

TRANSCRIPT

STANDING COMMITTEE ON LEGAL AND SOCIAL ISSUES

Subcommittee

Inquiry into machinery of government changes

Melbourne — 16 March 2016

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The CHAIR — I would now like to welcome the Secretary of the Department of Premier and Cabinet, Mr Chris Eccles. Before I invite you to make some opening remarks, I will just caution that all evidence taken at this hearing is protected by parliamentary privilege as provided by the Constitution Act 1975 and further subject to the provisions of the Legislative Council standing orders. Therefore you are protected against any action for what you say here today, but any comments made outside the hearing are not afforded such privilege.

Today's evidence is being recorded. You will be provided with a proof version of the transcript within the next week, and transcripts will ultimately be made public and posted on the committee's website. We have allowed 45 minutes for our time today. On behalf of the committee I would like to thank you for coordinating the response from the other secretaries in relation to the machinery of government costs and the updated information which was provided on 10 March. Mr Eccles, I invite you to make some opening remarks, and thereafter the committee will have questions.

Mr ECCLES — Thank you very much, Chair. I think I might forgo the opportunity to make any general opening remarks, other than to say that I have reflected upon the interim report and I think there are some opportunities for reform that we can probably discuss during the course of the hearing. They have been clearly signalled in the interim report, and I think we can respond quite positively to the direction within the interim report.

The CHAIR — Perhaps by way of an opening question I invite you to expand on what work DPC may be doing to create a framework around machinery of government costs and benefits as we move forward, because I think the figures that we have before us, some of the changes in the figures that were provided to PAEC back in June, what was provided to this committee in July and then some of the changes to the anticipated future costs demonstrate that some secretaries are no doubt approaching this with sincerity and trying to be accurate but have had different measures of what is a machinery of government cost. Even just from Ms Peake, who preceded you, the evidence from the department was that signage changes and website upgrades are not machinery of government change costs, because they needed to be done anyway. I think other departments have included such costs in the cost. So I suppose by way of a first question, Mr Eccles, I invite you to update the committee on what work DPC is doing to perhaps create a framework so that everyone is on the same page.

Mr ECCLES — Thanks, Chair. I think that we had a categorisation of our direct costs which was reflected in our submission, and so just for the record I will detail our categories of direct costs. We had consultants and contractors, relocation, telephony, IT and records management, rebranding, redundancies, new staff and other. The other comprised the *Victoria Government Gazette* costs associated with the machinery of government orders. I only state that for the record because I do not think it is a sufficient response. I think from the evidence that you have heard today and from the interim report, it is quite clear that there is inconsistency in the categorisation of direct costs across departments. I do not think that is helpful. I do not think that is in the interests of being able to account consistently and transparently for the direct costs.

So prompted by the interim report and a conversation with secretaries this morning at our regular meeting, there was a consensus — and it has probably emerged through the course of the hearing today — on the considerable merit in developing a framework to enable more consistent tracking and reporting of direct costs associated with implementing machinery of government changes. We would obviously welcome the contribution of the committee in coming to a position on what the categorisation of costs might best look like.

I notice that in your interim report you make reference to a piece of Whitehall material, and we might come back to that at some point, which had another, if you like, taxonomy which talked about accommodation, HR systems integration, IT investment, IT integration, differential pay settlement and productivity. I am not entirely clear on the latter two, but the earlier four clearly make sense. So there are numbers of ways in which you can dissect the direct costs, and we would welcome the committee's advice around what might be the optimal way of describing the costs.

The CHAIR — Thank you, Mr Eccles. The committee will give consideration to that point as part of our final report. I suppose the other side of this equation and discussion is the question of outcomes. As many secretaries have made the point today and when we first met, outcomes can be measured sometimes immediately and sometimes they accrue over a considerable period of time. The measurement of those I think is also something where — and I think it has become apparent, but this is perhaps more difficult to quantify — there is not a clear understanding or way to measure outcomes that may or may not accrue from machinery of government changes. Again I invite you to respond to that proposition.

