

# VERIFIED VERSION

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

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

Melbourne — 22 March 2012

#### Members

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Mr D. O'Brien

Mr M. Pakula

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Chair: Mr P. Davis

Deputy Chair: Mr M. Pakula

#### Staff

Executive Officer: Ms V. Cheong

#### Witnesses

Mr V. Gill, Partner,

Mr J. Simms, Partner, and

Mr G. Barr, Associate Partner, Capabililty Management International Pty Ltd.

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

**The CHAIR** — I declare open 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 Capability Management International Pty Ltd, Mr Vince Gill, Mr Jed Simms and Mr Gerry Barry. Members of Parliament, departmental officers, members of the public and the media are also welcome.

I am going to remind the public gallery that they cannot participate in the committee's proceedings in any way. I note that there is only one member of public in the gallery at the moment. I know who he is, and if he interrupts us, we will be able to deal with him! As there are no media immediately present, I am not going to read the formal opening statement in relation to media. However, I do remind TV camera operators to remain focused only on the person speaking and that the panning of public gallery, the committee members and witnesses is 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 Mr Gill, committee members will ask questions relating to the inquiry. Generally the procedure followed will be that relating to questions in the Legislative Assembly. I ask that all mobile phones be turned off. I now ask Mr Gill to give a brief presentation of no more than 4 minutes, if he so desires.

**Mr O'BRIEN** — On a point of order, Chairman, I am sorry to do this. I am not sure if we have clarified that on page 2 there is a section called 'confidential section'.

**The CHAIR** — That is fine. Thank you, Mr O'Brien. Mr Gill's submission was offered to the committee in confidence — that is correct. It does not appear on the committee website, and Mr Gill has indicated that is happy to give evidence in open session. If there are any matters which become commercially sensitive, we will have an in camera hearing.

**Mr GILL** — We appreciate the opportunity to present to you today. I have a few points to open; just some background. We are leading management consultants and have strategic experience across the Victorian public sector, centrally and decentrally. Also, our work has been recognised and awarded globally and we can maintain that position through continued research in fields relevant to this inquiry.

Our submission was based on a particular type of infrastructure project — those that are typically called ICT-dependent or service transformation. They characterise the nature of our work in the private sector, and they tend to dominate with the lion's share of watch lists and attention by independent reviews and other reporting mechanisms across the government. We are not going to talk about major physical infrastructure but those that typically require technology to enable change to service delivery people.

To recap two sets of insights, one regarding the terms of references we submitted, and another to recap some comments made by previous witnesses and some other observations in the past few months which we think relevant for today.

In summary, our premise is quite simple: if we equip the right public sector managers better, they can make better decisions and therefore run better projects. The corollary is that basically we believe they are not as well informed as they could be. 'Better informed' in that today they are typically provided historical financial information that is easy to measure, and not so much predictive or business-centric information about their projects. That is not incompatible with previous witnesses, but just more specific in relation to that point. To address, there are a range of process deficiencies across the state, and across each department collectively. Not about any individual one, which we go to into within our submission.

The recommendations we have put forward are to firstly consider each department's own capability or maturity. They are all different. One size does not fit all. Not one set of rules or criteria should fit all. People naturally differ, and similar comments were made by previous witnesses about projects they do on a repetitive basis versus those that they do once off. Your degree of ability to do projects differs based on your experience. Secondly, the roles of the public sector manager — the 'public sector manager' was a generic term used in the inquiry, and it is appropriate, but we model and conduct our work around four or so levels and we believe that the questions and information that needs to be provided to the levels of management varies. In general terms there is an investment or policy level, there is a business or service-delivery level, a project-delivery level — which you have heard plenty about in the past few days — and a technical and asset construction or engineering-type level. These are all complementary roles. No one is more important than the others but all have different information needs.

Thirdly, part of addressing that, and consistent with maturity differences, is that competency improvement of individuals needs to be married with maturing organisational process. There is no point training lots of individuals in department X if the processes remain as they are today, or likewise defining new processes and systems but without the competencies there to utilise that. It must be done in tandem, in a coordinated manner. Fourthly, and the last point of summary is that the governance and review mechanisms at all levels in all departments we would regard require sometimes greater experience and not just more evidence. There seems to be a strong focus on evidence and auditability, but people's experience needs to be more objectively assessed.

