QUEENSLAND HEALTH PAYROLL SYSTEM COMMISSION OF INQUIRY

Statement of Witness

I, BARBARA JEAN PERROTT (KULPA) of an address known to the Commission state:

Contract Management - The First 12 months

1. In late 2007, in preparation for the management of the Prime Contractor, I oversaw the restructuring of CorpTech which allowed for clearly defined roles and accountabilities to manage the new implementation model. This involved the establishment of a Program Delivery Directorate. The Program Delivery Directorate encompassed the Solution Design Authority (SDA) and the Strategic Program Office (SPO), as well as a Technology Services Division. Service Management continued to support the running of both the legacy systems and the recently rolled-out finance systems, and the Corporate Services Division supported CorpTech's internal HR/Finance matters. The heads of all of these divisions, namely SDA, SPO, Technology, Service Management and Corporate Services, all reported directly to me. Mr Terry Burns remained in the temporary position of Program Delivery Director until June/July 2008, when he then took up a position within Queensland Health (QH). Whilst in CorpTech Mr Burns also reported directly to me.

2. In a broad sense, the roles of the units that were involved in the management of the Prime Contractor were as follows. The SDA was to manage scope, the SPO was to manage vendor management, and Technology Services was to advise on and monitor systems architecture and design. The key role of the Program Delivery Director was to assist with the set-up of the new arrangements.

Barbara Perrott: B J Perrott Witness signature:

3. In essence, both the SDA and SPO were new, strengthened functions within CorpTech. They were established for the express purpose of strengthening CorpTech's program/project management skills and managing the Prime Contractor and its program of work in a more structured way. These units were staffed by a mix of internal Public Servants who had a strong capability in and a sound knowledge of the requirements of the program. These internal staff were complemented by a small number of externally recruited Contractors with specialist skills and knowledge in managing large IT contractual arrangements.

4. Prior to the implementation of the new model, weaknesses in program/project management were the key areas of focus of several operational reviews of CorpTech, including the review by the Service Delivery and Performance Commission (SDPC).

5. In addition, clearly defined governance arrangements to support the new approach were established and communicated across the stakeholder groups within the broader Government context. That is, the accountabilities of the CEO Committee, the Executive Steering Committee (ESC), Release Steering Committees, Change Advisory Boards, SDA, SPO and so forth. This governance framework was documented in detail, endorsed by the ESC and approved by the CEO Sponsor Group at its meeting of 15 April 2008 in response to a paper that I presented to the Group: see Item 3 of the Minutes of the Shared Service CEO Governing Body Meeting (Annexure 1).

6. By July 2008, the SPO was starting to raise concerns about IBM's performance. These issues were detailed in "Submission to the Executive Director" dated 17 July 2008 (CTC – 14637) (Contract Management Tender Bundle, document 70) and also "Director General Briefing Note" dated 8 July 2008 (DPW00000/08) (Contract Management Tender Bundle, document 67). The concerns raised were in relation to IBM's performance, particularly concerning the timely achievement of milestones, planning, inconsistent quality, cumulative effect of Change Requests, and the seeming focus on financials at the expense of timely or quality deliverables.

Barbara Perrott: B J Perrott Witness signature: [signature]

7. At that stage the expected Go-Live date for the Queensland Health Interim Solution was 17 November 2008 (as amended by Change Requests 60 & 61 dated 27 June 2008) (Contract Management Tender Bundle, documents 62 and 63). On 8 August 2008, I received a Notice of Delay from Mr William (Bill) Doak, Program Director IBM (Contract Management Tender Bundle, document 75), stating that "preliminary indications are for a Go-Live date in the March/April 2009 timeframe".

8. This Delay Notice was strongly resisted by CorpTech, Queensland Health and the ESC. From the Government's perspective IBM was still having problems with the testing schedule, HR/FI Integration issues, and system performance. IBM had given a fixed price for this work so any further extensions would be at their cost.

9. After careful consideration by the relevant Government representatives, Mr Doak was notified in a letter under my signature dated 2 September 2008 (Contract Management Tender Bundle, document 88) that the State would not agree to his suggested extension of time. This document also clearly articulated the reasons for our response. It was my personal belief at the time, that while we all wanted this new arrangement to work that we "were nearing the point where we needed to take more formal action with IBM", as I stated in my email to the Director General dated 25 August 2008 (Contract Management Tender Bundle, document 84).

10. Around that time the SPO had also recommended withholding certain payments to IBM for non-achievement of milestones. Although this was a valid part of the contract governance, Mr Doak strongly disagreed with CorpTech's position and raised his concerns with the Director General, Mr Mal Grierson and myself. The outcome of these discussions was Mr Grierson agreeing that in good faith that these payments should be released to IBM. In agreeing to the release of the payments, Mr Grierson stressed to Mr Doak that the State had serious concerns about IBM's performance and that we were expecting the situation to be remedied and that IBM's compliance with the terms of the contract be achieved. This probably amounted to a first official warning to IBM of our concerns, albeit somewhat informal.

Barbara Perrott: B J Perrott. Witness signature: [signature]

11. Mr Doak was also highly critical of the performance of the SPO and in particular, he believed that Mr Beeston, Director SPO, was being obstructionist. It was my belief, at the time, that the staff within the SPO were adequately fulfilling their duties. Proper contract management was a strength they had developed to overcome what had previously been reported as one of CorpTech's key weaknesses. While "silencing" a strong SPO might have had advantages for IBM, it certainly wasn't in the interests of the State. It was within that context that I was able to advocate on behalf of the SPO in general, and Mr Beeston in particular. I note that from that point, the unit remained stable until, at least, my departure from CorpTech in February/March 2009.

12. In the second half of 2008, Mr Grierson also planned to escalate our concerns with IBM during an imminent trip to the USA. His intention was to highlight the importance of this project to the State of Queensland and stress our current issues regarding the project's performance. His expectation was that IBM "global" would ensure that we were given priority in terms of resources and skills, and do everything with in its power to ensure that our program of work achieved its goals: see ESC Minutes 25 September 2008 (Contract Management Tender Bundle, document 108). I note that this was relatively early in the life of the Contract and Mr Grierson was keen, at that stage, to exhaust all available avenues to improve the performance of IBM and the Program prior to enforcing more legalistic pathways.

