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Introduction

We have witnessed in recent years the impact of global events on Australia, the structural adjustments occurring within our economy, our changing demographics as shown by the last Census, and our first minority government at the federal level since the 1940s, amongst a long list of influential events and developments that are shaping our future. These are reminders to us that our world doesn't stand still, and underlines why the public sector must be responsive to changing circumstances in terms of both policy solutions, and improved service delivery.

In Australia we appreciate the importance of reforms being pursued by government to improve outcomes for all parts of the economy and society. On many measures Australia is well placed in any global comparison of economic performance and public sector performance. Our past efforts have held us in good stead relative to other countries, but we also understand a lot is expected, indeed required, of government in these times particularly given the more subdued financial outlook as global growth slows. We also understand the importance of the role of the public sector in this context.

When it comes to public administration, we have been through three decades of reform that have sharpened the budgetary, public sector management and people focus of the way the Australian Public Service (APS) operates. A recent OECD report¹ on Australia observed that the size of general government employment (including states and local government) is very low in Australia compared to the range of other countries in the study, probably due to the large and consistent privatisation and outsourcing efforts, leading to small government employment and large efficiency gains; that Australia had gone further than other countries surveyed in the implementation of new public management reforms in the 1990s; but that we still have some work to do, mainly measures aimed at better quality of services and cost savings.²

This OECD report is a further indication that we must maintain the momentum, even re-energise it. There is no case for resting on our oars in terms of public sector management, nor more broadly in terms of pursuing measures to improve the long term well-being and security of all Australians.

¹ OECD, 2012. *Value for Money in Government: Australia 2012*. OECD Publishing. In this context, information from Australia was compared with that provided by 12 other OECD countries taking part in the OECD Value for Money in Government study, namely: Austria, Canada, Denmark, Finland, France, Ireland, the Netherlands, New Zealand, Norway, Spain, Sweden, and the United Kingdom.

² *Ibid.*, pp 9-12. Trends aimed at better quality of services and cost savings included a more consistent division of tasks between levels of government, vertical integration, horizontal integration, stricter standards of operational management and separation of financing of agencies from steering and control of outputs.

It is government policies that determine the size of the public sector but all the indications are that it is still the APS that is the most influential of advisers in shaping Australian Government policies, and is directly responsible when it comes to public sector management.

Charting the course of government in terms of the policies required for the short and longer term, having regard to the inevitable trade-offs, requires the best information that the public sector and other sources can muster. Government needs to be given a range of policy options to deal with these complex policy challenges. More and more policy solutions require departments to work together, to consult widely with stakeholder groups, and be informed by relevant international experience. It is critically important work.³

In my presentation today, I plan to traverse how public sector agencies can draw from the collective experience of the APS, and developments elsewhere, to leverage their management approaches in a world that is becoming more demanding but where we know there are still opportunities to improve the way the APS does business. The APS needs to continue to punch through with solutions to address the inevitable challenges that government will face on a policy and managerial front in the years to come.

While my primary focus today is on public sector management, the paper makes reference to influences that are shaping policy developments as well.

The public sector environment

In a world of change, there are some constants that shape the public sector environment:

- governments are expected to manage the country in the long term interests of all Australians – or, as Tony Blair put it: put ‘the common good of the nation before your own political self’⁴;
- the institutional arrangements that define the relationship between the Parliament and the Government require the executive government to be accountable for their policies, the manner in which resources raised from revenue and borrowings have been expended and their achievements; and
- the Australian Public Service is expected to be true to its values and respectful of our institutional arrangements, and apply the management effort required to

³ McPhee, Ian 2009. *The Business of Government: why public sector management must evolve*. The 2009 Brookes Oration, Melbourne, 27 August.

⁴ Blair, Tony 2010. *A Journey: My political life*. Published by Alfred A Knopf, USA, December. Introduction, p.xv

deliver sound advice to government and government programs to the wider community.

The public sector in Australia has a reputation for being progressive, as is evident from the work of the OECD. It has been innovative in policy development, and at the leading edge of changes designed to give a stronger focus to outcomes and performance in public administration. There have been some important reforms over the years including:

- the introduction of program management and budgeting in the mid 1980s and the subsequent focus on outcomes and programs;
- the adoption of a medium-term expenditure framework of forward estimates and greater funding flexibility given to agencies through a range of budgetary measures commencing in the late 1980s;
- the introduction of accrual accounting and budgeting, and new financial management legislation, during the 1990s, and
- a renewed focus on the importance of people management in the APS as we moved into the 21st Century.

