

TRANSCRIPT

STANDING COMMITTEE ON LEGAL AND SOCIAL ISSUES

Subcommittee

Inquiry into machinery of government changes

Melbourne — 16 March 2016

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Mr Richard Bolt, Secretary, and

Ms Sue Eddy, Lead Deputy Secretary, Financial Management and Technology Services, Department of Economic Development, Jobs, Transport and Resources.

The CHAIR — I declare open the Legislative Council’s legal and social issues committee public hearing in relation to the inquiry into machinery of government changes. I would like to welcome Mr Richard Bolt, Secretary of the Department of Economic Development, Jobs, Transport and Resources, and Ms Sue Eddy, who is from the department as well. Thank you both for being here.

Before we commence I will caution that all evidence taken at this hearing is protected by parliamentary privilege as provided by the Constitution Act 1975 and further subject to 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. Witnesses found to be giving false or misleading evidence may be in contempt of Parliament.

Today’s evidence is being recorded. You will be provided with proof versions of the transcript within the next week, and transcripts will ultimately be made public and posted on the committee’s website. We have allowed approximately 45 minutes for our time today. I would like to thank you both again for being here and for your preparedness to respond to the committee’s questions. I look forward to your presentation, and thereafter we will have questions.

Visual presentation.

Mr BOLT — Thank you, Chair; thank you, Mr Mulino. I will be brief with the presentation. This is by way of an update of our allocation or apportionment of costs to machinery of government changes. It shows that from 30 November 2014 to 31 May last year the costs incurred are estimated at \$1.3 million in direct costs and that a further \$1.1 million is expected to be incurred from 1 June 2015 to 31 January this year, largely due to the consolidation of our systems, and there are some additional costs to be expended from February 2016 onwards, which you will see listed there as \$255 000. We can explore any of those of course in the course of this hearing.

The next slide says a little as to the collaborations that we have prioritised as a result of being organised in the way department now is, the point of it being of course to bring key levers and functions that are related to economic development and job creation into one place. As I have previously said, I think to the Public Accounts and Estimates Committee, the fact that they are in one department makes certain forms of collaboration both expected and easy to organise. You can organise across departments, but the transaction costs sometimes get in the way of that.

In this instance we are seeing industry sector plans and indeed outlooks being developed not only to support our industry stimulus or industry development functions but also as an injection into our transport planning because as industries develop they develop in particular places which have particular advantages. That creates a transport task, particularly where jobs are forecast to be in one place and housing is forecast to develop in another, so to develop a city it helps a lot to understand how industries work or are expected to evolve and to base our transport planning assumptions around that. That is one of the benefits we have found and one of the collaborations we are prioritising within the context of this new department.

Another would be investment in energy and agriculture. We can take a full view of the opportunities to develop or to attract such investment and indeed to get the agricultural product to market, and indeed potentially future energy products to market, by having our economic development functions, formerly in the DSDBI, collaborate more directly with the agriculture, energy and resources people and, on top of that, while not listed there, transport so that we can look at some of the supply chain requirements that will allow product to get to market. Again, having those three functions in one place has allowed us to prioritise that as a collaboration within the new, expanded department.

We think there is a very important set of collaborations between Visit Victoria, which is now being constructed, Creative Victoria and Regional Development Victoria in improving the livability and attractiveness of Melbourne and the state and the regions to visitors to the state. By consolidating both three functions within Visit Victoria and several within Creative Victoria and then getting those three bodies to work together more directly and more strategically, we think there are opportunities to gain some benefits to the state from their interactions.

It goes on to the areas of strategic planning and policy development and the management of commonwealth-state relations in a holistic way. Quite often an initiative or a policy in one area of commonwealth-state interaction is related to another, and by having a single strategy and planning group across

the totality of that we can recognise those interactions and make the most of our engagement with the federal government. We will also be prioritising place-based work, focusing on the challenges of specific regions, with a transport-economic development-resource industries lens being brought in an integrated way to that question.

By being larger, I think I have said previously, we can strengthen partnerships within our agencies but also with other parts of government, and we are quite systematically working through what those partnerships look like in order to be managed well, including with DELWP, with education, with the City of Melbourne, with federal departments and so forth. We are codifying those relationships increasingly in partnership agreements.

Other information that may be relevant is that we have enacted a new organisational structure from 3 September 2015. That is now largely in place; it is being bedded down still in a few areas. There will be ongoing needs to reorganise because that is the modern reality of managing a department, but the big change that largely gave effect to government policy in the particular parts of the department — that structure was enacted on 3 September. It followed the machinery of government change but in many cases is more related to the development or the delivery of the government's change to policy agenda. We are regularly tracking costs and benefits associated with everything we do, including the MOG changes. We are now into a space where much of what we are doing is really the business as usual dimension rather than related to MOG, apart from the costs that I have already given you.

