3: Good, better, best

Beyond the National Commission of Audit and Federal Budget

Improving our already highly efficient government will require consideration of all aspects of efficiency discussed in Chapter 1. This chapter narrows the focus by considering how efficiency in the Australian Public Service (APS) might be enhanced. It begins by offering brief observations on two sets of recent documents which deal substantially with the efficiency of the APS: the 2014-2015 Budget Papers, and the National Commission of Audit's Reports and Terms of Reference. Examination of these documents reveals that many of the unhelpful generalisations about efficiency outlined in Chapter 1 are still being made. The chapter then moves beyond these documents to discuss reforms that would genuinely improve the long-term efficiency of the provision of public services. Two types of reform are outlined whereby significant efficiency gains are possible:

>> Innovation – improving APS capacity to change, adapt and improve.

>> Professional accountability – improving APS capacity to ensure, and demonstrate, that its goals are being achieved.

This chapter finds that APS innovation can be driven by strategies to combat overly risk averse approaches. These strategies include: cross-agency teams dedicated to driving innovation in particular service delivery areas, techniques agency heads can utilise to facilitate bottom-up

innovations within their organisations, approaches to pilot programs that reduce political risks, and prestigious awards and other schemes to give recognition to innovative public servants. Also likely to encourage innovation is the establishment of an investment fund dedicated to APS innovation, to provide a public sector equivalent to venture capital.

Presented next are a number of initiatives to facilitate a new approach to accountability in the APS, one that is outcome-focussed, utilises front-line expertise and recognises the vital role of organisational trust to ensure that organisational goals are being met. The initiatives canvassed include: building further capacity in the APS for the process of goal specification and alignment with accountability systems, and setting up an integrated national plan or similar process for setting long-term government objectives. They also cover increased engagement with service users, changing the role of front-line staff in giving input to accountability systems, and greater efforts to build organisational trust by improving aspects of the public service workplace environment. Finally, the applicability of some of the above recommendations to public service and ministerial office interactions is discussed.

> **Once government objectives are determined, consideration needs to be given as to how we can achieve these objectives with minimum resources.**

These are, of course, not the only possible efficiency reforms. There are reforms in specific areas that may improve efficiency significantly. Defence procurement, and information and communications technology are two examples. The two overarching reforms, for innovation and professional accountability, are chosen as the focus of this chapter because they are vectors through which greater efficiency (among other objectives) can be pursued in any or all areas of government activity.

Federal Budget 2014-2015

Commentators across the political spectrum acknowledge Australia's government finances have a structural deficit. Disagreement persists on whether this deficit is a 'spending problem'[96] or a 'revenue problem',[97] and analysis concentrates on the relative extent to which government expenditures are increasing or tax revenues are decreasing. This debate partly misses the point by focussing too heavily on the past. What is needed is a debate about what we should do in the current circumstances. This debate must not be blind to historic and foreseeable trends, but should place the question about the role of government front and centre. Equally important, in this respect, are efficiency of government questions. Once government objectives are determined, consideration needs to be given as to how we can achieve these objectives with minimum resources. Budgets, and their associated papers and statements, should provide significant contributions to these efficiency questions.

A key theme of the 2014-2015 Federal Budget (hereafter 'Budget') was 'smaller and more rational government', with a large number of items throughout the Budget Papers explicitly related to it.[98] Indeed, the Minister for Finance, Senator Mathias Cormann, released a Ministerial Paper on this very topic the night of the Budget to provide an overview of the initiatives under this theme.[99] The Foreword to this paper makes it clear that increased efficiency is this initiative's primary aim, yet it is obvious that only some aspects of efficiency were considered.[100] Detail is given on the savings to be achieved and the unnecessary duplication of some existing arrangements, but on the whole there is minimal discussion on the value provided by those bodies abolished, consolidated, merged or transferred. No information is given on the priorities for the selection of particular bodies above others. No selection criteria are implied, apart from a stated desire for 'leaner business-like ways of operating' and a commitment to release 'an Australian Government Governance Policy later in

2014'.[101] In substance then, the decisions appear to emerge more from a largely unstated or hidden agenda about the role of government rather than an explicit analysis of the efficiency of government.

The Minister for Finance describes four principles, drawn from the National Commission of Audit's recommendations as 'significant principles that could be applied to both existing government bodies and proposals to establish new bodies'. These include: 'whether a current or proposed body performs a public function properly belonging to the Commonwealth'; 'whether a government body is necessary to provide the function'; 'whether functions can be grouped more efficiently into a small number of government bodies'; and 'whether government bodies have the appropriate type of legal structure to achieve their purpose in the most efficient and effective manner'.[102] Sunset clauses for government bodies are also contemplated. Whatever the wisdom of these principles, they are not determinative of why certain bodies have been deemed surplus to requirements (such as the Clean Energy Finance Corporation and the COAG Reform Council) instead of others. The formulation of these principles, particularly the first relating to functions, merely raise questions rather than guide the answers.

The bodies impacted are drawn from a range of different portfolios. The two largest savings are in Foreign Affairs and Trade (efficiencies from the consolidation of AusAid within the Department of Foreign Affairs and Trade saving $397.2 million) and in Health (savings of $142 million from abolishing Health Workforce Australia and consolidating its functions into the Department of Health). These two items make up more than 80% of the savings. All of the other items produce relatively small savings (none over $23 million). Some are doubtless necessary. Nevertheless, the assumption appears to be that smaller government and larger multi-function agencies are necessarily more efficient; this does not appear to have been an examination of how best to achieve aims with minimum resources, but simply an attempt to *minimise* resources.

To the Federal Government's credit, compared with non-specific measures such as the Efficiency Dividend (see Box 3.1 below) the cuts made as part of the 'smaller and more rational government' initiative do have the advantage of clearly specifying what government programs are to be affected. However, in a budget of over $400 billion they are not highly significant. For example, the total 'smaller and more rational government' savings achieved by cessations and mergers are $530 million.[103] This is less than 20% of the savings produced by the Efficiency Dividend (some $2.8 billion),[104] an across-the-board cut that affects services regardless of their utility. The Budget increases the Efficiency Dividend by 0.25% in the 2014-2015, 2015-2016 and 2016-2017 financial years. This is on top of a previous increase by Labor to 2.25%,[105] resulting in a total efficiency dividend of 2.5% in those years (see Table 3.1 below). It specifies the savings are to be 'targeted in areas such as reduced advertising, consultancy and travel costs and deregulation efficiencies'.[106] Box 3.1 and 3.2 reveal how high (and uniform) Efficiency Dividends can lead to staff cuts that counteract efficiency.

BOX 3.1: The Efficiency Dividend

A number of different strategies have been employed by various governments to promote efficiency within their public services. Unfortunately the data on which strategies have been most successful is relatively poor.[107] The main mechanism used to drive efficiency improvements across the APS as a whole is the Efficiency Dividend.

The majority of Commonwealth public sector bodies are subject to an annual Efficiency Dividend that reduces administrative budgets by a certain percentage each year on the

assumption that 'efficiencies' will be found to do the same work with fewer resources. The Efficiency Dividend has been in place for over twenty-five years, originally implemented by the Hawke Government. It is not unique to the Commonwealth, most state governments have applied an Efficiency Dividend in the past, and it is also used in overseas jurisdictions.[108]

The amount that budgets are reduced by is usually 1.25%, but it has varied (see Table 3.1 below). While the Efficiency Dividend may have provided budgetary savings and spurred administrative imagination, evidence shows that it has had a number of unintended negative outcomes and is not effective in achieving efficiencies while maintaining the delivery of quality public services. A series of reports have given increasingly poor evaluations.[109] More recently, the National Commission of Audit criticised the measure as a 'blunt instrument' and advised against high Efficiency Dividends, advocating that saving should be made as a result of conscious choices about government's role.[110]

As stated, alternative strategies for driving efficiency exist, and given the growing consensus on the flaws of the Efficiency Dividend, these should be trialled. One possible strategy is to implement rolling budget audits. These regular reviews would provide an evidence base for identifying potential inefficiencies and developing mechanisms to address them.[111] Such a strategy has the potential to drive significant efficiency gains, but implementation is not straight-forward and it is essential that the structure of the reviews be carefully considered.

