

# **PUBLIC ACCOUNTS COMMITTEE**

## **AREAS OF COMMITTEE INTEREST**

**TRANSCRIPT OF EVIDENCE  
TAKEN AT PERTH  
WEDNESDAY, 7 SEPTEMBER 2011**

### **SESSION TWO**

#### **Members**

**Mr J.C. Kobelke (Chairman)**  
**Mr J.M. Francis (Deputy Chairman)**  
**Mr A. Krsticevic**  
**Ms R. Saffioti**  
**Mr C.J. Tallentire**

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**Hearing commenced at 10.21 am**

**ROWE, MR LYNDON GEOFFREY**

**Chairman, Economic Regulation Authority, examined:**

**LAYMAN, MR BRUCE DEAN**

**Director, References and Research, Economic Regulation Authority, examined:**

**WATKINSON, MR GREG**

**Chief Executive Officer, Economic Regulation Authority, examined:**

**The CHAIRMAN:** On behalf of the Public Accounts Committee I would like to thank you for your interest and your appearance before us today. The purpose of this hearing is to assist the committee in gaining a better understanding of the Economic Regulation Authority's report into the shared services project. At this stage I introduce myself as chairman and the other members you have met: the deputy chair, Joe Francis; Chris Tallentyre; and Rita Saffioti. The Public Accounts Committee is a committee of the Legislative Assembly of the Parliament of Western Australia. This hearing is a formal procedure of the Parliament and, therefore, commands the same respect given to proceedings in the house itself. Even though the committee is not asking the witnesses to provide evidence on oath or affirmation, it is important that you understand that any deliberate misleading of the committee may be regarded as contempt of Parliament. This is a public hearing and Hansard will be making a transcript of the proceedings for the public record. If you refer to any documents during your evidence, it would assist Hansard if you could provide the full title for the record.

Have you completed the Details of Witness form?

**The Witnesses:** Yes.

**The CHAIRMAN:** Do you understand the notes at the bottom of the form about giving evidence to a parliamentary committee?

**The Witnesses:** Yes.

**The CHAIRMAN:** Did you receive and read the information for witnesses sheet provided with the Details of Witness form?

**The Witnesses:** Yes.

**The CHAIRMAN:** Do you have any questions in relation to the being witnesses at today's hearing?

**The Witnesses:** No.

**The CHAIRMAN:** Thank you very much. The report is obviously quite technical, particularly the background material. The recommendation, after your preliminary point was discussed with various stakeholders, was that decommissioning was the best cost option, so we might start by getting some understanding of what that entails. As I looked through the report I found that in a couple of places you made note of the fact that the decommissioning option had some unknowns in terms of cost of software et cetera. But you did at one point say, on page 79, that "the option of decommissioning ... has been fully costed and compared with other selected options." I throw it open so that you can give us a bit of background on the decommissioning and what is entailed.

**Mr Rowe:** I will make preliminary comments and then ask Bruce to elaborate in a little more detail. I guess by way of background to this it is worth noting that this is, I think, the fifth inquiry that has

been undertaken into the Office of Shared Services. The other comment I make by way of background is that, to the best of our knowledge, there is no successful full implementation of shared services within the public sector in Australia, so it has a reasonably chequered history. In that environment, given the issues we spelt out in the paper, we felt we would need to be confident that continuing with shared services had a clear advantage, given the history and given that sort of background. Which one of the options fell out? I guess part of this is a qualitative assessment of what is the likely future of this, given the history of it, and part of it is a quantitative assessment of what are the options. In terms of the quantitative assessment, it hinges a lot on where the results fall out on the question of the number of staff who will be involved in shared services and the number of staff who will not be required should we continue with shared services. We did a lot of sensitivity testing around that and Bruce might elaborate on that.

The other point I want to make as a general comment is that we took what we believe—Bruce will elaborate on this—a very conservative approach to the costs that might be involved in decommissioning. While they are not spelt out in the report in great detail, Bruce will give you some more information on that. Suffice to say we felt we took what was a pretty conservative approach in building into the costs of decommissioning every last dollar we could think of at the time, which I guess is one way of putting it. Having done that and the analysis of the other options and finding that decommissioning was still the cheapest option, that on its own would not have caused us to go necessarily to decommissioning. You then put that in the context of the successor otherwise of Shared Services, the history of the project and the uncertainty about the future of the project and we felt there was only one option at the end that we could recommend. Bruce might like to pick some of that up.

