

**Attachment B**

**Reform of  
Australian Government Administration**

**Submission by the**

**Australian National Audit Office**

**30 November 2009**

## 1. Overview

Australian governments at the Commonwealth, State and Territory levels have been focusing for some time on achieving a better performing public sector. It is an ongoing journey to achieve a more effective public service, better able to present policy options to government that meet the challenges of today and tomorrow, and to deliver more efficient and better targeted government services to Australians. This journey has been sign-posted by the progress of public sector reforms over several decades to make public services more responsive to community needs and provided in more efficient ways.

The 21st century presents new and complex challenges, some of which are known, others are yet to be identified. Accordingly, proposed reforms to the Australian Public Service (APS) should be targeted to establish a public service that has the skills and experience to deal with emerging issues and opportunities effectively and efficiently. Examples of the challenges include: growing interdependencies arising from globalisation and a blurring of national boundaries; world events affecting security, financial markets, and climate; and, in Australia, the changing population demographics driving the type of services that will be required in the future while, at the same time, rapid technological change influencing how government services will be delivered. In addition, the policymaking and service delivery environment now involves the private sector in 'partnership' with government, including both commercial and not-for-profit organisations, as a means of focusing on the needs of Australian citizens.

In this environment, the Australian National Audit Office (ANAO) performs a critical function in reporting on public sector performance, and identifying and stimulating opportunities for improvement. As well as through individual audit reports, the ANAO contributes to a better performing public sector through its suite of Better Practice Guides which are designed to assist agencies to deal with contemporary issues. Our forthcoming guide on Innovation in the Public Sector is a case in point.

In considering the key questions posed in the Discussion Paper released by the Government's Advisory Group on Reform of Australian Government Administration, and drawing upon its recent work, the ANAO considers that:

- the strength of the APS derives from its common purpose, core values, skills and experience in serving the nation through the Government of the day and, for these reasons, the Audit Office supports the review of the APS Values and Code of Conduct as we consider the APS Values can provide leverage for a strongly performing public sector;
- in determining how best to respond to the increasing demands to integrate policies, programs and services, we should not lose sight of the real benefits that traditional organisational arrangements provide in terms of governance, accountability, and the coherent and efficient delivery of policy advice and services to address pervasive and long term challenges. When dealing with emerging or short term problems, co-operation and coordination between and among agencies will continue to be necessary to settle on the best way forward;
- in light of concerns expressed about the strength of the APS in policy development, there would be merit in portfolio departments considering the establishment of strategic policy and risk committees, where not already in place, to provide high level organisational focus to long-run policy settings and strategic risk management;

- while retaining the benefits that the devolved approach to people management has brought in allowing agencies to pursue their specific needs, there is scope for agencies to encourage human resource management practices that value diverse work experiences from within and outside the public sector, encourage the professional development of staff, promote cross-agency mobility, and base promotion on healthy competition for talented people; and
- improving the efficiency of all aspects of government operations remains a key driver of public sector reform and a revitalised approach to collecting and using performance information will be central in maintaining Parliamentary and public confidence in the public sector, to inform improvements in the design and delivery of policies and programs, and to measure progress.

A common theme is that the underlying issues and opportunities often go to effective leadership and management. Leaders with facilitation, influencing and organisational skills will be valued in an environment that will be increasingly dependent upon not only the performance of each organisation but partnerships between Commonwealth, State and Territory governments, arrangements between Commonwealth agencies, and between Commonwealth agencies and the private sector.

## 2. A values driven culture that retains public trust

### 2.1 APS Values and Code of Conduct

Even though the focus of recent public sector reforms has been on results, it also matters how those results are achieved. Public sector agencies that are successful in achieving credible and trusted performance over time will earn the confidence of their stakeholders. Obtaining such a reputation is supported by the public sector Values outlined in the *Public Service Act 1999*.

The APS Values provide the philosophical underpinning of the APS and articulate its culture and ethos. The Values reflect the Australian community's expectations of public servants and are directly relevant to both policy services to government and service delivery to the Australian community. *The Public Service Act 1999* requires that APS employees at all times behave in a way that upholds the APS Values and the integrity and good reputation of the APS. The APS Values, described in section 10 of the Act, require the APS to: have the highest ethical standards; be openly accountable; and deliver services fairly, effectively, impartially and courteously.

Currently, the Australian Public Service Commission (APSC) is considering options to group the APS Values and associated Code of Conduct into sub-categories. For example, the APSC has indicated that the sub-categories could comprise the following external and internal dimensions.

