

RESEARCH REPORT 24

APPOINTING CEOS: LOOKING BACKWARDS AND SIDEWAYS

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The Palaszczuk government has started the process of selecting the cadre of public sector chief executives who will function as Directors-General in the newly constituted machinery of government (discussed elsewhere on the TJRyan Foundation website by Peter Bridgman¹).

This process has occasioned significant comment in the media, linked to the combination of a clearly articulated policy of merit selection by the ALP, and the departure of several existing CEOs before any formal process is complete.

This contribution to the debate takes a deeper look at the precedents both historically within Queensland, and the practice in the rest of Australia.

THE CURRENT ENVIRONMENT IN QUEENSLAND

What has inspired this longer analysis is a statement by the Leader of the Opposition, used to justify asking Parliament as a whole to override an administrative decision not dependent on legislation, namely to abandon the LNP's hospital waiting-list guarantee:

The Labor Government's decision to scrap the patient surgery guarantee and replace it with rubbery targets is a farce and needs to be tested on the floor of parliament.

Leader of the Opposition Lawrence Springborg said the Health Minister Cameron Dick and his union bosses do not have a mandate to change the policy, it should be decided by the Parliament.

'Since the government's announcement yesterday, we have been inundated with concerns from doctors and patients worried that more people will be waiting for surgery if the LNP's Wait Time Guarantee is scrapped', Mr Springborg said.

'It has taken less than three weeks for the Health Minister to be captured by the health bureaucracy which have never supported guaranteeing patients their surgery on time, every time. In order to protect patients, the LNP will be moving a motion when Parliament resumes to keep the Wait Time Guarantee.

¹ Peter Bridgman, 'The First Palaczszuk Government: Ministers, Portfolios and the Machinery of Government', TJRyan Foundation Research Report 23: <u>http://www.tjryanfoundation.org.au/ dbase_upl/</u> <u>Bridgman_Palaszczuk_MoG_final.pdf</u>; and Peter Bridgman, 'Shaping Government: A guide to machinery of government in Queensland', TJRyan Foundation paper: <u>http://www.tjryanfoundation.org.au/ dbase_upl/</u> <u>A_Guide_to_MoG.pdf</u>.

As we have a hung parliament it is appropriate that each member has the opportunity to vote for what their electorate wants, not what the bureaucrats and union bosses want."²

This highlights the dynamic relationship between Ministers, their CEOs (usually called Directors-General in Queensland), and the remainder of their departmental officers. Springborg was clearly drawing from his own Ministerial experience when he accused members of his former department of resisting one of his key policies as Minister and actively seeking to have it reversed.

The hinge in the relationship between Minister and Department is the CEO, in this case the Director-General of Health. Springborg inherited as his Director-General someone who had been appointed by the ALP Bligh government with a record of service in the health sector, including being Director General of Health in New South Wales. He continued in office in Queensland until 2013.³

In the meantime, Premier Newman had entered Parliament in the 2012 election without any previous parliamentary service but a significant period of service in Brisbane local government, including two terms as Lord Mayor. By reshuffling and accepting resignations from other CEOs, Newman was able to appoint Ian Maynard to become Public Service Commissioner, presumably in recognition of the quality of his prior service in the Brisbane City Council. Maynard came to the Public Service Commission from an executive role as CEO of Urban Utilities. Within a year, he had become Director-General of Health as part of another reshuffle, where health professionals noted his absence of formal qualifications in public administration or previous experience in any health-related field. Andrew Chesterman succeeded him as Public Service Commissioner, shifting from the post of Director-General of Environment and Heritage to which he too had been appointed from the Brisbane City Council. When Palaszczuk became Premier, both Maynard and Chesterman departed 'by mutual agreement'.

In a statement made before the one quoted in Deb Frecklington's media release, Springborg was quoted in the press as 'slamming this decision' because 'Maynard was the best director-general the government had'.⁴ Springborg suggested that 'rather than the night of the long knives, the government's having the month of the short knives and what they're going to do is take our directors-general, one by one over a period of time so it doesn't look quite as dramatic."