There is also a general risk in the language of infrastructure. It tends to focus the mind on the physical infrastructure rather than necessarily the service provision that follows that infrastructure. This itself is a limiting factor. To paraphrase the GM of Baulderstone, who provided an example of having a 5 to 10-year horizon of operations beyond the construction — it drives different behaviours and different decisions through construction. The same can be said of all projects, including those building ICT infrastructure — that tends not to be the case. Regarding more recent observations, a lot of witnesses and credible experts have commented about changes that may be necessary, but we do not believe sufficient, for ICT project management and procurement. ICT suggestions tend to be centralised/decentralised, outsource/in source; they all might be worthy on their merit, but in and of themselves will not result in better projects or delivery. Same for project management, with competency-based AIPM messages; I concur with them all — it all makes good common sense — but the issue for us is not project management but rather equipping business management, or more so to complement the business side of the equation.

In relation to procurement, we have heard others talk about various procurement or financial models. The models are all evolving, but the nature of these projects and their distressed delivery was there before new procurement models and they will be there after new procurement models, so it must be something else.

Two last comments, in closing, on the recent observations: one is about attribution, second about standards. There has been a number of comments made that suggest that central agencies could or should do more — wherever that is heading. What we find as a contrast with that is that in the private sector, when they have their moments, if it is a major issue, the CEO will front the media and someone in delivery in a business unit may get 'walked' but it is very rare that the CFO takes the blame unless there is some financial mistreatment or standards have been broke., Delivery is not usually attributed to their central functions. So this is just a broadening comment about where the responsibility lies — it is shared, not just in one single function for an organisation, if you relate the Victorian government to be an organisation.

Standards are a popular solution to things as well. Standards do make sense. We invest in our own people with relevant standards, but in and of themselves they do not solve problems. Accounting standards provide a good analogy. Companies comply with accounting standards and auditors ensure that they do, but those companies may be still unprofitable and even operate unethically. Just because they comply with standards does not mean they have a good company, so the auditability of projects to standards in itself does not lead to a healthy project or a project portfolio.

**The CHAIR** — Thank you. I am grateful for your observations and particularly grateful for your submission which goes to some issues of principle, notwithstanding that your observations are informed essentially by an ICT-related work overview. I am particularly interested to draw out your observations in relation to what I would describe as the information processing deficit, meaning that there is a big distinction in your view, as the evidence collates, to the capacity of government verses the private sector — that people who are working in

delivering projects continuously, clearly from a commercial point of view, have a head start against those who are episodically being involved in sitting around a table and working through the options in terms of developing projects.

Your insight in this area will be very useful. Could I ask you to develop on the theme of competency and capability, which you touched on in your presentation? That is, the competency of individual efforts and the capability in an organisational sense, and can you elaborate from the perspective of sitting where we are, advising government in effect? What is it that we need to change in the public sector to achieve more successful project outcomes?

**Mr GILL** — I will take them as two separate questions. I will refer to my colleague Jed to address the first one, and I will come back to the second one afterwards.

**Mr SIMMS** — Thank you for the question. I think this lack of understanding of the difference between competency and capability leads to a lot of problems. A lot of organisations use the word ‘capability’ meaning competency, and therefore the discussion gets diffused. It is important that you look at competency as an individual attribute — that someone has to be skilled, experienced, qualified and have the right attitude and aptitude to be competent. Just getting the qualifications does not make you competent. People can go out and do project management courses in a week and it does not make them competent.

Capability as an organisational attribute requires competent people, obviously, but it also requires the processes, structures, measures and information flows to make things happen. How you run Parliament is a capability within government. A manufacturing organisation will have a capability to manufacture. It may not be very good at accounts receivable but it will have a true focus and capability in the area of manufacturing, logistics and things like that, and one of the key differences between organisations that do well with projects and those that do not are those that focus on developing their capability and those that just treat it as a by-product of the organisation.

**Mr GILL** — With regards to your second question, half the answer is in your question about the Victorian government. A whole-of-government approach is required versus an unnecessary specialised project management or ICT flavour throughout the department or a financial management discipline. It has to be holistic. It sounds like an easy answer but the single trait I can observe across the Victorian government and in private sector clients is fragmentation by function. There are the finance guys, the planning guys, the delivery guys or the road guys, and it seems to be a nice attribute to bring certain issues to a cluster. To elevate the conversation to whole of government, if your report steers that way, I think it would do the general argument good. It is not the engineers alone; it is not the finance guys; it is the collective capability, in my view.