The reviews should include internal participants drawn from various areas (e.g. policy, front-line delivery, finance, IT and strategy) and different seniority levels. It should also involve an external body, such as the Australian National Audit Office, to give the advantages of objectivity, independence and a broader perspective.

Another option is formal agreements on efficiency targets and plans to achieve them, made between senior managers, relevant ministers, employees, unions and stakeholders for each agency. These are not the only alternative strategies. Others exist, and combinations of strategies are possible.[112]

Table 3.1:
The efficiency dividend over time

1987-1994	1.25%
1994-2005	1.00%
2005-2008	1.25%
2008-2009	3.25%
2009-2011	1.25%
2011-2012	1.50%
2012-2013	4.00%
2013-2014	1.25%
2014-2015	2.5%
2015-2016	2.5%
2016-2017	2.5%

Source:
Updated from N Horne, The Commonwealth efficiency dividend: An overview[113]

BOX 3.2: APS staff cuts - History repeats?

The Efficiency Dividend has operated alongside periodic and often considerable adjustments to APS staffing levels. The last period of significant cuts to the APS was under the Keating and Howard Governments. Between 1991 and 1999 the APS reduced staff levels by around 50,000, representing nearly a third of the APS workforce.[114] The Howard Government, having made significant cuts, found that it had too little investment in public service capacity and the numbers of APS staff increased by 42,000 over the next 7 years.[115] The result of the initial deep cuts was a considerable loss of dynamic efficiency as key skills were lost to the service and learning challenges were faced by the incoming staff.

It is interesting to note that in the two years after its first budget the Howard Government reduced the APS by just over 18,000 staff. The 2014-15 budget anticipates that over the next two years the APS will reduce by 16,500 staff. The Abbott Government came to power in September 2013 with an election promise to cut 12,000 public sector jobs.[116] The forward estimates left by the previous Government already imposed deep and largely indiscriminate cuts to operating budgets and staffing. Advice received from the Department of Finance in November 2013 showed that funding and program cuts instigated prior to the election by the previous government would lead to an estimated loss of 14,473 public sector jobs.[117] Decisions in the 2014-15 Budget mean that around 2,000 additional jobs will likely be lost by 2016-17.[118]

The impact of these cuts is already being felt. In June 2014 the Australian Bureau of Statistics (ABS) announced reductions to its work program as a result of the directive to reduce expenditure by $50 million over three years. Among the programs discontinued is the highly rated and much cited *Measures of Australia's Progress*. Research, development and reporting of social conditions statistics will also be reduced. In announcing the changes, it was stated: 'While the ABS has been able to implement efficiencies in its operations, these are insufficient to meet the expenditure target. As a result the statistical work program will be reduced from 2014-2015.' The ABS is not alone, of course.

The effect of the increased Efficiency Dividend and significant staff reductions reveals an overriding imperative to improve the budget position. The danger is that the Federal Government is withdrawing from (or curtailing) a range of services at a time of accelerated structural change in the global economy and a step change in industries at home and abroad. Changes in the APS may be required, including downsizing in some areas. What is needed most of all, however, is a governing logic that moves beyond government being 'bigger' or 'smaller'. The overall impression right now is that 'the government is navigating an economic highway while dimming the lights'.[119]

If one averages the cuts and increases to the APS in the years since the start of the Howard Government, one finds a growth rate of 1.41% each year. Incidentally, this is slightly lower than Australia's population growth over the same time period, which was 1.43%. Population growth, of course, is only an approximate indication of the need for growth in APS staffing levels. Many other factors play a part, such as levels of inequality and public expectations. However, using this rough guide, growth in the APS has nearly kept pace with the size of Australia's population. Unfortunately, the process of keeping pace has not been linear. The deep cuts and rapid increases in staffing levels damage the efficiency of the APS. Such staffing fluctuations reduce the level of skills and experience in the APS, negate its ability to detect real opportunities for efficiency improvements, and limit its adaptability to changing circumstances.

Table 3.2: APS staff numbers

Year	Staff	Change (excl. coverage)	Growth
1997	134,052		
1998	121,004	-11,479	-8.56%
1999	113,836	-6,809	-5.63%
2000	113,535	1,212	1.06%
2001	119,528	5,993	5.28%
2002	123,391	3,864	3.23%
2003	131,769	8,343	6.76%
2004	131,481	-518	-0.39%
2005	133,609	3,464	2.63%
2006	146,237	7,288	5.45%
2007	155,427	8,646	5.91%
2008	159,738	3,763	2.42%
2009	161,769	2,071	1.30%
2010	164,351	2,561	1.58%
2011	166,152	1,546	0.94%
2012	168,164	1,772	1.07%
2013	167,257	-919	-0.55%

Table 3.2 left shows the fluctuations in APS staffing numbers, it also shows the growth and shrinkage each year once changes in coverage have been excluded. Simply looking at APS staff numbers reveals the broad trends, but for a more accurate idea of staffing level changes it must be kept in mind that organisations or parts of organisations are occasionally moved into or out of coverage under the *Public Service Act* (1999). In other words, some of the changes in staffing numbers are not due to cuts or growth in the APS, but simply the result of changes in what is formally deemed to be part of the APS. In most years these changes are small, but occasionally large numbers of staff are affected by coverage changes. Taking these into account shows how the APS staff capacity changed each year.

Source: APS Statistical Bulletins 2012-13, 2010-11, 2007-08[120]

Figure 3.1: APS Staffing Growth
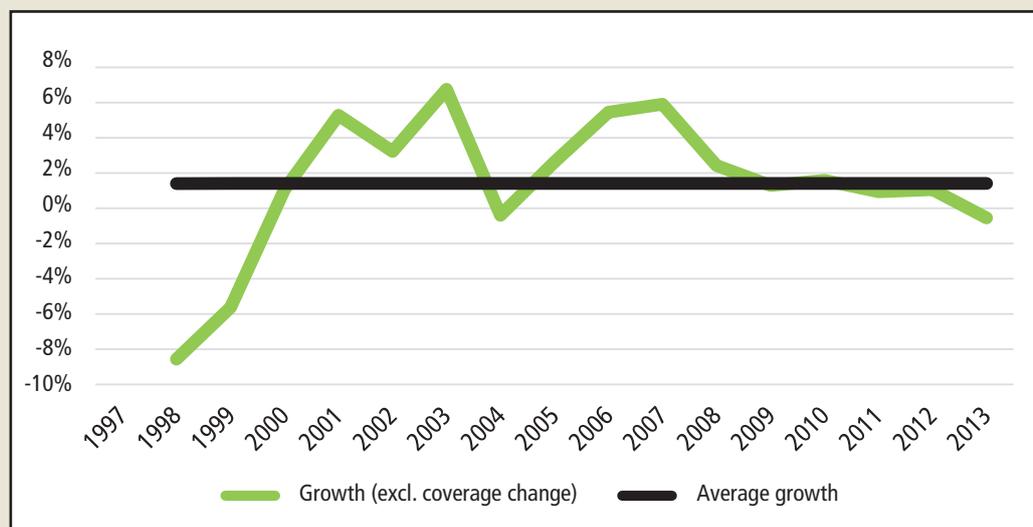
Source: APS Statistical Bulletins 2012-13, 2010-11, 2007-08[121]

The National Commission of Audit

The continuing declared interest of politicians in pursuing efficient government was evidenced in the setting up of the National Commission of Audit (hereafter the 'Commission') by the Abbott Government. The Commission's Terms of Reference state five goals. Three are concerned with increasing technical efficiency while the other two relate to reducing the scope of Federal Government activities (arguably based on allocative efficiency considerations).[122]

Unfortunately, the limited Terms of Reference led to the consideration of only some of the aspects of efficiency discussed in Chapter 1. The entire exercise was cast within the context of seeking to reduce overall government expenditures. Terminologies of technical efficiency predominated, such as 'value-for-money', 'government living within its means' and 'achieve savings'. Only one side of the equation was considered, with all the focus on reducing government expenditure, and none on potential investments in developing more efficient or effective methods that could increase public sector and economy-wide efficiency.