This last slide is a very brief answer to a question raised by Mrs Peulich last time, which concerns how we are defining sectors for the purpose of our sectoral strategies. I apologise that we did not get back in response to that question. This is now an initial answer to that, which we are happy to elaborate should that be needed. We have done a sector-by-sector analysis on the Victorian economy to understand where our opportunities might lie, also to look at areas where transition might require management. It is clear that that is going to be required in the auto sector. Our question was: where else? So you will see the six priority sectors that were part of the government's platform have been reviewed: medical technologies and pharmaceuticals — I will not read them all out, but they stand there on the slide.

The reviews of other key sectors have occurred in parallel with that: the creative industries, the visitor economy. We are reviewing the ICT digital economy at the moment, as it is a key input to pretty well every other part of the economy as well as being a sector in its own right. And our sectoral analyses across the economy, done initially by Boston Consulting Group, have been already released to the Legislative Council in November of last year and they are publicly available on our website. They give more information as to what we concluded about our sectoral prospects and transition changes.

I trust that is a helpful opening gambit, Chair.

The CHAIR — Thanks very much, Mr Bolt, for that opening summary of the changes that have taken place. I will kick off the questions. I just want to go to the costs, and thank you very much for providing that update in the material you provided. As you say in the material, from 30 November 2014 to 31 May last year there was \$1.3 million of costs incurred associated with the MOG. In June at PAEC last year you told PAEC the estimate of MOG costs would be between 1.5 to \$2 million. You told this committee \$1.3 million when you appeared before us in July. You subsequently told this committee on 10 March there has been \$1.138 million of additional costs, and, as you mentioned this morning, there are anticipated further costs of \$255 000. I would just be interested to know what has driven that growth in costs from the estimate you provided to PAEC last year of 1.5 to \$2 million to the anticipated \$2.7 million cost now.

Mr BOLT — Thank you, Chair. They sound like different figures but they do line up because they are dealing with different time frames, and I apologise for the confusion.

The 1.5 to \$2 million estimate was an estimate to the end of June 2015. The numbers that we have here for reasons of alignment with previous reporting to you, as I understand it, is in fact that \$1.3 million figure takes us to the end of May last year. So it misses that month, and if you pro rata the months in the next tranche of costs at \$1.138 million, it will come to the lower end of the 1.5 to \$2 million range, so therefore is consistent. And the 1.138 takes us beyond June obviously well into this year. Again that is why it is different to the 1.5 to \$2 million estimate, so several numbers, they are broadly consistent, and what we are now doing is giving you our best and final view on what we have spent and what we are now likely to spend. And now the tail of that — as you can see with the remaining \$255 000 — is, compared to the rest, small and therefore we think we are at the end of the accounting of our MOG costs.

The CHAIR — Just on that \$255 000, does that represent a particular project or a particular undertaking associated with MOG, or is that just general anticipated costs to further bed down the MOG changes?

Mr BOLT — No, more than half of it relates to payroll and finance system consolidation. The longest part of bringing everything together has been to, in a staged way, move to an efficient department-wide payroll and finance systems suite, so to speak. So 140 000 is to do with that. The other part of the 255 000, which is the remaining 115 000, is non-project specific consultants and contractors, and I cannot off the top of my head tell you exactly what roles they play. I do not know if Sue Eddy can help you with that.

Ms EDDY — Yes, I can add. We have an overall program manager that we appointed for the project to establish a project management office to make sure that we planned and we monitored the delivery as well as the assessment of costs and benefits; and that is the remaining time that that person will be on board to wrap up all the projects, ensure that the documentation is closed off and that we draw a line in the sand.

The CHAIR — Just in relation to the advice about the organisational structure that was enacted on 3 September, as you said previously, I suppose I will put this proposition to you and invite your response. It has been said to me that the departmental restructures and your department being so significant and having such a large degree of change led to many people, including many senior people, being in acting positions from 4 December until 3 September potentially or beyond until those positions were filled; and that led to a loss of productivity because of it being unknown where people would be placed eventually after going through the job selection process and filling roles and all the rest of it. I just invite your response to that proposition that there has been a productivity loss as a result of that uncertainty.

Mr BOLT — Chair, I would say the reverse. I think that as we got going on 1 January the level of output of the department increased. I think the expectations were very high of the new department. There were new commitments to mobilise for. I think in the life of any government the first year is often marked by increased activity as you have to stop doing some things, do other things differently and then do new things.

