Speech to the Project Governance and Controls Symposium, by the Secretary of the Department of Finance, Ms Jane Halton AO PSM

Canberra, 12 May 2016

Introduction

Projects.

At one level, this word covers a range of plans and activities.

In our private lives, we all have them or play a part in them even if we don't recognise them as such – for example, cleaning out the shed.

In fact, sometimes we invent projects as a distraction for partners and children.

Projects can be one-off tasks, or a number of parallel undertakings, or some all-encompassing venture.

But more often than not, projects are simply a plan of action for organising our time, effort and resources to achieve some goal.

I acknowledge that most of you do project management for a profession.

You manage projects to achieve something of public or private value for various stakeholders, shareholders or the community at large.

In the Commonwealth public sector at any one time, there are thousands of activities that are organised as projects.

Some are big, others small; some are complex, others simple; too many are highly pressured and time critical.

A significant portion of the $425 billion being spent by the Commonwealth this financial year is being managed through projects.

This includes $5 billion spent on infrastructure projects like roads, ports and rail; over $12 billion spent on defence procurement and sustainment; $5 billion on ICT and $2 billion on foreign aid.

In its central agency role, my department does a range of things to help the government achieve its strategic objectives, including through projects.

I will speak later about some steps in the Budget process that are designed to give the government delivery confidence.

In addition to our role as a central agency, Finance is tasked to deliver projects and outcomes in our own right, so we are also project management practitioners.

I will share with you today some of the high level lessons we learned from managing two projects in particular – the Air Warfare Destroyer Reform project and the sale of Medibank.

And I will also talk about how Finance is moving to a project-based model to do a broader range of activities more effectively, flexibly and responsively.

Despite all we know, projects still go wrong

Project management models vary widely.

Some are based on detailed proprietary methodologies and templates, others on simple better practice principles.

A widely accepted definition of what constitutes a project comes from the UK Office of Government Commerce.

It says that a project is "a unique set of coordinated activities, with definite starting and finishing points, undertaken by an individual or team to meet specific objectives within defined time, cost and performance parameters as specified in a business case."

The act of project management involves guiding this process from controlled start-up, through delivery, to controlled closure and review.

Good project management delivers visible and accountable milestones, well-managed resources, and good stakeholder relations, with all project partners clear about their goals and their individual responsibilities.

At the highest level in the Commonwealth, we have a *Public Governance, Performance and Accountability Act* that requires public resources to be used properly.

That means efficiently, effectively, economically and ethically.

The PGPA Act sets a clear framework for accountabilities, from operational ones like having appropriate risk and control frameworks in place, through to strategic ones like achieving goals through planning and reporting.

In the Commonwealth, no matter what project management approach is used, it must be framed against the high level accountabilities in the PGPA Act.

Across the Commonwealth we have lots of experience, acquired wisdom, and practical tools to support project management, and yet we still struggle.

Peter Shergold, in his report *Learning from Failure*, said that of the twenty Capability Reviews conducted by the Australian Public Service Commission, eleven found that departments struggle with project management skills and program management practices[1].

He noted that successive reports from the Australian National Audit Office found the same thing.

Shergold emphasised the importance of having trained, proficient, and experienced project management professionals in the Commonwealth public sector.

His report makes for salutary reading, especially because the consequences of poor project design and execution in the Home Insulation Program were so tragic.

In fact, many of the reasons for failure identified in the Royal Commission led by Ian Hanger and discussed by Peter Shergold appear over and over again in project management literature and in case studies:

- from pursuing an ill-conceived idea with poor design; through to rushed implementation; poor accountability, stakeholder and risk management; inadequate regulatory oversight; and a lack of technical experience.

Now let me acknowledge that some projects are just plain hard.

They bring with them complex dependencies, or capability or technological or environmental challenges that can test even the most experienced project managers.

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[1] Peter Shergold (2015): <u>Learning from Failure. Why large government policy initiatives have gone so badly wrong in the past and how the chances of success in the future can be improved.</u> Fortunately, there were no major issues identified for Finance in these areas in its Capability Review findings.