**Mr Layman:** In terms of the detail, as Lyndon said, what the analysis swings on is, if Shared Services went full capacity, how many staff in corporate services could we save across the sector. Unfortunately, it is not quite as simple as that because this thing has a history and you have to get agencies in or out or whichever way you go.

Going back a step, we undertook a survey of agencies that had rolled in and asked them about the cost of rolling in and the number of staff they saved to date. We relied fairly heavily on that survey. That was by the chief financial officers, and they obviously have obligations to present things truthfully. Generally speaking there has been a fairly large and often quite protracted project to roll agencies into the Office of Shared Services. The costs of those range from, we think, around \$2 million for the larger agencies, of greater than 1 000 staff, going right back down to the 20-person agencies where you are talking a \$10 000 project. It varies by agency size. Because it was very uncertain what that cost would be, we made the assumption it would cost the same to get out as it was to get in. We think that was quite a conservative assumption because the way we would recommend getting it out, at least in the first instance—the implementation committee will deal further with this—was to do a straight Oracle to Oracle transfer. If do you that it is a relatively simple process. Then agencies can do what they like from there and that is where a lot of the costs will be.

Again, that is a fairly conservative assumption because there were come agencies, such as commerce that were effectively is still running legacy systems, so for them that would be a very negligible cost, and Agriculture rolled in the last few weeks before we put in the report. They still have all their legacy systems and they were rolled in for finance only. In terms of those costs we front-loaded those to the agencies in the last half of 2011, even though we would not expect them to start building up in the later stage. We have assumed that Shared Services runs down to the end of 2014, so agencies will incur those costs over time. However, just to get around anyone saying that they will have to build up, before we front-loaded those costs, on present value terms that is a fairly weighty impact. We assumed we would have to pay the lease on Cannington until 2030 in all scenarios, even though the contract is only until I think, 2017 if my memory serves me correctly. We costed, although we do not necessarily say this as an assumption, that 90 per cent of DTF

Shared Service centre staff would get redundancies. Obviously, the implementation committee is trying to re-absorb all those into the sector, so, hopefully, that will not be as big a cost as what we have assumed.

They are the main things. There will be managed service costs, which we have made some assumptions about. They will be subject to contractual negotiations between the government and the current provider and the like, but we think we have been reasonably conservative on that. Other than that, the main thing is that agencies will have to rebuild their staff levels because there have been some staff savings, we estimate today 60 across the sector out of about a total of about 1 100 in-scope staff, so agencies will have to rebuild their staffing levels. We have again assumed they will have to do that straight away even though Shared Services will keep operating for a number of agencies, and there will be some agencies that it will take longer than others to get out. As I said, Commerce will have little trouble getting out. Other agencies such as Fisheries that have been in it four years where it will be a more substantial project to get them out. Our base assumption is that agencies that are rolling out will use the Oracle finance product; however, they will use an alternative service provider for H R payrolls where a lot of the problems were, we have costed that. There is a common-use agreement between the government and Alesco Talent2. We have costed it at those rates and we think to service the agencies that would roll out would be around \$16 million per annum. That is fairly straightforward.

[10.30 am]

I do not really think that there is too much. I mean, we did not go into detail for implementation plans. We just did the best estimate that we could of the costs at the time to do a certain task. As Lyndon alluded to, there is a huge amount of uncertainty in this area. When you look at the history of what we have done in the past and analyses done, particularly a big one in 2003, and in 2007, and you look at some of the things that were projected—it just has not happened. It is genuinely very difficult. I am not criticising the people who did this, because it is genuinely very difficult to tell what these sorts of things will cost. Taking it a step further, we did continue with shared services the level of services that we could eventually expect. It is a very, very difficult thing to do. As Lyndon said, that is why we did a great deal of sensitivity analysis around the staff savings et cetera, to get a reasonable margin above breakeven, which the authorities wanted. They said we needed to get breakeven. Given the history of this thing, we just felt that the staff savings would have to be beyond what was realistic.

**The CHAIRMAN:** To try to get some context for me, it would help if you are able to give the committee what are ballpark figures for government corporate services—that is, the cost sectors. What would you put down as a typical percentage cost relating to software licensing, hardware, staff costs and accommodation? I mean, do you have any sort of break-up of that form that would give a percentage figure?

**Mr Layman:** In terms of staff costs, we made a relatively simplistic assumption that essentially the average staff member is a level 6, so that when you add on the on-costs and accommodation, it is about \$130 000 per FTE involved.