During this reform era, we have seen authority being devolved from central to line agencies for a whole range of measures concerning people and financial management, with some recentralisation occurring at the margin in more recent years.

The reforms have been instituted for good reasons, and largely to good effect. But there is still a way to go in matching the reality with the rhetoric when it comes to sharpening the focus on program performance in a systemic way, to drive better outcomes.

Today the APS has an enormous body of skills, experience and goodwill, to draw on.

- Dr Ian Watt, Secretary of the Department of the Prime Minister and Cabinet, has referred to this as ‘one APS’, working as a single organisation and removing barriers to doing so.⁵

There is little the APS cannot do when it is focused:

⁵ Watt, Dr Ian AO, 2011. *The APS: now and in the future*. Located at <http://www.dpmc.gov.au/media/speech>. 22 November. p.1

- from providing critically important advice to government on major events such as Australia’s response to the Global Financial Crisis (who can forget Ken Henry’s advice to the Australian Government at the time – ‘Go Hard, Go Early and Go to Households’⁶ – that set the tone for the Government’s policy response) to the much more routine matters of administration, such as benefit payments, that occur like clockwork throughout the year.
- given today’s audience, I would also mention the substantial changes brought about by accountants in government to introduce both accrual accounting and budgeting for the purpose of providing better information for decision making, and bed down the associated processes, systems, reports and auditing arrangements.

Incidentally, I did notice recently the bar has just been lifted for accountants. In an article discussing the benefits of integrated reporting⁷ Jane Gleeson-White, author of *Double Entry*, observed that:

‘... accountants now have the potential to make or break the planet... I believe that not until we incorporate the value of the environment and other non-monetary goods into our accounts will we be able to create a sustainable economy and a sustainable future on our planet. This is why I believe accountants are critically important for sustainability. They could be the key to the future of life on earth.’⁸

That being the case, dealing with some of the challenges that we have today in public sector management should be well within the grasp of accountants.

One of the greatest challenges in public sector management is how to create the right incentives for sustaining strong program (and agency) performance over time.

- Performance can be affected by many variables including the incentives to achieve strong outcomes provided by the budgetary and financial management frameworks, policy design, organisational governance regimes, and agency leadership and management.

⁶ Henry, Dr Ken AC, 2012. Interview by Chris Uhlmann, Australian Broadcasting Commission, *7.30 Report*. 15 May. Located at <http://www.abc.net.au/7.30/content/2012/s3503553.htm>

⁷ Integrated reporting has been described by the International Integrated Reporting Council as ‘a new approach to corporate reporting that demonstrates the linkages between an organisation’s strategy, governance and financial performance and the social, environmental and economic context within which it operates’. Article in the Institute of Chartered Accountants in Australia ‘Charter’ magazine. Vol 83 Issue 6 July 2012. p.20

⁸ Gleeson-White Jane 2012. Article in the Institute of Chartered Accountants in Australia ‘Charter’ magazine. Vol 83 Issue 6 July. p.20

The message for those of us in the public sector is to keep in mind the importance of orienting solutions to provide the right incentives for organisations and individuals to achieve the desired outcomes, rather than defaulting to rules and conditions as a matter of course. An essential complement to providing the right incentives is an effective accountability regime for performance.

We need to keep these dimensions in mind at all times, even during periods of agency budget contraction that is affecting many public sector agencies currently.

Managing in times of budget constraints

Most Australian Government agencies have been required to manage a range of efficiency dividends; and some have had further budget reductions due to the cessation or curtailment of specific programs or decisions to defer capital expenditure. Reductions in agency budgets have also been occurring in state and territory jurisdictions as well.

Agencies are taking steps to manage within their revised resource levels by reviewing the essentiality of functions performed, whether there are more efficient delivery methods,⁹ and their administrative costs including consultancies, and travel. It is clearly important to keep in mind long-term goals in making decisions on how to manage within revised budgets. But we do need to accept that some goals may need to be reassessed, and for others, progress will be slowed.