In this case, to give you one example, the first Victorian Invitation Program, of which the second is now occurring, the inbound trade mission was organised in the space of five weeks, took place very early last year and was by all of our measures a resounding success. The mobilisation of work to refocus our capital delivery on Melbourne Metro and the level crossings — there was an enormous amount of work to get people on board and to begin those programs.

So without attempting to traverse every single aspect of what we did, no doubt having machinery change requires people to spend some time on actually preparing for that change, so there are some resources to devote to that, but I think the level of commitment and productivity shown by the department was exceptional last year, and I did not detect a loss of momentum. I saw the opposite.

The CHAIR — Just with the new structure that was enacted, so were people in the department in acting roles until that structure was finalised?

Mr BOLT — No. We are talking a more differentiated approach to that. So where the new structure created roles or had roles in it that were effectively the same as previous roles, which was the majority, then people simply continued in those roles, not as acting. Where there was not a good alignment between previous and new, then there was a rapid-fire process of internal competition to fill those roles and then a subsequent round — I believe at least one subsequent round — to mop up what you would say were the vacancies created by some moves that would have occurred. So there was more certainty than that.

There are parts of the department, a minority, where there was greater uncertainty than others, and we managed that by focusing our counselling resources. Our People and Executive Services Group put a particular emphasis, with the line management, to ensure that those concerns were managed.

The CHAIR — I have a couple more questions along that line, but I will hand over to Mr Mulino first.

Mr MULINO — I just wanted to drill down onto the payroll and financial systems consolidation line a little bit. That is the largest single line item. I am just wondering, that is a consolidation of a number of different systems across areas, some of which have been different departments. Are there any ongoing savings from a number of different areas being now under a consolidated, integrated system?

Mr BOLT — In general we will be able to deliver back-office support, of which this is a component, more efficiently across a larger number of staff than with the previous arrangement. You have to invest to an extent to realise those savings, but there will be savings.

Mr MULINO — So a lot of this is up-front costs that might generate ongoing savings.

Mr BOLT — That is right.

Mr MULINO — And you would expect that your per-staff-member costs of HR and other back-office services would in some instances decline.

Mr BOLT — Relative to what they otherwise would have been, and that is the rub. In some areas, I think, without being specific, there were areas of underservicing that needed to be remedied, and so untangling what is a deficiency from what is the need to restore a better service becomes too difficult to do, because we do not account for our time quite that forensically. This will be more efficient simply because we are providing this span of control over a large number of people, but then picking out that trend from the need sometimes to meet higher expectations makes it not straightforward to actually see a decline.

Mr MULINO — Is it fair to say that in some instances parts of the new department that had come from other areas had payroll and financial systems that probably would have needed to be upgraded at some point in the medium term in any case — so some of these costs were things that probably would have had to be incurred in the short-to-medium run in any case?

Mr BOLT — I will ask Ms Eddy to comment on that, but in general the answer is yes, and that is why there is some erring on the side of being inclusive, so to speak, in these numbers because there are always going to be requirements to update systems by new versions of software or switch to new versions, and so to an extent some of this is measuring costs that to an extent would have been incurred anyway.

Mr MULINO — And in a sense there is probably enough — —

Mr BOLT — We took the test of a kind of dominant purpose: what was the dominant driver of it and particularly the near-term dominant driver? Was it the MOG change? Did it make it most urgent? The answer was yes, so we included it. But there are no doubt some offsetting costs that we simply have not been able to identify.

I do not know if you want to add to that at all.

Ms EDDY — I think that that is a really good overview. I suppose just for a point of clarity this was an integration process or an establishment process; it was not an upgrade process. And organisations go through ERP upgrades on cycles, and they tend to take a couple of years to plan and implement. But we have got better functionality and efficiencies, even through vendor arrangements, hosting arrangements and those types of things through this process.

Mr MULINO — To my last question, it notes that there are no costs associated with redundancies and new staff, so when we look at functions like forecasting, where I think you have already identified that there are some benefits from having synergies across a number of different areas being brought together and that provides better quality forecasting, is it fair to say that, given that the exercise has not really been about achieving savings in areas like forecasting and strategy, it is really more about enhancing capacity?

Mr BOLT — Correct. Yes, that is right, and enhancing capacity in a situation where the expectations of this department will deliver, if you like, greater value than the disparate parts that preceded it. We have been very focused on keeping costs well contained but increasing output and quality, which goes to the point about productivity that was raised earlier by the chair.