**The CHAIRMAN:** No; what I was coming to was, because we have agencies of all different sizes, if it is a shared service as opposed to agencies managing their own, do you have any ballpark figures in terms of the key components of providing these corporate services to an agency? That is, how much is staff, how much is licensing? I have a view, and I think some other members might share it, that government does not do IT well. We have heard report after report from the Auditor General and we have the evidence here that shared services has not been done well for a whole range of reasons. However, coming back to that broader view, in terms of when you are putting in place corporate services, do you have any indication of how much the cost bears on those various, different elements of actually running a corporate service?

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**Mr Rowe:** We could probably take that on notice and give you some feedback on that. I guess one comment that I would make, while Bruce gets his thoughts together, is that one of the things that we found in, I think, just about all the agency cases was that all would report that their actual costs of transferring to shared services and the costs of continuing to maintain support for that meant that the overall costs increased. So the savings were just not there. Yes, there were projected harvested savings, but in reality the savings were not there. We can probably come back with some ballpark figures.

**Mr Layman:** Yes; I could give you the components, but we obviously aggregated things, so it would be better to take that on notice and get your figure.

**The CHAIRMAN:** Yes. Your analysis seems to have placed a great weight on the FTE costs—quite rightly. But are FTE costs 80 per cent of the operation or 20 per cent? We have no idea in terms of the overall costs of running a corporate service.

**Mr Layman:** It is the vast—as I have said, I will take the exact terms. However, the FTE cost is the big one.

**Mr Rowe:** Of all the sensitivity that we did, the only one that had a real impact was that FTE cost. We can come back with that; it will be in our model. We can come back to you with what percentage FTEs were of that total.

**Ms R. SAFFIOTI:** Just on FTE—I am trying to get my head around some of the numbers. You are basically saying that 90 per cent of the OSS staff will be redundant through the decommissioning model.

**Mr Rowe:** That is what we assume —

**Mr Layman:** That is what we costed it at and —

**Mr Rowe:** We are not saying that that is what will be the result, but that is how we built it. That is the assumption that we made in building our costs for decommissioning.

**Ms R. SAFFIOTI:** Sure. For the decommissioning model, could you just outline how many additional FTE are expected in the 58 agencies that have rolled out?

**Mr Layman:** We made the assumption that because 62 had been saved to date, that those 62 would be needed to return to the agencies.

**Ms R. SAFFIOTI:** So you are estimating plus 62 to 58 agencies—is that right? Or is it to 55?

**Mr Layman:** Yes; or I mean, it varies because agencies have obviously split and merged and the like.

**Ms R. SAFFIOTI:** Sure.

**Mr Layman:** But—yes.

**Ms R. SAFFIOTI:** So you think plus 62. And what is the total—that is, 90 per cent of OSS staff? How many staff do you think will leave Cannington?

**Mr Layman:** It is not so much what we think as what we costed it at.

**Ms R. SAFFIOTI:** Sure.

**Mr Layman:** And the reason we did that is that it works against the decommissioning assumption: it makes it a higher cost. I mean, they are about 360 permanent DTF/SSE staff are out there at the moment. Again, we made the assumption that essentially all of them would leave the sector—90 per cent of them with redundancies.

**Ms R. SAFFIOTI:** About 330—is that right?

**Mr Layman:** Whatever that works out to be. I cannot call up that figure. However, as I have said, that was to cost it in the most expensive way that we could think of.

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**Ms R. SAFFIOTI:** Sorry; I am just trying to figure that out. It is costing the most expensive way that you can think of, but surely in NPV terms over 20 or 30 years, if those 330 FTEs went back to the agencies would that not, for example, be a higher cost?

**Mr Layman:** It depends. It depends on how they are able to be reabsorbed and whether they are doing a real job that would need to be done anyway.

**Ms R. SAFFIOTI:** Yes.

**Mr Rowe:** Our expectation was that some of those would go back to the public sector, although not necessarily in those jobs but in other jobs. Given the demand on the number of vacancies in the public sector at the moment and the difficulty in obtaining people, we made what we thought was a very conservative assumption that 90 per cent would be subject to a redundancy payout.

**Ms R. SAFFIOTI:** Sure. One of the issues has been that staff numbers have not been reduced in agencies to the degree that was estimated and that has resulted in a reduction of only 62 staff, and that has created 330 jobs in Cannington. Can I ask why you think agencies would only, for example, hire another 62 staff of the 330 staff?

