

Payroll Operations and Information Management and Payroll Services

Project Summary

November 9, 2004

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1. Executive Summary

The purpose of this report is to provide the public and interested stakeholders with a summary of final outcomes and benefits to be achieved from the Payroll Operations and Information Management (POIM) and Payroll Services alternative service delivery initiative.

The POIM and Payroll Services project transfers the application management for human resource payroll systems and payroll processing services from government to the private sector. On November 9, 2004 the government will enter into a long-term relationship with TELUS Sourcing Solutions Inc. and TELUS Communications Inc. (collectively TELUS) to deliver these services. Overall, this deal delivers value by:

- enforcing service levels;
- enhancing privacy protection in the delivery of payroll services across government;
- reducing costs;
- fairly allocating risk; and
- creating an opportunity to provide services to the broader public sector.

The contract with TELUS is to deliver complete, end-to-end, payroll processing services. Government will retain control of all human resource functions as well as a core group of staff to nurture and manage the relationship with TELUS, ensure performance targets are met on an ongoing basis, and drive value for the term of the contract.

TELUS will deliver the services to the Province for a fixed annual fee that declines over the 10-year life of the contract. When compared to the cost of government continuing to do business-as-usual (BAU), TELUS' fees represent savings to government, over the life of the contract and in discounted terms, that total \$22M.¹

TELUS will establish, in Victoria, a Centre of Excellence that provides human resource systems and payroll processing services. Approximately 150 employees from POIM and Payroll Services will form the foundation for this centre and drive further value for government and the public sector by offering similar cost-effective services to other public-sector organizations across British Columbia.

¹ The discounted cost is a calculation that expresses the present value of money that will be spent (or received) in the future. It takes into account the time value of money. For example, a dollar received today is more valuable than a dollar received a year from now because the dollar received today can be invested and start generating a return immediately, whereas the dollar received a year from now cannot earn a return this year. The discounted cost allows for a more accurate comparison to be made between the costs of different options, particularly if those options require expenditures (such as capital investments) in different years.

2. Project Background, Rationale and Scope

Background

Through its New Era Commitments, the Government of British Columbia articulated a transformation in the way services are delivered to British Columbians.

Alternative Service Delivery (ASD) is a key mechanism for realizing government's vision. Its primary focus is to provide cost effective and efficient delivery of services to taxpayers by:

- increasing private sector involvement in the delivery of services, thereby allowing government to focus on core businesses;
- reducing costs, increasing revenue, or maximizing cost avoidance;
- maintaining or enhancing service levels; and
- supporting general economic development and growth.

In June 2001, government, under the leadership of Premier Gordon Campbell, created the Ministry of Management Services (MSER). Its mandate was to create a Shared Services organization that would coordinate the delivery of services internal to government. In December 2002, government consolidated all information technology infrastructure for government operations in MSER.

As part of creating a Shared Services organization, payroll processing was consolidated from 12 ministry offices into one Payroll Shared Services organization. Combining the payroll processing functions under the same leadership as the payroll and human resource systems further enhanced this consolidation. The Minister of Management Services is accountable for this group.

The Government of British Columbia primarily uses PeopleSoft 8.0 SP1 (Human Resources, Payroll, and Base Benefits Administration). The PeopleSoft application services over 40 distinct ministries, agencies, crowns and other clients. Operationally the PeopleSoft application is used to provide payroll services for 31,000 employees, and has 26,000+ online users across the Province. The PeopleSoft application is augmented by the automated time-capture application, Kronos, which is currently being rolled out across the public service. In addition to the PeopleSoft and Kronos applications, there are smaller corporate human resource applications, which include: e-Classification, Disability Data Management Application, Workforce Adjustment, etc.

The Ministry strives to run its internal operations such that taxpayers get maximum value for their money. A major step in achieving this goal is to involve the private sector where their services can augment those of the Ministry. In early 2003, government reviewed activities in all government

ministries, focusing on information technology services and those business processes heavily supported by information technology, to identify potential ASD opportunities. Payroll Operations and Information Management was identified as a key opportunity to involve the private sector and allow government to focus on core activities. It also provided the province with a growth opportunity by leveraging the services to other organizations in the public sector.

