

IPAA SA – Spotlight on Westminster

Terry Moran AC, IPAA National President and Vice Chancellor's Professorial Fellow, Monash University
3.00–5.00PM Tuesday 28th May 2013
Stamford Plaza, Boulevard Room
North Terrace, Adelaide

Thank you to Erma for your introduction¹.

And thank you also to IPAA South Australia for organising this event.

It is great to see so many people here.

Recently, I have been to Victoria, NSW, Queensland and the ACT – talking about public sector reform.

This is a record crowd! I suspect it's for two other reasons.

Partly – it's because I think that administrators in South Australia really are, and have been in the past, deeply interested in the future of our sector.

And partly – it's because you understand that reform in our sector is linked to a much bigger story about Australia's growth and development.

Public sector reform in Australia and broader economic reform and economic success are actually two sides of the same coin.

And at a time when there is a lot of commentary arguing that our national economic future is suddenly less assured than it was...

...it's worth remembering just how significant the link between public sector reform and economic success has been.

So this afternoon what I want to do is four things.

First – I want to just briefly sketch the strength of that link.

Second – I will describe what I think will therefore be needed in the next wave of public sector reform.

¹ Erma Ranieri, IPAA President

Third – I will describe what this means for public servants who are working at – or near – the boundary between the administrative and political worlds.

And finally – I want to briefly talk about wisdom in public administration and wisdom in governing.

But I will preface all that with two important caveats.

First – I have had the great privilege of working at the senior levels in the public services of Queensland, Victoria and the Commonwealth and now as the Chair of a Government Authority in NSW.

So what I am going to say today **isn't** related to any one jurisdiction.

Indeed one of the strengths of our Federation has been the dynamic nature of public administration – pursuing different models in different jurisdictions and adopting ideas from other jurisdictions.

And I'm sure that Scott's experience in Victorian Public Service will have shaped his views of how the South Australian Public Service should be operating².

And second – while public sector reform is not *"The Never Ending Story"* – it is also not a journey that has a nice simple destination.

Almost by definition – reform is the advance towards the ever-receding horizon.

And our progress is conditioned by:

- the changing expectations of communities;
- developments in management capacity and technique
- and new approaches to public policy

[AUSTRALIA'S SUCCESS]

² Scott Ashby was formerly Executive Director, Strategic Policy in the Victorian Department of Primary Industries and held a number of Executive positions in the Victorian Department of Natural Resources and Environment.

That all said – it is worth reflecting on just what has been created in Australia over the last 30-40 years.

In that time – the Australian economy has been transformed from a moribund insular backwater – into a modern globalised economy:

- dynamic enough to create enormous wealth and opportunity
- and strong enough to survive multiple economic shocks.

During that time our national prosperity has grown reasonably equitably – and we remain a more equitable country than most others.

We have achieved some of the best results in the world in population health and educational attainment at relatively modest cost...

...although there is still a great deal more to do, particularly for people from disadvantaged backgrounds.

Our increasingly diverse population inhabits peacefully a huge land area without vast disparities in services available and regional incomes.

And we have done all those things whilst avoiding the worst excesses of the European welfare state.

[PUBLIC SECTOR SUCCESS]

"Well that may be true" the professional cynics say "but the dead hand of public administration still holds Australia back..."

So here are four questions that are worth asking.

- *First –has the cost of government in Australia gone up dramatically as a share of GDP?*
- *Second – which country has a higher public sector share of GDP: Australia or the US?*
- *Third – as a share of total employment – has public sector employment in the last 25 years gone up or down?*

- **Fourth** – *if you are a 62 year old grandmother and it costs \$21,239 for a hip replacement in Australian public hospitals...*

... does it cost \$11,000 or \$125,000 for the same operation in the US?

So here are answers – which run counter to much of the media-driven assumptions about the health of the Australian Westminster system.

- **First** – contrary to the myth that the public sector in Australia is growing out of control...

...in reality – measured as a % of GDP – the total cost of all three levels of government has been relatively constant at around 35%³ although government revenues at the moment are below trend.

- **Second** – contrary to the myth that government in Australia is vastly bigger than in other countries...

... the cost of government in Australia as a % of GDP is:

- one of the **lowest** in the OECD
- **far lower** than our traditional comparators - the UK, New Zealand and Canada
- and most uncomfortably for some critics – even **lower** than in the United States.⁴

- **Third** – contrary to the myth that public service employment is out of control...