13. While the SPO advocated that IBM's performance was nearing a "breach" position, I was also aware, that the management of IBM happened within a wider Government context than purely the SPO. At times decisions are made where the reasons may not always be evident to the "recommender". That is, other factors must be taken into account. This issue often caused frustration for the SPO, as I've explained in paragraphs 10 to 12 above.

14. On 18 September 2008 I received a Memorandum from Mr Michael Kalimnios, Deputy Director General, Corporate Services Queensland Health (Contract Management Tender Bundle, document 95). He was providing a response to the proposed revised program governance arrangements and Go-Forward strategy that was tabled at a recent ESC

Meeting for consideration. (ESC 11 September 2008). In essence, his response included QH's desire for a single instance of SAP/Workbrain and confirmed QH's governance requirements. He stressed that while QH was willing to work in collaboration with the whole-of-Government approach, this could not be at the expense of the QH business needs.

15. My response to Mr Kalimnios, on behalf of CorpTech, dated 7 October 2008 (Contract Management Tender Bundle, document 118), highlighted that I supported "a separate instance subject to funding constraints" and that I fully understood QH's "need for a degree of autonomy over decision making". This was reflected in my support for adjusting the Governance arrangements to ensure that QH had maximum control over the direction of its program of work and its influence over the timely achievement of the milestones between QH, CorpTech and IBM. Within the current philosophy however, any increase in autonomy, had to be moderated by whole-of-Government and Contractual considerations. I was keen to ensure that "we achieved a viable way forward for both Queensland Health and CorpTech".

16. Leading to this time, the Executive Steering Committee had played a key role in maintaining a whole-of-Government approach to the systems roll-out. However, as the program of work became increasingly decentralised, with the focus shifting to QH, it was evident that a QH Program Board/Solution Steering Committee should be established, with the consequence that the ESC's role became defunct.

17. During December, 2008 and January, 2009 there was an exchange of emails between myself and Mr Doak, where IBM was wanting to extend the go-live date again, from December 2008 to mid 2009. There was also a considerable gap between the parties' views on the best way forward for Queensland Health and the Lattice Replacement project.

18. This culminated in a letter to Mr Doak of 28 January, 2009 suggesting, that in order *"to progress this matter, CorpTech proposes that CorpTech, Queensland Health and IBM meet with lawyers to formally discuss the outstanding issues in an attempt to*

resolve these issues and agree a way forward." This proposal was based on CorpTech's view that IBM was in breach of the Customer Contract at that time.

19. I am not aware of the outcome of this proposal as I transitioned from CorpTech to the SSA during February 2009.

Change Requests

20. I have been asked by the Commission about my role in the processing of change requests.

21. Where IBM was proposing a change to the Contract, the change request would be drafted by IBM in accordance with the requirements of Schedule 12 of the Contract using a standard Change Control Document. The Change Control Document would be submitted by IBM to the Program Delivery Office for consideration. The SDA and the SPO would consider each Change Control Document. Prior to a change request reaching that stage however, the issue would have progressed through a series of program governance committees and checkpoints, namely, the Change Advisory Board, Release Committees, Solution Steering Committee and frequently the Executive Steering Committee. Therefore, all Change Requests would have had both the visibility and the endorsement of the senior corporate staff within the Agency prior to the sign-off process.

22. Prior to my signing the Change Request, I would be briefed by CorpTech officers regarding the reasons for the Change Request, the consequences of agreeing to the change and other relevant matters. The officers briefing me, like John Beeston, James Brown and Malcolm Campbell, were in my view competent and had a thorough working knowledge of the Contract and the Project as well as the circumstances surrounding the change. Frequently, I would also have had prior knowledge of the issue due to it having been discussed at various Governance meetings where I would have been in attendance.

Barbara Perrott: BJPerrott Witness signature: JBozzo

23. I recall signing Change Requests 60 and 61. They were brought for me to sign at the Conference Centre at the Hilton Hotel where I was conducting a CorpTech Planning Workshop with my senior and middle management teams. These Change Requests resulted from QH's final definition of their business requirements pertaining to enabling integration between their legacy systems and the new payroll system.

24. I note that it has been reported that Change Request 60 and 61 were signed "in a hurry" on 27 June 2008. I would like to emphasise that while the actual signing may have arisen in a hurry, the actual issue being addressed by these Change Requests had been the subject of reporting to and consideration by the Executive Steering Committee (of which I was the Chair) since 6 April 2008. They also had the full visibility of the QHIC Steering Committee which had endorsed the signing of these Change Requests prior to them arriving for my signature.

25. The forthcoming Change Request Documents themselves had been under consideration by the parties since IBM had proposed them on 18 June 2008. Additionally, Mr Beeston and other SPO staff were present when I signed the documents and provided a further briefing on current issues prior to signing.

26. Change Requests 129 dated 11 November 2008, 174 dated 28 November 2008, 177 dated 5 December 2008, and 179 dated 11 December 2008, were part of a sequence where IBM was seeking to extend the go-live date and the State was agreeing to this variation to the Contract based on certain conditions having been achieved by that particular date. With the condition precedent not being met from the particular Change Request, the next one ensued seeking to extend the date a little further, on the basis of, again, the achievement of certain conditions.

27. At the time that Change Request 179 was signed, I was on leave and Philip Hood who was acting in my position, signed the document.

Barbara Perrott: BJPerrott. Witness signature: [signature]

28. From memory, IBM was unable to achieve the set conditions within the proposed dates. Hence, the meeting of the parties to determine an agreed way forward (as outlined in Paragraphs 18 & 19 above) was enacted.

Reducing the scope of the Contract

29. On 21 September 2009, Cabinet approved the reduction of the scope of the Contract so that only Statements of Work related to Queensland Health would be advanced and no new Statements of Work would be entered into.

30. I left CorpTech in February/March 2009, so I had no involvement in the decision to reduce the scope of the Contract.

Declaration

This written statement by me dated 30th April '13 and contained in the pages numbered 1 to 8 is true and correct to the best of my knowledge and belief.