Business Rationale and Project Objectives

MSER made a strategic decision to outsource its POIM and Payroll Services based on the following rationale:

- transfer financial and operational risk to the outsourcing partner;
- hand over non-core services and business processes to the outsourcing partner, while retained employees focus on higher value-added strategic and operational design to assist delivery of policy;
- realize benefits, including reducing costs, for government more quickly with the investments from private sector;
- achieve savings for the broader public sector who can leverage the agreement between the government and TELUS; and
- leverage the marketing capacity of a private-sector partner to grow and expand the offering into other public-sector organizations across British Columbia.

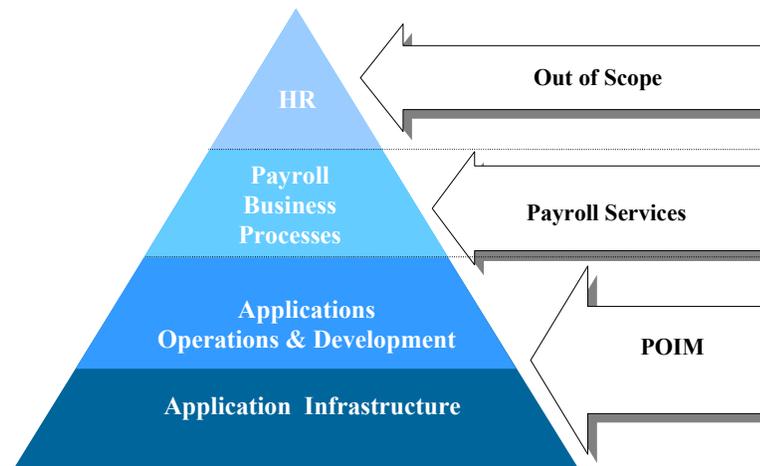
Entering into this contract will also assist the Province to achieve its human resource vision more rapidly and cost effectively by partnering with TELUS. The human resource vision sets out strategies to revitalize the public service and supports implementation of shared services for human resources across government. The vision is intended to help the Province's human resource support services groups, the BCPSA and the Leadership and Learning Centre, to be more responsive organizations delivering quality services to their clients.

Implementation of the strategy will enhance human resource offerings to staff and strengthen relationships with ministries. It will generate support for the shared services model through innovative service delivery and product quality, and support staff performance through enhanced knowledge and information sharing. It will achieve cost savings, improve the user experience and support government objectives through the use of shared infrastructure and common standards as provided by the enterprise portal. In addition, the development of additional human resource functionality will only improve the saleability of the product offering to other public-sector clients.

Scope of Services

The scope of services in the final contract with TELUS is comprised of seven lines of business that together create a complete payroll and benefits service offering:

1. Application Management:
 - Production activities such as daily and bi-weekly payroll runs, generating nightly interface files, etc; and
 - Maintenance activities such as updating applications with bundles, fixes, tax changes and new business rules.
2. Application Development:
 - Development of new system functionality; and
 - Implementation of new functionality to production.
3. Organizational Change Management:
 - Training related to supported applications;
 - Communication activities related to supported applications; and
 - Change-management activities related to supported applications.
4. Help Desk & Documentation:
 - Operating the client contact centre;
 - Maintaining all website documentation; and
 - Providing reports as required.
5. Planning and Service Management:
 - Developing and maintaining a three-year business plan and Integrated Resource Management Plan;
 - Monitoring service levels; and
 - Liaising with government's Service Manager on service perspectives.
6. Financial Management and Budgeting:
 - Developing and maintaining an annual budget; and
 - Monitoring the three-year business plan.
7. Payroll Services:
 - Data entry and adjustment of payroll transactions;
 - Payroll accounting activities; and
 - Benefits administration.



3. Competitive Selection Process

In traditional procurement processes government decides on a solution to a problem and then provides vendors with detailed specifications. Vendors must bid and build within those pre-determined parameters. This approach does not allow vendors to propose alternative solutions that would achieve the desired outcomes in different and potentially more effective ways. Nor does it allow vendors to make use of the experience and ideas of government staff that currently deliver the services in order to develop or tailor creative alternatives.

In approaching POIM, the Ministry decided to try a different procurement approach. Rather than defining the solution, the Ministry defined the problem and desired outcomes, and asked the vendors to propose solutions. The Ministry's intention was to select an ASD "partner" through a process that would result in an innovative and tailored solution, sustainable over a contract term of at least seven to 10 years.

