

2023-27

POWERLINK QUEENSLAND REVENUE PROPOSAL

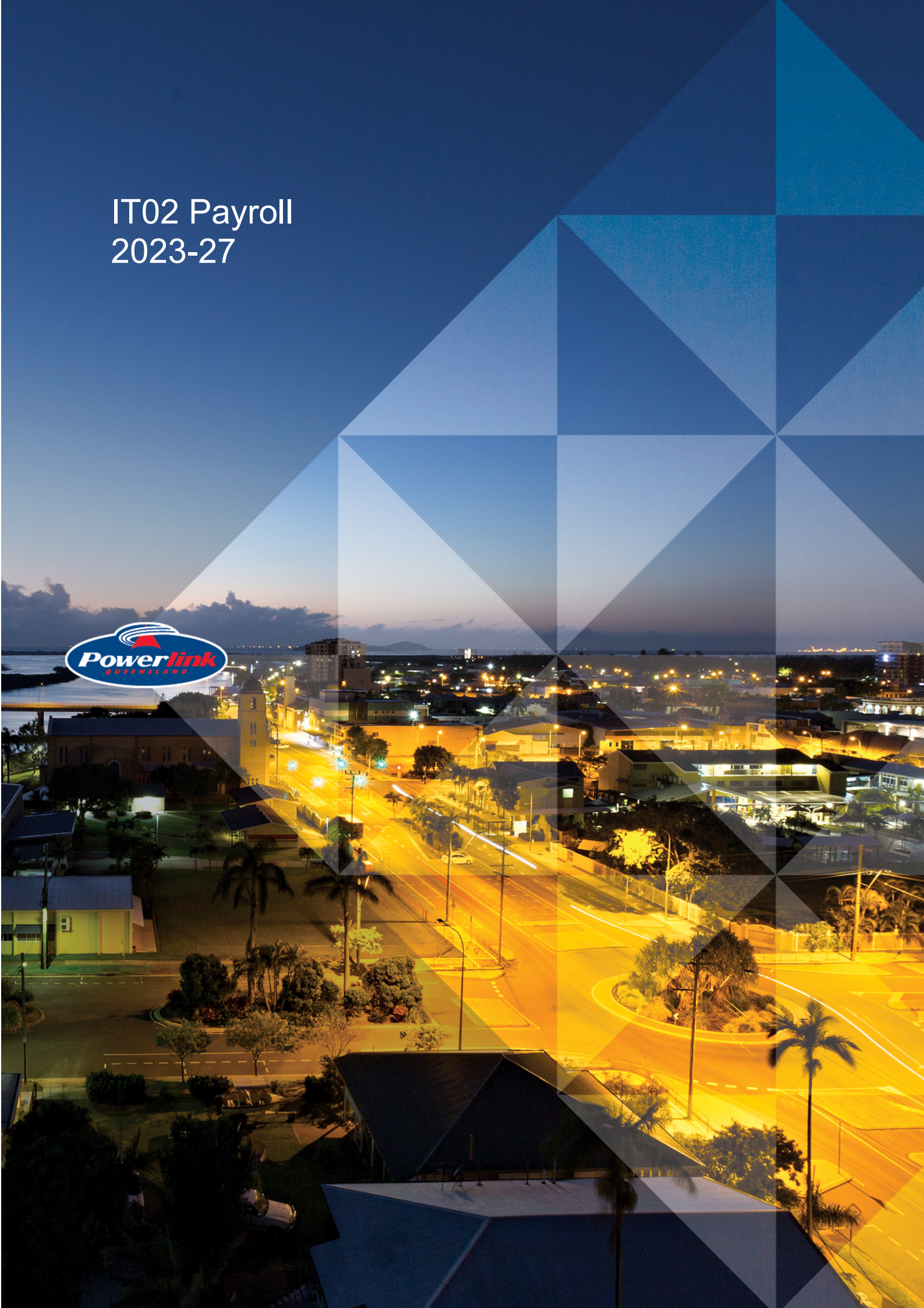
Supporting Document – PUBLIC

IT02 Payroll 2023-27

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IT02 Payroll
2023-27





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Powerlink Preliminary Investment Case

IT02 Payroll Renewal



EXECUTIVE SUMMARY

This investment case documents the justification for planned investment in payroll. It is based on the planning undertaken to date, the estimated costs (development, implementation, ongoing operations and maintenance), the anticipated business value to be gained and the associated risks.

It is proposed to invest in a payroll solution renewal through the FY22/23 to FY26/27 regulatory period (referred to herein as 2023-27). The proposed investment is required to address the following drivers:

- **Requirement for renewal of aging payroll system capability for sustainability, supportability and security**

The system supporting Powerlink's payroll business function is approaching end-of-life. An investment in renewal is therefore needed to provide efficient, sustainable and secure system capability to support this critical business process.

- **Opportunity to leverage investment for standardisation of the payroll system**

Powerlink is currently undertaking work to refresh and modernise its Enterprise Resource Planning (ERP) solution to the latest S/4 HANA. This solution includes financial management, procurement management, contract management, investment and asset management, project management, supply chain management, CRM, infrastructure and field delivery and warehousing.

As such, the organisation is migrating from SAP ECC6 to SAP S/4HANA, with the initial rollout of business functions including financial management, and procurement management. Powerlink already has an investment in SAP SuccessFactors. This provides an opportunity to standardise the legacy ECC6 Payroll into the new SAP landscape.

Standardising payroll to the new SAP landscape removes the need to keep the legacy platform running once other enterprise areas have been migrated to S/4HANA. The move to a modern system will ensure legal and regulatory compliance changes to payroll will be able to be met now and into the future in a planned and vendor supported function.

The risk benefits gained from investment in the recommended option will reduce likelihood of operational impact as a result of system downtime, and integrating with a legacy system. It increases the likelihood of strategic alignment as a result of reducing licensing opex and making efficient use of cloud and emerging technologies. It also contributes to cybersecurity risk reduction through optimised, modern capability.

The following three options are considered:

- **Option 1: Base Case (counterfactual) – Retain existing systems and defer replacement**
- **Option 2: Cyclic renewal and standardisation of payroll system (Recommended)**
- **Option 3: Test the market for a non-SAP replacement for payroll**

The initiative value assessment results reflect a strong alignment, on or near or beyond 75% across all four assessment parameters; Strategic Alignment and Value, Ease of Business Change, Architecture Alignment and Ease of Delivery and Operation.