> 66 More than two-thirds of the Commission's recommendations concern technical efficiency, or limiting the expenditure and role of the Commonwealth Government 99

The Terms of Reference similarly limited consideration of allocative efficiency. Despite saying 'government should do for people what they cannot do, or cannot do efficiently, for themselves' the Commission was only asked to contemplate whether some currently delivered services should not be undertaken. It was not asked to investigate whether there are services that the Federal Government should undertake that it is not currently delivering. Largely missing was the broader national perspective on efficiency that typically underpins decisions on public programs and policies in the first place. For example, the public sector roles in health, education, justice and regulation are often vital to the various forms of private sector (or whole of society) efficiency. Many specific functions of government are performed because inefficient market failures would otherwise be expected. Critically, there was also no explicit consideration of dynamic efficiency; no mention of sustaining efficiency improvements over the long-term; and no reflection on continuing to deliver efficiency in a rapidly changing global environment.

It is unsurprising, therefore, that the Commission's two reports show a similar narrow focus. More than two-thirds of the Commission's recommendations concern technical efficiency, or limiting the expenditure and role of the Commonwealth Government.[123] Disappointingly, while the Commission felt able to go beyond its Terms of Reference in some areas, such as recommendations on reducing the minimum wage,[124] it did not consider issues arguably much more closely related to its mandate, such as reducing tax concessions to balance increasing expenditures. Although the Commission acknowledged that the size of government depends on the role it takes,[125] there was no discussion of increasing this role, only recommendations to decrease it through cuts and privatisation. Also disappointing was the lack of any recommendation to invest in efficiency to produce greater savings in the long run. Where the Commission comes close to dynamic efficiency issues, in recommendations on e-government and cloud computing, it proposes no investment in implementing these reforms, only to adopt 'ambitious strategies' and 'mandatory policies'.[126]

The Commission's Terms of Reference stated that a thorough review of government functions has not been undertaken in twenty years. It is unfortunate that the Commission was given only five months to undertake a once in two decades 'thorough' review. The expedited timing of the Commission no doubt limited the analysis it was able to undertake. Although the reports produced

were lengthy (over 1,300 pages including appendices), the overwhelming majority of references are previous Commonwealth Government reports. There is little reference to academic sources or the reports of similar governments overseas.

Finding genuine efficiency improvements in the Commonwealth public sector is a complex and ongoing task, requiring a full consideration of the public interest rather than any one or two sectional interests. Although there are always areas where significant improvements can be made, correctly identifying them, overcoming barriers to efficiency and designing effective solutions will not be quick and simple. As shown in the previous chapter, our public sector is already very efficient in general – the 'low hanging fruit' efficiency improvements have mostly already been 'picked' meaning that further quick and straightforward improvements are unlikely to produce significant gains. For example, as part of its advice on rationalising the structure of government, the Commission recommended 163 government bodies be ceased, merged or consolidated.[127] As with its other recommendations, the Commission did not provide estimates of the likely savings from this. However, as noted above, the savings from the 'smaller more rational government' initiative are $530 million, in a budget of over $350 billion.

The Commission's analysis of public service efficiency suffers from the narrow focus on particular aspects of efficiency given to it by its Terms of Reference. Its inattention to dynamic efficiency, and focus on cuts as a means of achieving efficiency, prevents it from discussing innovation and ways of investing in achieving efficiency over the long-term. However, within this focus it should be applauded for not relying on uniform across-the-board cuts. The Commission explicitly rejected the strategy of high efficiency dividends. Instead, it stated that governments should make conscious choices about the functions to be delivered by the public sector, and that staffing levels should flow from these explicit decisions.[128] Unfortunately, this approach does not appear to have been followed in the subsequent Budget, with the Government further increasing an already high Efficiency Dividend.

Innovation

A significant factor in the efficiency of any organisation is its capacity for innovation. In the private sector, unless there is weak competition, a company that fails to innovate will eventually decline or fail, and be replaced by rivals with better new products or new methods. In the public sector the emphasis is on innovation within long-lasting entities, because most of the major fields of public sector activity are natural monopolies. While some elements of the supply chain may change over time, we can always expect to have, for example, one national defence system, one foreign service, one immigration policy and one social service system. There will usually be one department and portfolio set up to advise and administer policy for each service area. Driving innovation within those agencies becomes essential for ongoing improvements to technical, allocative and dynamic efficiency in the public sector and the wider society that it serves.

> **❝ Public sector innovation has different drivers and faces different constraints than innovation in private sector organisations. ❞**

Public sector innovation has different drivers and faces different constraints than innovation in private sector organisations. Both constraints and drivers need to be understood in order to maximise innovative capabilities in the APS. This section will describe the particular features of public sector innovation, explore what factors drive innovations and what factors are a barrier to it. A number of initiatives are then proposed to encourage innovation in the APS and in public sector organisations generally.

Innovation in public sector organisations

In its broadest sense innovation is simply 'the application of new ideas to produce better outcomes',[129] so any change to adopt more efficient practices requires some capacity to innovate. Innovation can have a number of outcome goals (for example, improving efficiency, effectiveness, program coverage or equity of outcomes) but here we are focussing on innovation for increased efficiency. Innovations often arise out of collaborations and this means that it can be mistakenly assumed that public sector innovation entirely consist of utilising innovation expertise from the private sector through partnerships or outsourcing services. While collaboration with non-public sector bodies is important, it is also essential to drive innovation within the public sector. As such, this section looks at how to facilitate innovation within the public sector by public sector bodies.

> **66 any change to adopt more efficient practices requires some capacity to innovate 99**

To be able to encourage public sector innovation it is important to take note of the differences between public and private sector approaches. Most research on innovation is in private sector contexts, but there is a growing literature on public sector innovations.[130] In particular, work by Sandford Borins using surveys of entrants for public sector innovation awards is useful because this method gathers large samples, rather than the case study approach of most research.[131] The research data comes from a number of different awards across multiple jurisdictions, and three key findings are apparent.

Firstly, public sector innovation is most commonly bottom-up in nature, originating with middle management and front-line staff. Top-down innovation from agency heads or politicians is responsible for fewer of the studied innovations. This contrasts with many private companies which have separate research and development processes and personnel to generate innovation. Second, although innovations are frequently bottom-up, support from the top is often critical in their eventual success. Other investigations have found that bottom-up innovations frequently require a political or ministerial trigger, such as changes in policy priorities, for innovation opportunities to be acted on.[132] Third, most innovations arise in response to internal identifications of a problem. This is a broad category covering problems such as a failure to reach a target population, changing environment, resources constraints, and lack of policy coordination. Other research has also noted the problem-driven nature of public sector innovation.[133] Not all of these problems will spur innovations that increase efficiency, but it is important to note that public sector innovation generally occurs in response to a range of factors, not all of which are present in the private sector.

Having looked at what drives public sector innovation, it will be useful to consider the factors that may act as barriers to innovation. Identifying barriers is necessary in order to consider strategies to encourage innovation that respond to these challenges. A useful summary of research on barriers to innovation is provided by the report *Public Sector Innovation: Shaping the Future through Co-Creation*.[134] Different studies categorise barriers in a variety of structures. However, two themes run through this body of research: an overly risk averse approach taken by public sector organisations and a lack of resources, time and funding, devoted directly to innovation efforts. It is worthwhile exploring both these barriers in detail. In each case, the key point in identifying these barriers and the reasons for their existence is to see in them opportunities for investing in solutions, so that lasting improvements in efficiency can be achieved.

Barriers to innovation – risk aversion

Attempts to innovate involve risk, and so innovation requires the ability to take risks in an effective way. This means that an inappropriately strong aversion to risk ultimately damages efficiency. While the APS has had some successes in innovation, the overriding perception is that public service organisations are not highly innovative because they are overly risk averse. This idea is found in a variety of literature, including academic papers, business research, government reports and media articles.[135]

It is important to keep in mind that some government agencies, due to the nature of their work, are required to be highly cautious and avoid any significant error at all. This often applies in areas of regulatory approval (e.g. regarding the safety of new medications or of key financial institutions). However, other areas do not have this need for low risk tolerance, and even where it is required it is still possible to be overly-cautious.