B J Prott — Signature

Signed at Brisbane this 30th day of April 2013

Witnessed:

M Bozier — Signature

Name Michelle Bozier

Annexure 1

Queensland Government

Shared Service Initiative

Minutes
Shared Service CEO Governing Board Meeting
15 April 2008 (9:00am – 10:30am)
Conference Room,L evel 9, Executive Building

Members	Organisation	Present/ Apologies	Proxy
Gerard Bradley (Chair)	Queensland Treasury	P	
Mal Grierson	Dept of Public Works	P	
Ken Smith	Dept of Premier and Cabinet	A	Walter van der Merwe
Rachel Hunter	Dept of Education Training & the Arts	P	
Andrew Wilson	Queensland Health	A	Michael Kalimnios
Julie Grantham	Dept of Justice and Attorney General	P	
Scott Spencer	Dept of Natural Resources & Water	P	
James Purtill	Office oft he Public Service Commissioner	A	
Standing Representatives	**Organisation**	**Present/ Apologies**	**Proxy**
Barbara Perrott	CorpTech	P	
Observers	**Organisation**	**Present/ Apologies**	
Dr Leo Keliher	Service Delivery and Performance Commission	P	
Invited Guests	**Organisation**	**Present/ Apologies**	
David Ford	Queensland Treasury	A	
Mike Burnheim	Shared Service Agency	P	
Stan Sielaff	Corporate and Professional Services	P	
Paul Monaghan	Health Shared Service Partner	P	
Declan McNamara	SSI Strategy and Reporting	P	

Secretariat: Paula Pratt, Strategy and Reporting Office

Meeting Opened: 9:05am

Welcome
Mr Gerard Bradley (Chair) welcomed Board Members to the meeting, noted apologies and acknowledged proxies.

ITEM 1: Confirmation of Minutes
The minutes of the previous meeting held on 10 December 2007, were confirmed as a true and accurate record.

ITEM 2: Actions arising from previous Minutes
Mr Bradley referred the Board members to the completed actions from the 10 December 2007 meeting and noted that as this was an extra-ordinary meeting, normal reporting requirements had not been included. It was agreed that any required reporting would be circulated out of session.

BOARD ACTIONS – Item No 2	
The Board: noted the Action from the 10 December 2007 meeting.	
Further action to be taken	**Action Officer**
SSI Strategy & Reporting to distribute any required reporting out-of-session.	Executive Director, CorpTech

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ITEM 3: **Revisions to SSI Approach**

Barbara Perrott presented this item highlighting that the SSI has now matured to a level where it can be embedded as part of normal government operations

Governance discussion points:

- A streamlined governance structure will oversight the shared service model and finalisation of the business solutions. The Shared Service CEO Governing Board and the Executive Leadership Committee will cease to operate.
- CorpTech will transition to Department of Public Works from 1 July 2008. A small group will continue in Treasury in a monitoring role,(eg monitoring of funding for the implementation of the business solutions and monitoring business improvement across agencies and providers).
- SSPs will drive projects previously centrally led,a nd greater emphasis will be placed on agencies and providers working together to standardise business processes and identify efficiency opportunities.
- Each SSP will retain responsibility for maintaining customer forums and governance mechanisms to support service delivery.
- The Committee noted the risk of agencies being dependent on the shared service provider to drive efficiency improvements. It was agreed that continued emphasis needed to be placed on providers operating as business units – with agencies required to actively undertake their corporate purchaser role. A performance monitoring and review process will be undertaken by the Shared Service CEO Sponsor Group.

Multiple Instance Approach discussion points:

- The multiple instance approach strengthens the capacity for investment decisions to be driven by business benefit opportunities. SSPs will work with their client agencies to identify areas where investment will provide the greatest return.
- Optimal standardisation of the business solutions will support common SSP processes and provide flexibility to meet different business drivers. IBM are able to provide advice on business process redesign.
- The importance of the SSA clients being broughti nto a standardised business environment (SSA instance) was highlighted as a critical success factor for the shared service model.

Funding modeld iscussion points:

- The move to fee-for-service is a critical element in managing demand for services.
- The SSA costing and pricing model has been independently reviewed by BDO Kendalls.
- Benchmarking across SSPs and with other public and private sector entities will be important in order to leverage business improvement opportunities across the sector.
- $55 million will be available for business solution implementation for phase 2 agencies.

BOARD DECISION – Item No 3
The Board endorsed: In relation to governance: 1. revised shared service governance arrangements, including the formation of the Shared Service CEO Sponsor Group and the Executive Steering Committee 2. noted that whole-of-Government monitoring on the shared service model and corporate service performance will be integrated with existing planning and monitoring mechanisms 3. that a review of the CorpTech business model will be undertaken by March 2009. In relation to the implementation of new business solutions: 4. the implementation of the multiple-instance approach. In relation to the funding framework: 5. the proposed funding approach for consideration by the Cabinet Budget Review Committee including the move to fee for service and the savings and investment strategy over the period 2009-10 to 2012-13.

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ITEM 4: SSA scope of services and transition arrangements

Mike Burnheim addressed this item

Discussion Points

- The SSA consulted with clients with regards: Annual Financial Statements, Follow-up of outstanding debt, Performance Management & Support, Learning & Development and Position Evaluations & Related Services, and recommends thatw here SSA currently provides the service they will retain it.
- Julie Grantham reported concerns expressed by the Department ofE mergency Services regarding 'outstanding debt' services.
- The Committee agreed thatt he services nominated were ones where benefits could be achieved through shared service arrangements. In relation to the specific issue raised by DES,i t was agreed that:
    - SSA would continue discussions with DES in relation to providing a process expertt o review the process of 'outstanding debt' on an end-to-end basis
    - Within 12 months, if performance improvements to services are not achievable then the service would be returned to the agency.
- It was agreed that SSA services needed to be sourced by a critical mass of agencies in order to be viably delivered on a shared basis. Where the service was not viable, the SSA needed to have the option of returning the service to all agencies.