It is critical that chief executives articulate plans and strategies at these times for staff and key stakeholders. In this context, Duncan Lewis, until recently the Secretary of the Department of Defence, told the Australian Strategic Policy Institute in August 2012 that the Defence budget reductions were 'hard but manageable' when 'we're not facing any obvious existential threat to our security'. Lewis went on to say '(strategy) needs to be tempered by reality, affordability and informed by the thinking and tasking of other government agencies.'¹⁰

This is sound advice, reflecting the tough choices governments are required to make in framing their budgets. Similar adjustments are being made by many private sector companies. The Australian Financial Review (Chanticleer column) on 13 September 2012 referred to the mantra within BHP as being 'to cut costs where possible, eke out incremental gains on the infrastructure and don't do anything that is non 'added value'.

⁹ Shortening chains of command and localising decision making are among possible options

¹⁰ Lewis, Duncan AO DSC CSC 2012. *Talking Dollars and Strategy: The Challenging Link in Defence Planning*. Presentation to the Australian Strategic Policy Institute Annual Dinner, 23 August.

This mantra works for the public sector as well.

One of the most obvious and early term impacts of recent resource constraints has been some loss of flexibility and capacity in organisations to respond to the inevitable, unanticipated demands that their organisations deal with from time to time. Agencies are generally positive, though, in their ability to regroup, reset plans, and trim unnecessary administrative effort.

It is a difficult period for some agencies, nevertheless, and we are not out of the woods yet.

The primary objective of the Australian Government's fiscal policy is 'to maintain the budget in a sustainable position from a medium-term perspective.'¹¹ In other words, achieving budget surpluses on average over the medium-term. The last budget surplus by the Australian Government was in 2007-08 (\$19.7b).

With Australia not immune from the global economic downturn, the demands for government services exceeding revenues, and a softening government financial position influenced by increasing levels of public debt, times are expected to get tougher for government. Policy trade-offs and taxation increases will inevitably be considered. And if history is any guide, the Federal budget in 2014, post the election, could see further demands placed on the public service. The take-out message for agencies here is to consider policy options and contingency plans, as forward plans are developed, to manage a period of budget constraints. A focus on short term and longer term measures is warranted, and in this context there are also opportunities to consider whether the greater application of risk management approaches to current program delivery methods might result in more cost-effective delivery outcomes – recognising this places more weight on the importance of key control measures working effectively.

This is obviously a time when leadership and effective communication with staff and stakeholders is important to develop the options and to effect changes positively, with clear strategies and outcomes in mind.

While budgetary reductions have necessarily been a current focus for agencies, there is a range of influences evident from practice and commentators that point to the further evolution of approaches to public sector management in the years ahead, some driven by policy responses; others in pursuit of efficiencies.

¹¹ Budget Strategy and Outlook, Paper No 1 2012-13. Commonwealth of Australia. Statement 4. p.4-17

The future of public administration

Jocelyne Bourgon,¹² who is leading an international study on the new frontiers of public administration, captured the future well when she observed:

‘Government will continue to contribute to stability and reduce risks in society. It will continue to rely on and promote the rule of law. It will continue to value due process, respect democracy and ensure transparency and accountability. Not everything is changing or needs to change – a compliance model is here to stay. At the same time, government must retain the sharp focus that has been placed since the 1980s on efficiency, productivity, quality of service and user satisfaction. New information and communication technologies enable government to provide services in new ways, to integrate services when multiple actors are involved and to empower citizens to play a key role in public services – a performance model is also here to stay.’

Nevertheless, Bourgon argues for a more complete framework of public administration; one that would complement the hierarchical structure of government with the use of expanded networks, one that would encourage citizen engagement in policy design and service delivery by giving voice, choice and greater discretion to citizens as users of public services. Beyond the emphasis on incremental improvement, governments need innovation, which can be accessed by tapping the collective intelligence of society. Finally, government plays a crucial role in building the resilience of society to ‘flourish in unpredictable circumstances, to shoulder the burdens of inevitable crises, to avert preventable crises and to learn from adversity.’¹³

We have seen an increasing emphasis on stakeholder consultation as part of policy design in Australia over the last 25 years; citizen engagement can be viewed as a natural progression.

