

Introduction

‘Reform’ is a word that is overused, even abused. Some, when they hear the word, get suspicious of over-promise and under-delivery. And I can understand that.

I have a simple rule—if you want to know what something means, go to the dictionary. It helps to calm things down. ‘Reform’, my old *Oxford Dictionary* says, is making something better by removal of imperfections, faults or errors. People can reform, as can institutions and procedures.

Who we are, the way we govern, how we do things—these can all be *improved*; but when they are *reformed*, the reach is deeper and the impact longer lasting. When you reform something, you do away with previous constraints and often build something new in its stead.

Some reforms are risky, because they take away or disrupt something that particular people or interests hold true, and replace it with something they don’t like. Sometimes reforms do not deliver on their promise. So how you reform is important.

In his *Costa del Nightmares* program last year, Gordon Ramsay went into one family-run restaurant in Spain¹ where he made massive change in a very short space of time. He sacked the chef, cleaned out the kitchen, redid the menu, and transformed the look and feel of the whole business in his usual understated way.

It seemed effective at first; new customers queued up around the block and the restaurant’s takings rose dramatically.

Then the camera crew left.

Within a month, the British press was reporting that things at the restaurant had gone back to where they were before the Ramsay whirlwind went through. The restaurant’s owners had reintroduced their own recipes and gone back to their old ways.

* This paper was presented as a lecture in the Senate Occasional Lecture Series at Parliament House, Canberra, on 14 August 2015.

¹ The restaurant was called *Mayfair* on the Costa del Sol.

Ramsay may have ‘reformed’ in a narrow dictionary definition sense, but the changes did not produce a lasting effect. Ramsay may have improved things, but he moved on. There was no buy-in from the owners, let alone the sacked chef; no follow-up and no embedding of the changes Ramsay made.

The lesson from this is that for reform to be successful, you need to take people with you and ensure that change is truly embedded in structures and systems. Otherwise, good ideas will inevitably be lost through poor implementation.

Contrast Gordon Ramsay with Peter the Great, three hundred years before. He also wanted to reform a family-run business, but in this case his own: the governing of Imperial Russia.

Now this is an historical example that occurred in an overall environment of oppression, imperial excess, and ruthless military expansion that is totally unpalatable by modern standards.

Like Gordon Ramsay, Peter the Great was given to the odd grand gesture: he imposed a tax on the long beards of the nobility, for example, because they symbolised the backwardness of a Russia that was resisting his Europeanisation of the country.

I don’t want to give my colleagues in Treasury any ideas, but in building a new fiscal base for government, Peter the Great also taxed other cultural customs like bathing and beekeeping.

Peter introduced, systematically and over two decades, sweeping administrative and economic reforms, many of which lasted for almost 200 years, until the Russian revolution.

Peter persevered with his reforms, unfolding them over a period of more than 20 years; embedding them through new laws, structures and people. He brought in a new generation of technocrats with professional skills who were committed to the new way of doing things.

Being royal, he also used patronage to secure loyalty to his new order in a way that is unacceptable in a modern accountable system of democratic government. Fortunately ethics and accountability in public administration have moved along.

Like Gordon Ramsay, Peter the Great knew what needed to be done, but in contrast to the culinary superstar, he was pursuing lasting change, not fifty minutes of modest entertainment.

Reform agenda for the Commonwealth public sector

Let me now draw the link between all of this and the public governance, performance and accountability reforms that my department has led over the last few years, and which I am here to talk about today.

Reform, to be successful, needs to work at many levels. It needs to work with people and culture, to ensure that hearts and minds are behind the changes proposed. It can only work if the right technology and enabling platforms are in place to support the implementation of change. And it can only succeed if resources are properly focused and performance expectations clearly articulated in terms of the outcomes and impacts sought.

Lasting reform depends on people and resources being lined up behind good ideas, and proper accountability structures being put in place for the long haul.

Reforms last when they are based on good ideas and there is a clear value proposition about the case for change. A clear value proposition that is championed by people of influence—from the top if you like—is one that is most likely to drive along lasting reform.

The Finance Minister, Mathias Cormann, has expressed this government's aspiration for a more efficient public sector that is performance-driven and can provide faster services to support Australia's prosperity into the future.

The Prime Minister and Communications Minister have both championed improving how Australians interact with government over the internet, which has led to the recent establishment of a Digital Transformation Office.