The Joint Solution Procurement (JSP) process was selected as the preferred alternative to the traditional procurement approach. The JSP process allows both the private sector and government staff the opportunity to apply their collective knowledge and expertise to evaluate and design a wider range of solutions. In the first stage of the process, vendors qualified to participate by demonstrating their capability (experience and track record in delivering similar services), capacity (financial and human capital available to sustain an operation of the size and scope of POIM) and commitment.

The Joint Solutions Request for Proposals was issued October 9, 2004. Three companies responded:

Submitted Proposal	Shortlisted	JSD Phase Participant
TELUS	Yes	Yes
IBM Canada	Yes	Yes
Myra Systems	No	No

Two vendors were shortlisted on the basis of their initial written proposals. These vendors were provided with summary information about the current business processes and technology. They then prepared high level conceptual presentations demonstrating their proposed solution to address the problems and achieve the desired outcomes. On the basis of those conceptual solutions, evaluators selected two preferred proponents to work through a three-month Joint Solutions Development (JSD) phase. During this phase the proponents had access to more detailed information about the current business, and refined and elaborated on their initial solutions in close collaboration with POIM staff. All participants in this process were bound by confidentiality agreements, and were not provided access to any sensitive personal information.

Proposals were evaluated by a panel that included staff of the Ministry of Management Services (including the BCPSA), as well as external consultants with expertise in privacy, technology, economics and finance.

Initial evaluation criteria measured the capacity, capability and commitment of the proponent. A clearly demonstrated ability to manage sensitive personal information was specifically required. Proponents' conceptual and final solutions were evaluated on the quality and comprehensiveness of:

- Scope of the solution;
- Technology and Service Outcomes;
- Governance and Deal Structure;
- Labour Strategy and Transition Approach;
- Policy and Compliance (including Privacy);
- Economic Model (overall value of the solution to government);
- Relationship with the Proposed Partner; and
- Risks and Flexibility.

The JSD Phase ended in February 2004, and TELUS was selected as the final proponent in March 2004. Due diligence performed on TELUS included site visits, customer reference checks and analysis of financial reports. The visits and interviews with TELUS' government partners included assessment of TELUS' practices and track record on large-scale projects. Government entered into negotiations with TELUS in April 2004 and a contract was signed in early November 2004.

This innovative Joint Solutions Procurement process was used to select a long-term business partner to work with the Ministry of Management Services to operate, maintain and develop government's corporate human resource and payroll systems and processes. The process was designed to be collaborative in nature, to harness creativity of the private sector, allow open and honest dialogue and facilitate the best overall value proposition for both partners. The objective was to arrive at a business solution that delivers the optimal, efficient and cost-effective service that also maintains and enhances privacy of data. The Ministry wanted to take the working relationship between public and private sectors in British Columbia to a new level.

4. Changes to Project

The original scope of the Joint Solution Request for Proposal (JSRFP) posted in October 2003 included POIM services in these four areas:

- Application management;
- Client services;
- Development projects; and
- Management operations.

The POIM JSRFP also included clear direction to the proponents that the scope of the contract could be expanded to include Payroll Services without a further competitive procurement. These services include:

- Business processes such as payroll and leave data entry;
- Payroll related human resource business processes; and
- Benefits administration.

The original intention was to start on a small scale with POIM and review the potential for inclusion of Payroll Services at a later time if there was sufficient business rationale. As a result of the JSP process, it became clear that there was a strong business case for accelerating the inclusion of payroll services.

This includes:

- structuring a single contract reduces both internal negotiation and due diligence costs;
- faster realization of benefits, including reduced cost to government;
- using the larger contract as leverage for driving better overall value from the vendor;
- the broader public sector can achieve savings by leveraging the outsourcing agreement between the government and TELUS;
- the government can also achieve savings by providing a consolidated platform to support growth into the broader public sector – as it is likely that many potential clients would be more interested in an application management solution with the business processing outsourcing component that Payroll Services provides. If the broader public sector uses Solutions BC as the contract manager, the POIM and Payroll Services can be accessed without further competitive process;
- additional reduced cost to government through volume discount pricing as government and TELUS increase the number of Payroll Services customers and achieve significant economies of scale;
- transfer of additional financial and operational risk to the outsourcing partner; and
- strategic focus: by handing over non-core, transactional Payroll Services processes to the outsourcing partner, retained employees can focus and own high value-added strategic and operational responsibilities.