BOARD DECISION – Item 4
The Board endorsed its previous in-principle decisions to: 1. Return all out-of-scope services to Agencies. 2. Transition the following optional services back to Agencies: • Workplace Health and Safety – WH&S audits and administrative components • Employee Assistance Program – except Performance Management • Rewards and Recognition • Collection of revenue at point of sale • Undertaking physical stock takes • Physical holding of petty cash floats. 3. Transition Document and Records Management back to Agencies with mail services being retained by the SSA as a mandated service. 4. Fleet Support Services – QFleet and the SSA complete their joint review of fleet - acquisition, disposal, parking and pooling functions. Further consideration of the results of this review be undertaken by the Director-General, Department of Public Works. 5. In regard to the remaining five optional services, that: • Annual Financial Statements - SSA retains this service where it is currently provided. • Follow-up of outstanding debt - SSA retains this service where it is currently provided and also takes action to review service quality where appropriate. • Performance Management and Support - SSA continue to provide this service on an untied fee for service basis for those agencies seeking to purchase this product from the SSA. • Learning and Development – SSA continue to provide this service on an untied fee for service basis for those agencies seeking to purchase this product from the SSA. • Position Evaluations and Related Services – The SSA retain this service for existing clients but the SSA review its service standards in conjunction with client agencies. 6. In regard to Strategic and Tactical Procurement, that: • SSA continues to provide tactical procurement services to those agencies which prefer the SSA to supply this service. Further discussion will be held with the QGCPO regarding this matter.

Further action to be taken	Action Officer
The SSA and DES to work together to identify efficiency improvements associated with the service of 'follow up of outstanding debt' and develop a process for a performance review of the service within a 12 month period.	Managing Director, SSA

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ITEM 5: Other Business

Discussion Points

- Gerard Bradley highlighted that the new approach, whilst consistent with the overall intent of the SDPC Review of the SSI (March 2007), amends specific recommendations. Arrangements for future monitoring of applicable recommendations will need to be considered and formalised.
- Gerard Bradley thanked the members for their time and efforts on the Shard Service CEO Governing Board.

BOARD ACTION – Item No 5	Action Officer
Future monitoring arrangements in relation to the SDPC Review of the SSI to be determined, taking into account the revised approach to implementation.	Dr Leo Keliher / Barbara Perrott

Meeting Closed: 10:30 am

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BRIEFING PAPER

Shared Service CEO Governing Board 15 April 2008	**Agenda Item 3**

Title: Revisions to SSI Approach **For approval**

BACKGROUND

The SSI has operated across the Queensland Government since mid-2003. At establishment, the SSI model was based on five providers supporting clusters of client agencies through standardised (whole-of-Government) business processes, technology solutions and service management. In this time, substantial change has been effected in terms of the Government's approach to corporate service delivery.

In 2006 the three multi-agency SSPs united under the banner of the Shared Service Agency (SSA). Over 2007,t he SSA has developed a new business model, consolidated its organisational structures, and tightened its service offering (to a focus on transactional services). These developments position the SSA to actively work with client agencies in improving business practices for shareable services.

The SSI implementation effort to date has been undertaken as a centrally coordinated project. Like any substantial change management project, ongoing ownership and benefits maximisation is dependent on integration within normal business activity. The maturing of the three shared service providers (progressively over a five year period), and the substantial redesign of the implementation strategy for the new business solutions (now being undertaken via a Prime Contractor), removes the need for centralised management.

ISSUES

Shared services as normal operations

Whilsts ome significantg ains have been achieved in the SSI environment over the implementation period to date, the model has not resulted in significant standardisation of business processes across agencies. In adapting the SSI model to position shared services as a mainstream function of government, major challenges which require particular consideration include:

- streamlining governance, whilst ensuring that investment in new business solutions is driven by the business priorities of agencies and providers
- creating incentives for service providers and agencies to jointly embrace business process standardisation and to strive for continuous improvement
- delivering new business solutions on time and within budget under the revised Prime Contractor delivery model

Success in meeting these challenges will ensure that shared services continues as a viable delivery model in the longer term.

Revised governance

The implementation of shared services initially generated an extensive governance model particularly to ensure engagementa cross the sector. With the three providers now firmly

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established, the business operations of shared services should form an integral part of departmental governance arrangements.

Under the revised approach, it is proposed that specific governance arrangements to oversight the development and implementation of new business solutions remain, given the remaining development program continues to represent a significant investment. It is critical that shared service providers are actively engaged in specifying business requirements, prioritising investment to achieve business benefits, and oversighting the delivery of new solutions under a Prime Contractor arrangement. A new Executive Steering Committee has been formed for this purpose. The Committee will support the Executive Director of CorpTech in the delivery of new business solutions under a Prime Contractor arrangement.

A Shared Service CEO Sponsor Group will convene as required to monitor the overall model for shared services and the delivery of new business solutions. The Sponsor Group will be representative of the three agencies hosting shared service providers and Queensland Treasury. (From 1 July 2008, CorpTech will operate under the responsibility of the Department of Public Works.)

Details of the revised approach are outlined in Appendix A.

Business Solution Implementation

A sub-Committee of the Board, comprising CEOs responsible for shared service providers and CorpTech, have analysed improvement strategies for the whole-of-Government finance and human resource business solution model. This analysis reflects the changing business drivers affecting shared service providers over the life of the Initiative. Whilst the strategy to optimise the standardisation of business processes and systems remains valid, there is a need to provide flexibility to meet current and emerging business drivers – such as risks from outdated legacy systems and the unique business needs of shared service providers and their customer agencies.

Consistent with the mainstreaming of the SSI, a multiple-instance approach to the new business solutions (modelled around the three shared service providers) will facilitate a move from a centralised implementation model to a SSP/customer agency-driven approach. The key components of the revised approach are outlined in Appendix B.

In moving to a multiple-instance model there are implications for the CorpTech business model. These implications will be analysed as part of a review of the CorpTech business model to be undertaken by March 2009, with the purpose of ensuring that the future model is cost-effective and responsive to shared service providers and their customer agency needs.