It is recommended that Option 2 be implemented as the least cost solution to meet the identified need. Total forecast non-network (IT) expenditure for the recommended option is [REDACTED] capex and [REDACTED] opex (FY21/22 real terms) with an NPV benefit of \$0.57 million relative to the base case counterfactual.



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1. INVESTMENT NEED

1.1. Problem / Opportunity

Payroll is a critical business function that Powerlink can't operate without that is utilised by all of the business.

Powerlink currently runs payroll with SAP ECC6. The platform has been superseded by the vendor and is coming to end of life by 2027.

Powerlink is currently migrating the SAP ECC6 Enterprise Resource Planning (ERP) environment to SAP S/4HANA. This investment case supports the need to migrate the Payroll capability to ensure ongoing efficiency, sustainability, compliance and security of this system.

Systems	Supported Business Functions
SAP ECC6 payroll	Accounting

Table 1: Payroll System

The payroll system is currently enabled on SAP ECC6 for all its accounting needs. The system needs annual investment to ensure it is kept updated with taxation, enterprise bargaining, and regulatory compliance changes to SAP, which cover payroll, penalty rates, allowances, superannuation, tax changes and ASIC mandated alterations to accounting standards.

The following investment drivers have defined Powerlink's investment need for the period 2023-27:

- **Requirement for renewal of aging payroll system capability for sustainability, supportability and security**

The system supporting Powerlink's payroll business function is approaching end-of-life. This renewal investment is therefore needed to provide efficient, sustainable and secure system capability to support this critical business process.

- **Opportunity to leverage investment for standardisation of the payroll system**

Standardising payroll to the new SAP landscape from ECC6 removes the need to keep the legacy platform running as all other areas will have been migrated to S/4HANA. The move to a modern system will ensure regulatory compliance changes to payroll will be able to be met now and into the future in a planned and vendor supported function.



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1.2. Investment Objectives

This investment in payroll renewal will deliver on the following objectives:

- Ensure the ongoing supportability and sustainability of this critical business system enabling Powerlink's ability to meet legal compliance with vendor support aligned with Powerlink's defined application asset life cycle principles.
- Support business process efficiencies through:
 - Removal of maintaining ECC6 (system consolidation and integration);
 - Enabling better integration with SAP S/4HANA;
 - Enabling better integration with cloud services;
 - Enabling legal compliance through a vendor supported updated platform; and
 - Enabling a platform that improves business process efficiency through a modern, supported and updated Payroll platform.
- Reduce risk through maintaining legal compliance through a platform that has dynamic updates for ongoing maintenance of payroll, penalty and allowance legislation.

1.3. Alignment with IT Application Management Guidelines

Powerlink's applications are maintained for supportability, sustainability and security consistent with application asset lifecycle management (ALM) principles underpinned by the "PACE" model developed by global research and advisory firm Gartner.

Under the Gartner PACE model, applications are classified as either Systems of Record, Systems of Differentiation or Systems of Innovation with considerations of:

- The nature of business processes supported by the application;
- The pace of change in both the business areas and technology domain;
- The strategic focus for the business area;
- The nature of stakeholder ownership; and
- Risk and funding models.

Consistent with these various considerations, the PACE model identifies typical expected application service life and the corresponding prudent planning horizons. The guidelines provide forecast upgrade and renewal timeframes based on these classifications to maintain effective, sustainable and supportable business solutions across an asset's lifecycle.

Figure 1 (over page) depicts the Gartner PACE model's expected application service life and planning horizons for each application category, as well as Powerlink's corresponding asset lifecycle management guideline applicable to each category.



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Classification	Systems of Record	Systems of Differentiation	Systems of Innovation
Lifetime <i>How long it usually stays in layer</i>	5 to 10 years or longer	2 to 5 years	3 to 12 months
Planning Horizon <i>How long you describe the plan in application strategy</i>	More than 7 years	1 to 2 years	As long as 6 months
Powerlink Asset Lifecycle Management Planning Guidelines	Structured minor releases Upgrade each 3 to 5 years Replace at 10 to 15 years	Upgrade each 2 to 3 years Replace at 6 to 8 years	Typically not upgraded unless provided as evergreen or cloud

Figure 1: Gartner PACE model and Powerlink ALM planning guidelines

An assessment of the systems within scope of the proposed investment are listed below with the relevant PACE model classification.

System / Repository	Implemented (Year)	Last Major Upgrade (Year)	Classification
SAP ECC 6 (Payroll)	2000	2006	System of Record

Table 2: Existing systems in scope for renewal



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1.4. Compliance Requirements

Payroll systems play an important role in enabling Powerlink to meet its statutory, regulatory and legal obligations as an employer. The table below details the obligations supported through the proposed investment.

Obligation	Description of Requirement
National Employment Standard	<p>The National Employment Standard are made up of 10 minimum employment entitlements, Powerlink is required to provide the below listed entitlements to meet payroll compliance:</p> <ul style="list-style-type: none"> • Maximum weekly hours of work • Requests for flexible working arrangements • Maternity and Paternity leave arrangements • Annual leave • Personal/carer's leave and compassionate leave • Community service leave • Long service leave • Public holidays • Notice of termination and redundancy pay • Fair Work Information Statement <p>This investment will ensure that Powerlink maintains its compliance with the standards and continues to remunerate employees in line with salary, wages, superannuation and allowances as negotiated in Powerlink's Enterprise Agreements.</p>
Record Keeping	<p>Powerlink is obliged to ensure it maintains records in accordance with the Public Records Act 2002 (QLD), the Right to Information Act 2009 (QLD), the Fair Work Regulation Act 2009 and the Right to Information Regulation 2009 (QLD). The payroll system in conjunction with its electronic document and records management solution are core to Powerlink meeting these obligations.</p>
Privacy	<p>Payroll, customer and personal information must comply with the Australian Privacy Act. This requires implementation of strong controls and security on the accessibility of personal data, including spatial locations.</p>
Single Touch Payroll	<p>As an employer, Powerlink is obliged to report salary or wages, PAYG tax withholding and superannuation information to the ATO via STP.</p>

Table 3: Compliance Requirements



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1.5. Investment Overview

Powerlink's payroll system is core to the operation of Powerlink as the means to providing the correct remuneration to its staff. The proposed investment in renewal of the payroll capability is essential for ongoing efficient and sustainable business operations as continuous changes in payroll legislation (including taxation and enterprise bargaining) need to be aligned with a vendor supported application.