In January 2004, Proponents were asked to include the delivery of Payroll Services as part of their Solution. The proponents were evaluated on their vision for, and capability to deliver, both POIM and Payroll Services functions, as well as on how the overall economic model would be impacted by this expansion.

The decision to include Payroll Services did increase the length of time to reach a negotiated deal because:

- Treasury Board approval was required for Payroll Services (approval received June 2004);

- The number of employees to be transitioned increased (additional 108 employees); and
- The BC Government Employees and Service Union needed to be involved in the project.

5. The Final Agreement

Profile of the Selected Partner

TELUS was selected to establish a Centre of Excellence for the delivery of payroll services and the management of the Province's human resource and payroll applications.

Because their customers come in a wide range of types and sizes with needs at varying levels of complexity, TELUS takes a customer-centric approach in developing and delivering innovative solutions. A technology leader, TELUS delivers superior value to its customers through the development of innovative new technologies.

TELUS Sourcing Solutions Inc. (TSSI)

TSSI was formed in September of 2003. TSSI provides comprehensive outsourcing solutions to Canadian public sector clients. Initial service offerings are strategically focused on the functional areas of human resources, pay and benefits administration and occupational health and safety. Over time, TSSI will expand to other areas as market opportunities arise. TELUS Communications Inc. (TELUS Communications) will assist TSSI in achieving its aggressive growth objectives through the development of technology solutions, marketing the service, and managing the risks associated with the ongoing activities of TSSI.

The objective of TSSI is to establish a highly efficient and effective organization that will serve complex organizations in Canada. TSSI will build a “best-of-breed” suite of programs and services and offer scalable customized services to a variety of business areas across the public sector including all three levels of government, other institutions and organizations. The Government of British Columbia will become a strategic partner with TSSI as it markets the services across British Columbia.

TELUS Sourcing Solutions Inc. and TELUS Communications

In this contract, TSSI is responsible for application management services and business process service delivery. TELUS Communications is responsible for providing the technology infrastructure services.

Key Terms of the Agreement

Legal and Commercial Structure	<ul style="list-style-type: none"> ▪ TSSI is indirectly wholly owned by TELUS Communications, a British Columbia-based company ▪ TSSI is incorporated in Alberta and is registered to conduct business in British Columbia. ▪ TELUS will operate the Centre of Excellence in Victoria. ▪ TSSI and TELUS Communications have been contracted to deliver these services. ▪ TELUS Communications provides performance and financial guarantees for TSSI. 												
Term	<ul style="list-style-type: none"> ▪ Term of 10 years with possible extension of 1 to 5 years at the sole discretion of the Province. 												
Labour	<ul style="list-style-type: none"> ▪ Approximately 150 job offers (including approximately 100 unionized job offers) were issued, which represented 100 per cent of employees in-scope for POIM and Payroll Services 												
Pricing	<ul style="list-style-type: none"> ▪ Fixed fee totaling \$105 million in discounted terms, subject to inflation. ▪ Fee changes based on volume bands. 												
Additional Cost-Reduction Opportunities	<ul style="list-style-type: none"> ▪ Specific Cost-Reduction Projects (including policy changes): <ul style="list-style-type: none"> ○ Joint Executive Committee agrees on business case and respective contribution to savings. ▪ Cost-Check Pointing: <ul style="list-style-type: none"> ○ At 5 years (and 10 if extension); and ○ Re-evaluate forecasted vs. actual costs ▪ Price and Service Benchmarking: <ul style="list-style-type: none"> ○ At 5 years (and 10 if extension); and ○ Joint Executive Committee to review business process changes to reduce costs. 												
Protection of Service Levels:	<ul style="list-style-type: none"> ▪ Service descriptions and associated service levels have been defined. ▪ Regular reporting and reviewing of service levels. ▪ Financial consequences may apply for missed service levels. 												
Termination	<p>Termination by the Province:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Termination at Expiry</td> <td>Termination costs paid by the Province at preferred rates</td> </tr> <tr> <td>Termination for Cause</td> <td>All Province's costs paid by TELUS including costs charged by new service provider (to a cap).</td> </tr> <tr> <td>Termination for Convenience</td> <td>Province pays certain TELUS costs plus declining fee.</td> </tr> <tr> <td>Partial Termination</td> <td>Province has the right to terminate either or both of POIM and Payroll Services, or a portion of these functions.</td> </tr> <tr> <td>No-Fault Termination</td> <td>In limited circumstances, such as a change in control of TELUS. In this case, both parties part at their own expense.</td> </tr> <tr> <td>Termination Services</td> <td>Upon any termination TELUS is obligated to provide services required to transition services back to the Province or to another service provider.</td> </tr> </table>	Termination at Expiry	Termination costs paid by the Province at preferred rates	Termination for Cause	All Province's costs paid by TELUS including costs charged by new service provider (to a cap).	Termination for Convenience	Province pays certain TELUS costs plus declining fee.	Partial Termination	Province has the right to terminate either or both of POIM and Payroll Services, or a portion of these functions.	No-Fault Termination	In limited circumstances, such as a change in control of TELUS. In this case, both parties part at their own expense.	Termination Services	Upon any termination TELUS is obligated to provide services required to transition services back to the Province or to another service provider.
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Governance	<ul style="list-style-type: none"> ▪ Joint Executive Committee (JEC) comprising members of TELUS, Solutions BC and the BCPSA guide the development of the business vision, a rolling three-year business plan and joint go-to-market strategy. ▪ Joint Operations Committee to monitor service levels and administer the contract.
Financial Controls	<ul style="list-style-type: none"> ▪ Service levels will be enforced by financial consequences. ▪ Interfaces with financial and other government systems and processes are assured by TELUS and remain their responsibility ▪ Liability and Indemnity provisions are in place excluding a privacy breach. ▪ TELUS agrees to permit the Province to have access for audit and inspection purposes.
Growth	<ul style="list-style-type: none"> ▪ Business vision targets expansion to BC Public Sector clients over the first five years of operation. ▪ Province contributes going-concern business, access to intellectual property and access to service, without an expensive procurement process. ▪ TELUS offers access to private-sector disciplines and effective marketing capacity. ▪ Deal offers the potential to create buying power with software vendors (such as PeopleSoft) resulting in increased functionality and reductions in maintenance fees for participating organizations.
Audit	<ul style="list-style-type: none"> ▪ Transparency of costs including reasonable audit and investigation rights.
Intellectual Property	<ul style="list-style-type: none"> ▪ TELUS has access to Province-owned intellectual property (e.g. custom-developed applications, processes and documentation). Ownership of the intellectual property (along with new intellectual property developed during the contract term) remains with the Province. ▪ TELUS intellectual property will be available to Province at end of contract term for use in continuing services to the Broader Public Sector.

