

## **Staff turnover in the Victorian Treasury (A)**

In July 2001, Laurinda Gardner, Executive Director of Strategic Management in the Victorian Department of Treasury and Finance (DTF), received a consultant's report on staff turnover. The report revealed that annual turnover was very high among DTF staff – mostly economists and accountants – and even higher among recent recruits.

### **The Victorian Government**

Geographically, Victoria was the smallest of the five mainland states in Australia's federal system of government, but had the second-largest population (4.8 million people, just under 25 percent of Australia's total) and economy (nearly 26 percent of Australia's GDP). Constitutionally, the states were responsible for delivering many basic services such as police, the fire service, health, education, transport, ports, urban planning, social welfare, environmental conservation and others.

Victoria's governmental system had a two-chamber parliament elected every four years, with the majority party in the lower house, the Legislative Assembly, forming a government. The chief political executive was the Premier, who chaired a state Cabinet of about 20 ministers, which was the key decision-making body. Serving those ministers was a public service organised into eight departments (almost all of which had more than one minister), with a variety of other statutory authorities. In 2001–2002, Victoria's state budget was \$26 billion,<sup>1</sup> and the Victorian public sector had \$49 billion in assets and 230,000 employees.

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This case was written by Professor John Alford and Marinella Padula, Australia and New Zealand School of Government. It has been prepared as a basis for class discussion rather than to illustrate either effective or ineffective handling of a managerial situation. The assistance of the Department of Treasury and Finance is gratefully acknowledged.

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<sup>1</sup> All figures are in Australian dollars; this amount is approximately \$US13.3 billion.

## **The Department of Treasury and Finance**

The Department of Treasury and Finance was responsible for policy advice to the Victorian Government on economic, financial and resource management, and formulating and implementing the government's economic and budgetary objectives.

The Department of Treasury and Finance's two key ministers were the Treasurer, who prepared and delivered the state budget, collected revenues and was responsible for economic policy, and the Minister for Finance, who was responsible for financial reporting and management, procurement policy, property and superannuation. DTF played a central role in the Victorian Government, controlling budgeting and spending by all departments. Any policy initiative, revenue measure, or programme proposal had to be reviewed by DTF for its financial implications before it could go to Cabinet for approval.

The Department was organised into four main divisions (see *Exhibit 1*). Of these, the Budget and Financial Management Division and the Economic and Financial Policy Division both employed mainly economists and accountants. Typically they had to do high-level policy work under urgent deadlines. According to Gardner:

“Every report that goes to any Cabinet committee or Cabinet gets a report on top of it from Treasury in terms of economic and financial impacts...Some policy analysts sometimes only get two days (occasionally even less) to turn those things around.”

It was not uncommon for 10 or more such reports to arrive at the DTF each week for analysis, often with only two days turnaround time. While being close to the action and able to influence major decisions was attractive to many, not everyone was comfortable with extreme time pressure. As Gardner observed: “Some people don't want to deal with huge issues in 48 hours. You haven't got the luxury to analyse it as well as you might want to.” These papers also usually went through an elaborate approval process, sometimes requiring sign-off from several layers of management. In addition, individuals would have to juggle these demands with other core activities.

However, the period leading up to the delivery of the State Budget was the most demanding, involving months of late nights and weekend work for many. It was also one of the areas where turnover was most acute: “The process of putting together the Budget [produced many] war stories. After two years of doing the Budget, you wouldn't want to do it again,” Gardner noted.

### **Human resources in DTF**

Human resource management was one of Gardner's responsibilities. Much of the operational work of HR, such as payroll, recruitment, and leave administration, was outsourced to a private firm, Accenture. HR strategy, major policy, and administration of the Accenture contract was handled by a small number of staff in Gardner's division, overseen by the Department's HR Committee, which comprised the Secretary, the four division chiefs and an Accenture partner, meeting monthly.

Eight to ten economists and a similar number of accountants were recruited by DTF under the Graduate Trainee Scheme each year, and underwent a one-year internship,

rotating across three departments. Positions in Treasury were sought after by graduates as part of one of the typical career paths for economists, which began with a position in either the Reserve Bank, the Commonwealth Treasury, or a state Treasury (in roughly that order of preference). After three to five years in one of these bodies, suitably trained economists became very attractive to major banks or consulting firms.

