

VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects

Melbourne — 21 March 2012

Members

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Deputy Chair: Mr M. Pakula

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Executive Officer: Ms V. Cheong

Witnesses

Ms K. Cleave, Chief Executive Officer, and

Ms G. Gronn, Assistant Director, State Services Authority.

**Necessary corrections to be notified to
executive officer of committee**

The CHAIR — This is the Public Accounts and Estimates Committee hearing on the inquiry into effective decision making for the successful delivery of significant infrastructure projects. On behalf of the committee, I welcome from the State Services Authority, Ms Karen Cleave, chief executive officer, and Ms Gabrielle Gronn, assistant director. Members of Parliament, departmental officers, members of the public and the media are also welcome.

In accordance with the guidelines for public hearings, I remind members of the public gallery that they cannot participate in any way in the committee's proceedings. Only officers of the PAEC secretariat are to approach PAEC members. Officers, as requested by the chief executive officer, can approach the table during hearing to provide information to the chief executive officer, by leave of myself as Chairman. Communication to witnesses can only be provided via officers of the PAEC secretariat. Members of the media are also requested to observe the guidelines for filming or recording proceedings in the Legislative Council Committee Room, and no more than two TV cameras are allowed at any one time in the allocated spaces. May I remind the TV camera operators to remain focused only on the persons speaking and that panning of the public gallery, committee members and witnesses is strictly prohibited. As previously advised to witnesses here today, I am pleased to announce that these hearings are being webcast live on the Parliament's website.

All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act, attracts parliamentary privilege and is protected from judicial review. However, any comments made outside the precincts of the hearing are not protected by parliamentary privilege. This committee has determined that there is no need for evidence to be sworn; however, witnesses are reminded that all questions must be answered in full and with accuracy and truthfulness. Any persons found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty.

All evidence given today is being recorded. Witnesses will be provided with proof versions of the transcript to be verified and returned within two working days of the hearing. Verified transcripts and PowerPoint presentations will be placed on the committee's website within two weeks of this hearing. Following a presentation by the chief executive officer, committee members will ask questions relating to the inquiry. Generally the procedure followed will be that relating to questions in the Legislative Assembly. I remind everybody in the room to turn their phones off.

I now call on the chief executive officer, Ms Karen Cleave, to give a presentation of about 4 minutes, if desired. Thank you.

Overheads shown.

Ms CLEAVE — Thank you, Chair. Thank you for the invitation to attend today. Our presentation is extremely brief, and we are happy to hand it out. It is actually pictures. What we are basically saying to you today is that the State Services Authority has a number of roles, which you are well aware of, under our legislation. We collect data and we collect a whole range of other things. But with regard to the matters before you today on capability and enhancing people skills to perform in the public sector, we operate in about five areas.

The first one is we enable a productive culture. I have handed out to you a Z-card document which lists the majority of publications, the way we do business and what is available both on our website and in hard copy. They range in a number of areas and for a number of purposes. We certainly make sure that the public service has a productive culture. We undertake the annual People Matters Survey, which is a cultural survey, and present that information back to organisations. From that we derive a fair bit from our workforce with regard to appropriate behaviours et cetera and about how to work and talk with staff.

The second major area of our endeavours is that we are required to ensure there is an ethical framework in which public servants operate. That is very important today for you. The public sector standards commissioner, Mr Peter Allen, is charged with making sure that the codes of conduct are adhered to, as are the employers, and that people make decisions in an ethical, sound and conflict-free environment.

The third area is we do significant work under role 4 of our Act in effective and good governance. We have produced a range of materials and training in the areas of good governance and effective governance. This minor guide, *Welcome to the Board*, is supported by a very extensive website, and we work with the Chartered

Secretaries of Australia and the Australian Institute of Company Directors to ensure that people working in these areas understand the differences with regard to the public sector.

