



Submission to Ministerial Inquiry into Novopay

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1. INTRODUCTION

NZRise represents the interests of New Zealand owned digital companies. All our members have experience supplying government agencies – including the Ministry of Education. We are taking the opportunity to make this submission to this inquiry in order to highlight the lessons that Government and suppliers can learn from the Novopay problems.

The purpose is to improve the process of engagement and ensure that New Zealand tax payers get the highest value for money.

We have reviewed the public documentation made available on the Ministry of Education's website as well as the Novopay Technical Review. Our focus is on the lessons learned; our final section makes a brief commentary on the Technical Review.

We would like to thank the Ministry for being so pro-active about publishing so much project documentation. This transparency is commendable and has been valuable in helping the supplier community understand how best to improve its engagement with government agencies.

2. SUCCESSFUL IT PROJECTS

The In 2012 Auditor General reviewed successful government IT projects and identified some key contributing factors to successful projects. The report says:

“Use the right technology tools

9.32 These six projects show that it is important to use the right technology tools for a given set of circumstances. The tools we have highlighted are:

- agile methodologies;
- making information open; and
- open-source technology tools.”

We note that none of the above seem to have been used in the case of Novopay.

3. GOVERNMENT COMMUNICATIONS

There is a problem with how government communicates with itself. Just weeks after the MoE threatened Talent2 with a "Material Breach" of contract letter they were giving a strong recommendation to three Ministers that the system should go live. That advice was backed by independent reviews of other CIOs and PWC. The advice made **no** reference to the material breach, which could have been a red flag to Ministers.

There were clearly identified problems which the final advice glossed over. The test reports in particular make it obvious that the system was not stable and that the end-to-end testing was not going to be possible to complete.

This is a problem for suppliers as well. Suppliers are usually powerless when it comes to being able to escalate issues and warn senior management or even Ministers about impending problems. Instead communications around government can be heavily filtered, edited and presented in a way that covers the tracks of both supplier and client incompetence and mismanagement.

4. COMMERCIAL OF THE SHELF VS DEVELOPMENT

The MoE went to market to procuring an off the shelf (COTS) payroll system. This rapidly turned into a development project. They also changed tack in 2007 and decided to outsource the whole payroll operation.

The shift from COTS to development meant that the project structure and governance was no longer fit-for-purpose and should have been reconsidered. The same goes for the choice of supplier.

The point isn't just that there were bugs in the software, all software has those. The issue is that at the time of material breach discussions (late April) there was a huge gulf in expectations and delivery and no desire from anyone to bridge that gulf.

Many agencies make a pretence at going down the COTS route. They do this because it is seen as less risky. But the reality is that all their special needs – often driven by legislation or complex edge cases that have built up over decades – mean that they are getting mostly development projects. Even if that isn't the case, implementation and integration is so complex that it might as well be a development project.

Government needs to change its stance, governance and management to allow suppliers to be more honest and flexible about how the required outcomes are achieved.

5. TALENT2

This company was set up in 2003 by two businessmen who had made \$100s of millions in the recruitment business. (see http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=10863706)

What they appear to have lacked was a long track record in payroll systems or software development. When MoE first went to tender in 2005 they picked a company with a 2 year track record despite the fact strong local alternatives were available.

In 2007 the MoE decided to a BPO (business process outsource) for payroll. So they went to tender again and Talent2, who had been consulting for 2 years on the project, won the \$182million deal. Datacom was the only local company shortlisted.

It is not clear whether Talent2 were evaluated on their development track record and capability. But some sharp observations in Assurity's System Integration Test 1 report point out the Talent2 code was below standard whilst the code written by latterly contracted development company, Asporana, was good. The latter seem to have been brought in to replace the Talent2 team which then disappeared leaving large gaps in knowledge about the system.

The MoE decided not just to buy a payroll system from a new company with a limited track record but just 2 years later to outsource the whole process to that company which is largely based overseas.

Interestingly, Minister Joyce has said Talent2 lacks the locally based executive management to take the decisions required for this project.

Local companies or companies who rely on a significant proportion of their revenues from New Zealand are far more likely to show an understanding of NZ's operational context as well as have a greater commitment to getting things right.

6. GOVERNMENT RISK MANAGEMENT IS PERVERSE

Government agencies tend to manage risk by becoming harder and more litigious with suppliers during a project engagement rather than by retaining flexibility and agility.

The Auditor General identified the features of successful government IT projects. They were transparency, Agile, and use of open source software. Hardly any projects are run this way, particularly the bigger ones.

The technical review highlighted the need to move to a tighter governance model, with fewer participants and a fast decision making process. Delays in decision making in government are endemic and create the biggest financial risks for suppliers. Too many people get to say "no" but no-one has the authority to say "yes".

7. MINISTERIAL REVIEW

This is being carried out by Deloitte. NZRise notes however that international CAs are part of the problem of failed and expensive IT initiatives. PWC signed off on this project. It could just as easily have been Deloitte who, according to media reports, have a poor governance track record with Housing NZ and the Auckland Super City SAP upgrade program.

The scope of their review is very narrow and doesn't overtly seek input industry groups such as NZRise or IITP.

8. REVIEW OF THE TECHNICAL REVIEW

NZRise has drawn the following conclusions from our reading of the Novopay Technical review:

1. Novopay should not have been selected in the first place. The technology mix is outdated and ill-suited for a web based system with a lifetime to 2020;
2. The MoE need to move to a modern payroll system, preferably from an agile organisation with strong NZ based representation;
3. Going back to the "old" Datacom system would just exacerbate the problems, especially of bad data.

It confirms the analysis that government projects of this size are never COTS solutions. So ease customisation of the solution and development capability of the supplier are critical. So is clear and efficient governance

9. RECOMMENDATIONS

1. Government agencies would be well advised to follow the Auditor General's observations about what approaches deliver successful government IT projects; namely: agile methodologies, making information open, and open-source technology tools.
2. Suppliers in large projects need better representation at the governance table and their advice should be available to Ministers.
3. Government needs to change its stance, governance and management to allow suppliers to be more honest and flexible about how the required outcomes are achieved.
4. Local companies or companies who rely on a significant proportion of their revenues from New Zealand are far more likely to show an understanding of NZ's operational context as well as have a greater commitment to getting things right.
5. Ministerial or other Reviews should take into account the views of local supplier industry groups, rather than just relying on the advice of the, often conflicted, Chartered Accounting firms.