1.5.1. Current State (2020)

Payroll

Powerlink's payroll capability is currently enabled by SAP ECC6 which was implemented in 2000. The current solution is primarily used by a small payroll team who perform fortnightly payroll runs. SAP ECC6 Payroll is core to Powerlink meeting its taxation and regulatory compliance for payroll and financial reporting and Powerlink contractual agreements to customers and employees.

1.5.2. Target State (end of proposed investment)

Through this asset lifecycle renewal investment, Powerlink will seek to optimise, standardise and renew its payroll system with contemporary capability for long term efficiency, sustainability and supportability.

The rationalisation of systems will support the simplification of processes and enhance the integration with the BW (Business Warehouse) and ERP systems for financial reporting.

This renewed capability will be integrated with the refreshed ERP solution to support holistic analytics and reporting and efficient end-to-end payroll and people management processes.



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2. INVESTMENT OPTIONS

The following options have been considered to address the investment needs identified in section 1.

Option	Description
Option 1: Base Case (Counterfactual) Retain existing systems and defer replacement.	No significant investments in Powerlink's payroll system will be undertaken in the 2023-27 regulatory control period, with renewal deferral until the next period (2028-32).
Option 2: (Recommended) Cyclic renewal and standardisation of payroll system.	The existing payroll system will be renewed and standardised onto Powerlink's new SAP landscape consistent with SAP's roadmap.
Option 3: Test the market for a non-SAP replacement for payroll.	The market will be tested for a contemporary solution with a view to replace the legacy payroll system.

Table 4: Investment Options

Each of these options is evaluated in the sections which follow.



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2.1. OPTION 1: Base Case (Counterfactual)

Retain existing payroll system and defer replacement

The base case (counterfactual) is an assessment of the forecast expenditure and implications if the proposed option(s) do not proceed.

Under this option, renewal of the payroll capability would be deferred until the 2028-32 regulatory period. Investment in the coming period would be limited to standard maintenance and security updates to ensure the products remain supportable with no new major releases being implemented. Delaying investment in payroll would result in additional costs associated with supporting a legacy system including extended support costs and licensing with SAP, additional integration effort to keep aligned with other Financial and People data, along with additional internal support costs and loss of time associated with managing, maintaining and working across SAP S/4 and the legacy ECC6 system.

2.1.1. Base Case Assumptions

The base case has been estimated based on the following assumptions.

Construction Cost and Scope Assumptions

- Annual investment over the coming regulatory control period will be limited to supporting maintenance and minor upgrades to maintain support.
- Lifecycle maintenance of existing hardware, operating system and database management systems will occur as part of other funded initiatives.
- Vendor support for functional changes to these systems will be minimal. Consequently, no capital expenditure has been forecast over the 2023-27 period and business process workarounds would be required in the event of functional capability gaps.
- While a replacement investment will not be undertaken in the 2023-27 period, it would be required in the 2028-32 period. At that point, the costs of the renewal are based on the assumptions detailed in Option 2, escalated by 15% in recognition of the increased complexity of the deferred systems replacement as the existing application versions fall further out-of-date.

Operating Cost Assumptions

- IT operating costs are forecast to increase as extended support arrangements are negotiated with vendors to provide support for a system that will remain isolated on the legacy platform. These extended support arrangements are estimated at \$250,000 for the final year of investment period 2023-27.

Other Assumptions (Non-Financial)

- Business operations can be maintained on the current payroll system subject to likely performance degradation and the risks identified in Table 6 over page.



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2.1.2. Base Case Benefits

The following benefits may be achieved with selection of this base case option. Financial benefits are identified as “per annum” ongoing savings where relevant, and will begin accruing six months following implementation of the option.

Benefit Description	Financial Value (\$M Real 2021/22 p.a.)
1. Minimises businesses change disruption through continuation of existing work practices.	N/A (Non-Financial)

Table 5: Option 1 - Base Case Benefits

2.1.3. Risk Mitigation

Table 6 (below) summarises the inherent risks which would be experienced by the end of the coming regulatory control period (2027) if the base case (counterfactual) option is selected.

The equivalent risk analyses provided with the recommended option (Option 2) and the alternative option (Option 3) have been conducted with respect to their effectiveness in mitigating the below base case risks. This assessment has been undertaken in alignment with the Powerlink risk management framework.

Risk Description	Inherent risk 2027	Risk Level
R1 – Business operational impact Integration issues resulting from legacy systems needing to pull data from the cloud systems running on a different platform. Risk categories – (Legal & Compliance, Projects)	Running large transactions from internal to external systems and vice-versa will cause the runtime to increase significantly. (Possible) Pay runs taking longer would put more risk of missing financial deadlines such as month end, or the end of the financial year. (Moderate) There are no further mitigations within the current solution beyond manual measures.	Significant
R2 - Business operational impact Requirement for yearly SAP updates of legacy ECC6 payroll environment causes system downtime and project related costs. Risk categories – (Projects, Finance)	SAP system updates are an interruption which causes system downtime halting work. (Likely) The impact of this project results in standard project costs and time impacts for operational staff. (Insignificant) There are no further mitigations within the current solution beyond manual measures.	Moderate
R3 - Business operational impact Requirement for yearly SAP updates of legacy ECC6 payroll environment causes system downtime and risk of corruption or update failure. Risk categories – (Legal & Compliance, Projects)	SAP system updates are an interruption which causes system downtime halting work. (Likely) On premise updates always carry the risk of possible data corruption or update failure resulting in extended downtime while the issue is resolved. (Moderate) There are no further mitigations within the current solution beyond manual measures.	Significant
R4 – Cybersecurity With the inability to progress major	The energy sector is considered a high threat area for cyber-attacks. Up-to-date systems are considered a base level defence against a range of these threats. An	Significant



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Risk Description	Inherent risk 2027	Risk Level
<p>system release upgrades, which can include access control and security updates, coupled with the growing sophistication of cybersecurity attacks, there is increasing potential for:</p> <ul style="list-style-type: none"> • Undetected data corruption or manipulation. • Disclosure of personal or sensitive information. • Loss of control of Payroll <p>Risk categories – (Projects, Legal & Compliance, Stakeholder)</p>	<p>aging system profile increases the threat opportunity. (Possible) A successful cyber-attack resulting in a system outage, data corruption and undetected data manipulation or information disclosure may lead to disruption of normal business operations, project delays, safety issues and external stakeholder concerns. (Major) There are no further mitigations within the current solution beyond manual measures.</p>	
<p>R5 – Strategic Reduced capacity to realise BIT’s strategic themes “Reduce IT operating costs, Rationalise systems for efficiency and Make efficient use of cloud and emerging technologies” due to running a legacy on premise SAP system under an extended support arrangement coupled with additional operational expenditure to maintain it. Risk categories – (Finance, Stakeholder)</p>	<p>Running under an extended support agreement for the next regulatory period is likely to have a high cost attached to it than if the solution has been rationalised. (Likely) Higher support charges for legacy systems puts additional stress on meeting Business IT’s strategic. (Minor) Significant manual effort would be required to comply with this obligation.</p>	<p>Significant</p>

Table 6: Option 1 - Base Case Risk Mitigation

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Figure 4 below summarises the risk position of adopting the base case (assessment of each risk tabled above).

