

## **Appendix 3**

### **'Public Administration A Sharpening of the Focus'**

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I would like to thank the ACT Division of the Royal Australian Institute of Public Administration for giving me this opportunity to expound and elaborate on the Coalition's Public Administration policy.

In recent years there has been considerable community concern about the role and size of the public sector in Australia. This concern has developed as the size of the public sector has grown and as more and more evidence about government inefficiency has come to light.

It is also important to note that parliamentarians from across the political spectrum have begun to look at the nature of public administration in Australia.

The questioning of the role and size of the public sector in Australia has occurred because of our worsening economic situation and the experience of other western countries.

The public sector in Australia has grown steadily upward over the last twenty years although the trend has plateaued in recent years. Total public sector outlays now account for 37% of Australia's Gross Domestic Product. This compares with 30% in 1969-70. At the same time total government revenue has risen from 27% of GDP to 35%.

Real total government outlays (expressed at constant 1984-85 prices) have risen from \$40,722 million in 1969-70 to \$90,846 million in 1988-89 a real increase of 123%.

The public sector in Australia, including the Commonwealth, the states and local government, now employs 28% of all wage and salary earners.

The growth in the size of government in Australia has coincided with a decline in our economic performance. The nation is facing high inflation, a rising level of external debt, worsened terms of trade and a community that is saving less. Furthermore, Australia's prices and labour costs continue to rise more steeply than those of our international trading partners .

It is clear that the Australian economy cannot continue to support a large public sector.

There has also been increasing awareness that the public sector is not always the most efficient provider of a particular service. In fact research, such as last year's New South Wales Commission of Audit's report on that state's finances, has shown that some government activities impede efficient resource allocation.

The Industries Assistance Commission recently found that government enterprises in areas such as electricity, transport, communications and water imposed the greatest obstacles to increased efficiency and competitiveness of Australian business. The IAC review of government non-tax charges found that increased efficiency in the state areas of electricity and rail freight alone could lift Gross Domestic Product by at least \$3 billion a year.

It is these economic realities and the change in community attitudes towards government that has necessitated a sharpening of the focus towards public administration at all three levels of government in Australia.

The policy of a Federal Coalition Government towards public administration can be summed up in two words: efficiency and accountability.

Efficiency in the management and delivery of services. Accountability to the taxpayer through the Parliament.

Parliament has a duty to ensure that the public sector operates as efficiently as possible on behalf of the community. The Australian taxpayer has a right to expect that the administration of government programs will be carried out in the most efficient and effective manner possible.

A Coalition Government is committed to reforming the public sector in order to overcome the present inefficiencies.

These reforms will be directed towards introducing a new management philosophy into the service to lift morale, to maintain high ethical standards, to encourage initiative and the achievement of excellence, and

to ensure that services are delivered to the community in the most responsive and cost effective manner possible.

The present administrative system suffers a number of serious weaknesses which prevents the public sector from operating at its maximum efficiency. These weaknesses include a lack of a coherent management philosophy; inadequate individual responsibility for decisions or outcomes; inadequate standards for performance measurement; and poor management training.

I cannot believe that the ability and skills possessed by people in the public sector are less than those in the private sector. But I can, and do believe, that the systems under which the two sectors work results in greater efficiency in the private sector.

The key elements of the Coalition's program, as set out in the Policy Paper released last March, are designed to:

- ensure that the executive and legislative arms of government are structured to most effectively address major economic and strategic issues;
- improve Government's delivery systems to make them more timely and cost effective;
- redefine the Commonwealth's proper role in a Federal system by transferring, where appropriate, functions to the States and the private sector;
- reform the Commonwealth Public Service to make it more efficient and accountable, including the introduction of measures to improve the effectiveness of management practices;
- introduce a new management philosophy into the public service to encourage professionalism and the achievement of excellence through the development of productivity enhancement processes and other measures;
- establish guidelines for managing the administrative affairs of the nation;
- ensuring promotions and appointments to the public service are based on merit, fully encourage greater competition within the public sector; apply the 'user pay' principle where appropriate and cost effective;
- provide public servants, as far as possible, with similar terms and conditions of employment as those available in the private sector; and implement a program of privatisation.

Since the Hawke Government restructuring of the public service there has been a downgrading of personnel management which has led to a situation today where there is a serious morale problem in the public service.

In a speech to your Institute last month, the Minister for Industrial Relations, Mr Peter Morris, said, in what must be one of the great political understatements of the year, that the rapid pace of change had not been without cost. Morale is low for a number of factors including the politicisation of the senior levels of the service; the disparity between public and private sector salaries; and the apparent favouritism towards the Department of Prime Minister and Cabinet for the selection of new department secretaries and associate secretaries.