And then there is the issue of clients, including our political masters, whose demands, and the constraints that they put on projects, can presage failure.

Last year, the UK Government's Major Projects Authority – which for 5 years had taken steps to improve project delivery by strengthening project assurance, improving transparency and introducing project leadership training – rated 34% of the government's projects as red or amber red[2].

Those ratings mean that successful delivery is either unachievable or in doubt unless action is taken.

So it goes to show that, no matter how mature your practice or how good your support, you cannot eliminate all delivery risks.

And it underlines that no matter how mature the project management environment you work in, getting the right information at the right time is important to keeping projects on track.

But what surprises me is how often projects fail because basic better practice project management principles are not met or warning signals are not heard.

Peter Shergold says that professional project management skills need to be made available for critical Commonwealth projects.

In other words, the skills that we have need to be applied in the right place at the right time.

Professionals learn and absorb lessons, keep up their skills and use and develop technical tools in a way that improves future practice.

But it goes even beyond this.

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[2] UK Committee of Public Accounts. *Delivering Major Projects in Government.*
http://www.publications.parliament.uk/pa/cm201516/cmselect/cmpubacc/710/710.pdf

Common sense management needs to be brought to any project, and this does not necessarily come with professional training.

It goes to personal characteristics, like sound intuition and emotional intelligence, and comes with experience.

There are plenty of examples around where things go wrong because highly skilled professionals or well resourced project managers don't use their heads.

They focus on the wrong thing, or fail to keep communications open, or don't manage their critical relationships or technical inputs well.

They don't see the big picture, or the cumulative negative impact of a number of little things going off-track.

Especially, it appears, when this involves baggage systems at major international airports.

Airports and luggage systems

Now I learned long ago that the only way to get through an airport without baggage issues is to take carry-on luggage only.

The only way you can stay sane, is to stay away from the baggage belt.

So I am lucky.

Even though I have travelled frequently through both Denver International Airport and Heathrow's Terminal 5, I have not been a victim of their problems.

Some of you may know the story of the Denver Airport Baggage System project in the 1990s.

At the time, it was to be the largest automated airport baggage handling system in the world.

The opening of Denver airport – billed as "the airport of the future" – was delayed for sixteen months; and the new baggage system, which was meant to link three concourses, was largely responsible for this delay.

At a demonstration of the baggage system to the media in April 1994, clothes were disgorged from crushed bags and two carts moving at high speed crashed into each other.

The system had been commissioned before it had been tested under simulated peak loads.

The Denver baggage system was integral to the operation of the new airport, yet the airport construction commenced before the baggage system was either settled or designed.

So the general allowances made by the designers of the airport buildings for a baggage system were not suitable for the baggage system that was eventually built.

And even though a large volume of traffic in Denver has to do with skiers like me, ski equipment racks and dedicated ski equipment handling areas were added only after the system build had commenced, causing further problems.

Even without the media, stuff was flying around because of the physical forces at play on sharp turns.

Every airline other than United refused to use the system, and even United used the system for outbound baggage only.

According to NBC News, it took 10 years and about \$US600 million to figure out that the best solution for Denver Airport was to go back to a fully manual tug and trolley system, which it did in 2005[3].

In this case, there were many reasons that cumulatively led to project failure.

The various case studies on this project have pointed out that[4]:

- the upfront planning was poor,

- the complexity of the project was underestimated,

- the timeframe was unrealistic,

- the airport project leadership lacked the skills for understanding the complex technological systems that underpinned the baggage system,

- expert advice was disregarded,

- people worked in silos,

- risk management, communications and stakeholder management were poor, and

- the contractor over-promised to secure a prestigious contract.

Quite a list.

And it has a familiar ring to it.

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[3] NBC News, 7 June 2005.
[4] Calleam Consulting Ltd (2008): *Why Technology Projects Fail. Case Study – Denver International Airport Baggage Handling System – An illustration of ineffectual decision making*.