Future Funding Approach

The SSI funding framework contains a number of features designed to manage risks arising from a significant change program. Quarantining was designed to provide assurance to client agencies regarding cost, and to maintain the base against which savings could be made. Savings were extracted as performance returns from SSPs and CorpTech on the basis that the savings would arise mainly in these entities

The success of the funding framework was contingent on the implementation and new standard business processes being completed within three years. Significant extensions to the implementation timeframe have had unintended consequences which have diminished the effectiveness of the funding approach. In particular, there is a lack of incentive for customer agencies to undertake major change for the sake of generating efficiencies in service providers,

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the benefit of which is passed on to the Consolidated Fund asP erformance Returns. Whilst these funds are redirected to service delivery across the sector through the Budgetp rocess, client agencies do not directly enjoy the benefit of reduced prices for corporate services.

It is proposed to embed the fiscal and financial elements ofs hared services as part ofn ormal business operations, and to create a set of incentives that optimises standardisationa cross Government. Key features include:

- moving from quarantining to fee-for-service – enabling price signals to motivate partnering on process efficiency
- achieving the $100M pa savings target by 2012-13 (10 year horizon).

Savings targets will be extracted as fiscal limit reductions in agencies, with any additional savings beyond the targets able to be retained by agencies. There will be a 'soft start' during 2008-09 with no net impact on agencies. These 12 months can be used:

- for joint planning by agencies and SSPs/CorpTech to prioritise business process change projects to begin to deliver benefits in 2009-10
- to improve provider costing/pricing and benchmarking capability before savings begin to ramp.

Whilsts avings targets will ramp thereafter to eventually reach $100M pa by 2012-13, $55M will be reinvested in shared services over that time to complete the implementation across the sector.

The revised funding approach will promote agencies working with their SSPs and CorpTech to prioritise and execute business improvement initiatives that lead to reduced prices paid by customers for shared services.

The revised funding approach is detailed in Appendix C.

CONSULTATION

The revised arrangements have been developed by a sub-Committee of the Shared Service CEO Governing Board. The proposal has been worked up in close collaboration with the shared service providers and CorpTech, who are in agreement with the revised approach.

Consultation on the revised approach has also been undertaken with the Commissioner, Service Delivery and Performance Commission who has indicated support for the revised strategy.

In consulting with Board members on the proposed changes, there was general agreement to the direction outlined. One area of concern identified was the extent to which the model sufficiently pressured providers to reduce costs and provide quality service. Under the proposed funding approach, agencies bear the financial risk if providers do not achieve efficiencies. There are a number of elements built into the model to mitigate this risk. The SSPs are empowered to prioritise the business solution implementation and work with agencies to identify end-to-end business improvements. An annual review process, inclusive of agency and provider input, will be overseen by the CEO Sponsor Group which monitors the performance and business improvement focus of shared service operations across the sector.

The alternative model, of sourcing performance returns through SSP budgets, has nota cted as sufficient incentive for agencies and providers to drive standardisation. Continued sourcing of returns through provider budgets will not change inherent behaviours. The performance return will continue to be treated as a provider input cost and passed onto clients. The model proposed

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reflects the maturing of the shared service business environmenta nd places greater emphasis on the business relationship between providers and agencies.

SUMMARY OF RECOMMENDATIONS

It is recommended that the Shared Service CEO Governing Board:

In relation to governance:

1. approve revised shared service governance arrangements, including the formation of the Shared Service CEO Sponsor Group and the Executive Steering Committee
2. note that whole-of-Governmentm onitoring on the shared service model and corporate service performance will be integrated with existing planning and monitoring mechanisms
3. note that a review of the CorpTech business model will be undertaken by March 2009.

In relation to the implementation of new business solutions:

4. endorse the implementation of the multiple-instance approach.

In relation to the funding framework:

5. endorse the proposed funding approach for consideration by the Cabinet Budget Review Committee including the move to fee for service and the savings and investments trategy over the period 2009-10 to 2012-13.

Submitted by:

Gerard Bradley
Under Treasurer
Tel: 322 44625

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BRIEFING PAPER

Shared Service CEO Governing Board 15 April 2008	Agenda Item 3 Appendix A

Title: **Revisions to SSI Approach - Governance**

BACKGROUND

Over the life of the SSI, the implementation program and ongoing service delivery has been directed by a governance framework designed to provide cross sector participation in the strategy development, decision making and performance monitoring of shared services. This framework has been periodically reviewed to ensure thati t meets program requirements through progressive implementation phases.

Under current arrangements, the Shared Service CEO Governing Board has the role of providing overall direction for SSI implementation. It is accountable to the CabinetB udget Review Committee for the implementation and operation of the SSI. The Board is supported by an Executive Leadership Committee, which oversights Initiative strategy and the development of the new business solutions.

KEY ISSUES

Revised governance arrangements

In embedding shared services as normal business operations it is envisaged thatg overnance arrangements would be streamlined, and integrated within departmental governance processes.

The revised approach to shared services emphasises the business relationship between agencies and providers, and the importance of working together to drive business standardisation and improvements on an end-to-end basis. Critical to the revised approach is a sustained focus on business improvement, resulting in the delivery of shared services to agencies at a lower cost. The previous governance and funding approach did not acta s an incentive for agencies and providers to collaboratively standardise processes.

In a mainstreamed environment, agencies should be actively seeking efficiency improvements and reductions in the cost of service delivery through purchasing arrangements. In meeting these expectations, the shared service providers (SSPs) have a strengthened leadership role and through governance mechanisms need to:

1. agree with agencies on standardisation and business improvement opportunities and enactb usiness changes on an end-to-end basis
2. determine business priorities associated with the delivery of new business solutions
3. have transparent mechanisms at an agency and whole-of-Government level which measure the efficiency and effectiveness of service delivery

Consequently, there are a number of critical areas where a whole-of-Government governance focus remains warranted.