Springborg complained about the uncertainty being created for public servants and the business community by this protracted process. In an earlier policy statement. Springborg had committed to the general proposition that CEOs should only hold tenure until the next change of government, so this would point to an endorsement of the 'night of the long knives' approach. Against that, the actual practice of the LNP was to create financial impediments to change. The impression had been created that many of the CEO's who might see themselves at risk as a result of a shock election result had been offered timely extensions of their contract.

One example of this usually confidential practice appeared the public record right after the end of the election campaign. Lucy Ardern reported on 2 February 2015 that Minister Jan Stuckey had admitted that she had moved to protect the jobs of two senior Commonwealth Games officials before the election to ensure they remained in place for the next three years. Stuckey was quoted as saying: 'It would be very difficult for the ALP to terminate them now'. Ardern reported that the CEO concerned:

... is close to Mr Newman and might have lost his job after a change of government without being reappointed. After the last Queensland election, the LNP took advantage of the fact

² Deb Frecklington MP, Media Release, 'Parliament to vote on surgery guarantee', 11.3.15.

³ He was in charge of Health during the payroll crisis that was subject of an inquiry in 2013. An Inquiry was instigated into the affair by the Newman government. The Inquiry report was published in July 2013.

⁴ The Australian, 26 February 2015.

that the contract of the former Games chairman appointed by the ALP had expired and sacked him. $^{\rm 5}$

This provides a clear illustration of the problem of retribution and revenge which crossed partisan boundaries; there were similar examples during the previous change of government, penetrating below the level of CEO. In 2012 Newman appointees often gained advancement on the basis of their previous family or organisational connections. The deterioration of the Westminster model towards a spoils system comparable to the US remains one of the major changes facing all Australian governments. How do you ensure that some senior public servants appointed by a previous regime gained preferment as party patronage rather than their demonstrated management and technical skills?

The approach taken by Premier Palaszczuk emphasizes the need for speedy decisions in those cases where past histories might give cause for concern – only three were initially affected (Chesterman, Maynard and Mr Jon Grayson, the Director-General of the Department of the Premier and Cabinet).⁶ The majority would be given the opportunity to justify their existence. In keeping with her electoral promise, 'an independent merit selection process' was inaugurated. One of the key selection criteria was articulated by the Premier. The press reported that 'she warned those who feel they could not be "100% committed" to her plans for the State to reconsider their position ... (but) every director-general out there is entitled to apply for that independent selection process'.⁷

This process was to be overseen by the incoming Director-General of the Premier's Department, Dave Stewart, who had served with the Premier when she was Minister for Transport in the Bligh administration. Stewart was dismissed by the incoming Newman administration, then re-employed in another job before he finally moved to become CEO of Transport in New South Wales under a Liberal administration.

In commenting on the context of this process, the *Courier Mail*, which had recommended that its readers vote for Newman⁸, offered support for the right of a new government to replace a number of key executive-level public servants. Its editorial suggested that:

It is the degree of finesse that distinguishes a successful transition to power from one that places retribution and partisanship above a respect for corporate knowledge and the need for a degree of stability and continuity.⁹

The editorial articulated the conventional view about the virtue of public servants offering free and frank advice as a central feature of the Westminster model and noted the new Premier's advocacy of such an approach – 'she knows all too well the impact the Newman government's style had on public service stability and confidence.'

Before becoming Premier, Mr Newman had sought to allay concerns of public servants and their industrial organisations - 'nothing to fear from a Newman government' – but this had been followed immediately on forming such a government by a dramatic program of dismissals and retrenchments and then a sustained policy of out-sourcing and privatization. The new Premier Palaszczuk dealt with these concerns in detail: 'We will reinstate those conditions for public

⁵ Lucy Ardern, 'Top jobs protected in last days of power', *Courier-Mail*, 2.2.15.

⁶ Grayson had been accused of conflict of interest in 2014, 'Campbell Newman's director-general divests business interests', *Sydney Morning Herald*, 6.5.14, <u>http://www.smh.com.au/it-pro/campbell-newmans-directorgeneral-divests-business-interests-20140506-zr5hk.html</u>

⁷ 'Back me or go - Premier to bureaucratss', *Courier-Mail*, Brisbane, 27 February, 2015.

⁸ Editorial: 'Newman-led LNP the only credible choice for the state', *Courier Mail*, 30.01.15.