Amusingly, the artwork inside the Denver airport terminal includes wall sculptures of grotesque gargoyles in suitcases leering down at passengers as they enter the terminal.

Like a monument to what went wrong.

Some years later in London, the failure of the Heathrow Terminal 5 luggage system in its first days of operation saw 28,000 bags placed in temporary storage.

The system buckled under computer programming errors, overloading, and staff mistakes from inappropriate training[5].

Flights were cancelled, hold luggage processing was suspended and those fortunate few who could get a flight could travel with hand luggage only.

Despite six months of testing, the luggage system had not been appropriately load tested or tested for integration into airport operations, and the complexity of the workings had been underestimated.

In this case, instead of wall art, the failure was celebrated in song.

The transport editor of the *Daily Telegraph* reported that 29-year old Tim Soong – whose overseas wedding plans had been wrecked some years earlier by British Airways when they lost his luggage – teamed up with his best man Andy Bayner to create a music video to mark the occasion[6].

The chorus goes "I went down to get my bags, but I'm in France and my bags are still in Terminal 5, Terminal 5, Terminal 1 2 3 4 5...".

The chorus repeats, and France becomes Greece, Spain, and even the Peoples' Republic of China.

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[5] Various BBC News items, 28 and 31 March 2008.

[6] David Millward: "Heathrow Terminal 5 song is a web hit", The Telegraph, 17 April 2008.

Rub it in, Tim.

The music video, which was filmed covertly in Terminal 5 itself, was a runaway success on YouTube and scored airplay on the radio.

For those interested, it is now available on iTunes.

There is a lesson here for all project managers – if a creative artist says to you that your work is an inspiration, be afraid!

What more can we learn?

Benjamin Franklin said: "Tell me and I forget. Teach me and I remember. Involve me and I learn".

Whether we are involved with project failure, or project success, I think it is important to draw whatever lessons are on offer to improve our overall stock of project management skills and knowledge.

As individuals, and as a professional community, we need to pause and reflect on the things that happen to us to see what we can take away for the future.

I have always sought to build a continuous learning culture in the organisations that I have worked in, and I was pleased to find that Finance had a very strong lessons-learned culture when I arrived in 2014.

For example, in relation to projects, Finance makes widespread use of post completion reports and other project closure reviews.

The following insights about factors in project success are drawn from reviews done on two recent Finance projects: the Air Warfare Destroyer Reform project and the sale of Medibank.

Again, there is a familiar ring to these points.

But the important thing for my department is that we will remember these because they are about our experience, they are our lessons learned and we will carry these forward into our future projects.

The first lesson is that to underpin project success, you should:

Obtain expert advice and use it

In 2014, in response to increasing cost overruns and schedule delays, the Commonwealth Government commissioned a review into the $8.5 billion Air Warfare Destroyer Program.

Experienced people from within Finance and the Department of Defence were brought together, and a range of experts were appointed, including technical, industry, commercial and legal advisers.

The Government moved quickly through a series of interim measures to inject additional shipbuilding and related capability into the troubled program from three companies: Navantia, BAE Systems and Raytheon Australia.

Ultimately, realistic costs and schedules were established, commercial incentives reset, and Navantia resources were inserted on a long-term basis

The key thing here was to get the right people in quickly.

Within the parameters of clear guidance, the project staff from Finance and Defence created space for good ideas and allowed scope for creative tension with project partners.

They tested the views of outside advisers and technical experts, providing a government overlay to those views to see what would work.

But they did not stifle alternative ideas.

It is all too easy to fall into Dr Evil's trap of trying to turn outside advisers into *Mini-Me*'s, who simply reflect what government people themselves think, rather than who feel empowered to advocate innovative alternatives or different models.

The second lesson is that you should:

Be pragmatic on the processes needed to achieve the project's aims

Too heavy a reliance on project management processes can stifle creative solutions.

Process itself is not a substitute for timely decisions on key issues; neither should it crowd-out professional judgement and common sense.

A review of the AWD program uncovered a range of project management processes that were creating unnecessary red tape and inhibiting the ability of managers to recognise and respond to key issues swiftly.