Privacy

The protection of personal information of all individuals, whether it be in their role as citizen or employee, is of critical importance to government. TELUS has in place, and will maintain, policies and procedures specific to both privacy and security. Through TELUS, privacy will be protected to a higher standard than ever before by:

- entering into a contract with a Canadian-based and operated organization, headquartered in British Columbia, that is federally regulated under the CRTC (Canadian Radio-Television and Telecommunications Commission). The CRTC limits the percentage of foreign ownership to a minority and prevents the sale of the company outside of Canada;
- ensuring continued operations remain in British Columbia;

- ensuring that all personal and operational data remains in Canada (prime data location in Victoria with disaster recovery from Calgary data centre);
- contracting provisions that prevent TELUS from adding or changing substantive subcontractors without the Province's approval;
- all employees of TELUS that have access to personal data will be required to sign a non-disclosure agreement directly with the Province;
- TELUS has also agreed to implement a whistle-blowing policy to support the confidentiality provisions;
- ensuring that substantial measures are in place to prevent the disclosure of personal information with the Province having significant remedies in the event of actual disclosure (including termination rights in certain circumstances);
- explicit education and training for staff on privacy and security will be provided by TELUS;
- conducting Privacy Impact Assessments prior to contract and with any material changes involving personal information for the life of the contract - and implementing recommendations;
- each subcontractor is subject to all the contractual provisions for privacy protection of province data;²
- contract elements include non-disclosure provisions; and
- data stored in a highly regarded data centre employing best practices.

This project does not have direct *USA Patriot Act* implications because the service provider is a Canadian company headquartered in British Columbia and subject to Canadian laws. See Appendix 1 for more detail on privacy protection measures.

Financial Summary

TELUS will deliver the services to the Province for a fixed annual fee that declines over the 10-year life of the contract. When compared to the cost of government continuing to do business-as-usual (BAU), TELUS' fees represent savings to government, over the life of the contract and in discounted terms, that total \$22M.³

² Includes the full scope of personal information as defined under the Freedom of Information and Protection of Privacy Act, including payroll related records.

