

# TRANSCRIPT

## STANDING COMMITTEE ON LEGAL AND SOCIAL ISSUES

### Subcommittee

#### Inquiry into machinery of government changes

Melbourne — 16 March 2016

#### Members

Mr Edward O'Donohue — Chair

Mrs Inga Peulich

Mr Cesar Melhem

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#### Witnesses

Mr David Martine, Secretary,

Ms Gayle Porthouse, Deputy Secretary, Corporate Government Services, and

Mr Joe Bonnici, Chief Financial Officer, Department of Treasury and Finance.

**The CHAIR** — I would now like to welcome Mr David Martine, the Secretary of DTF, Ms Gayle Porthouse, the deputy secretary, corporate government services at DTF, and Mr Joe Bonnici, the chief financial officer at DTF. Thank you all very much for appearing before the committee today.

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 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 45 minutes for our time today. Thank you again for appearing before us, and I invite you to make some opening remarks.

**Mr MARTINE** — Thank you, Chair, and thanks for the invitation to appear today. I was not planning to make any opening comments, and I am happy to go straight to questions. We have obviously read the committee's interim report, so we are happy to answer any questions or make comments on that along with the DTF aspects of the whole-of-government submission or any other matters that the committee may wish to raise with us.

**The CHAIR** — Thanks, Mr Martine. I will kick it off, and I note the costs incurred by DTF are quite small compared to some of the other departments. I wish to go to your role as a central agency, a coordinating agency. As was just discussed with Mr Eccles, it is clear from the evidence we have heard from different secretaries both last year and this morning that some departments have approached the concept of MOG costs in different ways. That is something which we alluded to in our interim report and no doubt will give further consideration to as part of our final recommendations back to the Legislative Council, but I would invite you to make some comments about that or whether DTF has done any work or thinking about how to apportion MOG costs, what is a MOG cost, how you also measure matters that are less tangible such as time spent on implementation, staff changes and the like.

**Mr MARTINE** — Thank you, Chair. They are all very important issues, and I would agree with your comment and I think the committee is correct to say that, having been through this process both now at the committee but also internally within government, we need to get better at how we specify what MOG costs are — so a consistent kind of framework across government.

I note in the committee's interim report there are some recommendations along those lines, which, as the secretary of DTF, I would think are quite sensible recommendations. We have been doing some thinking internally on what that actually means, how we put it in practice and what would be the right sort of vehicle and mechanism for departments to report both to Parliament but also publicly on what those costs might be. Obviously if you report too quickly after a machinery of government change, you may not necessarily pick up all of the relevant costs. But likewise, if you report too far down the track, then you are potentially picking up things that are not really a machinery of government change. So from where I sit, in principle I think it is a very sensible thing.

The issues that we are thinking about in consultation with other departments, including DPC, are: specifying a better definition of what actually is a machinery of government change. Clearly at the time of an election it is easier to identify what they are. The question then becomes: if there is a change 12 months later within government, is that a machinery of government change or not? That is kind of the first issue that we need to do a bit of work on, and then what sort of costs should get captured? What is the guidance that can be sent around the bureaucracy to ensure that we do get a bit more of that consistency?

It is always a tricky one trying to identify some of those indirect costs that you alluded to, Chair — time taken from a staff point of view in terms of implementation — because we do not, as you are probably aware, in the public sector maintain time sheets. We do not allocate our time to say that we spent 3 hours preparing this brief for the Treasurer and 2 hours doing some costings et cetera, so it is very difficult to try to pick up some of those costs in a machinery of government reporting framework. But certainly more clarity around what a MOG is and also more clarity around what the direct costs are for a MOG change I think is very sensible

Then trying to pick the right time to report: my view would be potentially within that 12-month period, which would lend itself to perhaps the annual reporting framework. With the election in late November, you could envisage some quite useful reporting in the annual report released 11 or 12 months later, so around October of the following year. Just thinking off the top of my head, that would probably be a useful kind of framework and reporting time frame.

**The CHAIR** — Just to go back to when we last met in relation to this matter, I think you said, Mr Martine, at the time that DTF was required to absorb any costs associated with MOG. I suppose that is often the instruction: to implement a change within existing resources. Do you think that instruction or that requirement has the potential to lead to an underreporting of MOG costs?