The second question is also about a common mindset, which sounds a bit of a cliché, but the ‘public interest’ is a term that gets used a lot and has various interpretations. What I would put to you is that the mindset for projects is about pursuit of public interest, a positive thing, improving service delivery and reducing costs rather than a protection of public interest, which is about avoiding disasters or overruns and so forth. If the mindset pursued positives rather than avoided negatives, I think the planning for projects would be better, because success would be measured by provision of a positive. Delivering something and avoiding an overrun should not be deemed success.

**Mr PAKULA** — I am looking at page 8 of your submission, where you say:

Our perspective is simple — if public sector managers were better informed, the project performance will improve.

And you go on. My question, I suppose, is in some way simple but the answer might be complex. Better informed about what, and better informed how?

**Mr BARR** — I think better informed beyond just the financials and the schedule and the quality of work that is being done — an understanding about the risks, an understanding about the outcomes and the progressive movement towards the outcomes.

**Mr PAKULA** — Can I just stop you? We probably need to go back a step. Why is it that you say they are not already informed about those things?

**Mr BARR** — There is varying quality of project information across the whole-of-Victorian government project investment space. There is not really a standard in the way information is reported from within departments through to deputy secretary/secretary level and also to the central agencies. There really is not a repeatable process which covers information much beyond budget and schedule.

**Mr GILL** — I think the comment is that each department differs, which is similar to the point before about maturity. The thing that is common is expenditure. It is the common currency — what the budget is and the way that certain financials are treated. That does traverse all levels, but there are the disciplines involved. Financials by definition is the trailing indicator: after it is spent, it is gone. Predictive abilities, like the risk profile, tracking the service outcomes, tracking for what is generally referred to as benefits and value, and other traits that you can measure for a project, apart from expenditure, are more predictive. These disciplines need to be elevated, and it's not about the Victorian government specifically. It is about most organisations. It is an area of practise that most practitioners would concur with, but the gap between where a department is today and where it would like to be varies by department.

**Mr BARR** — To enable the predictive nature — and I think it is back to Philip's earlier question about people who are involved continually in the project process and have these particular skills et cetera — the ability to take information and make predictions and then to inform senior government people about that. You need that skill, plus you need the information to be able to analyse to make those sorts of conclusions. Most of the processes tend to be backwards looking— 'We have made this mistake; we have not done a good job in this particular stage of the project'. I think it is more important to be able to say, 'Given what we have seen and given the trends we have seen, there is likely trouble ahead, and what do we need to do to fix that?'.

**Mr O'BRIEN** — Thank you for your submission. I want to pick up two aspects, if I could. They may be related; I will leave that for you to answer. One thing that is perhaps new in terms of evidence we have had coming particularly from your ICT background is that in decision making in relation to projects or decisions of government there can sometimes be conflicts within the engineering sector or the project-type sections, particularly between hard construction-type engineering, which often has jobs and big earth moving around and things happening, and IT solutions or management-style solutions. That is the first aspect I would like you to focus on. Is that a phenomenon?

The second aspect is: in relation to IT procurement, because of the speed of technology change within IT procurement — and this partly comes out of the Ombudsman's ICT report, which you are probably aware of, and also I have my own background this which I will put on the record — I always do —

In relation to IT developments, is part of the procurement models of government sometimes a bit too cumbersome to pick up the changes and the speed in technology or the know-how that lives within proprietary systems of IT so that, for argument's sake, when the time that government procurement path would start there might well be a better IT solution and the private enterprise could go and snap it up but the government still on the path that it cannot get out of?

**Mr GILL** — I will have a go at both of those points and ask my colleagues, if they want to round out — the second one first, if I may. People always want procurement to be quicker and easier — I do not think there are going to be too many votes against that — but I do not think it is that slow that technology changes around it, so we are not missing the boat. You are a sizeable client for most technology providers and vendors, and they spend a lot of time and effort with the Victorian government, but I do not think the length of your procurement cycle alone is the issue. There are clearly areas to improve certain arrangements, and that is in play with industry bodies like the AIIA. We are conscious of and have watched those with interest — about panels and so forth — but I do not believe it is the speed of procurement is the reason technology delivery is not what it might want to be.