And in various parliamentary committees, especially the Joint Committee of Public Accounts and Audit, there have been bipartisan discussions about improving accountability for how public resources are used and the achievement of public policy goals.

So there is a convergence of political interest that provides a value proposition for the reforms that my department has been working on—an agile, modern, connected and responsive public sector that is accountable for what it does and how it does it.

Happily, my dictionary gives simple meanings to each of these key words—they actually mean what you think they mean on face value.

And when you think about the growing interconnectivity of the big issues that challenge us as a community and the approaches that go to managing them; when you think about the increasing scarcity of, and certainly contestability for public resources, then you can see that unless the public sector adapts quickly, it will be left behind from where its key stakeholders want it to be.

Reforming the Commonwealth public sector to achieve this change is a big job. Partly this is because the Commonwealth itself is big and diverse. This year, it will spend around \$430 billion. It consists of more than 190 separate entities and companies, hundreds of boards and committees, and a large number of subsidiaries and other arrangements.

Reforming the Commonwealth is also a big job because it involves cultural change, technology transformation and rethinking the design of many existing programs and services.

Reform on the scale that we are talking about has many different elements and many parties working on related initiatives.

But my focus today is on what the Department of Finance is doing, and how we are going about it, and what we hope to achieve as a result.

Financial framework reforms

The operations of the Commonwealth have been governed by three financial governance frameworks over 115 years. The first one lasted for a particularly long time—96 years.²

The current financial governance framework is contained in the Public Governance, Performance and Accountability Act, which was enacted by the parliament in June 2013. I will refer to this from now on as the PGPA Act. It replaced two pieces of legislation called the Financial Management and Accountability Act (or FMA Act) and the Commonwealth Authorities and Companies Act (or CAC Act), which between them constituted the Commonwealth's second financial framework and divided government into two camps.

² The *Audit Act 1901* was replaced by the *Financial Management and Accountability Act 1997*, the *Commonwealth Authorities and Companies Act 1997* and the *Audit Act 1997*. The *Audit Act 1997* remains in place, although it was amended to allow for the introduction of the new financial framework.

FMA and CAC Acts

Now, I don't wish to be reductionist in the characterisation that follows, because the range of governance arrangements, operational requirements (including commercial ones), statutory obligations and accountabilities for performance in the Commonwealth are varied, nuanced and complex.

Having said that, talking in broad terms about the two camps under the previous financial framework helps to explain why particular changes were made under the PGPA Act.

One camp, the FMA Act camp, consisted largely of departments and agencies that were directly accountable to ministers, were usually headed by a single person, were largely budget funded and legally constituted the Commonwealth of Australia.

Many of these features naturally constrain what these organisations can do, even under the new PGPA Act. They cannot, for example enter contracts in their own name, or bank in their own name, and they are subject to government policies in a range of areas.

However, in addition to these natural constraints, the former framework imposed even more process controls over organisations in the first camp. There was an appropriate and strong emphasis on ensuring the proper use of the public property that was in their hands. However this was achieved through detailed process controls around money appropriated by the parliament and how it was drawn down, managed and spent.

The old framework said very little about the governance requirements on these organisations, and said nothing about risk management and their performance obligations.

Life was quite different in the second camp, or the CAC Act camp. This is where organisations that were corporate in nature, including Commonwealth companies, were placed. They had governing boards, their own legal personality and usually a high degree of operational independence under their enabling legislation.

The CAC Act framework did set down some core governance and reporting standards, including the duties of directors and the senior executive, but set no standards for the proper use of the public property. There were very few controls around how organisations in the second camp managed and spent the money they held, even if it was appropriated by the parliament. And there was little to remind these bodies that, independent though they were in many respects, they owed accountability to the parliament and the people about how they run their affairs.

Life in the second camp was largely governed by principles. As a result, organisations were more likely to be innovative, with stronger risk management and strategic planning practices.

Life in the first camp was constrained by detailed rules—not just from the Finance department, but from departments and agencies across the system. Here you were less likely to find innovation, strong risk management and strategic planning practices.

And to make it more complicated, you had some highly independent, statutory bodies placed in the first camp, and some mainstream core government activities in the second. So you had camp crossing behaviour.

People in the first camp were desperate to pitch their tent in the second camp, because they saw fewer rules and controls from the centre.

And there was a prejudice for creating new bodies under the CAC Act for this very reason, even where, for reasons of the type of role the organisation played, or for governance or accountability reasons, it was more appropriate to have a mainstream government function under the FMA Act.