- **APS Values**
  - apolitical and ethical;
  - accountable;
  - reliable;
  - professional and cooperative;
  - commitment to service; and
  - collegiate leadership.

- **APS Employment principles**
  - employment decisions are equitable, with a fair system of review;
  - decisions relating to promotion and engagement are based on merit;
  - fair, flexible, safe and rewarding workplaces;
  - workplaces free from discrimination, patronage and favouritism; and
  - the diversity of the Australian community is recognised and fostered.

## **2.2 Observations from ANAO audit work and Better Practice Guides**

Because measurement of performance in all its dimensions is challenging, values and culture go a long way in establishing a platform for a high-performing public service. Most influential here, is the ‘tone at the top’ of any organisation. Chief Executive Officers (CEOs) are responsible for providing leadership to their organisations by creating a vision and a strategic focus, motivating others and articulating a clear direction. Leadership includes defining the culture of the organisation and the behaviour of its staff.

To achieve an ethical culture in an agency it is necessary to support clearly stated Values and Codes of Conduct with effective communication and demonstrable ethical leadership. Given their underpinning nature, the ANAO supports the review of the APS Values to ensure ongoing relevance and sees benefit in the Values being sufficiently streamlined (along the lines of the above presentation of APS Values) to allow public servants to know them and readily recall them, and guide their approach to the handling of all issues whether significant or not. Values offer one method of monitoring public service performance and, for this reason, they should be formulated in such a way to facilitate relatively easy measurement and the tracking of adherence over time.

The Reform Discussion Paper comments on the potential for simplification and rearticulation of the APS Values, including giving an emphasis to the importance of APS culture becoming more unified, innovative, outward-looking and proactive. In December 2009, the ANAO will publish its Better Practice Guide on Innovation in the Public Sector. A theme in this guide is that innovation is most likely to occur where there is a leadership and organisational culture that encourages, recognises and rewards innovation. Embedding a systematic approach to innovation as an integral component of corporate strategy will ensure that appropriate policies and procedures are in place, necessary resources are allocated, results are assessed and knowledge disseminated.

The work of the ANAO also reinforces the point that a strategic and integrated approach is required to promote and maintain a values-based culture within an organisation. The Australian community expects business in the public sector to be conducted ethically, displaying honesty, integrity, diligence, fairness, trust, and respect when dealing with others. For these reasons it is advisable that agencies put mechanisms in place to assist and train their staff to understand ethical issues and develop the judgement and skills needed to deal appropriately with fraud or other misconduct. In this regard, induction training is an important mechanism to ensure that new starters, permanent and temporary, are aware of an agency’s corporate culture and expected standards of conduct.

Where public sector initiatives involve the engagement of senior people from the private sector, higher education institutions, or other jurisdictions, the exposure of these individuals to the APS Values is also important because of the supervisory responsibilities exercised by such individuals and the example that should be set by them as leaders and managers.

### 3. High quality, forward looking and creative policy advice

#### 3.1 An increasingly complex policy environment

Policy advising in APS agencies is guided by the values in the *Public Service Act 1999* and related Public Service Commissioner's Directions 1999. These Directions indicate that both agency heads and employees must ensure that advice provided to the Government:

- is frank, honest, comprehensive, accurate and timely; and
- is based on a full understanding of all relevant issues and options, the Government's objectives and the environment in which it operates, taking into account resource and time constraints.<sup>1</sup>

Along with other developed countries, the Australian public sector operates in an increasing challenging policy environment. Dealing with complex international and national challenges such as security, the global financial crisis, climate change, and Indigenous disadvantage has required departments to strengthen their approaches to coordination.

Although cross-departmental policy initiatives are not new, there has been an observable increase in coordinated approaches to deal with these challenges, and an increasing awareness of the interrelationships between departmental policy responsibilities. Today, many substantial issues dealt with by departments transcend traditional boundaries and, in order to encourage collaboration rather than a silo mentality, a 'horizontal axis' orientation is being adopted. Such coordination involves consultation, negotiation, cooperation and agreement across and within Federal departments as well as State departments and the private sector.

While there are obvious benefits arising from whole of government approaches to policy development (and the delivery of government services), it requires a number of key risks to be managed, particularly:

- existing accountability under the *Financial Management and Accountability Act 1997* and the *Public Service Act 1999* are primarily designed for departments working independently; and
- there is no specific legal framework for governance arrangements across Federal departments.

In this environment, policy development or operational arrangements that straddle departments can inadvertently result in an accountability gap where responsibility for policy implementation is unclear or ambiguous.