⁹ 'Genuine talent must be kept', *Courier-Mail*, Brisbane, 27 February 2015.

servants that were removed by the previous government, particularly in relation to employment security, contracting-out and organizational change provisions.¹⁰

CEOs and other office-holders with a demonstrated record of loyal enthusiasm for the previous LNP regime were obviously in a different category. At the time of writing (20 March 2015) two other resignations were added to the three already mentioned.

The Chairman of Energex Shane Stone confirmed in the press that he had submitted his resignation to Premier Palaszczuk on the day she was called to form government. He had stayed on until now with her agreement to preside over his final Board meeting and assist with the response to Cyclone Marcia.

Mr Stone had been a Chief Minister of the Northern Territory and federal president of the Liberal Party. Given this background he explained himself with admirable partisan honesty:

I don't work for Labor governments... I could see that there would be irreconcilable differences in the time ahead and I think the government is entitled to pick someone who would implement their policies. I don't support their policies and so it's best to move one.¹¹

There was more confusion over the resignation of the head of the Justice and Attorney-General's Department, Mr John Sosso. As reported in the *Courier Mail*, 'he had sent a 'farewell' email indicating that he had been sacked and then followed it up with another saying he was off on endless leave and praising the minister Yvette D'Ath'.¹² Terry Sweetman suggests that the reason for the confusion can hardly be a belief on either side that Mr Sosso had a career record likely to generate confidence in any ALP Minister, or in Sweetman's phrase, 'Sosso could hardly have been surprised by his fate because he sure didn't to a lot to win friends and influence people in the ALP over the years'.¹³

My general response to the current processes of appointing CEOs is the need to recognize the local political context: a leadership team committed in advance to an ideal of 'merit selection', somewhat surprised at the rapidity of its success, then distracted by unexpected natural disasters.

Taking the time to implement this process through consideration of advertised vacancies gives both Ministers and those likely to be affected by this process a period of adjustment. It seems churlish in the circumstances for the leader of the Opposition to complain, as already noted, about the need to act instantly rather than prolong uncertainty: advocating a night of long knives rather than a week of short blades.

On the specific issue of the appointment of non-partisan CEOs, it will be seen the Palaszczuk approach is little different from the processes used in other states and nationally when there was a change of government. Australia has come a long way from the ideal-type Westminster model which was first challenged by Whitlam and locally by the advent of the Goss government after a comparably extended period of non-ALP government.

¹² 'Another confusing email trail as Newman-era director-general axed', *Courier-Mail*, 11 March 2015.

¹⁰ Quoted by Jason Whittaker, *The Mandarin*, 26 February 2015.

¹¹ 'Energex Chairman Shane Stone quits: 'I don't work for Labor governments', *Brisbane Times* March 19, 2015, <u>http://www.brisbanetimes.com.au/queensland/energex-chairman-shane-stone-quits-i-dont-work-for-labor-governments-20150319-1m36w5.html</u>

¹³ Sweetman describes events stretching back to the Fitzgerald Inquiry when Sosso was appointed by the LNP government of the time to be Secretary of the Inquiry, then moved by Fitzgerald back into the department where Fitzgerald's report later noted that 'he did little willingly to assist the Inquiry'. He enjoyed the same visibility as a source of policy initiatives as Deputy Director General in the Premier's Department under Borbidge and played an even more prominent role as CEO of Justice assisting Attorney General Bleijie introduce and implement a wide range of initiatives which were criticised at the time by the ALP and listed for reconsideration once it came back to power. (*Courier-Mail*, 20 March 2015).

QUEENSLAND HISTORY

From various ivory towers, I have been a keen observer of the Queensland public sector since the late 1970s and of every change of government since 1989. I have many friends, relatives and former students among public servants then and now. I was also director of an oral history project at the University of Queensland called 'Queensland Speaks'¹⁴ in which a team of interviewers talked to former Ministers and Directors-General and specifically discussed the topic of changes of government.

The situation has been very much worse in the past, particularly under the Goss-Rudd regime when numbers of senior public servants were rusticated to a vacant state school on the edge of the city, promptly dubbed the Gulag. The terms of their 'permanency' made their new employer hope that this demeaning treatment would encourage them to leave voluntarily rather than expect employment elsewhere in the system.