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Business Solution Implementation

Mainstreaming of the initiative places a heavy reliance on the SSPs to prioritisea nd drive improvements in corporate service delivery. Reflecting this responsibility, an Executive Steering Committee (representative of CorpTech and the three SSPs) has been formed with responsibility for prioritising the remainder of the investment program to maximise the overall benefit to Government. The Committee will be responsible for:

- ensuring the program strategy will deliver againstb usiness needs
- monitoring program delivery under a Prime Contractor arrangement
- advising on the business solution program and the CorpTech business model

One of the first decisions of the Committee was to recommend the move to a multiple-instance model (see Appendix B).

The Executive Steering Committee will ensure that appropriate governance mechanisms are in place to support release management of new business solutions and the definition of scope by the Solution Design Authority.

Leveraging benefits beyond Phase 1

The Executive Steering Committee will prioritise business requirements and ensure that, within the resources available, the business solution program provides maximum value to SSPs and their client agencies. The extent of Phase 1 funding around which the Committee has some discretion is approximately $50M after taking into account fixed price commitments with IBM (including delivery of Queensland Health's interim solution) and semi-fixed commitments such as accommodation and technology costs which cannot be avoided in the medium term (to December 2009).

The Executive Steering Committee advises that this level of funding should suffice to deliver the core component of DETA's HR solution, and to meet SSA cluster priorities in relation to Lattice replacement and priority consolidation of legacy systems. The additional $55M in funding for Phase 2 will be directed to continue to meet SSA cluster priorities in the first instance.

<u>Performance of shared service model</u>

The revised approach negates the need for an Initiative-level Board oversighting whole-of-Government shared service operations. However, it is considered appropriate thata mechanism remains for CEO oversight of the shared corporate services delivery model and the business solution implementation program. In this regard, the formation of a CEO Sponsor Group is proposed, representative of the agency CEOs hosting SSPs and the Under Treasurer.

The Sponsor Group's principal interest will be the effectiveness of the shared service model and oversighto fremaining elements of the business solutions implementation.

In addition, the CEO Sponsor Group will establish mechanisms aligned with existing whole-of-Government planning processes (including the budgetp rocess) to monitor service delivery efficiency. An annual review process, inclusive of agency and provider input, will be established which monitors the performance and business improvement focus of shared service operations across the sector.

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Transparency of SSP operations

Under current arrangements, SSPs operate as separate reporting entities. In line with commercialised business units (CBUs), the obligation to produce general purpose and consolidated financial reports and an annual performance report is included in the Financial Reporting Requirements (FRRs). The transparency of shared service provider operations remains important from a client and whole-of-Government perspective.

Revised Organisational Arrangements

In September 2007, the Shared Service Agency (SSA) was transferred to the Department of Public Works. This aligned the SSA with other areas of government responsible for supporting back-of-office services across the sector.

From July 2008, it is proposed that the Department of Public Works assume responsibility for CorpTech. In revising the implementation approach for shared services, there are a number of implications for the CorpTech business model that have not yetb een detailed. It is proposed that these implications be progressively analysed with review by the Executive Steering Committee. Final decisions on the new CorpTech business model would be made by the CEO Sponsor Group, no later than March 2009.

In the interim the current model of CorpTech Service Management providing corporate applications and systemss upport to SSPs and agencies with CITEC hosting the solution, will continue to operate. CorpTech Service Management will implement business improvement projects to improve the level of service provided and to ensure value-for-money.

CorpTech will continue to provide the role of the Solution Design Authority, the Strategic Program Office and the Program Delivery Directorate to enable Government to manage its commitments and relationship with the Prime Contractor. The detailed functions and resourcing of these entities will also be reviewed to ensure that they support the new approach.

RECOMMENDATIONS

It is recommended that the Shared Service CEO Governing Board:

1. approve revised shared service governance arrangements, including the formation of the Shared Service CEO Sponsor Group and the Executive Steering Committee.

2. note that whole-of-Governmentm onitoring on the shared service model and corporate service performance will be integrated with existing planning and monitoring mechanisms.

3. note that a review of the CorpTech business model will be undertaken by March 2009.

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Shared Service CEO Governing Board 15 April 2008	Agenda Item 3 Appendix B

Title: Revisions to SSI Approach - Business Solutions Implementation Model

BACKGROUND

Fundamental to the establishment of the Shared Service Initiative (SSI) in 2003 was the implementation ofa standard whole-of-Government HR and Finance Business Solution. The implementation strategy to date has been based on all agencies migrating to a single instance of SAP ECC and supporting technologies.

In December 2007, IBM was appointed as the Prime Contractor for the Business Solutions program. Current scoped and costed work includes the development of an interim payroll solution for Queensland Health; development of the human resource (HR) solution for the Department of Education, Training and the Arts (DETA); and forward planning to determine the scope, timeframes and costs for the remaining implementations which in Phase 1 incorporates HR solutions for the Department of Emergency Services and Queensland Corrective Services.

KEY ISSUES

Business Drivers

At the time of the original business case, an assumption wasm ade that whole-of-Government standard processes could be applied across Government for transaction-based finance and payroll services. The extent of standardisation was to be informed by detailed business process redesign during implementation.

Minimal business process standardisationh as beena chievedt o date. As business process designsa re 'drilled-down' to detailed proceduresdu ring system roll-out, the definition of the 'standard' is continually being challenged in the context of individual agency requirements.

Criticald rivers that need to be considered in determining the implementation model for the HR and Finance Business Solutions include:

- sector wide risk of remaining on legacy systems
- unique business drivers of shared service providers (SSPs) and their customer agencies.

In Queensland Health the keys drivers are to replace the legacy Lattice payroll system and to introduce e-procurement. DETA's key business drivers are to standardise payroll and have a single payroll system across the organisation (Education currently on TSS, Training Queensland currently on Aurion).

Fort he Shared Service Agency (SSA) and their customer agencies the key driver is to replace the Lattice payroll systems in Department ofE mergency Services and Queensland Corrective Services due to the risk of unsupported payroll systems. The second SSA priority is to consolidate legacy systems and standardise HR and Finance business processes across the SSA client agencies.

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Corporate Service Process Frameworks

In response to the business driverso utlined above, it is proposed that there be three separate corporate service process frameworks, rather than a single whole-of-Government framework. Standardisation of business processes will occur at the SSP/customera gencies level, and where practical there will be standardisation across all SSPs and agencies. This approach reflects the need for localised SSP/agency level standardisation and provides the ability to respondt o different operating models, whilst still adhering to whole-of-Government standardisation where practicable.