**Mr MARTINE** — I do not think it necessarily leads to an underreporting. It is not an unusual practice in pretty much most jurisdictions that machinery of government changes are implemented without any adjustments to budgets, and it does actually work both ways. So at DTF we incurred a very small amount, I think \$23 000. Other departments incurred some higher costs, but likewise we do not go through an exercise to harvest back to the centre savings — for example, we have gone from nine departments down to seven. So technically there are salaries for two less secretaries, two less CFOs et cetera. The view we take is that a lot of these things are quite marginal and there are sort of swings and roundabouts, but it is not an unusual practice in most jurisdictions that if there is a change of government and there are MOG changes, the instruction is that everyone just lives within their budget.

**The CHAIR** — That is true, but I suppose it does not address the point of whether that can potentially lead to underreporting, or perhaps more accurately, a lack of clarity about what those MOG costs may be.

**Mr MARTINE** — I think whether it leads to underreporting is hard to determine. I think what would improve the reporting is what we talked about earlier, which is to come up with a more consistent framework and then I guess more consistent advice that would go out to all of the departments at the time that, ‘These are the costs that you need to report on’ — whatever the mechanism is, such as the annual report — ‘and you need to track those costs through the next 11 months’, or whatever the time period is. I think that would be probably a more useful way of ensuring that things are captured. Whether the fact that agencies have to absorb the costs means that they do not track them, it is a hard one to form a judgement on.

**The CHAIR** — Mr Martine, since we last met there has been some different data presented to the committee about the total quantum of the MOG costs. I put this question to Mr Eccles, but I would be interested in your view as well. Obviously, as we discussed just before, there are different approaches across departments. But as it stands I think the MOG costs from when we last met have increased from \$3.065 million to \$5.214 million, taking into account the additional costs since we last met in July last year and anticipated future MOG costs. Has DTF done any work on it, or do you have confidence that that figure represents, as we stand today, an accurate figure of the total MOG costs across government?

**Mr MARTINE** — Thank you, Chair. Certainly from the DTF point of view — sort of little DTF — our costs have been very small and have not changed over that period. You are quite right that there are some differences between the whole-of-government submission submitted to the committee, I think it was earlier this year, in the last couple of months — it might have been last month, I think, or January — compared to July 2015.

We in DTF centrally are not monitoring the machinery of government costs, so what appears in both of these submissions is essentially what the relevant departments have put forward. I think all of these came through DPC. So we are not actively monitoring what those costs might be, and one of the reasons is they are quite marginal in terms of the total budgets of some of these entities we are talking about.

**The CHAIR** — A final question before going to the committee: when we met last time, Mr Martine, I think you sort of hinted at or referred to potential changes at DTF as a result of the MOG changes.

**Mr MARTINE** — Yes.

**The CHAIR** — Can you update the committee as to whether there in fact has been any structural change to the operation of your department, including any location changes of your team?

**Mr MARTINE** — Okay. Thank you, Chair. I think last time I would have mentioned to the committee that as a result of the machinery of government changes the workplace relations function moved from my department to DEDJTR, VCEC as an entity moved to DPC and then CenITex as an entity transferred from the old DSDBI to DTF. They are the only machinery of government changes that affected us at the time. The only change that has occurred since then that is relevant and that I will mention to the committee is back in September of last year a decision was made to transfer most of the functions of VCEC back into DTF. We now have a red tape commissioner that has been appointed and a commissioner for better regulation, and there were staff sitting behind those two individuals. So those resources have transferred back, which were not quite the total amount that transferred in the original MOG. So a small number of staff stayed within DPC. That is really the only change to report since our last discussion.

**The CHAIR** — With those functions coming back to DTF, are you confident, with VCEC no longer operating, that the important work it used to carry out is still being done by government under this new framework?

**Mr MARTINE** — Yes, I do. Given the Treasurer's central role in regulation, appointing a commissioner for better regulation I think is an important priority in terms of trying to reduce red tape and improve the regulatory impact particularly on the small business community, so I think that is quite an important function of the red tape commissioner. I think there is quite a bit of logic and sense, given the Treasurer's role, that both of those commissioners and the supporting resources are sitting within DTF, and that was effective last September, I think, from memory.