Finance played the role of boundary rider, caught up in debates that focused more on the impact of prescriptive rules, reporting requirements and red tape on their business than on the right structure for a public entity playing a particular role. It is not surprising that these debates were conducted with passion.

The Finance people involved in reviewing the previous financial framework still recall their discomfort when some Commonwealth regulatory bodies that moved from the CAC Act regime to the FMA Act space ran them through the costly changes the transition forced them to make to their internal business and reporting systems with no benefit to the quality of their operations.

You wonder why we did it to ourselves.

PGPA Act—overview

So in a context where government is interested in improved cohesion, more agility, more innovation, and stronger governance, performance and accountability standards, we had, at the whole-of-system level, a Commonwealth public sector that, over time, had grown apart in ways that made a coherent reform journey difficult.

One of the core aims of the reform process launched in 2010, which led to the PGPA Act, was to bring cohesion and a single set of principles into play for all

Commonwealth entities, whether they were non-corporate or corporate entities, whether they were statutory bodies or government business enterprises.

It took over two years to get to the point where we could even consider drafting legislation.

The policy development process included 13 issues papers, a discussion paper and separate position paper, meetings with every Commonwealth entity, with private sector companies, third sector and professional peak bodies, state governments, academics and former public sector leaders.

Ministers and parliamentary committees endorsed the final reform package before it was debated in parliament.

It was a Peter the Great approach rather than 50 minutes of high-octane television, although there were pressure points in the process that saw colourful Ramsayesque moments.

The PGPA Act approach is principles-based, which is pretty innovative in terms of international practice. Five principles underpin the Act and the reforms that accompany it:

1. Government should operate as a coherent whole
2. A uniform set of duties should apply to all resources handled by Commonwealth entities
3. The performance of the public sector is more than financial
4. Engaging with risk is a necessary step in improving performance
5. That the financial framework should support the legitimate requirements of the government and the parliament in discharging their respective duties.

Let me deal with the first two and explain how they come together.

That government should act as a coherent whole is in my view a no-brainer, but sometimes this is surprisingly difficult to achieve.

To the extent that the previous framework made this difficult, we have made some significant changes in the PGPA Act that should make it easy. And we have done this by taking good ideas from both the former FMA Act and the CAC Act, applying them broadly, and then supplementing them with new provisions.

PGPA Act—proper use of public resources

The core philosophy in the PGPA Act is that public resources are public resources, no matter whose hands they are in.

Believe it or not, this is a new concept in a Commonwealth Government context.

Under the PGPA Act, all Commonwealth entities are accountable for the proper use of the resources that they hold, no matter how it came to be in their hands—whether through appropriations, commercial activities, levies, charges, taxes, cost recovery or some donation.

There is a common definition for ‘public resources’. Public resources consist of appropriations, which are defined in the Constitution, and relevant money and relevant property, which are defined in the PGPA Act. All public resources are to be used and managed properly.

Again proper use and management of public resources is defined in the PGPA Act. It means efficient, effective, economical and ethical, and for non-corporate entities that constitute part of the Australian Government it also means used and managed in a way that is not inconsistent with the policies of the government.

This standard for proper use is drawn from the previous FMA Act that applied to the first camp, but it is now applied to all officials.

Each Commonwealth entity has officials, who are, broadly speaking, the persons who are, or form part of, an entity.

PGPA Act—duties

Officials handle public resources.

The PGPA Act lays out in sections 25 to 29 the general duties that officials must observe when they do this, including care and diligence, acting honestly in good faith and for a proper purpose.

The general duties are drawn from the previous CAC Act that applied to more senior people in the second camp, but it is now applied to everybody.

For those familiar with the duties in corporations law, the duties in the PGPA Act are very similar.

In addition to the general duties that apply to all officials, there are additional duties on accountable authorities.

An accountable authority, broadly speaking, is the person who heads a non-corporate Commonwealth entity—a secretary of a department, for example, like myself—or the board that governs a corporate Commonwealth entity, like the board of the Commonwealth Scientific and Industrial Research Organisation or Australia Post.

So as Secretary of Finance, I am subject to both the general duties on officials in the PGPA Act, and the duties of an accountable authority that are spelled out in sections 15 to 19 of the Act. These duties include promoting the proper use and management of public resources for which I am responsible, including through establishing and maintaining appropriate systems of risk oversight and internal controls within my department.