**Mr Rowe:** Because it means, in reality, that they go back to the position they were prior to the Office of Shared Services coming in. They were managing their own arrangements without staff and if we put back the 62 that were saved we should be able to continue to do that.

**Ms R. SAFFIOTI:** So you believe that 62 is a pretty rigorous number.

**Mr Rowe:** None of these numbers in here are rigorous—in a sense. But what became clear from the agency submissions was that they were maintaining a number of staff in their organisations because they did not have confidence in what they were receiving from shared services. Those staff are still in those agencies and will pick up some of this role. The net loss was only 62—or whatever it was.

**Ms R. SAFFIOTI:** Did DTF put in a submission on this?

**Mr Layman:** Yes.

**Ms R. SAFFIOTI:** What is the DTF view of the decommissioning model?

**Mr Rowe:** The DTF submission is commented on in our final report. Their recommendation was, I think, in the end—correct me if I am wrong because I am getting out of touch with this—that finance should continue to be done by shared services.

**Mr Layman:** Well, I think their view was that finance was unviable because there would be a huge extra migration cost to run the whole thing. I think DTF was, all the way through, strongly of the opinion that this thing should continue and that it was just a matter of—I think it acknowledged that service standards had declined. I do not think it ever said that things were perfect; however, it was of the opinion that the key thing was to roll agencies in and then they could work on service standards and level of performance and the like.

**Ms R. SAFFIOTI:** So have they questioned any of the costings on the decommissioning model? I mean, that was one of the key things envisaged. Okay, OSS is not what was envisaged initially, but the question is: are we making a big decision to decommission? Is that again just going to lead to, you know, further cost to the taxpayers?

**Mr Rowe:** Or is making a decision not to decommission going to lead to further cost to the taxpayer? I guess I come back to my original comment.

**Ms R. SAFFIOTI:** Sure.

**Mr Rowe:** Sorry, Treasury was given the draft report. Treasury was also given our model. And we took the trouble to explain the model to them. In one of our appendices, you will see where Treasury have questioned some of our issues and our response to that in the report. There was, I guess, ample opportunity for Treasury, as a result of our draft report, to come back. From the start,

the history of this thing is such that the authority in the end was of the view that unless we could see on the basis of the modelling a clear benefit from continuing to operate it, we did not have enough confidence that it would continue to meet its goals and objectives. The quantitative bit was, if you like, the thing that pushed us over the line. We could not even make it work on the basis of a cost comparison of the decommissioning.

**The CHAIRMAN:** I gather from what you are saying then that the qualitative assessment really coloured the whole way in which you approached it.

**Mr Rowe:** No; I would not say that it coloured it. If you read our report and the information that is coming back to us, and if you look at the history of this thing, it would be difficult for the authority to make an assumption to continue with it and that everything was going to go according to plan. That is not the history of this project. It is not the history of shared services in the public sector in Australia, in fact.

**The CHAIRMAN:** I think that most people would have to agree with you. I do not have any problem with that. My worry is that without having the concrete detail on what happens when you decommission, it could end up costing you way above what your projection is because there are so many loose ends. Even predicting that 60 will go back, we all know that government agencies have a real ability to just grow and grow and grow. And they can find excuses why they have to have extra numbers to do it. So that 60 might end up being 600—who knows? You obviously have already said that you cannot be really rigorous because it is really crystal ball gazing to some extent. You can only make best estimates.

**Mr Rowe:** Yes. And all I can come back to is to repeat what I have already said. In order to test against it, we were as conservative as we thought we could be in looking at what the costs of decommissioning were, to make sure that we gave it a fair chance. I mean, as an example, Bruce mentioned that we assumed that the accommodation lease in Cannington will continue to 2030. That is not an insignificant number; it is in excess of \$3 million a year, I think.

**Mr Layman:** Yes; three-and-a-quarter million a year.

**Mr Rowe:** So everywhere we look at it—the redundancy issue, the contract arrangement issues and all those sorts of issues—we took what we thought was a very conservative approach. Having done all of that, we then found on a straight present-value cost that decommissioning was the cheapest option. In the context of everything else that we had seen, that made our final recommendation fairly clear to us.

**Ms R. SAFFIOTI:** I am interested in the assumptions you were going through about the Cannington lease and the cost of bringing back the IT systems into the agencies. You have included in the decommissioning model the cost of software? Sorry; I am not an IT person.