These problems will not be solved simply by handing out Amex cards and removing the Commonwealth registration plates from cars made available for private use.

Recently a survey of senior executives who had moved from private enterprise to the public sector in Australia and New Zealand was undertaken by the management consultants, Egon Zehnder International. The study, which was released last month, found that 78% of those who had made the transition to the public sector were satisfied with their positions but of those who transferred to the Commonwealth public service only 58% are satisfied.

The Minister for Industrial Relations also announced that the Government was making available an additional \$10 million for training, to commence in 1990-91 and be directed principally at improving the management skills of middle management. It is a mistake for the Government to think that it can throw \$10 million at the problem and expect it to go away.

In a report on Human Resource Development in the Australian Public Service published in March 1989, the Public Service Commission pointed out that on average each person below SES rank in the Federal public service had 1.65 days of formal training in 1988 and, by way of comparison, IBM had an average number of training days for each employee of 12.

There is a need for a clear commitment within the public service towards training. For too long it has been ad hoc and disorganised.

It is important for the public service to provide interesting career paths which allow for personal ability to be recognised.

A Coalition Government will develop a more flexible approach to salaries and wages to ensure that the Public Service has available to it the skilled management and staff it requires. As set out in the Policy Paper this would include performance related payments, market loadings and voluntary agreements.

An area directly related to training issues is our commitment to introduce accrual accounting and the attendant issue of inducing a balance-sheet mentality.

The Commission of Audit established by the Greiner Government in NSW and chaired by Charles Curran, identifies very well the areas which need to be addressed and categorised them as follows:

- the definition and identification of assets or liabilities for the purpose of financial reporting by public authorities;
- the valuation of assets or liabilities;
- the treatment of the effect of changes from partial accrual accounting to a more comprehensive form of accrual accounting;
- the definition and treatment of "abnormal" and "extraordinary" items (e.g. profits on the sale of assets, and the proceeds of the sale of items which may not previously have been identified as assets");
- the choice of the accounting entity which is to report those assets and liabilities (e.g. where assets such as commercial buildings are formally under the control of one Department, but are occupied by other Departments).

The information and recommendations provided by the Curran Report has become a most valuable tool for the New South Wales Government to vastly improve public administration in that state. It would be of value to the Commonwealth if a similar exercise was to occur.

The Commission found that there was a need for fundamental reform to secure the financial viability of the State. Reviews conducted on behalf of the Commission found that there were massive operating inefficiencies in a number of the State's statutory authorities including manning levels which were 20% or more above realistic levels required for the work in hand inflexible and costly work practices; a lack of adequate financial management systems and a lack of clear responsibility for financial performance; a lack of balance-sheet management; and a lack of effective strategic plans and corporate goals.

The Commission found that the manner in which Government has in the past involved itself in the commercial operations of the Authorities has often inhibited the pursuit of commercial objectives and efficiency, principally through Ministerial directions relating to pricing policies, community service obligations (that is, hidden subsidies to some sectors in the community) and industrial relations.

The Commission pointed out, part of the reason public enterprises are generally inefficient is that they are immune from the threat of takeover and the difficulties of raising funds and so can avoid the discipline of

the financial markets. Further, they are more vulnerable than private sector enterprises to political, social and industrial pressure.

In the Egon Zehnder study it was found that political interference, resistance to change, obsession with procedures and structures, lack of commercial skill and restrictive work practices were the main obstructions to sound management techniques in the public sector.

The Coalition's Public Administration Policy addresses such issues.

There is no inherent reason why the government should be providing goods and services which the private sector can provide more effectively. Although some senior economic Ministers in the Hawke Government seem to recognise this fact the Government is hampered, by the ideological straight-jacket that the Labor Party faction leaders and the ACTU has imposed, from introducing the necessary reforms.

The Coalition will implement a sensible phased program of privatisation. We have already announced in the Privatisation Policy Paper that the following government business enterprises will be privatised:

- QANTAS;
- The Snowy Mountains Engineering Corporation;
- AUSSAT;
- Australian Airlines;
- Medibank Private;
- Australian Industry Development Corporation;
- The Pipeline Authority;
- The Commonwealth Bank;
- The Housing Loans Insurance Corporation;
- Domestic and International Airport Terminals;
- The Australian National Line; and
- 49% of OTC.

The Coalition believes that a privatisation program is the only sustainable means of improving the performance and accountability of most government business enterprises.

Privatisation is central to the Coalition's objective of achieving an efficient public sector, including its reduction in size.