The AWD reform project focussed on reducing this red tape and streamlining decision making processes in order that accountability could rest with the party best placed to manage it.

The third lesson goes to:

Stakeholder Engagement

You have to bring stakeholders along.

You have to stretch to get the best outcome with their support.

Share your problems; listen to their thoughts on potential solutions.

You may find that some stakeholder views don't align with what you initially had in mind, but that is the very value that consultation adds to project design and execution.

You must be prepared to test your own preconceived notions.

Let me turn to the Medibank Scoping Study, which the Government commissioned in 2013 to consider the privatisation and best form and method of sale for this then government business enterprise.

We developed a stakeholder engagement strategy to assess the merits of privatisation and to test the market's interest if the sale should proceed.

We talked to industry groups and sectoral players, state governments and health service providers, the investment community and regulatory bodies.

We were particularly keen to explore the nature of competition in the market, the issues involved with government exiting the market through a sale, and the potential for any conflicts with its role as regulator.

Our discussion with stakeholders helped to clarify all of these issues.

As you know, Medibank was sold by way of an Initial Public Offering, or IPO, the structure for which was developed with the assistance of private sector advisers.

We were able to deliver a highly successful outcome through the fastest ever Commonwealth Government privatisation, without disrupting the private health insurance market.

The sale returned $5.7 billion for the taxpayer – exceeding expectations – with the proceeds reinvested in productivity enhancing infrastructure.

The final lesson that I want to share from Finance's experience in the AWD and Medibank sale projects is that:

Good preparation is the key to a good project outcome

The due diligence process for the Medibank IPO was complex.

It was undertaken in compressed timeframes.

It required Finance and its advisers to engage with multiple parties on an as-needs basis, with pre-existing scripts, information material, telephone access codes and a well-rehearsed presentation, all of which contributed to stakeholder confidence.

For us, constantly engaging and continuously refreshing key information helped the due diligence process stay on track.

Aside from learning, how can we guard against failure?

As I said earlier, none of this is earth-shattering stuff.

The principles of good project management are well-established in rich practical experience and the lessons learned over many generations.

Mark Bovens and Paul 't Hart (_pron. Paul ert Hart_), who are professors of public administration at Utrecht University in the Netherlands,

point to four decades of academic research into implementation failure in public policy[7].

In relation to major public policy failures like the home insulation scheme, Bovens and 't Hart say that "the best way to avoid fiascos is to 'open up' policy-making process to genuine contests of ideas".

They note Charles Lindblom's view in his 1965 book *The Intelligence of Democracy*, and I am paraphrasing a paraphrase here, that:

- wide participation, multi-stakeholder involvement, contesting bodies of evidence and argument, persuasion and negotiation, and institutional checks and balances during both design and implementation offer better safeguards than those found in a tightly held process.

I make this point because I want to talk about Finance's role in relation to major new projects and complex new programs initiated in the Commonwealth.

Government wants confidence that the proposals brought forward for funding are properly designed and developed in consultation with key stakeholders, and properly scrutinised and tested for implementation, including in relation to their cost.

In his 20 April 2016 address to the Australian Public Service, the Prime Minister noted that a core competence of policy-makers is to learn from the experience of others,

He stated his expectation that the public service should collaborate in designing and delivering major initiatives.

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[7] Mark Bovens and Paul 't Hart (2016): "Revisiting the study of policy failures", *Journal of European Public Policy*

Finance's central assurance for individual projects

A key job for Finance is to scrutinise each proposal brought forward in the Budget process.

We look at cost structures and price drivers, both short-term and long-term; implementation timetables, strategies and risks; dependency relationships; alignment with government policy – everything that you would expect a central finance department to do.

We dig right into proposed projects before they secure funding.

By way of illustration, high-cost high-risk ICT-enabled proposals undergo a staged ICT Investment Approval.

We work with entities to prepare business cases that will help government make informed decisions.

We have found that the ICT Investment Approval process improves the quality of ICT project management.