There are some interesting developments in the United Kingdom which are reflecting some of these more recent trends in citizen engagement, where councils are looking to garner more from the voluntary work of local groups and residents, with some funding provided by the central government. There is recognition that in these times of austerity, councils should be looking to increase both the numbers of volunteers involved and the channels for participation. Some of the local initiatives have included:

¹² Bourgon, Jocelyne (with Peter Milley) 2010. *The New Frontiers of Public Administration: The new synthesis project*. Public Governance International, University of Waterloo, Canada. p.15

¹³ *Ibid.*, p.15

- local businesses being encouraged to volunteer their professional knowledge and expertise to advise local charities, groups and individuals
- to allow volunteers looking for low commitment and ad-hoc options to find a volunteering activity that suits them, one council has developed a web-based ‘Sliver of time’ program to allow people to register their interest to contribute. The program allows volunteers to log details of any free hours they have, while clients can book slots of volunteers’ time.
- ‘Crowd funding’ is another idea where people give money to support local schemes.¹⁴

Programs of this kind leverage community support, and it is a trend we are likely to see more of. In a modest way, my office has undertaken a pilot exercise to allow citizen input into a subset of the performance audits we are undertaking. We intend to extend this approach to all of our performance audit programs.

Another perspective on building community resilience has been the debate in Queensland and elsewhere following the major flood events of recent years about government prohibiting the building of housing in flood-prone areas and strengthening building standards.

Recognising the benefits of greater community engagement in matters concerning program design and delivery, Jocelyne Bourgon’s study has suggested that ‘the emphasis on compliance and performance needs to be complemented with a focus on emergence and resilience’¹⁵ to encourage an expanded view of the role of governance which comprehends the inter-relationships between government, people and society.

Bourgon’s work is thought provoking. Like most reformist agendas, it builds on new trends in policy development and public administration. She has observed ‘that the role of government extends beyond what it can do on its own and incorporates what it can do with others to serve the collective interest. Its role extends to leveraging the power of others across all facets of society and enabling synergies by working across boundaries inside and outside government.’¹⁶

It will be instructive to follow this continuing research and the extent to which the influences mentioned shape program design and delivery in the future. Managing community expectations will also be part of the mix, with greater community

¹⁴ Jepp Andrew 2012. *You’ve got to hand it to them*. Article in the Chartered Institute of Public Finance and Accountancy magazine *Public Finance*. United Kingdom. March 2012. p.19

¹⁵ Op cit., Bourgon, Jocelyne (with Peter Milley) 2010, p.16

¹⁶ Bourgon, Jocelyne 2011. *A New Synthesis of Public Administration – Serving in the 21st Century*. University of Waterloo, Canada. p.46

engagement. In this context, it was noteworthy that Dennis Richardson, the then Secretary of the Department of Foreign Affairs and Trade, observed late last year that *'Travellers seem to have unrealistic expectations of what the government can do to help them if they run into trouble overseas'*, and there was *'a widening gap between the expectations and reality of what government can and can't do for Australians abroad.'*¹⁷

This is a cameo piece of a much larger production that concerns the 'emerging gap between the demands placed on government, and the financial resources the community is willing to provide to government', as highlighted by Nigel Ray of the Treasury recently.¹⁸

Interestingly, to date, it is senior officials playing the main roles on this stage rather than ministers.

We can expect to see and hear more in Australia about how government can manage community expectations as government seeks to manage the balance between the demands for services and its capacity to deliver.

Improving the performance of existing programs is an important part of any response.

The one area of the more traditional performance and conformance model of public administration that I see as standing out for attention in Australia relates to the 'accountability for performance' dimension.

Accountability for performance is driven as much by form as substance today, and would benefit from a fresh look. A few observations:

- the work of my office shows that 'it is timely for entities to refocus efforts to improve the quality and relevance of performance information and reporting for the benefit of the Government and the Parliament.'¹⁹; more recent work by my office in undertaking a pilot audit of KPIs only reinforces this message.
- considerable work is still required to develop KPIs that are relevant (focused and understandable), reliable (measurable and free from bias) and complete (balanced and sufficient) to allow the impact of programs to be effectively assessed. In other words, we need to gain a better understanding of the extent to

¹⁷ Article in the Canberra Times, 27 October 2012. *Travellers expect a lot from govt, says DFAT*. Found at <http://www.canberratimes.com.au/national>

¹⁸ Ray Nigel 2012. *Fiscal choices and federal financial relations*. Presentation to the Melbourne Institute's 2012 Economic and Social Outlook Conference. Melbourne. 1 November.