If it were the case that the APS was overly risk averse, then it would represent a barrier to the improvements in efficiency, through innovation, that we expect of our public service. It may affect the ability to trial new methods, introduce efficiency measures, share information and collaborate across agencies, collect and publish information, openly consult and explore ideas with external stakeholders, and impact risk management regulation and compliance. Given the breadth of areas that risk aversion potentially impacts, it is important to ask the following questions: Are public sector organisations, and the APS in particular, risk averse to the point that it damages innovation and efficiency? If so, what is driving this risk aversion? Can risk aversion be eliminated or is it inherent to the sector? Ultimately, what can be done to encourage effective and appropriate risk-taking in the public service?

Although little academic research has been done on public service risk aversion in Australia, there are international studies that have attempted to understand how risk aversion manifests in the public service. A study in the USA conducted over 30 years ago showed a correlation between a measure of individual risk aversion and public sector employment; the study interpreted this as indicating that risk averse individuals were more likely to choose public sector jobs.[136] A recent Dutch study supports this view by showing that individuals employed in the public sector were less likely to take a risky option than those in the private sector, regardless of how long they had been part of the public sector.[137]

However, two more recent studies from the USA found that managers' perceptions of organisational risk aversion were not directly related to the sector that they were in, but to factors that commonly differ between sectors (such as managerial trust and the levels of formal constraint on management actions).[138] Bozeman and Kingsley explore the issue of public sector risk aversion in relation to managerial approaches. For them, the categorisation of sector has very little to do with actual risk aversion, but more to do with organisational structure and direction of employees. They posit that there is very little difference in the way things can be done in a public or private organisation. Instead, they argue that the problems of risk aversion in the public sector are caused by: an overemphasis on controlling employees, a high level of formalisation and red-tape, low expectations regarding rewards for good work and a lack of a clear organisational goal. In other words, particular managerial features determine the level of risk aversion. Although these features are more common in the public sector, if they are absent there is no reason for the sector to be more risk averse.

Although the studies differ on why risk aversion is characteristic of the sector (and it is possible that both managerial features and the personnel attracted are making a contribution), all support

the notion that risk aversion is not inherent to the sector, since strategies to change managerial characteristics or attract different personnel would counter these effects. However, the studies agree that risk aversion tends to be stronger in the public sector.

It may be that the APS is overly risk averse even in comparison to other public services, though supporting evidence is limited. One study compared data from surveys of Canadian and Australian public service manager perceptions, and it touches briefly on risk averse behaviour and innovation.[139] The main difference in this area was that although 79% of Canadian respondents thought that the balance between innovation and risk was recognised by senior staff and management, only 58% of Australian respondents thought that the balance was well understood.

Some Federal Government reports have provided evidence of an overly risk averse tendency. A series of reports on the capability of major agencies in the APS include assessments of innovation that specifically address whether an effective approach towards risk management is present. While the Department of Prime Minister and Cabinet[140] and the Department of Infrastructure and Transport[141] were assessed as performing well on innovation, the Department of Immigration and Citizenship (DIAC),[142] the Department of Human Services,[143] and the Australian Customs and Border Protection Service[144] were all judged to be overly risk averse. Also, in the 2011-2012 *State of the Service Report*, 45% of around 87,000 respondents to its Employee Survey reported there was an 'unwillingness of managers to take risks' in relation to bringing about innovation.[145]

> **66** risk aversion is not inherent to the sector... However, the studies agree that risk aversion tends to be stronger in the public sector **99**

One recent example of public sector risk aversion is seen in the ongoing struggle faced by the APS to trial ways of implementing new methods of communication into its agencies using web technologies. In 2009, the *Engage: Getting on with Government 2.0* report noted 'the taskforce believes that the existing culture of the APS focuses on online engagement as a risk rather than a benefit'.[146] Despite an Australian Public Service Commission (APSC) edict to update its online procedures,[147] media reports still highlight the difficulty faced by public servants in effectively using social media to engage with the community, because of a culture of risk aversion.[148] Andre Muys' submission to the *Government 2.0* report detailed the 'constant fear of criticism and rebuke' that government employees experience while drafting or implementing new policy. He suggested there needs to be room for failure, or the government risks losing employees to operational paralysis.[149] This risk aversion is affecting the way new information technologies are being incorporated into the APS. This is also an example of the disconnect between the government's strategies to innovate using technologies that will have efficiency benefits and the stalling of these innovations due to risk aversion.

Given the evidence that at least some areas of the APS are overly risk averse, it is important to consider the factors that may be driving this, so that the issues can be analysed and responses can be developed to minimise them as problems. A number of factors have been suggested as having a role in risk aversion in public service. They include, in particular:

> » **Culture**: Risk aversion has been described as emerging out of an organisation's culture.[150] If an organisation attempts to introduce new strategies that are at odds with the organisation's culture, the strategies are unlikely to stick. Or, in words attributed to management guru Peter Drucker, 'culture eats strategy for breakfast'.[151]

> » **Incentives**: Another issue is the lack of reward for public service workers to put themselves on the line and attempt to suggest and implement innovative ideas.[152] Whereas many

private sector organisations expect less than a 100% success rate for new products and processes, and design their strategies accordingly, this is less common in public services. Instead, there are often harmful effects on a public servant's career if any one innovation fails and becomes the subject of media and opposition attention.[153]

» **Leadership**: It is critical that leaders in the APS support and demonstrate innovation.[154] If managers in the APS do not take risks to innovate, then their employees are very unlikely to do so.[155] The clear backing of senior managers is crucial.[156]

» **Hierarchy**: Long hierarchical reporting chains become as risk averse as the most risk averse actor in the chain. This process causes time delays and creates a disconnection for staff whom often lose the motivation to keep putting forward ideas. This is known within the internal circles of the APS as 'death through frustration'.[157]

» **Inhibited idea communication**: Remaining apolitical is an important facet of an effective public service; indeed, it is enshrined in legislation.[158] However, it has been suggested that efforts to remain apolitical go too far and inhibit the exchange of ideas amongst public servants.[159] The risk that proposing new initiatives will be interpreted by the media as a criticism of current government policy hinders the free flow of ideas essential to innovation.

» **Political micro-management**: One APS employee described risk aversion as:

We'll it's sort of drilled into... every sort of public servants mind from day one... it's because there is such an overarching responsibility around accountability, transparency, proper use of taxpayer money that... we're all a Daily Telegraph headline away from disaster... so there's a disconnect between the rhetoric and the reality, and until such time as people make mistakes and the government is seen to be supporting those people who make mistakes, then the APS will continue to be a bit risk averse.[160]

If ministers and their offices are actively micro-managing the APS in every sector and every program, they become directly responsible for every outcome. This means the political risk of programs is magnified and sheeted home to the minister. When the successes of government actions are ignored and the failures strongly punished it creates a risk averse environment. Ministers will face the temptation to avoid the risks involved in any innovation, regardless of its overall benefit, because there is unlikely to be any political benefit to them. This can also be seen in examples of ministers' involvement in regulatory activity, where a tendency has been noted for ministers to intervene in ways inconsistent with regulatory agencies' risk based approaches, modifying regulations based on particular political circumstances without regard for the risk management approach of the regulator.[161] An example of this was the Commonwealth Parliament's overriding of the Australian Fisheries Management Authority (AFMA) on the issue of the *Abel Tasman* 'super trawler'. In this case the scientific risk assessment of the AFMA was that the vessel would be within sustainable limits for the fishery if it complied with a catch quota assigned to it. This was overturned due to a political decision to address the large public outcry about the size of the vessel. Thus, a permissive approach by the regulator on the kinds of vessels to be given licences was changed to a ban on 'super trawlers'. There is disagreement over whether the scientific evidence was sufficient to support AFMA's risk assessment,[162] but regardless of this, the case represents a clear example of a more risk averse position being imposed on the regulatory body by elected representatives.