By contrast, the numbers under discussion at this point in the process are tiny, and we do not know – and may never know – whether the formal exchanges of letters conceals a desire on the part of any of the individuals concerned to seek more congenial employment elsewhere after receiving suitable financial compensation. It is a matter of preference on both sides of the optimal team – clearly major changes in policy orientation or public endorsement offered by public servants to their previous political masters enters into this equation.¹⁵

Under the regime changes of the Borbidge and Beattie governments, the lessons had been learnt that many public servants who had been eager to embrace change under Goss had been denied the benefit of the doubt after serving for so long under the Bjelke-Petersen government (and the air of corruption which pervaded it). This disappointment comes out strongly in our oral history interviews.¹⁶

Under both Borbidge (1996-8) and Beattie (1998-2007), there were examples of continuity – for example, my successor as Director-General of Education continued to serve under Goss, Borbidge and then Beattie, albeit with different duties and Bruce Wilson served continuously in senior roles from the dying days of the Bjelke-Petersen regime to peaceful retirement under Beattie. However the key standard-bearers of the ideological changes associated with the LNP and ALP were recruited, moved, or in some cases, moved back again, sometimes accompanied by a high degree of public acrimony.¹⁷

It would seem perfectly appropriate in an era where the Westminster model has been so modified for this to happen under Palaszczuk. There is enough on the public record to suggest that some public servants were recruited by the LNP government with a specific partisan purpose in mind. They will be challenged in selection processes to demonstrate that they have the flexibility and qualifications as well as the motivation to serve comfortably under new Ministers with a different policy orientation. Others, by contrast, will have the opportunity to rise to this challenge, particularly in the relatively open-minded context of a fluid policy environment.

Just how the new process manages the sub-DG levels will be interesting. Some observers fear that a long inter-regnum may allow patronage appointees to cement their positions to the long-term

¹⁴ Queensland Speaks: http://www.queenslandspeaks.com.au

¹⁵ In my own case in 1994, I was happy enough to receive the daunting formality of a dismissal letter and compensation rather than resign voluntarily over differences with central agencies over policy and management style.

¹⁶ For example, interview with Peter Ellis <u>http://www.queenslandspeaks.com.au/peter-ellis</u>.

¹⁷ See '(Im)permanent Heads and the Westminster Muddle' Menzies Centre Seminar Series, Institute of Commonwealth Studies, London University, December 1999, extensively revised for the 2000 Conference of APSA; and 'Hit Lists : The Effect of Partisan Changes on the Pattern of Leadership in Queensland Public Sector Management', European Australian Studies Association Biennial Conference, Klagenfurt, 1997.

detriment of the government – and much responsibility for this SES/SO examination will fall into the hands of DGs already overburdened and ill-supported by much-reduced Human Resource Management units inside departments which have been rapidly degraded by staff cuts by successive ALP and then LNP governments.¹⁸

The biggest external change in the wider social environment – even since Borbidge and Beattie – is that the career paths of senior executives is much wider and more flexible, so that public service security is less valued. On both sides of the political divide, there are opportunities either in other jurisdictions – as seen by the incoming Director-General of the Premier's Department – or in the private sector. This applies all the way down through the senior ranks but it is particularly relevant at the top. Change of government does not mean the end of the world for a Director-General, but rather the moment of choice. In making that choice, a complex mix of considerations interact on both sides.

THE CONTEMPORARY ENVIRONMENT ELSEWHERE IN AUSTRALIA

In evaluating the position adopted by the incoming Palaszczuk regime, it is instructive to see how CEO appointments have been dealt with in other states and nationally.

South Australia

The longest established ALP regime, in South Australia, was recently re-elected to power with a narrow majority somewhat akin to the Queensland situation in its dependence on at least one 'maverick'. Rod Hook, as a senior former bureaucrat, wrote in *The Mandarin* in startlingly unequivocal terms about the politicization of the public service as expressed through its selection of CEOs.¹⁹

Is politicisation of South Australia's public service happening? Hell yes and at an alarming rate. The apolitical nature of the public service is being dismantled before our very eyes. It is happening with barely a squeak, as far as I can see, from the Commissioner for Public Employment or the unions.