The Coalition would also examine all public sector services to determine whether the introduction of competition by using private contractors would improve efficiency. Many administrative services including staff selection, public relations, training, record keeping, maintenance, security, capital assets management, transport and communications could, and should, be provided on a competitive basis.

The Coalition has made a firm commitment to deregulate both the public and private sectors. The objective is to significantly reduce unreasonable constraints on management and to encourage initiative by all employees and reward their achievements.

The main policy thrust of a Coalition Government towards business regulation will be to ensure that government intervention is minimal and does not impede business initiative.

The Business Regulation Review Unit has estimated that in growth terms all business regulation in Australia costs between 9% and 19% of Gross Domestic Product.

Government agencies such as the Industry Commission and the Business Regulation Review Unit play an important role in highlighting the cost of intervention. There is a need to impose discipline on government so that knee-jerk and counter-productive responses are minimised.

The Coalition will strengthen and upgrade the Business Regulation Review Unit and the Industry Commission. It is ridiculous that the Business Regulation Review Unit has only six staff whilst 17,000 Commonwealth public servants are involved in creating new regulations.

The question of whether or not the Business Regulation Review Unit remains in the Industry Commission will have to be examined. Both agencies play an important role; however, they have distinct functions. If it is decided to keep the Business Regulation Review Unit in the Commission then the Coalition will ensure that it has sufficient clout to expand its effectiveness.

As set out in the Policy Paper, Ministers in a Coalition Government administering any Act under which a statutory rule is in force will be required to provide a regulatory impact statement. Existing regulations will be systematically reviewed and unnecessary regulations will be repealed. In addition, each department will be required to set a deregulation agenda and report annually on progress.

Our Policy states that as a general principle, sunset clauses will be included in new regulations.

A Coalition Government will also establish a Parliamentary Regulatory Review Committee to review existing and proposed regulations.

As I said at the outset of this speech, efficiency must run in tandem with accountability. Together they form the touchstone of our public administration policy.

Accountability by the public sector has become a major issue in the parliament and in the community generally. This concern is shared by politicians from all the parties.

The Egon Zehnder study found that more accountability was one of five key changes necessary to improve the performance of the public sector.

A number of important parliamentary committees, including both the Joint Parliamentary Committee of Public Accounts, of which I am a member, and the Senate Standing Committee on Finance and Public Administration, have recently raised a number of concerns about the lack of accountability in the Federal public sector.

There appears to be an attitude within the senior levels of the Commonwealth public service that the parliament is of little relevance to public administration.

Unfortunately the Hawke Ministry is not as concerned about accountability as is the Parliament. Accordingly many public servants treat parliamentary committees with little more than contempt.

There are many examples that I could give you to illustrate this point. However I think that three recent incidents will suffice.

The first is an exchange that occurred at a hearing of the Public Accounts Committee a few months ago with the Secretary of the Department of Industry, Technology and Commerce, Dr. Charles.

Dr. Charles: ... you have asked myself, personally, to come along and take part in this Committee's proceedings - not a usual procedure I would have thought; I do not know. I have been the Secretary of the Department for four years and I have never been asked by any parliamentary committee to appear before it.

Senator Bishop: Did you not think we were important enough?

Dr Charles: That is not the point. The point I am making is that I think it is an unusual procedure to ask a Secretary of a Department to come here before it.

There is something seriously amiss when the head of a government department complains that he has to appear before a parliamentary committee to discuss the performance of the department he administers.

However the Public Accounts Committee was in a more fortunate position than the Senate Standing Committee on Finance and Public Administration which had the deplorable situation of the Department of Prime Minister and Cabinet twice declining a request to give evidence to it.

It was only after the Chair of the committee wrote to the Prime Minister seeking his intervention that the Department agreed to answer questions put by the Committee but they only agreed to provide written answers.

This attitude is also reflected in the way Annual Reports are prepared. Yesterday the Senate estimates committees began their hearings. Of the 36 departments and agencies that appear before Estimate Committee A, of which I am a member, only seven had provided a copy of their 1988-89 Annual Report in either its completed or draft form 24 hours prior to the hearings. Yesterday morning I was pleased, if not amazed, to receive a further two reports.

The Senate Standing Committee on Finance and Public Administration in its review on Annual Reports found that department secretaries had not only ignored the guidelines for the preparation of Annual Reports but had broken the law in numerous instances.

The ability of some public servants to refuse, delay and to obfuscate the information they provide to parliamentary committees and the Parliament itself has severely limited the Parliament's ability to adequately supervise the expenditure of public money and the administration of programs.

The obstruction, and that is exactly what it is, by some public servants of the functioning of the Parliament by refusing to co-operate with parliamentary committees undermines the whole basis of democratic government in Australia.

