The Phoenix Pay System: Opportunity Windows and Addressing Problems

The Case

In 2009 Public Works Minister Rona Ambrose announced a plan to drastically overhaul the federal public service's compensation system. The plan was for a two part process: First a modern software replacement for the existing 40-year-old payroll management system. Second, driven by efficiencies gained by the new software a reduction and concentration in the number of payroll officers on government staff.

There were a variety of purported benefits to this plan, besides improving compensation services for public employees. The government was actively attempting to reduce the size of the civil service in the wake of the 2008 recession and their election promises in reaction to it.

Two years later, the government announced that IBM had received a $141 million contract to produce a system on the PeopleSoft platform and assist in implementation of the platform between 2011 and 2016. Eventually a launch date of Spring 2015 is established.

The system ultimately received a first phase launch in February 2016 and saw immediate problems with both technical performance and staff workload. The government was cautioned against moving to a full-scale rollout but, regardless, went ahead with full implementation.

Over the coming months massive numbers of public employees reported problems with their compensation. This included basic issues of tracking hours and pay, but also extended to the calculation and timing of pension contributions, the tracking of medical benefits, and other issues. The problems was exacerbated by inadequate staffing, causing massive backlogs of issues, and long delays for employees waiting to receive appropriate compensation. By the summer of 2016 some 80,000 past and present public employees had been affected.

Documents leaked to the media indicate that, as of summer 2017, 156,000 employees have been waiting at least 30 days to have their issues resolved — approximately half the number of active public service workers. Despite moves by government to hire additional staff to deal with backlogs, the number of outstanding transactions sat at 265,000.

The new Liberal government, blaming the current state of affairs on mistakes made by the previous government, reacted a year after the issues first emerged when the Prime Minister announced a working group to address the problems. The group ultimately announced $142 million over two years to provide resources and additional staff to stabilize the system. However. in the 2017 fall fiscal update the government earmarked an additional $123 million in funds between now and 2022-23 to hire pay specialists to address the backlog. Further, an additional $2 million will be paid to the original contractor to complete software fixes. This new investment brings the overall additional investment to repair and stabilize the system to $527 million, some $217.5 million more than the initial cost of the contract.

Just last week the Auditor General released a report on the project saying a stable system was still several years, and significant further investment away.

How Was Phoenix Developed and Adopted?

Rationale and Business Case

The process began in earnest in 2009. A business case was developed recommending action to replace the 40 year old payroll management system used to pay public employees. The federal pay system makes 8.9 million annual transactions at an estimated value of $17 billion. The public service has 22 employers, and 80 collective agreements with 80,000 business rules. This inherent complexity and the high stakes earmarked this as a high risk project from the start. Indeed, it was viewed as the most complex transformation project in Canadian history.

There was strong evidence that the system needed to be replaced. The existing system ranked at the bottom of most industry benchmarks around performance and cost and lacked modern functionality. Further, the system was a complicated network of patches and fixes that were only understood by a narrow number of employees who had grown up int he system — many of whom were set to retire in the near future.

The business case laid out four potential options: 1) maintain the status quo, 2) further renovate and patch the existing system, 3) replace the existing system with a new off-the-shelf consumer program, 4) outsource payroll services all together. Based on cost/benefit/risk assessment, option 3 was chosen.

The case around option 3 — the purchase of new, modern, off-the-shelf software to replace the old system —was actually built on two integrated processes: Pay Modernization and Pay Consolidation. Pay Modernization was the core of the proposal, the replacement of the existing payroll system with a new piece of software. The efficiencies created by the new system would allow for the second process, Pay Consolidation sought to completely eliminate the existing payroll administration locations across the country and locate the entire staff within a single facility, drastically reducing the number of necessary staff in the process.

The business case which justified this approach was built on three key sets of justifications. The first was policy based, the second was financial, and the third was political.

The policy justifications centred around the legal duty of the government to pay their employees accurately and on time, and the growing risk that the existing system would either degrade this capacity or fail dramatically. Replacing the old system aimed to ensure a more sustainable meeting of this legal requirement. Beyond ensuring the government fulfilled its legal mandate, there was also an opportunity to improve services so drastically as to improve the quality of employment for federal employees, increasing their retention and competitiveness in the skilled labour market.

The financial case for the transition was built almost exclusively on the savings realized by the reduction of staff under Pay Consolidation. The business case argued that the up front costs of contracting a developer for the new program and transitioning staff responsibilities to a single facility would be offset in the medium to long-term through a reduction in compensation costs.

Estimates said the new system would reduce the number of necessary staff from 2,700 nationwide, to 550 in a single location. The business case estimated that this was possible due to an increase in self-serve functionality on the new system, as well as modest increases in efficiency and a reduction of technical issues in the new system.