Technology Environment

The HR and Finance Business Solutions need to support the three corporate service process frameworksa nd the common processest hat apply across all three. This environment is best supported by a multiple-instance model with three ECC instances. Common elements include integration and data management related application and infrastructure, and common application and infrastructure management services.

This approach has been supported by Unisys Australia New Zealand SAP Practice who were engaged toc onduct an independent technical review of options. Unisys recommended the multiple-instance models, noting that this option "emulatesw orld best practice for deploying SAP to multiple business units".

The multiple-instance model would provide – on a SSP/customer agencies basis – flexibility for implementation in terms of time and core functionality aligned closely to their business drivers. Each of the three SSP/customer agency groups can share common infrastructure, technology and solution components whilst configuring the functional components differently (e.g. SAP ECC) where needed. This also means that the three SSPs can take the lead in implementing different functionality in parallel and then sharing their experiences for mutual benefit. There is a strong case to retain a consistent whole-of-government approach for procurement, performance and capability, recruitment and time/attendance components of the solution.

Financial Considerations

Deloitte Touche Tohmatsu (DTT) modelling concludest hat the development costs associated with a multiple-instance model is relatively less expensive for Government i.e. estimated $1.2M less cost than the single instance modelt otal cost of $161.3M (for implementation for Phase 1). The model shows that there will be additional CorpTech implementation costs, offset by lower agency implementation costs due to agencies having greater control over their individual implementation timelines. The additional CorpTech costs result from higher CITEC costs (both one-off and recurring) to provide infrastructure to support additional instances. Costs for Phase 2 are still to be determined.

On an ongoing basis, the multiple-instance model proposedi ncreases CorpTech production support costs due to the need to replicate a number of roles and functions. However, it is anticipated that these costs will be offset by the greater realisation of business benefits by SSPs and their customers. These additional costs have been initially estimated at $3.2M per annum plus overheads. Further detailed modelling is to occur.

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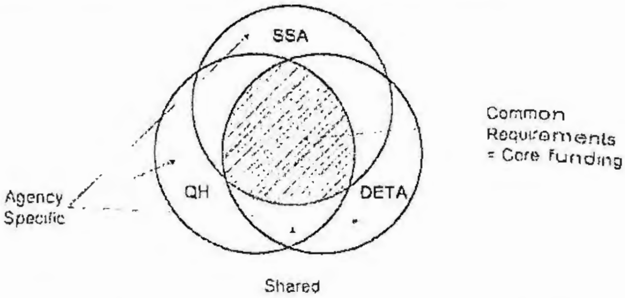
Impact of multi-instance model on funding priorities

Under the single instance approach, central funds were intended to fully fund CorpTech roll out costs, and development costs of the single core HR and Finance systems. Moving to a multi-instance approach introduces complexity in ensuring an optimal level of commonality for Government (ie. a level of commonality that maximises benefits overall).



Funding arrangements shouldb e such that SSPs are motivated to pursue optimal levels of common and shared functionality. Proposed funding arrangements are under development by the Executive Steering Committee and will be guided by the following principles:

1. First priority is to identify and centrally fund 'common' requirements (core funding).
2. Investment of remaining funds is to be directed in the first instance to SSA legacy system consolidation and new system roll out.
3. Any remaining central investment funds are to be prioritised on the basis of overall benefit to Government.
4. Agency contributions for agency-specific and shared functionality will be determined on an equitable basis.

The Executive Steering Committee (ESC) will report to the CEO Sponsor Group on investment priorities/allocations after the Prime Contractor has completed its forward planning and is able to provide fixed cost estimates (ie. post May 2008).

Contractual Implications

Under the multiple-instance approach, current management arrangements with the Prime Contractor will remain in place and not increase in scale. Statements of work will continue to apply. The Prime Contractor will provide fixed price estimates at the end of the Forward Planning phase.

RECOMMENDATION

Overall, the multiple-instance approach is considered the most viable option to meet the identified business drivers. It enables SSPs to work with their customer agencies to prioritise investment in systems, maximise the business benefits and generate cashable savings. Critical to this new approach is the Executive Steering Committee agreement on the details of the common functionality that forms the basis of the central funding obligations.

It is recommended that the Shared Service CEO Governing Board:

1. endorse the implementation of the multiple-instance approach.

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14

BRIEFING PAPER

Shared Service CEO Governing Board 15 April 2008	**Agenda Item 3** **Appendix C**

Title: Revisions to SSI Approach - Future Funding Approach

BACKGROUND

The SSI funding framework contains a number of features designed to manage risks arising from a significant change program. Quarantining was designed to provide assurance to client agencies regarding cost, and to maintain the base against which savings could be made. Savings were extracted as performance returns from SSPs and CorpTech on the basis that the savings would arise mainly in these entities. (Agencies could retain any savings which they were able to generate in their agencies.) Agencies all contributed to the capital cost of the new systems through an equity contribution that represented future agency replacement capacity.

The success of the funding framework was contingent on the implementation (and new standard business processes) being completed within three years. At that time, quarantining was to cease, agency fiscal limits would be reduced to match the reduced cost of services, and a fee-for-service arrangement would apply thereafter, which combined with SSP benchmarking would promote continuous improvement.

Significant extensions to the implementation timeframe have had unintended consequences which have diminished the effectiveness of the funding approach.

KEY ISSUES

Fiscal imperative

There is a firm expectation by Government that the initiative will eventually achieve $100M pa in operating savings. In the original (2002) business case, this level of savings was forecast to be achieved in 2010-11. The most recently revised savings stream reachest he $100M target in 2013-14.

Extended quarantining

The lack of costing/pricing signalsu nder quarantining eventually leadst o disparities between service demand and service cost. Extended quarantining (five years rather than three) exacerbates this problem as evidenced by the revenue redistribution exercise. There is also a lack of incentive fora gencies to undertake major change for the sake of generating efficiencies in the SSP, the benefit of which is passed on to the Consolidated Fund as Performance Returns. Whilst these funds are redirectedt o service delivery across the sector through the Budget process, client agencies do not directly enjoy the benefit of reduced prices for corporate services.