**Mr Layman:** Yes.

**Ms R. SAFFIOTI:** I am not very good with IT, but you have included the cost of the management of the software contract going back for the entire —

**Mr Rowe:** Yes—including any payout costs that might be involved.

[10.45 am]

**Ms R. SAFFIOTI:** What are the estimated payout costs?

**Mr Rowe:** I am not sure that I am at liberty to say that because that will be part of commercial negotiations. We have received advice about some of the confidential information. Those costs are built into the model.

**Ms R. SAFFIOTI:** I also want to ask about the time frame. I think you said that the NPV was based on reversing the rollout, or whatever you want to call it, by the end of this year.

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**Mr Layman:** We had a number of iterations on this. We extended it from our draft report. What is in the final report is that it takes until the end of 2014 to roll the agencies out. First quarter 2015 shared services would no longer exist. In terms of what I said earlier about agency costs, what will happen through that period is agencies will gradually rebuild their capacity and incur costs such as software costs et cetera, and also project costs, which is the big one to get them out. We gave them that cost at the end of 2011 even though we know it will be spread over between now and 2014. We wanted to be very careful of not matching the incurring of those costs to when an agency stopped coming out of shared services because, clearly, agencies will have to build capacity before they roll out of shared services. We just brought those costs forward. We do not think that is realistic but it is conservative in terms of the decommissioning option because it does increase the cost relative to probably what it will be. Because we do not know what it would be, we took the worst case.

**Mr Rowe:** All of those costs occurred upfront. The net present value of that is significantly higher than it is likely to be. Again, it was taking a conservative approach to the decommissioning option.

**Ms R. SAFFIOTI:** How many people do you believe are in agencies now that should have been centralised to OSS?

**Mr Layman:** I think that figure is in our report. It is about 1 064, probably growing to about 1 100. That is what would have been in the in-scope agencies had shared services not come along. We think that about 62 had been saved on that.

**Ms R. SAFFIOTI:** What is that number again?

**Mr Watkinson:** It is 1 064. It is on page 98 of the report.

**Ms R. SAFFIOTI:** Are those staff currently in agencies that should be in OSS?

**Mr Layman:** Those are corporate services staff that would have been in agencies had shared services not come along, so a saving of 62 off that takes you down to about 1 000 at the moment.

**Ms R. SAFFIOTI:** Is that just those 58 agencies?

**Mr Layman:** That is across the whole sector.

**Ms R. SAFFIOTI:** In looking at this model, how many are in 58 agencies that should have been reduced as part of OSS?

**Mr Layman:** We do have that figure. We would probably have to take that on notice.

**Mr Rowe:** As a rough estimate, it is likely to be around 35 per cent to 40 per cent because about 35 per cent of the FTEs are rolled in.

**Mr Layman:** We could probably get you that figure. It varies. About 37 per cent of total FTEs have rolled in through the sector but they are with the smaller agencies and they tend to have bigger corporate services staff as a proportion of their total staff. I would need to take that on notice.

**The CHAIRMAN:** Coming back to some of the software costs, on page 78 you say that agencies would be given the option of utilising the leftover IT infrastructure from shared services. How practical is that? I do not understand that in terms of IT. You have a box or boxes out there set up for a centralised system. How does that operate? How are agencies scattered in different areas with different needs able to utilise that? You can use it to fill a gap here and there but how do you get efficient use out of it?

**Mr Layman:** That was more to leave options like the software as a service, which DTF suggested, and I understand the decommissioning team is looking at. It was more for that sort of thing. If it was Oracle and they were able to novate the contract, you could house the core software, essentially update it and keep it current centrally and then send that out to the agencies. That was leaving that option open more than anything. In terms of costing, we have not assumed any savings through that.

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**The CHAIRMAN:** You point out that for any of the other options to continue, you would need to have the Oracle system upgraded to 12, which was costed at \$35 million. What are the comparative costs with the decommissioning in terms of agencies having to update their software or establish new systems?

**Mr Layman:** In terms of what we modelled, we assumed that the Oracle upgrade would cost the same; that is, \$35 million. It gets a little more complex. One of the main problems with shared services is that they tried to customise the software very early in the process. That was to try to service everyone. Two things happened. First, they were never able to service everyone; and, second, it made the very simple things more complex. If we are able to get Oracle 12 out into agencies, it will be a much simpler process to update because agencies will be able to customise that as they go along. That is part of the project cost that I mentioned earlier. Our information suggests that it will be a much easier process than doing it to the heavily modified version that is in shared services because they have to go through all the modifications to make sure that it will work with the new version 12, which is very difficult, very time consuming and a costly thing to do.