Table 1 outlines the business case's timeline of these costs and savings. The first row shows the estimated operating costs of the status quo, the second for the estimated operating costs of a new consumer-off-the-shelf (COTS) solution, with consolidation, the third row shows the savings when comparing the status quo to the new system, and the fourth shows the estimated project costs. Table 2 details the source of these purported savings, per year.

Table 1
*This number represents remaining project costs on a go-forward basis, over several years, not the costs for 2013-14

Year	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	Total
Status Quo ($m)	$184	$188	$193	$197	$202	$207	$212	$217	$222	$227	$233	$238	$244	$250	$256	$3,266
COTS ($m)	$184	$188	$193	$197	$202	$207	$212	$138	$141	$144	$148	$151	$155	$158	$162	$2,578
Savings ($m)	$0	$0	$0	$0	$0	$0	$0	$79	$81	$83	$85	$87	$89	$91	$93	$688
Project costs ($m)	$5.1	$30	$40	$78	$146*	-	-	-	-	-	-	-	-	-	-	$298

specifically.

Table 2

Savings Summary	
Pay Modernization: due to self-service	$46.9m
Pay Modernization: due to other automation	$6.7m
Consolidation only: due to economies of scale	$11.3m
Consolidation with Pay modernization: due to efficiencies gained in the consolidated service environment once the modernized pay system is operational.	$13.7m
Total	**$79.1m**

Ultimately, it was believed that the new system would lead to a net savings of $79.1 million a year once the system achieved stability. This meant that, in the long-term, the system was forecasted to pay for itself in savings and could potentially produce a net financial benefit in the long-term.

These savings are strongly related to the political case for this initiative. The new Conservative government had advanced a broad deficit reduction strategy, which included significant attempts to shrink the size of the public service. Thus, a move that reduced the number of staff in the public service and provided long-term budget relief had political value beyond the pure financial case. It allowed the government to provide a strong example of their deficit and public

service constraint in action. Further, the decision to locate the new payroll administration facility in Miramichi, New Brunswick was a political one. The Conservatives had promised in the election campaign to eliminate the recently established Long-Gun Registry. However, eliminating the registry meant a significant loss of program administration jobs in Miramichi. Choosing to locate the payroll administration facility there was a way of preventing backlash locally in a competitive riding.

Few objections were raised about the use of option 3 given the policy case in principle. Concerns were raised, however, at the Treasury Board level about the viability of the financial case. Ultimately, however, the concerns were rejected due to the strength and urgency of the political case.

Design
As noted above, the Transformation of Pay Administration Initiative (TPA) had two parts, Pay Modernization and Pay Consolidation. These projects were reasonably well defined at the start.

However, it was also incumbent on those designing the project to develop a plan for change management across the affected branches of the public service. Thus, in essence, three processes needed to be designed. However, the original scope of the project was defined far too narrowly, and very little thought or planning was given to the implications the system would have for existing business processes, staff and skills, users, information technology employees, organizational culture, and human resources processes.

Pay Modernization's design was handled by the lone vendor considered, IBM.

Pay Consolidation was meant to move in stages, allowing the new consolidated office to grow slowly and take on a larger share of cases gradually. Work would move to the centre in three waves, accounting for half of all accounts, between 2012 and 2015. The remaining half of all accounts would be transferred in faster waves in 2015, with all accounts transferred by the start of 2016. Matching this would be a gradual ramping up of staff. However, the full complement of previously existing workers would be gone by the time the new system took over all government files, allowing the savings to kick in within the first full year of functionality.

The design phase included a basic and, as mentioned above, narrow strategy to work with affected departments and staff on change management. This plan included communications plans, measurable outcomes, deadlines, and clear accountabilities for change managers. There would be chances for affected departments to provide feedback and criticism with time to alter plans and systems as needed. However, the plan was relatively short on details, lacking a a full outline of departments affected. A significant amount of the policy benefit of the change was supposed to come from better integration with human resources processes and programs, but no comprehensive plan on how to develop and integrate these was developed.

While the new pay system would ultimately fall under the jurisdiction of what is now called Public Services and Procurement Canada (PSPC), the design and build of the project, which had many stakeholders and affected parties, required the development of a governance strategy. Cross-departmental governance was only established for Pay Modernization, with no overarching governance looking at Consolidation or change management, nor the project as a whole. The various governance committees included a broad array of Treasury Board and PSPC officials, but lacked anyone with accountability for human resources integration with the new system.

