not seen Document 10 prior to it being provided by the Commission. As Document 10 is an internal Department of Public Works document which did not seek the approval of other Queensland government agencies, I do not expect it would have been provided to anyone within Queensland Health. As noted in paragraph 6 above, I had no involvement in corresponding with IBM in relation to the Notices issued by the State in May and June 2010. However, as noted in paragraphs 11 to 12 above, by this time I had been made aware of CBRC Decision 1 which authorised Mr Grierson to act as the State's delegate in respect of negotiating a conclusion to the contract between the State and IBM.
- k. **Document 11** is a submission from Ms Berenyi to Mr Grierson dated 30 July 2010 (TBS Vol. 2, pages 454-476). I had not seen Document 11 prior to it being provided by the Commission. As Document 11 is an internal Department of Public Works document which did not seek the approval of other Queensland government agencies, I do not expect it would have been provided to anyone within Queensland Health. I was not aware of the status of the negotiations between the State and IBM



at this time except to the extent that CBRC Decision 1 had authorised Mr Grierson to act as the State's delegate in respect of those negotiations as set out in paragraphs 11 to 12 above.

- l. **Document 12** is a submission from Ms Berenyi to Mr Grierson dated 2 August 2010 (TBS Vol. 3, pages 3-24). I had not seen Document 12 prior to it being provided by the Commission. As this is an internal Department of Public Works document which did not seek the approval of other Queensland government agencies, I do not expect it would have been provided to anyone within Queensland Health. As noted in paragraph 20k above, I was not aware of the status of the negotiations between the State and IBM at this time except to the extent that CBRC Decision 1 had authorised Mr Grierson to act as the State's delegate in respect of those negotiations as set out in paragraphs 11 to 12 above.
- m. **Document 13** is CBRC Decision 2 (TBS Vol. 3, pages 178-238). My recollections in respect of Document 13 are set out in paragraphs 13 and 14 above.
- n. **Document 14** is the Submission (TBS Vol. 3, pages 299-319). My recollections in respect of Document 14 are set out in paragraphs 15 to 16 above. I note that Minister Lucas appears to have made some notations on the Submission to the effect that additional details should be included in the CBRC submission. To the best of my recollection, these notations were not brought to my attention for further action prior to submitting this document to the CBRC.
- o. **Document 15** is a signed agreement entitled "Supplemental Agreement" between the State of Queensland and IBM Australia Ltd dated 22 September 2010 (TBS Vol. 3, pages 320-373). I had not seen Document 15 (as executed) prior to it being provided by the Commission. Consistent with the submissions attached to Document 14, Mr Grierson was the signatory on behalf of the State of Queensland for Document 15.
- p. **Document 16** is a Parliamentary briefing note from the Department of Public Works dated 23 September 2010 (TBS Vol. 3, pages 374-383). I had not seen Document 16 prior to it being provided by the Commission. As this was drafted within the Department of Public Works and related to CorpTech's actions with respect to IBM, I do not expect it would have been provided to anyone within Queensland Health. I was not aware of the extent to which IBM had fulfilled its obligations under the Supplemental Agreement (Document 15 above) at this time, nor what specific action CorpTech had taken to ensure continuity of support for Queensland Health. However, CorpTech representatives would have been well aware of the support



Queensland Health required due to the ongoing rectification work Mr Walsh undertook in conjunction with CorpTech.

- q. **Document 17** is a CBRC decision dated 2 June 2011 (TBS Vol. 4, pages 4-117). This decision was made in response to submissions made by the Minister Simon Finn (then Minister for Government Services, Building Industry and Information and Communication and Technology) on behalf of the Department of Public Works. I was not involved in or consulted during the preparation of those submissions, nor was I required to be as this was within the capabilities of the Queensland Health officer who was said to have been consulted on those submissions (Mr Walsh). I was not aware of the extent to which IBM had fulfilled its obligations under the Supplemental Agreement (Document 15 above) at this time, nor whether payment was therefore due to IBM.
- r. **Document 18** is a General Briefing Note from Ms Berenyi for approval by Ms MacDonald (then Director-General of the Department of Public Works) and Minister Finn dated 2 September 2011 (TBS Vol. 4, pages 118-129). I had not seen Document 18 prior to it being provided by the Commission. As this is an internal Public Works document which did not seek the approval of other Queensland government agencies, I do not expect that it would have been provided to anyone within Queensland Health. In any event, my employment with Queensland Health ended in June 2011. I am aware of the broad history of the Payroll System project as described in my statements dated 24 April 2013 (Exhibit 90) and 16 May 2013 and the oral evidence I gave to the Commission on 30 April 2013 and 1 May 2013 (See Transcript of 30/4/13 P22-49 to P22-118 and Transcript of 1/5/13 P23-2 to P23-62).
21. In respect of the list of issues provided by the Commission (which are set out below), I state as follows:
- a. **Factors informing Settlement:** I was not aware of nor was I consulted in relation to the factors taken into account by the State in reaching settlement with IBM. To my recollection, the extent of my involvement in the settlement of the State's contract with IBM is limited to that described above.
- b. **Engagement of Clayton Utz to negotiate a settlement and why that process ultimately stalled:** I was unaware that any consideration was given by the State in respect of engaging Clayton Utz to negotiate a settlement. I do not know what steps (if any) were taken in respect of that engagement so I cannot comment on why it may have ultimately stalled as suggested by the Commission's list of issues.
- c. **Legal Advice: Options papers provided by Mallesons Stephen Jaques and advice received from Crown Law:** I was not involved in seeking legal advice on