...the reality is that as a percentage of total employment – even allowing for the complexities of privatisation – public sector employment has fallen steadily since the 1980s

³ <http://dx.doi.org/0.1787/888932389873>

⁴ <http://dx.doi.org/10.1787/888932389873>

In fact – combined local, state and Commonwealth government employment has gone from 25% of the total workforce in mid 1980s – to about 16% now.⁵

- **And fourth** – the answer to the last question about whether it costs half as much or five times more for a hip operation in the US is: both! ⁶
- Having such wildly disparate prices between and within hospitals for exactly the same operation – looks to me like a system that is:
 - a) wildly unfair – because the information about this has been concealed from public view and the variation observed is not the normal consequence of an efficient market, and
 - b) inefficient – with costs obscured and driven up or down in line with provider preference not real competition or an informed market place.

In Australia – thanks to bodies like the Independent Hospital Pricing Authority – we now have an agreed price that government pays for hospital procedures.

This means that, after nearly forty years, we get:

- an efficient baseline for providers in the public hospital system;
- and the potential for more competition in the system – because greater transparency has always been a pre condition if the private sector is to compete with the public system on quality and price.

[PUBLIC ADMINISTRATORS AND PUBLIC SECTOR REFORM ARE INTEGRAL TO THAT SUCCESS]

This is one anecdote in a long and complex tale.

Along the way – public administrators and public administration reform have been actively connected to that national success.

⁵ P6 <http://www.actu.org.au/Images/Dynamic/attachments/7837/Jobs%20Report%20-%20February%202013.pdf>

⁶ <http://www.washingtonpost.com/blogs/wonkblog/wp/2013/02/12/how-much-does-hip-surgery-cost-somewhere-between-10000-and-125000/>

The last 30 years is **not** a picture of a public administration standing still and gradually sinking into a swamp.

What has underpinned success over the decades – is the link between public sector reform and economic and social reform.

I will not dwell now on a sketch of the economic reform story in Australia over the last 30-40 years but will outline some themes in what I think will be the next wave of public sector reform in Australia.

However, I note that a justification for these future reforms is their potential to again contribute to economic growth and prosperity.

Arguably the Reforms to the Public Sector linked to economic and social reform began with the Coombs Royal Commission in 1976....

...in particular the reform emphasis on rebalancing the relationship between Ministers and senior public servants. The balance had become tilted a little too much towards the then Permanent Heads of Departments.

In the 1990s – a further set of public sector reforms effectively supported and implemented the National Competition Policy.

That included the privatisation, corporatisation and outsourcing of many public sector business services.

At the time – many of those services were, frankly, insufficiently disciplined in their use of capital...

...and their operation often involved waste and underperformance.

There is still further work that could be done in that area.

There was also the beginning of a new and more sophisticated approach to public sector management processes to moderate the provider-driven character of many big service delivery systems.

We saw public administrators develop some of the tools that have really made an enormous contribution to our national well-being:

- ... like Casemix funding in the hospital system which radically transformed our ability to ensure that public dollars are being well spent.
- and the beginning of student-centred funding of schools and VET.

These reforms are an essential precondition for the productivity reforms possible in the social policy area and they are capable of delivering huge economic gains.

At the level of the APS, the most recent reforms are those set out in *Ahead of the Game* in 2010.

These are about making sure that the public sector has up to date capabilities to contribute to broader economic and social reform and in particular, offer a better, integrated response to the needs of citizens.

[SCALE OF ECONOMIC BENEFIT]

It's worth reiterating the enormous economic benefits that have come from those reforms.

The benefits that came from the National Competition Policy reforms of the 1990s were in the order of 2% of GDP.⁷

Just a 5 per cent improvement in the productivity of health service delivery in Australia would increase GDP by almost half of one per cent⁸.

The COAG Reform Agenda was assessed as having the potential to increase GDP over 25 years by 8 per cent per annum or more.

So I am personally drawn to this style of public sector reform because it is a way of creating more wealth and more opportunity for more people in this country.

[NEXT WAVE OF REFORM]

⁷ <http://www.treasurer.gov.au/DisplayDocs.aspx?pageID=&doc=pressreleases/2005/032.htm&min=phc>

⁸ <http://www.pc.gov.au/research/commission/national-reform-agenda/mediarelease>

Now to a brief sketch of the next wave of public sector reform.