#### 3.2 Themes from ANAO audits and Better Practice Guides

In responding to the key questions posed in the Reform Discussion Paper, including: *How can internal and external collaboration be strengthened to improve policy development and implementation*, the ANAO has built on its recent audit experience and Better Practice

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<sup>1</sup> Australian Public Service Commission, Public Service Commissioner's Directions 1999, as amended, clause 2.7.

Guides that focused on policy implementation; and cross-agency arrangements, including the leadership skills associated with successful joint initiatives.

### ***Policy development and implementation***

The departmental-based management structure under the *Financial Management and Accountability Act 1997* and the *Public Service Act 1999* provides an environment in which individual departments have prime responsibility for tailoring policy, program and service delivery arrangements that most efficiently and effectively achieve the outcomes being sought by government.

In light of concerns expressed about the strength of the APS in policy development, there would be merit in portfolio departments considering the establishment of strategic policy and risk committees, where not already in place, to provide high level organisational focus to long-run policy settings and strategic risk management.

While public sector Audit Committees are beneficial and active in ensuring risk controls and treatments are in place across an agency, their oversight is essentially, though not exclusively, primarily done after the fact and necessarily has a backward looking element. In a policy environment where agencies are seeking to provide innovative solutions to challenging problems, there is still some distance to go in ensuring that appropriate and separate focus is given to forward-looking options and risk factors.

Of parallel interest here is the Walker Review of corporate governance in UK banks and other financial industry entities.<sup>2</sup> Sir David Walker observed that similar financial institutions in essentially similar regulatory regimes weathered the global financial crisis materially better than others and that a major explanatory variable was differing qualities and capabilities of governance. One potential framework issue raised by Sir David concerned the need for enhanced governance of risk, and he suggested that best practice in a bank or life assurance company is the establishment of a board risk committee separate from the audit committee. Sir David had in mind that such a committee would prepare advice to the board on overall risk appetite and tolerance, current risk exposures and future risk strategy.

One approach for an APS agency to obtain a forward-looking focus on current and emerging risks would be through a strategic policy and risk committee. Such a committee would provide an important capability in real-time. The value of strategic policy and risk committees that focused on current risks and future strategies is well worth consideration for some public sector agencies. For departments, in particular, it would be best orientated to the risks and uncertainties in, and options for, delivering government outcomes that are the administrative responsibility of the portfolio.

Working within portfolio arrangements in this way would allow for streamlined and consistent approaches to the governance of individual departments. Importantly, there is a relationship between the complementary concepts of authority, responsibility and accountability, clearly aligning the degree of control for decisions made by departments with a commensurate responsibility for the results. Some commonality in approach would also facilitate cross-agency consultation.

To assist public sector CEO's and senior officers responsible for overseeing the implementation of an initiative(s), the ANAO and the Department of the Prime Minister and Cabinet jointly prepared a Better Practice Guide on program implementation several years

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<sup>2</sup> Walker, Sir David, A Review of Corporate Governance in UK Banks and Other Financial Industry Entities, HM Treasury, 16 July 2009.

ago.<sup>3</sup> Drawing on the experience of agencies, as well as lessons from overseas, the focus of the guide is the overarching principles for effective implementation.

Agency input demonstrated that optimal outcomes from policy initiatives are more likely to be obtained where there is early and systematic consideration of the practical aspects of implementation, from the policy development stage right through to other key considerations as the initiative develops from the initiative policy concept. These considerations include: establishing sound governance arrangements; weighing up and dealing with risks; identifying a lead agency; and ongoing monitoring and reporting.

From the ANAO's experience, the governance arrangements put in place to implement program and policy initiatives are critical to their success. At the least, consideration needs to be given to: the roles responsibilities and accountabilities of those involved; the rules and procedures for decision-making; and the integration of the project governance arrangement within an agency's broader corporate governance framework.

A particular insight in the guide was that, while the degree to which those with implementation experience are engaged in the policy development process will vary, those with on-ground service delivery experience almost always have some useful contribution to make. These individuals are likely to have far better practical knowledge of what is likely to work and what is not.

### ***Cross-agency arrangements***

Whole of government approaches to address increasingly complex and/or wide-ranging policy and operational issues are becoming more common. As various forms of collaboration between the public and private sectors play a greater role across more sectors of the Australian economy, a well functioning public sector governance framework that is able to implement programs and monitor performance is crucial to achieving the Government's outcomes.

It is important that any agreements put in place by departments meet accepted standards of good governance appropriate to the particular cross-agency initiative, and that these are appropriately supported. Agreements should also be fit for purpose with key design features and supporting processes commensurate with the scale, nature, complexity and risks involved.