After the year's rotation, economists in DTF would be at VPS-3 level, at a salary of about \$40,000, then be promoted over the following years, many reaching VPS-4 or VPS-5 level, the latter attracting a salary of about \$75,000. By that stage, a typical policy analyst would have had sustained and intensive experience at developing high-level policy advice under severe time constraints. According to Vin Martin, a DTF policy director:

“The Department's salary rates are attractive at the graduate level: \$40,000 after a one-year internship is competitive for the first two or three years out, although the state of the market does need annual monitoring.”

Pay levels in the Victorian public service for officers below executive ranks were set not by each department but rather through a centralised agreement. In general, pay levels were constrained by the state budget, for which salaries and staff costs were the largest component.

A recent change of government had seen the push towards centralisation grow stronger, into what Gardner described as a “one-size-fits-all approach”. While she appreciated the need for parity across the public sector, she was finding the DTF had much less flexibility in the way it was able to reward staff, especially where performance bonuses were involved.

### **The consultant's report**

In 2001, concerned at apparent problems in attracting and retaining policy analysts with economic or financial training, the Department's HR Committee decided to study the issue. Gardner commissioned SACS Executive Solutions, a human resource consulting firm, to investigate and recommend strategies for recruiting staff and reducing turnover.

Four areas were examined and presented in the final report. These were: the perceptions of current employees, those of recently departed employees, those of prospective employees, and recruitment practices within the organisation and at Accenture.

### **Overall findings**

The SACS report showed that DTF had an annual staff turnover rate in excess of 20 percent.<sup>2</sup> In fact, it was close to 28 percent – high by comparison with similar organisations, for which the benchmark was 12 percent and the target maximum was 15 percent. More significantly, the turnover rate was even higher among economists and accountants who had less than two years' service with the Department. It was also higher among females. The report concluded that

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<sup>2</sup> This figure excluded, as the report put it, “all non-motivated forms of staff turnover, such as the end of fixed term contracts, retirements, completion of graduate traineeships, etc.”

“...staff turnover is higher than optimal and that the biggest contributor to this staff turnover is people leaving the organisation within the first two years of their tenure. In excess of 34 percent of all staff turnover occurs within the first two years of employment.”

However, SACS found no evidence of low morale within the DTF, a factor frequently associated with elevated turnover.

### **Former staff**

To gain insights from recent former employees, SACS conducted telephone interviews and focus groups with more than 30 people who had left the DTF during the past 18 months. This group indicated that “career considerations” were the most important factor in people leaving the organisation. According to the report:

“...they left [DTF] in order to avail themselves of attractive career options related to perceived better opportunities to advance their careers. Within the Department it was sometimes unclear as to what career opportunities existed that people could meaningfully aspire to. A particular area of concern was the lack of clear communication from the organisation as to career opportunities and how they may be accessed... They also commented that they believed that their time within the Department had made them attractive prospective employees for a range of organisations both in the public and private sectors.”

Other factors identified included remuneration, the “relative regulation of the environment”, and high levels of work and stress. However, the report said that “many of those we spoke to were regretful of having to leave the Department, commenting very favourably on the intrinsic interest of the work they had undertaken, as well as the calibre and quality of colleagues with whom they had worked.”

These sentiments rang true with both Gardner and Martin. Employees’ extensive training and government contacts made DTF alumni highly desirable. Indeed, Martin observed that banks, in particular, were able to offer salaries well in excess of the DTF’s. Yet not all staff were lost to private enterprise. Some moved to other government departments which could provide a short-cut to seniority.

### **Current staff**

Fifty current DTF staff were divided into 10 focus groups and interviewed by SACS. Employees were drawn from identified turnover “hotspots” including staff of less than two years tenure. Current staff were of the impression that increased turnover was a significant problem within the organisation. They felt that the highly technical nature of the work meant it often took new recruits some time to “get up to speed”, and the loss of such staff left them back at square one with a replacement, whilst trying to manage an increased workload.

Clarity of career options within the DTF was the most commonly identified driver of turnover in this group. The report stated that current staff were “unaware of career opportunities outside their own branch and were in some cases unaware even of the structure of branches other than their own.” Where they were aware of new positions, they were often unsure of their readiness to apply. Some employees felt it was easier to access career opportunities outside the Department than within it.

This group also remarked on an apparent mismatch between new recruits and the organisation. They found some employees joined the DTF only to discover that the style of the workplace, nature of the work or career opportunities differed from their expectations. Meanwhile they observed that other employees had come to the DTF with the express intention of gaining valuable expertise, then moving on.