Mr ECCLES — I share both your view and the views expressed by secretaries about the difficulties of being able to identify the outcomes that are associated with any particular machinery of government change. It should not prevent us continuing to search for a description of outcomes, because we have a responsibility to disclose where we can to the Parliament and through the Parliament to the public what the benefits are that accrue. The difficulty is not so much in being able to make general statements of outcome performance in terms of, in particular, coordination and the efficiency and effectiveness that comes with a rationalisation of function; it is more in the search for the quantification of the outcome with a metric as opposed to perhaps a continual statement of a general result.

So in my department, for example, we have as part of the machinery of government changes seen the aggregation of all of the watchdog and integrity agencies within the department and then a significant reform agenda being led by the Special Minister of State in relation to reform across all of those domains. That has found legislative expression in some form, and there are discussion papers in relation to the other. The benefit of having it all within the portfolio means that we are able to ensure that the reforms speak to each other — so the reforms to the Ombudsman framework speak to the reforms around IBAC and speak to the reforms around the Inspectorate and so on. We are able to talk about the general momentum for reform that is enabled through a machinery of government change, but to actually precisely quantify that, particularly in the near term, is a bit challenging.

I am sure that at some point you would be able to point to general improvements that have come through the machinery of government change, but the challenge associated with that is that there is so much activity of government that bears upon structure, organisation and form that occurs outside the formality of a machinery of government change that follows an election so that the challenge for the committee will be to try and draw some boundaries around that — I think in your report.

To use an example in my department, since the machinery of government change we have had the acquisition of the Office of the Victorian Government Architect that occurred in May 2015; we had the responsibility for the national disability insurance scheme reform transfer into the department because of its strong connection to the intergovernmental component of those reforms; and on the other side of the ledger we had the exiting of staff who were within the department who are now part of Infrastructure Victoria, so there is, if you like, an ebb and flow that you would be very familiar with. To be able to disclose across the board the relationship between a machinery of government change and a particular outcome is challenging when you have the interplay of administration through the course of the term. That will be a challenge, to get that clear line of sight between a machinery of government change at a given time and the description of the enhanced performance that emerges.

The CHAIR — Hopefully. Thank you for that response, Mr Eccles. My final question before handing over to colleagues is: noting that some of the different approaches by different secretaries and parts of government to MOG costs, that was perhaps reflected in some of the answers provided to PAEC and then to this committee shortly thereafter. Some time has passed since that time. Are you confident now that the costs that have been provided to the committee, which total \$5 214 409 — \$5.2 million — are reasonably consistent and reasonably accurate, noting some vagaries of the unknowns?

Mr ECCLES — I am entirely confident of the number that appears for the Department of Premier and Cabinet being the end point of \$409 283, and we have anticipated future costs of zero as being accurate. Other agencies have greater challenges. You will have heard from Richard Bolt today about his wholesale changes and the fact that there is a massive integration exercise. I do not know that I can speak with the same degree of confidence — and I would not presume to speak with the same degree of confidence — that they may have spoken to you with about their own individual circumstance. I would hope that as time has progressed, and with the concentration of effort that has come with the attention of the committee, that perhaps we are in a pretty good place, but I could not guarantee every number across every department as being the precise cost to date and, more significantly, the anticipated cost into the future is accurate — well, is going to remain the case.

Mr MULINO — Thanks very much for your evidence. I just wanted to step back for a moment and just go back to your overall observation when you gave evidence earlier that you thought that the efficiency and effectiveness of the MOG changes overall had been very positive and undertaken in a very efficient manner. Is that still your view?

Mr ECCLES — It is still my view, and I think I made quite a large statement about it being the most efficient and effective that I had been associated with in my time in government. I now have the opportunity to

reflect upon that, and I do not retreat from that observation. It still was a complex machinery of government change. It was executed with speed, determination and precision. There are some obvious legacy issues associated with the costs that have been exposed through your inquiry that will come to something less than \$5 million so far, and I imagine that the number will stick around that.

Does that represent value for money? It is hard to put a precise formula to whether it represents value for money, but in a qualitative sense, if you are looking at the magnitude of change, the speed with which it was executed, the intent behind that change and what it will yield by way of benefits that are in all of the evidence for departments and for the citizens means that I still back in what I said early on, that it has been an efficient and effective process, and the expiry of time since I last gave evidence has not caused me to change my mind.