Parliament can not fulfil its Constitutional duties if government departments and/or agencies continue to withhold or excessively delay the production of material relevant to the deliberations of the parliamentary committees.

It is the Parliament which authorises the collection of revenue. It is the Parliament which authorises expenditure. It is the Parliament to which the public sector is accountable.

If the public sector is not accountable to the Parliament, to whom is it accountable?

A Coalition Government will not allow this situation to continue. We will ensure that the public sector is fully accountable to the Parliament.

The Auditor-General is the essential link between public expenditure and accountability to the Parliament. Accordingly it is not tenable that the executive arm of Government can virtually restrict the ability of the Auditor-General to carry out his responsibilities. This is particularly the case as far as efficiency audits are concerned.

Earlier this year the Public Accounts Committee released its Report into the operation of the Auditor-General, entitled 'The Auditor-General: The Ally of the People and the Parliament'.

The Public Accounts Committee recommended that the Auditor-General become an officer of the Parliament and that a committee of parliamentarians chaired by a Presiding Officer determine the resources necessary for the Audit Office to adequately undertake its responsibilities.

As I said earlier the Coalition is committed to introducing accrual accounting throughout the public sector. On this issue, the Curran Commission said:

Accrual accounting would allow improved accountability, would lead to more informed decision making, and better measurement of performance, would strengthen internal controls over physical assets, would permit the full cost of programs to be recognised and would help Governments avoid financial crisis.

In the Commission's view, the major impediment to the introduction of accrual accounting by the NSW Government was the lack of detailed records. The Commission noted that before many NSW Government bodies could prepare their financial reports on the basis of accrual accounting, it will be necessary for them to maintain records which detail their resources and commitments. These records include:

- asset registers;
- inventory records;
- records of accounts payable;
- records of accounts receivable;
- records of employee entitlements to annual, sick and long service leave; and
- records of employee entitlements to superannuation and other post-employment benefits.

The Coalition in Government will introduce a number of reforms, as set out in our Policy Paper, to strengthen the accountability of the public sector. These reforms include:

- a thorough review of the sittings, procedures and practices of the Parliament and its committees, with a view to facilitating more meaningful involvement for parliamentarians and improving the relationship between the Parliament and the executive;
- the establishment of standing committees of the House of Representatives to cover all departments, to review expenditure and improve the scrutiny of legislation;
- ensuring the independence of standing committees of the House of Representatives to cover all departments, to review expenditure and improve the scrutiny of legislation;
- ensuring that parliamentary committees can request any public servant to appear before it;
- ensure that major acquisitions and purchasing agreements, service agreements, contracts, leases, licences franchises and concessions will be let or granted only after tenders have been publicly invited;
- appoint controllers-general for each department with responsibility for identifying waste and inefficiency; and
- introducing an Annual Reports Act which will include standards of reporting for both departments and statutory authorities.

I have noticed with interest a concerted effort by executive Government and parts of the bureaucracy alike, to make what I consider to be an artificial distinction between so-called processes and outcomes.

The Secretary of Finance, Dr Michael Keating, told the Perth branch of this institute on the 12 April 1989, that in his view 'the *raison d'etre* of the (Hawke Government's) reforms could be summed up on changing the focus more to 'management for results' ... Our aim has been to focus management attention on the purposes of programs and the cost effective achievement of outcomes rather than simply on inputs and processes.'

Minister Morris, in the speech I mentioned previously, complained about the scrutiny of the Public Accounts Committee and other parliamentary committees focusing upon process rather than outcome.



Dr Keating did however have the good grace to make the following admission: 'I freely acknowledge that such information does not necessary tell us whether we would spend more or less on a particular program, but where it is useful is in assisting program managers in deciding on the most cost-effective allocation of their resources.'

Neither of course does the so-called focus on outcomes ensure that the allocation of resources was proper and in the public interest. It is perfectly possible to have an outcome judged successful and improper at one and the same time. If the process by which the outcome was achieved is improper or indeed corrupted then the outcome is similarly improper or corrupted.

To attempt to separate process and outcome in an arbitrary way is totally artificial.

The Commonwealth public sector will go through a period of fundamental reform under the next Coalition Government. This reform is necessary to ensure that the public sector strives for, and achieves, excellence. It is necessary in order to reduce government intervention in the lives of private citizens. It is necessary in order to strengthen our nation's democratic structures.

Two centuries ago Thomas Paine said that: 'Government, even its best state, is but a necessary evil; in its worst state, an intolerable one'. It is for this reason that the focus of public administration in Australia must be on efficiency and accountability.

Thank you, once again, for inviting me to address you tonight.