**Mr O'BRIEN** — I am talking about projects going right or wrong here. For example, the government might get locked down a technology path that seemed good four years ago, and then by the time it is up to software development and implementation it is out of date and we should have just bought something off the shelf. I want to make that clear.

**Mr GILL** — Yes. I understand.

**Mr O'BRIEN** — I am sure it could work the other way too.

**Mr SIMMS** — With that issue, all organisations fit that; that is not a peculiarity of government. Some of the banks now are starting to replace systems they put in 40 or 50 years ago. They have just been locked into that to such a point that it has been very difficult to get out of. I think the biggest issue in terms of procurement is clarity of requirements.

**Mr BARR** — Yes.

**Mr SIMMS** — The big mistake organisations around the world make is they rely on software promises rather than their specified requirements. If you get that bit right, you will reduce your procurement problems, and you will actually be able to do it faster because you can evaluate things quicker, you can get them in faster because you know what you are doing, and that is the solution in that respect.

**Mr BARR** — Understanding whether those requirements as defined by the departments are correct or not much earlier in the process will also avoid a lot of problems. Often what happens is the requirements are defined, they go to market, organisations respond, an organisation is selected and it is sometimes well into the delivery process before it is realised that those requirements are not going to satisfy the organisation. I think a number of the projects that were on the Ombudsman's list prior to Christmas were of that category.

**Mr O'BRIEN** — Could you address just the first part of the question, which was dealing with hard-engineering versus soft-engineering types of solutions?

**Mr SIMMS** — We have written a book, which we would be happy to make available to the committee, called *Why Are IT Projects Different?* which was in response to board members' requests to explain why it is that we always seem to have problems with IT projects as opposed to construction. There are some obvious differences, like you can physically see — are we up to the second floor of a building? — whereas you can walk into an IT project and you do not know whether they started last week or they are finishing next week, and it is all invisible. There are some characteristics like that which make IT projects more difficult because you are always dealing with something you cannot touch and feel. We can certainly make it available.

**Mr GILL** — There is a link between the first answer and the second about requirements, and I will paraphrase — do not have the quote from the secretary of the DTF — what he and we said earlier about the need for clarity of service outcomes. If you understand the service delivery changes that are going to be delivered as a result of any investment in ICT, requirements are generally be lessened; you have got clarity as to whether it is needed or not needed, or optional or mandatory, rather than overengineering a potential answer. Secondly, the project focus is on the endgame, and that is the sort of link to the question earlier about what information is missing. Pick up most reporting packs that are employed today and they will not be adequately balanced in their analysis of hard data like costs and physical progress against the service outcomes and the organisational change implications.

**Ms HENNESSY** — We are almost at the conclusion of these three days of public hearings, and we have heard enormous amounts of evidence and argument and all articulated the language of insiders. I accept your central proposition that we do not often think about ICT when we think about infrastructure. If you were to tell this committee three things that government must do to improve our capacity to deliver ICT projects, in user-friendly language, what would they be? And I will give you bonus points if you can not use the words 'outcome' or 'service delivery' — those kinds of buzzwords of bureaucracy.

**Mr GILL** — Okay. We will eliminate those words from the options. The shift required is the focus from what is termed project management and technical management, which was the earlier question, to the business management. It was used before I think in the DBI presentation about the client role, the more senior levels and how well they are informed. Focusing on informing those layers appropriately about these investments would do the state tremendous good.

**Ms HENNESSY** — One.

**Mr GILL** — The second point is, again, to move away from the physical asset thinking of infrastructure alone or the system or the software and to think about how it is going to be used and who is going to use it. Is it 10 000 nurses? Is it 5 train controllers? What is the human factor of the system's use? Again focusing on that degree of change, or maybe no change, would set the right orientation for the project. Do you want to round up with a third?

**Mr SIMMS** — I guess that would be to educate the senior management of the government in how to govern, sponsor, steer, project-board — or whatever word you want to use — projects effectively. All the research worldwide in government and in private industry shows the biggest single cause of project failure is lack of leadership. In one of my previous roles we did some research into steering committee members and how well they knew and were confident in their roles, and the figure was less than 2 per cent. Everyone assumes they know what to do when they do not.

