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Office of the Minister for Social Development and Employment

Cabinet Government Administration and Expenditure Review Committee

MINISTRY OF SOCIAL DEVELOPMENT UPDATED CORPORATE PLATFORM BUSINESS CASE**Proposal**

- 1 This paper seeks approval for the final drawdown of contingency funding set aside for the replacement of the Ministry of Social Development's (the Ministry) core finance and payroll systems as part of the Corporate Platform programme of work. I am also seeking approval for the attached Corporate Platform Business Case that supports this work.

Executive Summary

- 2 Funding to replace the Ministry's core financial and payroll systems was approved as part of Budget 2020 [CAB-20-MIN-0155.30 refers] and Budget 2021 [CAB-21-MIN-0116.27 refers]. These core systems were aging and presenting operational risk to the Ministry.
- 3 The Ministry has received \$41.3 million capex and \$54.9 million opex through these Budget processes with the remaining of \$28.518 million currently held in operating contingency in Budget 2022.
- 4 This \$28.518 million of operating funding is now required to complete implementation of the new financial management and information system and payroll service model, technology, and business processes. I am requesting this funding be drawn down from the tagged contingency set aside at Budget 2022 for this purpose.
- 5 The Ministry has implemented the first phase of their new Financial Management system (Weka) and has been preparing for the second phase which will provide budgeting and planning functionality and a procurement and contract management system. Preparatory work has also been carried out on the scope and business requirements for a new payroll system. The Ministry is on track to deliver these enhanced systems by June 2023.
- 6 The approach taken aligns to broader Government objectives, including use of the all-of-government common process model and procurement of cloud based commercial off-the-shelf systems.
- 7 Whilst some immediate risks have been resolved through the first release of the new finance system, without full replacement the Ministry faces major challenges in delivering core capabilities to achieve the desired future state.
- 8 The Corporate Platform Business Case seeks to address these outstanding risks by completing the replacement of the Ministry's core finance and payroll system and the interface between the payroll and Human Resource systems.

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- 9 The Corporate Platform continues to provide foundational capability for the Ministry's Te Pae Tawhiti Transformation Programme ¹ (the Programme). The Corporate Platform supports the Programme by providing the corporate information needed to manage in a more complex environment. It will collect, collate and provide the information needed to support decision-making and provide better outcomes for clients, staff and partners – both at the front line and back-office.
- 10 The Ministry also provides corporate shared services to other agencies such as Social Wellbeing Agency (SWA) and more recently Whaikaha - Ministry of Disabled People (Whaikaha). These agencies rely on the corporate systems, processes and people provided by the Ministry to manage their business and deliver services to New Zealanders.
- 11 I am proposing the drawdown of funding required to complete the implementation of the Corporate Platform.

Background

- 12 Cabinet approval is required for all investments with whole of life costs over \$25 million as set out under Cabinet Office circular (CO (19) 6: Investment Management and Asset Performance in the State Services).
- 13 The Ministry received approval to begin the work to implement new financial and payroll systems in Budget 2020. Approval was given by Cabinet to fund one year project spend with a further bid expected in 2021 to fully mitigate the Ministry's operational risk.
- 14 The 2020 bid was submitted jointly with Oranga Tamariki, who were using the Ministry's financial and payroll systems at the time. Oranga Tamariki are working on their own separate financial and payroll systems and are working through their own funding process.
- 15 From Budget 2020, the Ministry received \$12 million of capital and \$14.5 million of operating funding set aside into contingency. The Ministry received an initial drawdown of this money (\$6.5 million of capital and \$9.1 million of operating funding) in December 2020 [CAB-20-MIN-0155.30, refers].
- 16 An additional \$34.8 million of capital funding and \$45.8 million of operating funding was agreed as part of Budget 2021 to continue implementing and integrating these new platforms. Cabinet noted at this time that a further bid was expected in Budget 2022 [CAB-21-MIN-0116.27 refers].
- 17 As part of Budget 2022, the remaining funding of \$28.518 million was placed into contingency.
- 18 The Ministry has already taken steps to resolve areas of immediate risk through the implementation of the new finance system, Weka, providing the Ministry with transactional capabilities through purchase to pay, and improved

¹ Cabinet considered a Programme Business Case in May 2022 and agreed transformation is the preferred way forward [CAB-22-MIN-001 refers].