I can also issue, under section 20A of the PGPA Act, written instructions about how the officials in my department handle relevant money or public resources in general.

All accountable authorities are responsible for promoting the achievement of the purposes of their entity and its financial sustainability, and to give information to their minister and the Finance Minister on particular things.

You might say this is somewhat unremarkable.

Of more interest are the following two provisions.

PGPA Act—acting coherently as a public sector

Under section 15(2) of the PGPA Act, an accountable authority has to take account of the effect of decisions that it makes on public resources generally.

This means that the accountable authority has to consider how the actions and policies they pursue will affect other entities individually and collectively, and public resources generally.

This works both ways, both in the positive and the negative.

It opens us up to sharing better ways of working together between Commonwealth entities, because accountable authorities have to think beyond the boundaries of their own organisation in assessing the value proposition of some decision they are making.

It covers decision-making that might have particular benefits to the entity in question, but has broader negative implications for other entities or public resources generally.

An example would be an entity that pursues its own policy or operational interests, for example by imposing unnecessary red tape costs on others, or by imposing charges that cross-subsidise its own operations.

A related concept can be found in section 57 of the Public Service Act, which talks about the role of departmental secretaries in providing stewardship across the Australian Public Service.

PGPA Act—joining up with others

The next interesting concepts are in sections 17 and 18 of the PGPA Act.

These sections came about because those who worked with the Commonwealth—commercial partners, the community sector and the states and territories—told us that partnering with the Commonwealth could be a really bad experience.

Broadly speaking, they said that we have the money to get things done, but that we are risk averse and afraid to innovate. Our thinking is dominated by fear of failure, rather than the prospect of breakthrough success; we push risk onto other parties and micromanage how they fill their side of the bargain.

Given that innovation in public policy involves engaging with risk, finding new ways of doing things, backing good ideas and putting faith in others, this was criticism that went to the core of our aspiration to move down the road of an agile, modern, connected and responsive Commonwealth public sector.

Section 17 places a positive duty on an accountable authority to cooperate with others to achieve common objectives, where practicable.

This duty recognises that Commonwealth entities do not operate in isolation. Effective collaboration between Commonwealth entities, with other levels of government, and with the private and not-for-profit sectors is critical to the achievement of many of the government's priorities and national goals. The Commonwealth needs to partner with others.

This section says, in effect, we expect you to do it if it is the right thing to do.

Long-term disadvantage, chronic health issues, improved education outcomes, domestic security—are all issues where the COAG has committed to doing more, and where joined-up government and a joined-up community are part of the solution.

From exploring more innovative funding models to trying new governance and accountability models—we have a lot of work to do on this front.

While the PGPA Act unblocks some of the legal and technical issues in this space, I acknowledge that some of the key challenges may go to the sorts of issues that are being explored in the Federation White Paper.

Risk

This brings me to the subject of risk.

The next section of the PGPA Act, section 18, says, when you do join up, think carefully about the requirements you place on others in relation to the management and use of public resources.

I explained earlier that one of the underlying principles of the PGPA Act is that engaging with risk is a necessary step in improving performance. All major public policy involves risk.

But risk can be identified and strategies can be developed in consultation with ministers and other stakeholders to handle it.

We cannot afford another catastrophic failure like the Home Insulation Program, where negligible effort was put into understanding the operating environment for the roll-out.

But neither can we afford government programs that don't innovate or sensibly push boundaries at all because they are designed to exclude even the most immaterial risks.

The PGPA Act says: think about the risks involved and how you are managing those risks in the arrangements you negotiate with others, but don't load your partner with red tape just because you want to cover your bases if something goes wrong.

Section 18 of the PGPA Act puts the onus on accountable authorities to assess the risks in relation to the public resources involved in a joined-up enterprise, and then places proportionate obligations on those they are joining up with.

For example, an established community sector grant recipient with proven credentials and a strong track record of delivery in an established area of operations could have a different level of reporting obligations placed upon them than a new organisation venturing into a new and unknown area.

But equally, accountable authorities should engage with risk sensibly and not avoid traversing into a new area just because it involves risk.

The proposition is that it should be done, but done sensibly; or in PGPA Act language ‘an accountable authority should establish and maintain an appropriate system of risk oversight and management ... to promote the achievement of the purposes of the entity’.³

To support better risk practice in the Commonwealth, we have issued the first ever Commonwealth risk management policy, which sets the principles to underpin better risk management in the day-to-day operations and decision-making processes of Commonwealth entities.