When people seek my advice about how they can achieve a long and successful career in the public service I encourage them to be bold, to take sensible risks where necessary and to focus on outcomes. I also counsel them to think seriously about their duty to remain a-political and above all to be ethical. How sad it would be if a prerequisite for a successful public service career us for you to be encouraged to drop around to your local party sub-branch and sign up.²⁰

The outburst was provoked by the appointment of a former political staffer to be CEO of the Department of the Premier and Cabinet, suggesting that this background would create a problem – 'an issue of trust' – for any incoming non-ALP government. (This career progression exactly mirrors the early employment history of Kevin Rudd in my own era, before he managed the remarkable transition from CEO to MP without leaving government employment). The difference is that Kym Winter-Dewhirst can claim a decade of business experience with BHP to match the same level of experience in political advisory roles.

But Hook then points to numerous examples of senior appointments and sackings, some at national level, where CEOs were perceived to be too closely associated with the views of the outgoing party. He also pointed to the phenomenon to which I referred to above, with those

²⁰ Rod Hook, *The Mandarin*, 13.3.15.

¹⁸ However, there is the potential, and historical precedent, for this function to be outsourced to private consultancies.

¹⁹ The Mandarin: Business news for public sector leaders is an Australian online journal establishing itself as a place where senior bureaucrats and ex-bureaucrats feel free to communicate to their peers: <u>http://</u>www.themandarin.com.au/?pgnc=1

dismissed at one level of government being able to move sideways to more politically congenial environments in other jurisdictions. Hook cites the examples of Don Russell and Michael Deegan who were moved out by Abbott but then became Directors-General in cognate departments in South Australia.

Hook expressed disappointment about this trend which he sees will have CEO's offering partisan advice based not on the public interest but on their estimate of the party's best interests. But he then accepts as second-best what he regards as an inevitable trend and argues that "if blatant political appointments to the public sector are to become the norm, we the public should demand at least that the term of political appointment align with the period of government. This would save the taxpayers the costs of terminating contracts based on five years if the government changes after only three years. (At times, the Queensland LNP has endorsed this position but did not institute such a process while in office).

Victoria

The Victorian context is very different from that of South Australia, with the unexpected advent of an ALP government - not as unexpected as in Queensland but nevertheless causing perturbation among the public service planners. Two problems have been identified by *The Mandarin*.

The first flowed from the decision to create a very small number of super-departments, a contrast with the Queensland arrangement where departments remained largely intact but were grouped in dualities, typically with two CEOs reporting to a single Minister. In Victoria, an already small number of departments were consolidated into only seven departments, each with a large array of portfolios and a range of junior ministers. For example, Premier and Cabinet took on portfolios such as Equality and the Prevention of Family Violence and a wide range of agencies including Infrastructure Victoria and Projects Victoria. Another department incorporated economic development, jobs, transport and resources. This ballooning in size and range of responsibilities posed problems for all CEOs although, unlike South Australia, these new appointments were drawn primarily from among the senior cadre already employed in public service roles, albeit with some swapping around.

The second issue causing concern among bureaucrats pre-figured similar changes in Queensland - the separation of Primary Industries from a Department of Environment, Land, Water and Planning. This reflected the same concern of ALP ministers, that the farming interests would tend to prevail over environmental concerns if they were left to their own power struggle in a single department.

Victoria made the news for a third time in *The Mandarin* with a stark illustration of the continuing viability of the Westminster doctrine of ministerial responsibility when it serves a political purpose. The heading read: 'Thanks for your service, liars – did Dan Andrews go to far?'. This referred to the dismissal of both the CEO and the chairman of WorkSafe with clear attribution of incompetence and provision of misleading information. A water contamination incident occurred. The responsible Minister was given an assurance by the organization that there were no health or safety concerns but they later confirmed that no tests had been undertaken to allow them to hold this opinion.

Ministers are expected to be held accountable for the misconduct of public servants and to take action in response to such misconduct. The apparently 'normal' situation is often for politicians to acquiesce in a cover-up in order to avoid embarrassment, unless threatened with exposure, for example by an anti-corruption agency, often followed by quiet demotion. Not in this case. *The Mandarin* reported that 'The ferocity and public nature of the dismissal of Worksafe's CEO and the Chairman in Victoria caught some by surprise'. Despite signalling their surprise at the strong language used, the response from serving and former bureaucrats was broadly sympathetic.