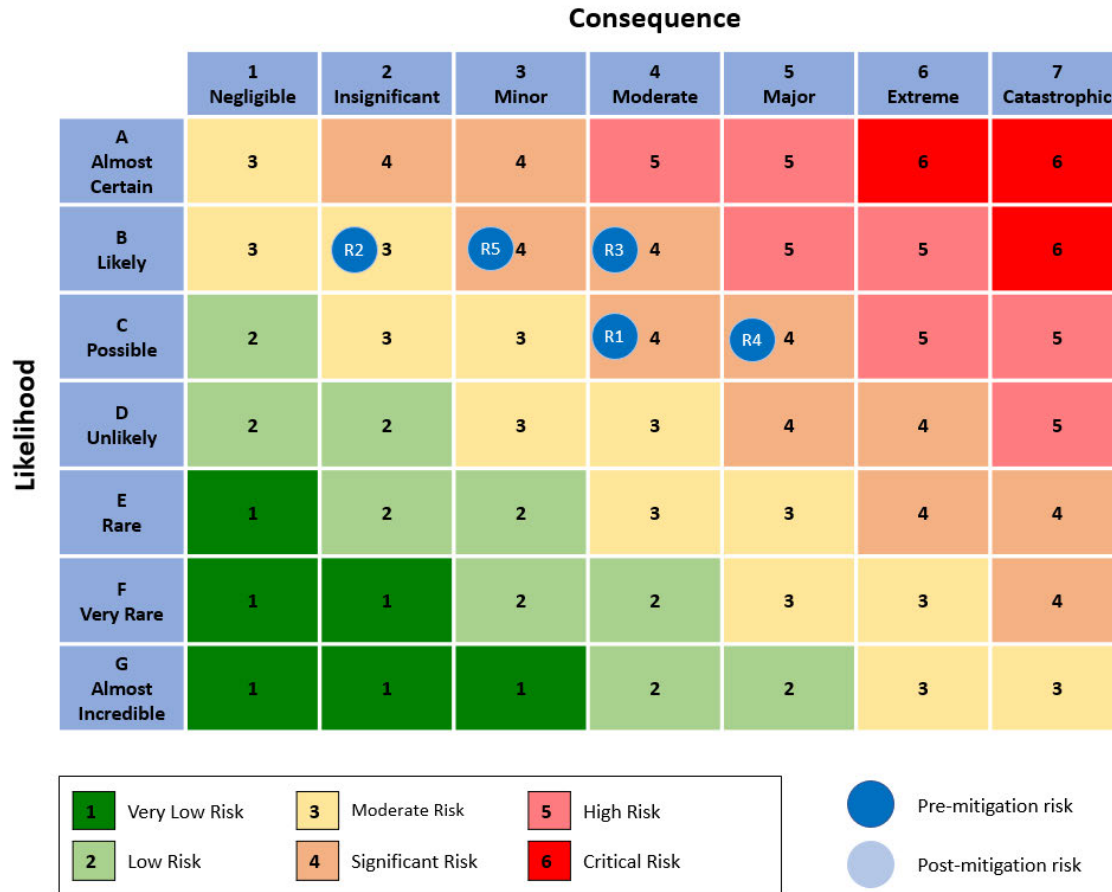


Figure 2: Base Case Risk Assessment

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2.2. OPTION 2 Cyclic renewal and standardisation of payroll system (Recommended)

The existing payroll systems will be renewed consistent with Powerlink’s application asset lifecycle management guidelines for ongoing sustainability, supportability and security.

Through this investment, Powerlink will leverage the opportunity to standardise the payroll system by transitioning to the preferred SAP payroll solution on Powerlink’s new SAP environment removing the requirement for maintaining the legacy SAP ECC6 system, and will review payroll processes to help support productivity improvements.

2.2.1. Option 2 Assumptions

This recommended option has been estimated based on the following assumptions.

Construction Cost and Scope Assumptions

- The project costs are based on a build-up of forecast resourcing, vendor & specialist services, as well as software licensing costs as detailed in the table below.

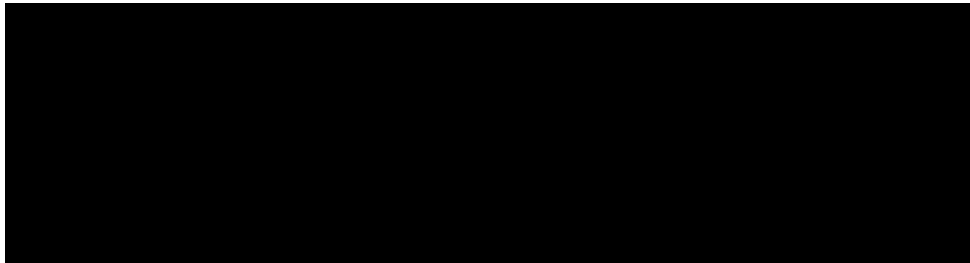


Table 7: Option 2 Cost Build-Up (2021/22 \$real)

- This estimate is based on standard unit rates with estimates based on previous projects of similar size and complexity.
- The project is planned to run across a 24 month timeframe, inclusive of 8 month combined procurement and design phases. The delivery phase is forecast at 12 months, concluding with 4 months of hypercare.
- Available solutions will be available to meet Powerlink’s payroll system scope.
- Ongoing IT Operating costs are expected to be similar to current costs, therefore current costs have been used in estimating future costs
- Lifecycle maintenance of existing hardware, operating system and database management systems will occur as part of other funded initiatives
- The final business case development process will be used to refine the scope, costs and impacts for this investment. A procurement activity will be undertaken to inform costs and solution options.