It is interesting to note that, with the exception of the two factors generated by the political environment, all of these can also be present in private sector organisations. It may be that in

overly risk averse public service organisations the same factors existing in the private sector are simply present to a greater degree. However, an alternative possibility is that it is the political environment that is largely responsible for increased risk aversion in the public service.

In all cases, awareness of these problems and appropriate investments in responses usually produce valuable solutions that will enhance innovation towards efficiency. It might be thought that the incentive to invest in much needed changes increases if the public service faces greater austerity. However, innovation, research and change management are often the first things to be cut in times of austerity, because the political imperative remains to emphasise the continuation of front-line services while cutting the 'back office'. This brings us to another major barrier to the pursuit of public service efficiency through innovation – the lack of resources applied to the task.

Barriers to innovation – lack of resources

The research on public sector innovation indicates that lack of resources can sometimes be a problem that spurs innovation.[163] However, lack of resources is far more likely to act as a barrier to innovation. In surveys on public sector innovation award entrants, a lack of resources was the most commonly identified obstacle to innovation.[164] In addition, it has been found to be by far the most difficult obstacle to overcome. One study in the USA measured the success rate of the public service in overcoming obstacles and found it to be 58% on average. The success rate for overcoming the specific obstacle of a lack of resources, however, was much lower than the average at 19%.[165] This means that for almost every other obstacle the majority of innovations overcame it, but four out of five innovations continued to be negatively affected by a lack of resources. Analysis of the attempts to find funding show that most funding obtained was short-term.

> 66 **When the successes of government actions are ignored and the failures strongly punished it creates a risk averse environment.** 99

In addition, the uniform and indiscriminate means by which APS resources are frequently reduced, such as through the Efficiency Dividend and other across-the-board cuts or hiring freezes, are poorly aligned with the dynamics of innovation.[166] The Efficiency Dividend fails to take into account the reality that opportunities to innovate may vary widely from year to year – it is applied equally in years where major new relevant technologies are available as when they are not. Also, productivity during a successful innovation may initially dip with the introduction of the innovation, as personnel become familiar with a new way of operating. Later, as skills improve, the advantages of the innovation become apparent and productivity goes up to levels higher than before the introduction of this innovation. Because the Efficiency Dividend takes the 'dividend' out of agency budgets first, and then leaves the public service to implement innovations to cover the loss, embarking on an innovation means suffering a loss of productivity when resources are already stretched.

For these reasons, resource constraints need to be considered a significant potential barrier to innovation in the APS, and thereby a possible cause of inefficiency due to lack of innovation.

Driving innovation in public sector organisations

A number of potential reforms to increase innovation in the APS, including innovations for increased efficiency, are suggested by the above discussion. With the exception of adequate resourcing, these most often point to the need for significant changes in the way that the APS has been organised and led.

Cross-agency innovation teams

Some studies discussed above indicate that public service organisations may attract individuals who tend to be more risk averse. If this is the case, then encouraging innovation might be achieved by pulling together teams of those public servants who are more risk tolerant. Cross-agency innovation teams made up of volunteers seconded to the initiative would be a good way of drawing together those public servants with an appetite for innovation and risk. They would also pull together knowledge from different areas of the APS, increasing the chances that integrated innovations can be devised and implemented.

A good example of cross-agency teams facilitating innovation, though not necessarily widely recognised as such, is the Suspected Child Abuse and Neglect (SCAN) teams that operate in Queensland. SCAN teams consist of professionals from statutory and non-statutory bodies involved in child protection. They meet regularly and are a formal forum for multi-disciplinary consultation.[167] The purpose of the teams is to ensure a coordinated and effective approach is taken by relevant bodies to notifications of abuse or neglect. However, there is evidence that these teams also promote the implementation of new service delivery practices, which is a form of innovation.[168] The research suggests that cross-agency teams have this effect because they have a number of features that make moves to new practices more likely, such as providing a new setting that can 'unfreeze' old attitudes and behaviours. Given this evidence, it seems likely that cross-agency teams set up to pursue innovations would be a highly effective way of boosting innovation.

This proposed means of facilitating innovation is slightly different from teams like the Gov 2.0 taskforce[169] and design.gov.[170] Those teams were set up to facilitate innovation elsewhere in the public service; their purpose is to draw out innovative ideas and provide support to those implementing them. The cross-agency teams envisioned here are made up of public servants involved in an area of service delivery. Rather than being a support mechanism to enable others to innovate, these teams would generate the innovations and be directly involved in implementing them. The SCAN teams example above shows how cross-agency teams tend to be more innovative, even when the teams were not specifically set up for the purpose of driving innovation. These cross-agency teams would have driving innovation in service delivery as their explicit goal.

> **The significance of lack of resources as a barrier to innovation means that a fund to provide investments in innovation might be advantageous**

Top level facilitation of bottom-up innovations

As research indicates that the majority of public sector innovations are initiated by middle-management and front-line public servants, but require top-level support, this implies that programs where bottom-up innovation is facilitated by top-level actions would be beneficial. An example of this is creating a window for innovation by the temporary adoption of more permissive standards that govern aspects of public service operations. This allows groups of front-line public servants to experiment with new approaches, which can then be used to inform the creation of new standards. An example of this was implemented in the UK for standards governing diabetes education. As a result, a new approach to the treatment of type 2 diabetes was developed over 2002-2005 by a diabetes care unit in Salford.[171] This was a move away from a traditional healthcare model where an entirely passive patient simply accepts the decisions and complies with the instructions of the health care professional, to a patient-centred approach that delivered substantial increases in the clinical benefits of treatment.

Low risk approach to pilot programs

The evidence that an overly risk averse approach may be present in the APS suggests that strategies

to reduce the risks involved in innovations are needed. One way of achieving this is adopting measures reducing the political risks of innovation, such as running multiple pilot programs. Running multiple pilot programs simultaneously reduces the risk that a pilot program will be seen to have 'failed' if it is not adopted. If multiple trials are set up with the stated intention of taking on best practice, then trials not adopted have not failed, they are simply part of an evidence-based process of arriving at best practice.

Of course, while pilot programs can be very useful, they can be criticised as a political tool to make it look as though action is being taken, when in fact it is not. Pilot programs need to have robust and carefully administered evaluations. This is to ensure mediocre programs do not progress into long-term policy 'solutions' and that successful programmes are appropriately refined, scaled up and achieve full implementation. This may seem like an obvious point, but it is too often ignored in practice.[172]

Innovation awards and recognition

In addition to reducing risk, incentive schemes could be devised to reward innovation and counter risk averse organisational culture. The prestige attached to such awards would be a motivator in itself, as well as providing career advantages, such as increased chance of promotion. Innovation awards exist in many public service organisations, including the APS, but more work is required to ensure they are fully effective. There are strong theoretical reasons to think that innovation awards can be highly effective, but empirical evidence on their effects is lacking.[173] Nevertheless, widespread use of such awards across multiple jurisdictions indicates confidence in their effectiveness by senior public servants. Further research is necessary to develop a good understanding of the optimal features awards should have to encourage innovation. For example, how winners are publicised, the composition of the judging panel and what the award itself is.[174]

Innovation investments

The significance of lack of resources as a barrier to innovation means that a fund to provide investments in innovation might be advantageous, especially at a time where agency budgets are being reduced. By setting aside funding specifically, the government can encourage departments to feel more secure in submitting ideas for innovation. One such initiative, the *Invest to Save Budget* (ISB), was a UK idea that implemented some whole-of-government approaches (referred to in the UK as 'joined-up government'). ISB gave money to initially fund programs that showed promise, and to encourage different agencies to collaborate and take risks on innovations, without undertaking too much of the initial risk themselves.[175] What the fund also did is capture and share information on problems that programs face, and in this way it sought to educate other agencies on how not to make similar mistakes. The fund, which can be compared to venture capital because it is a special pool of money that is used to test out projects, reported many successes. One such was the *Life Events Access Project* (LEAP), which aimed to provide improved access to services at a single point through a structure linking services to eleven life events. For example, the 'changing employment status' life event provides access to information on assistance with job seeking, as well as information on the benefits available while unemployed. The estimated savings of the £2.2 million project were £8 million.[176]

Similar programs also exist in the USA, such as the Federal Department of Education's *Investing in Innovation Fund Competitive Grant Program* and New York City's *Center for Economic Opportunity*.[177] It is worth noting that many private sector organisations have specific research teams and dedicated investments in innovation. The public sector relies more on in-house innovation by workers and their managers. This suggests that the APS should make specific investments in innovation rather than just hope the culture of existing practitioners will produce some.