**Ms PORTHOUSE** — 20 September.

**Mr MULINO** — I have just a couple of quick questions on the possible framework that we might develop. I think everybody is agreed that consistency would be a good thing in reporting costs. You have alluded to the fact that some of those costs, when they occur some distance in time from the election, can be more difficult to ascribe to the MOG or not. One of the issues that has been raised by a couple of secretaries has been the fact that some expenditure perhaps 9, 12, 15 months down the track probably was going to occur anyway. Do you agree with the broad principle that we should include some kind of notion in the guidance that we give to departments that where costs were probably going to occur anyway, they should probably be excluded from being attributed to MOG?

**Mr MARTINE** — Thanks for the question. If the exercise is to report on what the costs are from a MOG change, then by definition non-MOG costs should be excluded. But I agree with you, and I suspect these are the comments made by some of my secretary colleagues, it can get quite difficult to work out what is the direct cost of a machinery of government change because in a 12–18-month period after a machinery of government change, as you alluded to, other things do happen. In the absence of knowing what the counterfactual world is, it is very hard to identify what some of those costs might be. There is a bit of a grey area. That is why my view would be definitely a better framework and guidance to departments to get that consistency, because it does appear we are a bit inconsistent across the bureaucracy in how we report these things, and then perhaps limit it to a particular time period, which might be that 12-month period after a machinery of government change.

Then one thing the committee could perhaps think about is, if a department believes that beyond that 12 months there is still a significant future cost that has yet to be realised that is directly attributed to a machinery of government change, then one would assume that a good framework would require that department to identify what that future cost might be.

**Mr MULINO** — Just a quick question on indirect costs. You have already talked about the fact that it is difficult to accurately measure indirect costs in part — for example, because we do not measure people's time put into time sheets. Just to follow up on the earlier discussion, is it your assessment that it would be disproportionate to try to require a whole range of people to start measuring their time so that we could determine what meetings were or were not related to MOG changes?

**Mr MARTINE** — If we are in a world of total machinery of government costs in the order of \$5 million, for example, out of a budget of \$55 billion, I think the costs and the loss of productivity in requiring everyone in a bureaucracy to track their time would far outweigh the machinery of government costs. That is why most bureaucracies do not go down that path of time sheets, because we do not bill our key client for work we do, like a law firm, an accounting firm et cetera. They introduce those for a particular need; we do not have that

need. We could start charging ministers for briefs we prepare; I am not quite sure how well that would go down! I think the productivity loss and the cost would far exceed the \$5 million or whatever the machinery of government change might be. That is why I think it is difficult, though, to measure those indirect costs.

**The CHAIR** — Unless a framework is established, basically. Unless there is some sort of mechanism — sorry to intercede — or unless there is some appropriate framework that can be applied to apportion time and cost.

**Mr MARTINE** — One thing the committee could perhaps think about is whether, for those indirect costs, there is within the framework more of a sort of qualitative kind of statement. For a department like DTF, our direct costs were \$23 000 and our indirect costs I have no idea, but they would be very, very, very small. But if you had a situation where there was a machinery of government change that was quite material, there might be something in the framework which requires that department in a qualitative sense to express some commentary around what the impact might have been on some of the staff and on the workload. It is a very hard thing to actually put a dollar figure on — very hard.

**Mr MELHEM** — Can I just follow up on that. I agree with you totally. Unless you are fully dedicating an individual to run a particular project, it is crazy to go and use time sheets and stuff. For example, for your time today you could say, ‘Well, that’s cost X’. I think it is just crazy; I think it is backward. It goes against any productivity and efficiency principles. I hope it is not going to be part of any proposal to measure that, because I think it is just a waste of time and money.

**Mr MARTINE** — But certainly in a qualitative sense, I know that some departments probably have set up at the time a machinery of government implementation team or something like that, and it could be reported as part of the framework in a qualitative sense to say, ‘Department X set up a team to implement this’, but to actually measure, as you say, on a consistent basis over that period, unless the bureaucracy makes a decision to introduce time sheets on a full-time basis, is very hard.

**Mr MULINO** — One last question, and I guess I just wanted to ask this of you in your role as a central agency, ultimately if we are going to look at the machinery of government change, it has got to be looking at the costs and the benefits, and we have had lots of discussions with secretaries around the difficulty of identifying some of the benefits. Some are readily identifiable, like increased capacity and forecasting or data analysis; some outcomes are probably more difficult to identify in the longer term. I guess I am just interested in this: Mr Eccles, as you have seen, has made an overarching kind of observation about his assessment of the MOG changes. Do you have a comment on your take on it from a whole-of-government kind of perspective?