**The CHAIRMAN:** I am trying to get some information on what costings you have put into the decommissioning model for the establishment of software systems in the other agencies. You mentioned that some of them have to be upgraded because no work has been done on them.

**Mr Layman:** What we have assumed, and this cuts across the contract a little, is that we were able to novate the Oracle contract at the same cost. We pay around \$4 million a year for that. That \$4 million is for finance and HR payroll. However, we assume that we would be able to novate it to agencies for the \$4 million for finance only. We are effectively doubling the cost of the finance component. We are only getting finance for that whereas previously we were getting a larger product. The general licence, if my memory serves me correct, is about \$100 000 for finance depending on the size of the agency. That came out a little above that \$100 000 figure. We felt that that was quite a conservative figure.

**Mr Rowe:** And for HR?

**Mr Layman:** For HR payroll there is a common use procurement agreement with Alesco Talent.

**The CHAIRMAN:** The contractual arrangements for this software basically goes to your level of usage. If you go to more sites, that is not a huge increase in costs if you are dealing with the same number of customers.

**Mr Layman:** That is something that had been negotiated between the government and Oracle. In terms of numbers, we were getting a reasonable deal on the software. However, that was enough to offset some of the problems. It was not enough to offset the fact that we were not saving staff in agencies.

**Mr C.J. TALLENTIRE:** I wanted to ask about comparisons with other states and territories. I notice that the report is very brief on that point. You only provided real figures when it comes to South Australia and the ACT but it does look positive. Why do you think they have managed to achieve things and we have not?

**Mr Layman:** The main states we looked at were the big ones, which are Queensland and New South Wales, and they have been disappointments.

**Mr C.J. TALLENTIRE:** You did not provide figures when it came to Victoria. The only states and territories you have clear figures for are South Australia and the ACT.

**Mr Layman:** Victoria does not have what we would call a shared services centre. It does have a shared services centre but that mainly does cars and libraries and things like that. We did talk with some people in the state but it was really limited by the time we had for the inquiry. We had to do it in a very short period. I must confess that I cannot quite remember that part of the report. If it is okay, I will take it on notice.

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**Mr Rowe:** We had a number of off-the-record discussions with senior public servants from the various states. Bruce is right; given the time frame, we did not have the capacity to go into those in great detail. It is fair to say that those discussions reinforced our view of how this was going and the chances of its success. One state, without being particular, was so far advanced it could not back out but said if it was in a position in which it could, it would.

**Mr C.J. TALLENTIRE:** Would you stand by your figures that South Australia is achieving an \$87 million a year saving and the ACT is finding costs? The way you presented it, it is not quite as flattering as it might be because they budgeted for a cost of \$14.2 million and it turned out to have costs of \$7.3 million. In both those instances we probably have a successful result.

**Mr Watkinson:** We will have to get back to you on that one. We had one person dedicated to looking at those issues. It was not the main focus of the report.

**The CHAIRMAN:** Are we clear on the supplementary information we are going to get?

**Mr C.J. TALLENTIRE:** Some additional comparative stuff, especially with South Australia and the ACT.

**Mr Rowe:** We will come back to you on that.

**The CHAIRMAN:** The report reads very well. I commend you. The facts are there—there were major software deficiencies with respect to HR. Agencies felt there was a lack of response. The customer service was poor from some agencies. You reflected those. There are facts to back that up. You also touch on the fact that there was perhaps a level of self-interest from agency corporate services. I would like to open that up as an open-ended question as to how you saw those relative factors. There has been some public comment from industry areas who believe that the whole thing fell over simply because of the lack of cooperation from various agencies. Would you like to enter into that area on how you saw the mix of those various factors at play?

**Mr Rowe:** I will probably do it in a reasonably longwinded way. There was clear lack of trust and a lack of relationship between the service provider and the service receivers. In some ways did that have an impact on us going forward? Yes, given this project has been that difficult. Does that make the continued implementation of the project even more difficult? There are reasons for that. If I was to sum it up in a colloquial way, you have a monopoly service provider providing to a mandated client base with no service level agreements that were worth speaking of, so no understanding between the parties about what was going to be delivered and what could be expected, not in any real sense. Combined with, rightly or wrongly, since 2007 the priority being to roll the agencies in regardless of the service, the assumption was always that we were going to roll these people in and deliver the service later. I think you got what you inevitably got, to be frank. We had a combined submission from how many agencies?