Mr MULINO — I had a question around outcomes. It has been a thorny issue in relation to a number of policy areas. I just wanted to ask a follow-up question in relation to the broader context. As you have identified, one of the tricky things in identifying value for money in a MOG change is you have a whole bunch of costs that are in the main relatively easy to identify and some outcomes that are trickier to identify. Is it fair to say that, when you look at it in context, those outcomes challenges are really a bigger issue than MOG? Really it is an issue that bedevils government and other organisations in business as usual and in complicated areas of service delivery, like health and education. This is something that has been with government for decades and that it will probably continue to wrestle with for a long time — that we always try to do better, of course, but that the difficulty in clearly identifying net outcomes is just a challenge that we have to continue to work at.

Mr ECCLES — I think that you are absolutely right. The fact that it is difficult does not mean that the endeavour is not worthwhile. We speak the language of outcomes frequently. Governments speak the language of outcomes. They talk about outcomes for the citizen as being the primary motivator, and they contrast it with process. There is some truth and it makes sense for government to emphasise that it is constantly searching for better outcomes for citizens. You are right that the challenge is being able to identify what those outcomes are and then to relate it to the specific outputs, which we are more familiar with and emerges through the budget process, and then to connect it back to the way in which we appropriate funding and the way in which we account for funding.

We are entirely alive to that challenge, and within government we are looking to more systematically take an approach, with the Special Minister of State taking the lead, to identify what the outcomes might be that relate to our particular output categories. We will keep chipping away and not give up because it is difficult or because when you are asserting an outcome change, sometimes you are not going to be able to back it up with a specific metric. You sometimes have to rely upon the experience of the individual. So if we accept that there can be a qualitative assessment of an outcome and that can be the lived experience of citizens and engaging with a particular service, if that becomes a legitimate form of accounting for service improvement, then I think we have to be a bit more sophisticated in the way we expect government to account for successful outcomes rather than just a unit that goes from A to B. The citizen's experience through qualitative input back to government is one thing that I think we should explore in more detail.

Mr MULINO — I have just a couple of very quick questions on the framework that we might recommend. I think we are all agreed that we should come up with some standardised categories, and we should probably come up with some principles that would govern whether or not an expenditure falls in or out of MOG. One of the principles might be whether the expenditure was principally motivated by or caused by MOG. One of the grey areas is expenditures that may have occurred anyway, so for example if a department has a sign that is about to fully expire because it is about to fall off its hinges and then they replace it with one with a new departmental insignia on it, is that due to MOG or is that a sign that would have been replaced anyway? Do you agree with incorporating some kind of principle that expenditure should only be included if it was not going to be a business as usual cost? Should we include some kind of principle there, even though we may not be able to come up with the exact wording?

Mr ECCLES — I think so. If the purpose is to connect the machinery of government to the costs associated with a particular set of initiatives related to machinery of government, then I think almost by definition you need to have something about proportionality. Even if you cannot put a precise proportion of 80 per cent or 75 per cent, some substantial connection to some language which assists government in drawing the connection between the machinery of government change and the cost category I think would be very helpful.

Mr MULINO — The last question is something that a couple of people have raised. Mr Fennessy raised it, although he did caveat his comment by saying he did not want to steal your thunder. I should get that on the record.

Mr ECCLES — I had heard that.

Mr MULINO — So direct costs like IT and payroll clearly should be reported, but where, for example, somebody might go to a meeting to discuss machinery of government changes it becomes a bit hazy as to whether it is worth the expense of recording their time when in many areas people do not record the time as a matter of course. I am just wondering what your thoughts are on that kind of proportionality test.

Mr ECCLES — I guess the challenge for the committee is in addressing the issue of indirect costs in the form of staff time and opportunity cost and whether it is included within whole-of-government tracking and reporting frameworks. It might be easier to do in a law firm, where you account for your time in particular minute intervals. Within the public service we do not track our time on an hourly or daily basis, and it is rare that any staff are dedicated entirely to the implementation of machinery of government matters. It tends to be combined with their existing functions.