The Commonwealth

The contrast was drawn with the behavior and more measured language used about the Commonwealth public service and particularly the inquiry into the 'pink batts' where there was little

evidence of direct penalties flowing from administrative as well as political mis-judgments. There have been similarly quiet treatment of moves of senior public servants into and outside roles as Secretaries of departments linked to the change of regime. One of these changes was the removal of Andrew Metcalfe from the role of the Secretary of the Department of Agriculture despite his significant service in central agencies going back to the days of John Howard.

The one very recent exception of overt confrontation related to Metcalfe's successor. This turns on the question of truth-telling by Ministers rather than bureaucrats and the problem of mutual respect between them. The Minister in question, Barnaby Joyce, had a series of embarrassing exchanges with a parliamentary committee about his knowledge of the existence of a relevant set of documents related to changing the text of the Hansard Parliamentary record. His Head of Department, Paul Grimes, felt the need to seek a separate session with the committee, presumably to review or supplement the evidence he had provided in public hearings at the behest of his Minister. This never happened but Grimes's employment was terminated by the Governor General on the advice of the Prime Minister made, as required by the Commonwealth, with recommendations from both the Secretary of the PMC and the Public Service Commissioner. The grounds given were that there was 'no realistic prospect' Grimes could have a 'relationship of strong mutual confidence' with his Minister.

New South Wales

The election campaign in New South Wales has been influenced by the shadow of Newman's promises in advance of the election and conduct afterwards towards the public service. The promotion of asset sales as a key policy differentiation means that there is a fear on the part of the trade unions of large-scale reduction in public service numbers. But the newly-installed leader of the ALP, Luke Foley, was at pains to manage expectations in the wider community – he would not give unions a guarantee that no jobs would be lost, as had been sought, in the light of the Newman experience – 'We're not going to run a protection racket for anyone'.

Foley also gave unequivocal assurances to existing CEOs well beyond those extended by Ms Palaszczuk in Queensland, reflecting perhaps the less punitive attitudes of the Liberal regime in NSW. His first act as Premier would be to provide security of tenure for all public service chiefs : 'We would make it clear we would operate with an a-political and professional public service who should feel free, without any concerns for their job security, to give us impartial advice'.²¹

Queensland 2015 - managing the process

As the process of CEO appointments gets under way in Queensland, there is the wider political question of managing perceptions about the process in order to create relationships of strong mutual confidence. On the one hand, before the merit selection process was started, Premier Palaszczuk issued a challenge which the *Courier Mail* headlined as: "Back me or go'– Premier to bureaucrats'.²² This was associated with four high-profile departures where CEOs had been regarded as over-enthusiastically embracing the policy preferences and general behavior of the previous government, making it difficult for new Ministers to create 'relationships of strong mutual confidence'.

On the other hand, the prior commitment to a merit selection process carried with it significant time lags, especially if new occupants were eventually appointed. As the business of government needs to be pursued seamlessly despite regime change, any new government needs to have in place interim appointments to ensure this occurs. There are also emergent demands on the new government from interest groups in particular who backed the new government and whose policy positions were promulgated accordingly (e.g. Workers Compensation roll back). While implementation impatience cannot always be satisfied, recognition that the 'government is listening' to these demands is necessary to manage this effectively and so the need for appointments, even if interim, to manage interest group demand is critical.

²¹ Troy Bramston, *The Australian*, 14 March 2015.

²² "Back me or go" - Premier to bureaucrats', *Courier-Mail*, 27 March 2015.

Public confidence had already been diminished by the previous government's ministers and their chief executives lauding the benefits of privatization and market forces. This meant, by definition, maligning the alternative of public servants providing the services themselves or seeking to regulate private providers in the interests of the wider community. Rebuilding public confidence and the confidence of the public service needs to remain the major purpose of the merit selection process, not a cover for the allocation of spoils to the victors. There will doubtless be close scrutiny of the background as well as qualifications of successful candidates to see whether this purpose has been achieved.