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15

Savings extracted as Performance Returns

The extraction of savings from SSPs and CorpTech was intended to ensure thatt he savings were in fact generated in corporate services, rather than by reducing agency budgets in core service delivery areas. The risk in this approach is that the SSPs and CorpTech take a 'silo' approach in generating internal savings with client agency requirements having a lower priority.

Benefits profile

The original business case benefits were predicated on standardising transaction-based services across whole-of-Government on existing 'better' processes (ie. no new system functionality). Much has happened since 2002 which has impacted on the benefits profile for the initiative. The Solution Implementation Model paper(Appendix B) identifies the current business priorities of the three SSPs in driving benefits. These include the replacement of unsupported legacy systems and investment in areas such as e-procurement which are otherwise out of scope for the initiative. Mainstreaming the initiative relies on SSPs playing an integral role moving forward in defining the benefits profile for their clients, and prioritising investment to deliver ont he benefits.

Level of effort to standardise processes

The SSA is currently assigned to contribute nearly two thirds of total SSP savings comprising the $100M pa target. Whilst the SSA cluster with its 29 clients initially represented more scope for standardisation and consequent savings, implementation experience clearly indicates that this level of savings(which isc ontingent on high standardisation) is unrealistic. The proposal to move to a multiple-instance model acknowledges that the extent of standardisation as originally envisaged was overly optimistic.

Completion of implementation program

The significant investment in systems to date and the investment planned for Phase 1 will largely deliver the required common and shared functionality. However, roll out of the new systems to many of the agencies in the SSA remains unfunded. Additional funding would enable the SSA to temporarily invest in legacy systems to begin driving efficiencies and eventually to transition to and leverage the new systems.

Overhead in maintaining current model

Significant effort is devoted to oversight of the initiative as a 'special' project. Mainstreaming of the initiative would enable certain functions to be embedded in normal operations (eg. planning, budgeting, monitoring, ad-hoc reporting) and release resources and funding for redirection to systems development and roll out.

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Features of Proposed Funding Model

The main objectives of the proposed approach are to mainstream the initiative, i.e. embed the fiscal and financial requirements as part of normal business operations, and to create a set of incentives that will lead to the maximisation of net benefits for Government.

The proposed features are outlined below.

Move from quarantining to fee-for-service

It is proposed to move from quarantining to fee-for-service from 1 July 2008. A fee-for-service regime will send price signals that will motivate client agencies to work with their SSPs and CorpTech to adopt standard end-to-end business processes to minimise costs.

Fiscal limit adjustments are required to extract SSI savings from agency budgets (rather than SSPs/CorpTech) to enable price signals to be effective. It is proposed to provide stability in 2008-09 by holding costs/prices at 2007-08 levels ie. at quarantining levels adjusted for normal business impacts. These 12 months can be used:

- for joint planning by agencies and SSPs/CorpTech to prioritise business process change projects to begin to deliver benefits in 2009-10
- to improve costing/pricing and benchmarking capability before savings begin to ramp.

Operationalising fee-for-service may require some policy decisions before 30 June 2008 to support practical implementation that meets the needs of providers and their customers. It is proposed that to the extent required, the CEO Sponsor Group make these decisions (likely out of session) informed by feedback from client agencies.

Achieve $100M pa savings by 2012-13 (10 year horizon)

It is proposed to hold performance returns/savings at 2007-08 levels for 2008-09 and thereafter to generate incremental savings on a straight line basis for the next four years to reach the $100M target. In 2007-08, approximately $31M will be returned as savings to the Consolidated Fund. To achieve the $100M target, a further $69 M will need to be generated over 2009-10 to 2012-13. This equates to approximately $17M pa as outlined in the table below.

Savings Element	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Procurement	12.0	12.0	12.0	12.0	12.0	12.0
Current PR	18.8	18.8	18.8	18.8	18.8	18.8
Increment 1			17.3	17.3	17.3	17.3
Increment 2				17.3	17.3	17.3
Increment 3					17.3	17.3
Increment 4						17.3
Ongoing	30.8	30.8	48.1	65.4	82.7	100.0

This generates a funding source of approximately $55M for reinvestment in Phase 2 of the initiative (ie. represents funds that are otherwise uncommitted in the Forward Estimates).

	2007-08	2008-09	2009-10	2010-11	2011-12
Proposed Savings	18.8	18.8	36.1	53.4	70.7
In current FEs	18.8	19.7	23.3	38.9	42.8
Funding Source	0.0	-0.9	12.8	14.5	27.9

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17

Distribute future savings increments across clusters on reasonable basis

The proposed savings increments of $17.3M pa after 2008-09 need to be distributed across the three clusters where they will be effected as fiscal limit adjustments to client agency budgets. Note that the increments incorporate not just SSP savings but also CorpTech savings, ie. the expectation is that agencies, SSPs and CorpTech will work together to achieve overall savings on end-to-end processes, the benefit of which will flow back to agencies as reduced prices.

Attachment 1 identifies the proposed allocation of future savings increments across the clusters, and contrasts these to the otherwise current savings streams for the SSPs and CorpTech. This scenario is based on allocating savings increments in proportion to SSP quarantined revenue bases. It is proposed to allocate savings across the SSA clients in proportion to the extent that they comprise the SSA cost base (ie. as calculated for revenue redistribution). Revenue redistribution will be effected before savings are allocated. Indicative allocations are also included in Attachment 1.

Timing for Adjustments

The SSA will have final figures in June 2008 to support revenue redistribution. These final figures will also form the basis for apportioning savings across SSA client agencies.

All adjustments are proposed to be effective 1 July 2008, but processed as post-Budget adjustments in the first quarter of 2008.

RECOMMENDATION

It is recommended that the Shared Service CEO Governing Board:

1. endorse the proposed funding approach for consideration by the Cabinet Budget Review Committee including the move to fee for service and the savings and investments trategy over the period 2009-10 to 2012-13.

18