So in the absence of a means of tracking by time and with people largely having to build the machinery of government implementation into their duties, it becomes difficult for you to credibly come up with a mechanism to track or to account for the indirect costs incurred. Do you want to then introduce a system that enables that? I guess that would come at a cost, and then the committee will need to make a judgement about whether the effort in moving government, or your advice to government or recommendation to government that we move to a system of being able to capture staff costs, is worth the transaction cost.

The CHAIR — If I could just intercede and follow up very quickly, Mr Mulino's suggestion about proportionality for some of the more tangible costs could potentially — I invite you to respond — be used for those less tangible costs like productivity, like attending meetings, like having some staff in acting roles or not in allocated roles until restructures are finalised. Perhaps that might be a way to address some of those indirect and no doubt real costs, but, as you say, we do not want to become like some legal or accounting firm where 6-minute units are measured et cetera.

Mr ECCLES — Yes. You would have to work out whether the recognition of the fact that you cannot be precise is such that the generalised response which would be needed — so there would need to be a generalised response in the absence of a metric — is then worth it for the purpose of public accountability. It is like a statement on my part that the individuals involved in the machinery of government change — it was a proportion of the HR team over a given period in onboarding new starters — would have impacted 20 per cent of their duties. Whether that then becomes meaningful for public accountability purposes, that is my question.

Mr MELHEM — Just on that, I agree with you. Unless someone is fully dedicated to basically running a project — you tell someone, 'Here's your project for the next six months to implement MOG', for example — I think the minute we are going to go to someone spending 5 minutes, 20 minutes, half an hour or 2 hours a day on that, I think it would cost more money to do that than to actually get any efficiency. I think it would be crazy to go down that line.

Mr ECCLES — I tend to agree with you. Interestingly, Chair, you mentioned the issue of productivity. I noticed that was one of the categories in the Whitehall documentation, but when you actually dig into what they meant by lost productivity, they have made an assumption that it was represented by a percentage of staff resistant to change and a standard productivity loss for this cohort of affected staff. Within that, the fact that this document has such an interesting approach to how you would measure the productivity offset suggests the challenge is fairly profound in trying to come to something like that as a requirement on government to account for a machinery of government change. I think you will tread there cautiously, I would imagine.

Mrs PEULICH — I have a couple of questions, if I may. I am interested in the non-cost-related impacts of machinery of government. But before that, do you have any concerns that your department experienced costs other than financial — for example, loss of expertise, institutional memory or strategic focus — as a result of MOG changes? You have referred already to movement of staff to Infrastructure Victoria as being one area.

Mr ECCLES — It is a good question. I actually think that the experience of staff in their engagement with machinery of government actually rounds out their role as a public servant, because they need to think in terms of structure, they need to think in terms of organisational design. For those who apply their minds to issues of machinery of government I think it is a good discipline to socialise more broadly across departments, because it is not only the formal machinery of government changes that occur with election outcomes but we are engaged in machinery of government changes frequently, and to have people exposed to the best way in which to design parts of government to respond to priorities I think is a good thing.

Mrs PEULICH — But you have not answered my question. I agree with you that it is a valuable experience, obviously, but as part of the process at the moment and given that it has been 12 months in place, has there been a loss of expertise, institutional memory or strategic focus as a result of the MOG changes?

Mr ECCLES — Institutional memory: I do not believe that as an organisation we have lost institutional memory. I would argue that in our case because we are essentially a net acquirer of functions that we have brought parts of government — —

Mrs PEULICH — A more talented pool. Is that what you are trying to say?

Mr ECCLES — Yes, that is a much more elegant way of describing it.

Mrs PEULICH — I should be on the other side of the microphone. Thank you. In view of your answer, could you point to areas where perhaps the response to policy and program challenges has not been up to expectation as a result of machinery of government changes? Have there been areas where we have been sluggish, tardy, slow or ineffective, and can you point to those?

Mr ECCLES — Sluggish, tardy and slow — —

Mrs PEULICH — Ineffective.