[11.00 am]

**Mr Layman:** On the draft report, 18 to 20 all told.

**Mr Rowe:** From 18 to 20 CFOs all writing saying this has got to be decommissioned. That gives you an indication of the level of mistrust and lack of confidence on both sides. Did that play a role in us saying how difficult was this in making it go forward? Absolutely. Now, who wears responsibility for that? I am sure everyone wears some responsibility for that. I would not like to put the percentages on it. I am sure everybody wears some responsibility for it.

**Ms R. SAFFIOTI:** Just following up on that point: one of the key failings was really the reduction in staff in those agencies. That really affects the numbers, does it not? If those numbers were achieved, you probably would not be advocating the decommissioning model.

**Mr Rowe:** Certainly it hinges on FTEs being saved. They were not saved; no question. Was the original model realistic? Our view would be no. There is customer protection comment that if it

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looks too good to be true, it probably is. Our view of the assessment of the original case that was put to government was it was too good to be true—and it was.

**Ms R. SAFFIOTI:** Do you think, given the issues—mainly the software issues in the initial years, plus the HR problems that were clearly evident—that over time, or with some strong leadership and a reduction in FTEs in those agencies, you could continue for those current agencies at least cost? Do you think that could have been an option?

**Mr Rowe:** If you accept your assumption, that is, that staff savings could be made, then yes, but evidence would suggest to us that that was not going to be achievable; certainly not if we go back to our costing model. Certainly in our view you had to make unrealistic expectations about staff reductions to make this work, given the experience of this project.

**Ms R. SAFFIOTI:** Sure. I can understand why agencies would hold on to staff while the system was in its initial years, and also given the HR problems in particular, think that over time those staffing issues could have been resolved. Do you think that was an option—again with strong leadership? But I think this has been one of the problems, that is, the fact that agencies were not directed or told, or budgets were cut sufficiently to drop those relevant staff.

**Mr Rowe:** Personally, and I think the authority's view would be, we would be extremely doubtful in the HR area. We might have a stronger argument in finance, but certainly it would be extremely doubtful in the HR area on the basis of what we have seen. Your comment about strong leadership is interesting because I think that is actually almost expressed in a way which Treasury expressed it to us: that the departments just had to get in there. This is a service organisation. Most service organisations understand you actually have to bring your customers with you. I am not sure that putting shared services in a central agency was necessarily the best approach.

**Mr Watkinson:** The other issue is, if you look at this as a business case you have something that provides a very uncertain return a very long time into the future and you have to cut staff across corporate services by, what, up to 50 per cent?

**Mr Layman:** Yes.

**Mr Watkinson:** To make the business case positive in NPV terms. That is a very risky way to proceed on a project.

**Mr Layman:** The point is that agencies were harvested—the term “harvested”—so their budgets were cut in anticipation of their making savings, and despite that they still maintained staff numbers, so they obviously either found that internally somehow or they transferred money from other areas to do it, so that was an indication that they were actually willing to or that they had to wear the cost to make it work as best they could.

**The CHAIRMAN:** In light of your work here and perhaps other areas where you have done studies, would you like to provide a view with respect to the approach that should be taken to establishing the processing systems, the IT et cetera? You have already, I think, indicated that having a customer service approach is very important, not mandating. But we have seen again, across so many government agencies, failures when it came to being able to contract and put in place these types of IT systems. Have you got any general views as to going forward with the decommissioning? What are some of the key elements you would need to get value out of the systems that you put in place?

**Mr Rowe:** I guess the only comment I make is it comes back, in part, to the comment you asked me about earlier—the lack of trust between the organisations. What was clearly missing, in my view, from this key issue was meaningful service level agreements; so, the ability to hold either shared services or the departments accountable for their side of the bargain. So clearly going forward, much more care needs to be taken in contract negotiation and the service level agreements that go with those contracts. I guess that is one comment I would make. The clear failure here was—you ask the agencies about the standards of service they can expect. It was a project, I guess, that in

some ways was overpromised and under-delivered, but there was not anything to go back to to say, “Here’s what we can expect for our money.” Then you have a debate about what is reasonable and whose fault it is, and you end up with a complete lack of trust on both sides.

**Ms R. SAFFIOTI:** Just on the other point we were discussing: so those agencies that have not been incorporated so far and will not be incorporated, did you assess one of the costs of upgrading their IT systems over time?