¹⁹ ANAO Audit Report No 5 2011-12 *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*. Canberra. 5 September.

which government programs are making a real difference rather than just knowing they are making a contribution.

- when CEOs are personally accountable for performance, this provides a strong organisational focus; there are options available to strengthen the accountability model for performance that mirror current responsibility for financial performance.
- in a world when agencies commonly partner with others to pursue outcomes agreed by government(s), we need to reassess the traditional hierarchical accountability model.

In the context of partnering arrangements, a wider view of accountability is taking shape but its implementation is still developing. The Auditor General of Canada has written on this topic, making the point that:

‘In partnering arrangements, there are at least three kinds of accountability relationships:

- . accountability among the partners;
- . accountability between each partner and its own governing body – in the case of the federal government, Parliament; and
- . accountability to the arrangement’s joint co-ordinating body, in many cases.

The last may involve accountability to the public when the federal and provincial governments jointly agree to report to the public.’²⁰

This is a very useful framework to work with. It could also be extended to cater for citizen engagement, beyond the formal accountability dimensions, because there is an expectation that we will ‘integrate inclusiveness’²¹ into our analysis and approaches.

It is clearly the case that Australia is not alone in grappling with the issue of how to increase the focus on performance in public sector management,²² but it continues to be, in my view, one of the priority areas for attention.

²⁰ Office of the Auditor General of Canada 2002. *2002 December Report of the Auditor General of Canada*. Found at http://www.oag-bvg.gc.ca/internet/English/parl_oag_200212_09_e_12403.html

²¹ OECD Week 2012 *Secretary-General’s Report to Ministers 2012*. p.8

²² For example, see *Lessons from public service reform Down Under*. Found at <http://www.publicfinanceinternational.org>

Other trends in public sector management that offer potential for agencies to improve their performance are included in the final report of the OECD Value for Money Study in 2011. The report lists some of these as:

- Reallocation of public resources from administration to service delivery (“more warm hands, less cold hands”)²³;
- Better integration of executive and professional expertise in policy making;
- Amalgamation of executive agencies or establishment of common process units;
- Support service sharing among ministries and executive agencies;
- More emphasis on standards of operational management in all areas: finance, audit, procurement, accommodation real estate and facilities, human resources and organisation, communication, information and ICT; application of standards across central government, also in executive agencies; and
- Concentration of standard setting for operational management in one or a few ministries.²⁴

The report also acknowledges that some of these new trends are based on ICT, and have only become possible because of ICT development.²⁵

It is true that the possibilities opened up by ICT developments are fuelling new models of delivery and engagement with citizens. I mentioned earlier the UK example of councils engaging with volunteers. The opportunities provided by the Australian Taxation Office through its e-tax initiative is a great example of a new delivery channel, only made possible by ICT.

While ICT is opening up new opportunities, the earlier market-based approaches to service provision should not be overlooked. A recent report by Gary Sturges for the NSW Business Chamber, that examined the different models of contestability and competition that might be applied in the NSW public sector, argues that:

²³ OECD 2011. *Building on Basics – OECD Value for Money Study, Final Report*. 7th Annual Meeting on Performance and Results, OECD Conference Centre, Paris, 9-10 November

²⁴ Ibid

²⁵ Ibid

‘Politicians and public servants should embrace the concept of a ‘public service economy’. They should plan for greater innovation and contestability in the design and management of public services (recognizing that these principles will have different application in different sectors). Governments should facilitate a trade in public services across state and national borders.’²⁶

Amongst other things, the report encouraged more competition in the supply side of the public service economy, exploring three models through which this might be done:

- (1) Choice-based models, where service users themselves select from a range of alternative providers, financed through government vouchers
- (2) Commissioning models, where public officials purchase services on behalf of the community through competitive tendering and contracting. While this option includes simple outsourcing models, it also encompasses public-private partnerships, public-private joint ventures and integration contracts, and
- (3) Contestability, where service providers are benchmarked and failing institutions face a credible threat of competition.²⁷

The work of Gary Sturgess is a useful reminder of the variety of models that can be employed in the public sector to help manage risks, bring on board specialist skills, give voice and choice to citizens, drive efficiencies and achieve better outcomes. Australian Government agencies continue to use a variety of ways of engaging with the private sector and not-for-profit sectors to deliver programs, with solutions largely driven by sound business cases.