The ANAO has considered a number of cross-agency arrangements while conducting performance audits, and noted both inconsistent practice across agencies in documenting arrangements, and a tendency towards more formality in agreements than may be necessary. A repeated observation is of agencies giving effect to agreements that are not signed or have passed their nominated expiry date. The ANAO has also observed that essential work may be delayed or information not exchanged because agencies have not documented their agreement, or they disagree over their respective roles and responsibilities.<sup>4</sup>

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<sup>3</sup> Department of the Prime Minister and Cabinet, and the ANAO, *Implementation of Programme and Policy Initiatives*, Canberra, October 2006.

<sup>4</sup> For example, ANAO Audit Report No. 50, 2004–05 *Drought Assistance*; Audit Report No. 22, 2005–06 *Cross Portfolio Audit of Green Office Procurement*; Audit report No. 10, 2006–07 *Whole of Government Indigenous Service Delivery Arrangements*; Audit Report No. 37, 2006–07 *Administration of the Health Requirement of the Migration Act 1958*; Audit Report No. 47, 2006–07 *Coordination of Australian Government Assistance to Solomon Islands*, Audit Report No. 4, 2008–09 *The BPA between DEEWR and Centrelink*.

Where a cross-departmental initiative involves significant resources, high policy risks, and/or long time-frames, the departments involved should agree on the terms of the collaboration. Documentation of the roles, responsibilities and contributions of the parties involved can help in the planning process and reduce the risk of misunderstandings in the implementation phase.

The specifics of the governance arrangements need to match the scale, nature and complexity of the task or activity. A determinant of an appropriate structure to support whole of government work is the extent to which the problem being addressed is short term or long term. For example, if tight time frames are involved as is the case for crisis management, there are more likely to be clear, specific, urgent and achievable goals and the roles of participating departments will generally be within their existing individual and separate mandates. The operation of these activities tends to be short lived and concentrated in a specific location and/or in relation to a specific event.

At the other end of the spectrum are longer term challenges that are less amenable to a clear, single, short term solution and where the nature of issues being addressed are more intractable than those that fall neatly within one department's role. In these cases, the decision to work together in pursuit of a shared outcome or objective should be deliberate, and based upon an assessment that the joint activity of the two (or more) agencies is likely to be more effective (and cost effective) than their separate individual activities.

Any form of joint work between government departments has costs and departments need to be clear about what it is they are trying to achieve before they decide what they will do to achieve it. In particular, departments should have a clear decision-making framework to identify when to collaborate. This should include a consideration of the results the department is looking for, when working together will be worthwhile, and the form any resulting joint work will take.

Where policy issues are likely to persist over very long periods of time, a departmental structure should be considered (for example, climate change). Departments of state work well for functions of government that require close ministerial involvement, direction and responsibility. Departmental status maximises ministerial control, as a department works through its departmental Secretary under the relevant Minister. A departmental structure also allows for well-understood lines of responsibility to operate, including the clear application of other accountability laws and processes.

### ***Leadership requirements for joint initiatives***

ANAO experience suggests that whole of government or 'joint' work presents a new set of risks for effective operation, including that existing accountability arrangements are primarily designed for departments working individually to achieve the outcomes set by government using the funds appropriated for this purpose. While this is to be expected, it requires the development of suitable governance and accountability arrangements to provide the required authority, leadership and management to deliver on the Government's policy objectives where whole of government working arrangements are required.

Whole of government approaches are often difficult to keep on track because of the additional complexity arising from the number of agencies and jurisdictions involved. Good leadership is important as part of the fabric that holds such joint efforts together. Leaders need to drive an initiative forward but also engender a co-operative spirit. In cases where there is no clear leadership, or the leader is not able to obtain the co-operation of key partners, then disagreements may result with the energies of partners being distracted from key goals.

Most joint initiatives are not constituted of equal partners. Some agencies have more authority or resources than others. For joint initiatives to be effective such differences need to be managed so that all parties are committed to achieving the intended outcomes.

The leadership skills required to make working together successful include:

- facilitation skills – especially the ability to secure the involvement and commitment of a wide range of agencies, organisations, and other stakeholders;
- influencing and communication skills – such as the ability to convince potential partners and a range of stakeholders of the benefits of supporting the initiative; and
- organisation and planning skills – particularly to coordinate a range of partners and activities in order to achieve a common goal against an agreed timeline.

As leaders, the Senior Executive Service plays a key role in influencing the behaviour and attitudes towards collaboration across organisational boundaries. They are ideally placed to model collegiate behaviour and ensure that there is practical support for those involved in whole of government activities. This includes developing systems and procedures to support better information-sharing and the adoption of common information systems, standards and protocols across departments, and assist in identifying information management needs early in the planning process for whole of government initiatives.