**Mr Layman:** Yes. Now, those agencies tended to be what you would term complex.

**Ms R. SAFFIOTI:** The larger ones like Health?

**The CHAIRMAN:** Health is outside.

**Mr Layman:** Health is outside the thing, but things like Disability Services; they actually had tried to roll that in and had encountered problems, particularly with their rostering system; Corrective Services would have been an extremely difficult agency—or the Attorney General portfolio generally. Yes, most of those ones have ongoing contracts with service providers, such as but not exclusively Alesco Talent2 for rates I have outlined earlier. So that is costed. Essentially, with regard to finance systems—and there are some old ones out there; in fact Agriculture rolled it in within a couple of weeks of our report because their finance system fell over or was about to fall over. We made the assumption that it could be incorporated in that \$4 million that I mentioned earlier. That is, generally speaking, it is about \$100 000 for a licence for a reasonable-sized agency is my recollection of the figure. So that \$4 million across agencies would sort of get us there.

**Ms R. SAFFIOTI:** Just to clarify: so \$4 million to upgrade the IT systems —

**The CHAIRMAN:** That is the IT service agreement.

**Mr Layman:** That is just the licence.

**Ms R. SAFFIOTI:** So, just the licence. Is there any cost of any capital upgrade, because one of the issues was there are differing systems across the public service? Is there any estimate, because OSS is not going forward, of the cost of capital upgrades for those agencies that have not rolled?

**Mr Layman:** Generally speaking, for most of them who are on an Alesco Talent2 arrangement that is a complete bureau service; the capital is in their ongoing fee in that particular case.

**Ms R. SAFFIOTI:** So it is about \$4 million a year, is it?

**Mr Layman:** That is for—I am just trying to think what the figure was for the agencies not rolled out. For the agencies that would have to roll out it is about \$16 million a year. I cannot quite recall what, so I will take that on notice.

**Mr Rowe:** The \$4 million was for finance and HR. Having thought about your question, Chair, about lessons, I guess the other lesson I think that came through to me was one of the problems with this project was it was a one size fits all, and with the benefit of hindsight it is easy, but it did not make a lot of sense to roll very small agencies. I am thinking organisations like regional development commissions, who probably had the local accountant working for them at a very effective cost and they were getting what they needed; shared services in a sense was far more than they needed. Then at the other end you have got organisations like—Disability Services I suppose is a classic where a lot of their funding is paid to people who are not going to fit into this type of structure; who will not have an ABN that is required to be able to raise an invoice. It is about more tailoring of the service for the need of the particular department. It was a very ambitious exercise to try to achieve. For it to be successful—and Treasury makes this point and makes it validly—it had to be a one size fits all and, therefore, departments had to adjust to that one size fits all, and that probably gave them too much in some of the smaller agency cases and probably was a real challenge on the upper end of the system.

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**The CHAIRMAN:** Again I have some formalities, but before I go to that I do not know if there is some comment any of you gentlemen would like to make.

**Mr Rowe:** Any last lessons you have thought of while I have been speaking?

**Mr Layman:** The thing that stuck out for me was the big bang approach is very risky, and that if things go wrong at the beginning of that—probably it has affected the project right the way through. There are obviously contract negotiations, and the appeal of this thing is the economies of scale, and also you would obviously want to get it up as quickly as you can. But the ones that have been successful, say, the Qantas of the world in the private sector, it has been a very long process, a sort of 15 to 20-year process, to get to the point where they are happy with it. As Lyndon said, it is the timing and also the fact that the problem is, if you have everyone in and committed to everyone being in, then if things go wrong at the start it makes it very difficult from that point on.

**Mr Watkinson:** The only other comment I have is we regulate monopolies, and shared services was a monopoly. In this case, probably it did not have the accountability structures in place that were required to monitor its effectiveness.

**Mr Rowe:** The last comment I would make is that because I have made comment about how it has not worked in the public sector, I should also say there are many examples in the private sector where it has not worked as well. It is not an easy project.

**The CHAIRMAN:** Thank you very much. I thank you for your evidence before the committee today. A transcript of this hearing will be forwarded to you for correction of minor errors. Any such corrections must be made and the transcript returned within 10 days from the date of the letter attached to the transcript. If the transcript is not returned within this period, it will be deemed to be correct. New material cannot be added via these corrections, and the sense of your evidence cannot be altered. Should you wish to provide additional information or elaborate on particular points, please include a supplementary submission for the committee's consideration when returning your corrected transcript of evidence. Also, we had a couple of issues where you were going to provide supplementary information, so if that could come back at the same time, it would be most appreciated. Thank you very much.

**Hearing concluded at 11.13 pm**

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