The CHAIR — Mr Bolt, can I just go back to the organisational review. Are you able to tell the committee how many people in the department were in acting roles, say, as at the date of the organisational review, and then perhaps how many were in acting roles at the end of last calendar year and whether there are still any either acting or unfilled positions?

Mr BOLT — I do not have those numbers to hand as to how many were in acting roles. We moved quickly to put in place an interim structure with maximum certainty, without providing absolute certainty, to people's positions and foreshadowed that there would be a further reorganisation that resulted in some acting roles, but my memory is we have not had an enormous problem or a large number of acting roles through this period. In the life of a department at any time there will always be a number of people in acting roles. Business as usual requires that. So I am giving you an answer which I cannot quantify here. I do not know what the number is. I do not think it was exceptional, but without having seen the figures I have to reserve my judgement on that.

Are there positions unfilled? Again, we always carry a certain level of vacancies against our ideal level of staffing, and we are doing that at the moment, but that is business as usual. It is nothing all that different to what we would normally do. The main question really is, from my point of view, are we adequately resourced in all areas to do all functions? That is a question unrelated to MOG now. It is much more to do with delivering on the expectations of government within our current budget, and you will not be surprised to have me say that in some cases I would identify that there would be areas where expectations are rising and we will need to staff up. That will be the case. The fact that we have not staffed up, in most cases, is not about MOG; it is about moving from one set of expectations to another under this government.

The CHAIR — If you would not mind taking those questions on notice and providing a response to the committee, that would be appreciated.

Mr BOLT — We will do so, and I will make sure that we get you an answer before any later hearing.

The CHAIR — Thank you. Welcome, Mr Melhem and Mrs Peulich.

Mrs PEULICH — Apologies for lateness. It was the Monash. If you could do something about it, it would be greatly appreciated. I do not know what questions have been covered, but obviously one of the questions — if I may, through you, Chair — —

The CHAIR — Please.

Mrs PEULICH — One of the questions that arises from the changes that have now been in place for 12 months is whether you can point to or outline the visible benefits, the demonstrative benefits, of those changes.

Mr BOLT — Thank you for the question. I did have a slide — in fact, I had two slides — of relevance to your interests. One is not the question you have just asked, but while I am flicking back here is an answer to your earlier question on how we are defining sectors and which of them we have reviewed. I could dwell on this now — —

Mrs PEULICH — Oh, yes. Oh, excellent. Are we able to take that slide?

Mr BOLT — Yes, you have that slide. On the question of benefits, I have outlined a number of areas where we have prioritised extracting benefits through collaboration between parts of government that were previously in separate departments but are now within this one. These are the current examples that are significant for us. One is ensuring our sectoral planning in the economic development area informs our transport planning. Where are the jobs going to be relative to where the housing is in growing Melbourne in particular but also in the regions? Where are they going to be? What transport solutions are needed to get people to jobs is helped by having economic development sectoral planning in the same place as transport.

Ensuring we get the best investment opportunities realised in energy and agriculture is helped by having the people that facilitate investment and trade working with, if you like, the agriculture and energy specialists, who have typically sat separately from them in other departments. And while it is not listed there, it also helps to have the transport people who can provide solutions to getting product to market where there are new market opportunities needing leveraging, so we are consistently looking for the collaborations within the department that will yield benefit to the delivery of the government's program.

I mentioned earlier Visit Victoria is a combination of three parts: it is the Melbourne Convention Bureau, the Tourism Victoria marketing arm and also the major events corporation. Bringing those functions into one creates a good focus to then collaborate with the new Creative Victoria, which brings design and film into the arts portfolio, and also with Regional Development Victoria, which has been repurposed and upgraded in the

seniority of our regional directors. We now have a basis to develop, if you like, the livability and attractiveness of Melbourne and the regions through that collaboration as well. By consolidating within those as well as driving them closer together through more formal governance arrangements, we think we will get value in working out what our visitor economy and creative offer is that will attract people here and raise, if you like, the economic benefits of those sectors.

Then there are a range of strategic planning and policy questions. I will go back a step. Because having all of our functions in one department provides benefits, it allows us to look at what the federal government does through a similar, more integrated lens and to deal with the different departments in a more integrated way in attempting to advance the interests of Victoria in our dealings with the federal government. It is a slightly woolly answer, but there are real benefits in one person having oversight of all of those relationships.

Mrs PEULICH — If I may, just a follow-up question. Thank you for your answer. Obviously the key VAGO recommendation across all portfolios has been that an enhanced method of reporting needs to occur so that there is less about activities and more specifically on outcomes.