## **4. High quality, effective programs and services focused on the needs of citizens**

### **4.1 Improving service delivery**

As part of a fundamental reassessment of the role of the public sector over the past decade, there has been considerable attention given to the delivery of services by Australian governments. Public sector performance is now recognised as a key contributing factor to Australia's competitive position in the world economy. Australian governments are continually examining more efficient ways of producing and delivering services to the community.

This trend has created a market for the direct participation by the private sector in providing public services. The rationale is that public services are provided more efficiently and effectively, with greater client satisfaction, in a more market-oriented environment which provides greater flexibility for on-the-ground decision-making that meets the needs of local citizens. These changes have been most apparent in the areas of employment, health care and social welfare.

Providers supplying these services on behalf of government include both commercial and not-for-profit organisations. Funding arrangements for securing such services are varied and include:

- grants and subsidies – for example, social policy initiatives through Community Grant Programs, and health services provided through Community Aged Care Program subsidies;
- contracts – for example, employment services through the Job Services Australia, and the maintenance of fleet in-service support by defence contractors; and

- public-private partnerships – for example, in its 2009-10 budget the Australian Government indicated its intention that infrastructure projects for road, rail, port, telecommunications and solar energy would be undertaken jointly with partners in the private sector.

Although the public sector may outsource service delivery, responsibility and accountability for the delivery of cost effective services that are appropriate for individual recipients remains with the entity. Whether a grant, subsidy, contract or public-private partnership is used, agencies need to be clear about the objectives of the program and put in place appropriate monitoring and review arrangements to ensure the efficient and effective achievement of funding objectives.

## 4.2 Themes from ANAO audits and Better Practice Guides

In considering: *How to ensure that performance management frameworks focus on the attainment of outcomes for citizens*, the ANAO has concentrated on issues that typically arise in performance audits examining services provided by third parties on behalf of a Federal agency. The four key challenges are:

- the required commercial, negotiating and project management expertise, including a balancing of the benefits afforded by commercialisation with the need to retain appropriate in-house experience and supervisory skills;
- performance information at an appropriate level;
- the balance between conformance (process) and performance (results); and
- the effectiveness of customer feedback systems in informing opportunities for service delivery improvement.

### ***Contract management and negotiation skills***

Outsourcing represents a fundamental change to an agency's operating environment. It brings with it new risks, including opportunities, which require managers to develop different approaches and skills. The delivery of services through contract arrangements has required the development and/or enhancement of a range of commercial, negotiating, project and contract management skills across the public sector and will be a key accountability requirement of public sector managers. The Australian Public Service has learnt that outsourcing places considerable focus and emphasis on project and contract management, including management of the underlying risks involved both within and outside the public sector.<sup>5</sup>

Public-private partnerships and joint commercial arrangements are a feature of the commercialisation process that is becoming a more common aspect of the Commonwealth's business arrangements with the private sector. These arrangements are seen as a useful mechanism for public sector agencies to be able to take advantage of private sector experience and expertise to develop and market new ideas and to construct and operate large-scale infrastructure projects.

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<sup>5</sup> The ANAO has recently updated its Better Practice Guide on Contract Management. The guide provides examples for the ongoing, day-to-day management of contracted services and evaluation of the overall performance of the contract to enable effective succession planning.

Public-private partnerships can provide assistance in areas such as design and construction, and access to marketing and distribution expertise that may not generally be available in the public sector. They can also offer opportunities to achieve project objectives more efficiently and economically. However, because of their complexity, public-private partnerships often involve greater risk to successful outcomes than the more traditional public service administrative models. As is now well known, a central consideration facing government departments in administering large public-private partnerships projects is an appropriate allocation of the risks, but there is now a considerable body of experience to guide such transactions.

### ***Performance measurement***

Another common issue in recent ANAO audits examining the delivery of outsourced services has been that monitoring and performance measurement is central to tracking progress towards meeting the Government's priorities. In particular, it is important to monitor a service provider's performance over time and the contribution to broader agency objectives and government outcomes.

Published performance information, which provides a top level strategic overview of an agency's performance for external accountability needs, should be supported by more detailed internal management information on the performance of outsourced services that enables the agency to diagnose trends against targets or activity levels and identify areas for improvement. Performance information about outsourced service delivery is most effective where it links the contribution of the outsourced service to the outputs and outcomes of the agency. The reporting in an entities' Annual Report of performance trends against easy to understand and clearly defined indicators can help Parliament and the public assess how well public money is being spent and what is being achieved.