We now get better estimates of costs, risks, schedules, resources and benefits; and we have been able to achieve more flexible phased approaches to funding.

Let me give a couple of examples.

The first goes to the Department of Health's National Cancer Screening Register.

Health sought an accelerated ICT Two Pass Review for this initiative in the 2015-16 Budget, with estimated indicative costs of $17 million.

Finance recommended a robust Second Pass Business Case with improved costings developed through a comprehensive tender process.

The tender process, in fact, did help Health develop higher quality costings and a better design for government consideration at the Second Pass stage, and government had stronger assurance around the investment decision it was asked to make.

The second example relates to the Australian Taxation Office's Single Touch Payroll initiative.

During the development of the business case, Finance worked closely with the ATO to include a range of dependencies such as legislative matters, the role of the Digital Transformation Office, data and analytics and standard business reporting issues.

This gave government a richer picture about the complexities involved in the project.

When it gives funding approval, government may also request assurance reviews for high-cost, high-risk initiatives prior to their final implementation (for which we do Implementation Readiness Assessments) or during their design and actual delivery (for which we do Gateway Reviews).

These independent reviews are coordinated by Finance.

Implementation Readiness Assessments have been in place since 2011.

They are performed by a specialist pool of independent reviewers who have skills and experience relevant to the proposal.

On average, one or two are commissioned each year.

The Reviews look in detail at implementation challenges, how practical delivery issues are being addressed and how risks are being managed.

They consider the project implementation strategy, identify areas that may need corrective action, and provide a point in time assessment on the effectiveness of implementation planning.

Implementation Readiness Assessment reports go to government so that a final go/no-go decision can be made.

There are examples of projects and new policy proposals being rethought or redesigned because of the issues raised in their Implementation Readiness Assessment, so this is a valuable tool.

Gateway Reviews are milestone-based, independent reviews of project design and delivery.

They support the existing governance and assurance practices in a project, and increase program and project management capability across government.

Gateway Reviews report back to entities to support project leaders, and they have valuable escalation protocols to draw implementation problems to the attention of the public service leadership and ministers.

The Gateway process is based on a model established by the UK Office of Government Commerce and is used in a number of other jurisdictions, including New Zealand and Victoria.

Since they were first introduced in the Commonwealth in 2006, almost 300 Gateway Reviews have been conducted.

Overall, the feedback from project leaders has been very positive, with 100% agreeing that Gateway has contributed constructively to their project and 97% of Review recommendations either fully or partly actioned.

It is true that last year's Belcher Red Tape Review identified some limitations to Gateway Reviews.

These included that they are strongly focussed on the project management process, and can be a slow way to trigger escalation and intervention if a project is going off track.

But overwhelmingly, the Reviews are a useful and practical assurance tool.

If you go back to Charles Lindblom's view, these assurance processes are in fact safeguards that bring in contending bodies of evidence and argument, and introduce institutional checks and balances into the design and implementation of new projects and programs in the Commonwealth.

Central assurance at the whole of system level

So I have outlined some of the project level assurance that Finance provides the government in the Budget process.

But there are also a few things that I would like to mention briefly in relation to systemic level assurance.

System-level controls

As P3M3 maturity assessments are no longer mandatory, we are working to find other ways to improve agency capability in ICT-related program and project management.

Together with the Department of the Prime Minister and Cabinet and the APS Community of Practice on Portfolio, Program and Project Management, we are establishing a virtual centre of excellence on an online collaboration platform.

And since 2009, we have been collecting whole-of-Government ICT Benchmarking data, reporting publicly on sector-wide expenditure trends.

ICT Benchmarking allows for a comparison of ICT investments across and between entities, and helps to drive cost optimisation initiatives.

Individual comparative reports are provided to entities, with guidance on how to use the data to drive investment efficiency and effectiveness.

And finally, in terms of systemic level assurance, the scheme under the PGPA Act requires entities to outline their capability building strategies, including in ICT, in their corporate plan, with an analysis of progress over the year to be reported in Annual Performance Statements.