1 – STRATEGIC DIRECTION

It is axiomatic that the public service serves the elected government of the day.

However, to best serve the public, the public service should sustain a focus on long-term strategic thinking in all areas of public sector activity.

It should be thinking beyond ever accelerating news and electoral cycles.

A reservoir of such strategic thinking is an important investment in effective policy making when circumstances change and the unexpected demands a response.

Past contributions from within the public service have helped us immensely as a nation.

There might also be a greater acceptance that public administrators should help explain long term strategy...

...in a similar manner to what is now broadly accepted for leaders of many agencies.

That's not about usurping the role of Ministers to make announcements.

But allowing public servants to brief journalists – or background them – about the technical basis of major decisions by government would be one way of reducing:

- the ridiculous pressure that Ministers are placed under; and
- the cynicism that the public and the media have towards what they see as spin doctored announcements.

It is an idea that worked well in the past and the proliferation of new online media sources – and the decline of the traditional Canberra press gallery – makes this change all the more urgent.

That said – public administration would also benefit for some more strategic thinking about the way we work internally.

Undoubtedly there is a lot more we could do to give citizens a better deal through:

- joining up service delivery
- increasing efficiency and improving quality
- working to realistic and measureable outcomes
- and consolidating the way we work.

2 – STRUCTURE OF GOVERNMENT

My second reform proposal is about the structure of government.

Too often this type of discussion gets lost amongst the “abolish the states” fantasists or the “subdivide our system in sixteen new states” theorists.

Or the “secede from the Commonwealth” mumbling that drifts out of some parts of Australia.

By default – our public administration structures tend to mirror our political structures.

But new alternatives are possible.

And 112 years after Federation – IPAA's members probably understand better than anyone, the need to find:

- better ways of balancing state and Commonwealth responsibilities
- improving state and local community coordination
- and shifting away from highly centralised head offices and towards local delivery institutions.

Unpicking or cutting the Gordian knot of Commonwealth-State financial relations will require a considerable political will.

But while we wait for that shift – it is worth remembering that we have already been able to create new types of accountability structures – in areas like health:

- that create greater local independence; and
- that can tap into local community knowledge, skills and networks.

It has been precisely those types of new accountability structures that have been at the heart of reforms like local healthcare networks and hospitals...

...and that will be needed in the roll out of the new National Disability Insurance Scheme. |

The great advantage of devolution to local governance arrangements is the improvement it can bring in critical service delivery areas – such as hospitals and schools.

Done well – it's a way of improving:

- the quality of services
- the efficiency of services
- and the responsiveness of services to local circumstances.

But there are some crucial caveats.

To be successful – devolution to local governance **must** be accompanied by a substantial investment:

- in systems
- in management capabilities and systems at the local level
- and in having a more sophisticated approach to planning, results, and accountability.

3 – DEPARTMENTAL GOVERNANCE AND ACCOUNTABILITY

My third area of reform involves public administration putting its own house in better order.

The shift to new local governance arrangements will have some big implications for the types of skills that public administrators need.

And I will come back to those in just a moment.

But there are other types of structural reforms to Departments that could make a difference.

A lot of functions could be decanted out of cumbersome Departments and poured into Agencies which have credible, professional and accountable governance structures.

In general – it is easier for Agencies to bring in people with expertise from outside government. For many reasons, smaller agencies are often more efficient than departmental conglomerates.

They also provide the potential for:

- more effective and innovative service delivery and
- more specialised policy advice or necessary regulation.

Of course, there are some benefits in having a few larger Departments – compared to lots of small Departments.

But the risk is that you end up with Departments that are vast, complex public sector conglomerates.

My observation has been that those large bodies tend to:

- lose strategic focus
- lose their innovative edge

- and end up being a lot less efficient than we want them to be – and that their leaders want them to be.

We could also usefully re-examine the role of our supervisory bodies – like Auditors General.

We now have a wide range of investigative and inquisitorial bodies – which are there ultimately to lighten the load of Parliament itself.

But it's probably time for a Commission of Inquiry to look into how these bodies could relate more effectively to the Australian Parliaments.

They will continue to have a very important function – particularly if we transfer more accountability into Agencies.

But despite all the performance reviews done by Australian Auditors-General since the late 70s – we still don't have consistent and persuasive pressure to achieve the one thing that they should teach us to adopt...