**Mr MARTINE** — Thanks for the question. It is very hard to measure benefits flowing out of machinery of government changes, which is not to say that there are no benefits at all, but it is really difficult to track back to, for example, output performance measures to say that a particular measure changed by X as a result of the machinery of government changes. But history tells us that it is not an unusual thing that when governments change there will be machinery of government changes. A lot of that actually is driven by a desire of the government at the time to structure its ministry in a certain way, and the role of the bureaucracy is to then support that structure. Some of the machinery of government changes flow from the desire of the government of the day to structure its ministry in certain ways, and other changes are driven by a desire to leverage off synergies, so it is kind of a combination of those. Then trying to attribute that is very, very difficult.

On the changes that the new government or the current government introduced, I guess all I can really comment on is that they were sorted through and implemented pretty quickly. I have been through a few MOG changes in my time. This is my first state one; I have been through a few at the commonwealth level, and I have to say this has probably been one of the smoothest, from where I sat, that I have observed. Some of them can get quite complex. I think from an implementation point of view it seemed to go pretty smoothly and be implemented pretty quickly, which is really what you want. That is probably the key with all machinery of government changes — they need to be done quickly because the bureaucracy needs to be in a position to be supporting the government of the day very quickly. So overall I think it was reasonably smooth.

**Mrs PEULICH** — Thank you very much. Perhaps just an opportunity to sum up, so if you are able to say what are the main challenges that you have noticed arising out of the MOG changes for your department and what role the Victorian Secretaries Board may play in helping to address those changes.

**Mr MARTINE** — Thank you for your question. From a departmental point of view, just thinking about DTF as an entity, obviously the machinery of government changes for us were not that significant. We lost a couple of functions. They were sort of self-contained functions like the workplace relations function — the whole team just moved across — and CenITex as an entity coming in. They are not really difficult or complex machinery of government changes. So from a departmental point of view it was not that complex. It was relatively smooth, and it did not really throw up any major issues or concerns.

Certainly at the whole-of-government level and the fact that we are having this discussion today around better reporting, I think there is an issue there of the bureaucracy getting better at that. We have had some discussions at secretaries board around those matters. The secretaries board is also quite a useful way — I think early on in the piece, if there were some machinery-of-government issues, that is a good vehicle to raise it, in that forum. We meet every fortnight, so it is a good kind of vehicle to use that as a mechanism to iron out any sort of issues that might be bubbling along behind the scenes.

I have been through a few of these machinery of government changes in my former career in Canberra. Fortunately it did not really happen here, which is why I think it was quite a smooth exercise. Sometimes you do get two departments and two ministers arguing about the spoils — what really should transfer — and a lot of that comes down to the corporate function. So the larger a machinery of government change is, the more complex it can become, because you have got to then work out how much of the corporate function also follows that function. For me, in the workplace relations area, which was quite small, that team just moved. There was no consideration about working out how much of our corporate area would go with them, because it was just too small. But if we lost 200 people, then there is a valid discussion around: how much of our corporate area goes? I have seen those debates go on for a very, very long time. Fortunately here that was really smooth, which is good.

**The CHAIR** — In a final observation, Mr Martine, I would just make the point that while \$5.25 million is modest in the scheme of the Victorian budget, \$5.25 million could buy a new primary school site in a growth corridor, or it could upgrade a dangerous intersection. So whilst the quantum we are talking about in the total budget is minor, it is still a significant piece of money that, put to other use, could deliver other community benefits. I suppose that is the prism through which this committee is looking at this issue.

**Mr MARTINE** — I do not disagree with your metrics, because — —

**Mrs PEULICH** — His analytics.

**Mr MARTINE** — Analytics. I guess my main comment, though, is why I think getting better reporting is a really useful sort of direction the committee is heading in. How we sort of frame that is obviously the issue for more detailed work and discussion.

**The CHAIR** — Thank you, Mr Martine, Ms Porthouse and Mr Bonnici, for your time this afternoon. The committee stands adjourned.

**Committee adjourned.**