Risk Management Framework

The PGPA Act requires similar reporting on risk issues, and it is a significant first step towards developing better risk practice in the Commonwealth public sector.

But there is still a lot of work to be done in improving how we identify, assess, report and mitigate risk in the Commonwealth.

While he noted that the PGPA Act and the *Commonwealth Risk Management Policy* have integrated risk oversight and management activities within core government business, Peter Shergold observed that legislation does not change culture: people and their actions do.

All of us here are responsible for developing and maintaining a positive risk culture inside our organisations and in the projects that we lead.

My department is taking a number of steps to support the development of a positive risk culture across the public sector, including by improving its guidance, and running an education and professional development program across the Australian Public Service to improve capability in risk management.

Shergold also said that governments should be more aware of the cumulative impact of their decisions.

As part of our work on the recommendations of the Shergold report, Finance is bringing together all of the different pieces of information that it holds on risk.

We hope that this will give a richer picture on strategic risks faced across the public sector.

We will consult more widely on this as our work develops.

Projectising Finance: The People and Projects Office

Lest you think that I am a member of the Skywalker clan who sees only the dark side of projects and project management – the gargoyles popping out of the suitcases, if you will – let me conclude by sharing with you an initiative I have asked to be pursued in Finance.

When I arrived in 2014, I was concerned that, while we did our ongoing work to a very high order, we lacked the structural flexibility to tackle emerging issues and one-off tasks without having the organisation creak in response.

In the speech I mentioned earlier, the Prime Minister said that in times of rapid transformation and volatility, "the best tools we have ... are resilience, agility and adaptability".

The government expects all of us to respond quickly to emerging needs, especially central agencies like Finance.

If my department is to be positioned as an employer of choice within the public sector, as I would like it to be, then we need to ensure that the demands on our people are appropriately managed so that they enjoy the challenge of their jobs but don't burn out.

We also want our people to have professional opportunities that build their capability and experience across the full range of our business.

There are private sector models that we can learn from.

I'm thinking in particular about professional services firms that consciously and deliberately prioritise their work and build teams to deliver on their business priorities.

I'm interested in how some of this can be applied in the context of the Australian Public Service.

The Finance Transformation Program that I have initiated is our way of exploring new approaches that draw on both private and public sector experience.

We now have a People and Projects Office to co-ordinate and enable our transition to a new way of working.

The PPO is developing a single, uniform approach to delivering projects and programs across the Department, including governance and reporting.

It is currently developing project management templates and detailed guidance material to underpin the '*One Way of Managing Projects in Finance'* roadmap.

The PPO is built around three pillars – People, Prioritisation and Projects.

It will work with business areas and project teams to:

- develop business cases and project bids to inform decisions on priorities;

- centrally support these priorities by coordinating resources to streamline the project ramp-up phase

- match staff to priority tasks based on their capabilities, long-term career goals and availability; and

- manage priorities under the 'one way' principle, with less red tape.

In an environment where things can evolve and change rapidly, our goal is to get the right people working on our key priorities at the right time..

Some of our key priorities will be projects, others will be ongoing business or short term tasks that require a 'surge' response, but all of them will lend themselves to a project-based approach to work.

We would only undertake this kind of reform if we had utmost confidence in project management principles and methods as a basis for organising work.

And I would only do it if I had confidence that Finance staff have the common sense, sound intuition and emotional intelligence to make these changes work.

Conclusion

I have every intention to succeed with this transformation project.

And it has to do with art.

Some of you may know that my department has moved into new premises at 1 Canberra Avenue in Forrest.

It is a fine building, with wall space that is currently blank but will eventually accommodate works of art.

As I said earlier, I have been to Denver Airport many times and I don't fancy gargoyles in suitcases on the walls in our new digs.

And while we have a wonderful atrium, and much as I admire the work of Tim Soong and his mate Andy Bayner, I would prefer not to have the Finance foyer hosting any YouTube hits.

So to all of you – good luck with your conference, and may you thrive professionally without any artistic consequences!