### ***Accountability for conformance Vs performance***

While the legal and ethical framework of government has remained essentially the same for a decade, the significant changes to the way government services are being increasingly provided via the private sector, is resulting in an ongoing need to ensure that the accountability relationships between the government, the public service, private sector providers and Australian citizens are defined and include agreed responsibilities for inputs, outputs, outcomes and the allocation and sharing of risks.

Outsourcing by Federal and State governments began in the early 1990s as a competitive form of procurement and was designed to harness the private sector to help secure value for money and quality of service in achieving government outcomes. However, the public still hold governments responsible for unsatisfactory services provided by private contractors.

As the public sector increasingly utilises the private sector to deliver services to the Australian public, there is a growing recognition of the need to manage both accountability for conformance and accountability for performance in aspects of public administration that are outsourced. For example, contractors are now often required to adopt and use a code of conduct that incorporates public service values relevant to service delivery, such as the obligation to treat members of the public with fairness and respect.

Increasingly, agencies are faced with the issue of what is an appropriate trade-off between the nature and level of accountability and private sector cost efficiency in the delivery of public services. Often this issue arises in the form of requests to reduce the level of red tape that the private sector considers has been imposed upon them.

The challenge for any organisation, including the ANAO, is to get the right balance between performance and conformance at any point in time and over time. Nevertheless, reasonable arrangements should be made to encourage private providers to act with the same degree of professionalism as that expected from public servants. The Australian community has a right to be assured that the programs it funds run efficiently, provide value for money, and that the highest standards of ethics are maintained.

### ***Capturing and using client feedback***

As public policy issues become increasingly complex, governments have realised that the resolution of many of the challenges facing Australian society require more active participation from citizens in order to achieve desired outcomes. This trend has led to an increased focus on the active engagement with, and input from, Australian citizens to help ensure that government initiatives have a positive impact on people's lives.

In this 'citizen-centred' environment, it is important that agencies delivering client services know whether clients are satisfied with services and products they provide and what improvements clients consider necessary.

Complaints handling processes are central to agencies dealing with client expressions of dissatisfaction with services or products. Effective complaints handling enables agencies to identify and deal with any dissatisfaction of clients with services or products. Effective complaints handling can also help to restore client confidence in, and satisfaction with, agency services. It can also assist agencies to avoid higher costs commonly associated with escalated disputes and enable them to identify and overcome more systematic, underlying problems in delivery of client services.

A theme in ANAO audits has been that, while agencies have a range of systems for gathering, measuring and responding to customer feedback, there is often no overarching approach for collating this information and identifying trends in order to better inform opportunities for service delivery improvement.<sup>6</sup>

## **5. Flexibility and agility**

### **5.1 Trends in the APS employment environment**

The Australian Public Service (APS) operates in a changing environment. More and more, alternative methods of service delivery and the use of information communications and technology shape the nature of the work being performed. These factors also affect the demands and expectations placed on the public sector. At the same time, many agencies are under pressure to ensure they have access to people that will enable them to provide sound policy advice and deliver quality, timely and cost-effective services to the public. This presents a significant challenge to public sector agencies and successful managers recognise that the inventiveness of their workforce is essential to meeting business goals.

### **5.2 Themes from ANAO audits and Better Practice Guides**

In considering the flexibility and agility of the APS, the ANAO notes that the APS employment framework has undergone significant reform over the past decade. There has

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<sup>6</sup> See, for example, ANAO Audit Report No.34, 2004–2005, Centrelink's Complaints Handling System; and ANAO Audit Report No.51, 2004–2005, DEWR's Oversight of Job Network Services to Job Seekers.

been a move away from a centralised system of staffing powers, recruitment and training to a devolved framework which was designed to provide greater flexibility and responsiveness to meet individual agency needs. The themes arising from ANAO audits that examined workforce planning and recruitment under the devolved framework are summarised below.

### **Workforce planning**

The Australian Public Service Commission and the Management Advisory Committee (MAC) have examined the need for public sector agencies to establish and sustain a workforce that can continue to meet business objectives.<sup>7</sup> In the context of an ageing workforce, skill shortages, changing career patterns and a significant reduction in the number of new labour force entrants, sound workforce planning is critical.

According to the Australian Public Service Commission's (APSC) State of the Service Report for 2008–09, 68 per cent of agencies reported they had policies and strategies in place to provide them with the skills and capabilities needed for the next one to five years.