Operating Cost Assumptions

- IT operating costs are forecast to remain unchanged.

Other Assumptions (Non-Financial)

- While this investment is replacing existing capability, the implementation of more contemporary capability will require change management. This is key to deriving business process improvement efficiencies.



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2.2.2.Option Benefits

The following benefits may be achieved with selection of this recommended option. Financial benefits are identified as “per annum” ongoing savings where relevant and will begin accruing following implementation of the option.

Benefit Description	Financial Value (\$M Real 2021/22 p.a.)
<p>B1. Systems sustainability Powerlink’s payroll functions and processes will be underpinned by efficient, reliable and supportable systems.</p>	<p>N/A (Non-Financial)</p>
<p>B2. Process improvement efficiencies The implementation of contemporary capability is anticipated to support process improvement efficiencies through:</p> <ul style="list-style-type: none"> • Improved and secure integration with the SAP environment; • Improved process time due to new system architecture; • Improved capability to meet legal compliance; • Improved automation of business processes, approvals and reporting; • Improved integration with cloud services 	<p>Contributes to Powerlink’s productivity improvement</p>
<p>B3. Retire technical debt New application versions and upgrades typically offer more functionality and capability while addressing technical and security issues or concerns from previous releases. The result of adopting a payroll system with contemporary capability is flow on effect that allow IT solutions to inherit up-to-date capability resulting in overall reduced design complexity.</p>	<p>N/A (Non-Financial)</p>
<p>B4. Retire legacy system Standardising payroll to Powerlink’s new SAP landscape removes the requirement of maintaining and managing the legacy SAP ECC6 environment. Which removes an operational burden and tightens the security of the IT landscape.</p>	<p>N/A (Non-Financial)</p>

Table 8: Option 2 Benefits



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2.2.3. Risk Mitigation

Listed below is a summary of how this option addresses risks identified through the base case. The opening risk position represents the risk level at the end of the coming 2023-27 period should the base case have been selected.

Risk Description	Inherent Risk 2027	Nature of Mitigation	Mitigation through this option
<p>R1 – Business operational impact Integration issues resulting from legacy systems needing to pull data from the cloud systems running on a different platform have the potential to cause disruption and outages.</p> <p>Risk categories – (Legal & Compliance, Projects)</p>	Significant	<p>Cyclic renewal of payroll systems with modern capability significantly reduces the risk of integration issues.</p> <p>L kelihood – Very Rare Consequence – Moderate</p>	Low
<p>R2 - Business operational impact Requirement for yearly SAP updates of legacy ECC6 payroll environment causes system downtime and project related costs.</p> <p>Risk categories – (Projects, Finance)</p>	Moderate	<p>Cyclic renewal of payroll systems with modern capability provides improved update and patching frameworks.</p> <p>L kelihood – Very Rare Consequence – Insignificant</p>	Very Low
<p>R3 - Business operational impact Requirement for yearly SAP updates of legacy ECC6 payroll environment causes system downtime and risk of corruption or update failure.</p> <p>Risk categories – (Legal & Compliance, Projects)</p>	Significant	<p>Cyclic renewal of payroll systems with modern capability provides improved update and patching frameworks.</p> <p>L kelihood – Very Rare Consequence – Moderate</p>	Low
<p>R4 – Cybersecurity With the inability to progress major system release upgrades, which can include access control and security updates, coupled with the growing sophistication of cybersecurity attacks, there is increasing potential for:</p> <ul style="list-style-type: none"> • Undetected data corruption or manipulation. • Disclosure of personal or sensitive information. • Loss of control of Payroll <p>Risk categories – (Projects, Legal & Compliance, Stakeholder)</p>	Significant	<p>Cyclic renewal of payroll systems with modern capability with modern capability and application of cyclic updates reduces threat vulnerability.</p> <p>L kelihood – Rare Consequence – Major</p>	Moderate
<p>R5 – Strategic Reduced capacity to realise BIT’s strategic themes “Reduce IT operating costs, Rationalise systems for efficiency and Make efficient use of cloud and emerging technologies” due to running a legacy on premise SAP system under an extended support arrangement coupled with additional operational expenditure to maintain it.</p> <p>Risk categories – (Finance, Stakeholder)</p>	Significant	<p>Cyclic renewal of payroll systems with modern capability creates the opportunity for standardisation reducing complexity in the IT landscape for operational maintenance and management.</p> <p>L kelihood – Very Rare Consequence – Minor</p>	Low

Table 9: Option 2 Risk Mitigation



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Figure 3 below summarises the risk position of adopting option 2 (pre- and post-mitigation assessment of each risk tabled above).

