

19 February 2018

Senator Dean Smith (Chair)
cc Hon Julian Hill MP (Deputy Chair)
Joint Committee of Public Accounts and Audit
Parliament House
Canberra ACT 2600

By email

Dear Senator Smith and Mr Hill

Centre for Policy Development Submission to JCPAA Inquiry

We welcome the opportunity to make a submission to the Inquiry your Committee has established (JCPAA Inquiry) based on the Auditor-General's ANAO Report No. 19 (2017) (ANAO Report).

The Centre for Policy Development (CPD) has a track record of research within our Effective Government Program into the issues that lie at the heart of the JCPAA Inquiry, including public sector capability, service delivery, the effectiveness of outsourcing, and the use of consultants. Our long interest in these matters is reflected in the reports attached to this submission, including [False Economies](#) (2014), [Grand Alibis](#) (2015), and [Settling Better](#) (2017). These issues also informed our 10th Anniversary series throughout 2017, which focussed on renewing Australia's democracy and featured new attitudes research. That research, including our December 2017 discussion paper [What do Australians Want?](#) and Terry Moran's "[Back in the Game](#)" speech to IPAA Victoria in November 2017, is also attached to this submission.

We would be pleased to appear before the JCPAA Inquiry at a convenient time to discuss our research and these issues with you and your colleagues in more detail. In what follows, we summarise the areas we believe your Committee could usefully interrogate and indicate ways in which these issues might be addressed.

Consultants and Contractors

The ANAO Report suggests the distinction that used to exist between consultants and contractors has been lost. Theoretically, consultants produce defined work for a limited period, whereas contractors perform duties over an extended period. In practice, consultants are now being used as contractors. There is confusion about who does what, as well as what work and which duties should be publicly retained and rejuvenated. Such confusion, however, does not entirely explain the near doubling in the consultancy contract value between 2012-13 and 2016-17 revealed by the ANAO Report. The APS head-count caps (also accompanied by a [rise](#) in casual employees) are also relevant. The impact of these caps is not uniform because they influence departments of state and public agencies differently. Public sector capabilities eroded or given up because of outsourced service models are also likely to have inflated the spend on consultants and contractors. Once lost or forgotten, these capabilities and competencies are costly to replace.

It is notable that section 5 of the ANAO Report reveals a doubling of consultant contract value between 2012-13 (~\$250m) and 2016-17 (~\$520m) because of the "need for specialised or professional skills".¹ Confusion about the use of consultants and contractors has allowed people to ignore or neglect the need for constant renewal of the skills base of the public sector. Neither the ANAO Report nor the annual reports of departments or agencies explain how engaging these consultants upskills the APS so that it subsequently possesses or develops the specialised or professional skills that were procured. It is also unclear whether transferring skills and knowledge to the APS to boost public sector capability is a measurable condition of consultant contracts; we believe it should be. The JCPAA Inquiry should resolve confusion about categorisation of consultants, contractors, and professional services. It should also institute greater transparency within departments and agencies about the true expenditure of these contracts, and a framework that captures the outcomes attained, including positive and negative

¹ The ANAO Report states the values in later years are "likely disproportionately understated" (p. 21 fn 31).

implications for APS capability. Further clarity on overall numbers of APS employees, consultants, and contractors, and segmentation by type, band, pay scale, and purpose within each department and agency would also be welcomed.

The JCPAA Inquiry can make a big difference by considering how the “skills gap” reportedly driving the uplift in consultancy contract value can be rectified. CPD’s research suggests it is paramount to shore up public sector capability as Australia navigates a period of uncertainty and enters the fourth age of public administration. The reality, however, is that successive governments have gutted the APS, stripping it of specialist capability and service delivery experience, and causing the overuse and misuse of consultants. One senior participant at a [roundtable](#) we held on these issues last November put it best when he said: “Governments now rely on external advice on policy because governments have hollowed out the thinking elements of the service, the historical knowledge. There is no policy brain.”

Reinvesting in policy memory and capability, greater independence, and service-delivery experience is a necessary condition for the APS to be the crucible for reform and bulwark of legitimacy that it can and must be for Australia to thrive. This does not mean an end to the use of consultants and contractors. Consultancies which connect the APS to the latest technical advances in management at a global level and a transfer of knowledge and capability, for example, continue to have a place in the public sector especially as we prepare for a decade of major change driven by digitalisation. But it does mean facing up to the misplaced faith in external advice and contracting out. The recent collapse of Carillion, a leading provider of outsourced government services in the United Kingdom, offers a salutary lesson for Australia, one the ANAO is alive to.