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data management to remove manual processes for general ledger transactions.

Without full replacement the Ministry faces major challenges in delivering core capabilities to achieve this desired future state

- 19 Whilst some immediate risks have been resolved through the first release of the new finance system, the Ministry has identified the following outstanding issues which confirm the need to replace the old technology systems and business processes:
 - 19.1 the current finance system is unable to meet government requirements for the use of e-invoicing. The Ministry has received advice from PwC, Audit New Zealand and KPMG that they need to improve procurement and contract management practices
 - 19.2 there are also significant systems risks with the payroll system meaning it is no longer a modern payroll with the flexibility required. The age and complexity of the payroll system which also integrates with the Human Resource system mean there is a high risk of systems failure. Such a failure could result in failing to pay the Ministry staff and the staff of shared service partners. The Ministry received a report from PwC in 2019 that highlights the risk of service failure.
- 20 Many of the corporate (back-office) business processes are no longer fit-for-purpose and use workarounds to address gaps in core systems functionality, including paper based approval processes and manual re-formatting of information to meet reporting requirements.
- 21 The remaining funding will therefore complete the implementation of the finance system enabling additional capabilities for procurement and contract management, budgeting and forecasting, e-invoicing and strategic finance capability. This will complete the replacement of the Ministry's aging Key Environmental Accounting system (KEA) and its surrounding applications. This will mean over \$1b per annum of the Ministry's payments will be managed through a modern stable platform.
- 22 The remaining funding will also enable the Ministry to fully replace the payroll system which makes over 31,000 payments to over 15,600 staff across the Ministry, Whaikaha and the Social Wellbeing Agency each month. The payroll system also manages between 30,000 and 44,000 data transactions each month received from the Ministry's myHR (Human Resources) system.

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- 23 The Ministry must be ready to deliver high quality welfare services in a changing landscape.
- 24 Te Pae Tawhiti Transformation Programme ² (the Programme), will transform the Ministry's operating model to enable the Ministry to respond to a changing social landscape and be equipped to deliver effective, timely, and mana-enhancing support and services.
- 25 The Corporate Platform provides the foundations for the Programme, providing the corporate information the Ministry will need to manage in a more complex environment. It will collect, collate, and provide the information needed to support decision-making and provide better outcomes for our clients, staff, and partners – both at the front line and back-office.
- 26 The Programme is dependent on discovery and design work detailed within the scope of this updated business case including the replacement of the Ministry's aging and high-risk social sector contract management systems (FAC and Conquest) to be investment ready and able to deliver on strategic partnering initiatives such as the Government's social sector commissioning.
- 27 Completing implementation of new integrated systems will deliver a modern, fit-for-purpose finance, payroll and procurement system with associated business processes, including the people capability we need to operate these effectively. Modern processes and systems will ensure the Ministry meets their accountabilities under the Public Finance Act and NZ Government Procurement rules and improve our capability to manage large volume of contracted engagements that contribute to achievement of broader outcomes, the New Zealand economy and as an enabler for social sector contracting.
- 28 The new payroll system will ensure the Ministry's workforce, and the agencies they support are paid accurately, on time and in line with legislative requirements. The platform will provide better corporate information, supporting decision-making with clients, staff, partners, and government. The payroll solution has been procured and the discovery and design phase of the replacement payroll system has completed. The age and complexity of the current payroll system and reliance on an aging bespoke integration tool means that there is a significant risk of systems failure.