The other area is workforce planning and again is of interest to you today. We have written extensively on how to undertake effective workforce planning. We say you need to look to what is required of your organisation tomorrow, not what is required of your organisation yesterday or today, when you recruit. We have done significant work on effective recruitment and how to actually ensure that every time you get a vacancy you think seriously about what is required for the future.

Our other major area is leadership. We have done significant work in leadership, setting up the Victorian Leadership Development Centre, the VLDC, which trains people who are potentially secretaries or senior deputy secretaries. We also undertake significant work with the Australian and New Zealand School of Government, and we produce a range of materials to support secretaries, CEOs and ministerial advisers in understanding their roles and responsibilities. All these things are works in progress, which we continue.

The CHAIR — Thank you, Ms Cleave. I am keen to give you the opportunity to embellish any aspect of your response to the questionnaire, so just take that as a given if there are any matters you wish to raise. I am particularly interested at this point to develop a set of questions around the issues about procuring skills for the delivery of infrastructure projects. Clearly within your remit, and one issue you touched on in your presentation, is workforce planning. An issue which has been repeatedly mentioned to us both prior to this session of public hearings and repeated over the last day and a half, and I think this is probably a universal one, not specific to the Victorian jurisdiction, is the hollowing out of the skill set within the public sector in relation to delivering infrastructure projects given that there has been a change in the way projects are delivered — that is, various commercial arrangements with the private sector. There has been an increasing reliance on external experts to deliver, the consequence of which is that there is a perceived deficit to the informed purchaser's capacity to be able to purchase appropriately and also to the oversight and delivery of the project. Have you got any comment on that in relation to workforce planning?

Ms CLEAVE — Yes. I might start from the beginning. Our research into workforce planning is that the most critical — and difficult — occupations for the public sector to attract are those occupations which there is a private market for. When we come to the issue associated with good engineers, finance people, project managers or even quality teachers — not that there is any problem with our current teachers — or nurses or doctors, when there is a private market we are often at a disadvantage with regard to remuneration and job prospects.

We also compete along the eastern seaboard. Our major competitors are the other states of the eastern seaboard, which would basically be Queensland and New South Wales and occasionally the commonwealth. We would see transfer of skills in the professional occupations going up and down the seaboard. All our research has shown that at those times we are in a difficult situation. That is not to say that everybody who joins the public service joins for financial reasons or non-financial reasons. Many people join because the projects in many cases are far more interesting than those that are available in the private sector; the private sector is never going to build a recital hall. In that respect we do not always get people who are interested in their career but more interested in what they do. That is a benefit, but in other cases it is not.

Secondly, there are two types of capital infrastructure, which you are well aware of. There are those that are rote goings on — building schools, building hospitals, building roads, police stations or fire stations. Generally those organisations that are charged with those tasks have people on board who are committed to those products. They have a rolling program, and they move through. The complexity arises when we have large, one-off projects where we might have, as you say, alternative commercial arrangements, whether it is a PPP or something else, when we are working with the private sector.

The private sector brings very strong people to the table to negotiate on both deliverables and risk transfer — who manages the risk and who owns the risk — and they bring quite good financing arrangements. We need to have people equally skilled on our side of the table for those negotiations, and we are often challenged in that because many of the projects are one-off and the experience our people may or may not have might not relate to that particular arrangement or that particular commercial arrangement that is on the forefront. Without trying to sound silly, if you are going to have someone operate on your brain, you want someone who does brain surgery every day of the week, not someone who does it once a month.

Often these projects come up frequently but not continually, so it is very hard to keep abreast and keep up to date with current financing arrangements, current building techniques and current strategies. Someone will come to the table with an innovative building strategy or way of doing stuff, and we may not have the expertise. Over time — I am sure you have heard from other people — we accept that there is certain training we can do and certain project management we can do, but when it comes to the high-end financing and some of the high-end legal, we have had to purchase those services. I do not see anything wrong with that; I think it behoves the public service to make sure that the best people are at the table to protect taxpayers dollars. The only thing I would say is that these people need to stay until the end of the project.