In reinforcing the benefits of approaches of this kind, the February 2 edition of *The Economist* included an upbeat article²⁸ on how the Nordic countries are likely to become a role model for many reformers.

The bottom line of the article was that the four main Nordic countries – Sweden, Denmark, Norway and Finland – are doing rather well; and if you had to be reborn anywhere in the world as a person with average talents and income, you would want to be a Viking.

²⁶ Sturgess Gary L. 2012 *Diversity and Contestability in the Public Service Economy*. Executive Summary. 15 June. p.7

²⁷ Ibid., pp 7-8

²⁸ The Economist 2013. *The next supermodel*. February 2. p.9

While the article pointed to some of the particular challenges in the Nordic countries (their governments remain too big and their private sectors too small; and their taxes are still too high and some of the benefits too generous), the positive points emphasized included that:

- The Nordics have focused on balancing the books (fiscally)
- On public services, so long as they work, the public do not mind who provides them e.g. Denmark and Norway allow private firms to run public hospitals
- Sweden has a universal system of school vouchers, with private for-profit schools competing with public schools. Denmark also has vouchers, but ones that you can top up
- The performance of all schools and hospitals is measured
- There is open access to official records, and e-government is well supported.

The bottom line message on the Nordic reforms was the benefits of injecting market mechanisms to sharpen public sector performance, placing entitlement programs on sound foundations that are affordable, rooting out corruption and vested interests, and foraging for good ideas across the political spectrum.

The most visible focus of review activity in recent times in the Australian Government in terms of public sector management has been the review by the Department of Finance and Deregulation of Commonwealth financial accountability (CFAR). The department issued a wide-ranging consultation paper in March 2012 floating many possibilities for change, but not at that time giving a steer publicly on those issues which were seen by Finance as priorities. The subsequent paper *Sharpening the Focus: A Framework for Improving Commonwealth Performance* provided more clarity on the various proposals.

Like many agencies, the ANAO has provided submissions to the CFAR underlining the importance of some proposals and discouraging others.²⁹ In this context, we also provided the department with our list of 'Top 5' measures that could be taken to upgrade the current framework. They were:

- Improve cross-agency delivery of government policies/programs
 - The work of my office has recognised we are living in a more networked world, and has been pointing out some of the challenges in working

²⁹ Located at <http://www.cfar.finance.gov.au/submissions-received/>

across boundaries, and the way forward, in audit reports over the past 5 years.

- Improve the quality of resource management, particularly performance information, and the performance focus relating to the administration of government programs
 - As previously indicated, our work continues to highlight there is still much to be done to enhance Key Performance Indicators so that they aid decisions about the extent to which programs are having the intended impact. Too often departments inform government about the benefits of new policy proposals in unequivocal terms; and yet, when it comes to assessing performance, argue that there are too many externalities to isolate the impact of the program (and hence the focus on outputs).
 - Further, Australia has fallen off the back of the wave when it comes to the evaluation of government programs,³⁰ and this has also detracted from the emphasis that needs to be given to both KPIs and program performance. Positively, the current Secretary of the Department of Finance and Deregulation has indicated that ‘procedures for evaluation and review...need to be reinvigorated’³¹ so we should expect to see developments here.
- Reduce the administrative demands on smaller entities and, where appropriate, collapse smaller entities into other organisations
- Identify opportunities to reduce the compliance burden on entities more broadly, and
- Reinforce the responsibilities of Chief Executives to manage risks.
 - Recognising that particular care would need to be given to ensuring that any legislative provisions are not overly prescriptive in nature, to ensure that individual entities are able to manage risks in the context of their individual circumstances.

The need to refresh the Commonwealth financial management framework is largely accepted. Where most of the debate occurs is the extent of change required given differences of opinion about the real benefits of some of the proposals.