Mr BOLT — Sure.

Mrs PEULICH — I would assume that, whilst all of that makes sense, the outcomes are going to be reflected in terms of denoting the benefits. You have explained how your department has reconfigured to focus on some of those key areas of activity. How about interdepartmental relationships? Obviously local government is crucial to facilitating much of that. Often there are obstacles to progress. What are you doing in order to facilitate that important change and reform?

Mr BOLT — If I can take both the outcomes and that question, if that is okay?

Mrs PEULICH — Yes.

Mr BOLT — On outcomes, yes, because we are early in the piece, developing major outcomes to public value will happen over time. We will be measuring that to an outcomes framework. So we are not simply relying upon ticking the box of having completed certain tasks without wondering what the impact is going to be. We are very focused on that impact and defining better measures of those outcomes. That will feed right back into our planning so that we focus our efforts on greatest value.

On the point about intergovernmental collaborations, being a larger department makes it easier to more strategically develop those partnerships. Two days ago I signed a partnership agreement with the City of Melbourne, as one example of what you are suggesting. We take a total view of the areas we need to collaborate with them on. Whether it is in the development of our creative institutions, the traffic solutions for Melbourne, the development of places like Fishermans Bend and Arden-Macaulay et cetera, it becomes more convenient to have a dialogue across all of our interactions and to make sure they are all properly managed. So we are very focused on doing that.

We have a partnership agreement already with DELWP — environment, land, water and planning. There are so many intersections between land use management, land use planning, emergency management, water — everything that they do and what we do — that we need a structured relationship with them. So we have a partnership agreement and we will meet three times executive to executive this year, just in a light touch way, to ensure that we are actually tracking well in providing good advice to government and delivering the best programs across our interdepartmental divide, so to speak. We will do the same thing with education in the fullness of time.

So the short answer is we are attempting to take a systematic approach to collaboration with other departments and other levels of government.

Mrs PEULICH — Could I encourage you to look at local government more robustly?

Mr BOLT — I agree. And through our regional partnerships — I should have mentioned this. The government has decided to establish regional partnerships, which will bring local government very directly into contact with the planning processes of state departments — not ours only, but all. The next step is to ask how the metropolitan equivalent, the current regional management forums, might be strengthened in similar vein.

That is under consideration across all of government. We see that as a really important engagement. Local government is to us a very critical partner.

If I can elaborate a little, transport in particular but also agriculture and I think also the regional development people have taken local government as a very serious point of interaction. What we are now looking to do is to strengthen that and make it more strategic and give it more direct avenues into the decision processes of government.

The CHAIR — Mr Bolt, just by way of final question and to continue on that line of questioning by Mrs Peulich, outcomes are what matters. Constituents in my electorate are highly aggrieved about the standard of the V/Line service, for example, at the moment and a number of other transport challenges. Can you point to anything through this process that will actually lead to better service delivery on the ground, so that people who are not associated with or involved in government see tangible service delivery benefits; for example, V/Line commuters?

Mr BOLT — The V/Line situation we have I think is under quite active management. I have taken a role and my lead deputy secretary for transport has, in conjunction with all relevant agencies. They are all in the transport portfolio. It really is not a solution that invites the rest of the department to take part in it. But I can assure you that the government's expectation that that matter be fixed and fixed well and methodically is a high priority for us to deliver on. You would be aware of announcements that a number of services — in fact, 93 per cent of services — will be back on track next week. All I can say is that that was an incident, a contingency, that we have actively managed, having been caught by surprise by the fact that it occurred.

Generally speaking, if you look at the work we are doing, we envisage that the growth of Melbourne is going to be substantially enabled by the transport investments being managed under the new department. They have long lead times. Those outcomes are clearly dependent upon construction projects being completed that occur over many years. In other cases, we would expect that we will see more immediate benefits. One of those has been we are getting better success in getting overseas IT companies to lodge headquarters here in Melbourne. Zendesk would be one of those. I cannot name them all but about half a dozen of those have lodged in recent times. That is an outcome which is more here and now.

I have not really come equipped to give you a complete record of the things that we have achieved and those we expect to achieve, but I can assure you that if the department were ever to lose focus on the importance of achieving results, then the government would ensure that that deficiency was quickly corrected.

The CHAIR — Mr Bolt and Ms Eddy, thank you both for your preparedness to answer our questions, to be here this morning. As I said in the introduction, a transcript will be with you in the next few days. Thank you for taking those questions on notice. We look forward to the answers. Thanks again for being here today.

Mr BOLT — Thank you, Chair and committee.

Witnesses withdrew.