³ The discounted cost is a calculation that expresses the present value of money that will be spent (or received) in the future. It takes into account the time value of money. For example, a dollar received today is more valuable than a dollar received a year from now because the dollar received today can be invested and start generating a return immediately, whereas the dollar received a year from now cannot earn a return this year. The discounted cost allows for a more accurate comparison to be made between the costs of different options, particularly if those options require expenditures (such as capital investments) in different years.

Financial Summary of Anticipated Savings (\$M)						
	10-Year Nominal Cost To Government			10-year NPV of Cost to Government (5% discount rate)		
	Deal Fees and Retained Budget	Business-as-Usual Budget	Savings	Deal Fees and Retained Budget	Business-as-Usual Budget	Savings
POIM & Payroll Services	\$ 133M	\$ 203M	\$ 70M	\$ 105M	\$ 162M	\$ 57M
Cost Retained In Government	\$ 37M	\$ -	-\$ 37M	\$ 33M	\$ -	-\$ 33M
Additional Capital Investment						-\$ 2M
Total	\$ 170M	\$ 203M	\$ 33M	\$ 137M	\$ 162M	\$ 22M

Potential for additional cost reductions will be based on efficiencies through broader public-sector growth and technology enhancements.

Payment Mechanism

TELUS will invoice the Province for services on a monthly basis.

Expected Accounting Treatment / Financial Reporting

All accounting, record keeping and book keeping of TELUS will be performed and carried out consistent with Canadian Generally Accepted Accounting Principles.

POIM assets will be transferred at fair value. Examples of POIM assets include items such as servers and certain license usage.

Risk Allocation

The types of risks transferred to TELUS include:

- operational delivery of payroll services;
- operational delivery of application maintenance services;
- disaster recovery – business continuation;
- data integrity; and
- business transformation.

The types of risks retained by the Province include:

- business relationship with Solution BC clients;
- management of stakeholder group relationships;
- organizational change; and
- contract/alliance management.

The types of risks shared by the Province and TELUS include:

- financial risk of realizing business growth;
- change of support for this opportunity/deal;
- transition plan failure;
- low employee-acceptance rate;

- client satisfaction;
- data accuracy; and
- contractual working relationship.

Additionally, the Province is looking to TELUS to transform the services so that the BC Centre of Excellence can be leveraged to provide services to other public-sector organizations. To mitigate the risk that the centre is not leveraged, TELUS is prepared to invest in transformation.

Vision

The Government of British Columbia and TELUS have developed a common vision for the future. They will collaborate to enhance the Province's Human Resource/Payroll systems and Payroll Services capabilities. TELUS will establish a state-of-the-art Centre of Excellence in Victoria providing application management and business process outsourcing (BPO) services. In partnership with Solutions BC, this Centre of Excellence will offer services to other public-sector organizations, thereby creating the opportunity for province-wide savings in human capital management. By virtue of this ASD initiative, the broader public sector will be able to purchase services directly from Solution BC's sponsored Centre of Excellence without the expense and effort required by a procurement process. The Province will be the foundation client and the employees will be the founding employees of this Centre of Excellence.

6. Transition, Transformation, Ongoing Contract Management

Transition from the Government of British Columbia to TELUS will be based on a "business as usual" model, meaning transition will not be concurrent with transformational changes. Immediately after the transition phase, stabilization of the operation will be a primary focus. During this stabilization period, TELUS will undertake an operational assessment of areas such as: quality of services, quantity of services, utilization of best practices and methods of service delivery. This assessment will result in a strategic plan built in collaboration with government and key stakeholders. The next step will be business transformation. The goal for business transformation will be to position the business into a marketable entity for business growth. POIM's technical capabilities and Payroll Services business process flow will be the focus of transformation.

Governance and alliance management responsibilities rest with Solutions BC in the Ministry of Management Services. A senior member of the MSER management team has been appointed the Alliance Executive. This role will be responsible for managing and nurturing the long-term relationship with TELUS, driving incremental value over the life of the deal, and resolving any issues that may arise. This person is also responsible for ensuring that the contracted value is delivered from the contract. The Alliance Executive

reports to the Assistant Deputy Minister, Common Business Services, MSER. A governance team to ensure success of this relationship supports the Alliance Executive. There will be a Joint Executive Committee, a Joint Operations Committee and supporting working groups to monitor service levels. Additionally, the Province will participate in a national advisory committee to facilitate information-sharing and advice on the leveraging of strategic opportunities.