Illustrating potential innovation initiatives

While further work is required to define an efficiency-focused innovation agenda for the APS, there are some potential examples that can be drawn from recent studies to illustrate the possibilities:

» **Tax-Transfer system single account platform**: The *Australia's Future Tax System Review*, chaired by Dr Ken Henry, included strategic recommendations for taking the tax and transfer system into the 21st century digital age, with major innovations to improve the interfaces between businesses, households and government.[178] It recognised this would take new leadership and cross-agency collaboration, as well as close consultation with businesses and households. This example is a good illustration of the idea that the efficiency considerations must apply as much to the impact of government on the rest of the community (e.g. private sector efficiency) as on measured efficiency of government services alone. Tax and transfer processes since that report have instead remained largely under-resourced and siloed.[179]

» **Public service design and behavioural economics**: In the UK and northern Europe, governments have in recent years been building capacity for policy and process design experimentation in providing public services, including teams that have developed service applications of the latest developments in the behavioural sciences.[180] These can greatly improve efficiency through better processes and policies that more effectively reach client targets. The very minimal Australian Federal Government efforts in these areas have been victims of general resource cutbacks (e.g. the closure in 2013 of the *DesignGov* pilot study of business-government interactions barely after it began).[181]

> **using 'wikis' as a tool for community consultation and collaboration… aids efficiency by producing better designed and more informed policies**

» **Selection of infrastructure projects**: The Productivity Commission has recently released a draft report on public infrastructure that is highly critical of the processes for project development, assessment and selection. Failures of process in this area have enormous efficiency costs, and this is a very good example of where investment in public service capability and systems, including in procurement, is far more likely to deliver efficiency gains than cutbacks to resources available for the task.[182]

» **Wiki-based policy collaboration**: A number of governments have begun using 'wikis' as a tool for community consultation and collaboration. (A wiki is a type of website that allows collaborative generation and editing of its content – the most well-known example is Wikipedia.[183]) The government of the Canadian province of Alberta used a wiki platform to develop its *Social Policy Framework*, a document setting out the goals, the measurable results to be achieved, and the roles of all those involved in Alberta's social policy. The platform also includes a core set of actions the government has committed to.[184] Such an approach allows for community consultation that is both broader and deeper than what can generally be achieved through previous consultation methods, such as focus groups. The wiki was accessed by 27,479 people and allowed them to fill in surveys and upload submissions, as well as directly edit wiki entries.[185] Consultation of that quality aids efficiency by producing better designed and more informed policies, together with wider community support during implementation.

Professional accountability

Ensuring accountability for achieving goals is critical for the efficiency of any organisation. The achievement of organisational goals are the results that must be considered, along with the resources used, to obtain a good assessment of technical efficiency (as discussed in Chapter 1). Knowing what organisational goals are being achieved is also critical to allocative efficiency; it is important to know that effort is being allocated to the right place. This is particularly important to public sector organisations like the APS, which have a duty to be responsive to the public interest embodied in such goals. Accountability is not just about ensuring better services; it is also about being responsive, either directly or through the political process, to the goals of citizens.

This section discusses the accountability structures of the APS, including the systems that assess whether goals are being met at all levels, from agencies to individuals. Of course, at an individual level it is often difficult or impossible to make a direct connection between actions taken and whether the broader goals of an organisation are being met. However, as is discussed below, it is important that there be some alignment between the outcomes expected of an employee and their organisation's goals.

An examination of current APS accountability structures reveals they have become too focused on what can be easily measured or, even worse, on what can easily be claimed to have been achieved. A serious commitment to efficiency in the APS would involve an extensive review of the role and conduct of accountability arrangements. This would need to confront some fundamental questions about the style and substance of government itself, and about the relationships between the political and administrative arms of the public sector.

The current 'performance management' approach

The effectiveness of procedures to ensure accountability in the APS have been a concern for many years. The 1976 *Royal Commission Report on Australian Government Administration* (the *Coombs Report*)[186] quoted one public servant saying: 'No matter how good you are you don't get anywhere. I won't be fired if I am a bad worker; I won't be promoted if I am a good worker.' The report was very critical of the staff assessment systems of the time. Undoubtedly, improvements have since been made. However, a 2013 report on the APS performance framework found that implementation of effective systems was uneven amongst agencies.[187] The National Commission of Audit report also noted that the quality of performance reporting varies markedly and acknowledged the need for improved performance information in the APS.[188] Suffice to say, there is still a great deal of work to be done. Less than half of all APS employees feel that their current performance management system will help them in improving their work.[189] This general negative perception is backed up by investigations of specific elements, such as Key Performance Indicators (KPIs).

KPIs can be a useful means of monitoring and identifying problems with performance in the public sector, utilising qualitative and quantitative information to spur and inform queries as to whether departmental goals have been met. This is beneficial to efficiency, as KPIs can therefore be employed to help discern which managerial methods are working, and which are not. However, the theoretical potential benefits of KPIs are not always achieved in practice. A 2013 Australian National Audit Office report looked at a selection of KPIs across three APS agencies. It found that the majority of KPIs met the criteria of being measurable, but most failed to 'signal the impacts of program activities' completely.[190] Also, none of the three agencies had KPIs that as a collective demonstrated both the full range and quality of its achievements in furthering program objectives. This provides a good example of the focus on what can be measured, without sufficient attention on the outcomes.

Given the difficulties with previous 'performance management' systems, and how critical accountability is to efficiency, it may be useful to explore a more inclusive accountability approach. This might be termed a 'professional accountability' approach; it focusses on outcomes, and takes into account the critical role that values and relationships play in ensuring that organisational goals are met. Many of the features of this approach are exemplified, in a non-public service context, by reforms outlined in the Grattan Institute report, *Making time for great teaching*.[191] Similar to what is described below, this approach focusses on outcomes, in that case improved teaching quality. The approach also incorporates peer assessment and giving staff flexibility and autonomy in pursuing improved performance.

Need for a focus on outcomes

A critical challenge for any organisation attempting to measure whether its goals are being met, is to measure what is important rather than what can be easily measured. The importance of outcome goals for public service organisations is widely acknowledged.[192] This focus on organisational outcomes is vital for a number of reasons:

Firstly, if the focus is on easily measurable indicators it can result in the organisation only increasing the activities that are measured, and not better achieving its goals. An example of this is measuring hospital waiting times (defined as the period from the initial consultation to the recommended procedure) in the UK, which reduced waiting times, but only by delaying initial consultations. In other words, people were simply having to wait longer to get onto the waiting lists; the total time people spent waiting for a procedure had not decreased, only the narrowly defined and measured 'waiting times' had.[193]

Secondly, outcome measures are important for external accountability and transparency. If the activities of public service organisations are judged simply on inputs (e.g. how much money is being spent on a problem) or outputs (the activities undertaken) it can give a false impression of their performance. This impression can be falsely positive if, for example, the activities are not actually addressing the problem effectively. Alternatively, it can be falsely negative, such as a case where it is perceived that money is being spent on a problem that is not going away, when in fact the problem is being reduced. Although inputs and outputs are often easier to measure, ultimately it is the outcomes that are the main concern for governments and citizens.[194]

Thirdly, the process of measuring outcomes can improve planning by giving organisational goals and priorities more clarity. By following an outcomes-based approach, the organisation can better clarify what their objectives are in the short- and long-term, and properly assess how to prioritise the tools and resources needed to achieve those outcomes.[195]

In order to focus on outcomes, an organisation needs to ensure that the goals, strategies, systems and processes involved in this monitoring, and the overarching organisational culture, are aligned with the priorities of the organisation. This process of alignment requires organisations to have clearly defined and articulated priorities. As was mentioned above, the APS has multiple and complex goals, so this clarity can be difficult to achieve.