The CHAIR — I want to go a little bit further there. One of the particular issues that has especially been raised with us is the skill deficit in what I describe as the hard-edged engineering sphere. In fact what we are increasingly seeing is project managers and those involved in management projects on behalf of the state having skills in high-end finance and legal, as you pointed out just then, but in very few submissions we received from government entities has the word ‘engineering’ ever appeared either in the submission or in the questionnaire response.

I am interested in your perspective about the capacity of the public sector to focus on the skill set that actually enables us to build something rather than write contracts or draft a tender, which is where the focus appears to be. It is about government policy to engage in some process. Departmental officers will say, ‘The first thing we need to do is get somebody in from the outside to tell us how to do it’. The next thing is that we are talking about contracting in, as you have said, high-end legal and finance people, but where are the engineers in this? I am interested in your authority’s perspective about the engineering capacity in the public sector particularly.

Ms CLEAVE — We have not done a review on the engineering capacity. We have done a review on workforce shortages, and engineering does show up in that, as does ICT and a few others. VicRoads does run an engineering intake, but of course they are an organisation which builds roads, bridges et cetera, and some of the other organisations — VicTrack — have engineers. Some of the agencies have run an intake for graduate engineers. The Department of Infrastructure used to do that, and we run the graduate recruitment project in which we engage on behalf of departments over 100 graduates every year and fast-track them through. Bringing in graduate engineers is good — and there is no reason why anybody cannot do it — giving them work that will sustain them when they are junior and having senior engineers for them to work with. When we bring people in — when you talk about ‘hollowed out’ — we find continually now that the people that are coming back in from consultancy firms are people that have been trained in the public service, worked with a good external person and then been snaffled off. You can hire engineers and bring them up, but you cannot necessarily keep them unless the innovative, leading-edge work is there. There has always been an issue in water about our good engineers, because they go off to certain consultancy firms and are picked up all around South-east Asia on water and sewerage projects. You can bring them in, but like everybody else they will leave unless you have a rolling innovative program to keep them engaged.

We have done some research on new graduates. We all know with gen Y — moving towards gen X — they think five years is a long career. I do not know what more we can say. We can bring them in and we can hire them, but keeping them is a personal choice and you have got to have the innovative work to do.

Mr PAKULA — Ms Cleave, I want to follow up on one of the comments you made in your statement when you talked about the most difficult area for government being where there is a private market for the public sector skill. Outside of the emergency services, I am struggling to think of where there are too many skill sets that do not have a private market. Given the interaction now between the private and public sector, I would not have thought there were too many skill sets that are exclusively public sector; but I would be interested in having you expand on that a bit.

Ms CLEAVE — By and large the public sector is not in banking. We use banks, but we are not in banking. Banking is engaged in both commercial and investment banking, so the skills in investment banking are not necessarily the skills we hold in the public service. But when you are going to do a capital project and are looking at the net present value over a number of years the skills reside in investment banking.

Mr PAKULA — I think you misunderstand my point. I understood you to say that in terms of holding staff the difficulty was when the public sector had to compete with the private sector for the retention of staff. I am saying that I would have thought in almost all areas, other than maybe the emergency services, there is always a

competition with the private sector. These days there are not that many skills that are exclusively public, are there?

Ms CLEAVE — You are right about the emergency services; you are correct there. In the hospital and medical services we are probably still a preferred employer over the private sector, but you are right — there is a competitive market out there. But in many occupations it is not as large as the public sector. Again the other competitive market I would say is interstate.

Mr PAKULA — Just going to your submission where you talk about one of your roles being to assess the extent to which skilled employees are available to an agency when required, do you have contemporary examples where the SSA have looked at an agency and said, ‘These guys are totally underskilled’, when it comes to having the requisite skills for a particular project, and what do you do in those circumstances?

Ms CLEAVE — We have certainly worked with agencies to do capability reviews, especially when agencies have asked us when their legislation has changed and there is a new way of doing business. So we have worked with agencies and talked to them about upgrading their skills or looking to a new way of doing business. But our major pointy end is on our recruitment work, and we are very much pushing people to recruit sensibly into the future and not backwards. Government is changing. You know that; you are at the forefront of government — you are the government. Government is changing, and the public service needs to change and they need to be prepared for what is coming over the hill.