There are 18 “essence of business” service levels that have been identified and defined (e.g. software availability at 95 per cent, accuracy of payroll, and timely issuance of T4’s). Service Managers from both partners will report and review these service levels. There are financial consequences associated with the essence of business service levels, uninterrupted services and any chronic service issues. Service levels will be tracked, monitored and reported on a regular basis.

Over time, reduced costs for contracted services and leveraging the Human Resource/Payroll systems for improved service delivery to the Government of British Columbia and over time to other organizations in the public sector will demonstrate the success of this deal.

Appendix 1 – Privacy Protection

Mitigation Strategy / Contract Provisions (X = not a specific requirement; ✓ = specific requirement; I = implicitly required to comply with other contract provisions)	Current Contracts	TELUS Deal
TELUS will comply with all provincial policies and procedures regarding privacy and security;	X	✓
All privacy and security obligations flow to TELUS sub-contractors;	X	✓
Data access will be segregated from other clients and staff working on other accounts at all times;	✓	✓
Strong technology security measures will be implemented, including firewalls, encryption and physical security;	✓	✓
Strict records management and retention policies will be implemented;	✓	✓
Privacy Impact Assessments will be required prior to any systems change;	I	✓
Contract includes termination rights in the event of certain disclosures of personal information or privacy breach;	I	✓
All employees and sub-contractors who have access to Ministry data sign non-disclosure agreements with the Province as well as with employer;	X	✓
Non-disclosure agreements include the requirement for the signer to notify the Province in the event that he/she becomes aware of any potential disclosure;	X	✓
Agreements with its own employees must state the contract with the Province has precedence over its employment agreement; and will include “whistleblower” protection;	X	✓
Data storage and access, including remote access, will be only in Canada, and can only be changed with the Province’s express consent;	X	✓
The Province has the right to audit data movement.	X	✓

Appendix 2 – Risk Allocation

Material risks transferred to the private

Risk Category & Description	Allocation of Risk		Mitigation (Contractual Provisions)
	Service Provider	Province	
Business Risk			
Service provider does not achieve service levels in contract	✓		<ul style="list-style-type: none"> Financial consequences for missed payroll and other key service levels. Chronic service level failures may be grounds for termination for cause.
Privacy or security breach	✓		<ul style="list-style-type: none"> Liability for privacy breach or unauthorized disclosure of personal information.
Change in control of TELUS	✓		<ul style="list-style-type: none"> Province has right to terminate agreement in the event of a change of control of TELUS that is not approved by the Province. CRTC regulations prevent sale of company outside of Canada.
Business failure of company or sub-contractors	✓		<ul style="list-style-type: none"> Grounds for termination for cause. Province able to step-in and takeover.
Business continuity and Disaster Recovery Plan	✓		<ul style="list-style-type: none"> Requirement for DRP and BCP for services provided by TELUS. DRP/ and BCP must be integrated with Province's BCP. DRP calls for recovery to be in Calgary A regular test will be required by TELUS.
Cost overruns	✓		<ul style="list-style-type: none"> Fixed sliding scale for Payroll Services based on volume. TELUS responsible for delivering all mandatory services within fixed fee, regardless of eventual cost.
Data security	✓		<ul style="list-style-type: none"> TELUS will comply with or exceed the Province's data security policy.
System maintenance	✓		<ul style="list-style-type: none"> Through this contract, TELUS becomes responsible for all operating systems and hardware
Changing service requirements	✓		<ul style="list-style-type: none"> Services are outcome-based, not process-based. Robust governance structure and change-order process which can adjust to changing requirements.
Data integrity	✓		<ul style="list-style-type: none"> Contractual commitment will be made to meet data standards and to respond to data integrity issues identified by the Province.
Transition risks	✓		<ul style="list-style-type: none"> A detailed transition plan was developed and reviewed by the Province. The contract includes a transition schedule which outlines conditions precedent to handover Financial consequences are in place for delayed