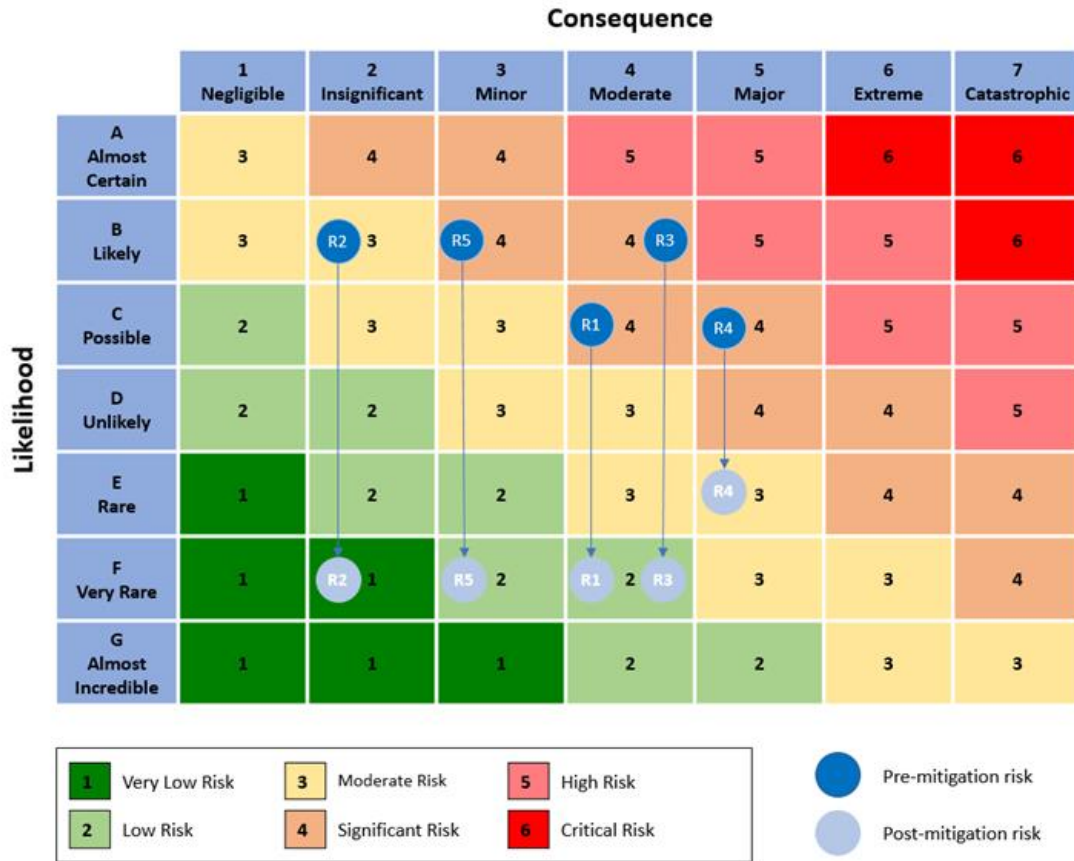


Figure 3: Option 2 - Risk Assessment

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2.3. OPTION 3 Go out to market for a non-SAP replacement for payroll

This option will replace the legacy SAP ECC6 payroll system with a contemporary equivalent from the market consistent with Powerlink's application asset lifecycle management guidelines for ongoing sustainability, supportability and security.

While this option offers a contemporary solution which typically provide the opportunity to enable process improvements, the opportunity in this option is reduced due to potential business disruption risks involved with implementing a new product as a result of new integration requirements, process review to ensure legal compliances can be met, revising Powerlink's skill base model along with increasing complexity in the landscape rather than enabling rationalisation.

2.3.1.Option 3 Assumptions

This option has been estimated on the basis of the following assumptions.

Construction Cost and Scope Assumptions

- The project costs are based on the Option 2 build-up of forecast resourcing, vendor & specialist services, as well as software licensing costs (page 13), but with increased planning and design to reflect the additional effort associated with planning and implementing a new system that needs to be highly integrated.
- This preliminary estimate has been formulated using a combination of standard unit rates for Powerlink internal and external resourcing across the proposed timeline, leveraging current and previous projects for vendor software estimates.
- The final business case development process will be used to refine the final scope, costs and impacts for this investment. One or more procurement activities will likely be undertaken to further inform costs and solution options.

Operating Cost Assumptions

- IT operating costs are forecast to remain unchanged.

Other Assumptions (Non-Financial)

- Commercially available solutions will be able to meet Powerlink's payroll scope.
- While this investment is replacing existing capability, the implementation of more contemporary capability will require business change management. It is possible that business areas are impacted multiple times through the progressive delivery of replacement capability as new integration points will need to be created and business processes will need to be redefined.
- Powerlink will need to update its internal skill base in order to effectively operate the new system.

2.3.2.Option Benefits

The following benefits may be achieved with selection of this option. Financial benefits are identified as "per annum" ongoing savings where relevant and will begin accruing following implementation of the option.

While the potential range of benefits matches those of Option 2, it is unlikely they can be achieved at the same level due to continued breadth of systems underpinning the business processes.



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Benefit Description	Financial Value (\$M Real 2021/22 p.a.)
B1. Systems sustainability Powerlink's payroll functions and processes will be underpinned by efficient, reliable and supportable systems.	N/A (Non-Financial)
B2. Process improvement efficiencies The implementation of contemporary capability is anticipated to support process improvement efficiencies through: <ul style="list-style-type: none"> • Improved process time due to new system architecture; • Improved capability to meet legal compliance; • Improved automation of business processes, approvals and reporting; • Improved integration with cloud services 	Contributes to Powerlink's productivity improvement

Table 10: Option 3 Benefits

2.3.3. Risk Mitigation

Listed below is a summary of how this option addresses risks identified through the base case. The opening risk position represents the risk level at the end of the coming 2023-27 period should the base case have been selected.

Risk Description	Inherent Risk 2027	Nature of Mitigation	Mitigation through this option
R1 – Business operational impact Integration issues resulting from legacy systems needing to pull data from the cloud systems running on a different platform. Risk categories – (Legal & Compliance, Projects)	Significant	Cyclic renewal of payroll systems with modern capability significantly reduces the risk of integration issues. L kelihood – Very Rare Consequence – Moderate	Low
R2 – Business operational impact Requirement for yearly SAP updates of legacy ECC6 payroll environment causes system downtime and project related costs. Risk categories – (Projects, Finance)	Moderate	Cyclic renewal of payroll systems with modern capability provides improved update and patching frameworks. L kelihood – Very Rare Consequence – Insignificant	Very Low
R3 – Business operational impact Requirement for yearly SAP updates of legacy ECC6 payroll environment causes system downtime and risk of corruption or update failure. Risk categories – (Legal & Compliance, Projects)	Significant	Cyclic renewal of payroll systems with modern capability provides improved update and patching frameworks. L kelihood – Very Rare Consequence – Moderate	Low
R4 – Cybersecurity With the inability to progress major system release upgrades, which can include access control and security updates, coupled with the growing sophistication of cybersecurity attacks, there is increasing potential for: <ul style="list-style-type: none"> • Undetected data corruption or manipulation. • Disclosure of personal or sensitive information. 	Significant	Cyclic renewal of payroll systems with modern capability with modern capability and application of cyclic updates reduces threat vulnerability. L kelihood – Rare Consequence – Major	Moderate



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Risk Description	Inherent Risk 2027	Nature of Mitigation	Mitigation through this option
<ul style="list-style-type: none"> Loss of control of Payroll Risk categories – (Projects, Legal & Compliance, Stakeholder)			
R5 – Strategic Reduced capacity to realise BIT’s strategic themes “Reduce IT operating costs, Rationalise systems for efficiency and Make efficient use of cloud and emerging technologies” due to running a legacy on premise SAP system under an extended support arrangement coupled with additional operational expenditure to maintain it. Risk categories – (Finance, Stakeholder)	Significant	Cyclic renewal of payroll systems with modern capability moves away from extended support arrangements. Likelihood – Very Rare Consequence – Minor	Low
R6 – Introduced Risk - Business operational impact Increased complexity in the IT landscape for a standalone system brings additional management requirements for security, maintenance and integration along with additional training and support requirements. Risk categories – (Projects, Legal & Compliance, Finance)	Significant	New risk introduced in this option.	N/A

Table 11: Option 3 Risk Mitigation

Figure 4 (over page) summarises the risk position of adopting option 3 (pre- and post-mitigation assessment of each risk tabled above).