Mr ECCLES — Ineffective. I will speak for my department. I cannot think of an area where as a result of the machinery of government change we have been sluggish, tardy or slow in responding to the priorities of the government. In fact I would argue the opposite — that the machinery of government change was designed to align the structures of government to the agenda of government and that as a result of the machinery of government change we have a more direct, pointed and relevant focus. So I cannot call to mind any areas where I think there has been a net deficit as a result of the machinery of government change. In fact I think it is the opposite.

Mrs PEULICH — One example that I was thinking of is within my own portfolio responsibilities, and that is in relation to multicultural affairs and the slow speed with a whole range of matters have occurred in that portfolio, which is coming into public focus more and more each day. Are you able to make a comment on that and maybe others that might come to mind as you answer that question?

Mr ECCLES — Thank you for the prompt. I would benefit from some greater specificity around the areas that you see as having been slow to start. I am not saying that they do not exist; it is just that they are not visible to me. In fact I look to the responsiveness in the multicultural area to the emerging risk of countering violent extremism and the fact that we created Australia's first chief resilience officer. We have a cabinet task force directed to social cohesion. We have a series of programs and a government investment in last year's budget to putting the government's money where its mouth is around that as an example of in fact the opposite — of there being a very contemporary approach to some of the biggest challenges that face our community.

Mrs PEULICH — Contemporary but slow, and I think some of my contributions in the past and also here previously would — —

Signal theory is where I think, for example, the social cohesion unit has been very slow in releasing some resources for short-term responses to issues connected to radicalisation of young people in particular. There is the situation in Bendigo where the government was very slow in being proactive and allowing the situation surrounding the mosque planning application to boil to such public concern, and more recently the riots that occurred in the CBD — —

Mr MULINO — How are you relating it to MOG?

Mrs PEULICH — No — hang on a tick. What I am suggesting is that some of the machinery in relation to serving the long-term interests of the state are sensible, but I am not sure that the short-term responses are there. That is the basis of my question. Is this a more complex, more integrated model of government slowing down our responses to challenges in the area of policy and programs?

Mr ECCLES — I understand you are asking me to offer an opinion about the rate of change — —

Mrs PEULICH — The rate of response.

Mr ECCLES — Again, from my vantage point, and we all have different vantage points, I do not detect the same lack of speed to outcome that you have detected, but I am not sure that I can offer anything more helpful at the moment.

The CHAIR — Mr Eccles, just before concluding I have two final questions. You said in response to an earlier question that you think the MOG changes have been approached with energy and vigour. Mr Bolt, when he appeared before us earlier today, gave us a handout and spoke to the new organisational structure as having come into effect on 3 September last year for his department. With the caveat that his department is large, substantial and involved significant restructure and change, do you think that that change has been implemented in a speedy fashion, sufficiently quickly, given the effluxion of nine months between the change of government and 3 September?

Mr ECCLES — If the activities of the portfolio had been put on hold while the formality of the structure was embedded, then the answer to your question is, yes, it would be too slow. But I think the record of achievement of that portfolio over the nine months leading up to September shows that you can deliver on the government's agenda while at the same time consolidating the organisational pieces. So to the extent that there are obvious achievements in that portfolio space, then I do not think the fact that the finalisation occurred nine months diminishes the success of the machinery of government change. The reality is that in an organisation of that size, it will take time to finalise. The trick in the finalisation is that you continue with an aggressive agenda of reform, and I think the portfolio achievements demonstrate that.

The CHAIR — Some regional rail commuters may beg to differ, but I will leave that there. Mr Eccles, just finally, when you appeared before us last year there was some discussion about the Premier's section 30 declaration. I think at the time you said you would take on notice about whether a redacted version of that could be provided to the committee. I am not aware of that having been released. Are you able to update the committee on the status of that document?

Mr ECCLES — Unfortunately, Chair, I am not, and my officials are not prompting me in any particular direction, so I think I will have to repeat my need to take that on notice, but we will get back to you immediately with the answer to that rather than wait for any length of time.

The CHAIR — Mr Eccles, thank you very much for appearing before us and again for providing that information from coordinating from all departments about the MOG changes.

Mr ECCLES — Thank you, Chair.

Witness withdrew.