Mr MORRIS — In the interests of time, I am happy to yield to Mr Angus.

Mr ANGUS — In your written submission you have outlined the role of the SSA and you have also outlined the five areas you are involved in. Leading on from the previous question, I am seeking from you a bit more of a practical annunciation as to how it works, or how your organisation works with the other departments. You referred to one there in terms of recruitment, but if I am out there doing my own thing in department A and we are building whatever we are building, can you please tell the committee how you get abreast of that and what your role is? If I am out there in department A, do I have to listen? How does the relationship work on the practical side of it?

Ms CLEAVE — We do not have a role in the day-to-day operations of departments. That is quite clear. Our responsibility is to work with the broader public sector and the service to assist them — especially in the human resources management area — to do modern, innovative, leading-edge research, and to work with them to upgrade their skills in a range of areas. We run seminars with them and work with them on how to do workforce planning and how to think over the hill about their workforce. We also do significant work with them with regard to dispute resolution — how to manage their workforce.

On another side, we certainly work with departments with regard to executive remuneration and we advise on the appropriate level of remuneration for executives in the service and the sector. We do not advise on remuneration for consultants. We work with departments on how to manage their staff and their business, but in the end the ultimate responsibility of the day-to-day operation of the department rests with the chief executive officer or the secretary.

Mr ANGUS — Right, so they can choose not to have you involved?

Ms CLEAVE — Absolutely.

Mr ANGUS — Can I ask a supplementary question, Mr Chair? In relation to the whole remuneration issue, I note that you have identified retention as an issue. In your submission you have noted in particular that once milestones are completed late in projects people get off the team, so to speak, and leave you. Can you make comments in relation to some of the creative ways of keeping people around, such as completion bonuses and all that sort of thing. You have just mentioned that you advise in that area, so can I presume you are across that and it is one of the options that you would put out to your clients?

Ms CLEAVE — Yes, we do talk to them about that. There have been some major projects and people have come to us under the government sector executive remuneration panel, or GSERP. They have come to us about staff and alternative financial arrangements for some staff. Our view is that if you have a project manager and you have a bonus management, then we have strongly advised at various times to keep the bonus arrangement

back until three to six months at the end of the project. Unlike the private sector, where a project is finished, here we normally have the Auditor-General, the department of finance and maybe the Ombudsman who will come in and look at various aspects. If your senior people are consultants or leaders who move onto other projects, they are often not around to answer the questions. So we have advised at various times that if you have a senior project manager who may be a consultant or seconded in from somewhere else, that is exceptionally fine, but we make sure that they stay to the end.

The other model that is being used, which I think has been used successfully, is setting up a special-purpose entity where you set up a governance board and therefore they are there still to answer the questions that may arise from the end of the project.

Ms HENNESSY — Ms Cleave, to continue on with that theme about trying to give the committee a better understanding of the SSA's role around public service capability in a sense, is the SSA playing any role in providing advice to the government or individual departments about the implementation of the sustainable government initiative?

Ms CLEAVE — Actually, on the individual programs, no. We run seven whole-of-government databases at the State Services Authority. I went through our functions as I have related them to this committee, but we also run seven whole-of-government databases, the major one being the workforce data collection, and we do that at the end of June. We are certainly working with the government to count the staff and the changes in staff. It is a slightly more complex count because the adaptive classifications — child protection workers, school nurses — are exempt, and the cuts are on what we call the non-adaptive classifications. So we are doing work in regard to that, and we are also part of a number of working groups on VDP strategies et cetera. But, no, we are not going in and working with individual departments on how to structure or restructure their organisation based on their targets.

Ms HENNESSY — So not so much around skill, more on numbers and classifications?