**Mr BARR** — May I add a fourth one? I think it is about testing in the real world. I think a lot of the projects listed in the Ombudsman's report failed after the basic capability had been built. Some technical capability was built, and it was able to be demonstrated in a room like this. You could invite the Premier to come and have a look. 'We've got it going, and it's wonderful. We're now going to roll it out into Gippsland'. We roll it out into Gippsland and all hell breaks loose. What took a minute before now takes 5 minutes; what took one screen takes five screens. There is overlap of information. There are industrial issues because people need additional training and therefore we should be paying them more. There are many examples of those sorts of things where the actual capability and the way it was going to be used — I know this links to an earlier point — are not adequately tested. Really physically testing that in the real world I think is an important aspect before it becomes very widespread.

**Ms HENNESSY** — When everyone says this is crap and it is 500 per cent overbudget.

**Mr BARR** — Yes. We are often talking about many people. I will not mention names of projects, but we might be talking about thousands of schoolchildren, we might be talking about many thousands of commuters, and on it goes. Once there is a negative view it is very difficult to get that back.

**Ms HENNESSY** — Thank you.

**Mr SCOTT** — If I understand correctly, it is your collective view that there actually has not been an improvement in the effectiveness of infrastructure provision over a period of time. So one of the things that came through from the submission was that some of the focus on the changes in the tools of funding infrastructure, like PPPs or alliancing, actually does not reach the heart of the issue and can cloud analysis of the subject.

**Mr GILL** — The adopted principle in research we have done ourselves recently, and others widely available, the Chaos report probably being the most famous example from the early 1990s redone in the early 2000s and again a few years ago, is ICT-related or change-related projects are still underperforming by many measures. There has been no marked improvement — despite roughly two decades of professional development, accreditation, training standards and so forth. So the connection I am making to PPPs specifically is that whilst they are not popular for this style of project, I do not logically see why a financing arrangement or partnering arrangement like a PPP would fundamentally change the dynamics unless the focus does not shift to the business and then changing that business.

**Mr SCOTT** — So the causal issue around underperformance is not related to the finance mechanism, in essence?

**Mr GILL** — No, absolutely not. Not in our view.

**Mr SIMMS** — It is not a causeway to success.

**Mr O'BRIEN** — If I could just add something on the perception, is it also the case that when there is a successful IT project it does not necessarily get the same accolades often because it does not have the physical infrastructure?

**Mr GILL** — Yes. The industry has been an easy target for a while, I guess, so that makes good headlines. I guess good news does not travel as quickly as bad.

**Mr O'BRIEN** — And it is absorbed by other stakeholders. If it was not IT, it was good management.

**Mr GILL** — Exactly. I think it was said just the other day, wasn't it, that success has many friends.

**Mr SIMMS** — The goal is not actually the ICT system installed; it is what you have done with it that gives you the value, and that is the thing you have to celebrate and why the system itself is installed — —

**Mr O'BRIEN** — Are you doing any work to document the benefits of IT in that field? Because that is a space that I think is lacking, from my experience.

**Mr GILL** — Yes, and that is why we exist effectively as a company — it is the space in which we operate, but it is one that we also deem to be generally inconsistent across sectors in various jurisdictions and in different industries in the private sector. It is probably more aligned to the classic hero factor — a good sponsor and maybe a good project manager will have a great result and do all the right things. It is too inconsistent, hence why the professional bodies are arguing for greater standardisation via certification, which leads back to our general theme earlier about centralisation. It is not so much an argument we put forward professional standards, about that, but standardising the approach on processes, organisational processes, would better inform.

**The CHAIR** — Thank you very much. Unfortunately we are out of time. Before I wind this up, I would just like to indicate that we may be interested, with your indulgence, in inviting you to comment further perhaps at another public or indeed in camera hearing —

**Mr GILL** — Sure; you are welcome to.

**The CHAIR** — on specific project issues that we will be pursuing. There may be an issue in you being conflicted out though because of work that you have done for government, so we will have to resolve that closer to the time. But we would be very interested in having you back to look at some specific programs.

**Mr GILL** — Sure.

**The CHAIR** — Thank you for your submission and your evidence. I look forward to receiving any further commentary you would like to offer to the committee. This now closes the hearing.

**Mr GILL** — Good. Thank you.

**Committee adjourned.**