...which is reliable, sensible performance measurement for the programs and operations of Departments and Agencies.

4. MORE ACCOUNTABILITY

My fourth area of reform is in our accountability processes.

As I just said – supervisory bodies like Auditor's General offices – play a crucial role in accountability.

But there are other practical steps we could also take.

We need to make the heads of Agencies and Departmental heads more directly accountable in their own right to Parliamentary Committees for delivery, particularly through the examination of their annual reports.

And because Parliamentary Committees are a limited resource – we could also think about the creation of Departmental Advisory Boards that sit alongside Secretaries while including them as members.

One of the particular opportunities in that change would be to bring in non-Executive Board members from outside the public service – who would bring particular skills and insight into the running of a Department.

Not in policy advice – but in management, operations and efficiency.

It would also put more specialist scrutiny on the performance of a Departmental head – which will be a challenge for some – but a necessary one!

MINISTERIAL RESPONSIBILITY

These reforms should also lead to a rethink about the idea of Ministerial responsibility.

I have generally been very impressed with the talents of the political leadership that I have seen in my career.

But it's unfair to expect those talents to also include having the skills to be the Chair and sole board member of a very large enterprise – which is what most government departments actually are.

At the moment, the media is prepared to hold Ministers responsible for anything that crops up in their portfolio.

As anyone with any experience of working with Ministers knows – in practical terms this cannot work.

It creates confusion, public dissatisfaction, the removal of any real sanctions for poor performance and exhaustion for ministers over time as they cope with immense and impossible pressures.

We need to put more responsibility and accountability for the rats and mice stuff back on public sector leadership, especially the entities strengthened as part of devolution.

Ministerial responsibility should be about the big issues of:

- policy
- strategy
- budgets

- appointments
- performance of the system
- and engagement with the community.

These six areas of core Ministerial Responsibility, once mastered, are at the heart of effective governing.

And I will return to this point a little later.

[MINISTERIAL ADVISORS]

Getting a more realistic view about Ministerial responsibility – is to see its connection to reforming our system of Ministerial Advisors.

As I have argued elsewhere – many Ministerial Advisors do a great job and I actually think that the positions themselves are very important.

I won't repeat my arguments here – but Ministerial Advisors are becoming a black hole of accountability within our parliamentary democracy and have a potential to distract Ministers from wisdom in governing.

This is not a healthy sign for our parliamentary democracy.

So perhaps there is something in this worth debating!

5. ORGANISATIONAL READINESS

My final area of suggested reform is in what I call organisational readiness.

Having seen a number of state systems and the Australian Public Service up close, we could do a lot more to improve the internal capacity of the public service.

We chronically under-invest in professional development for public servants.

In the APS, the supposedly moribund management period of the 1960s and 1970s looks rosy by comparison.

As we argued in *Ahead Of The Game* – Agency and Departmental Heads have to see themselves as the stewards of their organisations with a responsibility to develop their staff skills.

In part there is naked self interest in that idea – because if you build the skills of your staff then the Department or Agency that you lead is likely to become more productive and more innovative.

But in their role as stewards, public sector leaders also have a particular responsibility to make sure that they pass on a worthwhile institution of our democracy to their successors and to the Australian community.

If I was to nominate one particular area into which the public service needs to direct more resources, it would be public sector management.

With honourable exceptions, many of the core skills that the private sector expects in its management cohort...

...such as project planning and management, business planning, cost benefit analysis, tough minded financial planning, management and analysis...

...are less apparent in the public sector

Organisations like the Institute of Public Administration can play a role in meeting that shortfall, **but** only if Departments and Agencies put resources into building these skills.

My view is the need for this commitment will only increase – because under almost any conceivable future scenario there will be a growing need for public sector staff who can:

- handle the challenges of service delivery as it becomes more devolved to local levels
- innovate continuously
- and have a sufficient understanding of policy to enable them to have effective interaction with smaller and more strategic head offices.

[MADE MORE URGENT BY CHANGING CONVENTIONS IN RELATIONSHIP B/W MINISTERS + SENIOR PUBLIC SERVANTS]

Those five directions for public sector reform have to be part of our future if we want to ensure continued economic growth and broader growth in opportunity.

But they will also go some way towards redressing an unfortunate shift in the relationship between Ministers and senior Public Servants.