More sophisticated and nuanced risk management on the part of Commonwealth entities might help to get us down the path of more innovative and agile delivery and less red tape.

My department will work closely over the next few years with both the Australian Public Service and all Commonwealth entities to promote better risk planning and more positive risk engagement in the activities of national government.

Other provisions in the PGPA Act

The PGPA Act contains many other provisions.

Like other financial management legislation, it lays out the basis on which appropriations are released; it talks about who has banking and investment powers, the scope of those powers and how they can be exercised.

It sets the framework for the granting of indemnities, warranties and guarantees, the gifting of relevant property, and the custody of money.

It establishes a legal basis for non-corporate Commonwealth entities to enter into arrangements and commitments, and how ministers approve expenditure.

³ This language is a combination of sections 16(a) and 15(1)(b) of the PGPA Act.

Importantly, it also provides the framework for rules around the management of procurement, grants, fraud and financial reporting.

A particular area that my department is working on now is in the area of improving public accountability by having better performance reporting to both the parliament and the public, through the introduction of corporate plans and enhancements to annual reports.

For the first time, all Commonwealth entities are required to produce and publish a corporate plan. This is to be done by the 31 August.

Corporate plans are to outline the purposes of each entity, what it will do to achieve those purposes, what environmental, risk and resource issues it will have to deal with, and how it will measure and report on its success.

These corporate plans will have a four-year time horizon, and be updated every year. At the conclusion of each operating year, each entity will issue in a statement in their annual report to explain how they performed against their corporate plan.

In promoting this reform, we have talked about corporate plans and annual reports as the bookends of the performance story.

I said earlier that two of the principles of the PGPA Act are that the performance of the public sector is more than financial, and that the financial framework should support the government and the parliament in discharging their respective duties.

It will take time to improve performance reporting, but I am pleased to say that the Commonwealth public sector is determined to make a go of this.

Community of practice meetings and seminars have been organised in Canberra and other cities to allow entities to learn from each other and from international practice.

We are also running pilot projects to test particular approaches to improving performance information.

All governments seem to struggle on this front—it would be very satisfying for me if we can improve the quality of the performance information that we publish in a way that helps others do the same.

Australian Public Service transformation agenda

In the little time I have remaining, I would like to return to what I described as the clear value proposition for the reforms that my department has been working on—an agile, modern, connected and responsive public sector.

The government has asked us to work on redoing the menu, cleaning out the kitchen and transforming the look and feel of the business of government, with no entertainment value, but with the intent for systemic reform.

During the 2015 Budget, the government announced an agenda to transform the public sector, with contestability reviews, shared services and a smaller government initiative all playing a role.

Contestability program

Looking at government activities and services through a contestability lens encourages Commonwealth entities to adopt a more commercial mindset and seek ways of improving the performance of existing or proposed government functions.

The contestability program, led by my department, is using the prospect of competition to encourage public servants to ask three key questions: Do we need to do this? How well do we do this? Are we best placed to deliver this?

In the pilot phase of this program, savings of over \$200 million were identified in the Functional and Efficiency Reviews of the Department of Health and the Department of Education and Training.

Encouraged by these results, the government has commissioned a further eight Functional and Efficiency Reviews.⁴

These reviews will look systematically at existing functions to assess their alignment with government priorities, and to see if an activity or service could be delivered by someone else to a higher quality standard at a lower cost.

We need to ask ourselves if performance can be improved through alternative structures, processes or provider arrangements.

⁴ These will cover the Departments of Agriculture, Environment, Foreign Affairs and Trade, Treasury, Attorney-General's and Social Services, as well as the Australian Taxation Office and the Australian Bureau of Statistics.

Smaller government initiative

The smaller government initiative is about clarifying lines of accountability and cutting waste and duplication, while improving the efficiency and focus of the public service.

Since the announcement of the Smaller Government agenda, an estimated \$1.4 billion of savings have been made available to fund other policy priorities.

The number of government bodies will reduce by 286 through consolidation, abolition, replacement and, in the case of Medibank Private, successful privatisation led by my department.

While the changes announced to date amount to a significant reduction in the number of government bodies, there is not an equivalent contraction in government functions.

This is because a number of the reforms involve consolidating functions into departments or larger entities, as well as the merger of smaller bodies to link together related functions.