The Ministry's business case for implementation

- 29 The Implementation Business Case (attached as Appendix One) supports the proposals in this paper. The Case was prepared in accordance with Treasury's Better Business Case guidelines and supported the 2021 Budget bid. Since then, the Business Case has been updated to reflect the following changes:

² Te Pae Tawhiti Transformation Programme describes the Ministry's Future Service Model that supports an overhaul of the welfare system and minimises the risks and problems outlined in Te Pae Tawhiti Programme Business Case that Cabinet agreed to May 2022 [CAB-22-MIN-0011 refers]

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- 29.1 the corporate platform's role in providing foundational capabilities for Te Pae Tawhiti following Cabinet agreement to the Programme Business Case in May 2022 [CAB-22-MIN-001 refers]
- 29.2 the Ministry's role in providing corporate shared services to Whaikaha following the establishment of this Ministry.
- 30 The Corporate Platform mitigates the Ministry's risks and completes finance and payroll system replacements including discovery and design work to scope the replacement of aging and high-risk social sector contract management systems.
- 31 The Business Case supports the option to replace our core legacy systems and aligns to broader Government objectives, including use of the all-of-government common process model and procurement of cloud based commercial off-the-shelf systems
- 32 The Ministry have selected Oracle as the finance and procurement platform and Accenture as the implementation partner through a robust procurement process. In addition, the Ministry have chosen SAP as the payroll platform and Accenture as the implementation partner for payroll system.
- 33 Due to their age and complexity, continuing with existing systems provides the greatest risk of failure. Changing them offers the Ministry the potential to provide the greatest benefits. The Ministry have chosen:
- 33.1 to implement finance, procurement, contract management, HR, and payroll as a single corporate platform – seeking to use a single integrated system where this makes sense – rather than many systems connected by many interfaces. This means the Ministry can maximise investment value and combine all key entities they manage on a single information base
- 33.2 Oracle as the finance and procurement platform; SAP as the payroll platform and will retain its current SAP HR platform (SuccessFactors), to meet the Ministry's requirements in the future
- 33.3 Accenture as the delivery business partner, who will continue to support the next phases of the programme building on the successful implementation of Weka Release one and the discovery and design phases for payroll.
- 34 The Ministry remains on track to:
- 34.1 complete implementation of the Oracle finance and procurement systems in order to update and improve procurement processes and social sector contracting. The milestone remains on track to complete these activities by July 23
- 34.2 continue the transformation of the payroll system by continuing using SAP HR (SuccessFactors) cloud solution

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- 34.3 implement the SAP Success Factors Employee Central Payroll by July 23
- 35 Continuing this work programme and drawing down funding as proposed in order to do this is critical in order to reduce the current system risk profile for the Ministry.

The Corporate Platform Whole of Life Costs are \$126.273 million

- 36 The proposed whole of life cost of the Corporate Platform are estimated at \$126.273 million over the eight years of the expected lifetime of the programme. All costs are expected to be operating expenses and are consistent with previous iterations of the Business Case.

Table 1 – Preferred Option whole of life costs

Ministry of Social Development's Financial Management and Payroll systems	\$m – increase/(decrease)								Total
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	
Capital	-	-	-	-	-	-	-	-	-
Operating	0.638	36.699	47.761	13.473	7.474	6.743	6.743	6.743	126.273
Total	0.638	36.699	47.761	13.473	7.474	6.743	6.743	6.743	126.273

Approval is sought to use contingency funding through Budget 2022

- 37 \$28.518 million of operating funding is required to complete the Corporate Platform work. I am requesting this funding be drawn down from the tagged operating contingency set aside at Budget 2022 for this purpose.

Financial Implications

- 38 In accordance with guidance released by the Treasury in February 2022 regarding Accounting for Software as a Service (SaaS), all costs relating to the build and configuration of SaaS are classified as an operating expense. The remaining funding set aside in Budget contingency for the Corporate Platform work is all operating expenditure.

Legislative Implications

- 39 The proposals in this paper do not require any legislative change.