³⁰ For a perspective on the history of evaluation in the APS, see Mackay Keith 2012. OECD 2012. *The Performance Framework of the Australian Government, 1987 to 2011*. Handout.

³¹ *Ibid.*, p.39

Consideration of issues such as the shape of the financial management framework is but one part of the ongoing debate about how to achieve better outcomes for the community from public services. Some proposals, like CFAR, will directly influence public sector management; others will influence policy design.

I have little doubt that we will continue to be eclectic in the approaches to public sector management reform that we adopt but some underlying trends seem to offer real benefits:

- (1) stakeholder and community engagement to inform our approaches to policy development and service delivery – ICT is facilitating this
- (2) consider opportunities to partner with other public sector agencies and third parties to deliver ‘government’ services
- (3) resist the temptation to centralise authority and control, and
- (4) maintain a strong focus on program performance, how it will be measured and assessed. In this context, keep in the foreground the incentives available to drive stronger performance, and suitable accountability arrangements to focus the minds of those in executive leadership positions on stronger program performance.

One of the key matters to bear in mind in the quest to leverage better public sector management is that the legislative and policy framework that applies to public sector agencies is only part of the solution. As previously touched on, the people dimension of performance is just as important, or arguably more important. Put succinctly: frameworks guide, but people drive.

The complementarity of the hard and soft elements of governance has been emphasised in the literature in more recent times, by Meredith Edwards, John Halligan and others, – the hard being the ‘formal and structural’ elements and the soft being the ‘behavioural and relational’ elements, including ‘transparency, trust, behavior and ethics’.³² Emphasising this connection is critical to leveraging performance improvement. In this context, leadership is also critical.

Information for decision-making features as part of any governance model, generally bundled with the ‘hard’ dimensions of governance mentioned earlier. While a significant topic in its own right, accountants should keep in mind the words penned 15 years ago by Thomas Stewart in his leading book on Intellectual Capital:

³² Edwards Meredith, Halligan John, Horrigan Bryan, Nicoll Geoffrey, 2012. *Public Sector governance in Australia*. Australian National University E Press. Canberra. pp 75, 76

‘(Intellectual capital) is collective brainpower. It’s hard to identify and harder still to deploy effectively. But once you find it and exploit it, you win.’³³

‘One reason organisations don’t manage knowledge is that it almost always comes wrapped in some tangible form – in the paper of a book, in the magnetic tape of an audiocassette, in the body of a speaker, in the stones of a historical monument. We manage the forms rather than the substance, which is like a viticulturist paying more attention to the bottle than to the wine.’³⁴

Stewart was sufficiently unkind to include this latter reference under the heading ‘Accountants Can’t Count Intellectual Capital’.

There are some important messages in Stewart’s words for organisations to ponder. The recent ANAO audit report on *Records Management in the Australian Public Service*³⁵ is designed to assist agencies to improve their performance in managing this particular dimension of their intellectual capital.

In charting the course of organisations in the public sector, it is instructive to have the benefit of perspectives on where the future of public administration might be and the various elements of governance that need to be combined, through leadership and strategy, to achieve organisational goals. We should be ever mindful of how to leverage our organisation’s performance. This is a topic never far from my mind as we seek to use our audit experience for the benefit of improved public administration.

The work of my office highlights that to succeed in today’s world, organisations need to keep their governance approaches as straight-forward and coherent as possible to inform decision making, and allow staff to tune into how the organisation manages itself to achieve its goals. As many public sector organisations know, good processes lead to sustainable outcomes. To capture the essential elements in organisational governance, the ANAO is in the process of updating its better practice guide on Public Sector Governance.

We also need to encourage innovation but manage the processes. In this context, a recent study by the University of Technology Sydney and the McKell Institute has found that ‘boosting management skills and the pace of innovation are more

³³ Stewart Thomas A, 1998. *Intellectual Capital: The New Wealth of Organizations*. Nicholas Brealey Publishing, London. December 29. p.56

³⁴ Ibid., p.xi

³⁵ ANAO 2012. Audit Report No 53 2011-12 *Records Management in the Australian Public Service*. Commonwealth of Australia, Canberra.

important factors in kick-starting productivity growth than labour market deregulation.³⁶

Teleworking is also getting quite a profile as a measure to lift productivity and cut costs.³⁷

Innovation, although not always celebrated, has been central to many initiatives undertaken by Australian government public sector entities. While the Australian government public sector has much to be proud of, we will need to build on this experience and drive new directions if the changing needs and expectations of government and the community are to be met. The ANAO's better practice guide on *Innovation in the Public Sector: Enabling Better Performance, Driving New Directions* (December 2011) is relevant here in assisting public sector bodies to encourage and facilitate an innovative culture.