Sharing common services

Embedding best practice across the Commonwealth is likely to be expedited by sharing common services.

We are standardising processes and infrastructure where possible and sharing transactional functions to leverage scale and scope for increases in efficiency.

An example of this type of work is the shared and common services program that consolidates common functions into centres of excellence.

Through this process a few entities will provide services for many.

A good example of this arrangement is the Shared Services Centre, a partnership between the Departments of Education and Training, and Employment.

The Shared Services Centre leverages economies of scale to provide competitively priced core human resources and finance systems and other more specialised services to other organisations.

Digital reforms

We are also looking at the consolidation of standardised systems to the cloud and consolidation of common, non-transactional processes; and supporting a larger range of common services (such as Enterprise Resource Planning systems) with minimal customisation.

A key factor driving more efficient government operations is the rise of new technology options.

For the majority of people and businesses, the internet is their preferred method for interacting with government.

Despite being an early pioneer of the internet, the Commonwealth public sector is now playing ‘catch up’ to the best in the private sector.

The community now wants government services and programs that are available anytime and anywhere on any device, personalised to reflect their particular requirements, and delivered faster at a lower cost.

The government is aiming to meet these expectations through the Digital Transformation Agenda, with a goal that, by 2017, the major transactions between citizens and government are digital, from end to end.

That is a lot of catching up to do for the Commonwealth public sector.

Government information is now published across more than 1200 disparate gov.au websites, plus a range of social medial accounts, apps and other digital formats.

The evolution of distribution of this information reflects the silos in which government operates, the very silos the PGPA Act has sought to break down.

The fact is that people largely don’t care how the government organises itself—they just want government to work.

The Digital Transformation Office (or DTO) has been created—to lead the government in transforming our services to improve the experience of Australians dealing with government.

The DTO is working closely with individuals, businesses and industries to identify opportunities for improvements and redesign government services from a user perspective.

The DTO is also working with government entities to help them to plan their transformation to provide users with a better experience when dealing with government and deliver public services across all channels.

The Department of Communications has estimated productivity gains of up to \$600 million could be achieved through improved digital capability for public servants and services to citizens and business.

Research by the UK Cabinet Office showed that, in general, a digital transaction is 20 times cheaper than one by phone, 30 times cheaper than one by post and 50 times cheaper than a face-to-face transaction.

Digital transactions are also simpler, in that people don't have to wait in a call centre queue, or travel to a shopfront or government office to transact their business.

I accept that, for a range of reasons, not all transactions with government lend themselves to web-based solutions, but there is significant scope on this front.

Conclusion

So, will all of these things combine to reach deep enough and deliver changes that will be sufficiently long-lasting to constitute reform?

Are we really doing away with previous constraints and building something new in their stead?

I believe we are.

It will take time to transform how the Commonwealth public sector works, but we have shifted the frameworks and clarified the concepts that underpin Commonwealth operations under the PGPA Act.

We have created an environment where asking questions about what we are doing and how we are doing it, and whether we can do it with others or let others do it for us, are proper questions to ask.

This is no 50-minute TV show; although I would like to finish by quoting Gordon Ramsay from the *Costa del Nightmares* episode I mentioned at the commencement of this speech.

Berating kitchen management practices of the Mayfair restaurant on the Costa del Sol, he said, ‘You can’t just buy fresh produce and stick it on top of the old stuff’. The same goes for lasting reform.



Rosemary Laing — A freer operating environment is a great idea. We need to invest, however, to make the digital transformations and all those other things. I would just be interested in your thoughts, philosophically, on how a concept like the efficiency dividend, which bedevils small agencies like mine, sits with those principles in the PGPA Act.

Jane Halton — The efficiency dividend has been a feature of how we have all run public sector organisations for years and I have personally railed against it to assorted ministers and various other people. There is a conversation to be had about how we make investment choices and certainly there is a more sophisticated discussion to be had about what mechanisms we can use to get resources to reinvest in activity. At the moment we use the efficiency dividend and efficiency dividend savings are taken and effectively reinvested. So I think that is a conversation we need to have and certainly there is a debate going on inside my department about what other mechanisms you can use to harness and to drive the ongoing need for efficiency at the same time as actually enabling people to invest. I think you raise an important point. It is something we are very conscious of and certainly something we have been discussing. I don’t have the answer to that yet, I’m sorry. You made the point, rightly, about the impact on small agencies. I would observe that both sides of politics, when they have been in government, have acknowledged on a number of occasions the particular challenge of small agencies, because obviously if you are running a very small agency your capacity to invest is quite constrained.