ANAO work in this area suggests that workforce planning is more likely to result in a sustained improvement in workforce capability when it:

- is supported by clearly articulated strategic directions, as well as having the organisational capabilities needed to deliver on commitments into the future;
- considers the whole workforce, including contract personnel and outsourced activities;
- is based on analysis and understanding of an entity's workforce characteristics and skill requirements;
- includes an analysis of workforce risks, and identifies strategies to address the significant risks;
- is an ongoing activity which is integrated with business planning processes; and
- includes an appropriate measurement framework that allows the entity to review and monitor progress in implementing workforce planning strategies and plans.<sup>8</sup>

Ensuring that the best people are placed in all positions, focusing on the current and future business directions and goals, and building corporate capability by capitalising on the diversity of employee skills and adapting work practices to help workers respond to changing demands, will all contribute to the long-term success of any agency.

### **Recruitment**

The APSC reported in its 2007–08 State of the Service Report that, of those APS employees who applied for an APS position in 2007–08, only 35 per cent were left with a positive impression of the agency following the selection process. Key areas of dissatisfaction related to the: opportunity to seek feedback; perceived fairness of recruitment processes; and timeliness of recruitment processes. A culture that focuses on and monitors these

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<sup>7</sup> See, for example, APSC, *Building Business Capability through Workforce Planning*, June 2006; APSC State of the Service Report 2004–2005; Management Advisory Committee, *Managing and Sustaining the APS Workforce*, Report No.5, and *Organisational Renewal*, Report No. 3, March 2003.

<sup>8</sup> See ANAO Audit Report No.55, 2004–2005, *Workforce Planning and the ANAO's Better Practice Guide Planning for the Workforce of the Future*, March 2001.

elements of recruitment processes will help reduce time frames and give increased priority to recruitment work.

Recent ANAO audits have found there is much agencies can do to manage their recruitment activities including:

- using a workforce capability model to determine the gap between demand and supply of key workforce capabilities;
- developing and implementing recruitment strategies to address the gap between workforce demand and supply, especially for key skills that are in high demand and short supply;
- making recruitment a priority by demonstrating management commitment and meaningful performance measurement;
- developing and disseminating recruitment policies and guidance that are comprehensive, informative, current and accessible, while being short and easy to understand; and
- providing managers who run recruitment exercises with support from human resource management practitioners, supplemented by specific recruitment training.<sup>9</sup>

Overall, while retaining the benefits that the devolved approach to people management has brought in allowing agencies to pursue their specific needs, there is scope for agencies to encourage human resource management practices that value diverse work experiences from within and outside the public sector, promote cross-agency mobility, and base promotion on healthy competition for talented people.

## **6. Efficiency in all aspects of government operations**

### **6.1 A framework for monitoring the efficiency and effectiveness of the APS**

Efficiency is commonly regarded as 'doing things right', and effectiveness as 'doing the right things'. In the long run, these two measures of accountability are related. To determine the efficiency of an agency requires clarification of the appropriateness of the desired outcome(s) to enable the identification of possible products and services and modes of operation relevant to the outcome(s) being sought. For an agency to be considered truly effective over a period of time, as measured by the achievement of its stated objectives, requires ongoing attention to its operational efficiency.

Monitoring, reviewing and reporting on efficiency and effectiveness is an on-going process that should be undertaken in the ordinary course of business in the public sector. The development of a sound performance reporting framework is the foundation for agencies to be able to meet their planning and performance reporting obligations. As part of this framework, agencies are required to provide relevant performance information relating to the:

- achievement of the Government's Outcomes;
- the quantity, quality and cost of government services delivered; and

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<sup>9</sup> See ANAO Audit Report No. 31 2007–08 Management of Recruitment in the Australian Public Service.

- the efficiency of departmental support activities such as program management, the provision of policy advice, and service delivery.

## 6.2 Themes from ANAO audits and Better Practice Guides

The outline of performance indicators in Portfolio Budget Statements (PBS) and the reporting of agency performance in Annual Reports is an important accountability mechanism. ANAO audits have identified that, generally, the quality of performance indicators and accuracy of reporting against them could be improved. Feedback from Parliamentary Committees has also identified that a sustained effort and commitment by all agencies is required to ensure relevant, informative and useful range of performance indicators that can be tracked over time.

ANAO audits have found that common issues include:

- the ‘attribution problem’ – while it is relatively straightforward to measure whether or not outcomes are actually occurring, it is much more difficult to determine how much of the success or failure can be attributed to the public intervention/initiative, especially when dealing with whole of government and shared outcomes;
- the ‘aggregation problem’ – under the previous Outcome/ Outputs Framework, the aggregation of outputs into very large Output Groups made it difficult to form a view on operational efficiency where there was no information at operational level on the costs for individual outputs. This situation was often compounded by an absence of links between financial and non-financial performance information; and
- a lack of analysis – internal metrics and external Annual Reports tend to be descriptive and list activities, while trends over time are not provided to allow tracking against targets, standards or last year’s performance.