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Conflict of Interest	✓		<ul style="list-style-type: none"> transition. • TELUS remains responsible to attract and retain staff. • TELUS will be prohibited in any activity that will be a conflict.
Fraud or errors/omissions	✓		<ul style="list-style-type: none"> • Province has audit and investigation rights with certain abilities to remedy.
Market	✓		<ul style="list-style-type: none"> • Price and services benchmarking at years 5 and 10.
Client satisfaction	✓		<ul style="list-style-type: none"> • Regular client satisfaction reviews may be conducted by either party to assess satisfaction. • TELUS is responsible for responding to identified issues.
Force majeure	✓		<ul style="list-style-type: none"> • TELUS not exempt from providing services in the event of labour problems.
Transformation plan fails	✓		<ul style="list-style-type: none"> • TELUS has incentive to transform the business because of growth potential.
Risk that Province will be unable to monitor and measure deliverables	✓		<ul style="list-style-type: none"> • TELUS responsible for providing accurate and timely reporting for all service levels. • Joint Executive Committee will review service levels on an annual basis.

Shared Material Risks

Risk Category & Description	Allocation of Risk		Mitigation (Contractual Provisions)
	Service Provider	Province	
Business Risk			
Inflation	✓	✓	<ul style="list-style-type: none"> • Province pays inflation up to BC core CPI, TELUS pays inflation over BC core CPI.
Interest rates	✓	✓	<ul style="list-style-type: none"> • Any capital being financed at fixed TELUS' cost of capital. • Full rights to intellectual property and employees at end of term.
Services repatriation at end of term	✓	✓	<ul style="list-style-type: none"> • Termination services from TELUS provided at preferred rates. • Key personnel protected by non-solicitation provisions.
Growth expectations not realized	✓	✓	<ul style="list-style-type: none"> • Strong no-growth economic model. • Fixed price contract over deal.
Growth strategy is too successful and results in lack of attention to Province needs	✓	✓	<ul style="list-style-type: none"> • The Province participates in growth planning. • Service levels apply regardless of growth.

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Sponsorship/Management			
Risk of change in support for this initiative within Province and Service Provider	✓	✓	<ul style="list-style-type: none"> Province has termination for convenience rights TELUS cannot terminate for any reason and is bound to meet service levels – there are financial consequences to not meeting these service levels.
Transition plan fails	✓	✓	<ul style="list-style-type: none"> TELUS responsible for transition. Several remedies in event of failure including financial consequences.
Risk that scope changes will increase net cost to Province	✓	✓	<ul style="list-style-type: none"> Ordinary course changes and certain other changes included in fixed fee. Service defined to provide maximum flexibility of scope. Significant scope changes go through change process – specific change can be rejected if Province's cost is too high. Province has preferred rates for any work. Province retains the right to compete out-of-scope work
Project Complexity			
Risks associated with balancing multiple goals, numerous concurrent activities, new business processes, complex technology implementation, coordinating multiple organizational units	✓	✓	<ul style="list-style-type: none"> TELUS has fixed fee for providing services and all costs within scope are responsibility of TELUS. Detailed governance structure and process in place to manage relationship.
Change in Policy or Law			
Change in government law or policy requiring changes in scope, systems or business processes	✓	✓	<ul style="list-style-type: none"> TELUS responsible for implementing all ordinary course law and policy changes. TELUS will implement business process changes within fixed fee unless extraordinary event in which case preferred fees will be charged for extra work.
Economic Risks			
Severance costs - prior to handover and during first two years of contract	✓	✓	<ul style="list-style-type: none"> TELUS assumes all personnel costs for transitioned employees. In case of termination for convenience, Province assumes severance risk. Any employees not transitioned are responsibility of Province.
Liability and Indemnity	✓	✓	<ul style="list-style-type: none"> Province indemnified, including for breaches, intellectual property infringement and disclosure of personal information Damages are capped at 10-months' fees per loss with 18-months' fees cap for losses in any year. TELUS Communication will be directly liable under this contract.

Material risks retained by the province

Risk Category & Description	Allocation of Risk		Mitigation (Contractual Provisions)
	Service Provider	Province	
Business Risk			
Contract and business relationship management risk		✓	<ul style="list-style-type: none"> • Strong governance model. • Province to establish strong stay-back team.
Stakeholder Risks:			
Conflicts/issues with Province's key stakeholders		✓	<ul style="list-style-type: none"> • Province is responsible for Province's stakeholders.
Organizational Change:			
Internal provincial reorganization risk: reorganization of remaining Province functions; alignment of Province and Service Provider		✓	<ul style="list-style-type: none"> • Province can assign contract.