Geoff Gallop, the former Premier of Western Australia, has argued Australia needs a national plan and a process for developing national objectives.[196] This would be in addition to strategic plans already created by some agencies. A national planning process would provide broad outlines of the policies, government programs and external partnerships needed to achieve these objectives, and would set out monitoring and evaluation mechanisms. This would be similar to plans developed by State and Local Governments, such as *South Australia's State Strategic Plan*, although it would obviously involve a greater degree of complexity. A national plan clearly

outlining the overall goals of government would no doubt make the alignment of agencies' planning with these goals more effective, leading to a stronger outcome focus.

Other methods and institutions for determining and implementing national priorities are set out in *Now for the Long Term*, the report of the Oxford Martin Commission for Future Generations.[197] The report highlights that a lack of long-term thinking and planning is widespread across governments, institutions and industries. It outlines a number of initiatives that have been used in various countries to drive a more strategic focus. These initiatives include institutions specifically set up to advance the interests of future generations, such as Finland's Committee for the Future. Other initiatives follow a whole-of-government approach, such as the creation of National Planning Commissions. There is a great deal of international, as well as State and Local Government, experience that can be drawn on to design a process for determining national goals. In addition, useful complementary processes already exist at a Federal level, such as the *Intergenerational Report*, which requires Treasury to conduct a long-term stocktake of the implications of existing policy.[198] Clarity and cross-party consensus on at least some national objectives is a necessary condition for the goals of the public service to be clearly set.

As mentioned above, it is important that employee goals are aligned with organisational goals. One way to achieve this is to ensure that the way individual employees can contribute to organisational goals is measured. This requires clarity in formulating organisational goals and clarity in the design of accountability systems that relate to these goals. APS management has had difficulty achieving high levels of clarity.[199] The evaluation of KPIs described above provides a specific example of the lack of clarity affecting accountability systems. Given this, embodiment of organisational goals in accountability systems may require building further capacity in the APS for the process of goal specification and alignment with accountability systems. A leading role in this is consistent with the 'new APSC' proposed by the *Ahead of the game* report.[200]

Another means of focussing APS activities on outcomes is increased direct contact with the public by engaging citizens in the provision of services. This kind of client directed approach gives citizens more involvement, and therefore likely a bigger say, in the delivery of services. Greater contact with citizens is likely to help public servants to achieve a deeper understanding of their goals. Client directed systems can take a number of forms. Good examples are initiatives termed 'co-production'. A number of successful co-production initiatives have been carried out in the UK such as the Croydon Service Users Network (SUN).[201] This is a support network involving a partnership between people with long-standing behavioural or emotional issues, and psychiatric professionals. It draws together people with similar experiences who can help each other as individual crises occur. Groups are co-run by a professional and a former member of SUN with lived experience of personality disorder. The close partnership of professionals and service users leads to a much more active relationship, and has reduced usage of hospitals by members.

> **66 it is important that employee goals are aligned with organisational goals… This requires clarity in formulating organisational goals and clarity in the design of accountability systems. 99**

Need for an experimentalist approach to measuring outcomes

A challenge for the design of systems to ensure organisational goals are met is that the measurement of what is important, the outcomes, is often difficult and not always possible to undertake top-down or centrally without the input of those closer to the front-line of operations.

Neither of the above two difficulties with outcome measures are a reason to use input or output measures instead. As outlined in the previous section, they have more serious defects. Instead, one approach to improve efficiency (and effectiveness) may include some re-conceptualisation of accountability systems, from an emphasis on top-down 'performance management' to more decentralised models, such as greater reliance on client directed systems, subsidiarity principles and effective professional accountability. This means a focus on much more effective outcome measures. However, where centralised measurement is likely to lead to flawed metrics, there needs to be an 'experimentalist' approach to accountability that allows for the possibility that metrics may need to be corrected and adapted.

In addition to the difficulties posed by creating effective outcome measures, it is also possible for centrally determined measures to become counter-productive as the world changes or as knowledge grows. A simple example is assessing police performance by the percentage of crimes solved. In the Netherlands this statistic was decreasing, suggesting police performance was getting worse. However, this failed to take into account the changing nature of crime in the country. Crime had become more violent, so the police were dealing with more serious criminal activity, but this was not reflected in the statistic. Also, there were more incidences of arrests for crimes with multiple perpetrators (e.g. vandalism), meaning more criminals were being prosecuted, but this too was not covered by the indicator.[202]

Thus, it needs to be acknowledged that some outcome-based performance measures will need to change over time. Such changes will require the input of those being assessed if the measures are to be useful. Poor measures can cause significant problems for efficiency, as they can drive organisations to take actions that are unrelated, or even detrimental, to their goals. Investment in good measures is essential, and this investment needs to include the input of those with front-line experience and expertise. Measurement should not obliterate front-line discretion. This applies to both the creation of measures and on-going maintenance and improvement of them as circumstances change. An experimentalist approach also addresses both of the difficulties in creating effective measures, and in maintaining and adapting them over time.

The term 'experimentalist' is taken from Charles Sabel's description of 'experimentalist institutions'. A commitment to experimentation at an institutional level necessarily requires a level of experimentation and iteration in measuring performance within such institutions.[203] Experimentalist institutions allow for discretion, but the discretion is explicitly authorised. In return, the front-line professional must provide detailed information on progress, including against agreed metrics, and the discretion and monitoring is reviewed by peers. The application of these ideas in an Australian context is supported by Terry Moran, former Secretary of the Department of the Prime Minister and Cabinet, who has expressed approval for 'giving people at the local level a bundle of resources, some outputs to deliver, some standard pricing arrangements, and thus a whole lot of freedom to operate'.[204] Commitment to peer review supplies accountability and an organisational learning mechanism, turning discretion from a problem for organisational change into part of its process. Peer review in a co-production environment could also include the input of service users.

Sabel contrasts experimentalist institutions with organisations that are similarly made up of public sector workers who, because of the complexity of their work and its distance from supervision, routinely exercise discretions that cannot be reviewed. However, such discretion is in practice exercised within a set of tacit rules that are embedded in organisational culture. This kind of discretion is, arguably, undesirable for two reasons. Firstly, it may be undemocratic if such culturally embedded rules are unresponsive to both elected representatives and the general

public's wishes. Secondly, it may be inflexible; organisational cultures tend to change slowly, so such discretion may not adapt effectively to rapid changes in circumstances.

The experimentalist approach acknowledges the need for investment in outcome measures and for front-line involvement in the development and reassessment of measures to avoid false measures, mismeasurement and the inefficiencies that result. Outcomes should be centrally measured, but there must be processes to allow questioning and revision of the measures. In this manner, outcome indicators are used to generate questions about whether the goal or target has been met, rather than simply answering the question 'what has been produced or supplied?' This is also similar to the concept of 'double loop learning', as described by Chris Argyris and Donald Schon, in which individuals may question and modify the governing norms, policies and objectives of an organisation upon the correction or detection of an error in organisational decisions and actions.[205] This is in contrast to single-loop learning, where the response to unintended and unwanted consequences of an organisation's actions is to seek new strategies and techniques to fulfil the current norms, policies and objectives, rather than questioning them.

The need for trust

As discussed, improvements in the system to ensure accountability will require managers to strengthen outcomes-based approaches and encourage higher levels of discretion. The potential problem with this approach is the increased uncertainty for public servants. Capacity to operate in uncertain environments will need to be built.

Capacity to operate within uncertain environments is addressed in literature on organisational trust, which is defined as: the 'willingness to act on the basis of the words, actions and decisions of senior management under conditions of uncertainty or risk'.[206] Lack of trust has been a factor in problems with performance management.[207] Trusting relationships need not be blind or naïve, ignoring available clear evidence. Instead, relationships should promote authentic trust, which is focused on the relationship, is reflective and honest and is backed by reasons to trust.[208]

Assessments by managers are necessarily an interpretation, so staff trust in their supervisors and management generally is needed to allow full and frank feedback to be given and accepted. Since not all outcomes can be measured, trust in the values and dedication of public servants is required. Trust in management in turn increases the value that public servants place in being and staying in their organisation. It increases the chance of genuine participation in professional accountability and encourages commitment to areas of work that cannot be fully measured.