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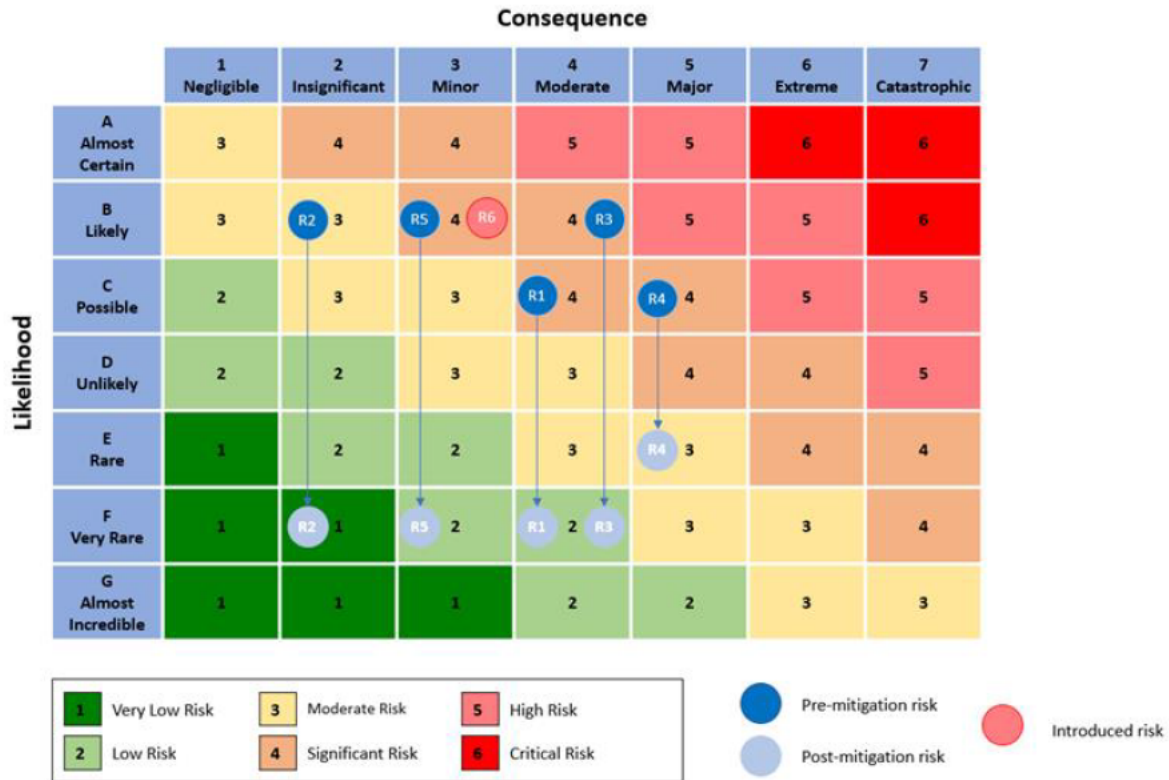


Figure 4: Option 3 - Risk Assessment

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2.4. Option Financial Comparison

Table 12 (below) provides a summary comparison of the identified options.

Option	Title	NPV	Counterfactual Difference	Result
Option 1	Base Case (Counterfactual) Retain existing systems and defer replacement	(2,446,807)	-	
Option 2	Cyclic renewal and standardisation of payroll system.	(1,876,481)	570,325	Least Cost
Option 3	Test the market for a non-SAP replacement for payroll.	(1,906,018)	540,788	

Table 12: Option NPV Financial Comparison

Consistent with the above analysis, Option 2 “Cyclic renewal and standardisation of payroll system.” is recommended.

2.5. Cashflow Summary

Table 13 (below) provides a summary of forecast cashflow over the 10 year analysis period for the recommended option (i.e. Option 2).



Table 13: Cashflow Summary (Recommended Option)



3. RECOMMENDATION

3.1. Recommended Solution

It is recommended to endorse “**Option 2 Cyclic renewal and standardisation of payroll system**”. This option represents the prudent replacement of core systems capability, ensuring ongoing sustainability and support for broader business improvement.

Delivery of the recommended option will begin in FY24/25.

Total forecast non-network (IT) expenditure for the recommended option within the 2023-27 regulatory control period is █████ capex and █████ opex (FY20/21 real terms) with a 10 year NPV benefit of \$0.57 million relative to the base case counterfactual.

3.2. High Level Timeline

Figure 5 (below) depicts the planned timeframe for implementation of the recommended option.

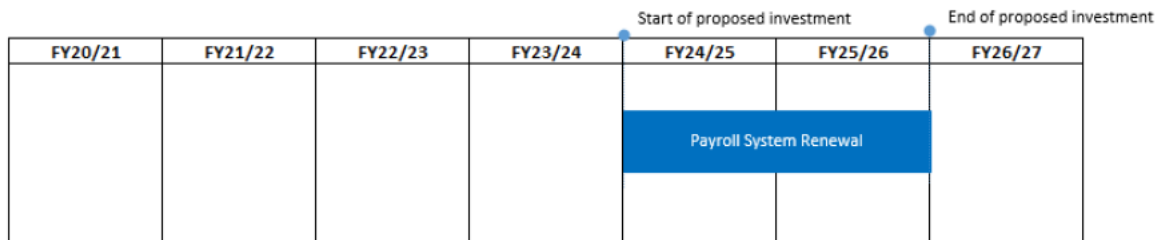


Figure 5: High Level Investment Timeline

3.3. Initiative Value Assessment

Figure 6 (below) summarises the planned initiative value across parameters of:

- A:** Strategic Alignment and Value
- B:** Ease of Business Change
- C:** Architecture Alignment
- D:** Ease of Delivery and Operation

As indicated in the figure, the planned investment is above the 80th percentile in assessment against parameters B, C and D, and at the 70th percentile for parameter A.