In terms of working with senior staff within the DTF, current employees noted that they were extremely technically skilled. However, this group felt that senior members were less proficient in dealing with people management issues. Assessment of these skills was not part of their performance criteria and they felt their superiors could benefit from more training.

### **Prospective staff**

On the recruitment side, the report showed that DTF was quite well regarded as a prospective employer by a sample of 60 policy and accounting graduates, with 77 percent of the former and 67 percent of the latter seeing the organisation as a valid employment option. Among positive aspects identified were: secure tenure, the high level of influence over other government departments, macroeconomic experience, the variety of work available, and the high quality of training of new recruits. Gardner acknowledged that graduates joining the DTF "...get thrown in the deep end. They actually get given real work which is quite different from a lot of organisations."

Negative aspects mentioned by the graduates were low pay, long hours, "the perceived stigma of reduced productivity associated with government employees," the bureaucratic processes, isolation from the commercial sector and lack of career progression. Gardner also felt that opportunities for personal development were also growing in importance: "My sense is increasingly that graduates and other potential employees are looking for more than just work challenge if they've got a choice."

### **Recruitment issues**

Current staff members touched on recruitment issues which were echoed elsewhere in the organisation and in the SACS report. For this section of the report, SACS interviewed 19 recruiting managers in the DTF drawn mainly from the Budget and Financial Management and Economic and Financial Policy departments. Nearly 80 percent of these managers had recruited three or more people in the last 12 months.

Overall, 58 percent of managers were satisfied with the success of their recruitment efforts, while 42 percent were not. Delving a little deeper, SACS discovered that 74 percent of managers would have liked more help from HR services, in other words Accenture, in improving recruitment outcomes. They wanted to be able to use the company as a source of guidance and advice on matters of judgement, not just procedure. Increased flexibility of recruitment options and salary was the second most cited factor managers felt would assist them (47 percent).

In terms of the timeliness and speed of recruitment activities, 58 percent were dissatisfied, compared with 42 percent who were satisfied. SACS compiled data from 32 Accenture recruitment assignments and found that the average assignment took 73 days to complete. SACS, who also engaged in similar professional recruitment

activities, had a benchmark of 45 days, while other comparable organisations had a typical assignment range of 35–55 days duration. The average number of candidates offered by Accenture for each position was 13.91 compared to 60 at SACS and between 30 and 70 at similar organisations. This was cited as one of the reasons behind the delay in filling positions, as closing dates were extended to find more suitable applicants.

SACS then examined managers themselves to determine what recruitment techniques they used. When asked how they demonstrated what working at the DTF would be like to prospective hires, nearly 80 percent reported using a four-to-ten minute verbal description. Thirty-seven percent produced organisational charts. Five percent got a current employee to describe a “day in the life” and 16 percent reported that they didn’t do anything at all.

Over 60 percent used their own knowledge to design interview questions and over 50 percent of managers reported using their “intuition or gut feeling” to assess whether the employee would match the culture of the DTF. However 68 percent reported using a buddy system or mentoring programme by way of inducting new employees. With regard to training, nearly 80 percent of managers had no training with regards to recruitment but 75 percent felt comfortable with their skill levels in recruitment. But they were perhaps a little too comfortable for Laurinda Gardner: “It wasn’t seen as a priority issue in some areas of the organisation, who allowed recruitment to slip to too junior a level.” She also saw problems with the way some managers approached the task:

“It’s a bit self-perpetuating. You’ve got technical experts recruiting economists and they go and look for clones and focus on the technical side when you’re actually wanting them to look at a whole person... We’re not just recruiting for technical ability, we’re recruiting for behavioural capabilities as well.”

According to Gardner, an ideal DTF employee also needed good communication and networking skills in order to produce high-quality analysis and advice.

However, despite her desire to stem the flow of intellectual capital from the DTF, Gardner was also conscious of the broader context:

“I don’t expect, especially with graduates, that you necessarily keep them for an extended period of time but you might get them back. In a career sense you’d really want them to go off and do something else.”

## **Conclusion**

Now that the report was completed and in the hands of the Department’s HR Committee, Gardner had the job of deciding what strategies to adopt to ensure the Department had the full complement of economists and accountants it needed to carry out its central role.

**Exhibit 1: Organisation chart of the Department of Treasury and Finance, July 2001**