Impact Analysis

- 40 Regulatory Impact Analysis is not required for this paper.

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Human Rights

41 There are no human rights implications associated with this paper.

Gender Implications

42 There are no gender implications associated with this paper.

Disability Perspective

43 There are no disability implications associated with this paper.

Consultation

44 In developing this Cabinet Paper, the Ministry have consulted with Officials from Treasury, MBIE and the GCDO at DIA.

45 Consultation feedback has been supportive and, where relevant, incorporated in the development of the Implementation Business Case.

Proactive Release

46 This paper will be proactively released with any relevant redactions as appropriate, consistent with the Official Information Act 1982.

Recommendations

I recommend that the Committee:

- 1 **note** that Cabinet approval is required for all investments with whole of life costs over \$25 million as set out under Cabinet Office circular (CO (19) 6: Investment Management and Asset Performance in the State Services)
- 2 **note** the Corporate Platform Business Case seeks to complete the replacement of the Ministry's core finance and payroll system and the interface between the payroll and Human Resource systems
- 3 **note** the Ministry's current core payroll and Human Resource systems are at significant risk of failure, are no longer fit-for-purpose, and face major challenges in delivering core capabilities for Te Pae Tawhiti Transformation Programme and Whaikaha – Ministry of Disabled People
- 4 **note** the Ministry's current finance system is unable to meet government requirements for the use of e-invoicing
- 5 **note** that the Ministry has implemented the first phase of their new Financial Management system (Weka) in order to mitigate immediate risk
- 6 **note** the whole of life costs of the Corporate Platform are estimated to be \$126.3 million
- 7 **note** that on April 2022 joint Ministers with delegated authority from Cabinet [CAB-22-MIN-0129 refers]:

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- 7.1 **agreed** to the final tranche of funding for the Ministry to complete the build and implementation for the new finance and payroll Systems and retire the current legacy systems
- 7.2 **agreed** to establish tagged operating contingency associated with the Ministry's Finance and Payroll systems continuing replacement programme of up to the following amounts to provide for recommendation 6.1:

	\$m – increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 & Outyears
Ministry of Social Development's Financial Management and Payroll systems – Continuing the replacement programme – Tagged Operating Contingency	28.518	-	-	-	-
Total	28.518	-	-	-	-

- 7.3 **agreed** that Cabinet approve a suitable business case covering the replacement of these systems as a condition for the drawdown of this funding
- 8 **approve** the Corporate Platform Business Case attached as Appendix 1
- 9 **note** that the Ministry has received \$41.3 million capex and \$54.9 million opex and I am seeking the drawdown of the \$28.518 million contingency funding set aside for the Corporate Platform in Budget 22
- 10 **agree** that, as the Corporate Platform Business Case has been approved in recommendation 7 above, the Ministry's finance and payroll systems continuing the replacement programme can proceed with the required level of funding noted in recommendation 8 above
- 11 **approve** the following changes to appropriations to provide for the decision in recommendation 9 above, with a corresponding impact on the operating balance and net debt:

Vote Social Development Minister for Social Development and Employment	\$m – increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 & Outyears
Multi-Category Expenses and Capital Expenditure Improved Employment and Social Outcomes Support Departmental Output Expense: Administering Income Support (funded by revenue Crown)	28.518	-	-	-	-
Total Operating	28.518	-	-	-	-

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- 12 **agree** that the proposed changes to appropriations for 2022/23 above be included in the 2022/23 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply
- 13 **agree** that the expenses incurred under recommendation 10 above be charged against the Ministry of Social Development's Financial Management and Payroll systems – Continuing the replacement programme – Tagged Operating Contingency described in recommendation 6 above
- 14 **note** that the Ministry will report back to Treasury on a quarterly basis with an update on progress against the Corporate Platform benefit realisation plan.

Authorised for lodgement

Hon Carmel Sepuloni

Minister for Social Development and Employment

Appendices

Ministry of Social Development – Corporate Platform Business Case