behalf of the State in relation to the options available to it in respect of the contract with IBM. I do not recall ever receiving any options papers provided by Mallesons Stephen Jaques, nor do I recall having a detailed understanding of what the State's options were except to the extent that settlement was being explored. I was provided with a copy of an advice received from Crown Law as described in paragraph 8 above, though I do not recall reading this or taking any action in response. No instructions were sought from me by either Mallesons Stephen Jaques or Crown Law.

- d. **To what extent the conduct of the State precluded it from pursuing any action against IBM:** I was not involved in any decisions in relation to whether any action would be pursued against IBM, so I cannot comment on the extent to which the State's conduct influenced such decisions.
- e. **Affect the Auditor-General's Report No. 7 of 2010 (Exhibit 2) was seen to have on any action brought by the State:** I was not involved in any decisions in relation to what action might be brought by the State. I cannot comment on the extent to which this report influenced such decisions.
- f. **List of 35 payroll system defects identified to be resolved as part of the settlement process:** The resolution of these 35 defects was mentioned in the Submission. Due to my involvement in the Payroll Stabilisation Committee, I became aware that a number of defects had been identified post "go live" of the replacement payroll system. However, I was not aware these defects were to form the basis of any settlement negotiations with IBM. As noted in paragraph 10 above, all of my efforts in relation to the replacement payroll system during the relevant period were focussed on identifying and rectifying the problems and errors with the system, including meeting with unions, staff and payroll centres in relation to that rectification work, rather than ensuring defects with the system formed part of any settlement discussions with IBM. I was also occupied with a number of other critical matters for Queensland Health during the relevant period such as:
 - i. Contract negotiations in relation to the Mater Hospital;
 - ii. The transfer of children's services to the new Children's Hospital;
 - iii. A significant dispute in relation to visiting medical officers (VMOs);
 - iv. The National Health and Hospital Network reform;
 - v. The National Registration Accreditation Scheme;
 - vi. The Sunshine Coast University Hospital build; and
 - vii. E-Health/Telehealth strategies.

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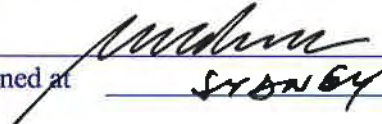


These other critical matters limited the time I could personally dedicate to issues arising from the replacement payroll system, which is why I had Mr Walsh leading the rectification work.

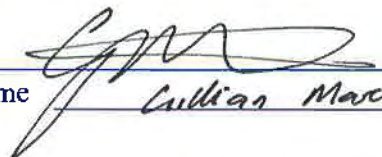
- g. **What consideration, if any, was given to obtaining the advice of the Solicitor-General or Senior Counsel in relation to prospects of success in an action against IBM:** I was not involved in seeking legal advice on behalf of the State in relation to its prospects of success in an action against IBM. I cannot comment on whether any consideration was given to obtaining legal advice from the Solicitor-General or Senior Counsel in relation to this issue.
- h. **Whether there was any evidence that, if terminated, IBM would walk away from the payroll project. Was there historical evidence to support this fear? Was this risk so great that the State could not reserve its rights to sue?** I do not recall being informed that termination of the State's contract with IBM might entail risks that IBM would walk away from the payroll project. I cannot comment on what evidence or risks were considered by the State in respect of IBM doing so.

Declaration

This written statement by me dated 23 May 2013 and contained in the pages numbered 1 to 10 is true and correct to the best of my knowledge and belief.

Signed at  Signature
SYDNEY this 23rd day of May 2013

Witnessed:

Name  Signature 23/ May / 2013.
Cillian Marchant

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Witness signature: 



**QUEENSLAND HEALTH PAYROLL SYSTEM
COMMISSION OF INQUIRY**

Annexures to Further Statement of Witness

Items to be annexed to the statement of Michael Reid taken on 23 May 2013:

Annexure	Document	Page No.
MR-1	Email from Mal Grierson to Mick Reid and Ken Smith dated 23 June 2010	1-17
MR-2	Email from Mick Reid to Cameron Crowther dated 23 June 2010	18-35

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