The Guide recognises that innovation inevitably involves a degree of risk because it changes the *status quo* or contributes towards an alternative future. As such, an appetite for risk and risk management is essential; and risk avoidance is an impediment to innovation.

Concluding comments

In a world of change where new approaches to public sector management are being foreshadowed, where technology is opening our eyes to new solutions, and our economy and community are going through changes also, it is reasonable to reflect on how we might leverage better public sector management performance.

In responding to this challenge, we should take some comfort from the history of public sector reform in Australia and, as a consequence, our starting point relative to many jurisdictions. Our institutional arrangements and values hold the APS in good stead. We have also been one of the leading countries in implementing public sector reform. The world doesn't stand still, however, and a stronger performance will be expected of the public sector and the economy more broadly.

The largely devolved approach to public sector management means agencies will need to carry responsibility for meeting budgetary targets and lifting performance over time. There is much to be said for a stronger focus on KPIs and program evaluation to inform decisions about the effectiveness of policy options and choices of delivery methods. This should be done in the context of a fresh look at how greater emphasis might be given to strengthening accountability for performance. This would essentially be reinforcing existing expectations under the framework. Any reinforcement of the benefits of such measures by government to drive

³⁶ The Australian Financial Review, 2012. *Innovation, skills key to growth: study*. 12 November. p.4

³⁷ The Australian Financial Review, 2012. *Public service aims for 12 per cent teleworkers*. 12 November. p.4

performance and allow the more targeted allocation of scarce public funding, would only be positive.

The other area that is currently open to agencies to review is their approach to governance, particularly of new programs and significant projects where history shows the risks are higher and implementation performance is mixed. There are opportunities for agencies to draw from the collective experience of the APS here to inform their approaches.

In terms of developments internationally, the work of Jocelyne Bourgon is noteworthy for the emphasis it is giving to government engaging more with citizens in the development of new approaches to achieving outcomes and in building the resilience of society. The traditional focus on performance and compliance is also reinforced by her research. The OECD has also given indications of areas of administrative reforms that offer prospects for improved performance that are worthy of consideration by agencies; and the work of Gary Sturgess has encouraged a renewed focus on engaging with the private sector and others to deliver programs.

We can also expect to hear more about how government can manage community expectations as it seeks to manage the balance between outlays and revenues. And the approach being adopted by the Nordic countries to reform will be instructive.

Closer to home, Finance is progressing options to improve the Commonwealth financial accountability framework. We will need to await further developments here but, for me, the most significant change we have seen since the current legislation was enacted 15 years ago has been the focus on joined-up government to achieve outcomes – mirroring the increasingly connected world we live in; and it would be beneficial if the current strong focus on entity responsibilities in the current legislation could be complemented by provisions which recognise this and that multiple accountabilities may apply when agencies work in a joined-up manner. In the longer term, developments here may inform the delivery of programs where responsibilities are shared across jurisdictions and other hybrid solutions. Finally, we need to keep in mind that government decisions on budget allocations and the legislative and policy frameworks that apply to public sector management are the ‘hard’ elements of governance. The people dimensions of governance – the ‘soft’ elements – are just as important, or arguably more important. In this context, leaders and managers have critical roles in carrying any agenda for change forward. We also need to recognise that the importance of managing the intellectual capital of organisations continues to grow.

Those of us who work in, or with, the public sector all have a role in leveraging better public sector management to achieve better results. It is fundamentally about focusing on performance, broadly defined. We should be eclectic in drawing from

good ideas, wherever they are, but coherent in our integration of these approaches into the design and implementation of programs to leverage better outcomes.

Whatever the challenges, we need to continue to punch through with solutions in the interests of good government, and the long-term well-being and security of all Australians.