The ANAO Report suggests the APS has been stripped of certain specialist capability, including the development of business cases, project plans, sophisticated financial planning, human resources management, along with service delivery and policy implementation experience. Australian governments and the Australian people suffer most if the APS is not funded and empowered to think for itself and to deliver the services Australians need most. It was for this reason that Terry Moran described the APS in November 2017 as being in “palliative care”. The loss of acute knowledge and capability in areas of domestic policy within the APS is a serious danger to public administration in Australia. If not remedied, it will render the APS unfit to handle areas of domestic policy outside of paying benefits or paying money to others to deliver services. The Commonwealth would lose credibility in its assessment of service delivery issues in the social policy field, and be forced to interact with State jurisdictions who possess expertise greater than its own.

Public Sector Capability and Outsourcing

The use of outsourcing arose from a desire to improve the efficiency and responsiveness of various areas of public delivery by use of market mechanisms. Typically, the market for services had to be framed, a price for services set, appropriate regulation developed, and accountability for performance designed.² This approach has been applied to many services which had previously been delivered by public agencies, including employment services, aged care, disability services, vocational education and training, out of home care, and early childhood development. Often, as with employment services, prices were set through a tender process.

Little consideration appears to have been given during the growth of the outsourced service delivery system to finding a means of reflecting into service delivery, including the way that services are priced:

- (i) Joined up responses (such as employment services, training and education);
- (ii) Values and culture available when the public sector achieves best practice; and
- (iii) Public sector capabilities eroded or given up.

One example of where this has been avoided is health. For nearly 40 years Medicare has provided an assurance of free hospital care. Joint Commonwealth and State funding has ensured the worst elements of a purely market-based approach have not manifested in public hospitals: public service employees deliver the service in a joined-up way. Unfortunately, this has not been the fate of outsourcing done by the Commonwealth itself, including employment services which are now fully outsourced. There has been limited success in some jurisdictions through the outsourcing of community services to faith-based organisations. Those organisations have had comparable values and a similar culture to that found in the public service.

² For a brief history, see *Grand Alibis* (2015), pp. 20-22 (attached).

Public service values and culture may seem esoteric to some but deliver tangible benefits if deployed towards the delivery of integrated services in the places Australia needs them most. These values include an imperative to work in the public and community interest, to find the best outcome for the intended beneficiary, and a willingness to use networks to ensure individuals have the best collection of services available. Cultural elements include remembering what has been attempted beforehand, lesson learning systems and evaluation, retained capability, and trusted relationships with complex sets of stakeholders.

These values and cultural elements appear to have been lost in the evolution of the outsourced delivery system, especially the tender and commissioning processes. These objectives are not highly weighted in tender documents, to the extent they appear at all. Nor are they generally available publicly or measurable against outcomes transparently given the reliance on commercial-in-confidence provisions in procurement contracts. Commissioning processes that are not intended to exclude public delivery options in theory often do so in practice, making it very difficult for public institutions to bid and depriving the market of public sector values and culture often associated with the best quality of delivery. There is seldom any accurate comparison of cost in these outsourced systems with the cost within an effectively managed public sector environment, or tangible evidence of the reported efficiency gains via outsourced systems. Without better evidence, an observer could conclude profits are placed ahead of efficiency and quality in outsourced delivery systems. Arguably this has been the case with Australia's employment services. Our research suggests *jobactive* is failing Australia's most vulnerable jobseekers and has become [big, impersonal, and opaque](#).

If the pendulum shifts back towards public delivery, which CPD has recommended, the organisational strategy used is important. Relatively independent public agencies (such as schools and hospitals) arguably have a better track record at delivering services than departments of state. These agencies can be held accountable for outputs and outcomes given significant improvement in management techniques and clearer thinking about how best to achieve the purchaser-provider separation. In some areas, therefore, it may be prudent to experiment with decentralised or devolved delivery to independent agencies within the public sector as this puts responsibility for delivering services close to the clients of those services.

Community Attitudes

The JCPAA Inquiry will be interested in relevant community attitudes when considering the issues raised by the ANAO Report. To this end, we note that CPD's extensive attitudes research conducted in 2017 found that Australians are highly sceptical about outsourced social services and view government as the better provider on key indicators (cost, accessibility, quality, accountability, and affordability). We found that 82 per cent of respondents wanted government to retain the skills and capability to deliver services directly, and 75 per cent of respondents supported embedding the public sector in more parts of Australia. These findings are consistent with Gary Morgan's [research](#) on the most trusted professions in Australia. Public employees delivering services at the front line are always at or near the top. Nurses have been the most trusted for 23 years running. Doctors and teachers are not far behind, ranking second and fourth respectively in 2017. Public servants in general are ranked well above journalists, business leaders, and politicians.

Australian public administration has regularly demonstrated its capability of rising to meet new challenges. We hope the JCPAA Inquiry can shine light on how to reinvest in this capability, especially the creative elements of our public services, and ensure any external advice sought can build this capability over time.

Please do not hesitate to contact us if you have any or would like to discuss any of the matters raised by this covering note and the attached research further.

Sincerely



Travers McLeod
Chief Executive Officer



Terry Moran AC
Chairperson