Ms CLEAVE — Yes, but also we host, which we have done this morning, a forum for human resources directors, I host the deputy secretaries forum and our chair is part of SCAMC — the secretaries leadership group — and we talk about a range of things and we offer assistance and guidance required. A couple of agencies have asked us, 'What do you think about this?' and 'What do you think about that?', and we have given them some informal advice. We believe we are there to help.

Ms HENNESSY — Terrific. Thank you.

Mr O'BRIEN — Thank you for your presentation. I note — I am not sure of the page — that you pick up the issue of acute professional shortages and you identify that these shortages continue to be more acute in rural and regional areas. Thank you — I have looked at this — for the document you have within your plan, which I have googled up as well, which is *Attracting and Retaining Staff — a Guide for the Public Sector in Rural and Regional Victoria*.

Ms CLEAVE — Correct.

Mr O'BRIEN — I am just wondering how you feel about that. That document was produced in 2009, and the issues are rolling out or continue to be present in terms of training people from rural areas, retaining them and encouraging others to move to them. Do you have any further thoughts?

Ms CLEAVE — We are not in the business of encouraging people to move to rural areas. I think the Department for Business and Innovation has a role in that, as does the Department of Planning and Community Development in its community development work. But going back to the core of your question, we are currently in the process of reviewing all our workforce planning documents. We are going through and seeing whether the shortages that we identified earlier are still the shortages that are there, and by and large they are.

The major thrust of the document that you referred to was basically to say to employers or potential employers, 'Think outside the square. If you want to attract someone, you might need to think about how you attract their family; how you look at how you employ or provide advice, guidance or assistance to spouses, whichever sex they may be, or adult children; how they can be networked in; and how you can try to find assistance and employment for them'. Particularly one of our water boards down Gippsland way is very innovative with water

engineers and advertises on the web that if someone wants to come from overseas and be seconded in and live in Australia for six months, come on down. Some of our regional employers are very innovative and very thoughtful. They form their own working groups, reference groups and regional groups to assist people in both attracting and maintaining families that do move into rural areas.

The other problem we have in rural areas, which is not necessarily on the table today, is board members. We have a lot of boards out there, whether they are hospital, water or catchment management boards, and often they have people that are overly committed, so we have tried to do some work in that space as well.

Mr SCOTT — I am just seeking further information on a point made in your presentation. Reference is made there, and you have referred to it here today, to the sorts of issues that Mr Pakula referred to about competition in areas where there are difficulties recruiting and holding staff. Has there been any change over time in the sort of data that you have been getting in terms of ability to retain staff? Is this an issue that is getting better or worse, or is it remaining stable?

Ms CLEAVE — It is a very broad question, and I will answer as best I can. We have certain occupations that have become less popular with certain — —

Mr SCOTT — Sorry, with the Chair's indulgence, I will narrow it to make it easier. Really we are looking at the staff involved in infrastructure project delivery; that would be the interest of the committee.

Ms CLEAVE — Yes. There is not a government at the moment that is not heavily engaged in infrastructure investment; there is no question about that. There is not a major firm that is not working for one government or multiple governments at any point in time. So we are up against the other states both for people who want to be involved in our work and also in attracting consultants and attracting good staff. We have attracted some senior staff in from other states, but by and large we have been a supplier of staff to other states. Queensland has been a bit popular recently and may be more popular, I do not know, but we have lost a number of people to Queensland. We are not so much losing people to New South Wales, because the Sydney market for housing and support is quite different and difficult, and people come from Canberra and go back to Canberra. The major issue with the major construction firms that are used to working with government is that everybody is building roads, building schools through the schools revolution and building housing through the housing strategies, which were all positive infrastructure projects for communities but took a lot of effort to get to do.

The CHAIR — Unfortunately it was not very long, but that is the end of our time. We will have to conclude there, but it is possible that we will have some follow-up questions which we will send to you, and we ask that you take them on notice and respond to us in due course, normally within 21 days. I would like to thank you, Ms Cleave, and your assistant director for your appearance today. With that I will close this section of the hearing.

Witnesses withdrew.