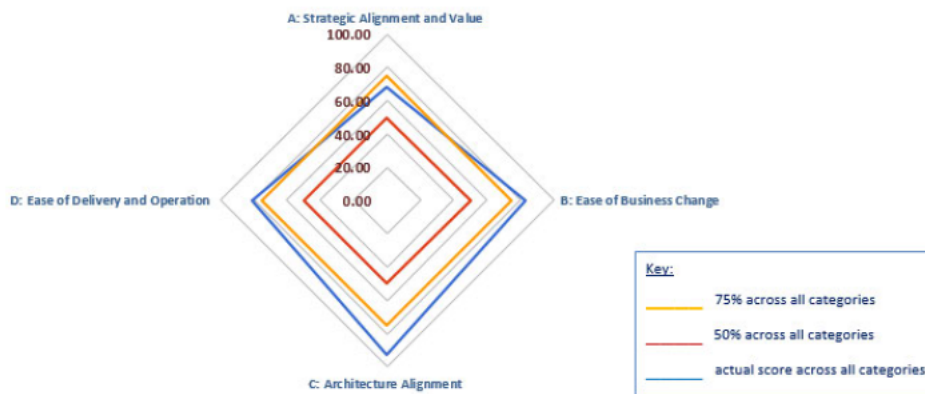


Figure 6: Initiative Value Assessment

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4. SUPPORTING DETAIL

4.1. Program Delivery Risks

Table 14 (below) summarises a set of key risks associated with delivery of the program.

Risk #	Risk Category	Description	Inherent Risk Level	Mitigation Plan	Residual Risk Level
01	Key Resources	<p>This initiative is dependent on the knowledge and expertise of Powerlink's personnel including (but not limited to):</p> <ul style="list-style-type: none"> Architects Stakeholder Management and Engagement IT specialists Payroll, finance & HR specialists <p>These resources also have business as usual (BAU) responsibilities.</p>	Moderate	<p>Accept and Mitigate:</p> <p>The project will be delivered through a combination of internal and external resourcing, with budgetary capacity to enable backfilling of key roles where required.</p> <p>The project and line-managers also have a responsibility to identify potential constraints and manage potential fatigue.</p> <p>This initiative is renewing Powerlink's payroll system, which is core to the legal requirement of salary, tax and benefits. It is therefore important to allocate the company's most capable staff wherever practical and apply appropriate resource retention strategies.</p>	Low

Table 144: Payroll Program Delivery Risks

4.2. Program Constraints

Table 15 (below) summarises a set of key risks associated with delivery of the program.

#	Type	Description
01	Schedule	The program is undertaking application lifecycle replacement of existing capability and planned for completed by June 2026, to ensure efficient, reliable and supportable systems capability underpinning Powerlink's payroll processes
02	Financial	<p>The financial estimate for this initiative has been based on historic expenditure, standard unit rates, market interactions and the knowledge of internal subject matter experts.</p> <p>Endorsement of this business case does not constitute approval for expenditure. A more detailed business case will be developed consistent with Powerlink's investment governance processes to confirm the final initiative scope and budget. The business case will require endorsement by the Powerlink Executive Committee for Digital Technology (ECDT).</p>



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#	Type	Description
03	Workforce Impact and Change Management	The payroll system is predominately used by finance and HR the organisation, and as such, the program incorporates close involvement of these BAU teams and leaders. The program will consult on required work practice changes and employ contemporary training methods and change management techniques to minimise the impact of the workforce.

Table 155: Payroll Program Constraints

4.3. Program Assumptions

Specific assumptions for each investment option are provided in section 2. Table 16 (below) summarises additional assumptions which are relevant to all options.

#	Type	Description
01	Resourcing	Powerlink internal resources allocated to the program will remain available to the program as planned. The program will supplement internal resourcing with external service provision, including services provided by solution vendor(s), non-vendor specialist service providers and experienced contract resourcing.
02	Commitment	Program resources (internal and external) have the commitment, drive and capability to deliver agreed work products to agreed plans.
03	Priority	Through the life of the program, Powerlink and our stakeholders will continue to prioritise the need for investment in the payroll system consistent with the "Investment Need" described in section 1 of this document.
04	Scope	This program seeks to undertake a renewal and rationalisation of Powerlink's payroll system in line with prudent application software asset lifecycle management. The scope covers the systems support this capability as outlined in section 1.5.1.

Table 166: Payroll Program Assumptions

4.4. Program Dependencies

This project is inter-dependent with the projects and activities described in Table 17 below.

#	Type	Description
01	ERP Upgrade	It is planned that the SAP environment will be upgraded before commencement of the payroll system renewal to ensure platform availability and integration requirements.

Table 177: Payroll Program Dependencies



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4.5. Business Area Impacts

Table 18 (below) summarises key business area impacts.

#	Impacted Group	Description
01	Powerlink Executive Leadership Team	<ul style="list-style-type: none"> Require awareness of the planned investment goals and to provide ongoing oversight of the program, with direct governance duly delegated to the Program Board.
02	IT Workgroups	<ul style="list-style-type: none"> Contribute to the planned deployment of the payroll solution, related business process changes and change management activities and to optimise coordination with other planned projects and programs as well as planned software and hardware renewals.
03	BIT Operations & Applications Workgroups	<ul style="list-style-type: none"> Provide resourcing into the program as key SMEs and users of the systems. Will be directly involved in the planning, implementation and support of the renewed systems and solutions.
04	Business Workgroups	<ul style="list-style-type: none"> Provide resourcing into the program as key SMEs and users of the systems. Will be directly involved in the planning, implementation and support of the renewed systems and solutions. Will require training in the new solution.

Table 188: Payroll Business Area Impacts



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Appendix A: Glossary of Terms

The following terms or abbreviations are used within this document.

Term	Definition
ALM	Asset Lifecycle Management
Capex	Capital Expenditure
ECDT	Executive Committee for Digital Technology
IT	Information Technology
NPV	Net Present Value
Opex	Operating Expenditure
ERP	Enterprise Resource Planning
S/4 HANA	SAP's ERP solution for large enterprises
CRM	Customer Relationship Management
SAP	Software developer for business operations and customer management
ASIC	Australian Securities and Investments Commission
Gartner PACE	Layered Application Strategy model
QLD	Queensland
PAYG	Pay As You Go
ATO	Australian Tax Office
STP	Single Touch Payroll
BW	Business Warehouse
HR	Human Resources
BAU	Business As usual
SME	Subject Matter Expert
ECC6	SAP superseded ERP solution
SAP SuccessFactors	SAP cloud based ERP solution



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