In the 2009–10 Commonwealth Budget, a number of revisions were made to the budget reporting framework. The most significant of these involved changes to the arrangements for outcomes to reflect an increased emphasis on programs. Beginning in 2009–10, all General Government Sector agencies are required to report in accordance with an Outcomes and Programs Framework. Programs are the building blocks of government financial and non-financial reporting, management and analysis and should provide a tangible link between government decisions, government activities and the impacts of those actions.<sup>10</sup>

The revised framework is designed to enhance public accountability through agencies reporting on planned and actual performance and provides an opportunity for agencies to develop and make better use of performance information, including making a contribution to parliamentary discussions.

To support the new Outcomes and Programs Framework, and address the key questions posed in the Reform Discussion Paper, the ANAO considers that the following metrics could be improved: appropriately targeted performance indicators for effectiveness; a focus on measuring the quality of services delivered; sound financial information to support program management; and a greater emphasis on evaluating policy and program outcomes.

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<sup>10</sup> Department of Finance and Deregulation, Portfolio Budget Statements Constructors Kit, March 2009.

### ***Targeted performance indicators for effectiveness***

Effectiveness indicators require careful design and specification. For long term planning and policy purposes, it is important that the best available effectiveness indicators are identified and reported against. It is, therefore, contingent upon departments to identify realistic, useful and relevant effectiveness indicators to assist stakeholders and internal managers to better understand the value of administered items in terms of specific policy outcomes. Indicators of effectiveness should seek to draw out the specific effects caused by programs.

### ***A focus on measuring the quality of services delivered***

Departments are also required to report on the deliverables for each program. This can include setting quantity and quality indicators and reporting against these indicators in annual reports. Quantity is typically the number of services that are produced for a given cost. Quality relates to attributes such as timeliness, coverage, accuracy and conformity to specifications. Although more difficult to measure, less tangible criteria such as client satisfaction and public perception can also be used. The cost of an output of a certain quality can, over time, provide the community with the means to determine whether it is getting value for money.

### ***Sound financial information to support program management***

Departments are expected to measure their performance in terms of efficiency in delivering programs including the costs associated with program management, the provision of policy advice, and service delivery.

Sound financial information on the costs associated with providing these processes is an important tool for management and accountability purposes. It should provide alongside non-financial data, a picture of how the program is operating including the efficiency of operations and cost effectiveness. Data on costs is an important management tool that can be used to improve operations within agencies by identifying cost drivers and non-value added activities leading to more efficient operations. Information on costs can also be used to satisfy external accountability requirements by providing knowledge on what is being delivered and at what cost.

### ***A greater emphasis on evaluating policy and program outcomes***

Separate evaluations undertaken from time to time are also a useful monitoring and review tool. The scope and frequency of monitoring and review activities will depend primarily on an assessment of program risks and the effectiveness of on-going monitoring procedures.

While program evaluation is not a requirement of the Outcomes and Programs Framework, the Productivity Commission has identified the importance of evaluations in providing an evidence base to underpin reform processes.<sup>11</sup> The Productivity Commission also suggests that the lack of evaluation activity makes it difficult to comment on the effectiveness or otherwise of government interventions.<sup>12</sup> Clearly an evidence-based approach to policy, program and regulation development and design, based on the best practicable data, information and analysis, will provide a better understanding of the nature of the issues being addressed and the implications of possible responses.

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<sup>11</sup> Banks, G, *Evidence-based policy making: What is it? How do we get it?* Speech to the Australian and New Zealand School of Government/ Australian National University Lecture Series, 4 February 2009.

<sup>12</sup> Banks, G, Productivity Commission, February 2009, *Challenges of evidence-based Policy Making*.

Evaluations assist managers and other decision makers to: assess the continued relevance and priority of program objectives in the light of current circumstances, including government policy changes; test whether the program is targeting the desired population; and ascertain whether there are more cost-effective ways of assisting the target group. Evaluations also have the capacity to establish causal links. Over time, an evaluation strategy has the potential to provide credible, timely and objective findings, conclusions and recommendations to aid in resource allocation, program improvement and program accountability.

Increasingly, the public sector is being subjected to greater levels of scrutiny. The focus is now very much on the successful implementation of policies and the delivery of services. A revitalised approach to collecting and using performance information will be central in maintaining Parliamentary and public confidence in the public sector and to inform improvements in the design and delivery of policies and programs.