So I am very aware of the problem and I think we need to continue to have that discussion. Obviously any views you have got would be extremely welcome.

Rosemary Laing — It is a very, very difficult issue. I will risk one more contribution. It has always been my dream to come up with the parliamentary merchandising equivalent of B1 and B2. Under PGPA would I be allowed to keep the profits?

Jane Halton — Well of course we do have a variety of policies about cost recovery and then there is a negotiation to be had, so it depends on how successful B1 and B2 are. If they are incredibly successful, we may have to take a dividend, Rosemary.

Rosemary Laing — Yes, possibly.

Question — Do you see the current three-year length of government terms to be a hindrance to you implementing these far-reaching policies? My second question is: do you think the Commonwealth has a need for something like the NSW Independent Commission Against Corruption?

Jane Halton — If I were sitting at Senate estimates, what I would say is, ‘You’re asking me for an opinion, Senator, and we don’t give opinions’. So I’ll give you that answer to start with.

Can I say that, as the public service, we work inside the framework which is decided by the parliament. We work in the context of three-year terms of government and we work in the context of the institutions that are agreed to by the parliament. So in terms of the reform agenda that I talked about, that is a reform agenda that will continue. It is now an Act of parliament and we will be pursuing the nature of the reforms that I have described today through those three-year terms of government. Obviously we will have to manage that transition, taking account of the pace of reform that is possible and taking account of the lessons we will learn. I talked about performance reporting. I talked about the need for corporate plans. Corporate plans are something which departments of state have never done before. We are doing our first one as the Department of Finance and my officials who are preparing the corporate plan, versus my officials who have been giving this advice to the rest of this service, gave it a qualified bronze medal, which I thought was pretty high praise from them actually. I guess my message is this reform is not a short-run thing and the length of a parliamentary term is something we will just continue through.

Question — You have made a quite compelling case, I think, for the reforms that your department is leading. My question goes to the red tape reduction that you briefly mentioned. Could you give us an update of how that process is proceeding, with a particular emphasis on the impact it may have in alleviating the compliance burden that is currently put upon small agencies?

Jane Halton — Obviously in a speech of that nature it is hard to go to every issue that is relevant, but this is an incredibly important issue. For those who don’t know, we are currently doing an internal red tape review. That review is being conducted by Barbara Belcher, a very distinguished former public servant who is probably known to a good number of you. She is in the process of finalising that report. In fact I hosted a meeting this week of the Secretaries Committee on Transformation. Most of you would be aware there is a Secretaries Board and we have a subcommittee of the Secretaries Board called the Secretaries Committee on Transformation, which I am

chairing. It enables us to come together and to work in a collaborative way around issues of common interest, the things that I was just describing in that speech. We had a meeting which enabled us to review a draft of that report and, not surprisingly, Barbara has found a huge number of things, which my department does as much as other people do, right across the internal workings of government where she has identified opportunities to sweep away red tape. So that was a discussion of, 'Have we got it right? Have we missed things? Are there issues? Is any of this wrong?' It was a very good meeting and I am very hopeful that she will be in a position to finalise that report in the fairly near future.

There is another comment I would make though about red tape. Yes, I think it will alleviate quite a deal of the compliance burden. Obviously what we will do when we get the report is we will roll it out and then we will actually collectively, I think and I hope, review whether there is more we can do in the medium term. But the other comment I would make, and I think this is important, is that one of the things I am constantly astounded by when it comes to red tape is how people make things up. People decide that there is a particular compliance requirement which appears nowhere in any chief executive instructions or in any piece of legislation and then it becomes a matter of holy writ that you have to do something this particular way. I have found a number of examples of this in my department, where people say to me, I need to do such and such before I actually procure on a credit card for something that is under a hundred dollars. Now it is just not right and we can sweep away a lot of that misunderstanding as well as red tape, I would hope, in this exercise because there have been a number of steps taken over the last few years which should make it easier for people to transact government business in a thoroughly proper and accountable way without going through unnecessary administrative overhead and hoops. So we will go to the actual red tape and then I am asking other people to go to the made up and mythical red tape while they are at it.