Lastly, a series of accountabilities for the project were developed. The ultimate accountability for the project rested with PSPC. However, given the breadth of the project, PSPC lacked the authority and resources to oversee and be accountable for the entire project. Further, accountabilities below the governance groups were made even less clear. Deputy heads responsible for areas that would be affected by the system were made only vaguely aware at best of their responsibilities and accountability wasn't clearly outlined.

Build
Only one vendor was considered for Pay Modernization. IBM was contracted to develop the software on the PeopleSoft platform. The system was developed with a target first phase launch date of Spring 2015. The plan was to give the system a significant number of test scripts before it started taking on live cases, however no hands-on sandbox training was developed for employees.

To prepare for Consolidation, existing payroll officers were given reassignment notices two years before they were set to be replaced. Hiring of the new payroll officers was implemented in waves as planned.

Change management, however, proceeded even less fulsomely than the narrow planning intended. Once program building was underway, the majority of planned change management activities were deemed out to scope for funding and did not take place. Communications were sparse, non-customized, and unidirectional. Where feedback was encouraged in communications, responses or engagement were slow or non-existent. More often, feedback was actively avoided, as serious consideration of problems or reworking would increase risk of cost inflation or missing deadlines. Further, many complained of a culture where staff didn't feel safe critiquing or challenging managers. This was due to a combination of perceived need to defer to their authority as experts and concern about professional reprisal.

Operate
A planned small-scale test pilot in 2014 was abandoned because the system wasn't anywhere near prepared. Next, the original launch date of Spring 2015 was delayed due to significant system issues. The launch was pushed to February of 2016. When the date arrived the system had not been fully tested, there were four known core defect areas, and there was no clear plan or timeline on how to deal with the defects going forward. The test pilot had been permanently abandoned, testing had been inadequate, and the system was still not ready for launch. However, the government insisted that the system launch, for fear of further missing deadlines and damaging the financial case, which called for full system stability in 2016.

The system experienced immediate problems with both technical performance and staff workload. The government was cautioned against moving to the second phase — a full-scale rollout — by public service unions who had begun to field an avalanche of employee complaints. The issues also began to work their way into the press, resulting in national news stories and more vulnerability for the government. Regardless, the government went ahead with full implementation for the entire public service in April.

For its part, Consolidation proceeded as planned, but the new payroll officers were overworked with a backlog of cases before the full launch even occurred. The backlog was so significant, that the performance of the new officers was difficult to judge, but it quickly became clear that their numbers were inadequate. Questions were also raised about whether the new officers had adequate training ahead of time, particularly given the massive struggles they faced at launch.

Accountability issues arose in this phase as well. As noted above, there was no overarching body responsible for all aspects of the project and low-level accountabilities were vague. This led to an implementation and operation process where previously articulated outcomes assessment fell by the wayside.

Maintain

The massive issues which arose at the launch of Phoenix have meant that the maintenance phase has been a rush to throw resources at the system in order to bring it to a minimally acceptable level of functioning. The government has earmarked an additional $527 million since launch to hire new staff for the Miramichi facility to work on account backlogs and stabilize the system. This post-launch investment is $217.5 million more than the initial cost of the contract. This means that almost a third of a estimated savings have already been spent, with no clear sign of how the need for additional staff will affect the ultimate outcome of the financial case.

Discussion

I.   How would you assess the initial financial case made for the Transformation of Pay Administration Initiative (TPA)? Are the financial calculations accurate? Are all variables considered? Are the assumptions built into both the spending and savings predictions sound?

II. The government put forward three sets of justifications for the TPA: policy, financial, and political. How did the importance of these different justifications shift as the project developed? What do you think the ideal balance between these three sets of justifications would be? How could project managers ensure this balance is ensured through the development of the project? What would the role of a financial officer be in this process?

III. It is uncontroversial at this juncture to label the financial case for TPA a failure. It has been more than a year since transformation was supposed to be complete, and the system is far from stable and any potential savings seem far off. Indeed, staff that the government has added until 2022 will eat significantly into any possible future savings. Further, the implementation costs have more than doubled. However, could the financial case have been saved? What financial management tools could have ensured a better return on investment for government? Knowing how the project eventually proceeded from a cost perspective, how would you rewrite the business case?

IV. Governments face a structural incentive to focus on short-term gains and shift blame for long-term projects to future governments, or avoid them entirely. Given this, what steps are necessary for governments to be successful at large, long-term transformation projects of this nature? Further, what is the role of individual financial officers in ensuring the success of such projects?

V.   What is the role of a financial officer when given a chance to review aspects of a project like this? To what degree can you comment on the political, policy, and financial aspects of this type of project? Where can you intervene to avoid major failures?