As I noted earlier – we have seen:

- the emergence of Ministerial advisers as part of a spoils system – in which no particular expertise in public policy or the business of government is a requirement for employment.
- fewer seconded public servants of experience available to help Ministers deal with the business of government from within their private office.
- the pervasive tactical focus of the media and its willingness to hold Ministers accountable for more and more.

But it's not fair to lay all the blame at the door to the Ministerial office.

The last two decades have seen the conversion of some senior public servants into contracted managers...

...rather than as professionals with a commitment to a career in the public interest

What we are in danger of losing through this change is an understanding of complexity of the Minister–Public Service relationship.

Professor Patrick Weller identified five types of Ministers:

- the Maintenance Minister
- the Spruiker Minister
- the Policy Driver Minister

- the Partisan Minister
- the Warrior Minister

They are of course archetypes and in reality most Ministers are something of a hybrid between different types.

But the point is that they each require different patterns of support from within the public service.

In Ahead of the Game – we identified thirteen principles that express the basis for a strong relationship between Ministers.

It included everything:

- from support for the Minister in their parliamentary role...
...and adaptability on the part of senior executives to the style of the Minister, in terms of presentation of advice...
- to the freedom to give good and bad news...
...and a capacity to plan for and discuss short and long term priorities

You can imagine that a matrix with those five Ministerial types across the top...

...and the thirteen principles down the side...

...will be a very complex one.

With that level of complexity there aren't simple "cookie cutter" solutions to forging the type of relationships that we need between senior public servants and Ministers.

And that's why the reforms I am proposing are about reducing the impediments and increasing the support for what is already a pretty challenging task – for all parties concerned.

[THE GETTING OF WISDOM]

This brings me to the subject of wisdom.

Henry Thoreau once observed that:

"It is a characteristic of wisdom not to do desperate things"

That's not a bad description.

We need wisdom in governing and we need wisdom in public administration too.

And in both cases – when they do desperate things they tend to have bad outcomes.

One of the great strengths of our Westminster system has been to help build that wisdom through the informal system of checks and balances between:

- the leadership of the Executive Branch
- and the professional public service leadership of departments and agencies.

For example, wise Ministers take and consider advice from a number of sources before making significant decisions.

One of the other ways of building that wisdom in governing has come from having seconded public administrators working in Ministers' offices – as well as a cohort of senior public sector leaders – who:

- have mastered the lessons of past experiences;
- become familiar with what works or doesn't;
- had a credible understanding of the drivers and institutions of policy in our system; and
- had an ability to design and manage effective and efficient implementation of what Ministers finally decide to do.

We have lost some of that wisdom and my reform proposals are one way of starting to reverse that loss.

[IMPLICATIONS FOR IPAA]

All of what I have just argued also puts a good deal of responsibility on IPAA to become a more authentic professional association for the management and leadership groups across the public sector.

Right around Australia – public sector managers and leaders are going to need:

- more guidance on professional standards
- and the latest developments in:
 - public policy
 - public sector management tools
 - and the broad context of our Parliamentary democracy.

And IPAA needs to do a better job in providing those services to all its current members – and frankly a lot more new members.

[CONCLUSION]

To conclude...

None of the reforms I have just touched on will be easy.

But the real trick will be to keep our eyes on the prize that can come from public sector reform – because it is very substantial indeed.

As I said earlier – National Competition Policy reforms grew GDP by around 2%⁹

⁹ <http://www.treasurer.gov.au/DisplayDocs.aspx?pageID=&doc=pressreleases/2005/032.htm&min=phc>

The COAG Reform Agenda has the potential to increase GDP over 25 years by 8 per cent or more.

Those are very substantial increases in the size of the national economic pie – particularly at a time when government income is under pressure.

We also have to remind people that while our public administration system and our Westminster system of parliamentary democracy is under stress...

... it isn't broken.

It's easy to confuse a shortage of skills in governing with a shortage of good policy advice.

In fact – the new National Disability Insurance Scheme is an example of a major reform that was actually worked through a proper process.

And as a result it has not been vulnerable to the sort of problems that have affected other major initiatives – such as the Minerals Resource Rent Tax.

So there is a lot to play for – if we can get the public sector reform process right and if we can help to build wisdom in our sector and in the leaders we serve.

I think we can.

And I think that public administrators in South Australia – and organisations like IPAA South Australia – have the opportunity to be at forefront of that work.