Question — Sometimes reform is talked about as programs of action or objectives, but of course that doesn't amount to very much. I think it is really in terms of impacts, which I think was what you were saying towards the end. But of course the big question is implementation. So how will you and we know that the impacts are actually occurring? How do you define success through monitoring or whatever?

Jane Halton — In a number of ways. Objectively there are a number of things that are required under the Act, such as the requirement for corporate plans. There are a number of actual institutional things you have to do and things you have to produce and obviously there is a very simple metric here, which is: did you do it? But the valuable part, the qualitative and quantitative part, which I think is the thing which is the real reform here, is: can we see improvement in the transparency, in the

accountability and in the ability for ordinary people, not people who read fluent acronym, to actually tell whether we are getting better at doing the thing that we are charged with, which is to deliver government policy? So our job as the public sector is to be transparent and accountable and to find ways to measure, monitor et cetera what we do, and that enables the community to debate about whether we are doing that well.

We have a couple of internal processes. My department is responsible for managing, monitoring and reporting to the minister, which we are doing. I talked about the Secretaries Committee on Transformation earlier. When I went to the secretaries and said, ‘The new legislation brings with it an obligation for us to work together in a way which has not been a feature of how we have run the agency called the Australian Public Service’, I was absolutely delighted with the enormous enthusiasm and willingness of my colleagues to come together to work on shared and common services, to look to see how we can work better together and how we can learn these lessons. So I think you will see objective things, you will see some of the measurement and monitoring and then I hope you will also see an approach to working together which, while you can’t measure it, will deliver measurable differences.

Question — I would just like to ask a question about the risk issue. It seems to me that there are two particularly strong drivers of the risk aversion that is a problem. One is that the psychologists tell us people are bad at assessing risks and very bad at appreciating that their assessment is a gut feeling and not a careful analysis. The other thing is that our society generally is becoming more and more risk averse to the point where avoiding risks and being safe is something that people do almost instinctively without thinking about it. In my work one of the risks that I often have to avoid is something that, for example, might embarrass the minister. Given that, as I understand, in order to be a minister one has to have the hide of a hippopotamus or no capacity for embarrassment at all, this has always seemed an odd risk to need to avoid. What I was wondering was whether you think the changes in the new Act are sufficient to get people to try to overcome pressures like this and, if so, how long do you think it will take to work?

Jane Halton — In terms of some of those remarks, if I could quote Tony Jones, ‘I’ll take that as a comment’. I have been talking with staff across the APS about the whole notion of risk and, as I have said to people, you can calibrate risk. I take your point about individuals not necessarily being very good at individually calibrating. I did a psychology degree, so I remember all the research and I find that research very interesting. But we are not talking about single individuals here; we are talking about

institutions actually thinking about managing, monitoring and calibrating risk and, interestingly, I think it actually gives you a better way to manage.

I can go back to an example of what I did in Health. I changed the way we managed projects to actually calibrate how much resource you spent on going back to those organisations depending on how much risk there was. It is the example I gave in terms of grant recipients—if they are very established, well known and have a long track record, you don't have to spend the same amount of time oversighting their activities as you do in a brand new area where there is uncertainty. So it is not about one individual's inability to measure and monitor, because you are right, individuals can be sometimes not very good at that. It is about the institution thinking about what its risk framework is, what its risk appetite is and then calibrating its use of resources. Interestingly, I think this also makes it easier for administrators to talk with the Australian National Audit Office about how they have used their resources, about why we have done it this way. We have got a proper risk plan; we have calibrated. As I said, when you engage with risk it is not the same as being reckless. Recklessness is about taking risks without thinking about it and just launching in and doing things. What we are talking about with risk in this framework is actually having a plan, considering everything you are doing and then calibrating and measuring and monitoring appropriately.

On your general point, it is new, yes. How long will it take to achieve? I wouldn't want to predict, but I can tell you that even in my organisation, and certainly in my former organisation, those conversations have gone from being intermittent to now being institutionalised risk committees. People are actually thinking about risk. You are thinking about large institution-wide risk as well as the micro risks that you are managing. You are actually making sure that your senior management team understand what those institution-wide risks might be. So I wouldn't want to have a crystal ball out to tell you it will all be fixed in two years, but I can tell you I can already see an improvement in maturity in this area and we have to learn how to do this together. So I am optimistic actually that we will be much more sophisticated in our management of risk and if you look at some of our corporate commercial entities they have been much more practised at this. We need to catch up as departments of state with their activity. Thank you for the questions; it really is an important issue.