There is a great deal of literature on trust in organisations, and efforts to support trust must draw on available evidence. This means that there needs to be continuing efforts to improve the aspects of the public service workplace environment that have been associated with increased trust in management, such as communication, procedural justice and organisational support.[209] Such factors can be significantly influenced by human resources policy.

All outcome-focussed approaches need trust. A professional accountability approach acknowledges this and therefore acknowledges the requirement to build and maintain trust. It should be noted that there are benefits to supporting trust that go beyond enhancing accountability systems. Trust has been implicated in reducing cynicism with regards to change.[210] This would presumably reduce internal resistance to innovations and make the organisation more efficient. Also, employees who are engaged and committed to an organisation, and their roles within it, act as positive advocates for their organisation, which in turn improves its public image and reduces the cost of recruitment and training.

Political supervision

Much of the discussion above on ensuring accountability is applicable to the relationship between ministerial offices and the public servants they interact with. This relationship requires an equivalent focus on outcomes, and perhaps a greater imperative to build and support trust. Arguably the most critical relationships in the operation of government are those between ministers' offices and senior public servants. Worryingly, there are indications of increasing tensions in this relationship.

The Employee Surveys undertaken for previous *State of the Service* reports have in some years asked public servants who have had direct contact with ministers or their offices the following question: 'have you faced a challenge in balancing the need to be apolitical, impartial and professional in dealing with Ministers and/or Ministers' offices?'[211] This question has not been asked since 2012, but data from the previous four years is available and raises a concern. Figure 3.2 shows the percentage of the public servants that have contact with ministers' offices who reported facing such challenges:

Figure 3.2 - Percentage of public servants reporting difficulties when interacting with Ministers and/or Ministers' offices
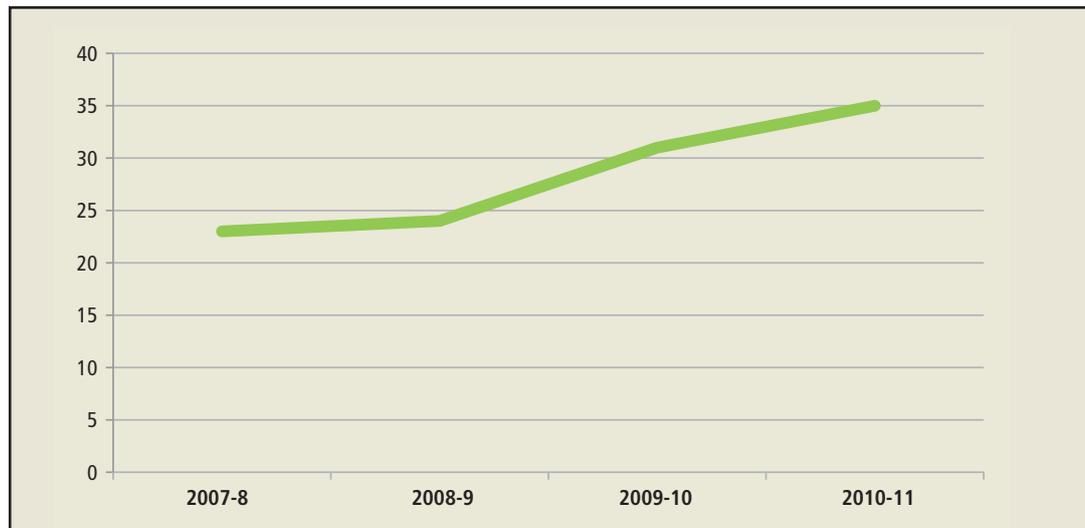
Source: Adapted from APSC, State of the Service Report: State of the Service Series 2010–11, 2011; APSC, State of the Service Report: State of the Service Series 2009–10, 2010; APSC, State of the Service Report: State of the Service Series 2008–09, 2009.

The data is limited, but signs of increasing strain in this critical relationship must be taken seriously. Questions on whether this is a long-term trend, what the causes might be and if it is reducing efficiency should be investigated. It may be that an approach based on outcomes and trust could improve this relationship. Perhaps there is a need to move away from daily management by ministers' office. Such offices should perhaps focus less on how to run the public service and more on what to ask of it. This is not in any sense an argument that ministers should have less of a role in holding the public service to account. Clearly the public service must be accountable to democratically elected representatives. What is being pointed out is that there is evidence of some dysfunction in this vital relationship, and this implies a need to rethink how it is approached.

Conclusion

Efficiency in public services is critical if we want our tax dollars well spent and our government to achieve all of what we as a country think that it should. Unfortunately, public and political debates on this topic are too often mired in misunderstandings. The evidence on efficiency is misrepresented or ignored; the very meaning of the term is twisted to suit other agendas or evidence-free arguments.

The danger is that we risk falling into 'false economies' – actions taken in the name of efficiency that lead to waste and inefficiency, either within government or for the wider community. There are a number of different false economies possible. We can have our government step back from activities where there is collective benefit in government involvement, or step into areas when it should step back. We can make the wrong choices on how public services are delivered and who they should be delivered by. We can fail to match our expectations of what government should do with the realities of the resources these expectations require. And in the course of arguments over the 'size' of government, we can stifle or lose opportunities to increase the efficiency of our public services.

> **The danger is that we risk falling into 'false economies' – actions taken in the name of efficiency that lead to waste and inefficiency**

No discussion of efficiency should stop simply at considering the current resources we are using. We must consider the results we are getting for those resources, both now and as future investments. We must also consider whether those results are the work we want done, and how this work should adapt to changing technologies and practices. The more complete definition of efficiency offered by this report makes clear that, despite the stereotypes, our public service is already relatively efficient, whether you compare it to the public services of other countries or to the private sector. It also exposes the danger of simplistic arguments about cuts, and a misguided belief in guaranteed benefits from outsourcing or privatisation.

Although our public service is relatively efficient, it is of course not perfect. A final advantage of a full definition and analysis of efficiency is shining a light on how we can design genuine efficiency improvements. This report suggests two directions that have been given inadequate attention.

Firstly, our public service can become more innovative through:

» The creation of cross-agency teams to help drive innovative approaches to services

» Initiatives by agency heads to facilitate bottom-up innovations (such as temporarily implementing more permissive standards to create a window for experimentation with new techniques by front-line workers)

» Taking a low risk approach to pilot programs (such as running multiple simultaneous pilots to reduce the political risk of a pilot being seen as 'failed')

» Awards and other schemes to give recognition to innovative public servants

» An innovation investment fund to provide a public sector equivalent to venture capital, combined with mechanisms to capture and share information on implementing innovations

Secondly, much more could be done within the public service to develop a more efficient and effective outcome-focussed and experimentalist approach to accountability. This would help ensure organisational goals are being met, and could involve the following initiatives:

» Building further capacity in the APS for the process of goal specification and alignment with accountability systems, perhaps led by the APSC

» The creation of a national plan outlining the polices, government programs and external partnerships needed to achieve government objectives, along with monitoring and evaluation mechanisms

» Increased use of client directed systems, such as those implemented under co-production initiatives

» Shifting to an experimentalist approach to accountability where front-line discretion is explicitly authorised and in return the front-line professional must be peer reviewed and provide detailed information on progress against agreed metrics

» Increased efforts to build organisational trust by improving aspects of the public service workplace environment that have been associated in the literature with increased trust in management, such as communication, procedural justice and organisational support

» Review the ways that the political levels of government relate to and oversee the public service

The objective of this report has been to present these concepts and suggestions in such a way as to enable more Australians to take part in debates on the efficiency of public services. It is important because, as was stated at the beginning, the work of the public service represents our money being spent on us and the things that matter to us. A comprehensive study of efficiency provides all Australians with the tool-kit to have a say, not just at the ballot box, in public debates on how this money can best be spent.

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